

SF 1386: Estimated Costs of Reinstating Augmentation for pre-2019 Terminated Vested Participants from January 1, 2019 to Retirement

MSRS SERF (Dollars in Thousands)

	Baseline (1)	2% Augmentation from 1/1/2019 to Retirement (2)
1. Actuarial accrued liability	17,605,809	17,815,902
2. Actuarial value of assets	16,745,486	16,745,486
3. Unfunded actuarial accrued liability	860,323	1,070,416
4. Increase/(decrease) in UAAL		210,093
5. Funded ratio (assets ÷ liabilities)	95.11%	93.99%
6. Increase/(decrease) in funded ratio		-1.12%
7. Actuarially required contribution rate		
a. Normal cost	8.98%	8.98%
b. Amortization of unfunded liability (3)	1.28%	1.59%
c. Administrative expenses	0.30%	0.30%
d. Total actuarially required rate	10.56%	10.87%
8. Statutory rate (Chapter 352)	13.75%	13.75%
9. Contribution Sufficiency/(Deficiency) (8 - 7.d.)	3.19%	2.88%
10. Increase/(decrease) in contribution sufficiency		-0.31%
11. Estimated lump sum value of retroactive augmentation payments through 6/30/2024		\$4.6MM

Key Proposed Plan Changes Modeled

- Retroactive reinstatement of 2.0% annual benefit augmentation for all participants who terminated employment prior to January 1, 2019 and did not immediately commence a service retirement annuity.
- For eligible participants who have not yet commenced benefits, the augmentation is assumed to apply from their termination date until their Normal Retirement Date.
- For eligible participants who already commenced benefits, the augmentation is assumed to apply from their termination date until their actual annuity start date.
- The estimated lump sum value of retroactive augmentation for eligible participants who commenced their benefits prior to June 30, 2023 was calculated by determining the difference between (1) the estimated value of payments they would receive from their original annuity start date through June 30, 2024 and (2) what those same payments would have been with the proposed retroactive augmentation. Note that the estimated lump sum amount does not include any eligible participants that may commence benefits after June 30, 2023.

Additional Notes:

- (1) Baseline results are from the July 1, 2023 actuarial funding report prepared by GRS, dated 12/7/2023. Those results use an investment return assumption of 7.0% and extend the full funding amortization date to 6/30/2053.
- (2) All liability change estimates are based on our replication of the retained actuary's valuation results and the estimated effect of the proposed plan changes. The percent changes in our calculated results were then applied to the original valuation results to produce the final estimated amounts shown in this exhibit. Other underlying results used in our calculations (e.g., present value of future payroll for amortizing the unfunded liability) are based on the amounts in the 2023 actuarial valuation report.
- (3) The change in UAAL is amortized over the estimated present value of future payroll through 6/30/2053

Actuarial Certification and Important Notes/Disclaimers

This exhibit and results have been prepared solely for the Legislative Commission on Pensions and Retirement (LCPR) to summarize the estimated financial effect of proposed pension legislation. It is important to recognize that calculations performed for other purposes (such as plan funding or plan accounting) may yield significantly different results. This exhibit may not be used for any other purpose, and VIA Actuarial Solutions is not responsible for the consequences of any unauthorized use. Its content may not be modified, incorporated into or used in other material, or otherwise provided, in whole or in part, to any other person or entity, without our permission.

Unless otherwise indicated, all estimated plan change results are based on our own independent actuarial calculations using the same 6/30/2023 census data, assumptions, actuarial methods, assumptions, and plan provisions (and our understanding thereof) summarized in the retained actuary's valuation report dated 12/7/2023. The census data was provided by the retained actuary and was reviewed for reasonableness but not formally audited. Our understanding is that the actuarial assumptions and methods have been selected and approved by the Board of Directors and the LCPR and/or prescribed in Minnesota statutes. We reviewed the assumptions and methods and believe they are reasonable for the purposes of our calculations.

A different set of reasonable assumptions would produce different results. This exhibit does not include analysis of the effect of alternative assumptions because that is beyond the limited scope of our engagement. We also have not included a pension risk or contribution analysis under ASOPs 4 or 51 because that is beyond the limited scope of our engagement. We would be glad to provide such additional analysis under a separate engagement, if requested by the LCPR.

To the best of our knowledge, this communication is complete and accurate and all liabilities were determined in accordance with generally accepted actuarial principles and practices. Upon receipt of the report, the LCPR should notify us if you disagree with any information contained in the report or if you are aware of any information that would affect the results that has not been communicated to us. The report will be deemed final and acceptable to the LCPR unless the LCPR promptly notifies us otherwise.

Actuarial measurements are only a snapshot of a plan's estimated financial condition at a single point in time. Future actuarial measurements may differ significantly from the estimated amounts presented in this report due to many factors such as actuarial experience differing from that anticipated by the assumptions; changes in assumptions and funding policies; contributions above/below the actuarial recommendations; and changes in plan provisions or applicable law. Actuarial models necessarily rely on the use of approximations and estimates, and are sensitive to changes in these approximations and estimates. Small variations in these approximations and estimates may lead to significant changes in actuarial measurements. Additional contributions to the Plan may be required if actual plan economic and demographic experience do not match actuarial assumptions, or if contributions to the Plan are less than expected.

The preparing actuaries, Mark Schulte, FSA and Emily Knutson, FSA, are members of the American Academy of Actuaries and meet the Academy's Qualification Standards to render the actuarial opinion contained herein. We are available to answer questions on the material contained in the report or to provide explanations or further detail, as may be appropriate. We are not aware of any direct or material indirect financial interest or relationship that could create a conflict of interest or impair the objectivity of the work.