



2019

# LEGISLATIVE UPDATE



Retirement  
Systems of  
Minnesota

Minnesota State Retirement System  
Public Employees Retirement Association  
Teachers Retirement Association  
St. Paul Teachers' Retirement Fund Association



## 2018 Pension Bill

- Why?
- Summary of Reforms
- 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

Jill Schurtz, St. Paul Teachers' Retirement Fund Association



# 2018 LEGISLATION- WHY?

**Life Expectancies Increased:** A comprehensive study in 2014 resulted in a more aggressive forecast for mortality improvements. Use of the more conservative assumption increased liabilities.

*Fun Fact: People born in the following states have the longest life expectancies in the USA: Hawaii (81.3), Minnesota (81.1), and Connecticut (80.8).*

**Investment Return Expectations:** Investment professionals and actuaries recommended a more conservative investment assumption of 7.5%. Assuming lower investment expectations increases liabilities to the retirement plan.



# 2018 CHANGES- ALL PLANS

- Reduced investment rate of return assumption to 7.5%
- Eliminated future deferred augmentation
- Increased the cost to retire early
- Adopted new 30-year amortization period





- **Employee & Employer contribution increases**
  - Included in appropriations or E-12 formula
  - Contributions are phased-in for most plans
    - MSRS General
    - MSRS Correctional Plan
    - MSRS State Patrol Plan
    - PERA Police & Fire
    - TRA
    - SPTRFA
  - Supplemental Employer contributions
    - MSRS Correctional
    - MSRS State Patrol
- **Direct Plan appropriations**
  - PERA Police & Fire
  - SPTRFA



# 2018 CHANGES- RETIREE COLA

- **Reduced COLA**
  - MSRS- General
  - MSRS- Correctional
  - TRA
  - SPTRFA
- **Modified COLA** structure
  - PERA- General
  - PERA- Correctional
- **Remove COLA** trigger (most plans)
- **Delayed COLA** beginning 2024 until full retirement age (except public safety 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**



# 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





# 2018 CHANGES- IMPACT

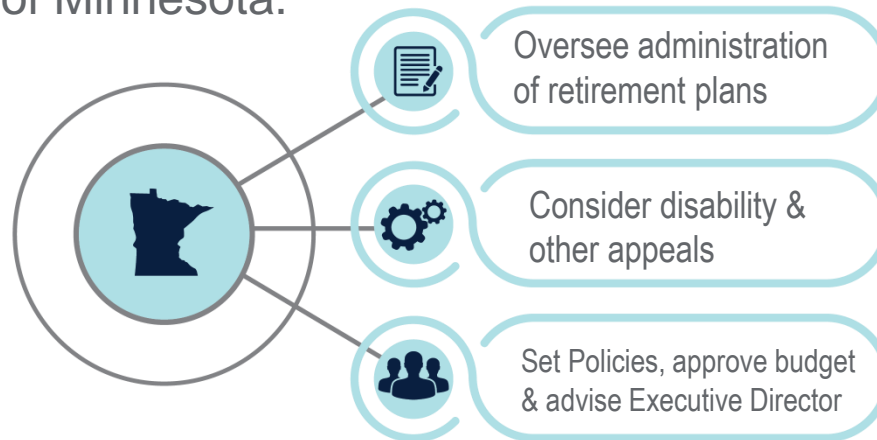
- Minnesota's **credit rating upgraded**
  - The 2018 legislation was well received by the national rating agencies.



- **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"



- 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



# General Plan Overview

(June 30, 2018)

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

**90.6% Funded**

(market value)

\$13.3 Billion Assets

\$1.3 Billion Unfunded  
Liability

**117,388 Members**

51,223 Active

40,821 Retired

25,344 Deferred

**\$1,729 Avg. Initial Benefit**

Contributions & Funding Requirements	
Employee Contribution*	6.00%
Employer Contribution*	6.25%
Additional State Funding	Funding for increased ER Contribution
Total Required Contribution	11.1%
Contribution Sufficiency	1.15%

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



# Correctional Plan Overview

(June 30, 2018)

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

**74.8% Funded**

(market value)

\$1.1 Billion Assets

\$375.6 Million Unfunded  
Liability

**10,099 Members**

4,650 Active

3,259 Retired

2,190 Deferred

**\$2,073 Avg. Initial Benefit**

Contributions & Funding Requirements	
Employee Contribution*	9.6%
Employer Contribution*	14.4%
Supplemental Employer Contribution*	4.45%
Additional State Funding	Funding for increased ER Contribution
Total Required Contribution	25.3%
Contribution Sufficiency	3.15%

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



# State Patrol Plan Overview

(June 30, 2018)

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

## 78.4% Funded

(market value)

\$729.8 Million Assets

\$200.6 Million Unfunded Liability

## 2,070 Members

921 Active

1,071 Retired

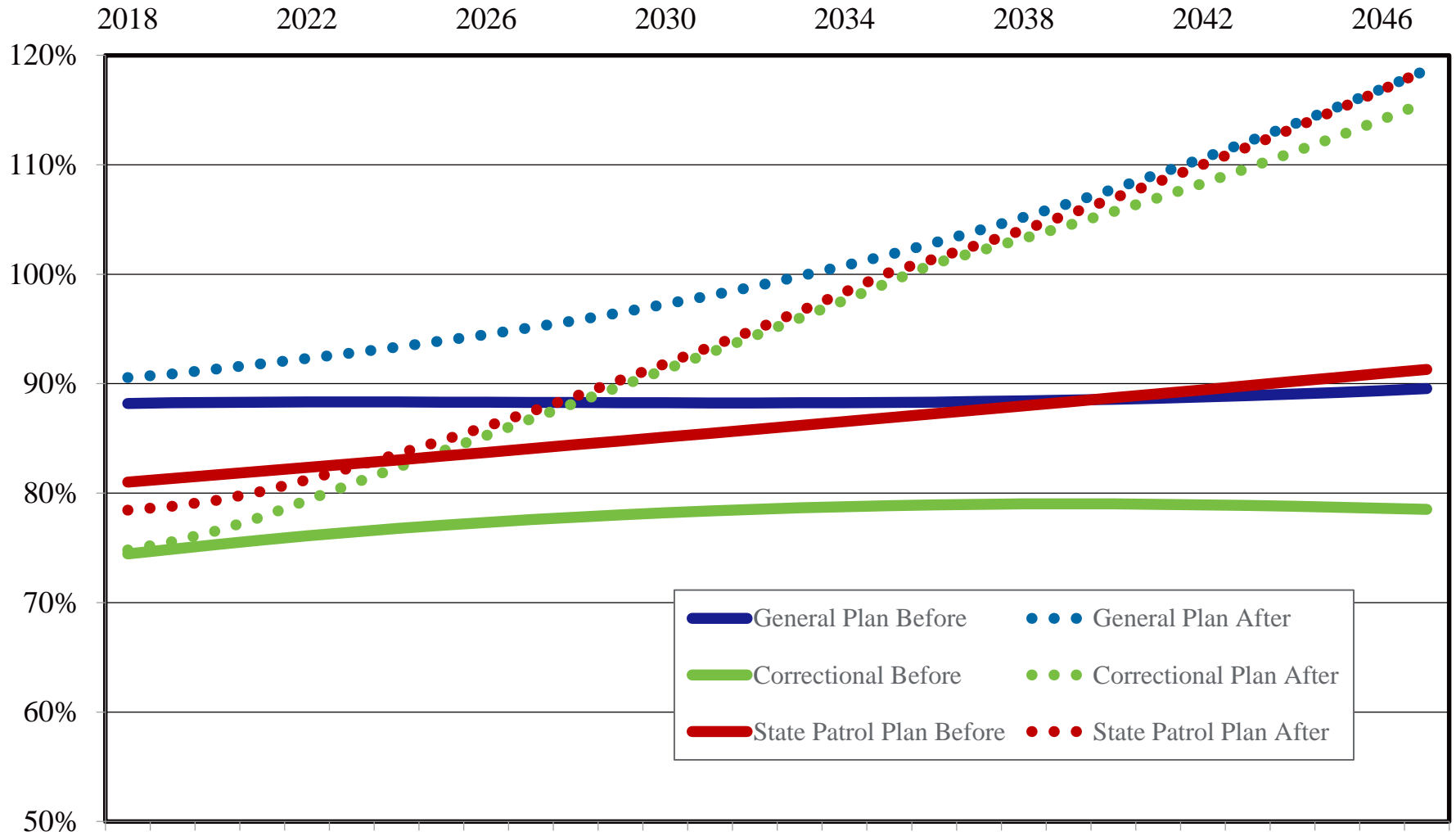
78 Deferred

## \$3,970 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	<ul style="list-style-type: none"> <li>Funding for increased ER Contribution</li> <li>\$1 Million Annual</li> </ul>
Total Required Contribution	40.2%
Contribution Sufficiency	5.3%

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





# Judges Plan Overview

(June 30, 2018)

Includes elected or appointed judges

**53.4% Funded**  
(market value)

\$201.8 Million Assets

\$176.2 Million Unfunded  
Liability

**701 Members**

317 Active

369 Retired

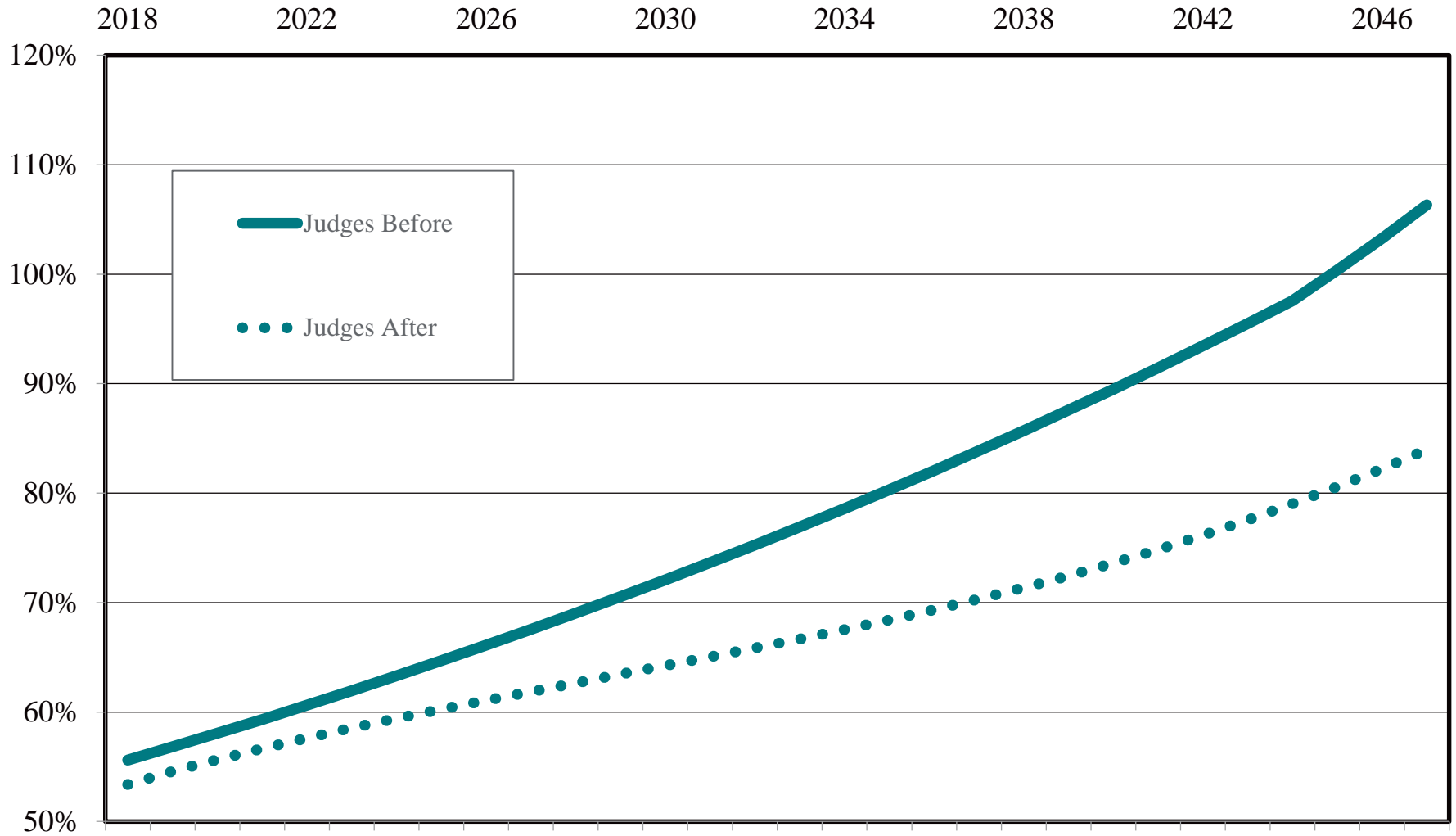
15 Deferred

**\$5,663 Avg. Initial Benefit**

Contributions & Funding Requirements	
Employee Contribution	7% or 9%
Employer Contribution	22.5%
Additional State Funding	\$6 Million Annual
Total Required Contribution	42.4%
Contribution Sufficiency	0.10%

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

# Judges Plan Funding Projections





# Additional Plans

(June 30, 2018)



## Legislators Plan

Must be elected before 1997.  
Closed to new members.

No assets    Pay as you go funding model

**430**  
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

**3,217**  
Total Members

**\$323.9 Million**  
Total Assets



## Minnesota Deferred Compensation Plan (MNDCP)

Available to all public employees in Minnesota

- 457(b) Plan
- Voluntary participation

**88,993**  
Total Members

**\$7.0 Billion**  
Total Assets



## Health Care Savings Plan (HCSP)

Available to all public employees in Minnesota

- 115 Governmental Trust
- Group participation mandatory

**122,346**  
Total Members

**\$1.1 Billion**  
Total Assets



# General Plan Overview

(June 30, 2018)

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

**79.5% Funded**

(market value)

\$21.6 Billion Assets

\$5.5 Billion Unfunded  
Liability

**454,665 Members**

153,059 Active

101,772 Retired

199,834 Deferred

**\$1,275 Avg. Initial Benefit**

Contributions & Funding Requirements	
Employee Contribution	6.50%
Employer Contribution	7.50%
Minneapolis - \$31M*	0.49%
State - \$6M*	0.09%
Total Required Contribution	13.06%
Contribution Sufficiency	1.52%

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



# Police & Fire Plan Overview

(June 30, 2018)

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

**88.8% Funded**  
(market value)

\$8.5 Billion Assets

\$1.1 Billion Unfunded  
Liability

**25,197 Members**

11,673 Active

10,756 Retired

2,768 Deferred

**\$4,895 Avg. Initial Benefit**

P&F Members do not contribute to  
Social Security

Contributions & Funding Requirements	
Employee Contribution*	11.80%
Employer Contribution*	17.70%
Minneapolis Police**	0.99%
Minneapolis Fire**	0.54%
State***	1.80%
Total Required Contribution	27.23%
Contribution Sufficiency	5.60%

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

\*\* Through 2031, subject to recalculation

\*\*\* \$9M until both PERA P&F and MSRS HP 90% funded \$4.5M in '19 & '20, \$9M/year until 2048 or 100% funded



# Correctional Plan Overview

(June 30, 2018)

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

**97.6% Funded**

(market value)

\$680.4 Million Assets

\$16.4 Million Unfunded  
Liability

**11,150 Members**

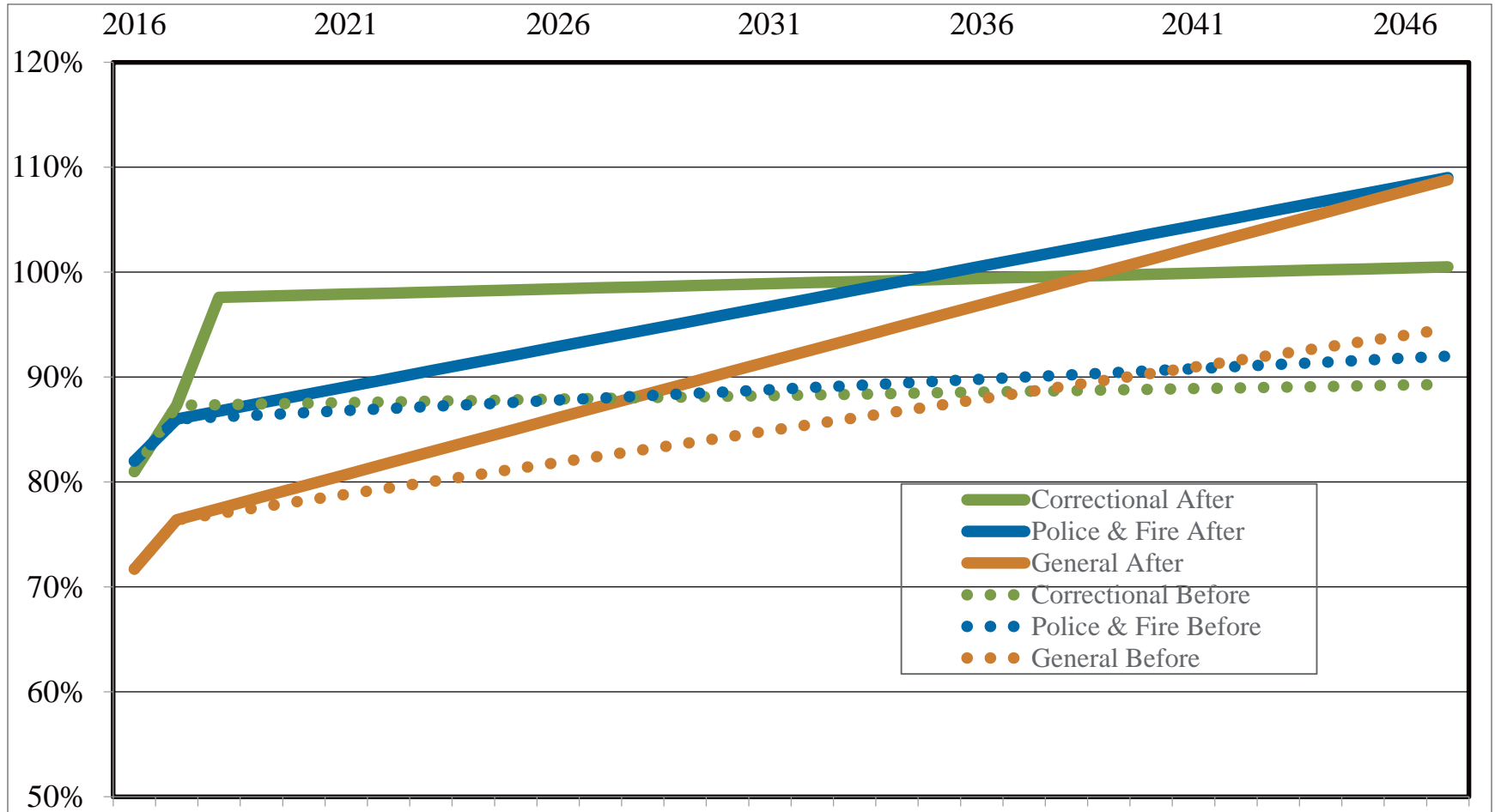
3,981 Active

1,193 Retired

5,976 Deferred

**\$1,347 Avg. Initial Benefit**

Contributions & Funding Requirements	
Employee Contribution	5.83%
Employer Contribution	8.75%
Total Required Contribution	14.53%
Contribution Sufficiency	0.05%



# Additional Plans

(June 30, 2018)



## Statewide Volunteer Firefighter

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

**4,093**  
Total Members

**\$88.6M**  
Total Assets



## Defined Contribution Plan

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

**7,700**  
Total Members

**\$69.8M**  
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

**\$636.2M**  
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.

**2**  
Participants

**\$3M**  
Total Assets

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

**78.1% Funded**  
(market value)

\$22.4 Billion Assets

\$6.3 Billion Unfunded  
Liability

**197,910 Members**

82,495 Active

66,104 Retired

49,311 Deferred

**\$2,175 Avg. Initial Benefit**

Contributions & Funding Requirements	
Employee Contribution*	7.75%
Employer Contribution*	8.95%
Additional State Funding	0.69%
Total Required Contribution	17.18%
Contribution Sufficiency	0.21%

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

## Purpose

### Merger of Minneapolis Teachers Retirement Fund (2006)

- Direct State Aid \$12,954,000
- State match of Minneapolis city and school district 2,500,000

Total for MTRFA merger \$15,454,000

(Minneapolis city and school district each contribute \$2,250,000, a total of \$4,500,000, to TRA for the MTRFA merger.)

Merger of Duluth Teachers Retirement Fund (2015) \$14,377,000

Amortization State Aid \$1,256,410

Total State of Minnesota \$31,087,410

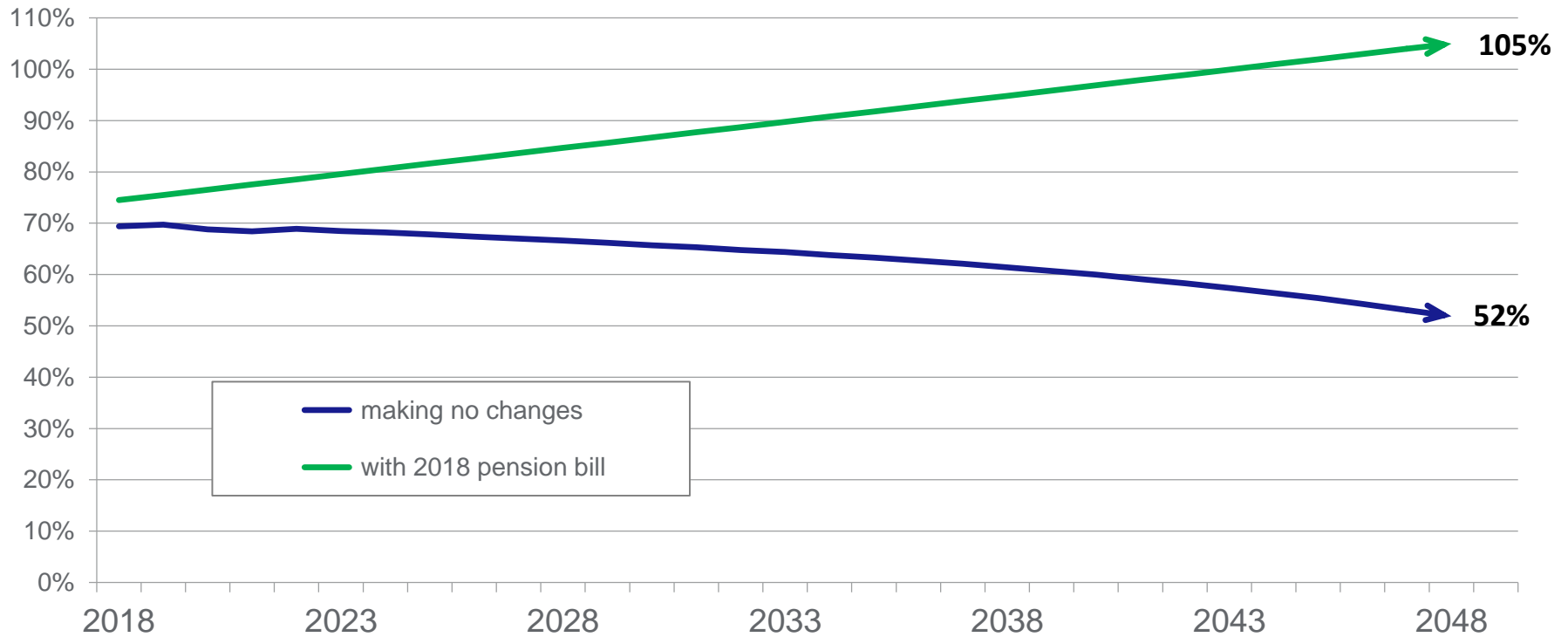


Annual appropriations to the Department of Education will cover the higher TRA employer contribution paid by the school districts.

The Dept. of Education makes an allocation to each school district via a pension adjustment in the school aid formula. The allocation to each district is based on it's TRA covered payroll.

	FY19	FY20	FY21	FY22	FY23	FY24
<b>TRA Employer Contribution Rate</b>	7.71%	7.92%	8.13%	8.34%	8.55%	8.75%
<b>Appropriation to Dept. Education for TRA Districts</b>	\$8.9 m	\$19.7 m	\$31.7 m	\$44.4 m	\$58.0 m	\$ 71.0 m

*Source: FY19 – FY23 data is from MN Dept. Education February 2019 forecast projections. FY 24 data is not from MDE but is estimated based on FY23 growth rate.*



# Plan Overview

(June 30, 2018)

Includes licensed teachers and staff of Independent School District No. 625 and some MN State faculty.

**63.9% Funded**  
(market value)

\$1.1 Billion Assets

\$605.6 Million Unfunded  
Liability

**12,404 Members**

3,445 Active

3,914 Retired

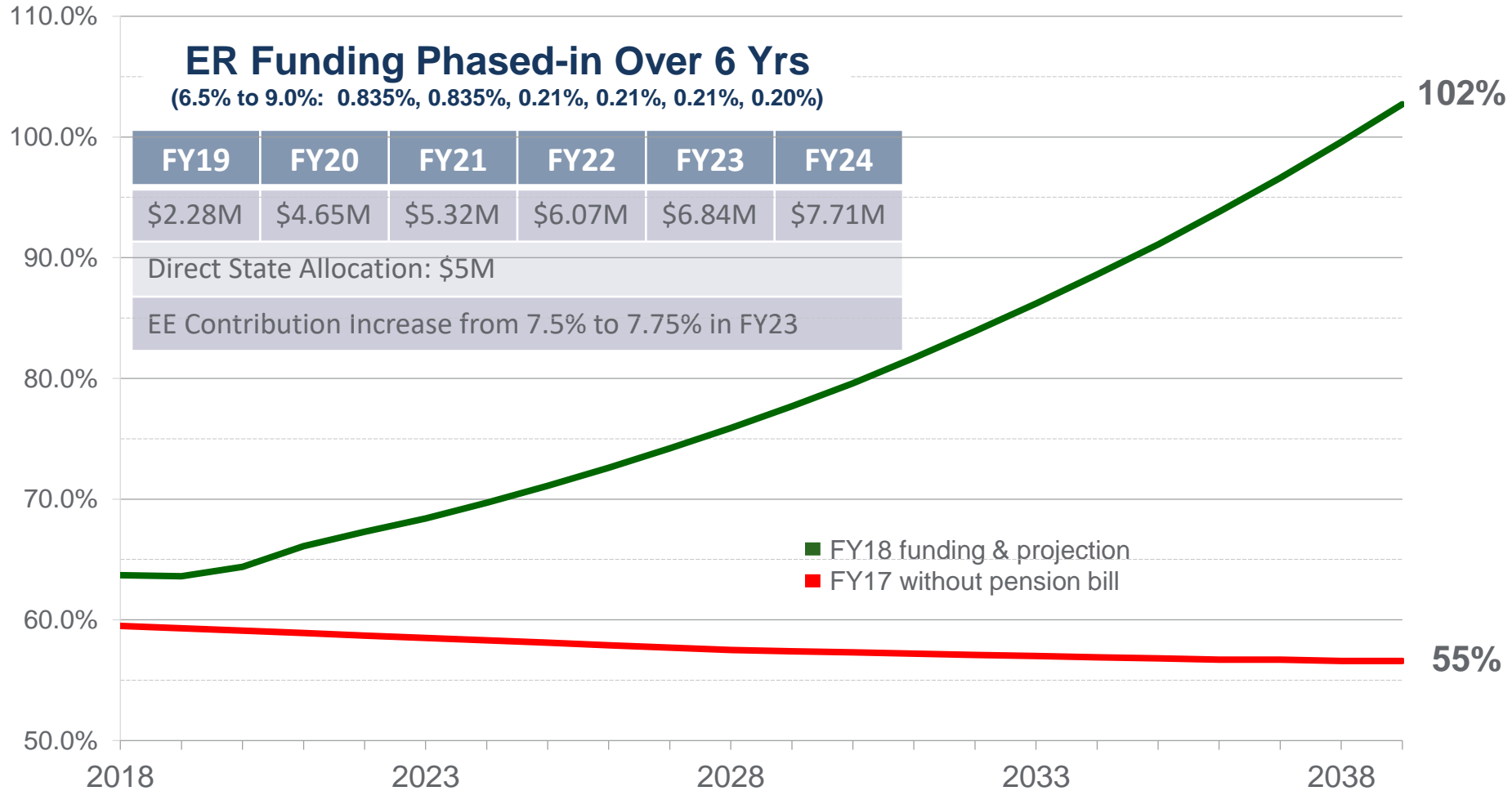
5,045 Deferred

**\$1,729 Avg. Initial Benefit**  
(Coord Plan)

Contributions & Funding Requirements	
Employee Contribution*	7.75%
Employer Contribution*	9.0% Regular 3.84% Suppl.
Direct State Funding**	\$15.7 million
Total Required Contribution	21.48%
Contribution Sufficiency	2.75%

\* Assumes fully phased-in contributions included in 2018 Omnibus Pension Bill (2.5% ER increase over 6 years/0.25% EE increase in FY '23)

\*\* Reflects 1996, 1997, 2014, and 2018 legislation



**ER contribution increase funded through annual appropriation to MDE**

Source: FY19-23 from MDE November forecast. FY24 data estimated based on FY23 growth rate.

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