

PSRS-PEERS Board of Trustees Report
June 8, 2021
By Otto Fajen

Trustees present

Jason Hoffman, Chair
Jason Steliga, Vice-Chair
Kyle Collins
Scott Hunt
Sharon Kissinger
Beth Knes
Melinda Moss

BUDGET AND AUDIT COMMITTEE MEETING

Prior to the meeting of the Board of Trustees, the Budget and Audit Committee met to review and approval the Annual Banking Resolution that allows the administrators of the system to work with Central Bank without requiring further Board action of the details of each action.

The staff also presented the FY 2022 budget proposal, and the Committee approved the budget for recommendation to the Board. The largest part of the budget is payment of member benefits. The budget represents about a 4% increase, primarily due to member benefit increases, along with 4% staff salary increase to fund a pay increase. The budget assumes a 2% COLA will be provided next year to retirees based on the cumulative CPI increase for the current year to date being well above the 2% threshold. The budget also includes investment fees and expenses and administrative expenses.

The Internal Auditor also reported to the Board. The auditor reported that there are no findings needing the committee's attention.

SYSTEM OPERATIONS

The Board meeting started at 9:30 a.m. The Board approved the minutes from the April 11-12, 2021 meeting and established the order of business.

INVESTMENTS

Investment Performance Report – Craig Husting again reviewed the March 31, 2021 investment status. Most market sectors went up significantly this year, and the Systems have a total return of 29.54% for the fiscal year to date. The Systems manage to continue to obtain higher than average returns with lower than average risk when compared to other large public pension plans.

Husting also reviewed the Systems' returns as of May 31. The Systems showed a market value of \$55.4 billion and an overall return of +25.3% for the fiscal year to date.

MANAGEMENT REPORT

Meeting Dates – The Board approved its meeting dates for FY 2022:

August 30, 2021
October 25, 2021
December 6, 2021
February 7, 2022
April 11, 2022
June 6 & 7, 2022

Banking Resolution – The Board approved the Annual Banking Resolution that allows the administrators of the Systems to work with Central Bank to make needed changes to their banking relationship without requiring further Board action of the details of each action.

Budget – The Board approved the Systems' FY 2022 budget as recommended Staff and approved by the Budget and Audit Committee. The largest part of the budget is payment of member benefits. The budget represents about a 4% increase, primarily due to member benefit increases, along with 4% staff salary increase to fund a pay increase. The budget assumes a 2% COLA will be provided next year to retirees based on the cumulative CPI increase for the current year to date being well above the 2% threshold. The budget also includes investment fees and expenses and administrative expenses.

Experience study – The Board approved the recommendations from the experience study conducted by PricewaterhouseCoopers (PwC), for the five-year period ended June 30, 2020. The study evaluates the differences between the Systems' assumed and actual experience over multiple years (typically three to five), with the goal of examining the trends related to actual experience and recommending changes to the actuarial assumptions, if needed. The Systems perform an experience study at least every five years.

The study is used to confirm that the actuarial assumptions used in the annual valuations are: 1) reflective of the actual demographics and behaviors of the members, and 2) reflective of current economic conditions affecting members and their benefits.

The overall results indicate the actual experience of the Systems over the past five years is very close to the assumptions that were used. PwC recommended that the inflation assumption be reduced from 2.25% to 2.0% and that the expected return on assets be reduced from 7.5% to 7.3%. PwC also recommended using the Pub 2010 Teacher Table for the PSRS mortality table and the Pub 2010 General Table for the PEERS mortality table.

Funding Policy – The Board reviewed the Systems' Funding Policy and principles and risk factors that the policy addresses. The Board approved the recommended PSRS Actuarial Funding Policy and PEERS Actuarial Funding Policy.

Purchase Interest Rate – The Board set the Purchase Interest Rate for next year at the newly adopted estimated return on assets (EROA) of 7.3% based upon having adopted the PwC recommended reduction in the EROA rate.

Proposed Rule on Certain Part-Time Employees - The Board approved a proposed new rule to clarify the retirement system participation in the case of certificated employees who start covered employment as a part-time employee (which currently defaults to PSRS participation unless the employee opts into

PEERS within 90 days), become full-time employees (which requires PSRS participation) and then go back to part-time employment. The rule would clarify that, prospectively, those employees would continue to participate in PSRS when they shift back to part-time employment.

Facility Renovation – System staff provided a high-level recap of the construction timeline for the new building addition and building renovation. Staff shared that the building reopened to visitors on June 1, 2021. Renovation continues in several areas of the current building and remains on target to be complete in September 2021. The Board currently plans to hold its first Board meeting in the new facility on August 30, 2021.

Legislative Report – Maria Walden and Jim Moody gave the legislative report. Mr. Moody gave a revenue update including his analysis of the budget, future state tax changes and the impact of various federal revenues on state and local revenues over the next few years. Overall state revenues will stand at record high levels during the next fiscal year due to one-time, federal funds related to the pandemic and its effects on institutions and the economy. State general revenue will be up more than \$2 billion from last year, while about \$783 million of that apparent increase is due to shifting the April 2020 tax deadline into this fiscal year. The budget will remain well-funded for as long as the federal funds last. However, the triggering of additional state tax cuts will leave long-term impacts in succeeding years.

Maria Walden discussed the PSRS Benefit Resolution, Investment Resolution and COLA Resolution and mentioned that PSRS tracked over 280 bills that would affect the Systems. The legislature did not enact any significant changes to the PSRS and PEERS Systems, but the bills of interest included the following:

HB 101 (Pollitt) and SB 265 (Eslinger) that include 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 bills also allow 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.

HB 811 (Rusty Black) to allows for a retired PSRS teacher to be employed in a non-certificated position covered under PEERS without impacting their retirement benefit up to the Social Security earnings limit which has an automatic inflation factor and currently is \$18,960.

HB 828 (Dinkins) would reinstate the 2.55% multiplier for 31+ years of service. PricewaterhouseCoopers (PwC) estimates the bill would create a \$16.8 million per year savings for PSRS.

SB 598 (O’Laughlin) to restrict eligibility of retirement benefits resulting from membership in multiple defined benefit plans established by a state or local retirement system.

SB 608 (Razer) to provide a pop-up option for members in same sex relationships who retired prior to June 2015.

The Board also had another discussion led by Executive Director Snider regarding potential modifications to the current working after retirement provisions. The System is investigating the suggestion of removing the hours-based limitations and establishing only a pay-based limitation for those retirees working after retirement. System staff feel a pay-based limitation of 25% of the retiree’s

final average salary (FAS) is an option that should be considered. The Systems will continue the discussion through the summer and into the August 30, 2021 legislative meeting.

CPI update/COLA review – The Board reviewed the COLA policy. Current CPI-U for 2020-2021 was 3.5908% through April 2021. Under current policy, the Board will make a 2.0% COLA for eligible retirees for next year if the cumulative figure at the end of this fiscal year (June 30) exceeds 2.0%. Given the value to date, the staff expect a final CPI of roughly 4% for the year, resulting in a 2.0% COLA for next year. If the CPI happened to exceed 5.0% for the year, the COLA would for next year would be 5.0%.

Public Comment – None. While not strictly a public comment, Executive Director Snider recognized outgoing board members Jason Hoffman and Scott Hunt for their service. Their terms will expire on June 30, 2021.

The public meeting adjourned at 12:00, and the Board went into closed session.