



PERA

Guardian

February 2016

Newsletter of the Police & Fire and Correctional Plans of the Public Employees Retirement Association of Minnesota

Assets over \$7.8 billion

Offices in St. Paul, Duluth & Mankato

Active membership over 14,800

85
Years Strong
1931 2016

Financial Edition

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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.

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Longer life expectancies present challenge for funds

In January, the PERA Board of Trustees is likely to decide on a proposal to bring to the 2016 Legislature to reduce the funding deficiency of the General Fund, the organization's largest retirement plan. The PERA Board of Trustees 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.

Life Expectancy and the COLA

Based on an experience study by PERA's actuaries, the Board adopted a mortality table showing that people are living longer. This change in life expectancy has a ripple effect. First, it means that PERA expects

to pay benefits longer, increasing the plan's liabilities. With an increase in liabilities, the plan's funding level decreases. The decrease in the plan's funding level delays the expected date for the 2.5 percent COLA. Most proposals the board heard in December included alternatives to the current approach of tying COLAs to funded status, since this approach poses challenges. Simply increasing contribution rates to fill the deficiency would result in earlier COLAs, which would create a new deficiency.

What about our public safety plans?

While few, if any, legislative changes are anticipated for the Police & Fire and Correctional funds this year, it is expected that future experience studies for the two plans will result in life expectancy projections similar to the General Plan. Something that will have to be addressed in the future.

Watch for the return of Bill Tracker

In addition to news articles on the front page of our website, PERA will again roll out Bill Tracker, our online link to pension and retirement-related legislation, during this year's legislative session. You'll find it at www.mnpera.org.



PERA: 85 years young

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
401 3rd Ave. NW
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/Disabiltant
Membership Representative
112 Ellis Ave.
Mankato, MN 56001
507-327-5551

Paul Bourgeois
General Membership Representative
Minnetonka ISD 276
5621 County Road 101
Minnetonka, MN 55345
952-401-5024

Mary Falk
Public Representative
Anoka Technical College
1355 West Hwy. 10
Anoka, MN 55303
763-443-6605

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

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.

With funding needs based on predictable formulas and group average mortality, long investment horizons, and professional management, traditional pension plans like PERA are as viable (essential) today as they were in the 1930s.

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

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an Equal
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The Guardian is published as a service to public safety members
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Toll Free—1 800 652-9026, or (651) 296-7460, Between 8:00 a.m. and 4:30 p.m.

Fax Number—(651) 297-2547

Internet—www.mnpera.org

Doug Anderson—Executive Director • doug.anderson@mnpera.org

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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 Police & Fire Fund

The P&F Fund grew by approximately 1 percent during the year, ending the fiscal year with \$7.35 billion in assets.

Income

Contributions from members, their employers and the state totaled \$242 million during FY2015. Added to that was \$318 million in investment income, bringing total revenues to \$560 million.

Expenses

Payments to retirees, survivors and disabled members make up the bulk of PERA's expenses every year. These payments totaled \$481 million during the year. Refunds made up \$2 million of the plan's expenses, while administrative costs were \$803,000, for total expenses of \$484 million.

The bottom line

With revenues of \$560 million and \$484 million in expenses, the P&F Fund ended the year with a \$76 million increase in assets.

Correctional Funds

Assets of the Correctional Plan grew by 8 percent in Fiscal Year 2015. The 16-year-old fund ended the year valued at \$491 million.

Income

PERA members and their employers contributed \$26.2 million to the Correctional plan this year. Income from investments totaled \$20.4 million, bringing total revenues to \$46.6 million.

Expenses

Benefit payments for the year were \$7.8 million while refunds came to \$1.1 million and administrative expenses were \$247,000. Thus, total expenses were approximately \$9.1 million.

The bottom line

With revenues totaling \$46.6 million and \$9.0 million in expenses, the Correctional Fund finished FY2015 with a net gain of \$37.5 million net gain.

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

Public Employees Police and Fire Fund

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

Public Employees Correctional Fund

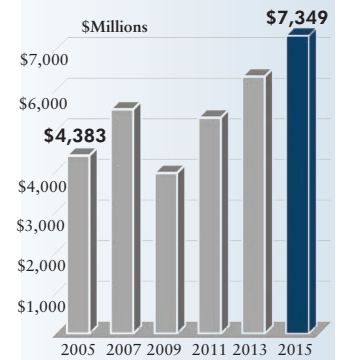
Fiscal Year	2014	2015
Revenues	\$ 94	\$ 47
Expenses	(8)	(9)
Change in Fund Balance	\$ 86	\$ 38
Total Assets Held	\$ 453	\$ 491

General Retirement Fund

(Coordinated, Basic & MERF Members)

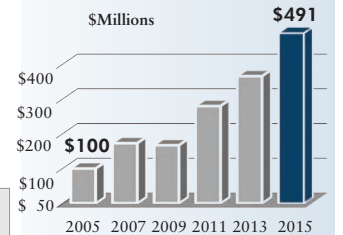
Fiscal Year	2014	2015
Revenues	\$ 3,478	\$ 1,567
Expenses	(1,158)	(1,281)
Change in Fund Balance	\$ 2,320	\$ 286
Total Assets Held	\$17,405	\$18,582

P&F Fund Investments



Following the market slump of 2008-2009, the Police and Fire Fund investments rebounded, ending Fiscal Year 2015 at \$7.3 billion.

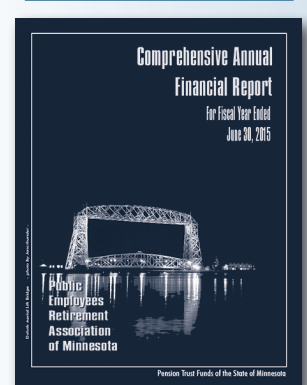
Correctional Fund



Now 16 years old, the Public Employees Correctional Fund now has investments valued at \$491 million.

Funding Ratios (Market)

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



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 effec-

tive 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.