The measurements are helpful to gain a sense of the health of the plans. However, a truer sense can only be known through further analysis of the plan’s projected funded status in the future. Not unlike trying to assess the success of a road trip by evaluating only the current location, you must also know where you are headed and when you want to get there.

**Assets and liabilities**

PERA’s total assets decreased from $26.5 billion in fiscal year 2015 (FY15) to $25.7 billion in fiscal year 2016 (FY16). Current asset values are $18.0 billion in the General Plan, $7.1 billion in the Police & Fire Plan, and $508 million in the Correctional Plan. The assets of a plan are dependent upon contributions, investment returns, and benefit payments. Benefit payments from all three plans totaled $1.9 billion, exceeding the total employee and employer contributions of $1.1 billion for the fiscal year. Additionally, the investment return on assets was -0.1 percent for FY16. The plans are of sufficient size to withstand year-to-year investment return volatility, in fact, it is expected. However, when compared to the assumed 8 percent, the negative investment return was undeniably a set back to the plans.

While assets are simple to quantify, there is subjectivity in the way plan liabilities are measured. Assumptions, including life expectancy of current and future retirees, future salary increases for working members, inflation, and the investment rate of return, are established to estimate the assets needed to pay current and future benefits. These assumptions are reviewed and updated regularly. A change, such as a longer life expectancy expectation, or lower expected future investment returns, can increase the cost of fixed benefit obligations.

The FY16 General Plan financials include the impact of increased costs associated with recently implemented life expectancy tables predicting future improvements; the other plans will not reflect this added liability until their next valuation. Liability values by plan for FY16 are $24.8 billion in the General Plan, $8.4 billion in the Police & Fire Plan, and $554 million in the Correctional Plan.

**Analyzing plan status**

A primary measurement of a pension fund’s health is its funded status. The funded status is shown by a ratio representing the plan’s assets as a percentage of the plan’s liability.

*Continued on page 3*
NEW YEAR. NEW LOOK. Same Commitment to You

Welcome to our first newsletter of 2017—PERA NEWS. We changed the name, changed the look, and added some color. However, we kept our three intertwined triangles that make up the “M” logo which was introduced in the 1980s. This logo represents the three types of benefits available to PERA members—retirement, survivor, and disability. For the longer-service members this explanation of our logo is a refresher, and to the newer members it is a way to help you remember what your pension plan has available to you and your family.

We now have a single newsletter to include information about all three of our defined benefit plans—the General, the Police & Fire, and the Correctional Plans. The new approach recognizes our desire to inform all PERA members more broadly. PERA NEWS will reach members who are still working and contributing to their retirement plan, those receiving a monthly benefit, and those who are deferring to collect a benefit until a later date. We hope that this approach gives you a better perspective of all the plans PERA administers. Finally, we hope that you will enjoy the changes to both style and content as we continue to fulfill our mission of providing services that you value.

Let’s make some introductions

GENERAL

The General Plan includes Basic and Coordinated members, and effective Jan. 1, 2015, former members of the Minneapolis Employees Retirement Fund (MERF). Established in 1931, PERA’s original, often called Basic, retirement plan was not coordinated with Social Security. The Basic Plan qualified as an alternative to Social Security and its members did not contribute toward it. The Basic Plan was closed to new members in 1968, leading to the creation of the coordinated portion of the plan, which provides PERA pension benefits in addition to those supplied by Social Security. Today, there are nearly 150,000 public employees actively working as Coordinated Plan members, along with 90,000 retirees. There are six active remaining Basic Plan members.

POLICE & FIRE

The Police & Fire Plan, established in 1959, includes full-time local police officers and firefighters hired after 1980. Additionally, the plan includes former paid police officers and firefighters covered under a local relief association, who were merged into the plan in 1986. This public exposure to Social Security. The Basic Plan qualified as an alternative to Social Security and its members did not contribute toward it. The Basic Plan was closed to new members in 1968, leading to the creation of the coordinated portion of the plan, which provides PERA pension benefits in addition to those supplied by Social Security. Today, there are nearly 150,000 public employees actively working as Coordinated Plan members, along with 90,000 retirees. There are six active remaining Basic Plan members.

CORRECTIONAL

The Correctional Plan was established in 1999 for correctional officers serving in county and regional adult and juvenile correctional facilities due to the physical nature of their jobs. The members of this plan are responsible for the security, custody, and control of the facilities and their inmates. The plan has about 10,000 retirees, and boasts 3,700 working local correctional officers.
Financial Update
continued from front page

If the funded ratio is 100 percent, the plan is considered fully funded since all benefits attributable to past service have been funded. To the extent that the benefits exceed the current available assets, an unfunded liability exists. Current funding ratios are 72 percent in the General Plan, 84 percent in the Police & Fire Plan, and 92 percent in the Correctional Plan. In past years, 80 percent was often cited as a threshold to identify whether a plan was well funded. This is far too simple of an approach.

When plans are less than fully funded, predicting their future becomes critical. This is a complicated challenge, requires making many thoughtful assumptions, and does not easily translate to a single data point. The best way to evaluate a plan is to predict future funding ratios. Looking at the expected direction and speed of each plan’s projected funded ratios have been the focus of the Board of Trustees over the past year. This work has included understanding both the impact of the past year’s negative investment return and the impact of numerous assumption changes, including predictions of longer life spans.

Based on these projections, it became clear that even though the General Plan funding ratio is relatively low at 72 percent, the plan is expected to steadily improve under the current benefit and contribution rate structure. The General Plan can be considered “sustainable” for the long term if all assumptions are met, including lowering the investment rate of return assumption—the single most impactful assumption—to 7.5 percent because the current contributions will be sufficient to meet future payments even though the expected full funding target date moved further into the future.

The story for the Police & Fire Plan is different. While the funded ratio is relatively higher at 84 percent, the ratio is expected to decline if all assumptions are met. When the funded ratio projects to decline, the plan is not considered sustainable and the Board must act to redirect the plan toward full funding.

With sustainability of our plans a key part of our mission statement, it will always be important that they stay on a positive course.

Finally, the Correctional Plan appears the healthiest with a 92 percent funded ratio. While this is the highest of the three plans, it does not mean that no action will ever be required. The impact of a lower investment return assumption and maintaining the state’s bond ratings, believes 7.5 percent supports the long-term funding

The investment return assumption is the single most impactful assumption in the plan. Lowering the rate reflects a more conservative, long-term forecast for asset returns and will immediately increase estimated liabilities of the plans.

Under the recommended assumption, the funded ratio of the Police & Fire Plan is reduced to 79.8 percent. More importantly, if all assumptions are met in the future, the funded ratio would eventually decline.

The Board considered additional benefit changes for the Police & Fire Plan, however, the Board determined that the proposed legislative changes are sufficient to re-establish long-term sustainability. These changes will put the Police & Fire Plan back on a path of gradual funding improvement.

More about investment return assumption

While the Board’s decision to change the investment return assumption follows a slightly negative return at the close of fiscal year 2016, it was based on a considerable amount of information and long-term projections from investment professionals.

The State Board of Investment (SBI) issued a study last year that projected a 7.3 percent return. SBI is responsible for investing the assets of all state pension plans. PERA’s actuary also cautioned that 8 percent may not be reasonable for future actuarial valuations. Additionally, Minnesota Management & Budget (MMB), which is responsible for overseeing the state’s finances and maintaining the state’s bond ratings, believes 7.5 percent supports the long-term funding stability of the plans and will positively impact the credit worthiness of the state.

The number of retirement plans using an 8 percent or higher investment return assumption has been declining and the median investment expectation for public pension funds nationally is 7.5 percent, according to the National Association of State Retirement Administrators (NASRA).

Changes to the assumed investment return

The Board also voted to recommend to the Legislature lowering the investment return assumption from 8 to 7.5 percent for all three of PERA’s defined benefit plans—the General, the Police & Fire, and the Correctional Plans.

The Board agreed to seek a contribution increase of 1 percent in employee contributions and a 1.5 percent increase in employer contributions phased in over a two-year period beginning Jan. 1, 2018, for the Police & Fire Plan. The Board also recommended extending the amortization period to 30 years, as well as removing the future possibility of a 2.5 percent cost-of-living adjustment to Police & Fire Plan retirees.

Board Seeks Contribution Rate Changes for Police & Fire Plan

After several months of reviewing actuarial information and discussing funding levels of the three retirement plans PERA administers, the Board of Trustees voted Dec. 8, 2016, to recommend legislative changes to improve plan sustainability of the Police & Fire Plan.

The Board also voted to recommend to the Legislature lowering the investment return assumption from 8 to 7.5 percent for all three of PERA’s defined benefit plans—the General, the Police & Fire, and the Correctional Plans.

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MY PERA: Your personal link to us
Account access 24/7 at your fingertips

You can access your account information 24/7 through MY PERA, our secure member portal. It’s your personal link to PERA and gives you access to a variety of information to:

- Review or update your personal information on file with PERA
- Receive an estimate of your benefits (just like the annual personal benefit statement) or create your own custom estimates
- Register for a conference or one of our workshops
- Sign up for e-publications. Go green. It’s fast and easy.
- Allow retirees to view and print proof of income letters, 1099s, change address, direct deposit, and tax withholding.

Haven’t registered? It’s easy to activate your account
Creating a MY PERA account is simple and can be done quickly. Go to www.mnpera.org. Select MY PERA on the left side of the webpage. In the Member Log On window, select Register as New User on the left or at the bottom of the webpage. Enter the requested information and submit. Once you accept the terms and conditions, you will see a welcome screen with your PERA account information.

Security is a priority
Be assured that PERA uses the latest in security protocol to keep your personal information safe.

We are here for you
If you are having difficulty with MY PERA, call us. We can help. For other questions or for more information, call a PERA representative.

NEW LOOK
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Staying in touch
Many of our members receive newsletters by email rather than mail. There are two ways you can opt to have it sent by email. The first is to log in to MY PERA, click Mailing Selection, and make your change. Or, you can call one of our representatives and request to have your delivery method changed to email. You may also make email the default to receive the brochure that lists our education programs and the annual personal benefit statement. It is as easy as a click of a button. The publications will be available to you the day you receive the email notification. If you are already signed up for email notification, be sure to double check your email address for accuracy. And, as always, visit our website for regular updates and follow us on Facebook and Twitter.

Our thanks to you
It has been a great honor to serve you, our members, your employers, and the public of this great state for the past 85 years. We have grown to become the largest public defined benefit plan in Minnesota. As we have done in the past, we will continue our dedication to provide you with relevant and transparent information about the various plans through PERA NEWS. Our mission statement to administer and promote sustainable retirement plans and provide services that our members value.

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Board members serve four-year terms.

BoARD DIRECTORY

The PERA Board of Trustees consists of 11 members. The State Auditor is a member of the Board by statute. Five trustees are appointed by the Governor to represent cities, counties, school boards, retirees, and the public, respectively. The remaining five members are elected by the PERA membership at large to represent the general active membership, Police & Fire Plan members, and all benefit recipients. Board members serve four-year terms.

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Barbara Johnson
Appointed Cities Representative

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