# Personnel

## State Retirement and Pension System Investment Performance and Contribution Rates

**The pension fund's fiscal 2018 return on investments was 8.06%, exceeding the assumed rate of return of 7.50%. The plan's funded status increased to 71.6%, compared to 70.9% at the end of fiscal 2017. Supplemental contributions of $75 million will continue until the system is 85.0% funded, and a pension sweeper provision will direct a portion of unspent State general fund balances to the system.**

### Fiscal 2018 Investment Performance

The State Retirement and Pension System's (SRPS) investment return for the fiscal year that ended on June 30, 2018, was 8.06%, exceeding the assumed rate of return of 7.50%. System assets grew to a market value of almost $52 billion, as of June 30, 2018. The performance was driven primarily by the system's growth equity holdings, which returned 12.75% for the fiscal year, exceeding its benchmark by 0.79% (79 basis points). Within this asset class, private equity had another strong year with a return of 19.64%, outperforming its benchmark of 15.88%. Absolute return underperformed its benchmark by 1.89% (189 basis points), with a return of 3.26%.

Investment returns exceeded the assumed rate of investment return for the second year in a row, with returns exceeding the assumed rate of return in three of the last five years. The system as a whole outperformed its policy benchmark by 0.46% (46 basis points). Total system return for fiscal 2014 through 2018 is 7.15%, which is 0.43% (43 basis points) above the plan return benchmark for that period.

### System's Financial Condition Driven by Investment Returns and Policy Changes

From fiscal 2017 to 2018, SRPS's funded status (the ratio of projected actuarial assets to projected actuarial liabilities) improved from 70.9% at the end of fiscal 2017 to 71.6% at the end of fiscal 2018 (these figures exclude funding for local governments that participate in the State plan). Several combined factors set the system up for continued improvement in its funding status, including the increasing number of new members entering the system under the reformed benefit structure enacted in 2011, the elimination of the corridor funding method, and continued supplemental contributions. The total State unfunded liability increased from $18.854 billion to $19.038 billion.

## Fiscal 2020 Contribution Rates

**Exhibit 1** shows that the employer contribution rate for the Teachers' Combined Systems (TCS) will increase from 16.16% in fiscal 2019 to 16.30% in fiscal 2020, and the contribution rate for the Employees' Combined Systems (ECS) will increase from 19.23% in fiscal 2019 to 20.22% in fiscal 2020. The aggregate contribution rate, including contributions for public safety employees and judges, increases from 18.15% in fiscal 2019 to 18.54% in fiscal 2020. Based on projected payroll growth and other factors, the SRPS actuary estimates that total employer pension contributions will increase from $1.930 billion in fiscal 2019 to $1.991 billion in fiscal 2020. The fiscal 2020 contribution rates are the actuarially determined contribution rates and reflect the Board of Trustees decision to lower the investment return assumption from 7.50% to 7.45%. The funding rates and contribution amounts are inclusive of the $75 million supplemental contribution required by Chapter 489 of 2015.

**Exhibit 1**
**State Pension Contributions**
**Fiscal 2019 and 2020**
**($ in Millions)**

| | 2019 | | 2020 | |
|---|---|---|---|---|
| **Plan** | **Rate** | **Contribution** | **Rate** | **Contribution** |
| Teachers' Combined | 16.16% | $1,130.0 | 16.30% | $1,166.5 |
| Employees' Combined | 19.23% | 648.5 | 20.22% | 670.2 |
| State Police | 79.41% | 83.6 | 80.58% | 84.7 |
| Judges | 44.53% | 21.9 | 44.44% | 22.1 |
| Law Enforcement Officers | 40.81% | 45.7 | 42.40% | 47.9 |
| **Aggregate** | **18.15%** | **$1,929.6** | **18.54%** | **$1,991.3** |

Note: Except for the Teachers' Combined System (TCS), contribution rates and dollar amounts reflect State funds only, excluding municipal contributions. For TCS, it reflects the combined total of State and local contributions. Figures also reflect the $75 million supplemental contribution required by Chapter 489 of 2015.

Source: Gabriel, Roeder, Smith, & Co., June 30, 2018 Actuarial Valuation for Fiscal Year 2020

Employer contribution rates were subject to multiple influences this year, some exerting upward pressure and others downward pressure. Investment returns over the five-year smoothing period and further reduction of the assumed rate of investment return exert upward pressure on the fiscal 2020 contribution rates. Increased membership under the reformed benefit structure exerts downward pressure on the rates. Chapter 489 eliminated the corridor funding method, which restricted the growth of contribution rates for TCS and ECS, the two largest plans within SRPS.

This ensures that the budgeted contribution rate is the actuarially determined rate necessary to fully fund the system.

In addition to eliminating the corridor method and returning the system to full actuarially determined funding, Chapter 489 also provides for a supplemental contribution of $75.0 million each year until the system is 85% funded. Additionally, Chapter 489 included a sweeper provision, which directs a portion of unspent general funds to the system as an additional supplemental payment in fiscal 2020. Since fiscal 2018 ended with an unappropriated fund balance totaling $503.8 million, the Administration is required to include an additional $50.0 million appropriation for State pension contributions, the maximum required by Chapter 489.

Under State law, employer contributions to the several systems provide for full funding of the actuarially determined contribution, pay the actuarially determined contribution in full, and additionally provide for regular supplemental payments.

## Local School Board Contributions to the Teachers' Pension System

Chapter 1 of the first special session of 2012 requires local school boards to make contributions for members of the Teachers' Retirement and Pension systems (TRS/TPS). The contribution amounts are the amounts associated with the normal cost for local employees in TRS/TPS. The normal cost is the portion of the yearly contribution rate, which reflects the amounts needed to fund liabilities that will be accrued in the upcoming year. For fiscal 2013 through 2016, the dollar amounts required to be paid by each local school board were set in statute. Starting in fiscal 2017, statute requires local school boards to pay the full normal cost for their employees in TRS/TPS. The normal cost rate for fiscal 2020 is 4.38%, and the system's actuary projects the local school board normal cost share for fiscal 2020 to be $288.6 million. The system's actuary projects the total State contribution to TCS will be $877.8 million, which consists of $24.8 million of the normal cost,[3] $802.2 million for unfunded liabilities, and $50.8 million in supplemental contributions.

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[3] The State continues to be responsible for paying the normal cost for certain TRS/TPS covered employees, such as library employees and employees of an educational institution supported by and operated by the State.