

Motion

_____ moves the approval of changes to the actuarial assumptions used in the annual actuarial valuations of the following pension plans, effective beginning with the actuarial valuations as of July 1, 2021:

- the Correctional Employees Retirement Plan, administered by the Minnesota State Retirement System (MSRS);
- the State Patrol Retirement Plan, administered by MSRS;
- the Judges Retirement Plan, administered by MSRS;
- the Legislators Retirement Plan, administered by MSRS;
- the Local Government Correctional Service Retirement Plan, administered by the Public Employees Retirement Association (PERA); and
- the Public Employees Police and Fire Plan, administered by PERA.

The approved changes are those identified in the attached letters from Erin Leonard, Executive Director of MSRS (four letters dated December 21, 2020), and Doug Anderson, Executive Director of PERA (one letter dated January 21, 2021), which request approval by the Commission and state that the assumption changes were recommended by Gabriel Roeder Smith & Company (GRS), the plans' actuary, and approved by the respective governing board.

Note from Commission staff:

Under Minnesota Statutes, Section [356.215, Subdivision 18](#), changes to actuarial assumptions must be approved by the Legislative Commission on Pensions and Retirement if they are to take effect for the next annual actuarial valuation for the affected plan. If the Commission takes no action on the request, the assumptions take effect a year after the date the proposed assumption changes were received by the Commission.

The need for changes in the actuarial assumptions are a result of the experience studies conducted by GRS for each of the plans for the period July 1, 2015, through June 30, 2019, copies of which were delivered to the Commission and have been made publicly available on the LCPR website (www.lcpr.leg.mn/experience.htm). The experience studies compared actual experience with the assumptions in effect and identified changes that needed to be made to align the assumptions with actual experience.

Depending on the plan, actuarial assumptions to be changed include:

Price inflation rates	Payroll growth rates	Salary increase rates
Merit and seniority rates	Normal retirement rates	Withdrawal rates
Early retirement rates	Disability rates	
Mortality tables	Mortality improvement scale	

December 21, 2020

Via Electronic Mail

Susan Lenczewski, Executive Director
Legislative Commission on Pensions and Retirement
110 Rev. Dr. Martin Luther King Jr. Blvd.
State Office Building, Room 55
St. Paul, MN 55155

Dear Ms. Lenczewski:

At its September 17, 2020 meeting the Minnesota State Retirement System (MSRS) Board of Directors reviewed the results of the latest Experience Study report for the Correctional Employees Retirement Fund (CERF). This study was conducted by MSRS' actuarial firm, Gabriel Roeder Smith & Company, and examined the period from July 1, 2015 through June 30, 2019.

The MSRS Board approved the following recommended economic assumption and demographic assumption changes:

- Decrease the price inflation rate from 2.50% to 2.25%
- Decrease the payroll growth rate from 3.25% to 3.00%
- Decrease disability rates
- Decrease early retirement rates
- Increase normal retirement rates at some ages and decrease them at older ages
- Acknowledge that withdrawal rates are service-based by increasing them for males with less than 10 years of service and for females with less than 13 years of service
- Utilize the newly published public sector mortality tables (PUB-2010) with the latest mortality improvement scale (MP-2019)

The MSRS Board of Directors requests that the Legislative Commission on Pensions and Retirement approve the adoption of these recommendations. Detailed descriptions of these recommendations are included in the CERF Experience Study, a copy of which is on-file with the Commission.

Please let me know if you have any questions about the assumptions and the Board's request.

Sincerely,

Signature redacted

Erin Leonard
Executive Director

December 21, 2020

Via Electronic Mail

Susan Lenczewski, Executive Director
Legislative Commission on Pensions and Retirement
110 Rev. Dr. Martin Luther King Jr. Blvd.
State Office Building, Room 55
St. Paul, MN 55155

Dear Ms. Lenczewski:

At its September 17, 2020 meeting the Minnesota State Retirement System (MSRS) Board of Directors reviewed the results of the latest Experience Study report for the State Patrol Retirement Fund (SPRF). This study was conducted by MSRS' actuarial firm, Gabriel Roeder Smith & Company, and examined the period from July 1, 2015 through June 30, 2019.

The MSRS Board approved the following recommended economic assumption and demographic assumption changes:

- Decrease the price inflation rate from 2.50% to 2.25%
- Decrease the payroll growth rate from 3.25% to 3.00%
- Increase disability rates for those age 30 to 39 and for those over age 50, resulting in a slight increase to the assumed number of disability retirements
- Reduce early retirement rates at some ages
- Reduce normal retirement rates at some ages
- Acknowledge that withdrawal rates are service-based by increasing them for members with less than 22 years of service
- Utilize the newly published public sector mortality tables (PUB-2010) with the latest mortality improvement scale (MP-2019)

The MSRS Board of Directors requests that the Legislative Commission on Pensions and Retirement approve the adoption of these recommendations. Detailed descriptions of these recommendations are included in the SPRF Experience Study, a copy of which is on-file with the Commission.

Please let me know if you have any questions about the assumptions and the Board's request.

Sincerely,

Signature redacted

Erin Leonard
Executive Director

December 21, 2020

Via Electronic Mail

Susan Lenczewski, Executive Director
Legislative Commission on Pensions and Retirement
110 Rev. Dr. Martin Luther King Jr. Blvd.
State Office Building, Room 55
St. Paul, MN 55155

Dear Ms. Lenczewski:

At its September 17, 2020 meeting the Minnesota State Retirement System (MSRS) Board of Directors reviewed the results of the latest Experience Study report for the Judges Retirement Fund (JRF). This study was conducted by MSRS' actuarial firm, Gabriel Roeder Smith & Company, and examined the period from July 1, 2015 through June 30, 2019.

The MSRS Board approved the following recommended economic assumption and demographic assumption changes:

- Maintain the salary growth rate of 2.50%
- Maintain the payroll growth rate of 2.5%
- Decrease disability rates to 60% of the currently assumed rate
- Reduce early retirement rates at some ages
- Reduce normal retirement rates at some ages
- Utilize the newly published public sector mortality tables (PUB-2010) with the latest mortality improvement scale (MP-2019)

The MSRS Board of Directors requests that the Legislative Commission on Pensions and Retirement approve the adoption of these recommendations. Detailed descriptions of these recommendations are included in the JRF Experience Study, a copy of which is on-file with the Commission.

Please let me know if you have any questions about the assumptions and the Board's request.

Sincerely,

Signature redacted

Erin Leonard
Executive Director

December 21, 2020

Via Electronic Mail

Susan Lenczewski, Executive Director
Legislative Commission on Pensions and Retirement
110 Rev. Dr. Martin Luther King Jr. Blvd.
State Office Building, Room 55
St. Paul, MN 55155

Dear Ms. Lenczewski:

At its September 17, 2020 meeting the Minnesota State Retirement System (MSRS) Board of Directors reviewed and approved assumption changes for the Legislators Retirement Plan. Since this plan is closed to new members and had only 17 active members as of July 1, 2019, full experience studies are no longer conducted. An occasional review of the plan's assumptions remains a best practice so MSRS' actuarial firm, Gabriel Roeder Smith & Company, recently conducted a review.

The MSRS Board approved the following recommended economic assumption and demographic assumption changes:

- Lower the price inflation rate from 2.50% to 2.25%
- Lower the salary increase assumption from 5.00% to 4.25%
- Update mortality assumptions for four populations, consistent with those outlined in the State Employees Retirement Fund experience study dated June 27, 2019:
 - Utilize Pub-2010 Male Healthy Retired General Mortality Table, adjusted for mortality improvements using projection scale MP-2018. Multiply rates by a factor of 1.04.
 - Utilize Pub-2010 Female Healthy Retired General Mortality Table, adjusted for mortality improvements using projection scale MP-2018. Multiply rates by a factor of 1.10.
 - Utilize Pub-2010 Male General Employee Mortality Table adjusted for mortality improvements using projection scale MP-2018. Multiply rates by a factor of 0.97.
 - Utilize Pub-2010 Female General Employee Mortality Table adjusted for mortality improvements using projection scale MP-2018. Multiply rates by a factor of 1.06.

The MSRS Board of Directors requests that the Legislative Commission on Pensions and Retirement approve the adoption of these recommendations. Detailed descriptions of these recommendations are included in the attached memo.

Please let me know if you have any questions about the assumptions and the Board's request.

Sincerely,

Signature redacted

Erin Leonard
Executive Director



January 21, 2021

Susan Lenczewski, Executive Director
Legislative Commission on Pensions and Retirement
State Office Building, Room 55
100 Rev. Dr. Martin Luther King Jr. Boulevard
St. Paul, MN 55155

Dear Ms. Lenczewski,

Results from the Police and Fire Plan and the Local Government Correctional Service Retirement Plan 4-year Experience Studies were presented by Gabriel Roeder Smith & Company (GRS) to the PERA Board of Trustees on August 13, 2020. The studies covered the four-year period from July 1, 2015 through June 30, 2019.

The PERA Board of Trustees approved the actuarial assumption changes recommended by GRS. The approved recommended changes for the Police and Fire Plan are outlined below:

Assumption	Police and Fire Plan Proposed Change
Price Inflation	Decrease from 2.50% to 2.25%.
Wage Inflation	Decrease from 3.25% to 3.00%.
Individual Merit and Seniority	Adjust current rates to be approximately 24 basis points lower in total than the current rates.
Retirement Rates	Increase the rate of unreduced retirements and lower early retirement rates at ages 50 to 53, resulting in fewer early retirements in total.
Termination Rates	Increase the rates of termination, especially for early years of service.
Disability Rates	Increase rates of disability for ages 25 to 44 and decrease rates over age 50. The proposed rates result in a higher number of projected disabilities.
Mortality Rates	Change the base mortality rate table to the PUB-2010 public safety mortality table with future improvement projected using scale MP-2019.
Other	Minor changes to the form of payment and percent married assumptions.

The estimated cost impact using expected July 1, 2019 results were provided by GRS in a separate letter dated July 14, 2020. The key results are as follows:

	Valuation Baseline	Update Mortality	Add Changes to Demographic Assumptions	Add Changes to Economic Assumptions
Funding Ratio (MV Basis)	89.3%	88.9%	89.0%	89.2%
Required Contribution	28.2%	28.5%	29.0%	28.2%

The recommended changes for the Local Government Correctional Service Retirement Plan are summarized below:

Assumption	Correctional Plan Proposed Change
Price Inflation	Decrease from 2.50% to 2.25%.
Wage Inflation	Decrease from 3.25% to 3.00%.
Individual Merit and Seniority	Adjust current rates to be approximately 11 basis points lower in total than the current rates, with higher increases assumed at younger ages (< age 30) and lower increases assumed at older ages (40 and older).
Retirement Rates	Increase the rate of unreduced retirements at ages 56-59 and age 66 and lower early retirement rates at ages 55, 62, 63 and 68. Increase rates of assumed early retirement at all ages.
Termination Rates	Increase the rates of termination at all service levels especially for males younger than age 40 and females younger than age 30.
Disability Rates	Lower the rates of disability, especially for those over age 55.
Mortality Rates	Change the base mortality rate table to the PUB-2010 public safety mortality table with future improvement projected using scale MP-2019.
Other	Minor changes to the percent married and form of payment assumptions.

The estimated cost impact using expected July 1, 2019 results are as follows:

	Valuation Baseline	Update Mortality	Add Changes to Demographic Assumptions	Add Changes to Economic Assumptions
Funding Ratio (MV Basis)	98.2%	97.5%	97.6%	99.5%
Required Contribution	14.8%	15.1%	14.4%	13.5%

Minnesota Statutes Section 356.215, states that actuarial assumptions used for the preparation of actuarial valuations, other than the assumed rate of return, may only be changed with the approval of the LCPR or after a period of one year has elapsed since the date on which the proposed assumption change or changes were received by the LCPR without commission action.

The PERA Board of Trustees respectfully requests that the LCPR review the experience study recommendations and approve the changes adopted by the PERA Board. We further request that the Commission review and approve the recommended changes so that the revised assumptions may be used in the July 1, 2021 actuarial valuation.

Please contact me if we can provide any additional information to help with the evaluation process.

Sincerely,


Signature redacted

Doug Anderson, EA, ASA, MAAA
Executive Director

Cc: Amy Strenge, Policy Coordinator