Report of MEA-Retired Observer of MPSERS Board Meeting 2018-03-15

Jim Pearson represents MEA-Retired at MPSERS meetings and is our advocate there. Following are some excerpts from his recent report

Financial Status of MPSERS

1. Presentation of a "Retirement Plan Review" (ppt): [Bracketed text is Jim Pearson's interpretation]

- The market value of the MPSERS plan is up and the funding ratios are constant [Because the markets have been great, messing with pensions is not a priority.]
- I noticed that there are two vacancies on the management chart of the Bureau of Investments.
- The BOI manages $92.4 billion, not all of it MPSERS.
- As of 2017-12-31 the MPSERS Market Value was $48.4 billion and its Actuarial Value was $72.3 billion.
- The 2017 funded ratio is 66.9% (for comparison: 2016 = 63.01%, 2015 = 62.92%, 2014 = 66.15%)
- The pension benefits paid out in 2017 exceeded the contributions to the system by nearly $2 billion dollars. *However, the stock market returns covered that $2 billion and then some*.
- The MPSERS Asset Allocation is currently about 58% in equities.
- The rate of return on investment of the MPSERS fund has been: 10 years = 6.4%, 5 years = 10.7%, one year = 16.2%.
- Summary: a 'bull market" since 2009, MPSERS doing well and beating peers; economy doing well; some concerns out there for the economy.

2. Presentation of a "Pension Actuarial Valuation Results 2017-09-30" (ppt): [Bracketed text Jim Pearson's interpretation]

- Last year MPSERS adopted a "Dedicated Gains Policy" the intent of which was to limit the employer normal cost contribution towards pension liability for the year. [The drain from the School Aid Fund was growing so the stock market gains will be used to "hold the line" on costs].
- [There is a fundamental problem for MPSERS in that school employees prefer pensions.] While the number of Basic and MIP pensioners (both closed systems now) is slowly dropping, the number of PPP (Pension Plus) employees has been increasing since 2011 (Slide8).
- Consequently, the ratio of Active Members to Pension Benefit Recipients is dropping – now .88 to 1. [Not too many years ago it was about 2:1]
- The value of pension benefits is growing faster than active member pay. [Probably reflects the severe stagnation of pay to school employees]
- The average annual pension has grown slowly in the last decade [1.3% annually; now at $22,615].
- For the first time in this past decade the Actuarial Value of MPSERS exceeds its Market Value.
- [The Rates of Return and the Investment Gains in the Bull Market have been great].
- The value of the employers' contributions to MPSERS has stabilized at about 24% of payroll of school districts for the last four years. [In my opinion, thanks to the stock market, plus I think

districts were pushing back strongly against any greater financial burden imposed on them by the state by forcing them to pay the costs of closing the traditional pension system].

- In actuarial terms, the liabilities of MPSERS have grown faster than its assets for nearly all of the last decade. [The problem of the decision to move away from pensions will persist for years.]

3. Presentation of a "Retiree Health Actuarial Valuation 2017-09-30" (ppt): [Bracketed text Jim Pearson's interpretation]

- Retiree health benefits have only been prefunded fully since FY 2013 [They are also not constitutionally guaranteed].
- In anticipation of future funding shortfalls for health care, MPSERS will start charging districts payments for that UAAL {Unfunded Actuarial Accrued Liabilities} in fiscal year 2019-20 and which will last for 19 years thereafter. [This may be another, serious cost hit to local districts].
- Unforeseen changes in the U.S. healthcare system in those years could upset this plan.