

# The **PERA** Deferral

March 2015

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

Offices in St. Paul, Duluth and Mankato

Over 52,000 Vested Deferred Members

## Three past trustees return to PERA Board

Lori Volz, executive director of finance and operations for the Albert Lea School District, joins returning trustees Paul Bourgeois and Thomas Stanley as General/Correctional Fund representatives on PERA's Board of Trustees.

Volz, in her first run for a PERA board seat, was the top vote-getter in this January's election with 13,954 votes cast, while Bourgeois received 13,100

votes and there were 11,324 votes for Stanley.

Bourgeois is executive director of finance and operations for the Minnetonka School District, while Stanley is senior attorney in the Civil Division in the St. Louis County Attorney's Office. Both are in their second terms on the Board.

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## Vanek retires as director of PERA

After 40 years of service, and 18 years as its executive director, Mary Most Vanek retired from PERA January 27. David DeJonge, PERA's assistant executive director and director of finance, will guide the Association for the next few months as the Board of Trustees searches for a new agency head.

Vanek was appointed to lead PERA in 1997 following a nationwide search. Prior to assuming the director's position, she was manager of the Association's Member and Legislative Services Division. During her 40-year career she worked in nearly every department of the Association.

Hired in 1975 by O. M. "Mike" Ousdigian, the Association's first director, Vanek would assume the reins at PERA 22 years later, the sixth director in the agency's 84 year history.

State Auditor Rebecca Otto said Vanek was leaving the Association "in a great position" to meet the challenges facing it in the future. Board Chair Don Rambow said, "Mary's intangible and personal qualities have helped evolve and define what PERA represents today."

The PERA Board has retained the services of EFL Associates, an executive

search firm, to assist in seeking a new director. It is hoped a replacement can assume the position in April or May.

### Pension funds seek permanent 8 percent earnings assumption

PERA and the Minnesota State Retirement System are seeking a law change that would make our current, temporary, assumption of what our assets can earn on a long-term basis permanent.

For years, state law specified an earnings assumption of 8.5 percent for the pension funds. That assumption was lowered to 8 percent for a period of five years beginning with Fiscal Year 2013. During that time the funds were charged with investigating what a reasonable assumption should be.

"Over the long term, the State Board of Investment, has met or bested our previous assumption, noted David DeJonge, PERA's interim director. During the last 30 years our earnings have averaged 10 percent. "Still," he said, "the last recession has resulted in pension plans nationwide lowering their expectations for long-term asset growth. The move to a permanent 8 percent assumption seems prudent at this time."

Financial  
Edition

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# Making the most of every retirement dollar



## 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.**

**Don Rambow**  
Board President  
Cities Representative  
City of White Bear Lake  
4701 Highway 61  
White Bear Lake, MN 55110  
651-429-8517

**Kathryn A. Green**  
Board Vice President  
School Board Representative  
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Austin, MN 55912  
507-437-8667

**Rebecca Otto**  
State Auditor  
525 Park Street, Suite 500  
St. Paul, MN 55103  
651-296-2551

**Ross Arneson**  
Retiree/Disability  
Membership Representative  
112 Ellis Ave.  
Mankato, MN 56001  
507-327-5551

**Paul Bourgeois**  
General Membership Representative  
Minnetonka ISD 276  
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Minnetonka, MN 55345  
952-401-5024

**Leigh Lenzmeier**  
Counties Representative  
919 West St. Germain St.  
St. Cloud, MN 56301  
320-251-0653

**David Metusalem**  
Police & Fire Representative  
Ramsey Co. Sheriff's Department  
425 Grove Street  
St. Paul, MN 55101  
651-266-9311

**Thomas Stanley**  
General Membership Representative  
St. Louis Co. Attorney's Office  
100 N. Fifth Ave. W.  
Duluth, MN 55802  
218-726-2323

**Lori Volz**  
General Membership Representative  
Albert Lea Area Schools  
211 W. Richway Drive  
Albert Lea, MN 56007  
507-379-4809

**Lawrence J. Ward**  
Annuitant Representative  
3221 Old Highway 8  
Minneapolis, MN 55418  
651-354-2006

At PERA we have a fiduciary responsibility to be good stewards of your retirement funds. There are many facets to that responsibility—ensuring the funds are administered responsibly, ethically, and efficiently, that our investments are prudent as well as profitable, and that benefits are calculated accurately and paid promptly.

An often overlooked aspect of that responsibility is that the benefits we provide should also make the most of every dollar invested in the Association by you and your employer. That's why we are such strong advocates of our defined benefit (DB) structure. Traditional pension plans like PERA simply provide more bang for the buck when it comes to funding retirement benefits.

That's borne out by a recent study conducted by the National Institute on Retirement Security (NIRS). Entitled *Still a Better Bang for the Buck*, the report is a continuation of the work first carried out by the Institute in 2008. The two studies found that a typical large defined benefit plan like PERA provides a given level of retirement benefit at about half the cost of a defined contribution (DC) plan, like a 401(k). Even when compared to an "ideal" defined contribution plan modeled with generous assumptions, the traditional pension plan still provides the same level of benefits while costing 29 percent less.

## The DB advantage

One significant advantage of traditional DB pension plans is that they provide benefits that cannot be outlived. The study found that annuitizing a defined contribution plan account balance at retirement only showed a modest decrease in the plan's funding requirements, based on historical average interest rates used by insurance companies. At today's interest rates, the cost is actually higher.

Then there is the economy of scale. DB plans, with their billions of dollars in assets, can, and often do, cut a better deal on investment fees than the individual participant in a DC plan. Since all participants' contributions are invested the same in a DB plan, administrative costs are also lower. They also have the advantage of professional investment management.

Speaking of investments, DB plans can also maintain an optimal investment diversification year after year because there is no need to invest more conservatively in later years, as a prudent individual investor must. For every aging member of a DB plan approaching retirement, there is generally a younger replacement just waiting to be hired. Thus, a DB plan can sustain a reasonably aggressive portfolio over decades.

Finally, with thousands of participants, DB plans need only maintain sufficient funds to provide benefits for the average life expectancies of participants. On the other hand, a DC participant must accumulate extra funds to cover the eventuality he or she lives beyond the norm—money that could have been spent elsewhere.

The bottom line for the study was that, "for a given level of retirement income, a typical individually directed DC plan costs 91 percent more—almost twice as much—as a typical DB plan."

Thus, the next time you hear of someone advocating that public employees move to a 401(k)-type plan, keep in mind that they are also promoting a retirement plan that, on average, is going to give participants significantly lower benefits for the same level of contributions.

Don Rambow  
President, PERA Board of Trustees

**PERA is  
an Equal  
Opportunity  
Employer**

**The Deferral is published as a service to deferred members  
of the Public Employees Retirement Association.**

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# SBI posts 18.6% return for FY2014

For the second year in a row, the State Board of investment (SBI) posted double-digit returns for the state's pension funds. Last year's 14.2 percent showing was followed by an 18.6 percent return for Fiscal Year 2014. Over the past 10 years, the SBI has averaged an 8.4 percent return on its investments—approximately 10 percent over the past 30 years.

Responsibility for the Association's investments resides with the SBI, which 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.

"This year's outstanding showing by SBI was led by a nearly 26 percent return for domestic stock investments," noted David DeJonge, PERA's interim executive director and manager of finance. "The investment returns of the last two years have gone far to stabilize the funding ratios of our retirement funds." PERA, like many retirement systems, smooths investment returns over five years to compensate for the short-term volatility of the markets. (The funding ratios of PERA's three major retirement plans are listed in the column to the right.)

The General Fund, which covers 90 percent of the Association's membership, ended the year at \$17.4 billion, up 15 percent from FY2013. The fund represents 67 percent of the Association's \$26.2 billion total assets. While the Minneapolis Employees Retirement Fund is a division of the General Fund, it is accounted for separately in PERA's annual financial report.

Assets of the Police and Fire Plan ended the year at \$7.3 billion, up from \$6.3 billion the previous year. The Correctional Plan finished FY2014 with \$453 million in assets. The \$86 million gain was 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 statewide retirement funds.

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

### General Retirement Fund

<b>(Coordinated and Basic Members)</b>		
Fiscal Year	2013	2014
Revenues	\$2,604	\$3,478
Expenses	(1,097)	(1,158)
Change in Fund Balance	\$1,507	\$2,320
<b>Total Assets Held</b>	<b>\$15,085</b>	<b>\$17,405</b>

### Public Employees Police and Fire Fund

Fiscal Year	2013	2014
Revenues	\$1,009	\$1,381
Expenses	(434)	(455)
Change in Fund Balance	\$575	\$926
<b>Total Assets Held</b>	<b>\$6,347</b>	<b>\$7,273</b>

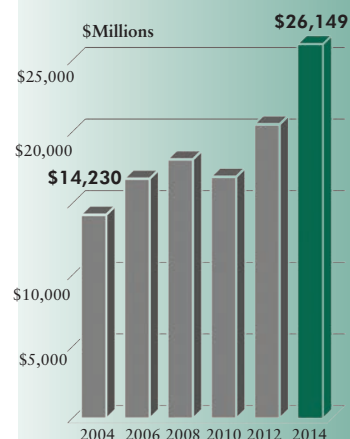
### Public Employees Correctional Fund

Fiscal Year	2013	2014
Revenues	\$68	\$94
Expenses	(7)	(8)
Change in Fund Balance	\$61	\$86
<b>Total Assets Held</b>	<b>\$367</b>	<b>\$453</b>

### Minneapolis Employees Retirement Fund

Fiscal Year	2013	2014
Revenues	\$164	\$202
Expenses	(138)	(135)
Change in Fund Balance	\$26	\$67
<b>Total Assets Held</b>	<b>\$869</b>	<b>\$936</b>

## Combined Funds Investments



Despite losses in Fiscal Year 2008 and 2009, the fair market value of investments for PERA's pension funds now stands at over \$26 billion.

## Funding Ratios (Actuarial)

Fiscal Year 2014	
General Fund	73.5%
Police & Fire	80.1%
Correctional	96.2%



You can view PERA's annual financial report on line at our web site, [www.mnpera.org](http://www.mnpera.org).



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March 2015

The *Deferral*

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## Election

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### Deferred members are welcome

PERA's education programs are open to our deferred members, as well as all other members of the Association. This includes our Preretirement Workshops, Group Counseling and Individual Conferences scheduled across the state.

You'll find a schedule of our programs by clicking on the Calendar of Events on the front page of our website at [www.mnpera.org](http://www.mnpera.org). To register for a program or to set up a conference, just visit your account in

**MY PERA.**



Ross Arneson also returns to PERA's Board, but this time as the retiree, survivor and disabilitant representative, having received 12,953 votes in the election. Recently retired from the Blue Earth County Attorney's Office, Arneson was previously a General Fund representative, having served four terms in that position. He defeated Marion Conwell, Rogers, and Gene VanOverbeke, Eagan, for the post.

Running unopposed for the Police and Fire seat on PERA's Board was David Metusalem. He is a 28-year veteran of the Ramsey County Sheriff's Department. The P&F spot was vacant at the time of the election, following the May retirement of Bruce Jensen.

### 2015 PERA Election Results

#### *General/Correctional Fund*

Lori Volz	13,954	Elected
Paul Bourgeois	13,100	Elected
Thomas Stanley	11,324	Elected
Thomas Rupp	10,561	
Clinton Schumacher	10,377	
John Carlson	9,997	

#### *Retirees/Survivors/Disabilitants*

Ross Arneson	12,953	Elected
Gene VanOverbeke	6,681	
Marion Conwell	6,563	

#### *Police & Fire Fund*

David Metusalem	22,837	Elected
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