

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



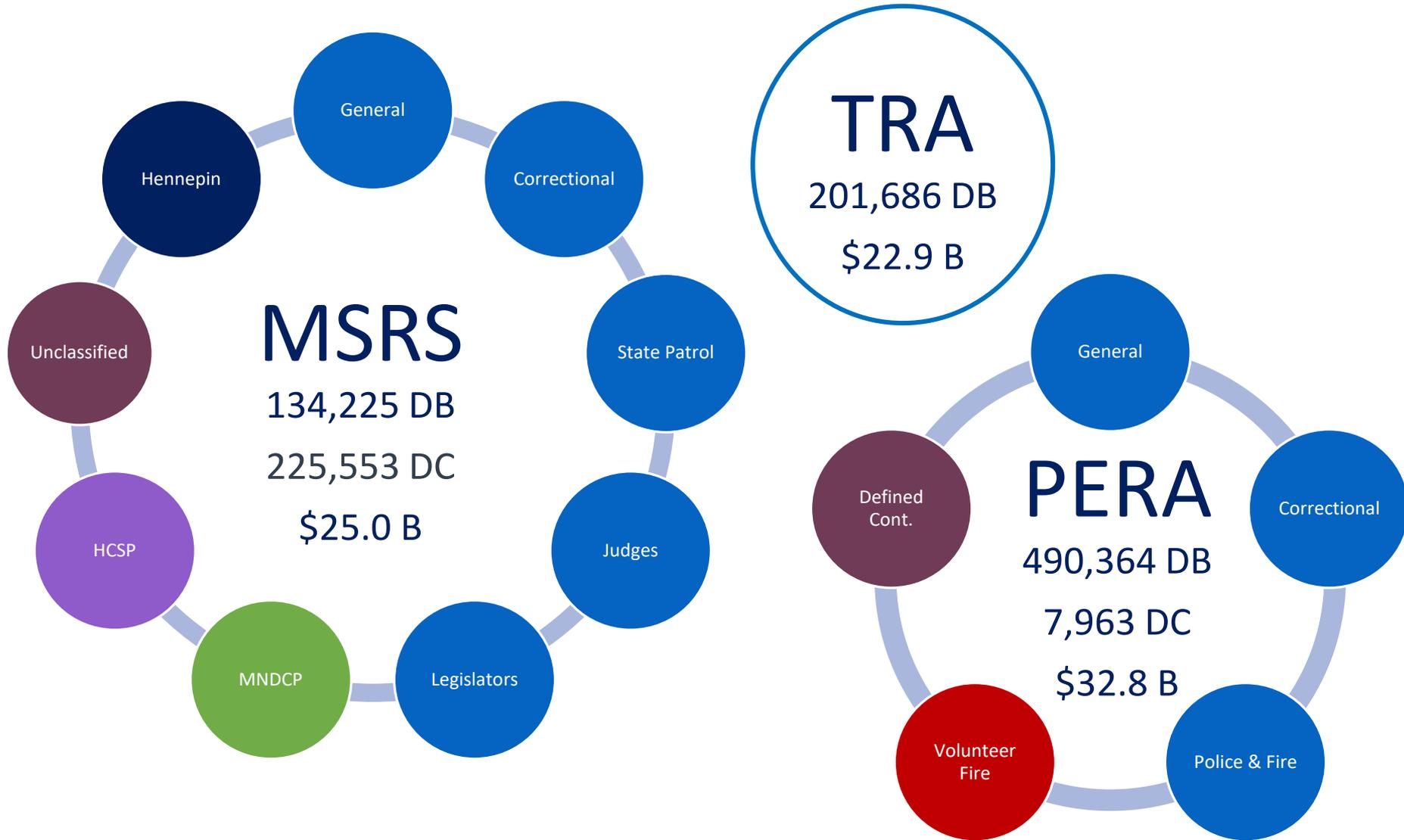
Plan Overview & Funding Information

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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 %



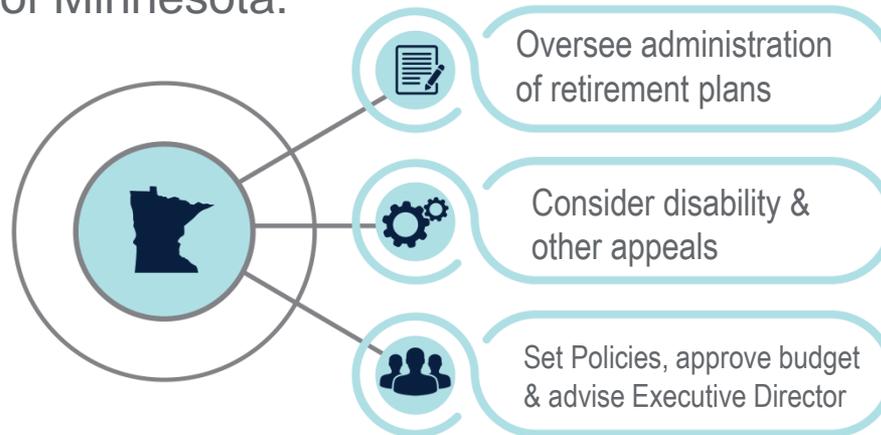
National Average*

*Source: Publicplansdata.org

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



- 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



State Patrol Plan Overview

(June 30, 2019)



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

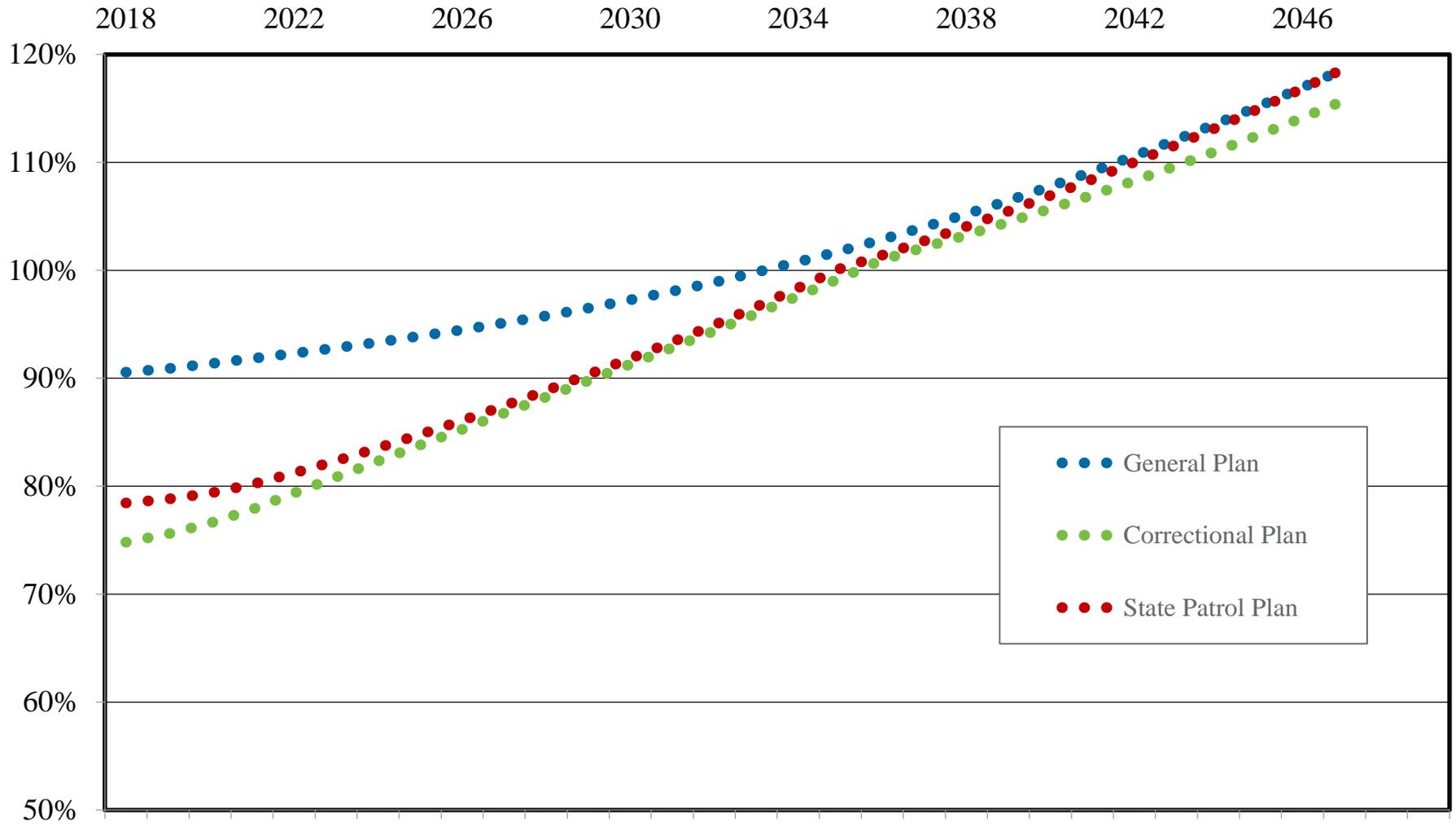
87 Deferred

\$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



Includes elected or appointed judges

54.3% Funded

(market value)

\$212.3 Million Assets

\$178.9 Million Unfunded
Liability

718 Members

315 Active

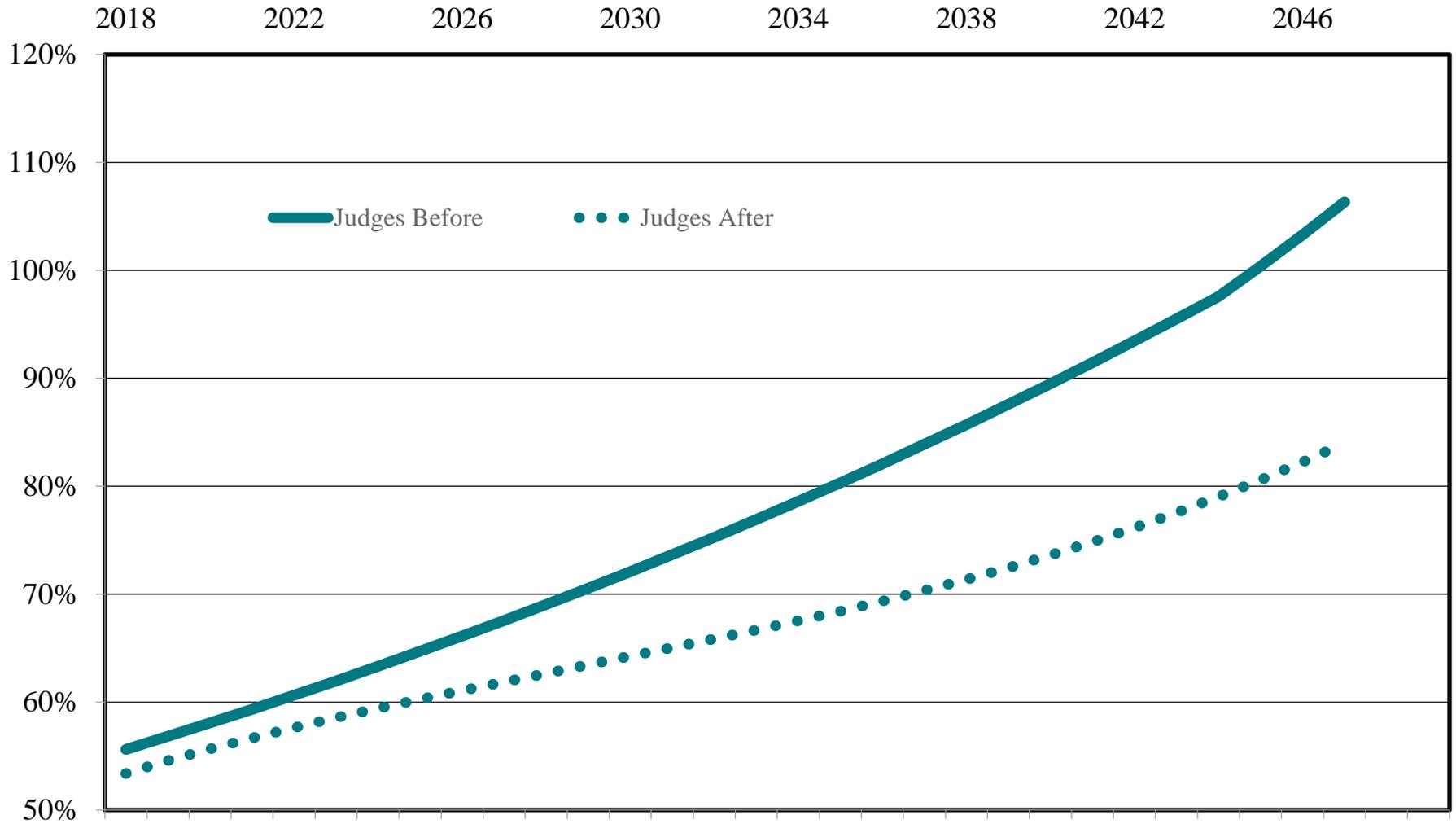
383 Retired

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

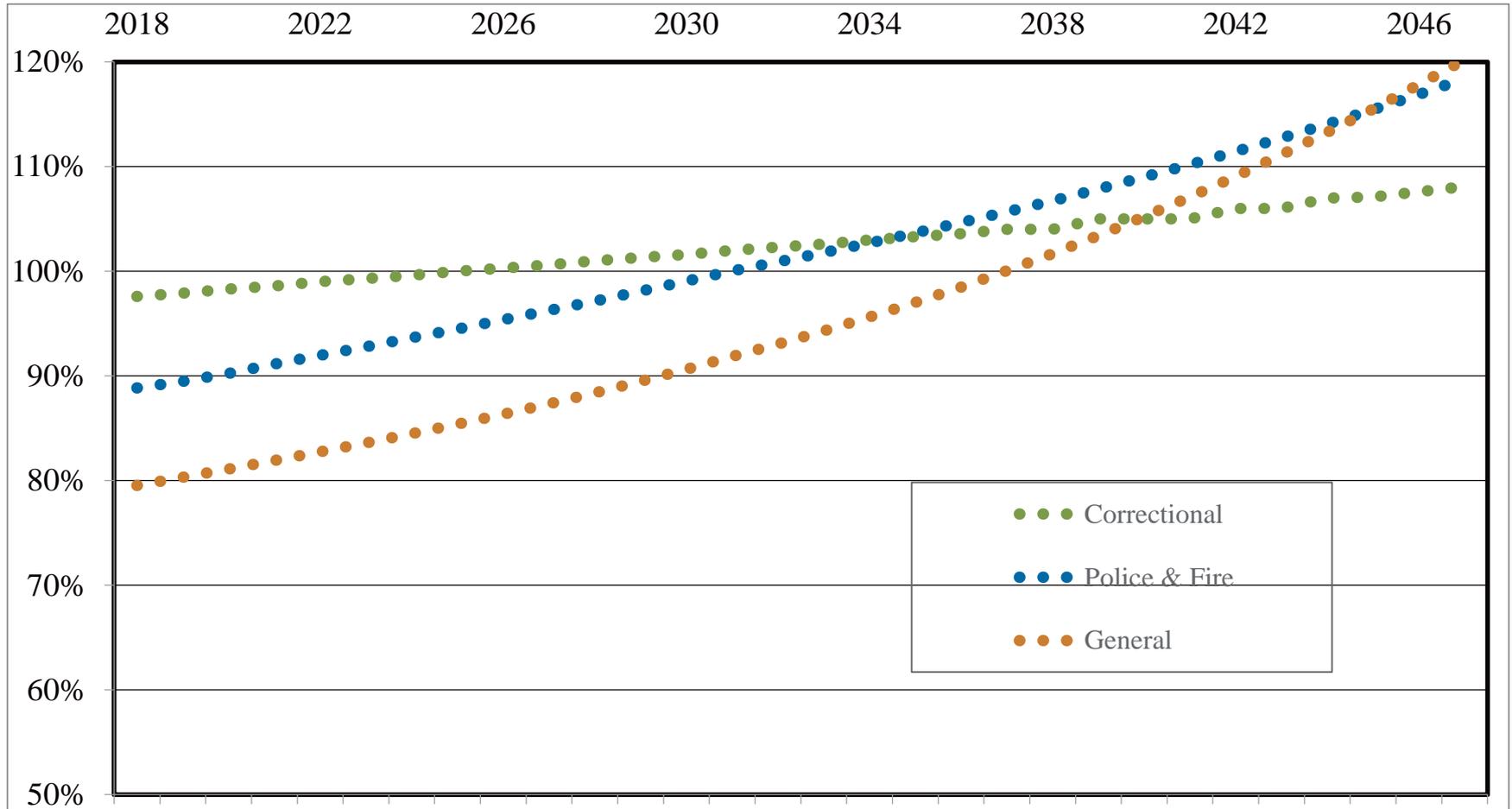
3,965 Active

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)

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

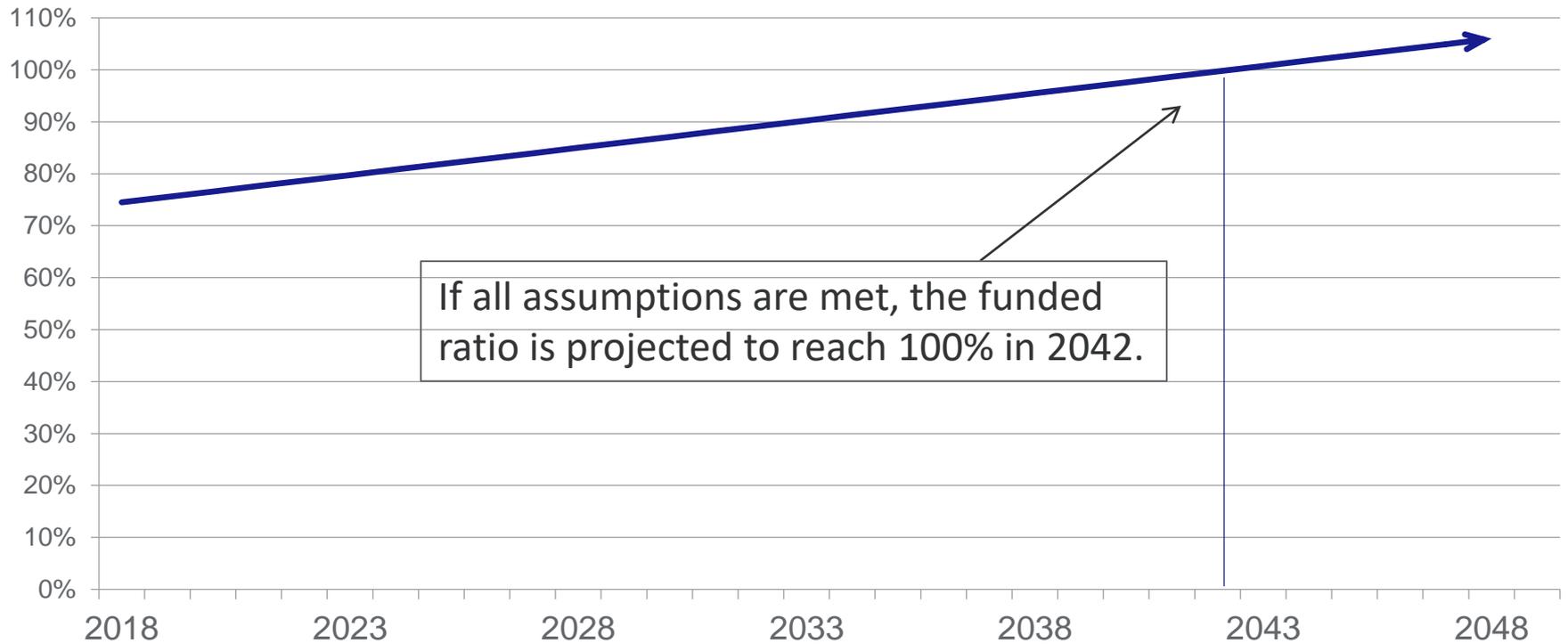
67,285 Benefit Recipients

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



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).

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