



PERA NEWS

February 2017



Administer and promote sustainable retirement plans and provide services that our members value.

mnpera.org

Newsletter of the Public Employees Retirement Association of Minnesota

Assets Over \$25 Billion

Serving over 450,000 public employees in Minnesota

GENERAL

POLICE & FIRE

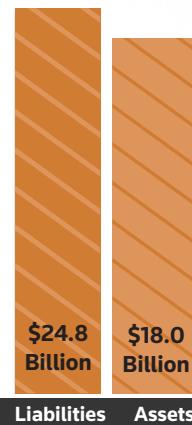
CORRECTIONAL

Financial Update for PERA's Plans

On June 30 of every year, new measurements are taken for each of PERA's three defined benefit plans—the General, the Police & Fire, and the Correctional Plans. These fiscal-year-end measurements, or actuarial valuations, are snapshots of the plans' funded status on that particular date.

General Plan

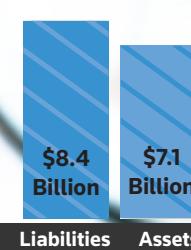
72% Funded



A closer look at PERA's three defined benefit plans.

Police & Fire Plan

84% Funded



Correctional Plan

92% Funded



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.

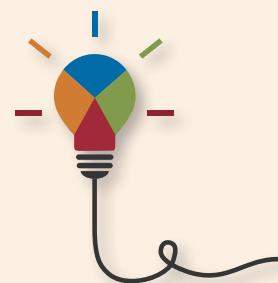
The FY16 General Plan financials include the impact of increased costs associated with recently implemented life expectancy tables predicting future improvements; the other plans will not reflect this added liability until their next valuation. Liability values by plan for FY16 are \$24.8 billion in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

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PERA NEWS

PRESIDENT'S MESSAGE



Kathryn A. Green
President
PERA Board of Trustees

"Be confident that the Board, as fiduciaries of your retirement plans, take the responsibility seriously and will continuously monitor the plans."

On behalf of the PERA Board of Trustees, I wish you a happy new year. You may have noticed that this is our first newsletter since early last year. The past year has brought many "firsts" to PERA including a new approach to bringing you the news. This issue of *PERA NEWS* is the first published since I became PERA's board president and the first one developed under our new executive director who recently wrapped up his first year at PERA.

A few years ago, PERA adopted a mission statement *to administer and promote sustainable retirement plans and provide services that our members value*. This newsletter, our website, our call center, and our group and individual conferences all represent services we believe you value. The other component of our mission statement, *to administer and promote sustainable retirement plans*, has been a strong focus of the Board this past year.

Lessons learned

PERA celebrated its 85th anniversary last year. Through research for that celebration, we discovered our first newsletter published in 1939. Two comments in that newsletter were quite eye opening. First, it was noted that the fund struggled to meet its assumed rate of return of 4 percent. Second, it was reported that fewer members were dying than the actuary predicted. As the newsletter stated, "16 of them should have died, but only 7 of them did die." What became clear is that the issues we face today, asset returns less than assumed, and cost increases due to longer lifespans, are identical to issues faced nearly 80 years ago.

What can we learn from this information? First, we can be grateful that past Boards have taken actions to keep the plans solvent, even when we know that the actions were not popular. Because of these past proactive measures, thousands of past and current retirees are secure in knowing that their monthly retirement benefits will continue. Second, we realize that our actions today will impact future generations.

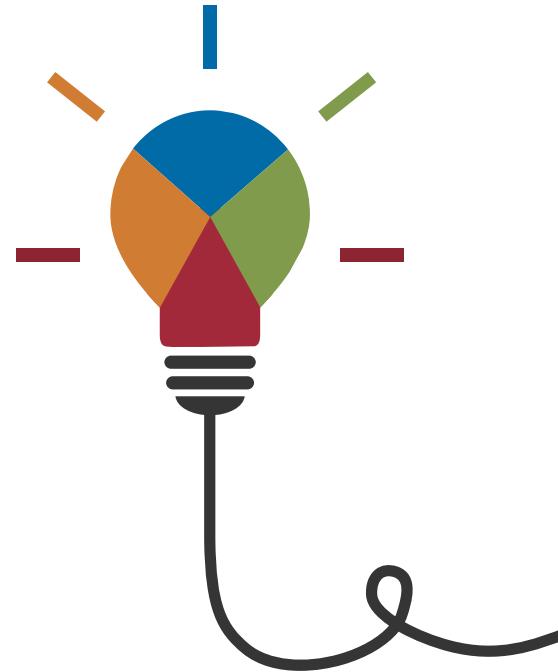
Under our new director, the Board has taken a thoughtful view of what sustainability means to PERA retirement plans. While it is a challenge to define sustainability, the Board has reached an agreement on how to identify when changes are necessary to keep the plans sustainable and when no immediate actions are necessary. For example, the General Plan has a lower funded ratio than the Police & Fire Plan. However, if all the assumptions are met, the General Plan funded status is projected to increase while the Police & Fire Plan funded status is projected to decrease. Taking this information, the Board is proposing a legislative package for the Police & Fire Plan in 2017.

While the Board is not considering legislative action in 2017 for the General or Correctional Plans, the Board is constantly aware of the future course of these plans. Be confident that the Board, as fiduciaries of your retirement plans, take the responsibility seriously and will continuously monitor the plans. When this newsletter is reflected upon 85 years from now, we are confident that members will appreciate our efforts to ensure sustainability as much as we appreciate the efforts done before us.

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 membership 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 during the 1990s and beyond. The plan covers over 11,000 active public safety officers and pays benefits to 10,000 retirees and survivors.

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 1,000 retirees, and boasts 3,700 working local correctional officers.

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Financial Update

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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 longer life spans may change the direction of this plan as well. However, due to its relatively better current position, the urgency if change is needed is less than the other plans.

Summary

Annual updates provide a good opportunity to evaluate and compare a plan's financial status. However, it requires considerably more work to evaluate a plan's future. This is an important and never-ending process for the Board. With sustainability of our plans a key part of our mission statement, it will always be important that they stay on a positive course.

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Find us on Facebook and Twitter.



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 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.

Contribution Amounts for Police & Fire Plan

	Current	2018	2019
Employee	10.8%	11.3%	11.8%
Employer	16.2%	16.95%	17.7%

Contribution rates are a percentage of the total salary of each member.

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 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.

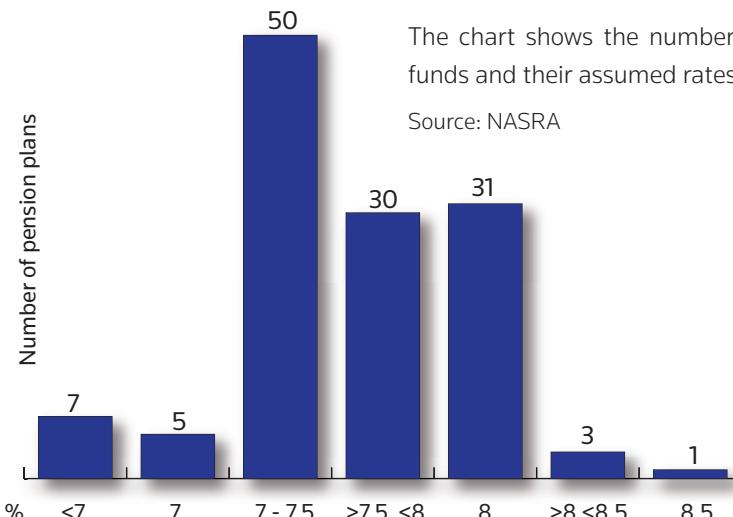
More about investment return assumption

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).

Distribution of Investment Return Assumption



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 *Access 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* is something we take to heart. This newsletter, along with our robust website, knowledgeable representatives, and other educational programs are services available to you.

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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