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March 5, 2021

Ms. Maria Walden
Director of Legislation and Policy
PSRS and PEERS of Missouri
3210 W. Truman Blvd.
Jefferson City, MO 65109

Re: Public Education Employee Retirement System of Missouri - 2021 House Bill 811 ("HB 811") - Non-DESE WAR Pay Limit

Dear Maria:

As requested and pursuant to our engagement letter with the Public School and Education Employee Retirement Systems of Missouri ("PSRS and PEERS of Missouri") dated July 11, 2019, we have estimated the fiscal impact of proposed changes to the Public Education Employee Retirement System ("PEERS", or "System"). The proposed changes are described in the above mentioned Bill, a copy of which was provided to us by PSRS and PEERS of Missouri on February 11, 2021.

The remainder of this letter includes our understanding of the proposed changes, a description of the analysis we performed, and the results of our analysis. Our assessment of risk and summaries of the actuarial assumptions, actuarial methods, benefit provisions, and other disclosures related to our analysis can be found in the following enclosed exhibits:

- Exhibit I - Assessment and Disclosure of Risk
- Exhibit II - Summary of Actuarial Assumptions and Methods
- Exhibit III - Summary of Plan Provisions
- Exhibit IV - Disclosures
- Exhibit V - Diagram of Proposed WAR Changes provided by PSRS/PEERS of Missouri

Summary of Proposed Changes

HB 811 contains the following proposed changes to PEERS:

1) RSMo 169.560 Paragraph 2. would be amended to increase the pay-based limit on working after retirement applied to members of the Public School Retirement System ("PSRS") who retire, commence their PSRS retirement allowance, and subsequently return to work in positions that do not require DESE certification and are otherwise covered by PEERS. The limit would be increased from 60% of the minimum teacher salary (currently 60% of $25,000, or $15,000) to the federal social security annual earnings exemption amount ($18,960 for 2021 and indexed in future years).

HB 811 Analysis

An increase to the pay-based limit on working after retirement under RSMo 169.560 Paragraph 2. would provide greater incentive for retired PSRS members to return to work and greater ability for school districts to replace full-time PEERS employees with multiple part-time employees. This could impact the level of active membership in PEERS over time. However, contributions from school districts related to such employees are paid to PEERS without an accrual of benefits in PEERS. For these reasons, **the proposed change is expected to be an insignificant fiscal gain to PEERS.**

Please see the enclosed exhibits for summaries of identified risks associated with the proposed change and summaries of the assumptions, methods, and plan provisions reflected in our analysis.

Please call if you have any questions or if you require additional information.

Sincerely,

Cindy Fraterrigo, FSA, EA, MAAA

Brandon Robertson, ASA, EA, MAAA

cc: Dearld Snider - PSRS and PEERS of Missouri
Anita Brand - PSRS and PEERS of Missouri
Becky Stanton - PwC
Nathan Benya - PwC

Assessment and Disclosure of Risk

A. Assessment of Risk - June 30, 2020 Valuation

Please see the June 30, 2020 actuarial valuation report, dated November 12, 2020, for an assessment of the risks associated with the measurement of pension liability and contributions.

Assessment and Disclosure of Risk

B. Assessment of Risk - HB 811

We do not believe the proposed changes would introduce new risks, or significantly alter the level of the risks, identified in our June 30, 2020 actuarial valuation report for the System overall. However, below is an assessment of risks specific to our estimatation of the fiscal impact of the proposed changes.

- Demographic Risk - Our estimated fiscal impact of the proposed change is a function of assumed retirement behavior. The actual fiscal impact of the proposed change would be based on actual future retirement behavior. If active member retirement patterns begin to shift significantly due to the implementation of the HB 811, PEERS could experience a decrease in covered payroll available to amortize the UAAL. A lower covered payroll would lead to an increase in the ADC rate.

Summary of Actuarial Assumptions and Methods

A. Actuarial Assumptions - June 30, 2020 Valuation

Please see the June 30, 2020 actuarial valuation report, dated November 12, 2020, for a complete disclosure of all actuarial assumptions.

Summary of Actuarial Assumptions and Methods

B. Actuarial Assumptions - HB 811

All assumptions are the same as the June 30, 2020 valuation.

Summary of Actuarial Assumptions and Methods

C. Actuarial Methods - June 30, 2020 Valuation

Please see the June 30, 2020 actuarial valuation report, dated November 12, 2020, for a complete disclosure of all actuarial methods.

Summary of Actuarial Assumptions and Methods

D. Actuarial Methods - HB 811

All methods are the same as the June 30, 2020 valuation.

Summary of Plan Provisions

A. Plan Provisions - June 30, 2020 Valuation

Please see the June 30, 2020 actuarial valuation report, dated November 12, 2020, for a complete disclosure of all plan provisions that are pertinant to the valuation. Plan provisions reflected in the June 30, 2020 valuation that will be modified by the proposed changes, if any, are presented below to allow for comparison with the modifed provisions.

Working After Retirement

When retired PSRS members are rehired into positions that require certification by the Department of Elementary and Secondary Education ("DESE") or when retired PSRS members are rehired by public community colleges in positions that do not require certification by DESE, they are subject to the following requirements:

1. The PSRS retirement allowance is to be suspended if such member:
    a. Works more than 550 hours per school year, or
    b. Earns more than 50% of the annual compensation a full-time member would earn in the same position.
2. To the extent a member's employment exceeds the threshold noted above (and the member satisfies other statutory eligibility requirements) resulting in suspension of the member's retirement allowance, both the member and their employer are required to contribute to PSRS and the member earns an additional retirement allowance from PSRS for their service.

When retired PSRS members are rehired into positions that do not require certification by DESE (except for members rehired by public community colleges), they are subject to the following requirements:

1. The PSRS retirement allowance is to be suspended if such member:
    a. Earns more than 60% of the minimum teacher's salary set forth in Missouri statute (currently $15,000).
2. To the extent a member's employment exceeds the threshold noted above (and the member satisfies other statutory eligibility requirements) resulting in suspension of the member's retirement allowance, both the member and their employer are required to contribute to PSRS and the member earns an additional retirement allowance from PSRS for their service.
3. To the extent the member's employment does not exceed the threshold noted above, the member's employer is required to contribute to PEERS. In this case, the member continues to receive their PSRS retirement allowance and does not earn an additional retirement allowance.

Summary of Plan Provisions

B. Plan Provisions - HB 811

Our understanding of the plan provisions, as modified by the proposed changes, are presented below.

Working After Retirement

When retired PSRS members are rehired into positions that require certification by the Department of Elementary and Secondary Education ("DESE") or when retired PSRS members are rehired by public community colleges in positions that do not require certification by DESE, they are subject to the following requirements:

1. The PSRS retirement allowance is to be suspended if such member:

   a. Works more than 550 hours per school year, or
   b. Earns more than 50% of the annual compensation a full-time member would earn in the same position.

2. To the extent a member's employment exceeds the threshold noted above (and the member satisfies other statutory eligibility requirements) resulting in suspension of the member's retirement allowance, both the member and their employer are required to contribute to PSRS and the member earns an additional retirement allowance from PSRS for their service.

When retired PSRS members are rehired into positions that do not require certification by DESE (except for members rehired by public community colleges), they are subject to the following requirements:

1. The PSRS retirement allowance is to be suspended if such member:

   a. Earns more than the federal social security annual earnings exemption amount applicable before the calendar year of attainment of full retirement age pursuant to Section 403(b) of the Social Security Act.

2. To the extent a member's employment exceeds the threshold noted above (and the member satisfies other statutory eligibility requirements) resulting in suspension of the member's retirement allowance, both the member and their employer are required to contribute to PSRS and the member earns an additional retirement allowance from PSRS for their service.

3. To the extent the member's employment does not exceed the threshold noted above, the member's employer is required to contribute to PEERS. In this case, the member continues to receive their PSRS retirement allowance and does not earn an additional retirement allowance.

Disclosures

The information herein has been prepared pursuant to our engagement letter with PSRS and PEERS of Missouri, dated July 11, 2019. Our analysis was performed based on our understanding of the current PEERS benefit provisions as set forth in RSMo Chapter 169, as well as the modification to those statutes proposed in HB 811.

Our analysis of the impact of HB 811 reflects the proposed changes in plan provisions shown in Exhibit and III.

The results of our analysis presented herein do not reflect application of Governmental Accounting Standards applicable to pension plans. Our analysis illustrates the estimated change in the Actuarially Determined Contribution Rate ("ADC Rate"), which may or may not affect the actual contribution rates set by the Board. Our analysis does not include any additional administrative cost that may be incurred by PSRS and PEERS of Missouri to implement this change or possible implementation challenges for members, employers or PSRS and PEERS of Missouri. A stochastic model of potential results on a forecasted basis was not completed due to the limited scope of our engagement.

No statement in this letter is intended as a recommendation in favor, or in opposition, of the proposed changes. Except as otherwise noted, potential impacts on other benefit plans were not considered.

The analysis presented herein is based upon assumptions regarding future events. However, the plan's long term costs will be determined by actual future events, which may differ materially from the assumptions that were made. The calculations are also based upon present and proposed plan provisions that are outlined in the letter. If you have reason to believe that the assumptions used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, please contact the author of this letter prior to relying on information in the letter.

If you have reason to believe that the information provided in this letter is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this letter, please contact the author of this letter prior to making such decision.

In the event that more than one plan change is being considered, it should be noted that the results of separate actuarial valuations cannot generally be added together to produce a correct estimate of the combined effect of all of the changes. The total can be considerably greater or less than the sum of the parts due to the interaction of various plan provisions with each other, and with the assumptions that must be used.

To the best of our knowledge this actuarial statement is complete and accurate and has been prepared in accordance with generally accepted actuarial principles and practice and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. Our calculations are also consistent with our understanding of Missouri state law. The undersigned actuaries are members of the Society of Actuaries and other professional organizations, including the American Academy of Actuaries, and meet the Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States relating to pension plans. There is no relationship between the PwC practitioners involved in this engagement and PSRS and PEERS of Missouri that may impair our objectivity.

The content of this document is limited to the matters specifically addressed herein and does not address any other potential tax consequences, or the potential application of tax penalties, to any matter other than as set forth herein. Our conclusions are not binding upon any taxing authority or the courts and there is no assurance that any relevant taxing authority will not successfully assert a contrary position. In addition, no exceptions (including the reasonable cause exception) are available for any federal or state penalties imposed if any portion of a transaction is determined to lack economic substance or fails to satisfy any similar rule of law, and our advice will not protect you from any such penalties. This document supersedes all prior written or oral advice with respect to the issues addressed in this document and all such prior communications should not be relied upon by any person for any purpose. This document has been prepared pursuant to an engagement letter between PSRS and PEERS of Missouri and PwC, and is intended solely for the use and benefits of PSRS and PEERS of Missouri and not for reliance by any other person.