

PSRS-PEERS Board of Trustees Report
April 6, 2020
By Otto Fajen

Trustees present via videoconference

Aaron Zalis, Chair
Jason Hoffman, Vice-Chair
Yvonne Heath
Scott Hunt
Sharon Kissinger
Beth Knes
Jason Steliga

SYSTEM OPERATIONS

The Board meeting started via videoconference at 9:00 a.m. The Board first approved a motion to allow the board meetings to be held by videoconference. Videoconferencing is needed due to health issues related to the COVID-19 pandemic and complies with federal, state and local orders limiting social gatherings. The Board approved the minutes from the February 10, 2020 meeting and the March 20, 2020 conference call meeting and established the order of business.

Election of Officers - As required by Board regulation, the board of trustees unanimously elected Jason Hoffman as Chair and Jason Steliga as Vice-Chair to each serve one-year terms starting July 1, 2020.

Interest Credit Rate and Purchase Interest Rate - The interest credit rate for the current fiscal year is 2.0%. The Board set the interest credit rate for next fiscal year at 1.0%, based on staff recommendation. The Board also approved the staff recommendation to set the purchase interest rate for next fiscal year at the current assumed rate of return of 7.5%.

INVESTMENTS

Investment Performance Report - Craig Husting reviewed the March 31, 2020 investment update and global economic concerns created by the COVID-19 pandemic. The pandemic has rapidly and profoundly affected global monetary and fiscal policy. The pandemic has also cause huge increases in unemployment and is causing a recession. All sectors of the market other than safe assets like U.S. Treasuries have shown negative returns in March 2020. Many aspects of the impact remain unknown and will be affected by the continuing path of the pandemic. Despite negative results in all market sectors, investment opportunities will become available in certain areas, such as telemedicine, remote learning and others.

PSRS/PEERS investments are down 6.8% overall for March 2020, and down 9.3% for Calendar year 2020 thus far. For the current fiscal year, the Systems have an overall return of -4.4%. Market dislocations appear to have peaked on March 23 and some aspects have improved slightly, though volatility remains high.

The Systems' portfolio was already structured to reduce the impact of market declines to some degree. The Safe Assets sector performed well, and Hedged Assets also helped create a lower risk profile.

The Systems' staff see emerging opportunities, primarily in areas affected by market reductions, such as rebalancing to public equity, increasing investment in private credit through emerging capital calls, new commitments in private equity and real estate, all while maintaining liquidity to ensure the Systems can continue to pay benefits and meet other obligations.

Asset/liability study – This study evaluates the stability of the plan, cashflow and liquidity and downside risk. Current allocation is very good, so potential changes are minor. The study presented asset allocation recommendations and the assumed rate of return. The allocation discussion recommends reducing public credit and TIPS (treasury insured) while increasing private equity.

Based on discussion with the Board at the February meeting, the staff evaluated several options that would increase private investments and recommended an allocation option that retains 20% of the portfolio in safe assets, decreases public risk assets (equities, hedged assets and public credit) from 55% to 45% while increasing investment in private investments (private equity, real estate and private credit) from 25% to 35%. The transition of allocation would be done over a period of years, based on emerging, high quality opportunities in the relevant sectors. The Board unanimously approved the staff's recommended allocation option for the Systems.

The allocation approved by the Board is anticipated to achieve a 7.3% rate of return over a 10-year horizon and has a 49.5% probability of providing a 7.25% return and a 47.5% probability of providing a 7.5% return.

MANAGEMENT REPORT

COVID-19 Response – The Staff presented a report on the timeline of the Systems' response to the COVID-19 pandemic. Beginning with a staff meeting on March 10, the Systems quickly responded to the impact of the COVID-19 pandemic. Within a period of two weeks, the Systems moved staff to working primarily via telecommuting and closed the PSRS/PEERS headquarters on March 23 (with minor exceptions for the handling of mail and other essential services). Staff managers from the various departments gave an update of how these responses have been implemented.

Legislative Report – Maria Walden and Jim Moody gave the report. Moody gave a revenue update including his analysis of the impact of COVID-19 on state and local revenues over the next 15 months. Stay at home orders have curtailed business activity and this shutdown will directly impact state and local governmental revenues, due to lower sales taxes and income taxes being remitted. Moody forecasts about \$600 million state general revenue shortfall in the current year and between \$1.2 billion and \$2.2 billion next year in state general revenue. Moody believes that the current federal package of aid may be inadequate to meet both the direct COVID-19 expenses of the state and local governments and to compensate for general budget shortfalls. Missouri government may need the Congress to step up with more, increased fiscal relief. Moody thinks the tool to do that is an even higher FMAP Medicaid match level retroactive to January 1, 2020.

Maria Walden discussed the PSRS Benefit Resolution, Investment Resolution and COLA Resolution and mentioned that PSRS is tracking 293 bills that would affect the Systems.

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. The bill hasn't been heard in committee. Prior cost studies have shown a savings to the system and reduction of contribution rate of 0.21%.

HB 1934 (Wiemann) and SB 755 (Sater) provide that information on salaries and benefits of System staff shall be public information.

HB 2174 (Pollitt) and SB 830 (Cunningham) make changes to PSRS/PEERS Critical Shortage Statute. The bills extend the maximum full-time retirement employment option under the critical shortage statute from two years to four years. The bill also allows a PSRS retiree to be employed under critical shortage as a superintendent after a one year waiting period. The total number of retired members working for a school district shall not exceed the lesser of 10% of the total number of employees for that district or 10 employees. The Systems are waiting on a cost statement from PWC.

HB 2291 (Rusty Black) extends the maximum full-time retirement employment option under the critical shortage statute from two years to four years. The Systems are waiting on a cost statement from PWC.

HB 2460 (Rusty Black) creates the Emergency Substitute Teacher Pool (ESTP). Each school district would have the option to create a substitute teacher pool. The pool allows any PSRS or PEERS retiree to be employed as a temporary or long-term substitute under the provisions of the emergency substitute teacher pool and still receive his or her monthly retirement benefit. Earnings are limited to the Social Security Earnings Limit, currently \$18,240. There is no hourly limitation on those hours worked under the Pool.

HB 2476 (Walsh) to require all public employee retirement systems and quasi-governmental entities to report such system's or entity's employees' salaries and any incentive pay to the Missouri government accountability portal in the same manner as all state departments and agencies report.

HB 2683 (Plocher) to limit board education requirements for public employee retirement systems to apply to only defined benefit plans, but not to defined contribution plans.

SB 1000 (Onder) to require all documents relating to any public retirement system investment to be public documents. This provision would substantially interfere with the investment operations of the Systems, especially as it relates to private investments.

HB 1366 (Ellebracht) allows records or meetings of governmental bodies that include descriptions of discussion about security procedures, including evacuation and lock down procedures, to remain confidential and closed to the public.

HB 1311 (Shull) establishes the "Missouri Workplace Retirement Savings Plan," which is a multiple-employer retirement saving plan treated as a single plan under Title I of The Employee Retirement Income Security Act of 1974 (ERISA) under 401(a), 401(k), and 413(c) of the Internal Revenue Code, in

which multiple employers may voluntarily choose to participate regardless of whether any relationship exists between and among the employers other than their participation in the plan.

HB 2165 (Ross) and SB 955 (Walsh) change the membership on the Department of Transportation (MoDOT) and Highway Patrol Employees' Retirement System Board of Trustees by lowering the number of members on the Board from the Highways and Transportation Commission from three to one.

Disability Retirement Rules changes – The Board adopted two proposed rule changes recommended by staff regarding disability retirement. The changes address issues were presented to the Board at the February 2020 Board Meeting, along with other minor updates and clean-up changes.

The rules changes apply to both Systems and include changing the annual livelihood limit to the inflation-adjusted limit used for non-blind Social Security Disability recipients, untying the PEERS disability approval process from the Social Security disability process, allowing the use of multiple medical advisers and authorizing the new verification of income process. The Board approved both rule changes by unanimous vote.

CPI update/COLA review – The Board reviewed the COLA policy. The CPI-U for 2018-2019 increased by 1.6485%. Current CPI-U for 2019-2020 was 0.9897% through February 29, 2020. The total cumulative CPI-U over the period is 2.6382%. Under current policy, the Board will make a COLA for eligible retirees for next year if the cumulative figure at the end of this fiscal year exceeds 2.0%.

Public Comment – None.

The public meeting adjourned at 11:25, and the Board went into closed session.