

2022 Legislative Update



**Retirement
Systems of
Minnesota**

**Public Employees Retirement Association
Minnesota State Retirement System
Teachers Retirement Association
Saint Paul Teachers' Retirement Fund Association**

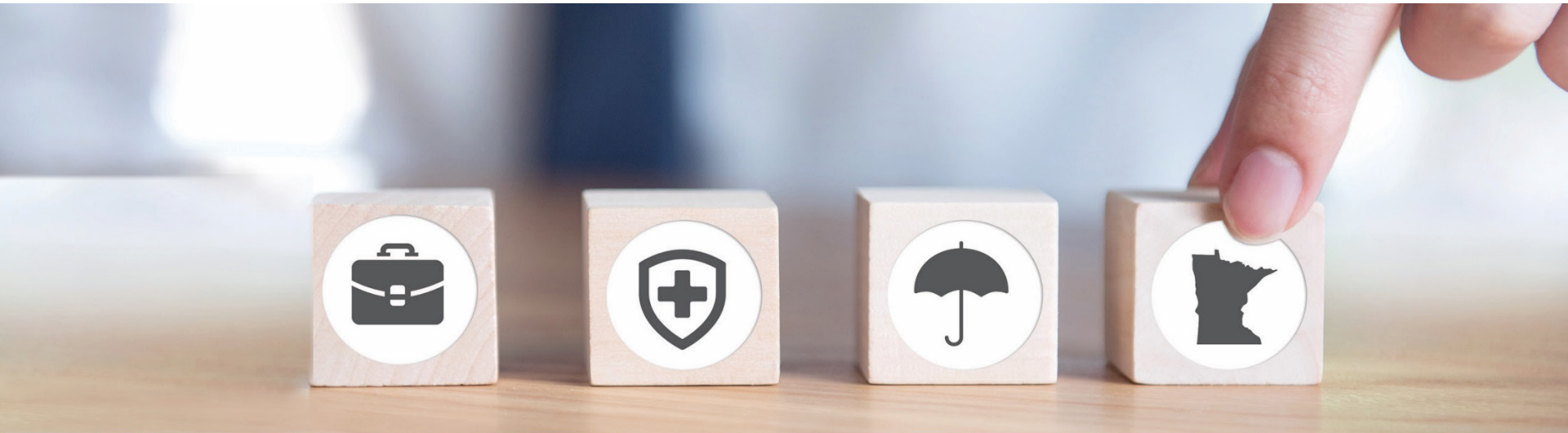
Plan Overviews, FY2021 Funded Status & 2022 Legislative Agenda

Doug Anderson, Public Employees Retirement Association

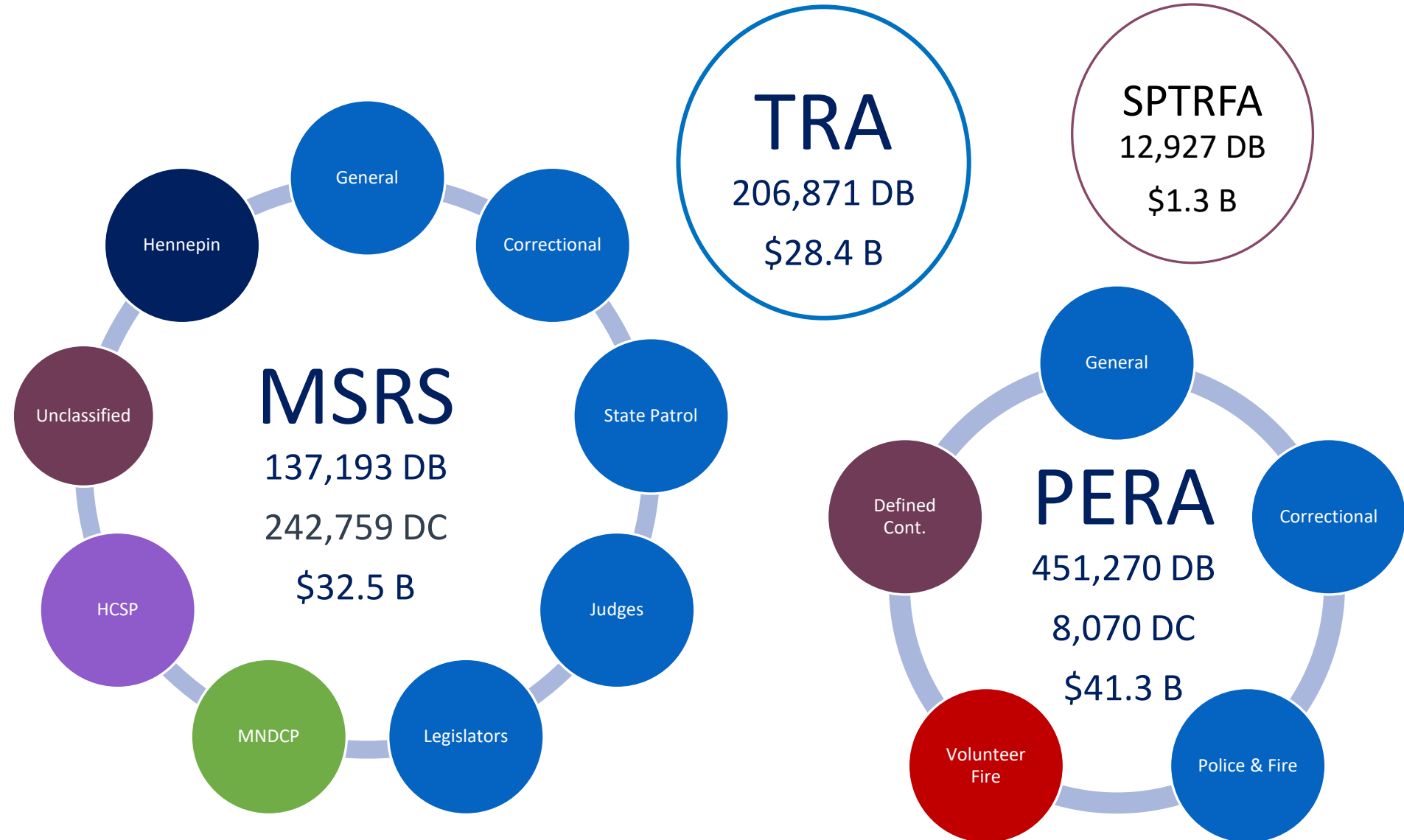
Erin Leonard, Minnesota State Retirement System

Jay Stoffel, Teachers Retirement Association

Jill Schurtz, St. Paul Teachers' Retirement Fund Association



Minnesota Public Pension Plans





General Plan Overview

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

	FY2021	FY2020	FY2019
Active	149,281	153,741	154,130
Retirees & Survivors	108,655	104,811	101,503
Disability Retirements	3,577	3,681	3,740
Deferred	147,100	143,741	189,427
Total Members	408,613	405,974	448,800

\$1,256 Avg. Initial Benefit (FY21)



General Plan Overview

(June 30, 2021)

Funding Status

97.9% Funded (market value)

\$28.6 Billion Assets

\$29.2 Actuarial Accrued Liability

\$ 0.6 Billion Unfunded Liability

85.3% Funded (actuarial value)

\$24.9 Billion Assets

\$29.2 Actuarial Accrued Liability

\$ 4.3 Billion Unfunded Liability

Contribution Requirements

	Market Value	Actuarial Value
Employee Contribution	6.50%	
Employer Contribution	6.50%	
Employer Supplemental	1.00%	
MERF Contributions	0.53%	
Total Statutory Contributions	14.53%	
Total Required Contributions	8.37%	11.73%
Contribution Sufficiency	6.16%	2.80%



Police & Fire Plan Overview

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

	FY2021	FY2020	FY2019
Active	11,705	12,025	11,763
Retirees & Survivors	9,972	9,724	9,618
Disability Retirements	1,684	1,477	1,413
Deferred	2,725	2,580	2,765
Total Members	26,086	25,806	25,559

\$5,763 Avg. Initial Benefit



Police & Fire Plan Overview

(June 30, 2021)

Funding Status

105.6% Funded (market value)

\$11.4 Billion Assets

\$10.8 Actuarial Accrued Liability

\$ (0.6) Billion Unfunded Liability

92.0% Funded (actuarial value)

\$ 9.9 Billion Assets

\$10.8 Actuarial Accrued Liability

\$ 0.9 Billion Unfunded Liability

Contribution Requirements

	Market Value	Actuarial Value
Employee Contribution	11.80%	
Employer Contribution	17.70%	
Minneapolis Police & Fire	0.70%	
State Contributions	1.64%	
Total Statutory Contributions	31.84%	
Total Required Contributions	17.12%	25.44%
Contribution Sufficiency	14.72%	6.40%



Correctional Plan Overview

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

	FY2021	FY2020	FY2019
Active	3,788	3,855	3,965
Retirees & Survivors	1,356	1,236	1,119
Disability Retirements	216	207	199
Deferred	6,032	5,821	6,164
Total Members	11,392	11,119	11,447

\$1,432 Avg. Initial Benefit



Correctional Plan Overview

(June 30, 2021)

Funding Status

119.0% Funded (market value)

\$1,036 Million Assets

\$ 871 Actuarial Accrued Liability

\$ (165) Million Unfunded Liability

103.9% Funded (actuarial value)

\$ 904 Million Assets

\$ 871 Actuarial Accrued Liability

\$ (33) Million Unfunded Liability

Contribution Requirements

	Market Value	Actuarial Value
Employee Contribution	5.83%	
Employer Contribution	8.75%	
Total Statutory Contributions	14.58%	
Total Required Contributions	8.40%	11.76%
Contribution Sufficiency	6.18%	2.82%

Additional Plans

(June 30, 2021)



Statewide Volunteer Firefighter

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

5,179
Total Members

\$145M
Total Assets



Defined Contribution Plan

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

8,070
Total Members

\$99M
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

\$876M
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.

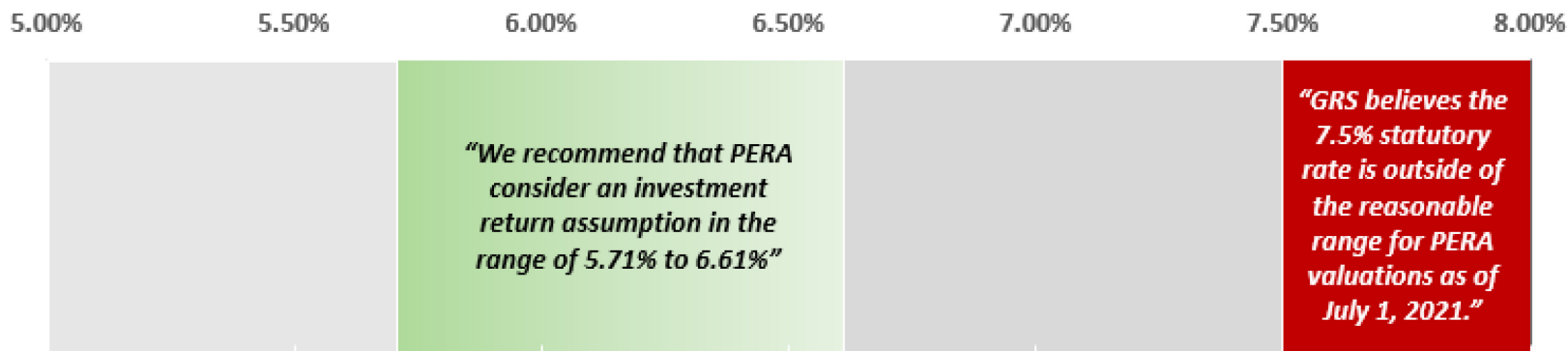
1
Participants

\$5M
Total Assets

GRS statement in the July 1, 2021 PERA Actuarial Valuation Reports:

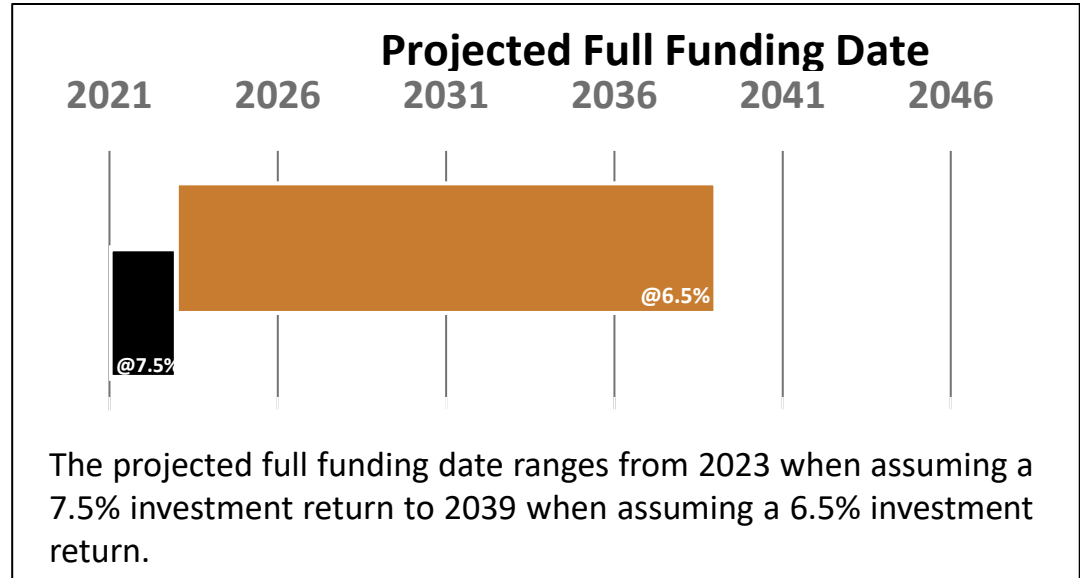
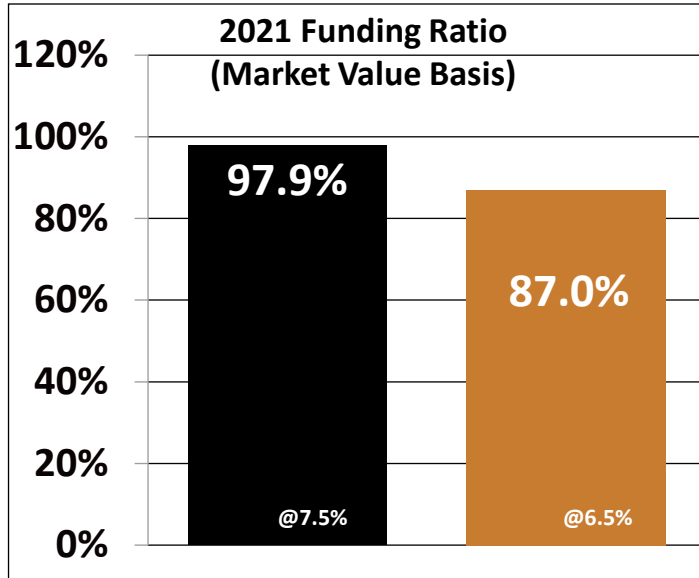
“In our professional judgement, the statutory investment return assumption of 7.5% used in the report deviates materially from the guidance set forth in Actuarial Standards of Practice No. 27 (ASOP No. 27). In a 2021 analysis of long-term rate of investment return and inflation assumptions, GRS suggested that an investment return assumption in the range of 5.71% to 7.00% would be reasonable for this valuation.”

GRS statements from June 24, 2021 letter:



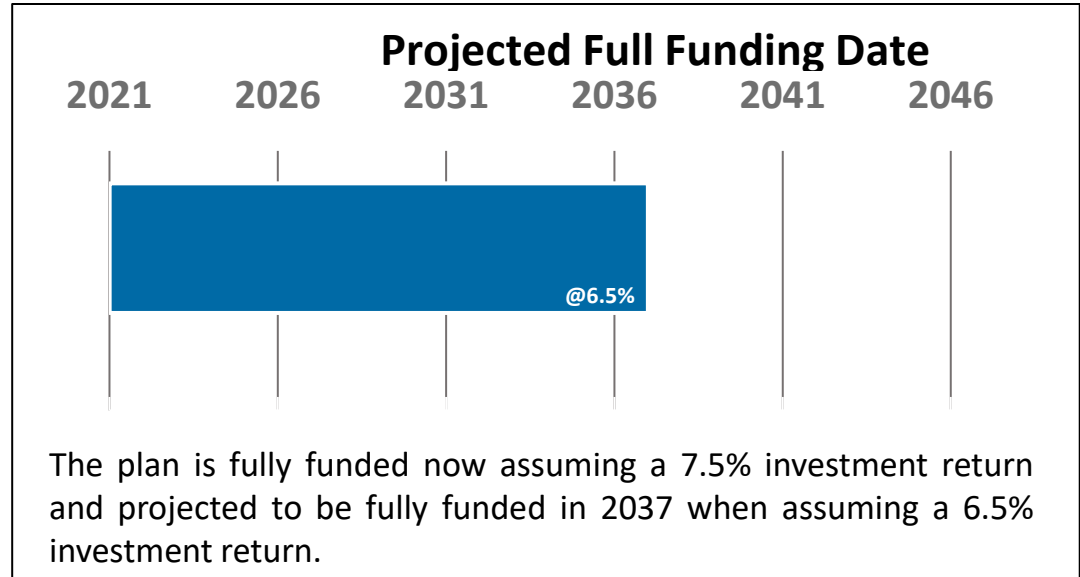
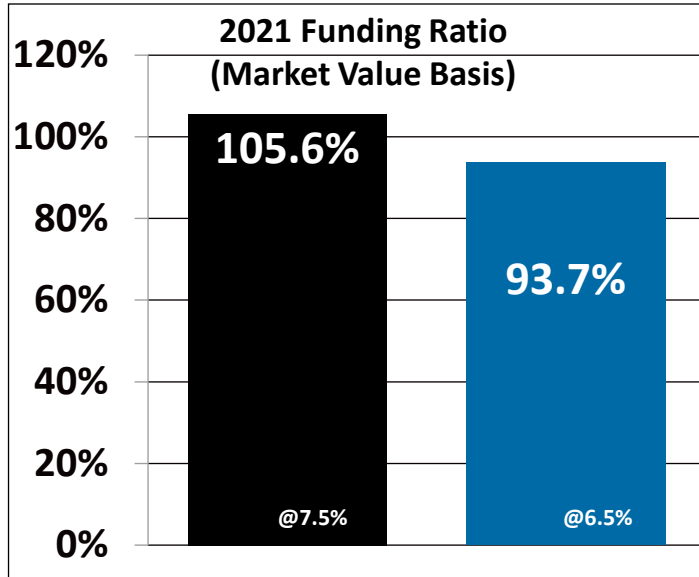
The investment return assumption effective July 1, 2022, should be within the GRS recommended range at the time the legislature makes their decision. Based on current information staff recommends a specific rate of 6.5 percent. If the GRS recommended range is updated the Board could reconsider their position.

What <u>DOES NOT</u> change when the investment return assumption changes	What <u>DOES</u> change when the investment return assumption changes
The Combined Fund's investment allocation	The measurements used to evaluate and communicate the Plan's health
Future actual investment returns	The actuary's likelihood to qualify their opinion and the rating agency's perspective
Non-actuarially determined benefits	General & Correctional member early retirement benefits. Service purchases.
Statutorily determined member and employer contribution rates	The expiration dates of certain employer and State supplemental contributions

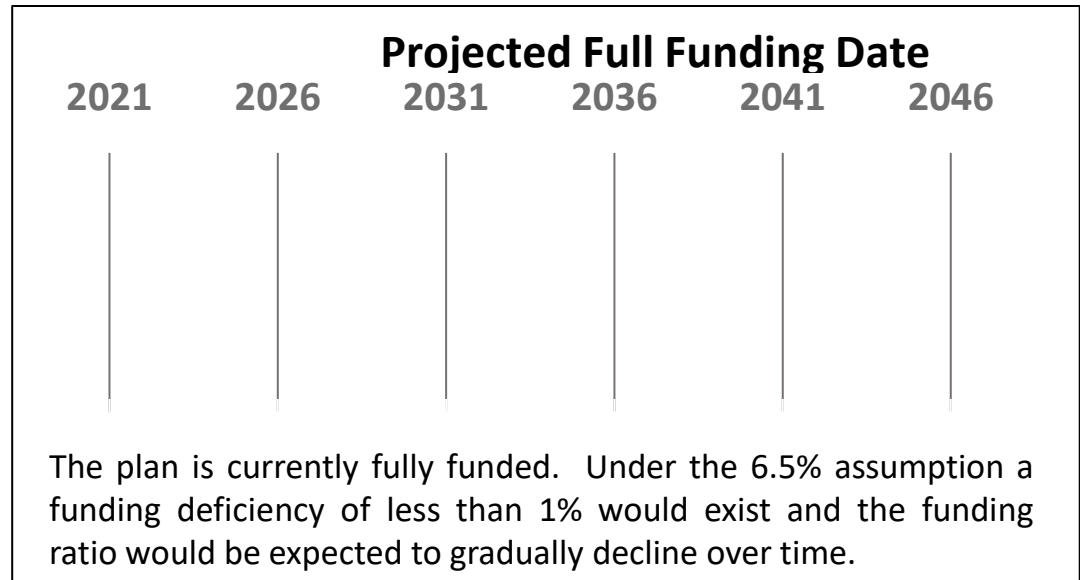
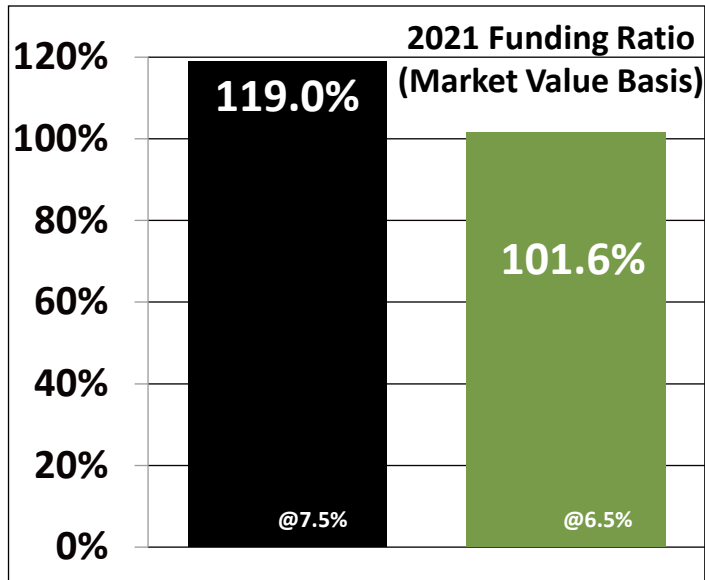


The 1.0% (\$69M/year) employer supplemental contribution ceases on the March 31st after the Plan's funding ratio on an Actuarial Value of Assets basis reaches 100%.





- \$9M in State contributions will end when the Plan reaches 100% funded on an Actuarial Value of Assets basis.
- \$9M in State contributions will end when both the P&F Plan and the MSRS State Patrol Plan reach 90% funded on an Actuarial Value of Asset basis.



- Retirees receive increases each year equal to 100% of CPI, not less than 1% and not more than 2.5%. If the funding ratio is less than 85% on a Market Value of Assets basis for two consecutive years or 80% on a Market Value of Assets basis for one year, the maximum increase will be lowered to 1.5%.



General Plan Overview

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

	FY2021	FY2020	FY2019
Active	50,889	51,742	51,997
Retirees & Survivors	43,692	42,135	40,572
Disability Retirements	1,738	1,784	1,801
Deferred	26,879	27,003	26,264
Total Members	123,198	122,664	120,634

\$1,810 Average Initial Benefit (FY21)



General Plan Overview

(June 30, 2021)

Funding Status

111.5% Funded (market value)

\$17.4 Billion Assets

\$15.6 Actuarial Accrued Liability

\$ (1.8) Billion Unfunded Liability

97.13% Funded (actuarial value)

\$15.2 Billion Assets

\$15.6 Actuarial Accrued Liability

\$ 0.4 Billion Unfunded Liability

Contribution Requirements

	Market Value	Actuarial Value
Employee Contribution	6.00%	
Employer Contribution	6.25%	
Total Statutory Contributions	12.25%	
Total Required Contributions	5.17%	9.13%
Contribution Sufficiency	7.08%	3.12%



Correctional Plan Overview

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

	FY2021	FY2020	FY2019
Active	4,504	4,523	4,582
Retirees & Survivors	3,403	3,266	3,120
Disability Retirements	325	320	308
Deferred	2,496	2,434	2,336
Total Members	10,728	10,543	10,346

\$2,414 Average Initial Benefit (FY21)



Correctional Plan

(June 30, 2021)

Funding Status

89.3% Funded (market value)

\$1.6 Billion Assets

\$1.8 Actuarial Accrued Liability

\$0.2 Billion Unfunded Liability

78.0% Funded (actuarial value)

\$1.4 Billion Assets

\$1.8 Actuarial Accrued Liability

\$0.4 Billion Unfunded Liability

Contribution Requirements

	Market Value	Actuarial Value
Employee Contribution	9.60%	
Employer Contribution	14.40%	
Employer Supplemental	4.45%	
Total Statutory Contributions	28.45%	
Total Required Contributions	20.36%	24.75%
Contribution Sufficiency	8.09%	3.70%



State Patrol Plan Overview

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

	FY2021	FY2020	FY2019
Active	912	937	943
Retirees & Survivors	1,049	1,043	1,018
Disability Retirements	72	64	60
Deferred	105	93	87
Total Members	2,138	2,137	2,108

\$4,323 Average Initial Benefit (FY21)



State Patrol Plan

(June 30, 2021)

Funding Status

96.6% Funded (market value)

\$957.9 Million Assets

\$991.9 Actuarial Accrued Liability

\$ 34.0 Million Unfunded Liability

84.2% Funded (actuarial value)

\$835.3 Billion Assets

\$991.9 Actuarial Accrued Liability

\$156.6 Million Unfunded Liability

Contribution Requirements

	Market Value	Actuarial Value
Employee Contribution	15.40%	
Employer Contribution	23.10%	
Employer Supplemental	7.00%	
Total Statutory Contributions	45.50%	
Total Required Contributions	25.99%	34.62%
Contribution Sufficiency	20.62%	11.99%



Judges Plan Overview

Appointed and elected judges.

	FY2021	FY2020	FY2019
Active	320	322	315
Retirees & Survivors	378	374	367
Disability Retirements	16	16	16
Deferred	19	17	20
Total Members	733	729	718

\$5,698 Average Initial Benefit (FY21)



Judges Plan

(June 30, 2021)

Funding Status

70.7% Funded (market value)

\$276.6 Million Assets

\$391.3 Actuarial Accrued Liability

\$114.7 Million Unfunded Liability

61.6% Funded (actuarial value)

\$240.9 Million Assets

\$391.3 Actuarial Accrued Liability

\$150.4 Million Unfunded Liability

Contribution Requirements

	Market Value	Actuarial Value
Employee Contribution	7% or 9%	
Employer Contribution	22.5%	
Supplemental Contribution	\$6 Million (11.01%)	
Total Statutory Contributions	30.42%	
Total Required Contributions	32.12%	36.51%
Contribution Sufficiency	9.23%	4.84%

Additional Plans

(June 30, 2021)



Legislators Plan
396 Members

Pay as you go



Unclassified
Employees
Plan

3,321
Members
\$401.6 Million



Minnesota
Deferred
Compensation
Plan

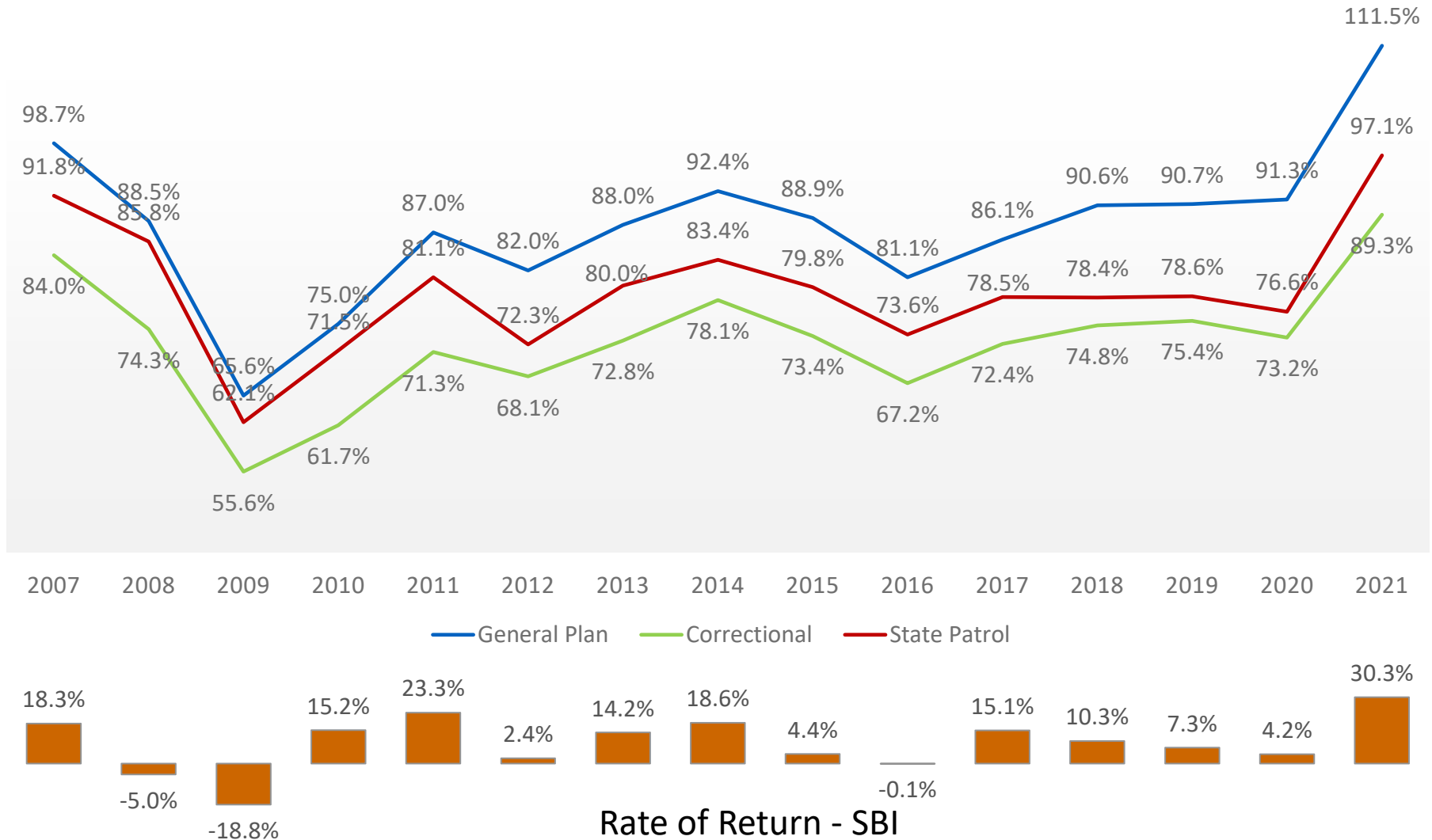
95,181
Participants
\$9.7 Billion



Health Care
Savings Plan

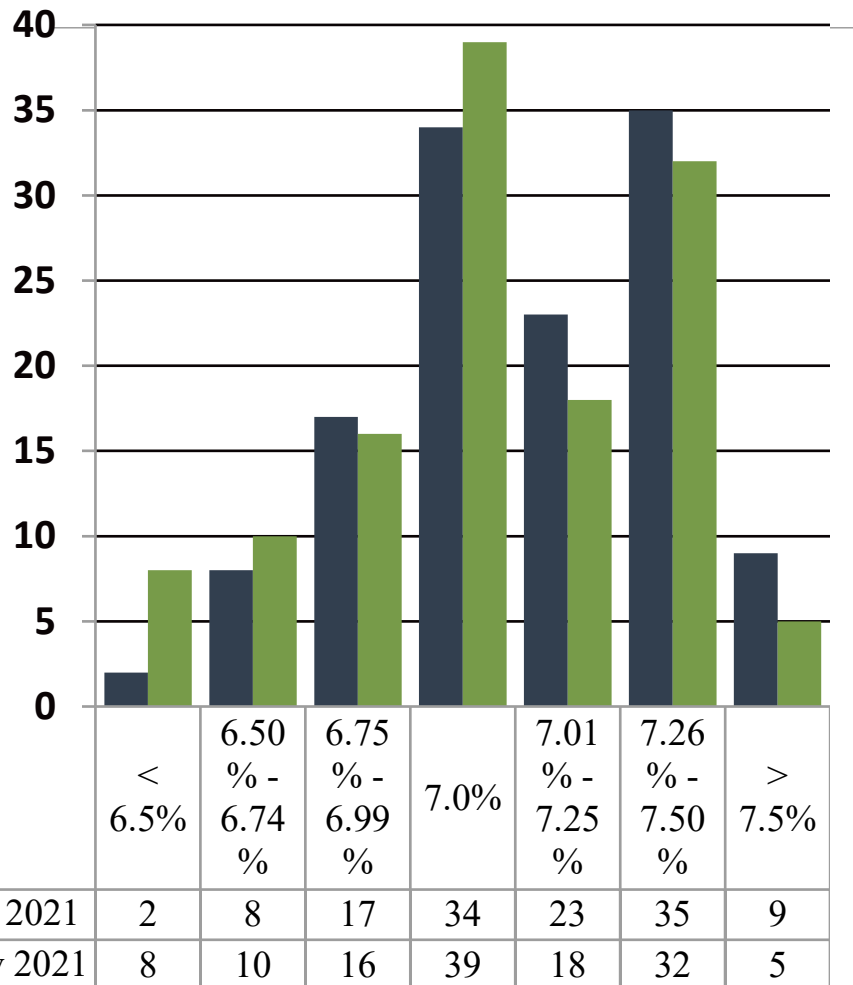
143,205
Participants
\$ 1.6 Billion

(Market Value)

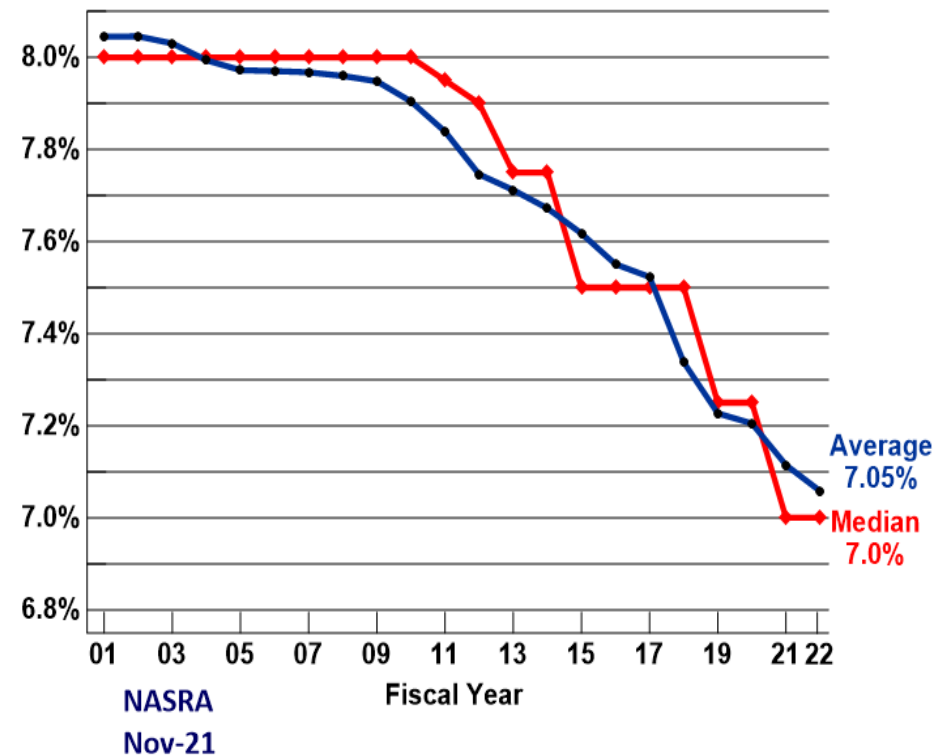


- ▶ Currently our 7.5% assumption is outside the range considered acceptable by the MSRS actuary
- ▶ Received a qualified opinion on actuarial valuation from GRS
 - ▶ **In our professional judgment, the statutory investment return assumption of 7.5% used in the report deviates materially from the guidance set forth in Actuarial Standards of Practice No. 27 (ASOP No. 27).** In a 2021 analysis of long-term rate of investment return and inflation assumptions, GRS suggested that an investment return assumption in the range of 5.71% to 7.00% would be reasonable for this valuation. Please see our letter dated June 24, 2021 for additional information.
- ▶ The MSRS Board is proposing legislation to change the assumption to 7% during the 2022 session.
 - ▶ Discussed at July, September and November Meetings
 - ▶ Reviewed historic investment performance
 - ▶ National Data
 - ▶ Stochastic Modeling shared at both September and November Meetings

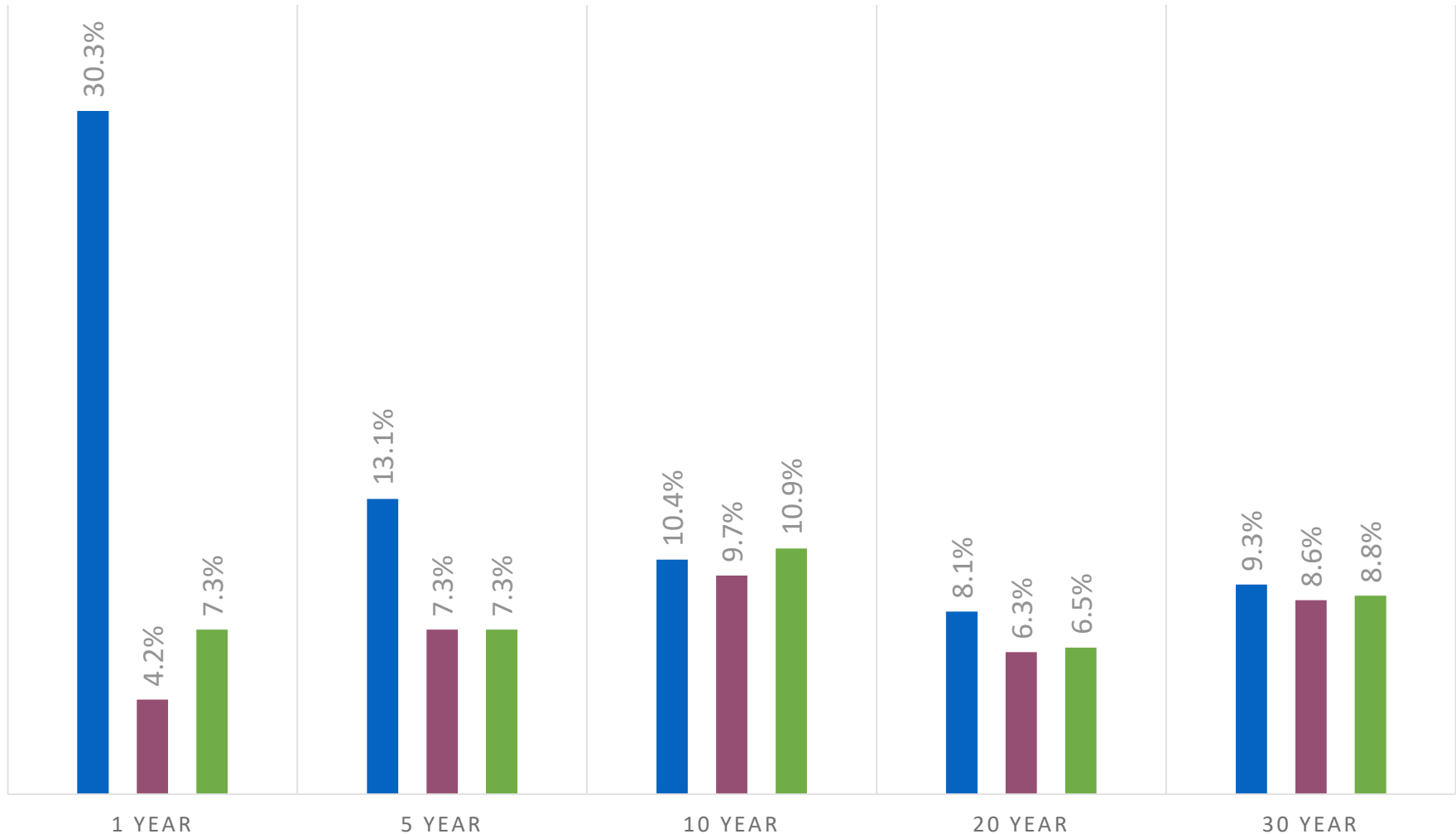
NASRA Public Funds Survey shows national trend to lower rate- 34 Funds have reduced their assumption between February and November 2021



Change to Average and Median Investment Return Assumption, FY 01 to present



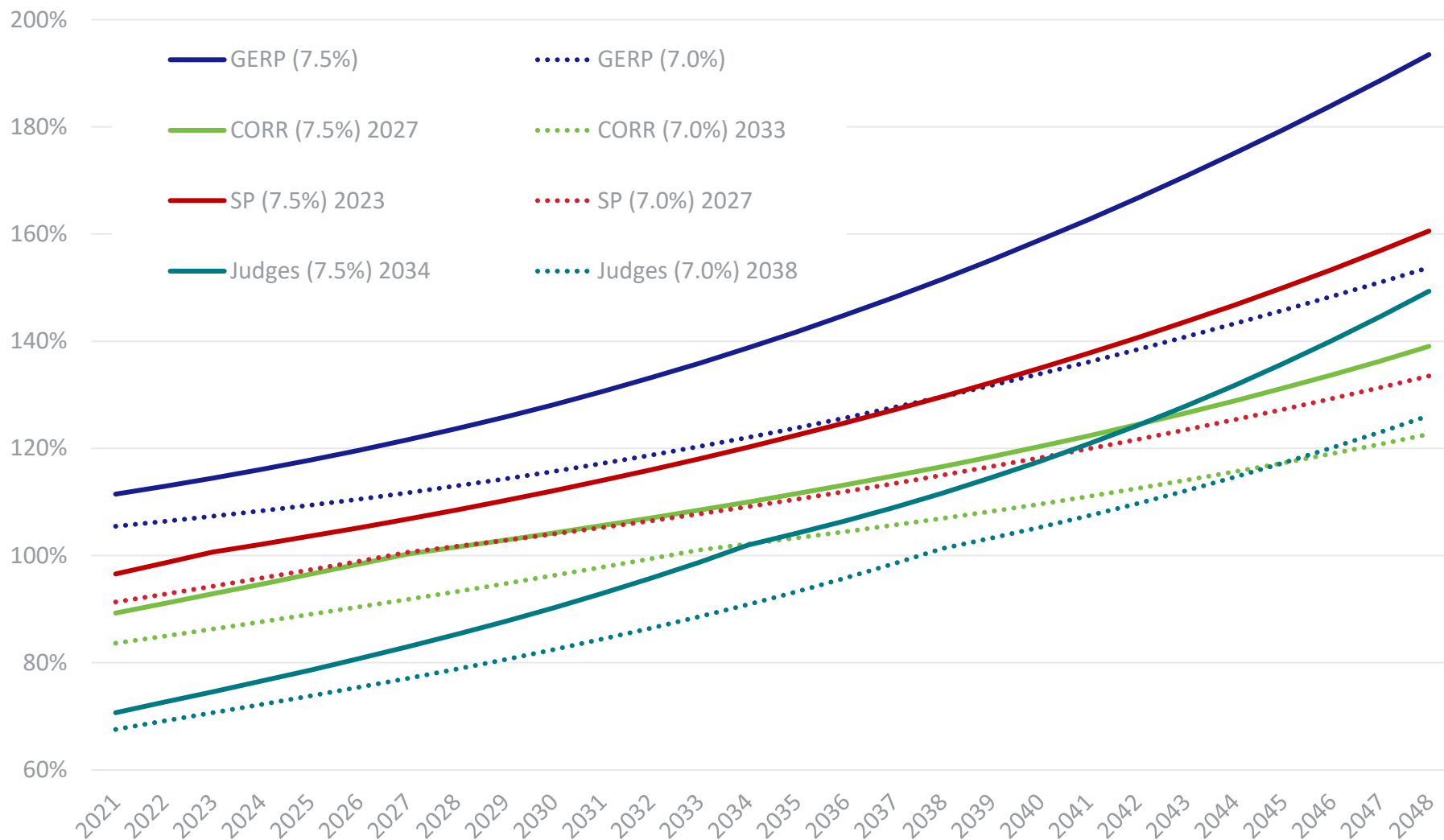
■ SBI Combined Funds (FY21) ■ SBI Combined Fund (FY20) ■ SBI Combined Funds (FY19)



<i>Actuarial Value</i>	General Plan		Correctional Plan		State Patrol		Judges	
<i>Investment Return Assumption</i>	7.5%	7.0%	7.5%	7.0%	7.5%	7.0%	7.5%	7.0%
Funded Ratio	97.1%	91.9%	78.0%	73.0%	84.2%	79.6%	61.6%	58.8%
Sufficiency or (Deficiency)	3.12%	0.72%	3.70%	(0.11%)	11.99%	5.85%	4.84%	1.89%

Funding Projections

(Market Value)



Membership includes public school educators (except for members of SPTRFA), all charter school educators, and some faculty of Minnesota State.

	FY2021	FY2020	FY2019
Active	81,821	83,149	82,965
Retirees & Survivors	68,587	67,685	66,800
Disability Retirements	446	469	485
Deferred	<u>56,017</u>	<u>53,380</u>	<u>51,436</u>
Total Members	206,871	204,683	201,686

\$2,315 Average monthly benefit for new retirements in FY2021

Funding Status

92.0% Funded (market value)

\$28.4 Billion Assets

\$30.8 Actuarial Accrued Liability

\$ 2.4 Billion Unfunded Liability

80.2% Funded (actuarial value)

\$24.7 Billion Assets

\$30.8 Actuarial Accrued Liability

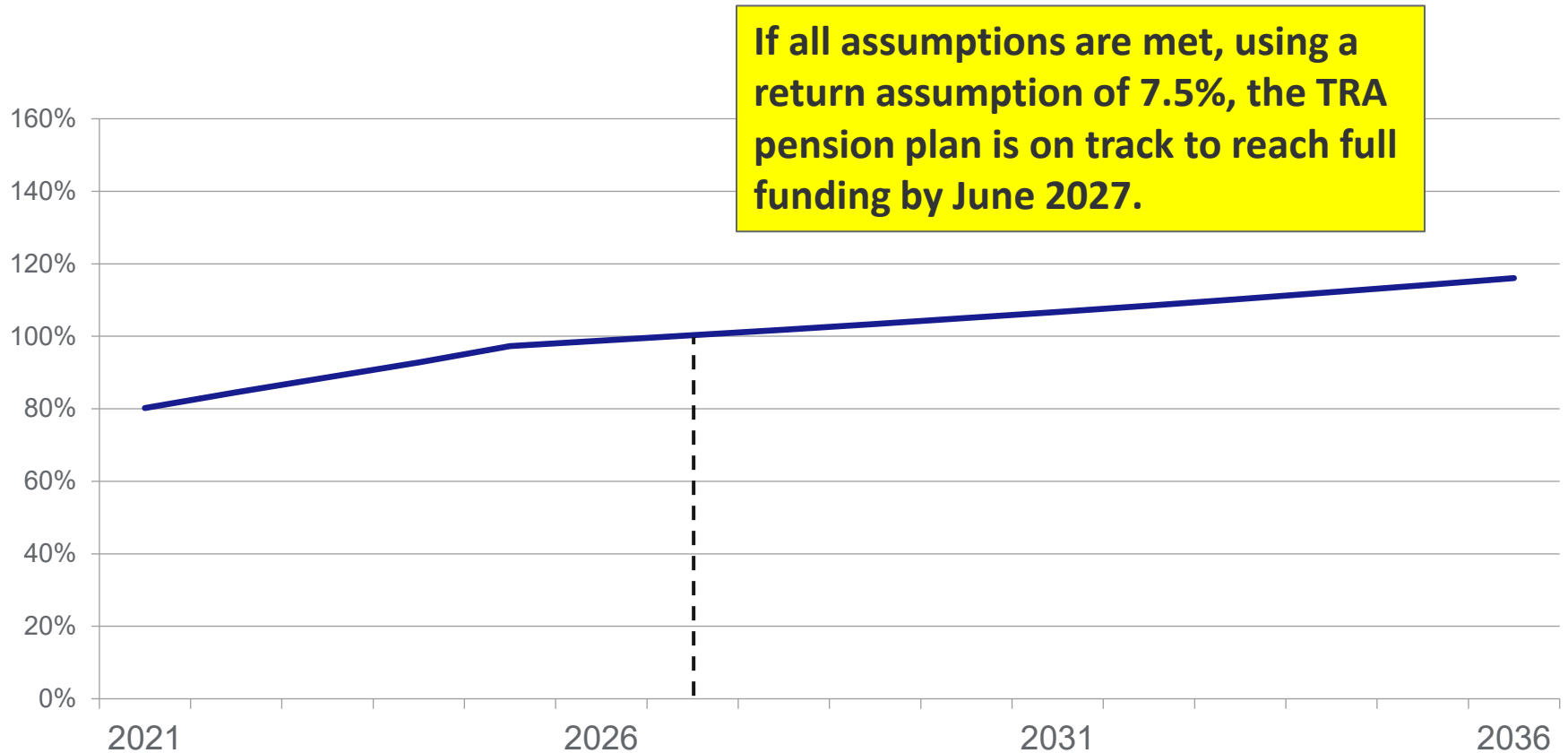
\$ 6.1 Billion Unfunded Liability

Contribution Requirements

	Market Value	Actuarial Value
Employee Contribution	7.50%	
Employer Contribution	8.52%	
Direct Payments	0.63%	
Total Statutory Contributions	16.65%*	
Total Required Contributions	12.26%	16.33%
Contribution Sufficiency	4.39%	0.32%

*Contribution rates in FY23 and FY24 increase 0.66% in total: 0.41% for employers, 0.25% for employees.

Funding Projections



TRA Board of Trustees – Action on setting the return assumption.

1st Consideration, November 10, 2021: Meeting of the board of trustees, presentation of materials, background information, actuarial advice, discussion. No action taken.

2nd Consideration – January 12, 2022, meeting of the Board of Trustees.

TRA Actuarial consultant: Cavanaugh Macdonald Consulting (CMC), Bellevue, NE

Letter dated October 27, 2021 from CMC to TRA:

“...for the July 1, 2021 funding valuation all calculations will be made using the statutory investment return assumption of 7.50% which we believe is still within the reasonableness range under actuarial standards...”

“For funding purposes, considering a lower assumption would help reduce the system’s investment risk by increasing the likelihood of meeting or exceeding the assumption and we are comfortable with such a change. While 7.00% to 7.50% is a reasonable range for the investment return assumption, selecting a lower rate such as 6.75% in order to reduce investment risk would certainly be acceptable.

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

	FY2021	FY2020	FY2019
Active	3,399	3,445	3,467
Retirees & Survivors	4,152	4,082	3,980
Disability Retirements	21	20	24
Deferred	5,355	5,325	5,231
Total Members	12,927	12,872	12,702

\$2,050 FY2021 Average New Retiree Initial Benefit (Coord Plan)

Funding Status

74.88% Funded (market value)

\$ 1.3 Billion Assets

\$ 1.7 Actuarial Accrued Liability

\$ 0.4 Billion Unfunded Liability

67.06% Funded (actuarial value)

\$ 1.2 Billion Assets

\$ 1.7 Actuarial Accrued Liability

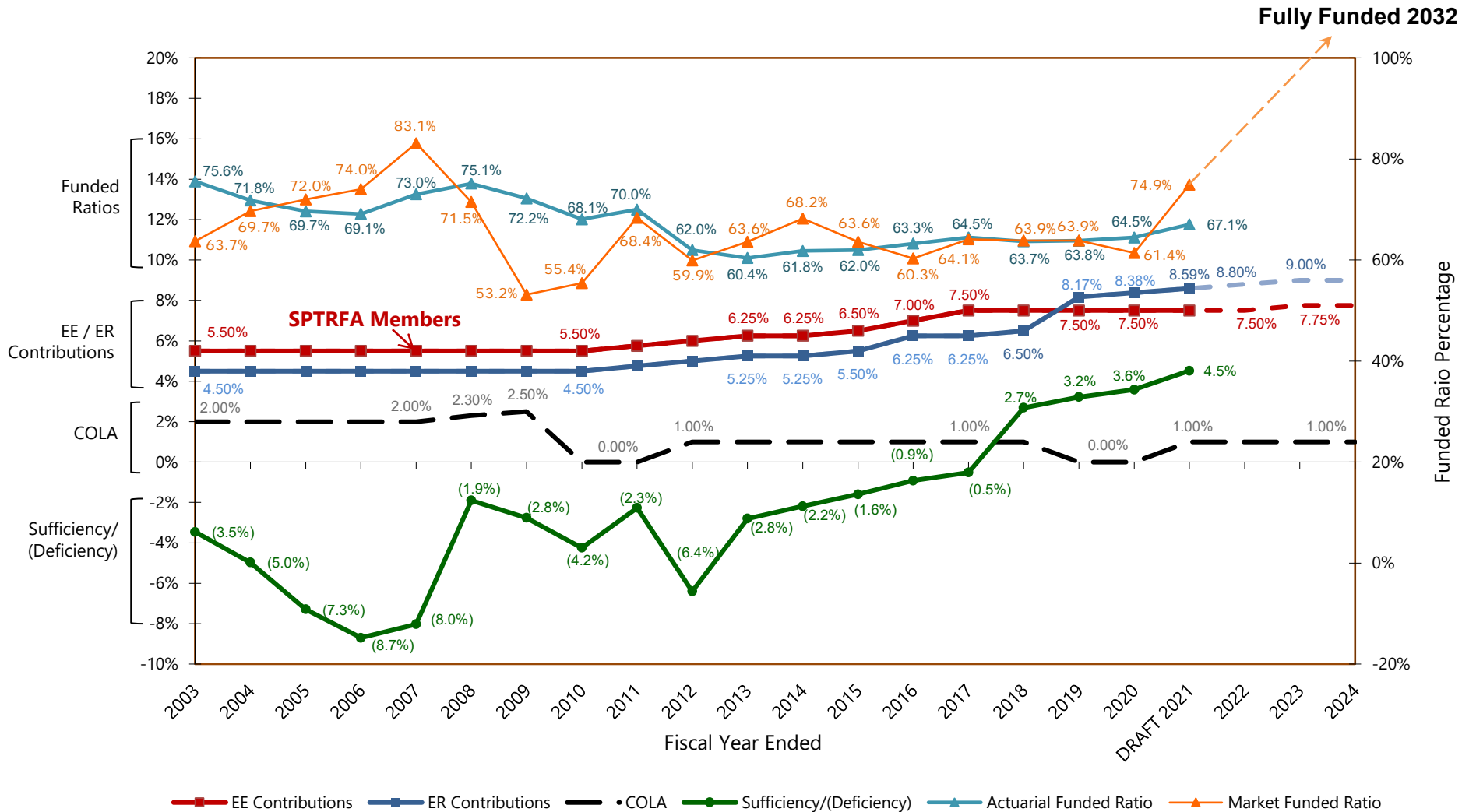
\$ 0.6 Billion Unfunded Liability

Contribution Requirements

	Market Value	Actuarial Value
Employee Contribution	7.5% *	
Employer Contribution	8.59% *	
Employer Supplemental	3.84%	
Total Statutory Contributions	25.13%	
Direct State Funding	\$15.7 Million	
Total Required Contributions	17.66%	20.51%
Contribution Sufficiency *	7.47% *	4.62% *

* Contribution rates in FY23 and FY24 increase 0.66% in total: 0.41% for employers, 0.25% for employees.

SPTRFA Scorecard



* The Employer also pays a Supplemental Amount of 3.84% and \$800,000 annually to address certain past underfunding.

Topics Under Review

Investment Return Assumption:

"... GRS has determined the current investment return assumption of 7.5% is within a reasonable range for the July 1, 2021 valuation, but cautions that ... [it may be] deemed unreasonable for future valuations."

Cost of Living / Inflation Trends

1. Current inflation levels are significantly higher than historical averages.
2. Expected to moderate but persist at a higher level than we've experienced in the last several years.
3. St. Paul Teachers' is one of only three funds in MN that has a fixed 1% COLA with no mechanism in place for improvement.

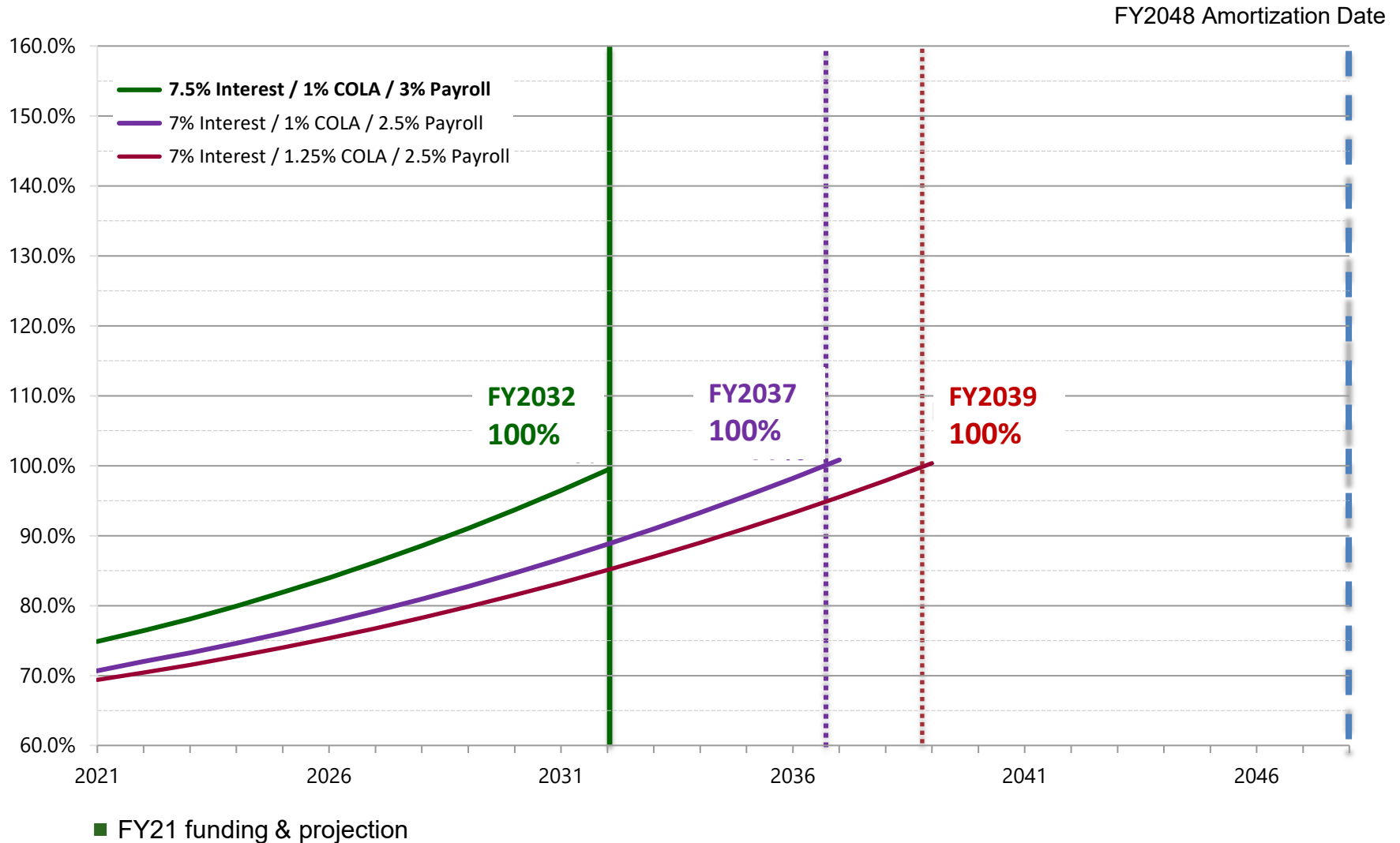
Experience Study

Normal cycle currently underway. Results will be considered by the SPTRFA Board of Trustees during the upcoming fiscal year.

Estimated Impact of Potential Changes :

Investment Return:	7.50%	7.00%	7.00%
Payroll growth:	3.00%	2.50%	2.50%
COLA:	1.00%	1.00%	1.25%
Funded Ratio (AVA Basis)	67.06%	63.31%	62.14%
Contribution Sufficiency	4.62%	1.54%	0.75%
<u>Future contribution increases</u>	<u>0.66%</u>	<u>0.66%</u>	<u>0.66%</u>
Projected Contribution Sufficiency	5.28%	2.20%	1.41%
Reduction in SPTRFA Sufficiency	0.00%	(3.08%)	(3.87%)
Year Fully Funded (Est.):	2032	2037	2039

Funding Projections



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