

# POPULAR ANNUAL FINANCIAL REPORT

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For the Fiscal Year Ended June 30, 2022

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**Public Employees Retirement Association**  
Pension Trust Funds of the State of Minnesota



## A Message from the Executive Director

**Dear members and stakeholders:**

On behalf of the management and staff of the Minnesota Public Employees Retirement Association (PERA), it is our pleasure to present the Popular Annual Financial Report (PAFR) for the year ending June 30, 2022. The PAFR provides a summary of the performance and health of our plans.

Fiscal year 2022 provided PERA with an opportunity to reimagine how we continue to achieve our mission and strategic goals, which include the administration and promotion of sustainable retirement plans. This year also saw continued volatility in the investment market with strong returns for the first six months followed by a sharp decline in returns for the last six months. The sharp decline in the market, together with negative net cash flow due to benefit payments exceeding contributions, resulted in a decrease of \$3.6 billion or 8.8 percent in PERA's fiduciary net position from \$41.0 billion as of June 30, 2021 to \$37.4 billion as of June 30, 2022 for the three defined benefit plans listed below.

Despite the decline in the investment market and decrease in PERA's fiduciary net position, the funding ratio and contribution sufficiency for the General Employees Plan, Police and Fire Plan, and Correctional Employees Plan increased slightly when comparing to the prior fiscal year and using measurements based on the actuarial value of assets. The actuarial value of assets recognizes asset gains and losses over a five-year period and is used to mitigate volatility of certain measurements.

When looking at the funding ratio and contribution sufficiency or deficiency, it is important to recognize that the actuary calculates those using the statutorily defined investment return assumption of 7.5 percent. PERA's actuary determined, for the second consecutive year, that the statutorily defined investment return assumption of 7.5 percent deviates materially from the guidance set forth in the Actuarial Standards of Practice and suggests a range of 5.64 to 6.84 would be reasonable. If PERA used an investment return assumption within the actuary's suggested range, such as 6.5 percent, the funding ratios would decrease by 10 to 15 percent and the contribution sufficiency would turn into a deficiency. This means that the contributions would not be sufficient to fully fund the unfunded liability by the legislatures targeted full funding date of 2048.

<b>Actuarial Valuation for Funding Purposes - PERA Defined Benefit Retirement Plans</b>			
As of July 1, 2022	<b>General Employees</b>	<b>Police and Fire</b>	<b>Correctional</b>
<b>Investment Return Assumption of 7.5%</b>			
Contribution Sufficiency (Deficiency), as of 07/01/2022	3.3%	6.8%	3.2%
Funding Ratio - Actuarial Value of Assets, as of 07/01/2022	87.4%	93.1%	105.1%
<b>Investment Return Assumption of 6.5%</b>			
Contribution Sufficiency (Deficiency), as of 07/01/2022	(1.2%)	(5.7%)	(4.2%)
Funding Ratio - Actuarial Value of Assets, as of 07/01/2022	77.7%	82.5%	90.0%

Recent volatility of investment returns and the wide range of future expectations makes current decision making challenging. At the moment, making no changes to benefits or contributions appears to be the most prudent decision. When the assumed direction of the Plans becomes more clear, the urgency for action will increase.

Sincerely,

Doug Anderson  
Executive Director

## 2022 Contribution Rates (percentages applied to pensionable wages)

Effective Date	Contributor	General Plan*	Police & Fire	Correctional
Jan. 1, 2020	Member	6.50%	11.80%	5.83%
	Employer	7.50%	17.70%	8.75%

Contribution rates did not change between FY2020 and FY2022.

The Minnesota State Legislature set contribution rates.

\*Coordinated Plan members only

## About the Financial Statements

The **Statement of Fiduciary Net Position** measures the assets PERA has invested and available to pay pension benefits less liabilities owned by PERA. However, the statement does not include the actuarially estimated pension liability owed to plan members.

The **Statement of Changes in Fiduciary Net Position** reports the changes in PERA's net position that occurred between the current and prior year.

PERA's Net Position for all defined benefit plans decreased by \$3.6 billion, or 8.8 percent, to almost \$37.4 billion as of June 30, 2022. This change is attributable to the fiscal year 2022 net investment loss of 6.4 percent and negative net cash flow due to benefit payments exceeding contributions.

Despite the decrease from fiscal year 2021 to fiscal year 2022, the fiduciary net position for PERA's defined benefit plans increased by approximately \$5 billion over the past two fiscal years.

## Condensed Financial Statements

### Fiduciary Net Position— Defined Benefit Plans (in millions)

Assets	General Plan	Police & Fire	Correctional	FY2022 Combined Total	FY2021 Combined Total	FY2020 Combined Total
Cash & Receivables	\$509	\$204	\$17	\$730	\$692	\$1,445
Investments	25,531	10,218	959	36,708	40,342	30,957
Securities Lending Collateral	1,345	538	50	1,933	2,614	2,276
Capital Assets & Other	6	0	0	6	6	6
<b>Total Assets</b>	<b>27,391</b>	<b>10,960</b>	<b>1,026</b>	<b>39,377</b>	<b>43,654</b>	<b>34,684</b>
Liabilities						
Accounts Payable	9	7	1	17	16	12
Accrued Compensated Absences	1	0	0	1	1	1
Securities Lending Collateral	1,345	538	50	1,933	2,614	2,276
Bonds Payable	2	0	0	2	2	3
<b>Total Liabilities</b>	<b>1,357</b>	<b>545</b>	<b>51</b>	<b>1,953</b>	<b>2,633</b>	<b>2,292</b>
<b>Total Net Position</b>	<b>\$26,034</b>	<b>\$10,415</b>	<b>\$975</b>	<b>\$37,424</b>	<b>\$41,021</b>	<b>\$32,392</b>

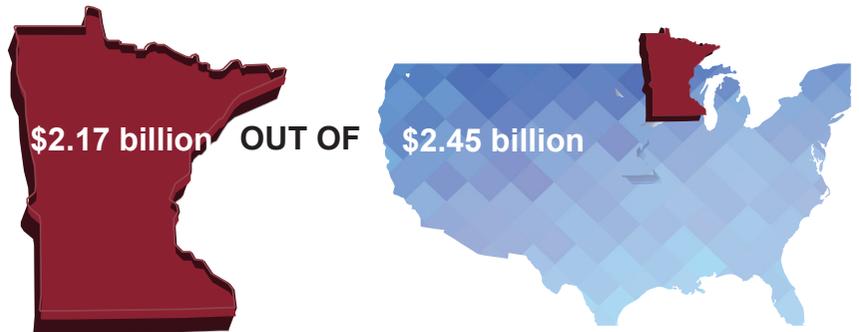
## PERA Membership— Defined Benefit Plans

	General Plan	Police & Fire	Correctional	Total
Retirees and beneficiaries receiving benefits	115,980	12,107	1,717	129,804
Vested and non-vested terminated employees not yet receiving benefits	153,311	2,821	6,609	162,741
Current, active vested and non-vested employees	149,987	11,629	3,564	165,180
<b>Total</b>	<b>419,278</b>	<b>26,557</b>	<b>11,890</b>	<b>457,725</b>

## Giving Back to Minnesota

Annual benefits paid to Minnesota residents out of total payments

88 percent of benefit payments\* are made to Minnesota residents. Out of \$2.45 billion in benefit payments, \$2.17 billion stay in Minnesota.



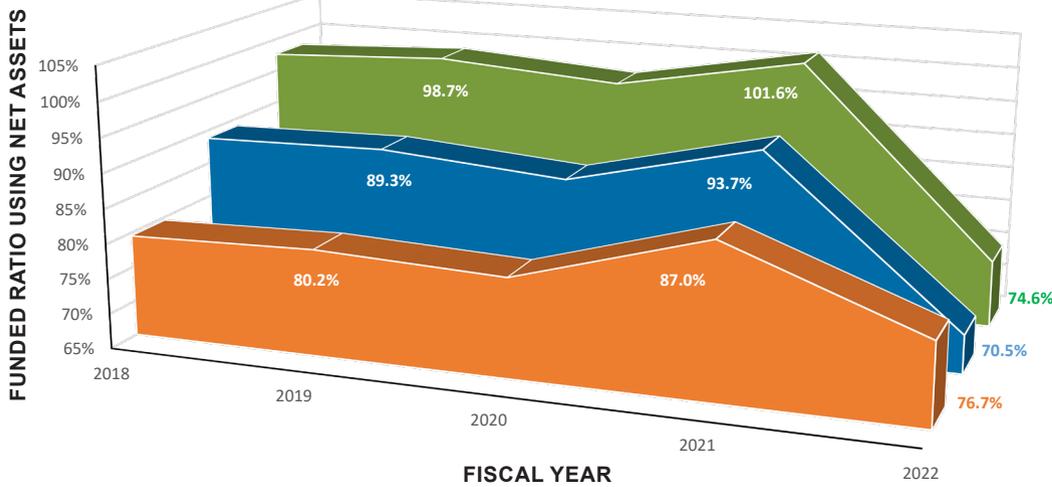
\*Estimate based on June 2022 payments

## Changes in Fiduciary Net Position— Defined Benefit Plans (in millions)

Additions	General Plan	Police & Fire	Correctional	FY2022 Combined Total	FY2021 Combined Total	FY2020 Combined Total
Employer Contributions	\$546	\$206	\$19	\$771	\$745	\$722
Member Contributions	458	133	13	604	581	572
State Contributions	16	18	0	34	34	29
Investment Income (Loss)	(1,749)	(701)	(66)	(2,516)	9,625	1,333
<b>Total Additions</b>	<b>(729)</b>	<b>(\$344)</b>	<b>(34)</b>	<b>(1,107)</b>	<b>10,985</b>	<b>2,656</b>
Deductions						
Retirement Benefits	1,738	633	23	2,394	2,279	2,189
Refunds of Contributions	73	4	3	80	63	91
Administrative Expenses	13	2	0	15	15	14
<b>Total Deductions</b>	<b>1,824</b>	<b>639</b>	<b>26</b>	<b>2,489</b>	<b>2,357</b>	<b>2,294</b>

## Fiduciary Net Position as a Percentage of Total Pension Liability (FY2018 - FY2022)

General Plan | Police & Fire | Correctional Plan

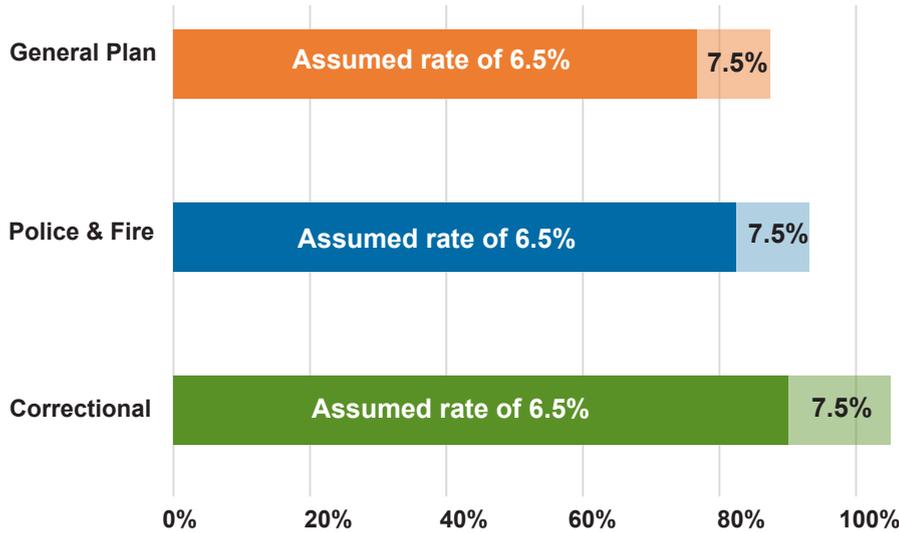


### What the numbers mean

The Government Accounting Standards Board requires Fiduciary Net Position as a Percentage of Total Pension Liability to be used for financial reporting. It measures the market value of pension plan assets, compared to the value of promised lifetime benefit payments a pension plan needs to make. This measurement is significantly impacted by the volatility in the investment market, unlike the funding ratios shown in the chart below.

## Funding Ratio\*

Comparing Investment Return Assumption of 6.5% to 7.5%



### What the numbers mean

The funding ratio uses actuarial value of assets to determine the financial health of the retirement plans and how to fund them. The funding ratio measures the actuarial value of assets (smoothed over a 5-year period) to minimize the impact of investment volatility, compared to the actuarial accrued liability (the value of promised lifetime benefits).

\*For funding ratios, see *A Message from the Executive Director*.

# Award winning Popular Annual Financial Report

Government Finance Officers Association is pleased to announce that Public Employees Retirement Association of Minnesota has received GFOA's Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR award).

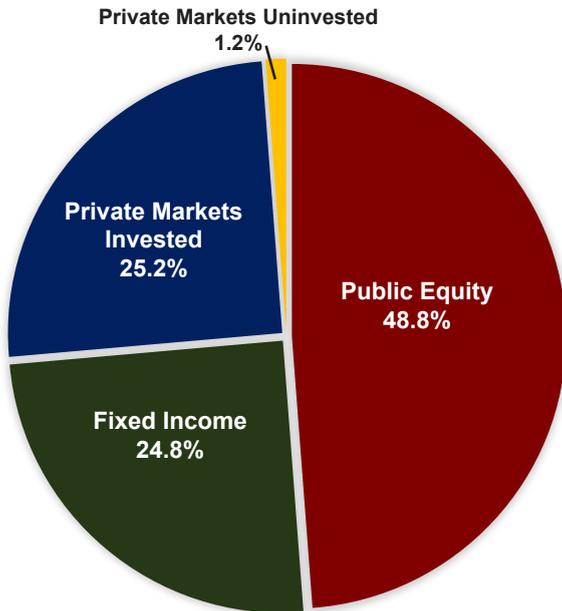
The award represents a significant achievement by the entity. In order to be eligible for the PAFR award, a government must also submit its comprehensive annual financial report to GFOA's Certificate of Achievement for Excellent in Financial Reporting Program and receive the Certificate for the current fiscal year. Each eligible report is reviewed by judges who evaluate the report based on the following categories: reader appeal, understandability, distribution methods, creativity and other elements.

## Fund Performance by Asset Class

Fund	Rates of Return (Annualized)				
	FY2022	3-Year	5-Year	10-Year	20-Year
Combined Funds*	(6.4%)	8.3%	8.5%	9.4%	8.2%
Combined Funds Composite Index	(6.3%)	7.9%	8.2%	9.0%	8.0%

\* Percentages are net of all management fees.

## About the Combined Fund and Asset Allocation



PERA's pension contributions from employees and employers are invested in the Combined Funds. Since these assets normally accumulate for 30 to 40 years, the State Board of Investment's (SBI) objective is to take advantage of the long investment time horizon offered by equities and private markets in order to meet its actuarial return target and ensure sufficient funds are available to finance promised benefits at the time of retirement.

The long-term objective of the Combined Funds are:

- Provide returns that are 3 to 5 percentage points greater than inflation over the latest 20-year period; and
- Outperform a composite market index weighted in a manner that reflects the actual asset mix of the Combined Funds over the latest 10-year period.

SBI's asset allocation policy is consistent with these objectives.

For more investment information and to view SBI's Annual Report, visit <https://msbi.us/annual-reports>

## About the Popular Annual Financial Report (PAFR)

The Popular Annual Financial Report (PAFR) is a summary of key measurements contained in PERA's Annual Comprehensive Financial Report (ACFR). Like the ACFR, the PAFR is consistent with generally accepted accounting principles and guidelines established by the Governmental Accounting Standards Board. The PAFR does not include information about PERA's Defined Contribution Plan or Statewide Volunteer Firefighter Plan. Readers are encouraged to review PERA's ACFR for additional information. For a copy of PERA's ACFR, visit <https://mnpera.org/financial/annual-comprehensive-financial-report/>



### Public Employees Retirement Association

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