



The

January 2014

PERA *graph*

Newsletter of the General Plan of the Public Employees Retirement Association of Minnesota

Assets over \$15 billion

Offices in St. Paul, Duluth & Mankato

Active membership of 140,000



Howard Bicker, executive director of the State Board of Investment, has retired after 31 years at the agency's helm.

And many happy returns: Howard Bicker retires at SBI

Denizens of the Minnesota State Capitol and retirement system stakeholders know Howard Bicker for his hearty laugh, disciplined and opportunistic investing style, and historically strong investment returns on the \$65 billion in assets he managed for the pension systems and the state as head of the State Board of Investment (SBI). Under Bicker's stewardship, the SBI returned an average 10 percent annually since 1980, regularly surpassing his public- and private-sector peers.

But after 42 years at the SBI – 31 of them as executive director – Bicker retired his spreadsheets in October. We caught up with Howard recently for an exit interview.

Q. What is the best investment advice anyone ever gave you?

A. I've had a lot of good investment advice. Probably the best thing you can do when you're dealing with a lot of money like we are is: Don't follow the fads. Second is, be disciplined in what you do. You've got to be able to explain what you're doing to a wide variety of constituencies. And if I can't explain what I'm doing to retirement boards, and retirees, and Senate and House committees, and board members, then I shouldn't be doing it.

Q. What is the key to being successful as an institutional investor?

A. You have to develop a philosophy and stay with it and have discipline and not panic and run. In '08 we were buying stocks, and that was not fun. We bought \$2 billion worth of equities at the end of '08 and probably made more money

doing that than we have doing a lot of other things.

Q. As an investor, do you have any particular concerns about current national or international events?

A. We're here to go through the ups and downs. Nobody could anticipate 9/11, at least from an investment perspective. Obviously it had an effect on our economy, it had an effect on the stock market. The market went down. But the economy and the U.S. government recovered from that and we were all fine. And in a very perverse way, it gave us an opportunity to buy stocks cheap. We're not looking for that, but we are designed to take care of situations like that and react on a disciplined basis. We're not around here thinking great thoughts about this vs. that. That's what we hire people to do, and their job is to make sure they're doing that in a disciplined manner. ... We try not to be cute. I'm not very good at cute.

Q. How do you stay disciplined as an investor?

A. We write down our rules and we follow them. We've got rebalancing rules, we've got asset allocation targets, and we write it down. You've just got to set up rules and follow them, and when you start changing those, that's when you get in trouble. That doesn't mean we haven't made changes over the years because we have made changes through the years. When we started here . . . we had no private equity, we had no real estate, we had no oil and gas or mezzanine debt, we had no international investments, so we've made a lot of changes over the years.

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Financial Edition

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- Howard Bicker -



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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* Appointed to complete elected term

The impact of living longer

The good news is we're living longer. The bad news is we must make our money last longer to accommodate those extended life expectancies. It's just as true for a pension system like PERA as it is for our personal savings.

That is why PERA will begin phasing in larger early retirement reduction factors for our pension plans next July. In the case of our Coordinated and Correctional plans, it's been mandated for years that early retirement benefits be actuarially equivalent to a full pension. For our Police and Fire Plan, it was an acknowledgment last year that the relatively small reduction for early retirement in that plan was no longer affordable. Not surprisingly, the Teachers Retirement Association and the Minnesota State Retirement System are going through the same process.

Extended life expectancies result in longer-term pension responsibilities (higher pension payments over a member's lifetime.) Those extended life expectancies are responsible, in part, for the increased contribution rates and lower post-retirement benefit adjustments we've experienced. Prior pension assumptions did not anticipate the increased longevity PERA members, as a whole, are enjoying.

Now, this may seem counterintuitive, but those extended life expectancies are also responsible for a reduction in the "cost" of selecting a survivor option at retirement. You see, since we are paying member benefits over a longer period of time, it gives us more time to invest the funds necessary to pay a benefit to the member's designated survivor should our member predecease that individual. In

many cases, for a member retiring early and selecting a survivor option, the two changes nearly cancel each other out.

Many of our members are also acknowledging the added costs associated with a longer life expectancy by delaying their retirements. As an example, the average retirement age of our Coordinated members is slowly creeping upward and now stands at age 63. This occurrence is often a matter of coupling their PERA pensions with Social Security and having access to Medicare at age 65 to manage the cost of health insurance. In fact, PERA currently has 6,300 members age 65 or older still in the public workforce.

Phased Retirement Option

As our members explore options to supplement their pension income and employers view their staffing needs, one opportunity offered by PERA is the Phased Retirement Option. Introduced in 2009, phased retirement allows Coordinated members age 62 and over, at the discretion of their employers, to continue to work part time while receiving a PERA pension. The tradeoff is the members must significantly reduce their hours worked (maximum 1,040 annually) and agreements are limited in length.

After reviewing usage of the program over the past four years, the Board is recommending extension of the program, but limiting agreements to a total of three years, and only between employees and their current employers. It's one way to ease into retirement while providing a benefit for both the employee and employer.

Don Rambow
President, PERA Board of Trustees

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an Equal
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SBI bounces back in Fiscal Year 2013

After a year of flat investment returns in Fiscal Year 2012, the State Board of Investment (SBI) ended this past year with a 14.2 percent showing. Over the past 10 years, the SBI has averaged an 8.2 percent return on its investments—approximately 10 percent over the past 30 years.

Responsibility for the Association's investments resides with the State Board of Investment, 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 impressive investment showing by SBI was led by a nearly 22 percent return for domestic stocks," noted David DeJonge, PERA's assistant director and manager of finance. "The strengthening economy helped stabilize the funding ratios of our retirement funds, leaving them little changed from the year before." 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 four major retirement plans are listed in the column to the right.)

The General Fund

The General Fund, which covers PERA's Coordinated Plan members saw its assets grow by 11 percent during the year, ending Fiscal Year 2013 at \$15.08 billion, compared to \$13.58 billion a year earlier. The fund represents 66 percent of the Association's \$22.7 billion total assets. (Note: While the Minneapolis Employees Retirement Fund is a division of the General Fund, it is accounted for separately in PERA's annual financial report.)

Income

This past year, PERA's members and their employers contributed \$701 million to the General Fund. Investment returns added \$1.9 billion to the total. Overall, the Fund had combined revenues of \$2.60 billion for the year.

Expenses

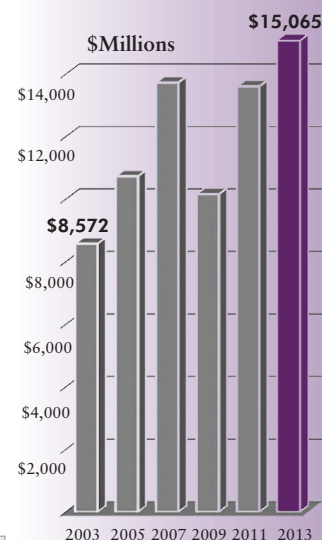
Payments to retirees, survivors and disabled members make up the bulk of PERA's expenses every year. These payments totaled \$1.05 billion during the year, representing 95 percent of the General Fund's total expenses.

Refunds of \$35.9 million represented 4 percent of the Association's outlays, while administrative and other expenses totaled \$9.9 million.

The bottom line

With revenues of \$2.60 billion and expenses of \$1.1 billion in the fiscal year, PERA's General Fund realized a net gain of \$1.5 billion during the year. That compares to a loss of \$39 million the previous year.

General Fund



Despite losses in Fiscal Year 2008 and 2009, the fair market value of investments for the General Fund is now at an all-time high—\$15 billion.

Below is the financial status of the various funds administered by PERA.

(Figures used are in \$ millions.)

General Retirement Fund

(Coordinated and Basic Members)

Fiscal Year	2012	2013
Revenues	\$1,010	\$2,604
Expenses	<u>(1,049)</u>	<u>(1,097)</u>
Change in Fund Balance	\$ (39)	\$ 1,507
Total Assets Held	\$13,578	\$15,085

Public Employees Police and Fire Fund

Fiscal Year	2012	2013
Revenues	\$ 844	\$ 1,009
Expenses	<u>(389)</u>	<u>(434)</u>
Change in Fund Balance	\$ 455	\$ 575
Total Assets Held	\$5,772	\$6,347

Public Employees Correctional Fund

Fiscal Year	2012	2013
Revenues	\$ 32	\$ 68
Expenses	<u>(6)</u>	<u>(7)</u>
Change in Fund Balance	\$ 25	\$ 61
Total Assets Held	\$280	\$367

Minneapolis Employees Retirement Fund

Fiscal Year	2012	2013
Revenues	\$ 73	\$ 164
Expenses	<u>(141)</u>	<u>(142)</u>
Change in Fund Balance	\$ (68)	\$ 26
Total Assets Held	\$843	\$869

Funding Ratios

Fiscal Year 2013

General Fund	72.8%
Police & Fire	81.2%
Correctional	91.0%
MERF	74.4%

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





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PERA expands staff, hours at Mankato and Duluth offices

PERA has expanded both the staffing and hours of operation at our satellite offices in Duluth and Mankato.

Joining Bryan Rantala in our Duluth office is Kristen Kesty. This has allowed us to extend our hours to 7 a.m. to 5 p.m., Monday through Friday.

Sarah Fischer joins Blayne Jewison in our office in Mankato. The new hours there are also 7 a.m. to 5 p.m. Monday through Friday.

Please schedule any conferences at least two weeks in advance.

Howard Bicker

(Continued from page 1)

Q. Some public pension critics say your portfolio is too aggressive.

A. I don't think we're too aggressive. The reality is, I think, more plans are getting closer to our numbers than going in the other direction. The reality is if you are a 30- or 40-year time frame investor, you're going to make money being in equities. It's been proven historically and it's our hope that going forward it'll be the same thing. . . If you have a 30-year time horizon and you can make more money by being volatile, give me volatility.

Q. Is the 8 percent assumed rate of return too high?

A. I don't know if eight is right or wrong. All I know is we won't hit eight. We will be either higher or lower. If you look at our annual returns, very seldom have we been anywhere around eight. It's been 15

or two or 20. And that's just the reality. ... The idea of going from 8 percent to 7¾ percent makes a presumption that makes a helluva lot of difference. Well, it might make some difference in discounting your liabilities, but in return space, that is just craziness. If you want to go to being very conservative, then go to 4 or 5 percent. If you want to be aggressive or real crazy, you go to 10. ... The reality is your return pattern is going to be all over the place.

Q. Surely you've gotten many offers over the years. Why did you choose to stay with state government?

A. I've had some opportunities. I always said I'd leave here when it got boring, and it never got boring.

The entire interview is available at www.mnpera.org. It is on our [News Archive](#) page under RESOURCES.