



TEAMWORK

The Driving Force Behind
State Employee Pensions

Summary Annual Report to Members
Fiscal Year 2019

Message from the Executive Director

It is my pleasure to present MOSERS' *Summary Annual Report to Members*, which provides a brief overview of our financial condition as of June 30, 2019. During fiscal year 2019, the Board and staff worked extensively and collaboratively on solutions to ensure the fiscal sustainability of MOSERS for current and future members. I would like to thank our trustees for their dedication and commitment.

The MOSERS investment portfolio generated a time-weighted return of 4.3%, net of fees, for fiscal year 2019. The total fund returned 1.8% more than would have been expected through passive investing in the benchmarks. Additionally, our staff reduced investment management fees by \$9 million.

During fiscal year 2019, the Board continued the reduction of the assumed rate of return on investments, as set forth in the Board's funding policy. This reduction resulted in an assumed rate of return of 7.10%, reduced from 7.25%. The Board's intention is to further reduce the assumed rate to 6.95%, effective June 30, 2020.

To allow for more predictable and stable contribution rates, MOSERS' funding is based upon the actuarial value of assets, which smooths asset gains and losses over a five-year period. As of June 30, 2019, the MSEP was 62.9% pre-funded and the Judicial Plan was 27.9% pre-funded on an actuarial basis.

The General Assembly authorized and the Governor approved the appropriation of \$432 million to MOSERS for fiscal year 2020, which will fully fund the Board-certified employer contribution rate.

It is clear that one of the core concepts held at MOSERS in fiscal year 2019 was teamwork. Whether it was in service to our membership through the design of a new public website, service to our community after a tornado struck our area in May, or service to each other when supporting fellow staff members, the MOSERS' staff embodied the idea of team. Our team expands when we consider the trust that has been placed in MOSERS by our members, employers, and other stakeholders. Together, we will celebrate our successes and navigate our challenges into the future. We know our members rely on their benefits now and far into the future. The decisions and initiatives completed by the Board and our staff this year all work together to foster the long-term sustainability of the system. The MOSERS staff will continue to "roll up our sleeves" and work hard for our members, the Board, and all our stakeholders as we move into fiscal year 2020. It is our honor to work for this great state and its citizens.

Respectfully submitted,



Ronda Stegmann
Executive Director



Ronda Stegmann
Executive Director

This *Summary Annual Report* is derived from the information contained in MOSERS' *Comprehensive Annual Financial Report* (CAFR) but does not include all funds administered by MOSERS or certain other information required for conformity with Generally Accepted Accounting Principles (GAAP). MOSERS' financial statements are produced in conformity with GAAP. Contact MOSERS to request a copy of the CAFR, or explore it on our website at www.mosers.org. To request an alternative format, please contact MOSERS at (573) 632-6100 or (800) 827-1063. MOSERS is an equal opportunity employer.

Message From the Board Chairwoman

Dear Members:

On behalf of the MOSERS Board of Trustees, I am pleased to present MOSERS' *Summary Annual Financial Report* for the fiscal year ended June 30, 2019. This report is one of MOSERS' finest examples of collaboration and an organization-wide team effort.

During the year ended June 30, 2019, the Board of Trustees established a Board Audit Committee. This 3-member committee reviewed and recommended a new external auditing firm as part of a formal procurement process. This committee will continue to function as an extension of the Board and will assist in providing recommendations relative to the organization's initiatives for areas such as risk management, internal audit, and external financial statements.

Our Board and staff members worked on several initiatives in the last fiscal year, some of which included:

- developing and adopting the MOSERS Strategic Plan for July 1, 2019 – June 30, 2022;
- continuing the systematic reduction of the MOSERS investment rate of return assumption, consistent with the Board's funding policy;
- beginning the 36-month transition of the Board-adopted investment portfolio and conducting ongoing analysis of each asset allocation category; and
- producing brief videos to provide stakeholders with timely information about Board meetings and action taken at these meetings.

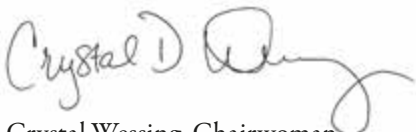
On behalf of the Board and staff, I would like to recognize former State Treasurer Eric Schmitt and Mr. Don Martin for their hard work and dedication while serving as trustees. Representative Rusty Black and Gary Findlay (elected by retired membership) joined the Board as new trustees during the fiscal year. Trustees devote many hours in fulfilling their fiduciary duties.

During my tenure as Board chairwoman, I have witnessed the substantial amount of time and service our trustees have dedicated to MOSERS. I am proud to lead this fine group of fiduciaries in acting in the best interest of our members. Together, with staff, we continue to further our core mission of advancing the financial security of our members.

With another fiscal year in full swing, I wish to thank the MOSERS staff for their ongoing dedication and professionalism. I also wish to express my appreciation to you, our members, for your commitment and service to this great state and its citizens. As a fellow state employee, I know many of the challenges that accompany public service. As a team, we will continue to navigate those challenges and celebrate our successes. I am honored to serve as one of your representatives on the MOSERS Board.

If you ever have any questions, please contact us at MOSERS, P.O. Box 209, Jefferson City, MO 65102, call us at (800) 827-1063, or visit our website at www.mosers.org.

Sincerely,



Crystal Wessing, Chairwoman
Board of Trustees



Crystal Wessing
Board Chairwoman

Contribution rates, funded ratios, assumed rates of return, etc. are all complicated topics. Please know that your Board of Trustees is deeply engaged in these topics and is focused on the future. Together, we continue to work hard for your benefit.

MISSION

MOSERS exists to advance the financial security of its members.

VISION

We endeavor to:

Exceed customer expectations

Educate stakeholders

Ensure sound investment practices

Encourage responsible
funding of the plan

through a commitment to

Excellence. Always.

VALUES

Quality • Respect • Integrity
Openness • Accountability



Financial Highlights

Fiscal Year 2019

\$319.2 Million
Investment Income

\$432.8 Million
Employer Contributions

\$32.4 Million
Employee Contributions

\$880 Million
Benefit Payments

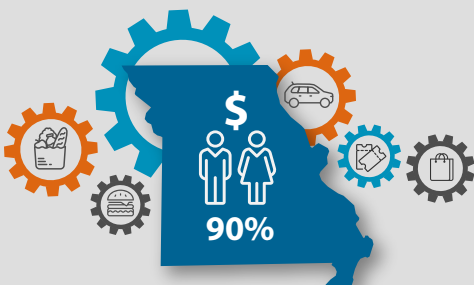
\$1,131
Average Monthly
Benefit Amount for
FY19 MSEP Retirees

50,281
Retirees & Beneficiaries

\$8.1 Billion
Net Trust Fund Assets

Economic Impact

- MOSERS provides a modest benefit to those who served the public during their working years with income to meet their basic needs.
- Our neighbors, friends, and family spend their pension benefits in our communities. Nearly 90% of retirees and their dependents remain in Missouri, spending retirement dollars on housing, goods, and services. Each \$1 paid in benefits has \$1.43 in economic impact.
- Retirees had more than \$16 million in state taxes and \$64 million in federal taxes withheld from their benefit payments in fiscal year 2019, helping generate revenue and growth.



Net Position

The *Summary Statement of Fiduciary Net Position* reports the pension plan's financial position as of the end of the fiscal year. As of June 30, 2019, MOSERS has accumulated \$8.1 billion in net assets for the payment of promised retirement benefits.

Summary Statement of Fiduciary Net Position (Fiscal Year Ended June 30, 2019)

	As of June 30, 2019	As of June 30, 2018
Assets		
Cash and short-term instruments	\$ 263,269,711	\$ 2,379,956
Receivables	346,692,311	152,195,889
Investments	11,596,260,814	12,065,659,652
Capital assets, net of accumulated depreciation	4,887,103	3,237,785
Other assets	75,750	44,847
Total assets	12,211,185,689	12,223,518,129
Deferred outflow of resources	743,472	301,182
Liabilities		
Administrative expense payables	1,666,007	3,007,015
Investment activities payable	202,258,228	170,776,608
Obligations under repurchase agreements	3,921,700,618	3,853,968,794
MOSERS investment portfolio liability (MIP)	3,470,132	4,014,950
Net OPEB liability	7,666,038	7,272,038
Total liabilities	4,136,761,023	4,039,039,405
Deferred inflow of resources	369,869	71,907
Net positions restricted for pensions	\$ 8,074,798,269	\$ 8,184,707,999

The *Summary Statement of Changes in Fiduciary Net Position* reports MOSERS contributions, benefit expenses, investment income and expenses.

Summary Statement of Changes in Fiduciary Net Position (Fiscal Year Ended June 30, 2019)

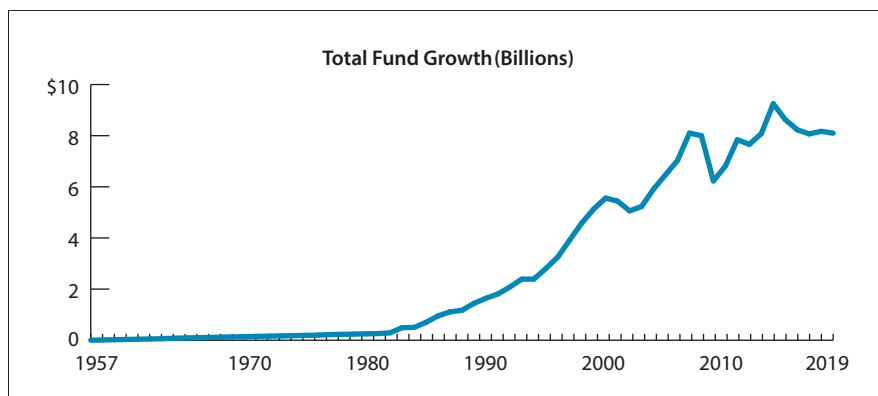
	As of June 30, 2019	As of June 30, 2018
Additions		
Contributions*	\$ 469,065,954	\$ 450,974,449
Net investment income	319,211,119	589,611,104
Miscellaneous income	500,793	548,581
Total additions	788,777,866	1,041,134,134
Deductions		
Benefit payments	880,399,391	853,758,969
Service transfers and refunds	9,015,238	68,609,753
Administrative expenses	9,272,967	10,209,941
Total deductions	898,687,596	932,578,663
Net increase (decrease)	(109,909,730)	108,555,471
Net position beginning of year	8,184,707,999	8,076,152,528
Net positions restricted for pensions	\$ 8,074,798,269	\$ 8,184,707,999

* Includes employee and employer contributions, purchases of service credit, and service transfers.

Investments

Investment Growth

It takes a long time to grow defined benefit pension assets. MOSERS' first investment transaction occurred in 1957, when a single outside advisor placed \$100,000 in a 90-day Treasury Bill on behalf of participants. It took nearly 30 years for the System's investments to reach the \$1 billion mark. As reflected in the graph (top right), the investment portfolio, as of June 30, 2019, was \$8.1 billion in net assets.

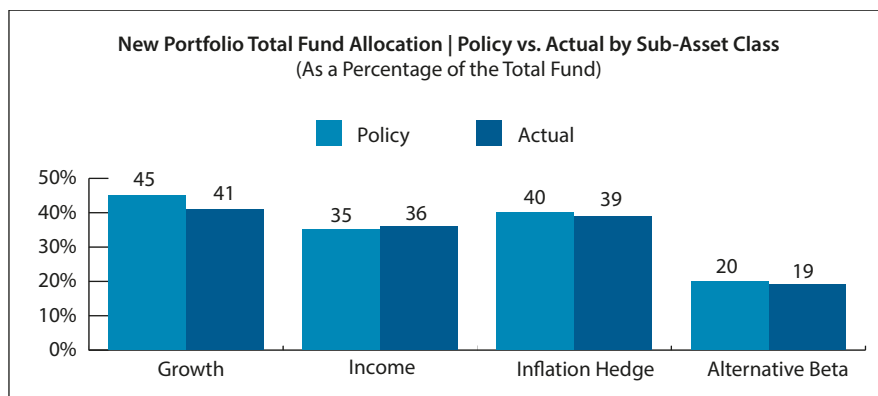
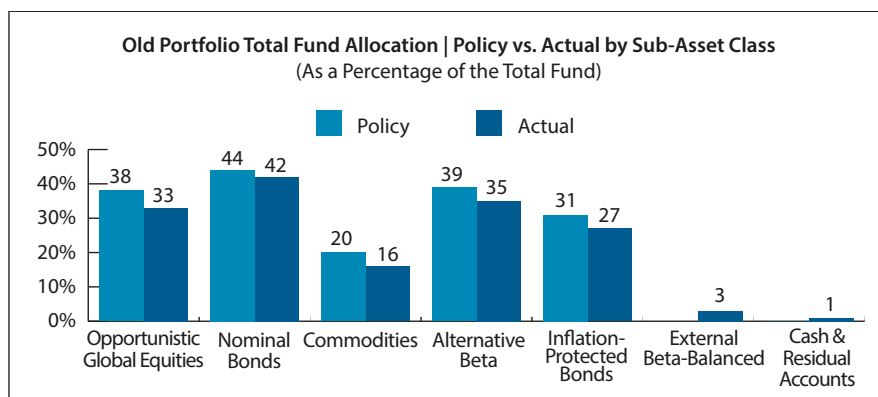


Fund Allocation & Risk

Market volatility is what investors traditionally consider to be the risk of investing. To protect against this risk, the MOSERS investment portfolio is diversified across numerous asset classes and investment strategies to mitigate the potential impact of negative economic circumstances.

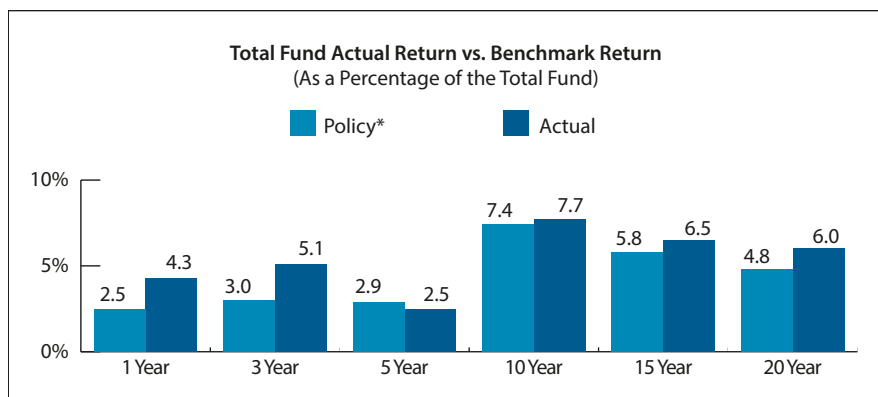
In 2018, the Board repositioned the portfolio to address the challenging return environment. We began transitioning to a new portfolio during fiscal year 2019, and will continue over the next few years.

The percentage of the total investment portfolio by specific asset class for both the old and new portfolios, as of June 30, 2019, is reflected in the graphs (middle right). The asset allocations are built on the belief that diversification is critical in achieving consistent, long-term risk-adjusted investment returns.



Investment Performance vs. Benchmark Return

The policy benchmark provides a point of comparison when assessing the investment performance of the total fund. By comparing the policy benchmark return to the total fund return, we can determine how the MOSERS investment team performed on a comparative basis over a given time period. Value is added when the total fund return exceeds the policy benchmark. The policy benchmark also provides guidance for staff as well as other stakeholders of the fund through establishment of concrete investment goals. Additionally, the policy benchmark establishes the Board's long-term view regarding investments, which puts into perspective any reaction, or over-reaction, to short-term market conditions. Returns for the total fund versus these benchmarks are displayed in the corresponding graph (lower right).



- * As of June 30, 2019, the total fund policy benchmark was comprised of the following components: 83% old portfolio policy benchmark, 17% new portfolio policy benchmark.
- The old portfolio policy benchmark was comprised of the following components: 38% total opportunistic global equities policy, 44% total nominal bonds policy, 20% total commodities policy, 39% total inflation-indexed bonds policy, and 31% total alternative beta policy. This program did not begin until September 2012.
 - The new portfolio policy benchmark was comprised of the following components: 45% total growth policy, 35% total income policy, 40% total inflation hedge policy, and 20% total alternative betas policy. This program did not begin until January 2019.

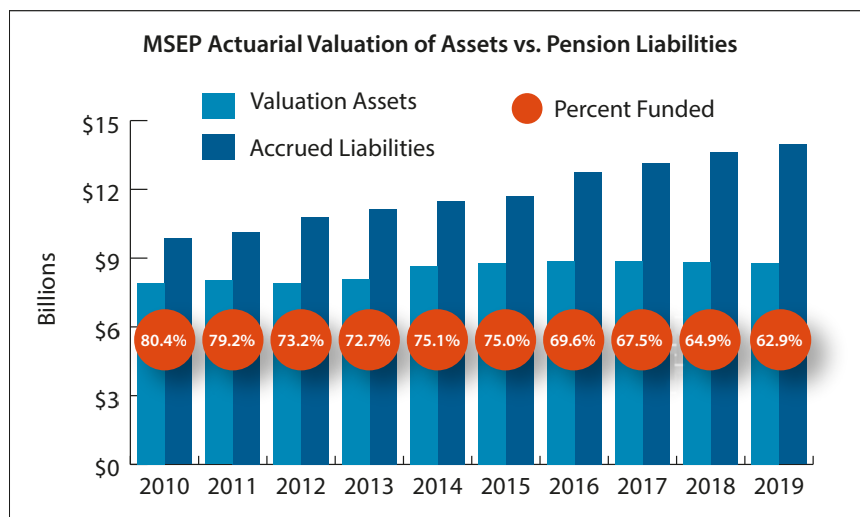
MSEP Retirement Funding

Funded Status

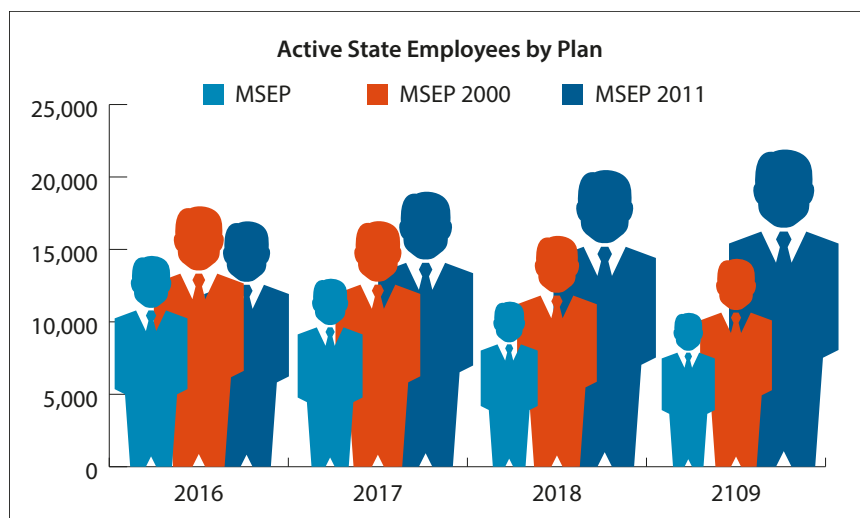
In order to ensure your benefits are available to you, MOSERS contracts with an outside actuarial firm to perform an annual funding valuation which determines the funded status of the plans at year end and the contribution rates needed to adequately fund the System in the future. The percentages shown in the bar chart indicate the extent to which the System was funded as of a given year.

The state contributes the actuarially determined contribution that, when combined with present assets and future investment returns, will be sufficient to meet the present and future assumed financial obligations of the System.

Through a history of reasonable benefit levels, mandatory participation, actuarially determined employer contributions, and professionally managed investments, MOSERS benefits continue to be secure.

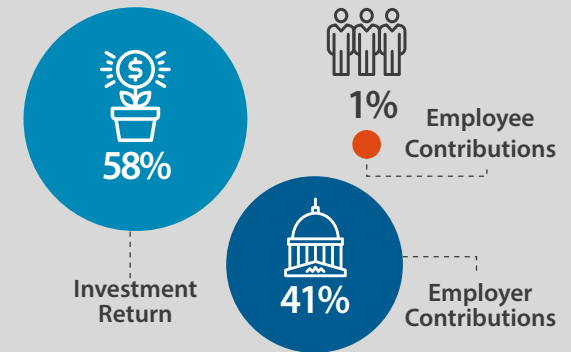


Reform in 2010, known as MSEP 2011, stabilizes plan funding, retains the defined benefit (DB) culture, and provides sustainability for future generations. As of June 30, 2019, a total of 47.35% of active employees are in the MSEP 2011.



Plan Revenue

MOSERS is an advance-funded retirement system. Unlike “pay-as-you-go” plans, employers and employee contributions plus investment earnings are accumulated and professionally managed during employees’ careers and paid out over their retirement years. Over the long-term, the major source of revenue is from investment earnings, which accounts for 58% of the assets in the MOSERS Trust Fund.



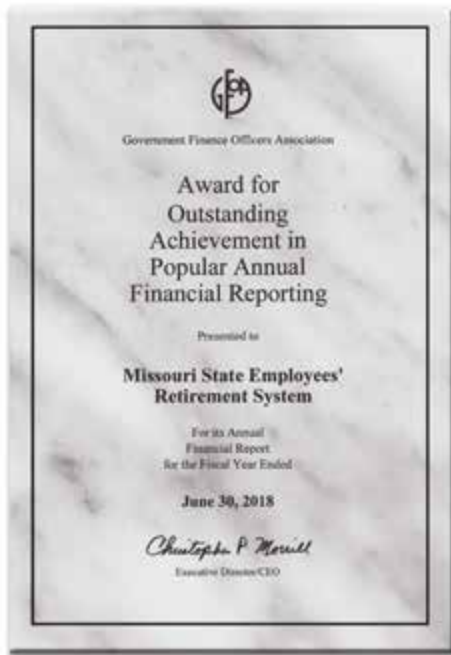
A key component of the employer contribution rate and the plan's funded ratio is the assumed rate of return on investments. The Board has been systematically reducing the MOSERS investment return assumption. This reduction results in an increase in the employer contribution rate and a decrease in the plan's funded ratio.

For example, the Board's adopted investment assumption of 7.1% contributed to the 22.88% employer contribution rate and the 62.9% actuarial funded ratio. If the Board had adopted a higher assumed investment return, such as 8.1%, then the employer contribution rate would be closer to 18% and the funded ratio would be almost 70%.

Investment Return Assumption	7.1%	8.1%
Employer Contribution	22.88%	18.18%
Funded Ratio	62.9%	69.5%

While a lower employer contribution rate and a higher funded ratio might make some “feel” better, the current investment assumption is a more conservative approach to ensuring the long-term sustainability of MOSERS.

Awards



The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to MOSERS for its Popular Annual Financial Report for the fiscal year ended June 30, 2018. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. MOSERS has received this award for 24 consecutive years (fiscal years ended 1995 through 2018). We believe our current report continues conform to the Popular Financial Reporting requirements, and we are submitting it to the GFOA to determine its eligibility for another Award.

Want to Know More?



Visit us online at www.mosers.org
or email us at mosers@mosers.org



In an effort to provide information more quickly about actions taken by the MOSERS Board of Trustees, look for "A Moment with MOSERS" video updates in your email or online.



Benefit counselors are a valuable source for information regarding your benefits. Call to speak with a benefit counselor by phone or make an appointment to visit our office.

Office Hours

Monday - Friday
8:00 a.m. - 12:00 p.m.
1:00 p.m. - 4:30 p.m.

Phone

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(800) 827-1063

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