

Response to The Pew Center Report

The Pew Center on the States released a report on February 18, 2010, entitled “The Trillion Dollar Gap; Underfunded State Retirement Systems and the Roads to Reform.” After you move beyond the eye-catching headline and begin to analyze the numbers, it is clear the vast majority of the “gap” is due to health care programs. These programs were traditionally “pay-as-you-go” systems and only recently began pre-funding their promises.

The report dedicated a page to each state and noted, “Missouri’s pension systems were 83 percent funded in 2008 – above the 80 percent benchmark that the U.S. Government Accountability Office says is preferred by experts...” However, it also stated “Although Missouri consistently has met its annual actuarially required contribution for its state employees’ plan, **its payment for the public school retirement system has repeatedly been underfunded.**” This statement requires further explanation.

In 2003, the legislature passed a bill limiting the annual contribution rate increase to no more than 1% for PSRS and no more than .5% for PEERS. In recent years, the annual required contribution rate set by the PSRS/PEERS actuaries began to exceed the amount we were authorized to collect under the law. While collecting the lower contribution rate is not ideal for the retirement system, everyone recognizes the importance to our school districts and our members. The limited annual increase provides a more predictable increase and will over time allow us to collect the required amount. In addition, the PSRS/PEERS Board and staff are working closely with the systems’ actuary and the educational association leaders to research possible ways to lower benefit costs and contributions rates in the future.

PSRS and PEERS continue to be on solid ground. As of June 30, 2009 PSRS is 79.9% prefunded and PEERS is 80.7% prefunded. Unlike a pay-as-you-go system, we have your money prudently invested in order to pay your future retirement benefits.

Everyone benefits from a secure retirement. The costs of pension benefits for most public employees are actually quite reasonable. They are designed to provide a modest income replacement after a career of public service. A 2008 study by the National Institute on Retirement Security found that a defined benefit plan can deliver the same retirement benefit as a defined contribution plan for almost half the cost. This is made possible through pooling of investment and longevity risk, lower administrative and investment costs, and higher returns of professionally invested funds.

For over 60 years, we have worked together to build one of the strongest retirement systems in the country for Missouri’s educators. While the recent market downturn has been difficult, we will continue to provide you with the benefits, guidance, and service you expect and deserve.