

**PSRS-PEERS Board of Trustees Report
December 9, 2019
By Otto Fajen**

Trustees present

Aaron Zalis, Chair
Jason Hoffman, Vice-Chair
Yvonne Heath
Beth Knes
Jason Steliga

Trustees absent

Scott Hunt

BUDGET AND AUDIT COMMITTEE MEETING

Prior to the meeting of the Board of Trustees, the Budget and Audit Committee met to review the June 30, 2019 Audit Report. Representatives of Williams-Keepers presented their audit of the Systems' Comprehensive Annual Financial Report (CAFR) for last fiscal year. The audit reviews the Systems' internal controls, contributions received, investment activities, payments to retirees, and member data.

WK issued an unmodified or "clean" opinion on the CAFR. This is the highest opinion available and assures that the CAFR is fairly presented in all material respects in accordance with applicable federal standards. WK also worked with schools and the Systems to perform a GASB 68 audit report. This report can be used by school district employers to specify their proportionate share of their net pension liability within the Systems. This allows schools' auditors to rely on this report and significantly reduce district audit procedures. The GASB 68 audit report also allows school district employers to have an unqualified audit opinion. The audit report was approved by the Committee and referred to the Board of Trustees.

SYSTEM OPERATIONS

The Board meeting started at 9:30 a.m. The Board approved the minutes from the October 28, 2019 meeting and established the order of business. The Board recognized Chuck Bryant's service on the Board of Trustees. The Board also recognized the service of retiring staff member Susan Gassmeyer.

INVESTMENTS

Investment Performance Report - Craig Husting and Margaret Jadallah from Verus Investments reviewed the September 30, 2019 investment update and provided more recent information. While the first quarter of FY 2020 showed modest growth of 0.8%, markets have increased in October and November, leaving the Systems with an updated overall investment return of 3.5% for the fiscal year estimated through November 30, 2018. Federal monetary policy has had an influence as interest rates have been reduced three times during FY 2020.

Safe Assets Program - The Board heard a report on the Systems' Safe Assets Program. Safe assets are reviewed once a year by the Board and include primarily U.S. Treasury notes and Treasury Inflation-Protected Securities (TIPS). The System currently has about 18.4% of the portfolio in safe assets, and this is slightly below the long-term policy goal of 20% allocation to safe assets. Increasing federal deficit spending is expected to require another \$10 trillion to \$15 trillion in treasury sales over the next decade to finance this debt. Since rates remain low, safe asset returns are expected to remain low.

Hedged Assets Program - The Board heard a report on the Systems' Hedged Assets Program. Hedged assets are reviewed once a year by the Board. The current allocation is 11.7% and is considerably above the long-term allocation of 6%. The program serves to minimize downside risk, primarily from equities allocations. The program also seeks to mitigate interest rate risk. The Hedged Assets program has a composite return of 4.00% over the last year and an annualized return of 4.54% over the last five years.

ACCOUNTING

The Board reviewed the FY 2019 Comprehensive Annual Financial Report (CAFR). A CAFR report is required by law, but the Systems' CAFR goes beyond the minimum requirements. Ultimately, the CAFR serves to document the activity conducted by the Systems and ensure transparency and accountability to members. The Systems' report again earned a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. The financial section includes an unmodified or "clean" independent auditor's opinion, indicating that the financial statements may be relied upon by all stakeholders.

Williams-Keepers provided the independent auditor's presentation to the Board. The Board reviewed and approved the June 30, 2019 Audit Report referred by the Budget and Audit Committee.

MANAGEMENT REPORT

Legislative Report – Jim Moody reported on state revenues. State revenues are up 6.8% thus far in FY 2020, but that is in comparison to declining revenue numbers at the same time last fiscal year. The state has not been making timely refund payments, partly due to problems with a new system. Revenues are still being affected by tax cuts enacted in SB 509 (2014) and HB 2540 (2018). Additionally, SB 884 (2018) cut corporate income taxes by about \$175 million. While revenues have increased thus far in FY 2020, income tax withholdings are down from two years ago. Moody suggests that the final revenue picture for this fiscal year may end up well below the current rate.

Maria Walden reviewed the Systems' legislative resolutions and then mentioned several pre-filed bills that would affect the Systems along with other retirement-related bills and issues. For 2020, there were already 670 pre-filed bills. The System is now tracking 81 bills.

Highlighted bills:

HB 1298 (Dinkins) would reinstate the 2.55% multiplier for 31+ years of service. The actuary will provide an updated cost estimate for this change. Prior versions have been estimated to produce a small savings for the Systems.

HB 1311 (Shull) relates to workplace retirement savings plans.

HB 1432 (Kendrick) would create the "Missouri Secure Choice Savings Program Act" and allow employers with 25 or more workers who do not already offer employees a retirement plan to automatically enroll adult employees in a state-run payroll-deduction Roth Individual Retirement Account (Roth IRA).

SB 755 (Sater) would make salaries and benefits of PSRS staff public information.

HB 1266 (Bangert) would require the Governor to maintain and regularly update a list of each state board, commission, committee, or council that contains members appointed by the Governor.

HB 1366 (Ellebracht) would modify provisions for closed meetings of governmental bodies.

Other issues:

Pop-up option for Same Sex relationships - Rep. Kendrick has shown interest in extending the divorce popup to those who were prohibited from being married. Estimated to affect up to 70 members. System has provided language and will need actuarial analysis.

Critical shortage and WAR - School administrators have asked the Systems to consider possible options to address concerns about the difficulty of finding enough substitute teachers. The Systems were also recently approached by Governor's office concerning the same issue. The Systems are considering the possible option of expanding use of the critical teacher shortage provision and also creating an "emergency substitute pool" for PSRS retirees to work as substitutes and earn up to the Social Security earnings limit, currently \$18,240 per year. The Systems will ask the actuary to evaluate the cost of this option. The Board has not yet taken a position on this policy option.

Consolidation of MPERS and MOSERS Systems - This proposal would consolidate the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) into the Missouri State Employees' Retirement System (MOSERS). MOSERS would assume control over MPERS assets.

Proposed amendments to rules – Staff presented proposed amendments to rules for both Systems. Most school district employers offer their employees a high-deductible Health Savings Account (HSA) option for health insurance. Many of these employers also contribute to the HSA. The rule would clarify the extent to which such contributions are to be considered retirement salary. The Board approved the proposed rule changes as presented by staff.

Leadership Exploration and Development – The Systems are starting a long-term program for leadership training of staff members. The Missouri Training Institute from University of Missouri is working with the Systems to train staff members who are expected to be with the Systems for a long time. The program will seek to provide training that helps develop the leadership potential of employees demonstrating leadership qualities. They selected twelve individuals for the first "class". The Systems hope to be able to continue this training with other employees in future years. Sessions for the first group begin in January.

CPI update/COLA review – The Board reviewed CPI-U data. The CPI-U change for FY 2020 through October 31, 2019 was 0.4697%. The total cumulative CPI-U, including last fiscal year, is 2.1181%

through October 31, 2019. The cumulative CPI-U now exceeds 2.0%. Under the Systems' policy, if the cumulative CPI-U remains above 2.0% at the end of FY 2020, the System will provide a 2.0% COLA adjustment for January 2021.

Facility Renovation - The Board reviewed the construction timeline of the first part of the project that includes geothermal bore fields, pipe installation, demolition of the maintenance facility, three-lane south exit and new west parking lot. This portion is now complete. The second part of the project has begun and includes the new addition and renovation of the existing building. This second portion will last approximately 24 months. This includes about one year for the addition and then another year for the renovation of the existing building.

Public Comment – None.

The meeting adjourned at 12:15.