The Affordability of PERS

October 6, 2016

To Our Members:

Our business is about the future. Every investment transacted, contribution received, benefit paid, law changed, regulation amended, decision acted on, and thought given is about meeting the promises we have made to the hundreds of thousands of people depending on us for their retirement.

We take this very seriously. And we know you do, too.

We also know that you might feel unsure about the future when you read headlines, articles, blog posts, and reports that come from sources other than the Public Employees' Retirement System of Mississippi (PERS) that assert that Mississippi is in the midst of a pension crisis.

Sensational as those headlines may be, there is truth to the fact that we have unfunded liabilities. We report these unfunded liabilities clearly every year in our annual reports, in our newsletters, in e-mail updates, and online. Our current funded status has hovered around 60 percent since 2011. And it may continue to do so for years to come as we work through one of the country's most difficult financial times since the 1930s. The Great Recession of 2007 to 2009 was the biggest recession PERS has ever seen since it was established in 1952, but it was not the first. We also weathered the dot-com bust (1999-2001).

That said, I cannot agree that we are in a pension crisis.

We pay in excess of $150 million in benefits every month to more than 100,000 people. And we know that there are thousands of others who are expecting to receive their benefits when they retire. We work to ensure their monthly benefits will be paid, too. And they *will* be paid.

Our funded status means we presently have approximately 60 percent of the funds needed to pay not only all current benefits, but all projected and future benefits. Having an unfunded liability is analogous to having a mortgage and making mortgage payments faithfully every month while 60 percent of all the funds needed to pay the entire mortgage is in savings. Paying off the mortgage might be a desired or even preferred course of action, but having the mortgage is not a crisis. However, to ensure the long-term solvency of PERS and to ensure that we can pay benefits for years to come, the Board of Trustees, under the guidance of our consulting actuaries, manages the plan and monitors the funded status; the effects of which will be seen over time, albeit incrementally and very gradually.

And as the hands of time slowly turn, taxpayers, media, and leadership begin to nervously tap their toes and allow their waning patience for substantial progress to turn their minds to the question of affordability for public retirement systems like PERS.

But there are two questions of affordability: Can Mississippi afford its public employees' retirement system? And can Mississippi afford *not* to have a public employees' retirement system? The respective answers are yes and no.

The question of the affordability of PERS right now is best answered by looking at how much the state pays in contributions annually compared to how much it pays toward the rest of its expenses annually. Over the past 25 years—including the years of the Great Recession and the dot-com bust—the employer contributions paid to PERS by the state have remained less than 5 percent of the state's overall expenses. Of the state's $4.2 billion in expenses in 1990, 4.35 percent was paid to PERS. And of the state's $16.3 billion in expenses in 2015, 4.65 percent was paid to PERS. The dollar amount that goes to PERS has risen over the past 25 years, but PERS' percentage of the state's overall spending has remained relatively consistent.

So, that leaves the question of the affordability of not having a public employees' retirement system in Mississippi.

Even being decades away from funding all of PERS' liabilities and even with PERS being a steady percentage of the state's annual expenses, the state benefits by about $2.7 billion annually from having a public employees' retirement system with the creation of jobs and retiree spending, according to the 2016 National Institute on Retirement Security (NIRS) Pensionomics study.

NIRS reports that "Each $1 in state and local pension benefits paid to Mississippi residents ultimately supported $1.25 in total output in the state. This 'multiplier' incorporates the direct, indirect, and induced impacts of retiree spending, as it ripples through the state economy." NIRS further reports that "Each $1 in taxpayer [employer] contributions to Mississippi's state and local pension plans supported $4.63 in total output in the state. This reflects the fact that taxpayer contributions are a minor source of financing for retirement benefits—investment earnings and employee contributions finance the lion's share."

But the economic impact of PERS goes beyond helping with job creation and providing economic benefits to even the smallest of communities in the state. These factors work to assist in keeping many individuals off of social services. Furthermore, having a public employees' retirement system is a key part of the overall compensation package used by state and local governments to recruit the needed workforce to do the jobs that we depend on to keep state and local government, schools, safety systems, utilities, public hospitals, libraries, etc. going.

The relationship between the tax-paying public and the state's public employees' retirement system is a symbiotic one. Cost is associated with running a $25.4 billion pension system (2015), but that cost affords the state and her people a strong source of economic activity for each and every community throughout the state, security for a large number of our elderly, and a valuable recruitment tool for drawing in dedicated public servants who keep our state educated, safe, and running smoothly.

Rest assured, the PERS Board of Trustees and staff at PERS are and will continue working to provide secure benefits to our members. We do this to keep our promises, and we do this because we know secure benefits help to keep PERS affordable and are a pivotal part of providing quality public service to the people of Mississippi.

Sincerely,

Pat Robertson
Executive Director