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Your PERS benefits are secure

A very natural reaction to what is happening in the financial markets is to be concerned about the security of your retirement benefits. The most important point of this article is the headline – your PERS benefits are secure.

Under a defined benefit plan, benefits are based on a formula, which is in contrast to a defined contribution plan, such as a 401(k), where benefits are equal to the funds invested and accumulated over time. In times such as these, we can all be particularly grateful that we are participating in a defined benefit plan that is supported by a professionally managed, well-diversified portfolio of securities and the employers' obligation to contribute the amounts necessary to support the retirement benefits provided by law.

Factors like soaring energy prices along with housing, credit, and financial market

volatility have continued to weigh heavily on the economy. As a long-term investor, PERS anticipates difficult periods like this.

We ride them out with a carefully diversified portfolio and a steady, long-term investment strategy. Over time, this approach has kept benefits secure for our members.

Fortunately, market uncertainty does not extend to member benefits in a defined benefit plan. Your retirement benefits are safe, constitutionally protected, and guaranteed, even during bumpy economic times like these.

In her column on Page 2 of this newsletter, PERS Executive Director Pat Robertson explains why it is important that PERS invest for the long run; to provide retirement security for members who are already retired as well as for members who will retire over the decades to come.

Cost-of-Living Adjustment will be paid

Lump sum Cost-of-Living Adjustment (COLA) payments will be transmitted to banking institutions on Monday, December 15, 2008, for eligible retirees who receive benefits by direct deposit. For eligible retirees who do not receive benefits by direct deposit, the mailing date will be Friday, December 12.

Retirees who chose to receive their COLA benefits in 12 monthly installments throughout the fiscal year will not receive a lump sum payment in December. A retiree will receive the same total COLA amount for the fiscal year no matter which method of payment he or she has chosen.

Retirees become eligible to receive a COLA after receiving benefits for one full fiscal year. Because the state fiscal year is July through June, a member who retires effective July 1 will become eligible for a COLA

during the fiscal year that begins 12 months later. But a member who retires effective August 1 would not become eligible until the fiscal year that begins 23 months later.

To be eligible for a COLA this fiscal year, a member must have retired no later than July 1, 2007.

For PERS and Supplemental Legislative Retirement Plan (SLRP) members, the COLA is equal to 3% of annual base benefits for each full fiscal year in retirement, with the amount compounded yearly beginning when the retiree reaches age 55.

For Mississippi Highway Safety Patrol Retirement System (MHSPRS) members, the COLA is equal to 3% of annual base benefits for each full fiscal year in retirement, with the amount compounded yearly beginning when the retiree reaches age 60.

PERS remains financially stable amid market turmoil

No one would dispute that there is currently turmoil in our financial markets. To reassure you about the fiscal stability of your Retirement System, I would like to provide the following information on how market volatility in general has affected PERS.

First and foremost, though, let me say the Public Employees' Retirement System of Mississippi remains financially sound and the retirement future of our members and retirees is secure.

As many of you know, the Dow Jones Industrial Average (DJIA) suffered heavy losses during September and closed below 10,000 October 6 for the first time in almost four years. This reflected a decrease in the DJIA of more than 29% since it reached a record high close of over 14,000 points in October 2007.

Although PERS surpassed the \$22 billion mark during fiscal year 2008, our rate of return at the end of the fiscal year was negative 8.2%, reflecting a loss in market value of \$2.1 billion

since the 2007 fiscal year end. Total assets were \$19.7 billion at the end of this fiscal year.

Yes, these are turbulent times, but they are not unprecedented.

Since the inception of PERS more than 50 years ago, the Board of Trustees has maintained a prudent investment philosophy. One cornerstone of this prudent philosophy is investing for the long term.

PERS entered the stock market 27 years ago in fiscal year 1981. Since that time, we have experienced positive returns — as high as 31.2% — with the exception of three years, 2001, 2002 and 2008, when negative returns were recorded. In fact, our annualized return for that 27-year period is 11.6%.

The graph below illustrates the individual, discrete returns by year. As you can see, over time, following this prudent philosophy has paid dividends.

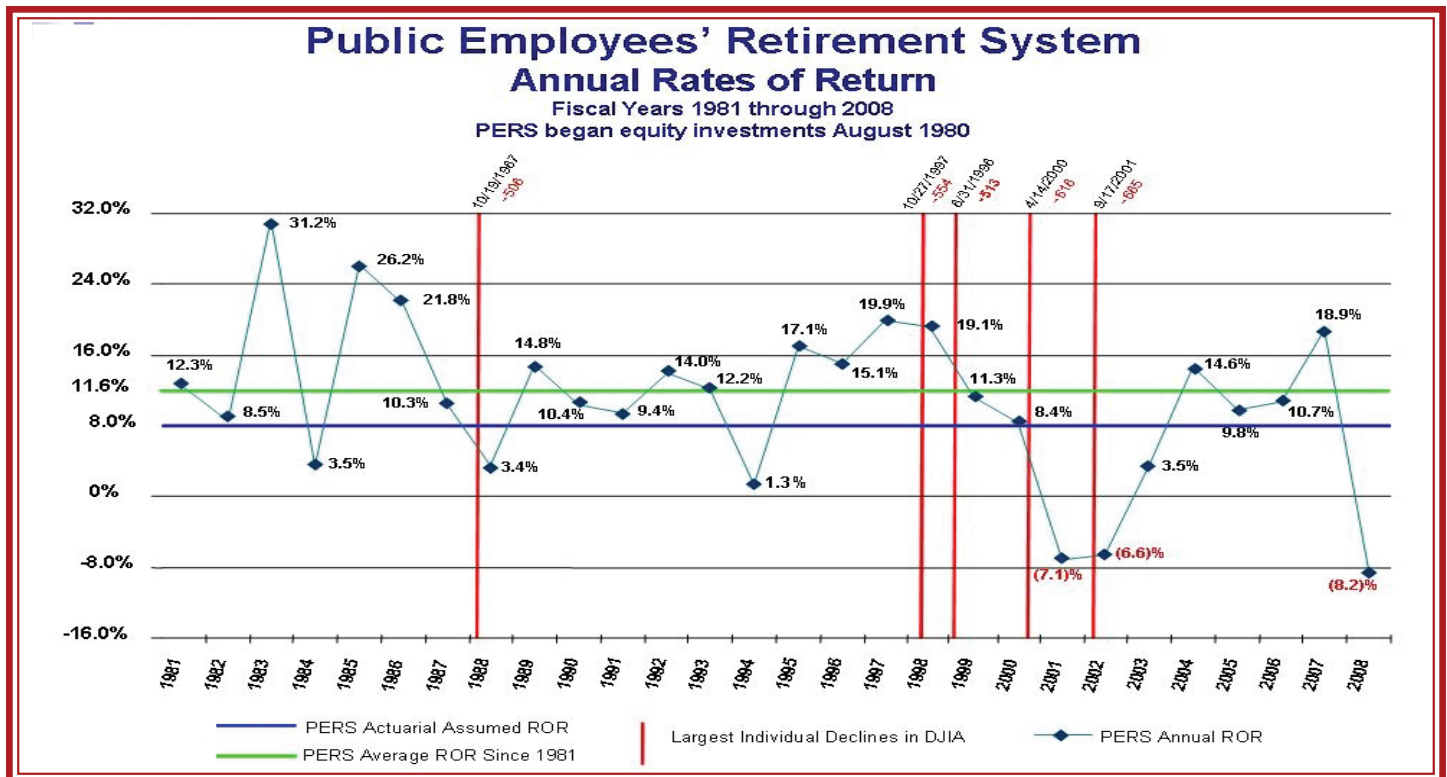
Our consulting actuaries provide us with “assumptions” which, when maintained over time, insure that the



System remains on firm financial ground. One of those assumptions is that PERS will earn an actuarial rate of return of 8.0% over the long term.

PERS' average annual rate of return of 11.6% since 1981 significantly exceeds the prescribed 8.0% return.

While recent events in the financial markets are causing anxiety and uncertainty, let me leave you with the reassurance that we are diligently monitoring the investments, as well as the firms with whom we do business, to ensure that your retirement is secure and safe. We have weathered volatility in the markets in the past and will weather this as well.



Governor appoints Paul Hurst to PERS Board

Paul Hurst, Chief of Staff in the Governor's Office, has joined the PERS Board of Trustees as the gubernatorial appointee.

Mr. Hurst was appointed by Gov. Haley Barbour to complete the unexpired term of Charlie Williams. The term runs through June 30, 2009.

"I appreciate being appointed to a position of such great importance to Mississippi's employees," Mr. Hurst said.

Mr. Hurst received a law degree from the University of Mississippi. He served as chief counsel to Governor Barbour before being



PAUL HURST

appointed Chief of Staff in December of 2007.

PERS is conducting elections for the Board's Municipal Representative and the Institutions of Higher Learning Representative.

The Municipal Representative election is for a six-year term beginning January 1, 2009.

The IHL Representative election is to complete an unexpired term through December 31, 2010, created by the retirement of Dr. Richard C. Miller.

The next scheduled election for a Retiree Representative is in 2011.

PERS health insurance open enrollment for November and December

The PERS Board of Trustees has approved an open enrollment period during the months of November and December 2008 for the PERS Retiree Medical Insurance Plan. The Plan is available to retirees and their spouses who are Medicare-eligible and who are enrolled in Medicare Parts A & B, and it is underwritten and administered by Monumental Life Insurance Company.

The cost to participate in the Plan is \$116.70/month per enrollee and \$233.40/month for a retiree and

spouse. These premiums will remain the same for calendar year 2009.

This Plan is designed to help pay part of the costs not paid by Medicare, including some of the co-insurance amounts (such as the Medicare Part A deductible), thus reducing out-of-pocket expenses. The Plan also provides coverage for some benefits not covered by Medicare, such as foreign travel.

Medicare-eligible retirees (who are not enrolled under the State and School Employees' Health Insurance

Plan) should received a separate mailing from Monumental Life Insurance Company with information concerning the Plan and enrolling in the Plan. Any Medicare-eligible retiree who does not receive an enrollment packet and who is interested in receiving information about the Plan available through Monumental should call a Monumental Life Customer Service Representative toll-free at 1-800-749-6983, Monday through Friday, 7:30 a.m. - 5:00 p.m. CST.

Special Tax Exclusion for Qualified Health Insurance Premiums for Eligible Retired Public Safety Officers

In the November 2007 issue of *Forward*, PERS published an article about the special tax exclusion of up to \$3,000 annually for health insurance premiums paid directly from PERS to the insurance provider of an eligible retiree. The referenced exclusion is still available for calendar year 2008 to eligible retired public safety officers (i.e., former law enforcement officers, firefighters, fire or police department chaplains, or members of rescue squads or ambulance crews) through the Federal Pension Protection Act of 2006.

Any eligible retired public safety officer who wishes to voluntarily claim this special tax exclusion of up to \$3,000 for calendar year 2008 for qualified health insurance premiums that are deducted from his or her pension benefits may do so by reducing the taxable income reported on his or her federal

income tax return. The amount shown in Box 2a (Taxable Amount) of the 2008 IRS Form 1099-R issued by PERS at the end of January 2009 will not reflect this exclusion.

Qualified health insurance premiums are premiums paid directly by the retirement plan to the insurance provider for accident, health, or long-term care insurance for the eligible retired public safety officer, his or her spouse, and dependents. For information on how to claim the exclusion on your 2008 tax return, 1) talk with your tax preparer, 2) contact the Internal Revenue Service, or 3) refer to Internal Revenue Service (IRS) Publication 575 (2008), Pension and Annuity Income, which is available on the IRS website at www.irs.gov.

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File Form 1099-R with tax return

PERS will mail IRS Forms 1099-R by the end of January 2009 to all retirees who received monthly benefits during calendar year 2008. The form, sent for tax purposes, provides information on benefits paid and amounts withheld for federal income tax.

A copy of the form should be included with federal income tax filings if any federal tax is withheld. PERS will report the same information on the form to the IRS for each retiree who is sent a Form 1099-R.

Retirees living in states where pension income is taxed should also file the appropriate 1099-R copy with state income tax returns. While Mississippi does not tax retirement income and its cities do not have income taxes, laws may be different in other states.

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