



MINUTES

The Board of Trustees of the Public Employees Retirement Association met in regular session in the Association offices, 60 Empire Drive, Room 117, Saint Paul, Minnesota, on Thursday, December 13, 2018 at 9:30 a.m., with notice given ten days prior thereto by the Secretary.

The following members were present:

	Kathy Green, President	
Ross Arneson		Rebecca Otto/Ramona Advani
Mary Falk		Thomas Stanley
Paul Ford		Lori Volz
Barbara Johnson		Lawrence Ward
Leigh Lenzmeier		

constituting a quorum.

Board members excused: Paul Bourgeois

Attorney General Representative: Kevin Finnerty

Staff members present: Doug Anderson, Executive Director; Luis Lugo, Chief Benefit Officer; Julie Leppink, General Counsel; Mike Hagerty, Chief Financial Officer; Cheryl Keating, Manager of Account Information Management; Beth Reed, Manager of Pension Services; Andrea Murphy, PS-Benefit Calculations; Shana Morse, Manager of Stakeholder Affairs; Afiya Krueger, Project Manager; Lance LaFrombois, Retirement Services Director; Jody Kortus, Benefit Claims Specialist; Mary Daly, Continuity and Data Coordinator and Gladys Rodriguez, Executive Assistant.

Others present: Bonnie Wurst, GRS; Sheri Christensen, GRS; Chelsie Larson, GRS; Harry Grigsby, Retired Member; Rob Corey, Active Member; Gene Ranieri, City of Minneapolis; Mark Ruff, City of Minneapolis; Heidi Ritchie, City of Minneapolis; Rodney Rowe, Education Minnesota; Julie Blaha, State Auditor Elect; Brian Rice, MPFA and AFSCME #5.

1.0 Call to Order President Green called the meeting to order at 9:30 a.m.

Falk moved to adopt the agenda as presented. The motion was seconded by Volz and passed unanimously.

The agenda was taken in the following order.

2.0 Consent
Calendar

The consent calendar included the following reports:
Approval of Minutes (October 11, 2018, Regular Meeting)
Operational Report Education, Payments, and Membership Counts (Memo dated December 13, 2018, from Cheryl Keating, Luis Lugo, and Beth Reed)
Financial Report (Statement of Fiduciary Net Position as of October 31, 2018, unaudited; Statement of Changes in Fiduciary Net Position as of October 31, 2018, unaudited)

Otto moved to accept the consent calendar. The motion was seconded by Ward and passed unanimously.

3.0 Appeals

3.1 Application for Coordinated Plan Total and Permanent Disability Benefits – Mark Thompson.

Reference was made to a memo and staff recommendation from Julie Leppink dated December 13, 2018.

Mr. Thompson did not attend the meeting.

Falk moved to close the meeting in order to discuss private medical information as required by Minnesota Statutes, section 13D.05, subd. 2(a)(4). The motion was seconded by Arneson and passed unanimously.

Otto moved to open the meeting. The motion was seconded by Falk and passed unanimously.

Otto moved to deny Mark Thompson's Application for Coordinated Plan Total and Permanent Disability Benefits because he is able to engage in substantial gainful activity at the present time, and to adopt the ALJ's recommendation in its entirety. The motion was seconded by Johnson and passed unanimously.

Volz moved that the Board's attorney prepare a written order that reflects the decision of the Board. The motion was seconded by Arneson and passed unanimously.

3.2 Application for Service Credit from the PERA Police & Fire Plan – Rob Corey.

Reference was made to a memo and staff recommendation from Julie Leppink dated December 13, 2018.

The Board of Trustees considered the appeal of Rob Corey. Leppink appeared on behalf of PERA staff. Mr. Corey attended and spoke on his own behalf.

Mr. Corey, a current PERA Police & Fire Plan participant, appealed the Executive Director's determination that PERA cannot grant him service credit for the period from May 15, 2013, through January 11, 2014, when he worked for the City of Maplewood (City) as a part time firefighter. Mr. Corey is now a full time employee of the Metropolitan Airports Commission.

During his part time employment with the City, the City failed to take PERA deductions from his paycheck or make contributions for the period from his start date to January, 2014. PERA staff confirmed that no contributions had been remitted on the earnings he received from the City in 2013 even though he met PERA's membership requirements. However, PERA could not seek payment of the missed contributions due to the three-year statute of limitations on collecting omitted deductions in Minn. Stat. §.353.27, subd. 12(e). Mr. Corey had requested that the City pay the omitted deductions in order to restore his service credit for the omitted period.

The Board of Trustees considered the appeal of Mr. Corey and acknowledged that current statutes limit PERA's ability to address Mr. Corey's concern. The Board noted that a statute change would be needed in order for PERA to be able to rectify a mistake made by an employer.

The Board considered the entire record and, upon a motion made by Lenzmeier and seconded by Otto, affirmed the staff recommendation to deny the appeal for restatement of omitted service credit for Mr. Corey in the Police and Fire Pension Plan.

Arneson moved that the Board's attorney prepare a written order that reflects the decision of the Board. The motion was seconded by Falk and passed unanimously.

4.0 Decision Items **4.1 PERA Board Election to replace Retiree/Disabilitant Representative**

Reference was made to a memo from President Kathy Green dated December 13, 2018.

Green presented the memo describing the process and timeline for the Board to fill the Retiree/Disabilitant Representative position when it becomes vacant on January 31, 2019. Green asked the Board to consider whether letters of recommendation should be accepted. Otto stated that current policy as outlined in the Board of Trustees Governance Manual should be followed, which does not reference letters of recommendation. Green also solicited volunteers for a subcommittee if the number of interested candidates exceeds five. Otto recommended deferring the naming of a committee until February when the identity of all of the new board members will be known. As a result, no decision was needed for those items.

The Governance Manual calls for the Board to direct staff to announce the vacancy on the PERA website, newsletter, and other social media sites.

Falk moved to direct staff to announce the vacancy on the PERA website, newsletter and other social media sites. The motion was seconded by Volz and passed unanimously.

4.2 Statewide Volunteer Firefighter Advisory Board Recommendation

Reference was made to a memo from Doug Anderson dated December 13, 2018.

Anderson shared that the SVF Advisory Board met on September 27 and November 28 to discuss the current status of the plan and potential 2019 legislative recommendations. The Advisory Board consists of 10 members and exists per Statutes to *“meet periodically to provide advice to the board of trustees of [PERA] about the retirement coverage needs of volunteer firefighters who are members of the retirement plan and about legislative and administrative changes that would assist the retirement plan in accommodating volunteer firefighters who are not members of the retirement plan.”*

The SVF Advisory Board recommended that the PERA board direct staff to work with the Legislative Commission on Pensions and Retirement (LCPR) to:

- (1) Change the name of the Voluntary Statewide Volunteer Firefighter Retirement Plan to the Statewide Volunteer Firefighter Plan;
- (2) Draft changes to Minnesota Statutes 353G.11, to allow the fire chief for a lump-sum retirement division to request a cost estimate from the executive director of an increase in the service pension level;
- (3) Draft changes to Minnesota Statutes 353G.09, subdivision 3, to separate the defined benefit and defined contribution computations into separate sections, clarify the application of non-forfeitable percentages, and add a section exclusively for deferred service pensions for former volunteer firefighters;
- (4) Draft changes to Minnesota Statutes 353G.05, to ensure that coverage elections include joint approval from the municipality (or municipalities in the case of a joint powers entity) or firefighting corporation and the relief association;
- (5) Draft changes to Minnesota Statutes 353G.13, to ensure that when a SVF member leaves a fire department, the benefit that they will receive upon retirement from that department is based on vesting service determined using all years of service through the end of service with that respective department, including years of volunteer service accumulated prior to that specific department. Subsequent years of service with a different department will not be considered in the benefit determination.

Stanley moved to accept PERA staff's recommendation to accept the SVF Advisory Board recommendations. Motion was seconded by Lenzmeier and passed unanimously.

4.3 Minneapolis Police Relief Association and Minneapolis Firefighters' Relief Association

Reference was made to a revised memo from Doug Anderson dated December 13, 2018.

Anderson presented an overview of the history of the annual contributions paid by the City of Minneapolis [City] to PERA to amortize the unfunded liabilities for the Minneapolis Police Relief Association (MPRA) and the Minneapolis Fire Relief Association (MFRA) since their merger into PERA on December 30, 2011.

Anderson noted the reason for the annual payment, the initial determination made in 2012, the subsequent adjustment made in 2015, and the reason to revisit the calculation methodology in 2018.

Anderson noted that the two relief associations, if accounted for separately, would be close to fully funded as of July 1, 2018 due to positive actual investment returns. Anderson noted that if there is no change in the method for determining the contribution, that is, if the same method is used in 2018 as was used in 2015, contributions would actually increase over prior levels and continue for 13 years despite the relief association liabilities currently being nearly fully funded.

Anderson further noted that if PERA's original goal was to be protected from downside investment risk, and that if it is important to the City to pay their fair contribution, then a solution is possible to meet those goals prospectively with a statutory change.

Ward stated that he believes compromise can be reached. He noted the staff memo presented two options but a third option is possible where the City and PERA can achieve stability for the length of the contract through further negotiation. By doing so, the investment risks can be shared equally. He also noted that the Police and Fire Fund reduced its COLA to one percent to help with the investment return assumption reduction. Ward believes a common agreement is possible by July.

Ford stated that he was present during the original merger negotiations and that at that time all the stakeholders were in agreement that PERA would not absorb any of the costs of the relief associations merging. Ford supports an annual recalculation where the City retains investment risk, positive or negative, and that PERA is protected from absorbing any losses resulting from the merger.

Otto stated that Trustee Ford's comments reflect her recollection that PERA's members needed to be kept whole. Otto noted that she is optimistic that PERA and the City can reach a reasonable compromise but that annual recalculations may not be a good idea due to volatility and budgeting requirements for a city. The focus should be on keeping members whole.

Anderson mentioned that the timing for the next contribution assessment is July, but if a statutory change is needed, it should be done during the next legislative session.

Lenzmeier stated that annual reviews are a reminder that this issue remains as an ongoing issue.

Mark Ruff, Chief Financial Officer for the City shared the perspective of the City. The reason this evolved in the past year was that the City was downgraded by Fitch over pensions, prompting staff to look more closely at pension contributions. The City chose not to raise this as an issue during the 2018

legislative effort as they did not want it to be a distraction to the omnibus bill. The City understood that it took more risk in 2011. In 2015 they understood there would be a contribution increase due to the investment return assumption, but could not determine anything further from the information provided. With further scrutiny in 2018, the City believes that discussion now is relevant. The City desires a thoughtful, mutually agreeable solution.

The Board further discussed the actuarial information that was available to the City and how bond rating agencies view stability of pension contributions.

Anderson added that the issue between the City and PERA should not be tied to the 2018 pension bill. The Police and Fire Plan is 88.8 percent funded with the relief associations included and 88.3 percent funded without the relief associations. Less than 1 percent of the Plan's total unfunded liability is attributable to the relief associations. When the pension bill was being considered, the Plan was essentially in the same position and heading in the same direction whether it included or excluded the relief association assets or liabilities.

Brian Rice, representing the Minneapolis Police Fraternal Association asked to address the Board. He stated that he was involved in the original legislation and the concern at that time was that PERA would not be adversely impacted. He noted that merger has not hurt the Plan to this date. He indicated he favors discussion and a resolution in the long-term interest of the Plan.

Johnson supported an approach to the legislature that reflects a coordinated solution.

Anderson will continue to discuss with the City options for a prospective change in the statutes such that future contributions will be fair to the City and protect PERA from adverse outcomes.

5.0 Discussion
Items

5.1 FY 2019 Mid-Year Review

Reference was made to a memo from Doug Anderson dated December 13, 2018.

Anderson noted that the Board has supported multiple investments in initiatives important to achieve PERA's mission of providing services that member's value. The Board received verbal updates from Morse on the lobby changes, Lugo on the Duluth office move, Krueger on the abandoned account project, and Hagerty on the Board of Trustees Election and IS assessment contracts, as well as, an overview on the status of PERA's budget at the mid-year mark.

5.2 Presentation on Valuation Results

Bonnie Wurst of GRS Retirement Consulting provided an update on the 2018 actuarial valuation results summarizing the financial health of PERA's three largest plans. The actuarial valuation results were determined as of July 1, 2018 and reflect all of the changes contained in the 2018 Omnibus Retirement Bill as

well as positive investment returns through June 30, 2018. The investment return for fiscal year 2018 was 10.4 percent.

The funding ratios as of the valuation date were 80 percent for the General Employees Plan, 89 percent for the Police & Fire Plan, and 98 percent for the Correction Employees Plan. These funding ratios represent the ratio of the market value of assets to the actuarial accrued liabilities for each plan.

Wurst also confirmed that each plan has a funding sufficiency when measuring using the market value of assets. A funding sufficiency means actual contribution rates exceed the total required contribution rate. All three funds are expected to eliminate the Unfunded Actuarial Accrued Liability and reach at least a 100 percent funding ratio within the targeted 30 year timeframe established by the legislature.

The Board also received results as reported under rules from the Governmental Accounting Standards Board (GASB) as well as several measurements demonstrating maturity and volatility measurements for each Plan.

Anderson added that as of November 30, 2018 the fiscal year 2019 investment return was -0.2 percent. Anderson also noted that the aggregate funding ratios as reported under GASB for the Teachers Retirement Association, Minnesota State Retirement System plans, and PERA's plans have increased from 53.2 percent in 2016 to 63.3 percent in 2017 to 81.8 percent in 2018. The significant increase is due to changes in the GASB discount rate, positive investment returns, and the 2018 Omnibus Retirement Bill.

6.0 Informational Items None

7.0 Other Business **7.1 Board Resolutions**

Green read the following board resolution into the record:

WHEREAS, ROSS ARNESON, was elected in February 2015, to serve on the Board of Trustees of the Public Employees Retirement Association representing the interests of PERA's benefit recipients; and

WHEREAS, this was ROSS ARNESON'S second time working for the members of PERA, having previously served as an elected Trustee for the active member of the PERA General Plan, for four successive terms, from February 18, 1999 through February 28, 2013, and retiring in May 2013; and

WHEREAS, ROSS ARNESON, after his retirement, returned to continue his commitment to PERA and its members by participating in decisions of the Board that were critical to the long-term sustainability of the retirement plans; and

WHEREAS, ROSS ARNESON will be missed for his support of the PERA staff

and Board of Trustees and for his sincere concern for the well-being of PERA active members, beneficiaries and the public; NOW THEREFORE

BE IT RESOLVED that the Board of Trustees of the Public Employees Retirement Association, in regular session in the City of St. Paul, Minnesota, this 13th day of December, 2018, takes this means of expressing heartfelt gratitude and appreciation for the unselfish devotion and service ROSS ARNESON provided to the members and beneficiaries of the Association; and

BE IT FURTHER RESOLVED that this resolution be formally included in the minutes of the Board of Trustees and the Secretary be instructed to transmit a formal copy of this resolution to ROSS ARNESON.

Johnson moved that the Trustees adopt the Board Resolution for retired PERA Board Trustee Ross Arneson. The motion was seconded by Stanley. Motion passed unanimously.

Green read the following board resolution into the record:

WHEREAS, REBECCA OTTO, State Auditor, served as a Trustee of the Public Employees Retirement Association (PERA) from January, 2007, through December 13, 2018; and

WHEREAS, REBECCA OTTO participated in decisions of the Board that were critical to the long-term sustainability of the retirement funds, actively represented the interests of PERA's members and beneficiaries as well as the State and its taxpayers, and

WHEREAS, REBECCA OTTO was steadfast in her fiduciary duty to ensure the Association's pension plans were administered efficiently and effectively and supported PERA's legislative initiatives to ensure adequate funding and sound fiscal management; and

WHEREAS, REBECCA OTTO'S personal integrity, leadership, diligence, and sincere concern for the well-being of each and every PERA member, retiree and Minnesotan have earned her the respect of her fellow Trustees, PERA members, the staff and the public; NOW THEREFORE

BE IT RESOLVED that the Board of Trustees of the Public Employees Retirement Association, in regular session in the City of St. Paul, Minnesota, this 13th day of December 2018, takes this means of expressing sincere gratitude and appreciation for the period of exemplary service and leadership REBECCA OTTO provided to the Association; and

BE IT FURTHER RESOLVED that this resolution be formally included in the minutes of the Board of Trustees and the Secretary be instructed to transmit a formal copy of this resolution to REBECCA OTTO.

Falk moved that the Trustees adopt the Board Resolution for retired PERA Board Trustee Rebecca Otto. The motion was seconded by Johnson. Motion passed unanimously.

Green read the following board resolution into the record:

WHEREAS, LORI VOLZ was elected by all members and retirees of the Association to serve as a General Fund Trustee on the Board of the Public Employees Retirement Association (PERA), from February 12, 2015, through December 13, 2018; and

WHEREAS, the hard work and dedication of LORI VOLZ has contributed greatly to the Board's success in ensuring the long-term sustainability of the defined benefits available to current and future PERA members and their beneficiaries; and

WHEREAS, LORI VOLZ has been conscientious, thoughtful and thorough in the discharge of the fiduciary responsibilities entrusted to her as a member of this Board; and

WHEREAS, LORI VOLZ is well respected by her fellow Trustees, the staff, and the membership and beneficiaries of PERA for her dedication to PERA's mission; NOW THEREFORE

BE IT RESOLVED that the Board of Trustees of the Public Employees Retirement Association, in regular session in the City of St. Paul, Minnesota, this 13th day of December, 2018, takes this means of expressing sincere gratitude and appreciation for the period of exemplary service LORI VOLZ provided to the members and beneficiaries of the Association; and

BE IT FURTHER RESOLVED that this resolution be formally included in the minutes of the Board of Trustees and the Secretary be instructed to transmit a formal copy of this resolution to LORI VOLZ.

Arneson moved that the Trustees adopt the Board Resolution for retired PERA Board Trustee Lori Volz. The motion was seconded by Stanley. Motion passed unanimously.

7.2 Fricke vs PERA

Finnerty provided an update on the lawsuit brought by Thelma Fricke against PERA.

Stanley moved to close the meeting to discuss litigation strategy pursuant to Minn Stat. 13D.05. Motion was seconded by Otto and passed unanimously.

Ford moved to open the meeting. Motion was seconded by Arneson and passed unanimously.

7.3 Performance Evaluation for Doug Anderson, Executive Director

An evaluation of the performance of PERA's Executive Director Douglas Anderson came before the Board.

Otto moved to close the meeting for the Executive Director's review pursuant to Minnesota Statutes, section 13D.05, subdivision 3(a). Doug Anderson did not request the meeting to remain open. The motion was seconded by Arneson. Motion passed unanimously.

Stanley moved to open the meeting. The motion was seconded by Johnson. Motion passed unanimously.

Green presented two motions for approval for the board.

Motion #1: To authorize President Green to create a document that demonstrates Doug Anderson's satisfactory performance as determined by his annual Performance Evaluation conducted on Thursday, December 13, 2018.

Volz moved to accept the motion as written. Motion was seconded by Arneson and passed unanimously.

Motion #2: To provide a 3.5% performance-based increase allowed in the FY 2017-FY 2019 Managerial Plan, the Board moves to increase the salary of Doug Anderson from \$71.00 to 73.49 per hour effective January 1, 2019, if a performance evaluation for Doug Anderson dated between January 1, 2018 and December 31, 2018, is filed with internal HR prior to January 1, 2019, and that performance evaluation demonstrated satisfactory performance."

Falk moved to accept the motion as written. Motion was seconded by Ford and passed unanimously.

8.0 Date of Next Meeting The next meeting of the PERA Board of Trustees will be held Thursday, February 21, 2019, starting at 9:30 a.m. in the Board Room 117 of the Retirement Systems of Minnesota Building.

9.0 Adjourn *There being no further business to come before the PERA Board, Falk moved to adjourn the meeting at 12:33 p.m. The motion was seconded by Volz and passed unanimously.*



Doug Anderson, Executive Director
Saint Paul, Minnesota