

Retirement Systems of Minnesota

Minnesota State Retirement System • Public Employees Retirement Association • Teachers Retirement Association





AGENDA



2018 Pension Bill

- Impact & Minnesota Experience



Overview of Minnesota Pension Plans

- Role of Legislature
- Governance



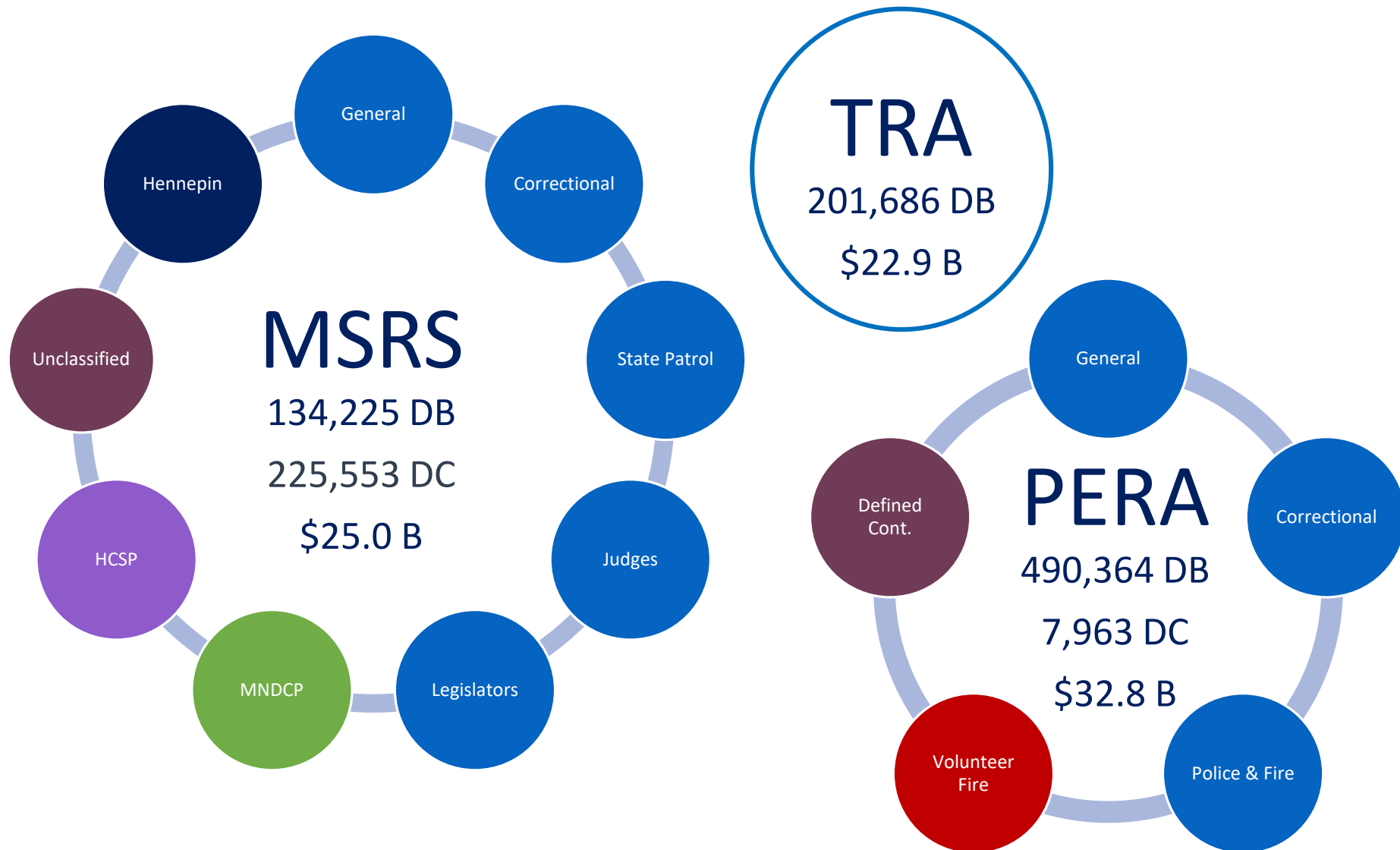
Plan Overview & Funding Information

Erin Leonard, Minnesota State Retirement System

Doug Anderson, Public Employees Retirement Association

Jay Stoffel, Teachers Retirement Association

Minnesota Statewide Public Pension Plans





2018 CHANGES- IMPACT

- **Bipartisan** support
 - Passed **unanimously** at every phase of legislative process
- Supported by **broad coalition** of unions, employers, and retiree organizations
- Total **savings \$6.1 Billion** over 30 years
 - Immediate **liability reduction** of **\$3.4 Billion**
 - State contribution of **\$1 for every \$3** in employee contributions and benefit reductions
- Improved **retirement security** for over **500,000 Minnesotans**
- Minnesota's **credit rating upgraded**

• **Fitch's AAA rating:** "Minnesota has shown significant financial resilience"

• **S & P's AAA rating:** "Reflects our view of the state's improved financial position and recently passed pension reform"



2018 CHANGES- IMPACT

Statewide Pension Plans Funded Ratio (in aggregate)

81.8 %



2018

73.8 %



National Average*

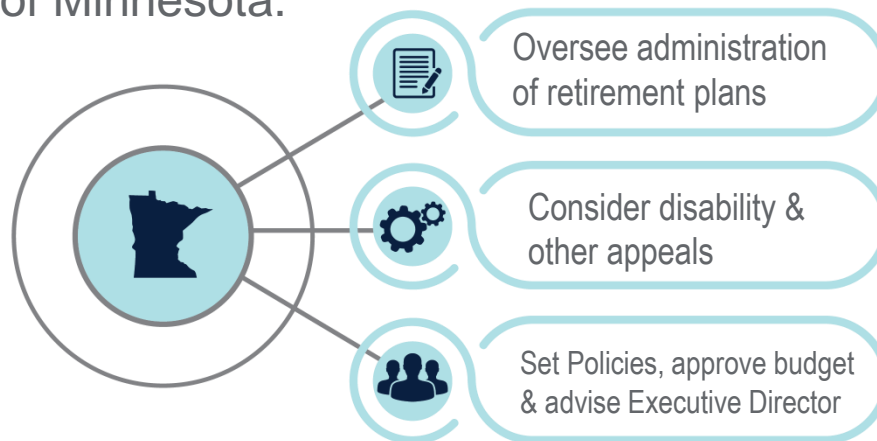
*Source: Publicplansdata.org

ALL plans with sustainability measures included in the 2018 Omnibus Pension bill expected to be fully funded within 30 years



Governance

- Each system has Board of Directors/Trustees
 - Fiduciary responsibility to act in the exclusive interest of the members and beneficiaries of the plans, the taxpayers, and the State of Minnesota.



- The Legislature under Minnesota Statute defines:
 - Plan provisions (plan eligibility, benefits & COLAs)
 - Contribution rates
 - Amortization methods (period etc.)
 - Investment return assumption
 - Investment guidelines

Includes State of Minnesota, Metropolitan Council, University of Minnesota civil service and some Minnesota State university system employees

90.7% Funded
(market value)

\$13.8 Billion Assets

\$1.4 Billion Unfunded
Liability

120,634 Members

51,997 Active

42,373 Retired

26,264 Deferred

Contributions & Funding Requirements	
Employee Contribution	6.00%
Employer Contribution	<u>6.25%</u>
Total Statutory Contributions	12.25%
Total Required Contribution	<u>11.06%</u>
Contribution Sufficiency	1.19%

\$1,773 Avg. Initial Benefit

- Economic Assumption Changes
 - Price inflation from 2.5% to 2.25%
 - Payroll growth from 3.25% to 3.00%
 - Merit and seniority rates approximately same on average with slightly different allocation
- Demographic Assumptions
 - Lower disability rates
 - Slightly lower early retirement rates
 - Higher normal retirement rates
 - Lower withdrawal rates in first few years (females)
 - Higher withdrawal rates in later years (females)
 - Minor withdrawal changes for males
 - Update mortality table to the latest published table and improvement scale

Financial Impact (using 7/1/2018 as baseline)

Accrued Liability	Decreases \$428 million
Funded Ratio (based on AVA)	Increases to 91.5%
Required Contributions	Decreases 1.0% of payroll (estimated \$30+ million savings)

Includes employees working with offenders in the state correctional system or patients in security hospitals.

75.0% Funded
(market value)

\$1.1 Billion Assets

\$395.4 Million Unfunded
Liability

10,346 Members

4,582 Active

3,428 Retired

2,190 Deferred

\$2,140 Avg. Initial Benefit

Contributions & Funding Requirements	
Employee Contribution	9.6%
Employer Contribution	14.4%
Supplemental Employer Contribution*	<u>4.45%</u>
Total Statutory Contribution	28.45%
Total Required Contribution	<u>25.50%</u>
Contribution Sufficiency	2.95%

* Assumes fully phased in contributions passed in 2018 Omnibus Pension Bill

Includes State Troopers, Conservation Officers, Crime Bureau officers and other state employed peace officers.

78.5% Funded
(market value)

\$753.1 Million Assets

\$206.8 Million Unfunded
Liability

2,108 Members

943 Active

1,078 Retired

87 Deferred

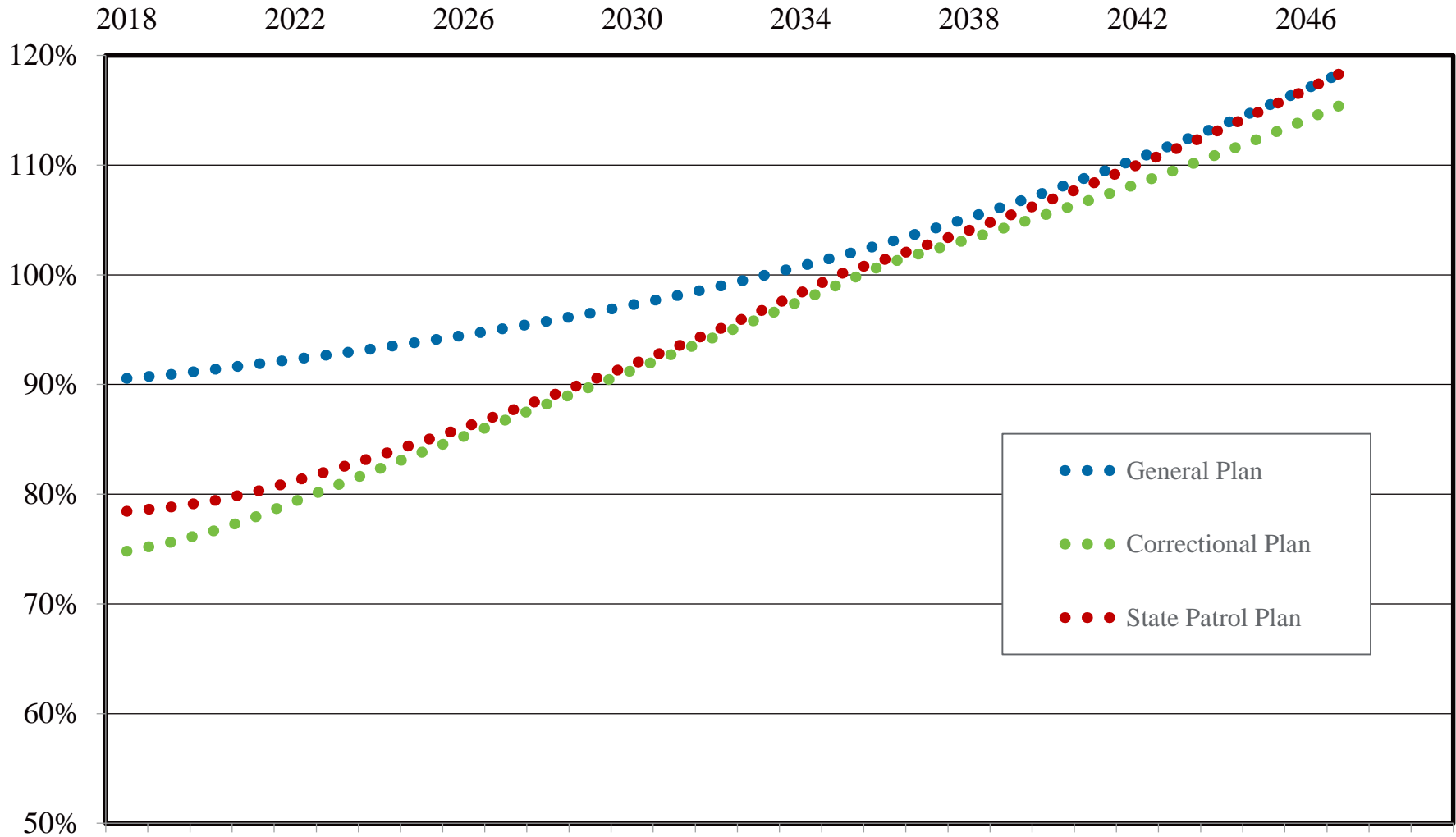
\$4,070 Avg. Initial Benefit

State Patrol Members do not
contribute to Social Security

Contributions & Funding Requirements

Employee Contribution	15.4%
Employer Contribution	23.1%
Supplemental Employer Contribution*	7.0%
Additional State Funding (\$ Million Annual)	<u>1.2%</u>
Total Statutory Contributions	46.7%
Total Required Contribution	<u>39.4%</u>
Contribution Sufficiency	7.3%

* Assumes fully phased in contributions passed in 2018
Omnibus Pension Bill



Judges Plan Overview

(June 30, 2019)

Includes elected or appointed judges

54.3% Funded

(market value)

\$212.3 Million Assets

\$178.9 Million Unfunded
Liability

718 Members

315 Active

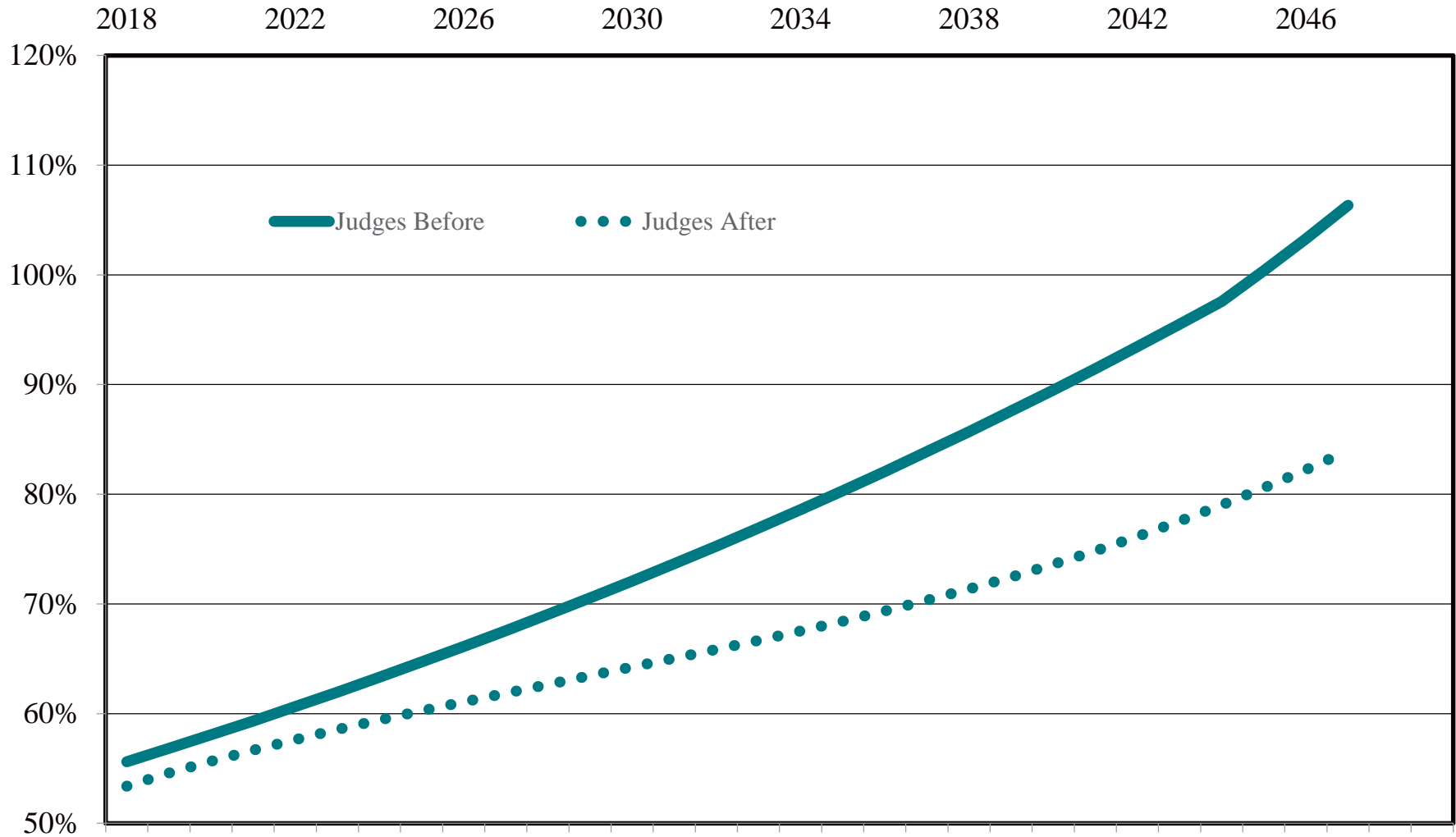
383 Retired

20 Deferred

\$5,680 Avg. Initial Benefit

Contributions & Funding Requirements	
Employee Contribution	7% or 9%
Employer Contribution	22.5%
Additional State Funding (\$6 Million Annual)	<u>11.8%</u>
Total Statutory Contributions	42.4%
Total Required Contribution	<u>42.5%</u>
Contribution Deficiency	0.01%

Judges Plan Funding Projections



Additional Plans

(June 30, 2019)



Legislators Plan

Must be elected before 1997.
Closed to new members.

No assets

419
Total Members

Closed plan funded
by a General
Fund Appropriation

Defined Contribution Plans



Unclassified Employees Plan

Elected officials, department heads,
commissioners and legislative staff.

- 401(a) defined contribution plan
- Mandatory participation based on position

3,304
Total Members

\$323.7 Million
Total Assets



Minnesota Deferred Compensation Plan (MNDCP)

Available to all public employees in Minnesota

- 457(b) Plan
- Voluntary participation

91,577
Total Members

\$7.5 Billion
Total Assets



Health Care Savings Plan (HCSP)

Available to all public employees in Minnesota

- 115 Governmental Trust
- Group participation mandatory

129,467
Total Members

\$1.2 Billion
Total Assets



General Plan Overview

(June 30, 2019)

Includes eligible employees of cities, counties, townships, schools, and other entities

80.2% Funded

(market value)

\$22.4 Billion Assets

\$ 5.5 Billion Unfunded
Liability

448,800 Members

154,130 Active

105,243 Retired

189,427 Deferred

\$1,279 Avg. Initial Benefit

Contributions & Funding Requirements	
Employee Contribution	6.50%
Employer Contribution	7.50%
Mpls MERF - \$21M*	0.31%
State MERF - \$16M*	<u>0.24%</u>
Total Statutory Contribution	14.55%
Total Required Contribution	<u>12.89%</u>
Contribution Sufficiency	1.66%

** \$37M/year Total MERF contribution through 2031*

- Economic Assumption Changes
 - Price inflation from 2.5% to 2.25%
 - Payroll growth from 3.25% to 3.00%
 - Merit and seniority rates approximately same on average with slightly different allocation
- Demographic Assumption Changes
 - Lower disability rates
 - Slightly lower early retirement rates
 - Higher normal retirement rates
 - Lower withdrawal rates in first five years, higher thereafter
 - Change base mortality rate table with future improvement projected using scale MP-2018

Financial Impact

Accrued Liability	Decreases \$94 million
Funded Ratio (based on AVA)	Increases 0.2% to 80.4%
Required Contributions	No change



Police & Fire Plan Overview

(June 30, 2019)

Includes all full-time and certain part-time police officers and firefighters and certain paramedics.

89.3% Funded
(market value)

\$8.8 Billion Assets

\$1.1 Billion Unfunded
Liability

25,559 Members

11,763 Active

11,031 Retired

2,765 Deferred

\$5,075 Avg. Initial Benefit

P&F Members do not contribute to
Social Security

Contributions & Funding Requirements	
Employee Contribution*	11.80%
Employer Contribution*	17.70%
Mpls MPRA & MFRA**	0.74%
State***	<u>1.73%</u>
Total Statutory Contribution	31.97%
Total Required Contribution	<u>27.14%</u>
Contribution Sufficiency	4.83%

* Fully phased-in contributions passed in 2018 Omnibus Pension Bill

** Minneapolis Police & Fire Relief Association payments fixed at \$7.769M/year through 2031

*** \$9M/year until both PERA P&F and MSRS State Patrol are 90% funded; plus \$9M/year until 2048 or 100% funded



Correctional Plan Overview

(June 30, 2019)

Includes employees expected to respond to incidents and who are directly responsible for security, custody, and control of confined persons.

98.2% Funded

(market value)

\$744.4 Million Assets

\$13.8 Million Unfunded
Liability

11,447 Members

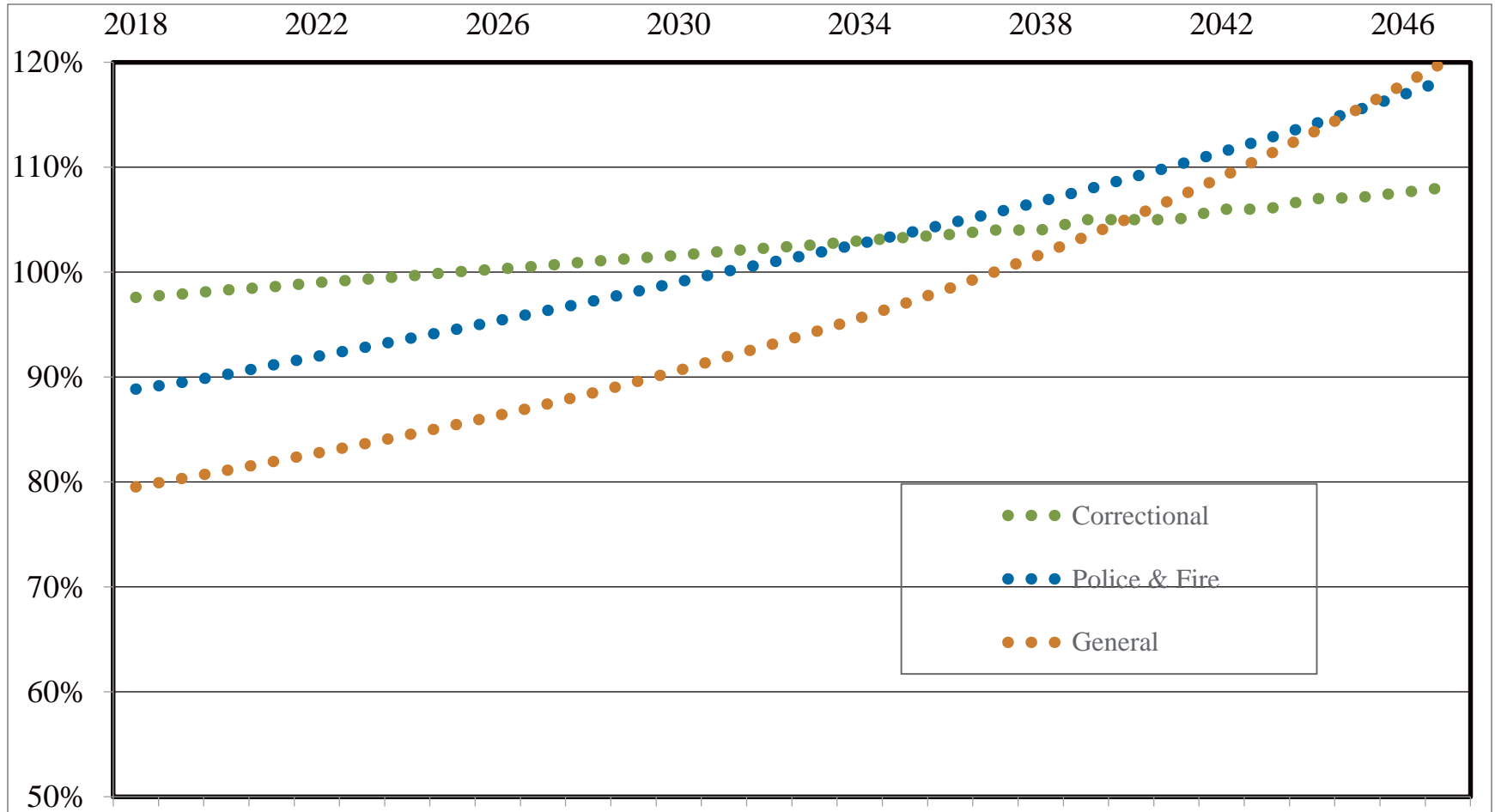
3,965 Active

1,318 Retired

6,164 Deferred

\$1,272 Avg. Initial Benefit

Contributions & Funding Requirements	
Employee Contribution	5.83%
Employer Contribution	<u>8.75%</u>
Total Statutory Contribution	14.58%
Total Required Contribution	<u>14.46%</u>
Contribution Sufficiency	0.12%



Additional Plans

(June 30, 2019)



Statewide Volunteer Firefighter

For volunteer firefighters who provide service to a municipal fire department or an independent nonprofit firefighting corporation.

4,558
Total Members

\$107M
Total Assets



Defined Contribution Plan

Exclusively for physicians, elected local governmental officials, city managers, and governmental volunteer ambulance service personnel

7,963
Total Members

\$73M
Total Assets



Other post-employment benefits (OPEB)

A public entity that creates an actuarial liability to pay OPEB to employees after termination of service may establish a trust used to pay the benefits.

23
Participants

\$670M
Total Assets



Long-Term Investment Account

Certain cities and counties have the option to invest a portion of their funds with the State Board of Investment in an account managed by PERA.

1
Participants

\$3M
Total Assets

- Privatization modifications (Chapter 353F)
 - Discontinue augmentation for prior privatized members
 - Eliminate augmentation for future privatized members
 - Require privatized employers to fully fund their member's accrued benefits
- Continuation of 1997 Local Government Aid
- Statewide Volunteer Firefighter (SVF) changes
- PERA administrative changes (Chapter 353)
- Retirement Systems administrative changes (Chapter 356)

Plan Overview

(June 30, 2019)

Includes public and charter school educators (except for member of SPTRFA) and some faculty of Minnesota State.

78.2% Funded

(market value)

\$22.9 Billion Assets

\$ 6.4 Billion Unfunded Liability

201,686 Members

82,965 Active

67,285 Benefit Recipients

51,436 Deferred

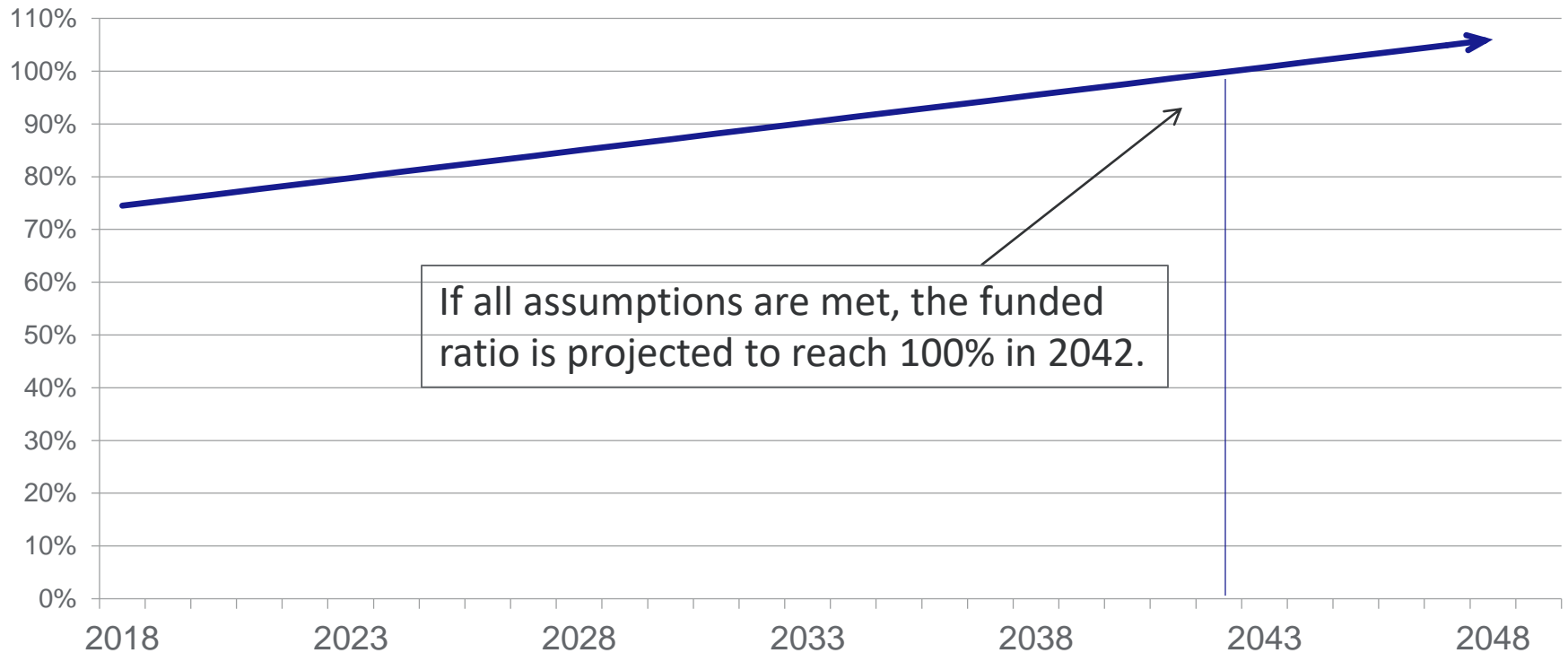
\$2,191 Average Initial Benefit

Contributions & Funding Requirements

Employee Contribution*	7.75%
Employer Contribution*	8.94%
Additional State Funding	<u>0.66%</u>
Total Statutory Contributions	17.35%
Actuarially Required Contrib.	<u>16.72%</u>
Contribution Sufficiency	0.63%

* Assumes fully phased in contributions passed in 2018 Omnibus Pension Bill

Funding Projections



Recommended changes to demographic assumptions:

1. Active member mortality:

Slightly higher rates of death for males and slightly lower rates for females.

2. Termination of employment:

For both males and females, a slight reduction in the first five years of employment.

3. Optional form election:

For new female retirees, a slight increase in the number selecting the 100% joint and survivor annuity, and a slight decrease in the number selecting the single-life annuity.

Financial Impact (using 7/1/2018 as baseline)

Accrued Liability	Decreases \$6 million, from \$28.643 to \$28.637 billion.
Funded Ratio (based on AVA)	Increases 0.01%, from 76.89% to 76.90%
Required Contributions	Increases from 17.18% to 17.20% of payroll (+\$1 million per year).

Contact INFORMATION



Erin Leonard
Executive Director
651.284.7848
Erin.Leonard@msrs.us

Holly Dayton
Legislative Liaison
651.284.7831
Holly.Dayton@msrs.us



Doug Anderson
Executive Director
651.201.2690
Doug.Anderson@mnpera.org

Amy Streng
Policy Coordinator
651.201.2669
Amy.Streng@mnpera.org



Jay Stoffel
Executive Director
651.205.4252
JStoffel@minnesotatra.org

Rachel Barth
Legal & Legislative Director
651.215.9541
RBarth@minnesotatra.org