



The

# PERA *graph*

February 2016



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

Assets over \$18 billion

Offices in St. Paul, Duluth & Mankato

Active membership of 145,500

## 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 coun-

try. 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)*

**For individuals now age 65, we are projecting a life expectancy of approximately 86 for men and 88 for women.**

## Longer life expectancies present 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 Association's Coordinated members.

The findings are not surprising. According to the 2013-2014 Measure of America, Minnesota only trails Hawaii for the longest life expectancies in the United States. For overall state populations, it's 81.1 years for Minnesota and

81.3 for Hawaii. The national average is 79.7.

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 a number of 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](http://www.mnpera.org).**



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



## 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/Disabilitant*  
*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

# 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.

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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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 General Fund

The General Fund, which covers over 90 percent of the Association's membership, saw its assets grow by 6 percent during the year, ending Fiscal Year 2015 at \$18.6 billion, compared to \$17.4 billion a year earlier. (The gain includes \$891 million with the merger of the Minneapolis Employees Retirement Fund in January 2015.)

## Income

This past year, PERA's members and their employers contributed \$789 million

to the General Fund. That was in addition to \$778 million in investment income for the Fund. Overall, the Fund had combined revenues of \$1.6 billion for the year.

## Expenses

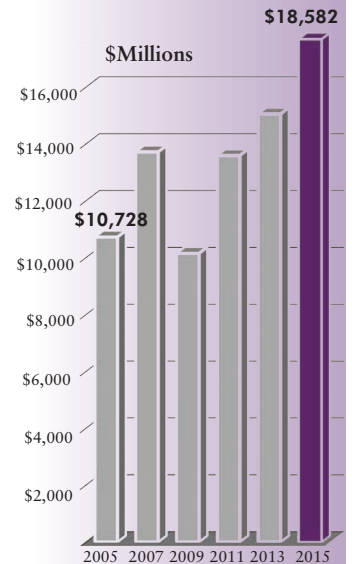
Payments to retirees, survivors and disabled members make up the bulk of PERA's expenses. These payments totaled \$1.2 billion during the year, representing 95 percent of the General Fund's total expenses.

Refunds of \$35.7 million represented 4 percent of the Association's outlays, while administrative and other expenses totaled \$10.4 million.

## The bottom line

With revenues of \$1.6 billion and expenses of \$1.3 billion in the fiscal year, PERA's General Fund realized a net gain of \$300 million during the year.

## General Fund Investments



Over the past 10 years the General Fund has grown by \$8 billion, despite the recession in 2008 and 2009.

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
<b>Total Assets Held</b>	<b>\$17,405</b>	<b>\$18,582</b>

### 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
<b>Total Assets Held</b>	<b>\$ 7,273</b>	<b>\$ 7,349</b>

### Public Employees Correctional Fund

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

## Funding Ratios (Market)

Fiscal Year 2015

General Fund	78.9%
Police & Fire	86.9%
Correctional	98.5%



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