MISSOURI SENATE

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RE: **Frequently Asked Questions/Answers about Pension Reform Legislation**

Q: What kind of retirement plan does MOSERS administer for state employees?

A: MOSERS administers a non-contributory defined benefit plan for general state employees, statewide elected officials, legislators and judges. A defined benefit plan guarantees a lifetime benefit for members once they have sufficient service and meet certain age requirements using a formula that considers final average pay, service credit, and a multiplier. The term non-contributory means that members do not contribute a percentage of their pay towards the cost of their retirement benefit. The plan only has two sources of revenue – contributions from the state and earnings on investments.

Q: How does that differ from a defined contribution plan?

A. A defined contribution plan is a retirement savings plan where contributions can be made by the employee, employer or both. In defined contribution plans, employees are typically given the option of where to invest the account, usually among stock, bond, and money market accounts. Defined contribution plans limit an employer's pension outlay and shift the liability for investment performance from the employer to employees. At retirement, individual account balances are available to employees to do with as they wish.

Q. Why are the benefit provisions for state employees being changed? Are they too high?

A. The level of benefits provided to state employees are in no way considered to be egregious; however, it could be argued that the eligibility age for retirement (age 48 for general employees retiring under Rule of 80) is too young given the rise in life expectancies. Also, the severe decline in the financial markets has resulted in higher retirement contribution rates at a time during which the state is already under significant fiscal stress. Given that employee benefits comprise approximately 58% of the state's payroll, we are evaluating all retirement provisions to look for ways in which to manage rising costs.

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Q. What benefit changes are being recommended?

A. The proposed legislation would create a new tier retirement plan that would only be applicable to employees first hired on or after January 1, 2011. For those employees, the normal retirement eligibility for most classifications (excluding the highway patrol because they have mandatory retirement at an earlier age) would coincide with the current minimum eligibility age of 67 for unreduced social security benefits and they would be required to contribute 4% of their pay toward the financing of their retirement benefits. In addition, rather than the present Rule of 80 they would have Rule of 90 and their minimum eligibility age would be 55 rather than 48. New general employees would have ten-year vesting rather than the present five-year vesting and provisions that allow for service purchases, portability, and the BackDROP would not be available to them (see White Paper VI, dated June 23, 2010, for more detail).

Q. Have other states enacted similar changes in response to the fiscal crisis?

A. Public employee retirement plans in Arizona, Colorado, Illinois, Iowa, Kentucky, Michigan, Minnesota, Mississippi, Nevada, New York, North Carolina, Rhode Island, South Dakota, Texas, Utah, Vermont, and Virginia have enacted various provisions in the past year that will affect future retirement benefits. The vast majority of these changes affect new hires due to concerns that diminishing the benefits of current employees could potentially be considered unconstitutional.

Q. Do other plans require employee contributions? If so, what is the average contribution rate?

A. The majority of public employee retirement plans do require member contributions. In fact, MOSERS was a contributory plan at inception until 1972 when member contributions were discontinued. Nationally, the average public employee contribution rate for retirement is 5% of pay for employees who are also covered by social security.

Q. Why is it necessary to have a separate investment board manage assets for MOSERS and MPERS?

A. MOSERS' staff cannot manage money or serve in a fiduciary capacity to other public entities under the present board structure. The proposed state retirement investment board would be established for the purpose of investing MOSERS and MPERS assets, as well as other smaller funds that would like to take advantage of the professional investment talent that is presently in place at MOSERS. The proposed investment board would be a public entity subject to sunshine laws and state auditor scrutiny. The MOSERS and MPERS boards would remain in place to oversee the benefit management of each organization.

Q. Would the composition of the investment board be different than what is in place at MOSERS and MPERS?

A. Yes. The investment board would be comprised of the commissioner of administration, the executive directors of MOSERS and MPERS and four members appointed by the governor from a list of candidates with extensive investment backgrounds. Initially those names would be submitted by the retirement system executive directors; thereafter, the full board would submit nominees to the governor, with gubernatorial appointees being subject to Senate confirmation.

Q. What protections are in place to make sure that the new investment board is held to high fiduciary standards?

A. The proposed board would be subject to the same statutory provisions presently applicable to public retirement systems regarding investments including being subject to state audit and the investment board would be subject to stricter conflict of interest laws than presently apply to retirement system boards.

Q. What do the state and the taxpayers gain through pension reform?

A. The estimated combined savings are projected to be approximately $314 million over a five-year period as illustrated in the table below.

Combined Cost Savings of Pension Reform Legislation (White Paper VI)*

Year	MOSERS New Tier Savings	MPERS New Tier Savings	Judicial New Tier Savings	Investment Board Savings	Total Savings
2011	$ 6,039,245	$ 441,755	$ 167,452	$ 27,023,760	$ 33,672,212
2012	17,759,544	1,606,625	546,494	29,856,603	49,769,266
2013	29,056,347	2,835,013	976,105	30,398,877	63,266,342
2014	40,525,721	4,128,358	1,428,645	30,951,955	77,034,679
2015	51,404,417	5,537,429	1,894,730	31,516,054	90,352,630
Total	$ 144,785,274	$ 14,549,180	$ 5,013,426	$ 149,747,249	$ 314,095,129

*Savings includes all funds (general revenue, federal, and other funds.)

In a survey of 53 statewide public retirement systems nationally, MOSERS was the top performer for the 10 year period ended December 31, 2009. Relative to the average performer during that period, MOSERS' return added $1.2 billion in value to the fund, which equates to approximately $200 in tax savings for every man, woman and child in the state.

Q. Why are the teachers opposing legislation that specifically excludes them?

A. Active and retired teachers have said they are fearful that the legislation may be amended in the future to include their retirement plans (PSRS/PEERS). The PSRS/PEERS fund has approximately $27 billion in assets and presently has its own team of investment professionals. To address their concerns, this legislation specifically prohibits PSRS/PEERS, as well as the Public School Retirement System of St. Louis, the Public School Retirement System of Kansas City, the Missouri local government employee's retirement system (LAGERS), any retirement plan established by the Bi-State Development Agency, and any retirement plan established by the Regional Investment District from using the services of the investment board so this fear is unfounded. The objectives of establishing a state retirement investment board are to 1) extend the availability of MOSERS investment talent to MPERS, 2) to make the services of the investment board available to smaller, locally administered public retirement plans that may wish to take advantage of this service, and 3) to assure that the investment board will be able to function over the long-term with transparency and oversight from investment professionals.