



PUBLIC SCHOOL & EDUCATION EMPLOYEE
RETIREMENT SYSTEMS OF MISSOURI

Confidence in Your Benefit During Challenging Times

March 23, 2020 - Stock markets throughout the world have declined rapidly in 2020 due to a stunning confluence of events: the spread of the COVID-19 virus (coronavirus), a global price war over oil and the threat of a global recession. Stock markets have generally declined close to 35% in the last six weeks.

The difficult investment environment has not been contained within the stock market. Virtually every asset class (including such historically safe investments as high-quality corporate bonds) has posted negative returns for calendar year 2020. The only major asset class that has positive returns for the year (to date) is United States Treasury securities.

The majority of the news most recently has been negative for public health, the markets and the economy. Financial markets are now pricing in worst-case scenarios: a further exponential spread of COVID-19, broad-based economic disruptions and business failures, and an uneven government response.

Every individual, whether in a defined benefit plan such as PSRS/PEERS or in an individually directed 401(k), is concerned about their retirement in the current distressed economic environment. We want to address some of the most common concerns (as they relate to PSRS/PEERS) in this update.

Defined Benefit Plans

PSRS and PEERS are defined benefit plans. Unlike defined contribution plans, your benefit is NOT influenced by market volatility and, thus, will not fluctuate. Your benefit plan was created and is governed by Missouri statutes. Additionally, Missouri law indicates that PSRS/PEERS retirement benefits may not be diminished or impaired.

Will I receive my benefit payment at the end of the month?

Yes, you will continue to receive your monthly benefit from the Systems. We pay approximately \$250 million a month in benefits; however, we receive contributions from members and employers on a monthly basis to cover much of these benefit payments. Additionally, we have several billion dollars of very liquid assets to meet any monthly cash flow needs.

Will employee contribution rates increase, especially with the current market issues?

Employee and employer contributions have remained steady since 2011. Negative investment returns such as those expected in fiscal year 2020 do have a direct impact on future contribution rate increases. Rising contribution rates are not in response to the Systems' inability to provide promised benefits for the foreseeable future. Instead, it is about ensuring that future generations of Missouri's teachers and school support staff will inherit a system as strong and reliable as the

one we have today. On an annual basis, your contribution rate cannot be increased more than 0.5% (0.25% for PEERS members) over the previous year.

PSRS/PEERS is a Long-term Investor

Ultimately, we believe that the investment environment will offer opportunities for patient, long-term investors such as PSRS and PEERS. As a large institutional investor, we have the ability to invest over a 30-year time horizon because we have significant assets to cover current liabilities. For example, even if the stock market continues to decline, we believe that the current environment offers an attractive opportunity to buy stocks at fundamentally sound prices. Over the long-term, we believe this ability to prudently buy inexpensive assets through various market environments will provide consistent and meaningful investment returns for the Systems.

What are the PSRS/PEERS funds invested in?

The Systems' investment focus on diversification, asset allocation and liquidity has been rewarded in the current volatile market environment. PSRS/PEERS maintain a long-term investment objective to achieve a 7.5% return over rolling 5-year periods. The asset allocation is highly diversified among bonds (U.S. Treasuries), U.S. stocks, non-U.S. stocks, real estate, private equity, private credit and hedged assets. Treasury bonds are the safest and most liquid assets in the world today. As of February 29, 2020, the Systems had over \$9 billion invested in high quality bonds including U.S. Treasury securities.

Has the recent severe stock market downturn affected the value of the PSRS/PEERS investment portfolio?

Yes. All large institutional investors that are invested in the stock market are being affected by the downturn in the market. The U.S. stock market (S&P 500) was down over 30% in calendar year 2020 through March 20, 2020 with non-U.S. stock down even more. However, only a portion of the PSRS/PEERS assets are invested in the stock market. This diversification (as described above) provides the Systems with a moderate degree of downside protection in periods when the stock market declines.

Investment Markets are Challenging

Markets need information to function smoothly. In a crisis of fear (over the spread of COVID-19), uncertainty is the worst enemy. As the pandemic crisis continues to unfold, we are mindful of the day-to-day volatility within the markets and are in communication with various market participants to evaluate potential developments. We continue to believe that until there is more clarity regarding the COVID-19 virus, there will be difficult times ahead. However, our overall primary mission and focus remains investing the Systems' assets in a manner to earn the 7.5% actuarial assumed rate of return over a long-time horizon. As such, we will continue to deploy assets in attractive investment opportunities.

Your Benefit

Again, we want to emphasize to our members that your PSRS/PEERS benefit is secure. PSRS/PEERS is a long-term investor and can withstand market volatility. The Board and professional staff are committed to managing the Systems' assets in a prudent manner that will ensure the viability of your pension.