

The PERA Deferral

February 2016



Newsletter for deferred members of the Public Employees Retirement Association of Minnesota

Offices in St. Paul, Duluth and Mankato

Over 49,000 Vested Deferred Members



Meet PERA's new Executive Director Doug Anderson



Doug Anderson
PERA Executive Director

The PERA Board of Trustees has hired Doug Anderson as the new executive director of the organization. Anderson began full time in his new role in January.

Anderson brings 28 years of experience working as an actuary to the Association. He was the national practice leader of the retirement actuarial group

for Arthur J. Gallagher & Co. In that role, Anderson led a team of consultants who worked with defined benefit plan sponsors across the country. Anderson has worked with all types of entities, but specialized in working with public sector defined benefit plans.

PERA opportunity

Anderson said that one of the reasons he accepted the PERA executive director position is that he sees an opportunity to help sustain an important benefit for Minnesota public employees—the defined benefit retirement plan.

(Continued on page 4)

Longer life expectancies present a challenge for funds

The good news is we are all living longer—about two years longer, in fact, according to a new experience study. That means retirees, on average, are expected to receive two more years' worth of benefit payments.

PERA recently received our six-year experience study for the General Fund from our actuaries, Gabriel Roeder Smith & Company. Among the recommendations was a two-year extension of life expectancies in our mortality tables for both men and women. For individuals now age 65, we are now projecting a life expectancy of approximately 86 for men and 88 for women. The General Fund is PERA's largest retirement fund and covers all of the Associations Coordinated members.

While good news for all of us, there is a cost involved in providing two additional years' worth of benefits to retirees.

It is projected the longer life expectancies will add approximately \$1.2 billion to the unfunded liability of the General Plan between now and 2033 when it is scheduled to be fully funded.

PERA's Board of Trustees is currently formulating recommendations for the Pension Commission to ensure the sustainability of the General Fund, balancing the needs of our retirees, active members, employers and the taxpayers. The Board heard a number of proposals at their December meeting.

Doug Anderson, PERA executive director, outlined several possible solutions for the board's consideration. The proposals include changes to the cost-of-living adjustment (COLA), contribution rates, and the amortization period to fully fund the plan.

To follow this year's legislative session, visit our website at www.mnpera.org.

Financial Edition

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Add a couple extra candles! PERA's actuaries are recommending a two-year extension of life expectancies for PERA members.

PERA: 85 years young

The year was 1931. The nation was in the midst of the Great Depression. And Social Security was still four years in the future. On April 24th, the Minnesota Legislature “established a public employees’ retirement association, the membership of which shall consist only of public employees.” PERA was born.

At the time, PERA was at the leading edge of a societal trend sweeping the nation. America’s industries were creating pension plans in exchange for salary concessions from their workers just to keep the doors open. And the Legislature accepted its responsibility to provide a reasonable and long-term pension to workers who chose public service over the private sector as a career path.

Today, 85 years later, PERA has stood the test of time, becoming the state’s largest public retirement fund. We count over 160,000 active employees on our rolls and are providing pensions to over 100,000 retirees and other benefit recipients. It’s a huge responsibility and an honor to serve on the Board of this venerable institution.

Today, critics argue that pension plans like PERA are obsolete and should be put out to pasture. While they may have served their purpose 85 years ago, they are now hopelessly out of date. They point to private industry where traditional pension plans have been traded in for today’s 401(k) type plans. Plans where there is no future obligation on the pensioner’s behalf. No long-term commitment to public servants who spent their working careers serving the many levels of government that were put in place and supported by elected officials.

Today, the “new retirement slogan” is that the present has no responsibility for the past. I am at a loss as to when we, as a society, made a philosophical switch away from caring about others and “planning” for the future. Eighty-five years ago, the Legislature saw the wisdom of creating a retirement plan that would provide dedicated public

employees with a reliable retirement plan. (See *Still a Better Bang for the Buck* in our online Reference Library.)

As reported elsewhere in this newsletter, our actuaries are recommending a two-year extension of the life expectancy estimates for our General Plan. We expect the same will be true for our Police & Fire and Correctional plans when we receive those studies.

Back in 1931, average life expectancies in the U.S. were about 59 years for men and 63 for women. Today, it’s over 76 years for men and 81 for women. Adjusted for current age, for men and women in their 60s, we’re looking at average life expectancies in the mid- to late-80s. That’s a huge advancement, and one our Association’s creators probably never anticipated. While there is a societal obligation associated with longer life expectancies, your pension plan also shares in that obligation.

PERA has always provided lifetime annuities for our retirees—benefits that cannot be outlived. Unless annuitized at retirement, at a price, 401(k) type plans can’t offer that same security. A key to good financial planning is to not run out of money before you run out of breath. Sure, you can play the odds with those plans, estimating your own life expectancy and making withdrawals accordingly, but what if you guess wrong? PERA’s lifetime benefits assure you that there will always be something there each month. By the way, we’re currently paying benefits to over 60 members who are 100 years of age or older. It’s the rare individual who would still have funds available in a 401(k) plan at that age.

PERA and your Board of Trustees have been and will continue to carry out its fiduciary duty to our retirees, active, deferred and future members. So, happy birthday, PERA. You look pretty young at 85 years.



Don Rambow
President, PERA Board of Trustees



President's Message



Don Rambow

Board Directory

PERA's trustees invite you to notify them personally of any concerns you have regarding the policies or operations of the Association.

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SBI shows 4.4 percent gain for FY15

After two years of double-digit gains, the State Board of investment (SBI) posted a 4.4 percent return for Fiscal Year 2015—0.4 percent above its composite market index. That compares to an 18.6 percent showing in FY 2014 and 14.2 percent in FY 2013. Our fiscal year ends June 30.

Over the past 10 years, SBI has averaged a 7.8 percent return on its investments and nearly 10 percent over the past 30 years.

In addition to its responsibility for the investment of PERA's assets, SBI also handles investment duties for the Minnesota State Retirement System and the Teachers Retirement Association. Approximately 45 percent of PERA's assets are invested in domestic stocks, 15 percent in international stocks, 18 percent in bonds and 20 percent in alternative assets. A small amount of cash reserves are maintained for the payment of benefits as they come due.

"We were poised to earn our targeted 8 percent long-term return at the end of the third quarter when the market began to slide in April," noted David DeJonge, PERA's assistant executive director and manager of finance. "Still, the overall market rebound since the 'Great Recession' has done much to stabilize the funding ratios of our retirement funds. Our annualized rate of investment return over the past five years was an impressive 12.3 percent." (The funding ratios of PERA's three major retirement plans are listed in the column to the right.)

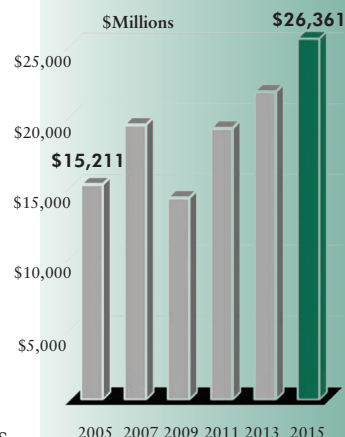
The General Fund, which covers Coordinated, Basic and MERF members of the Association ended the year at \$18.6 billion, up \$1.2 billion from FY2014. The fund represents 70 percent of the Association's \$26.5 billion total net assets. Previously a separate division of the General Fund, the Minneapolis Employees Retirement Fund was merged with the rest of the fund in January 2015.

Assets of the Police and Fire Plan ended the year at \$7.4 billion, up from \$7.3 billion the previous year. The Correctional Plan's assets grew by \$38 million, finishing FY2015 at \$491 million, due to both investment returns and the balance of active members to benefit recipients for the relatively new plan.

The Combined Funds

Approximately 45 percent of PERA's assets are invested in domestic stocks, 15 percent in international stocks, 18 percent in bonds and 20 percent in alternative assets. A small amount of cash reserves are maintained for the payment of benefits as they come due. This portfolio mix is geared toward long-term returns equal to or better than the assumed earnings of 8 percent for the state-wide retirement funds.

Combined Funds



Despite losses in 2008 and 2009, the fair market value of investments of PERA's three defined benefit pension funds now stands at an all-time high—\$26.4 billion.

Funding Ratios (Market)

Fiscal Year 2015	
General Fund	78.9%
Police & Fire	86.9%
Correctional	98.5%

Below is the financial status of the various funds administered by PERA.
(Figures are in \$millions)

General Retirement Fund

(Coordinated, Basic & MERF Members)

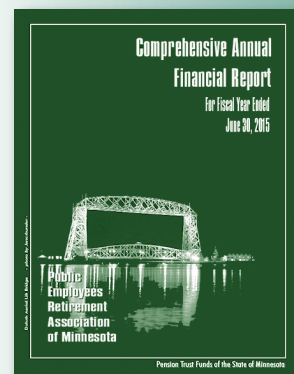
Fiscal Year	2014	2015
Revenues	\$ 3,478	\$ 1,567
Expenses	<u>(1,158)</u>	<u>(1,281)</u>
Change in Fund Balance	\$ 2,320	\$ 286
Total Assets Held	\$17,405	\$18,582

Public Employees Police and Fire Fund

Fiscal Year	2014	2015
Revenues	\$ 1,381	\$ 560
Expenses	<u>(455)</u>	<u>(484)</u>
Change in Fund Balance	\$ 926	\$ 76
Total Assets Held	\$ 7,273	\$ 7,349

Public Employees Correctional Fund

Fiscal Year	2014	2015
Revenues	\$ 94	\$ 47
Expenses	<u>(8)</u>	<u>(9)</u>
Change in Fund Balance	\$ 86	\$ 38
Total Assets Held	\$ 453	\$ 491



You can view PERA's annual financial report on line at our website, www.mnpera.org



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PERA Strong for 85 Years

This year marks the 85th anniversary of PERA. In 1931 PERA was formed by the state's Legislature. Today, PERA is Minnesota's largest public pension plan with 160,000 active members, 100,000 retirees, and assets of over \$26.5 billion.

To help celebrate PERA's anniversary, we are looking for your stories. Stories about how PERA and the retirement benefit it provides has made a difference in your life. We're also looking to share your work history. Tell us about your job or share photos of your workplace. How has your job or work changed?

We will publish photos and articles on our website to celebrate you—the members—and PERA.

Watch our website at www.mnpera.org for more information. Visit our **Contact Us** page for information on where to send photos and stories. We appreciate your input.

Anderson _____ (Continued from page 1)

"I am a huge believer in defined benefit plans," he said, "particularly for certain groups of employees, including the public sector," he added. "I believe that defined benefit plans provide more benefit at less cost because you can get a larger investment return over a longer time period," Anderson said.

"I am looking forward to being involved in a proactive way to keep defined benefit plans sustainable for the long-term," he said. "I see so many benefits of defined benefit plans," he added.

Anderson said he believes that there are three elements to a successful retirement plan: participant appreciation of the plan, responsible financial sponsorship, and effective and efficient

administration. He believes that PERA has all three elements already in place.

"On all three fronts PERA is moving in the right direction," Anderson said. "In the pension world, PERA is an example of something that is working very well," he added.

On the plan appreciation element, Anderson wants to encourage retirees to continue to be advocates of their defined benefit plan to their children and grandchildren. "The retirees are good examples of the benefits that a strong pension plan provides to participants," he added.

To learn more about PERA's new executive director, visit our website at www.mnpera.org.