What is SB 842?

SB 842 requires the PSRS/PEERS' Board of Trustees to freeze the contribution rates at the 2011 – 2012 level and freeze the Cost-of-Living Adjustments (COLAs) for retirees at 2% until the Systems are 100% fully funded. It removes the ability for the PSRS/PEERS Board of Trustees to set the future contribution rates for its members and COLAs for retirees.

Why are the Systems opposed to SB 842?

SB 842 requires the PSRS/PEERS' Board of Trustees to freeze the contribution rates at the 2011 – 2012 level and freeze the Cost-of-Living Adjustments (COLAs) for retirees at 2% until the Systems are 100% fully funded. It removes the ability for the PSRS/PEERS Board of Trustees to set the future contribution rates for its members and COLAs for retirees.

- Establishing and setting the contribution rate and the COLA are fundamental, key decisions made by the PSRS/PEERS Board.
    - To remove the ability and flexibility of the PSRS/PEERS Board to set the contribution rate and COLA circumvents the Board's role as trustees of the Systems.
    - While recent actions by the Board stabilized both the contribution rate and COLA by policy, they still allow the Board the flexibility to make adjustments based upon recommendations of the Systems' actuaries in future years.
    - By removing the flexibility of the PSRS/PEERS Board, the General Assembly limits the Board's fiduciary responsibility to adequately fund the Systems and could negatively impact the financial solvency of the Systems.
- SB 842 would take away the Board's ability to follow the recommendation of an independent actuary to establish and set contribution rates and retiree COLAs.
    - To circumvent the Board's ability to review the recommendations of the Systems' actuary would impede the ability of the PSRS/PEERS Board to act in the best interest of the Systems' 220,000 active and retired members
- Establishment of the contribution rate and the COLA are key decisions made by the Board - by limiting the Board's ability to utilize the actuary's recommendations, the General Assembly limits the Board's fiduciary duty to adequately fund the Systems and could negatively impact the financial solvency of the Systems.
- Passage of SB 842 would undermine the Board's flexibility to adopt policies to help the Systems remain adequately funded.
- The Board would be unable to effectively ensure that the Systems remain financially stable, strong and secure for current and future generations of Missouri's teachers and education employees.

If this statutory change would make the Board more accountable to following the Board's Funding Stabilization Policy, why would they oppose it?

- Since 1946, the PSRS Board of Trustees has developed and implemented policies and procedures to insure and improve the financial condition of the plan. Currently, the Board has over 18 board governance policies and resolutions that have been adopted throughout its history. These policies / resolutions allow the Board to fulfill their fiduciary duties and responsibilities to the Systems as well as the flexibility to make changes as the environment and market warrant.
- The statutory change is **not** necessary. The Board already adopted a policy that will address these concerns and plans to follow that Policy. This expands the authority of the State to extend greater, unnecessary control over the Systems.
    - For the past 65 years, the Systems have had a moratorium on having elected officials serving on the Board. This moves the fiduciary responsibility from the PSRS/PEERS Board to that of the General Assembly.
- This bill is bad public policy for the Systems. SB 842 is an example of big government and an expansion of Government into actions that are already being handled by the PSRS/PEERS Board. The PSRS/PEERS Board is charged with the responsibility of administering the Systems.
- Because the trustees of the PSRS/PEERS Board are by law fiduciaries of the Systems, they are legally and morally required to act in the best interests of its members and the Systems.
    - As fiduciaries and trustees of the Systems, it is the Board's responsibility and duty, not the General Assembly's, to ensure that the Systems are properly funded.
- The Board's primary concern continues to be maintaining the financial strength and solvency of the Systems for Missouri's 220,000 teachers, school employees and school districts.
- The Board takes that fiduciary responsibility seriously and, throughout its long history, their actions and policies have provided financial stability and strength to the Systems and its members.

Are the Systems adequately funded?

- YES.
- The Systems are one of the best funded retirement plans in the state of Missouri.
- PSRS/PEERS ended fiscal year 2011 with actuarial pre-funded ratios of 85.5% and 85.3%, respectively. This pre-funded ratio establishes PSRS/PEERS in a select group of similar funds with such a strong funded status. Any plan that has a pre-funded ratio of at least 80% is considered to be a healthy funded plan.

- According to the November 2011 Joint Committee on Public Employee Retirement (JCPER) report, when comparing all retirement plans with assets over one billion dollars as of June 30, 2011, PSRS and PEERS are two of three funds that are over 80% funded on an actuarial basis and the **only** funds that are over 85% funded.
- An 80% level of funding is generally considered the standard for adequate funding for a retirement plan. As noted in the November 2011 JCPER report, most other statewide similar funds are not able to reach 80% funded in the next ten years. PSRS would be close to 90% funded in that time frame (PEERS is over 90% funded by 2021) and both Systems will be 100% fully funded by 2038 if all assumptions are met.

How did the Systems' do last year on their investment returns?

- PSRS/PEERS achieved record high investment returns in fiscal year 2011. The Retirement Systems earned returns of 21.8% and 21.4%, respectively, for the fiscal year July 1, 2010 through June 30, 2011. These earnings resulted in an increase in PSRS/PEERS' assets of more than **$5 billion** over the previous year. The returns exceeded both the plans' investment return benchmark as well as the 8.0% actuarial assumed rate of return.
- The PSRS/PEERS Board has positioned the Systems to be a leader in the investment market and provide the strongest returns for its members while taking less investment risk than a majority of other public pension funds in the nation. As fiduciaries of the PSRS and PEERS trust funds, the Board governs the investment process by maintaining policies and objectives for all aspects of the Systems' investment program.

What does the SCS do differently than the original?

SB 842 requires the PSRS/PEERS' Board of Trustees to freeze the contribution rates at the 2011 – 2012 level and freeze the Cost-of-Living Adjustments (COLAs) for retirees at 2% until the Systems are 100% fully funded. It removes the ability for the PSRS/PEERS Board of Trustees to set the future contribution rates for its members and COLAs for retirees. It does allow for the PSRS/PEERS Board to increase the contribution rate up to 1% annually but the Board is still prohibited from basing the contribution rate on the actuarial valuation completed by an independent actuary. SB 842 still removes the flexibility and autonomy of the PSRS/PEERS' Board.