Retirement Systems of Minnesota

Minnesota State Retirement System • Public Employees Retirement Association • Teachers Retirement Association

Statewide Retirement Systems
Funding Updates

Presentation to the
Legislative Commission on Pensions & Retirement

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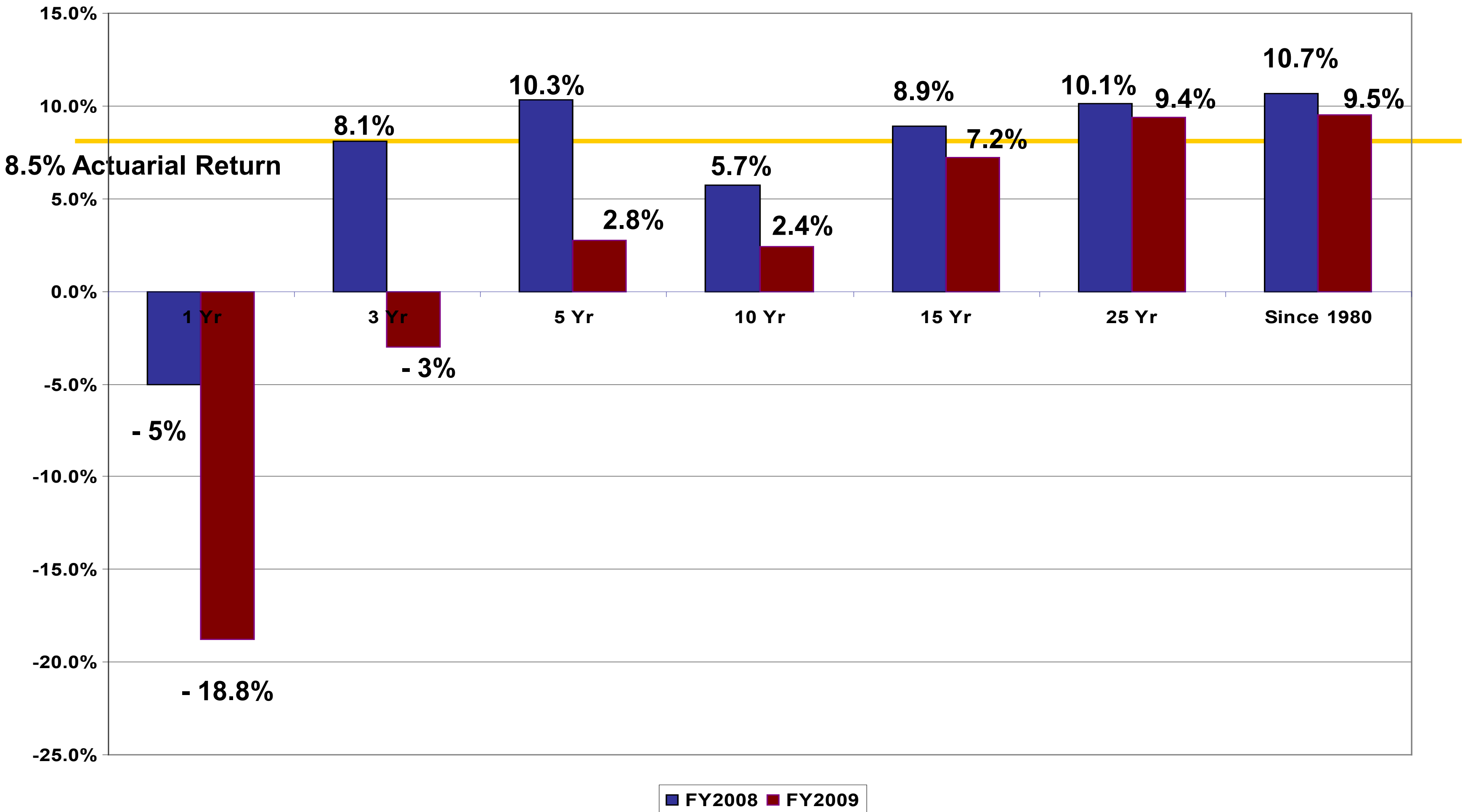
Why Are We Having These Discussions?

Comparison of SBI Average Returns – for periods ending 6/30/2008 and 6/30/2009



Return for FY 2010 through 12/31/10: 17%

Basic Pension Funding Principle

C + I = B + E

Contributions + Investments = Benefits + Expenses

Common Modifications to Address Funding

Elements of funding principle the Boards and Legislature could modify to address recent investment losses

- C – Contribution rates
  - Proposed employee and employer contribution rate adjustments
- B – Benefits
  - annual retiree increases
  - prospective deferred augmentation interest rate
  - interest on future lump sum refunds
  - interest on re-employed retiree accounts

Financial Status of PERA General Fund

Fiscal Year 2009	July 1, 2009 Actuarial Value (5 yr smoothing of investment losses)	July 1, 2009 Market Value (no smoothing of investment losses)
Funding Ratio (Assets as % of Liabilities)	69.99 %	53.81 %
Current Contributions*	12.88 % of pay	12.88 % of pay
Contributions Needed	15.55 % of pay	19.61 % of pay
Contribution Deficiency	(2.67) % of pay	(6.73) % of pay

* Employee rate = 6%; Employer rate = 7% (effective 01/01/10)

Source: Mercer Consulting, FY 09 annual actuarial valuation

Financial Status of PERA P&F Fund

Fiscal Year 2009	July 1, 2009 Actuarial Value (5 yr smoothing of investment losses)	July 1, 2009 Market Value (no smoothing of investment losses)
Funding Ratio (Assets as % of Liabilities)	83.22 %	63.55 %
Current Contributions*	23.50 % of pay	23.50 % of pay
Contributions Needed	29.99 % of pay	39.13 % of pay
Contribution Deficiency	(6.49) % of pay	(15.63) % of pay

*Employee rate = 9.4%; Employer rate = 14.1%

Source: Mercer Consulting, FY 09 annual actuarial valuation

Financial Status of PERA Correctional Fund

Fiscal Year 2009	July 1, 2009 Actuarial Value (5 yr smoothing of investment losses)	July 1, 2009 Market Value (no smoothing of investment losses)
Funding Ratio (Assets as % of Liabilities)	94.85 %	72.93 %
Current Contributions*	14.58 % of pay	14.58 % of pay
Contributions Needed	14.03 % of pay	16.77 % of pay
Contribution Deficiency	0.55 % of pay	(2.19) % of pay

*Employee rate = 5.83%; Employer rate = 8.75%

Source: Mercer Consulting, FY 09 annual actuarial valuation

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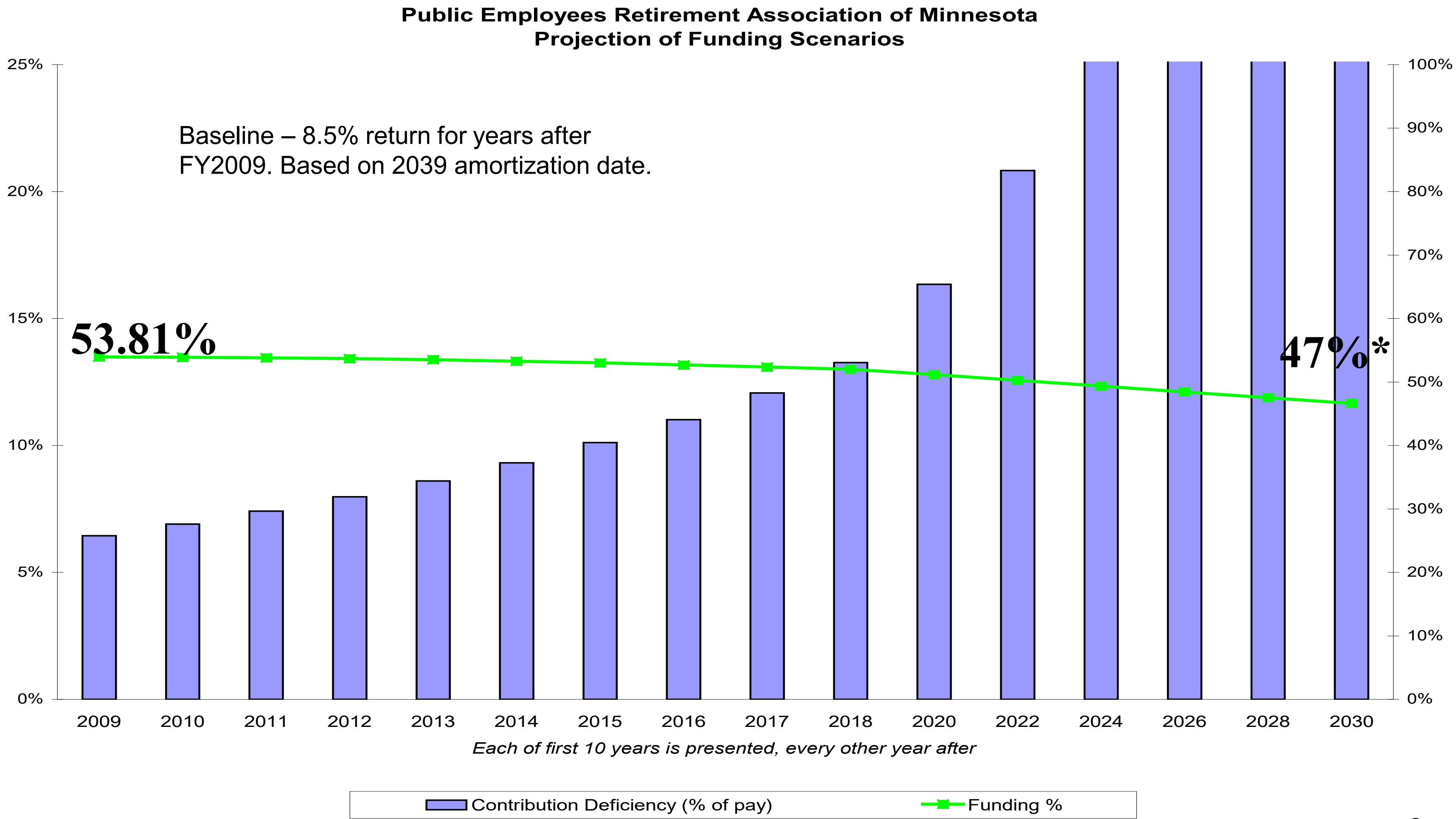
What if we do nothing to PERA General?



Source: Mercer Consulting Services

***Projected Funding Ratio**

Path to PERA Long-Term Sustainability

Where do we go from here?

- ***Shared responsibility and sacrifice***– active members, employers, deferred members and benefit recipients will need to be part of the solution.

  - ✓ Reduce annual benefit recipient adjustment

    Decrease annual adjustment from 2.5 percent to 1 percent until plans are again at least 90 percent funded (market value).

  - ✓ Increase contributions 0.5 percent

    Coordinated Plan shared equally between employees & employers

    Police & Fire Plan – shared between employees and employers

  - ✓ Reduce certain active and former member benefits
    - Reduce interest rate on refunds from 6 percent to 4 percent
    - Reduce deferred interest for current deferred members and future terminated vested members to 1 percent --currently 3 percent to age 55 and 5 percent thereafter for those hired prior to July 1, 2006 or 2.5 percent for all years for those hired after July 1, 2006.
    - Increase vesting to five years
    - Eliminate interest on re-employed retiree accounts .

Path to PERA Long-Term Sustainability

What do we save if Board's recommendations are adopted?

	PERA General	PERA P & F
Actuarial Value Contribution Deficiency	**(2.67) %**	**(6.49) %**
Modify Annual Increase: 1.0 percent for future yrs. *	3.6 %	9.45 %
Reduce deferred interest	0.45 %	0.45 %
Increase contributions	0.50 %	0.50 %
Cost Change/adoption of assumption changes	(0.40) %	N/A
Resulting actuarial contribution sufficiency	**1.48 %**	**3.91 %**
Projected Market Value contribution deficiency	(6.73)%	(15.63)%
Remaining Market Value contribution deficiency	(2.58)%	(5.23)%

* Until plans are 90 percent funded.

Source: Mercer Consulting Services

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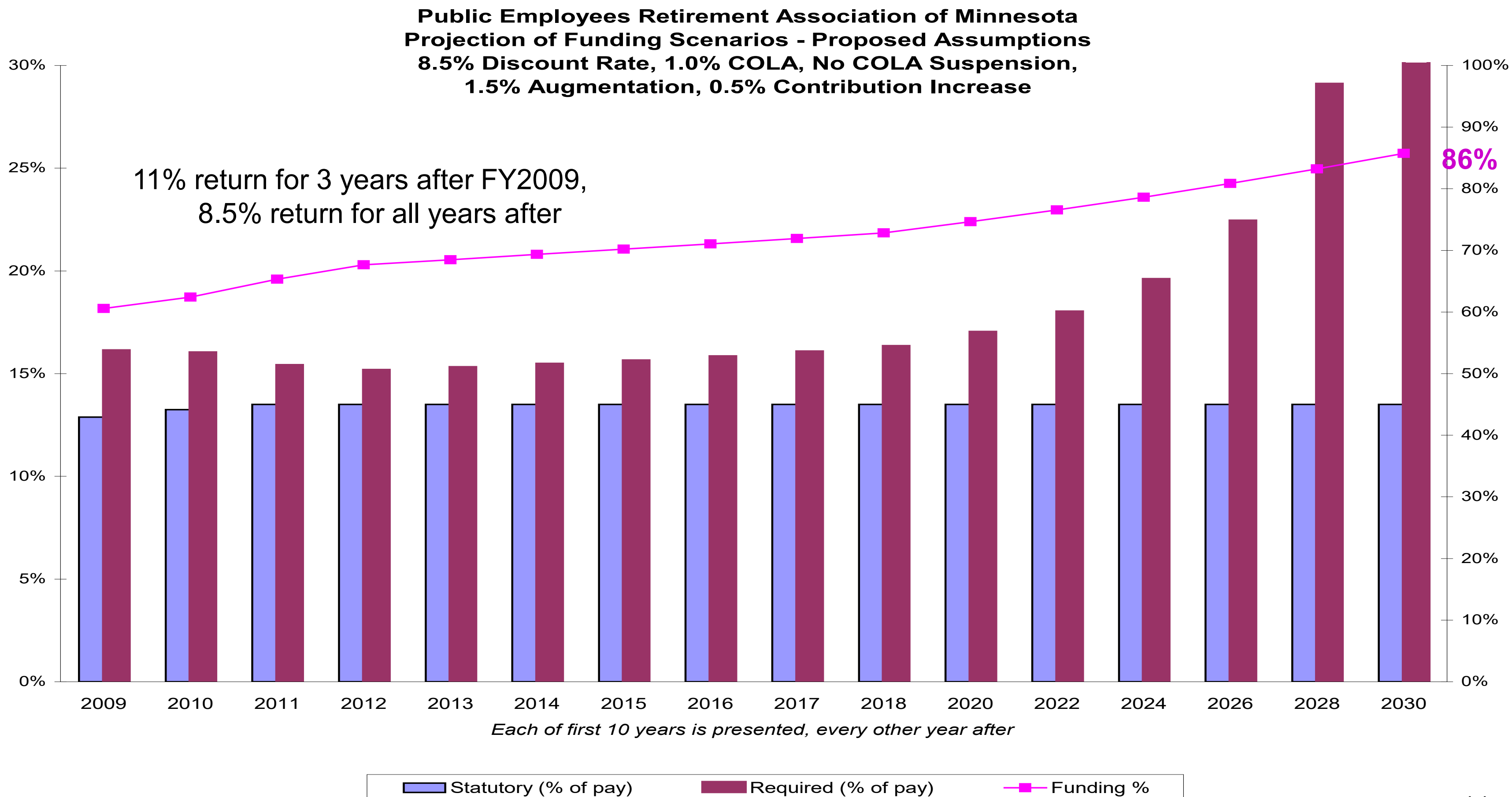
Path to PERA Long-Term Sustainability

The funding line moves back in the right direction, but contribution requirements continue to rise, so additional considerations will be studied over the next several years for future consideration.



Source: Mercer Consulting Services

Financial Status of MSRS General Plan

Fiscal Year 2009	July 1, 2009 Actuarial Value 30 Year Amortization (5 yr smoothing of investment losses)	July 1, 2009 Market Value 30 Year Amortization (no smoothing of investment losses)
Funding Ratio (Assets as % of Liabilities)	85.9 %	65.61%
Current Contributions	10 % of pay	10 % of pay
Contributions Needed**	11.5 % of pay	16.25 % of pay
Contribution Deficiency**	(1.5) % of pay	(6.25) % of pay

•Source: Mercer Consulting, FY 09 annual actuarial valuation – EE rate = 5%; ER rate = 5% (eff. 07/01/10)
** 2010 Legislation to propose 30 year amortization; amounts estimated using FY09 valuation results

Financial Status of State Patrol Plan

Fiscal Year 2009	July 1, 2009 Actuarial Value (5 yr smoothing of investment losses)	July 1, 2009 Market Value (no smoothing of investment losses)
Funding Ratio (Assets as % of Liabilities)	80.58 %	62.05 %
Current Contributions	26.0 % of pay	26.0 % of pay
Contributions Needed	38.16 % of pay	50.21 % of pay
Contribution Deficiency	(12.16) % of pay	(24.21) % of pay

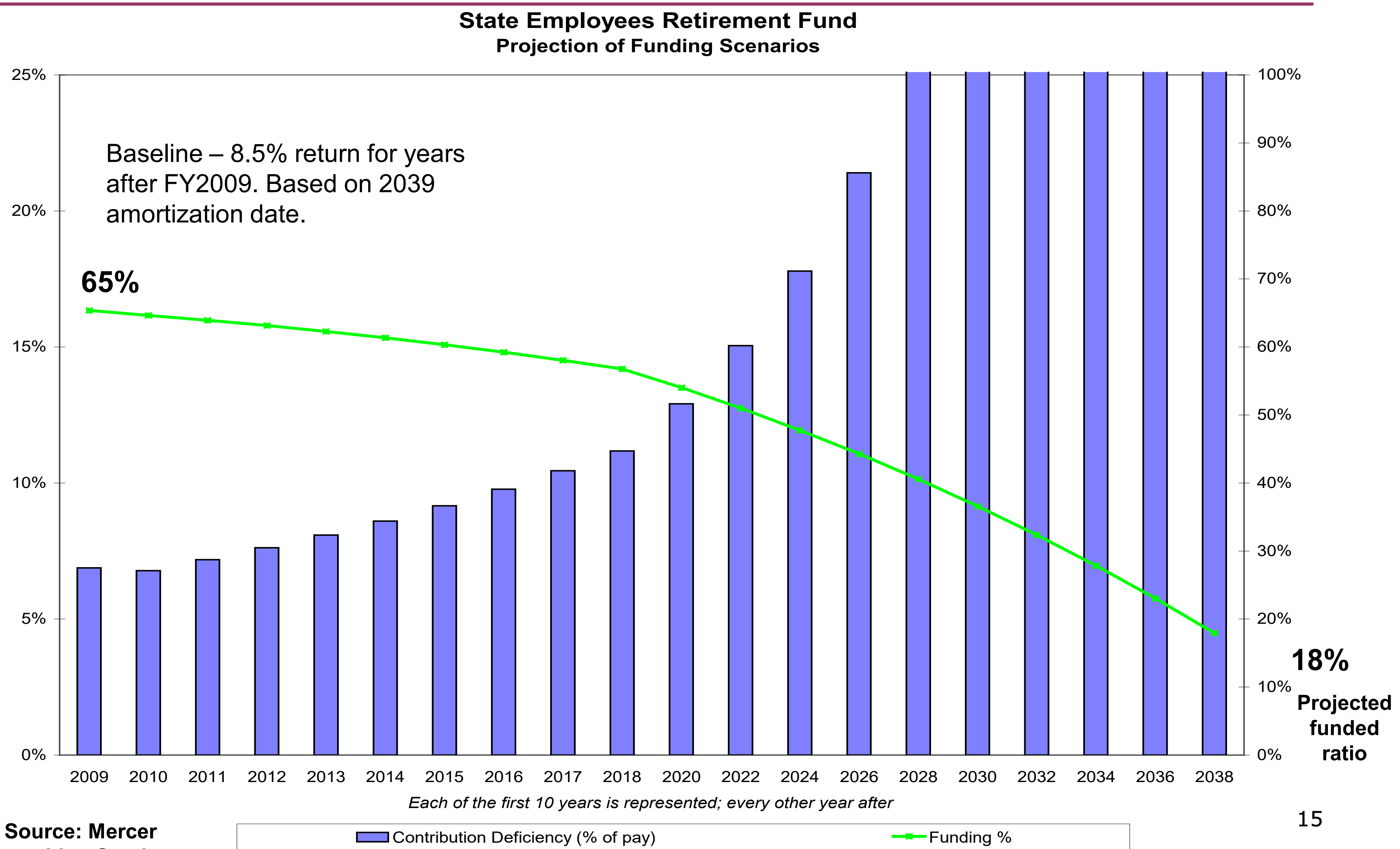
* Source: Mercer Consulting, FY 09 annual actuarial valuation - EE rate = 10.4%; ER rate = 15.6%

Financial Status of MSRS Correctional Fund

Fiscal Year 2009	July 1, 2009 Actuarial Value (5 yr smoothing of investment losses)	July 1, 2009 Market Value (no smoothing of investment losses)
Funding Ratio (Assets as % of Liabilities)	71.88 %	55.62 %
Current Contributions	20.70 % of pay	20.70 % of pay
Contributions Needed	24.85 % of pay	28.57 % of pay
Contribution Deficiency	(4.15) % of pay	(7.87) % of pay

* Source: Mercer Consulting, FY 09 annual actuarial valuation – EE rate = 8.60%; ER rate = 12.10% eff. 7/1/2010

What if we do nothing ?



Source: Mercer Consulting Services

Path to MSRS Long-Term Sustainability

Where do we go from here?

- ***Shared responsibility***– active members, employers, deferred members and benefit recipients will need to be part of the solution.
  - ✓ Reduce annual benefit recipient adjustment

    Decrease annual adjustment from 2.5 percent to 2 percent until plans are again at least 90 percent funded (market value).
  - ✓ Extend amortization to 30 years and modify some actuarial assumptions.
  - ✓ Reduce certain active and former member benefits
    - Reduce interest rate on refunds from 6 percent to 4 percent
    - Reduce deferred interest for current deferred members and future terminated vested members to 2 percent --currently 3 percent to age 55 and 5 percent thereafter for those hired prior to July 1, 2006 or 2.5 percent for all years for those hired after July 1, 2006.
    - Increase vesting to five years
    - Eliminate interest on re-employed retiree accounts .

Path to MSRS Long-Term Sustainability

What do we save if the Board's recommendations are adopted?

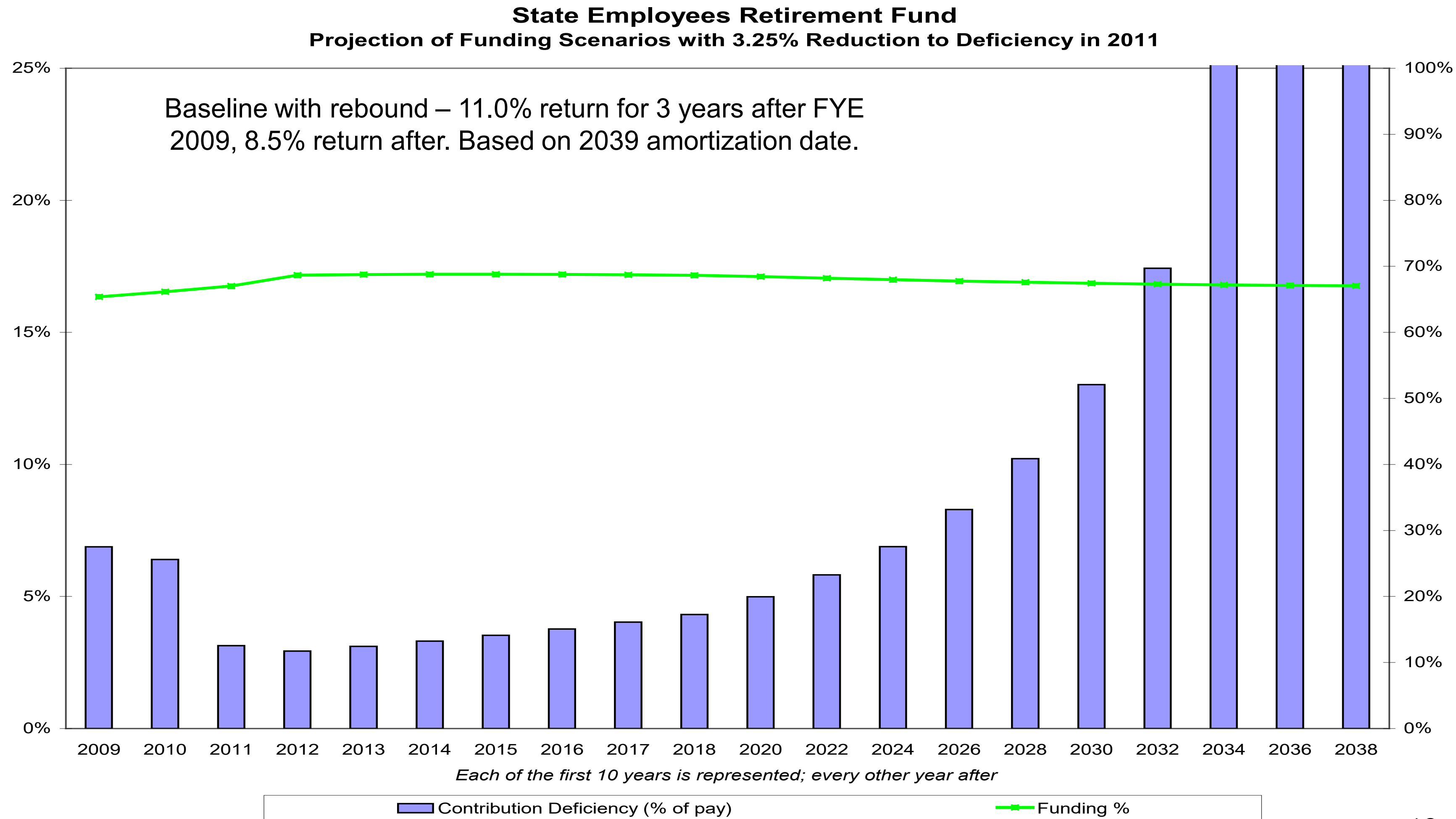
	General	Correctional	State Patrol
Actuarial Value Contribution Deficiency	**(1.5) %**	**(4.15) %**	**(12.16) %**
Modify Annual Increase: 2.0 percent for future yrs. *	.9%	1.7%	4.10%
Reduce deferred interest	0.7%	1.2%	0.20%
Increase contributions	0.0%	0.0%	10.00%
Cost Change/adoption of assumption changes	1.10%	N/A	N/A
Resulting actuarial contribution sufficiency	**1.20%**	**(1.25)%**	**2.14%**
Projected Market Value contribution deficiency	(6.25)%	(7.87)%	(24.21)%
Remaining Market Value contribution deficiency	(3.55)%	(4.97)%	(9.91)%

*** Until 90% funded**

Future savings from longer vesting and benefit reductions

Source: Mercer Consulting Services

Path to MSRS Long-Term Sustainability



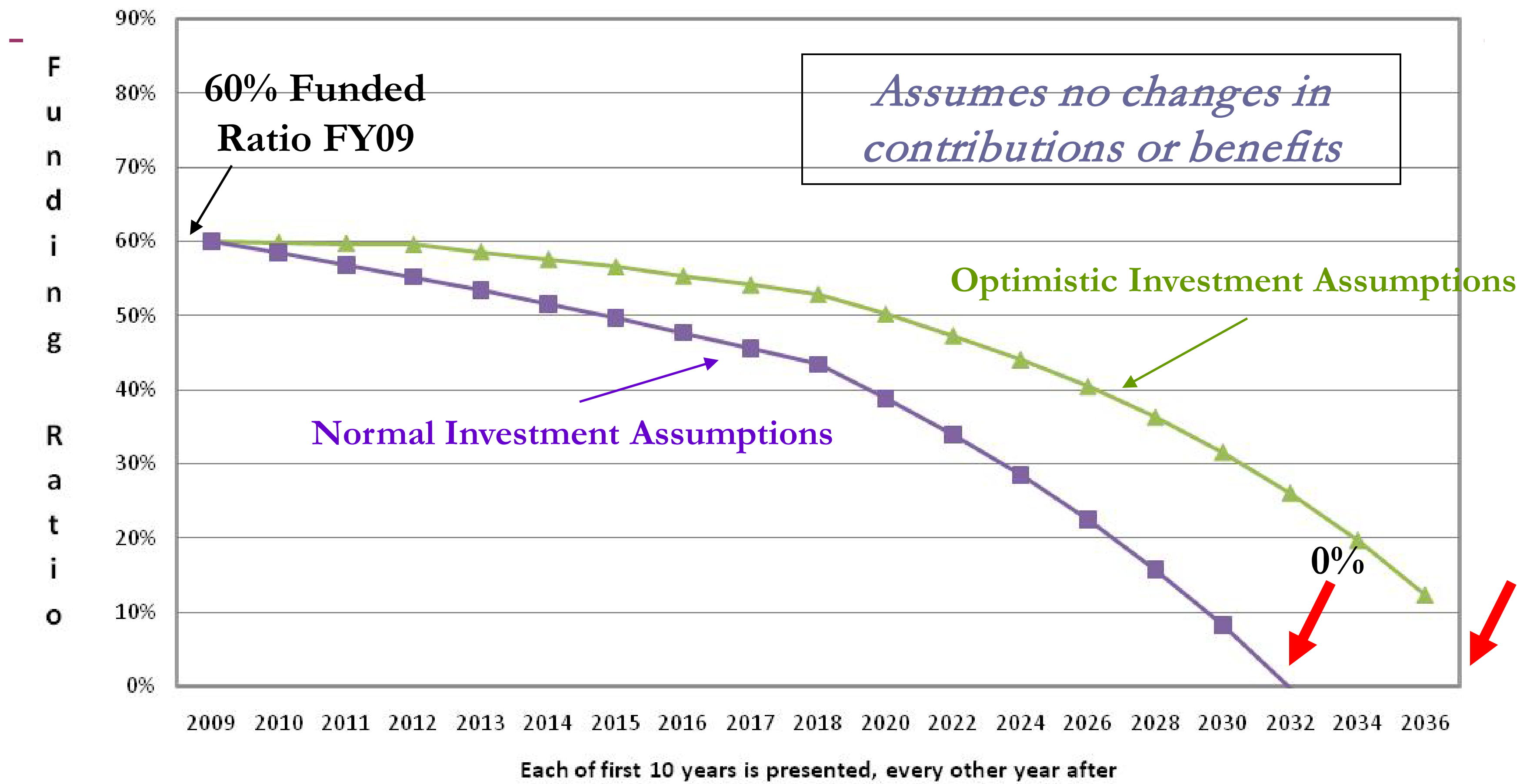
Source: Mercer Consulting Services

Financial Status of TRA

Fiscal Year 2009	July 1, 2009 Actuarial Value (5 yr smoothing of investment losses)	July 1, 2009 Market Value (no smoothing of investment losses)
Funding Ratio (Assets as % of Liabilities)	77 %	60 %
Current Contributions	11.69 % of pay	11.69 % of pay
Contributions Needed	16.81 % of pay	22.76 % of pay
Contribution Deficiency	(5.12) % of pay	(11.07) % of pay

* Source: Mercer Consulting, FY 09 valuation – EE rate = 5.5%; ER rate = 5.5%

What if we do nothing?



Purple Funded %: Current Contributions (11.75%), 8.5% investment return in all years

Green Funded %: Current Contributions (11.75%), 11% investment return for 3 years; 9.5% thereafter

How did we get here?

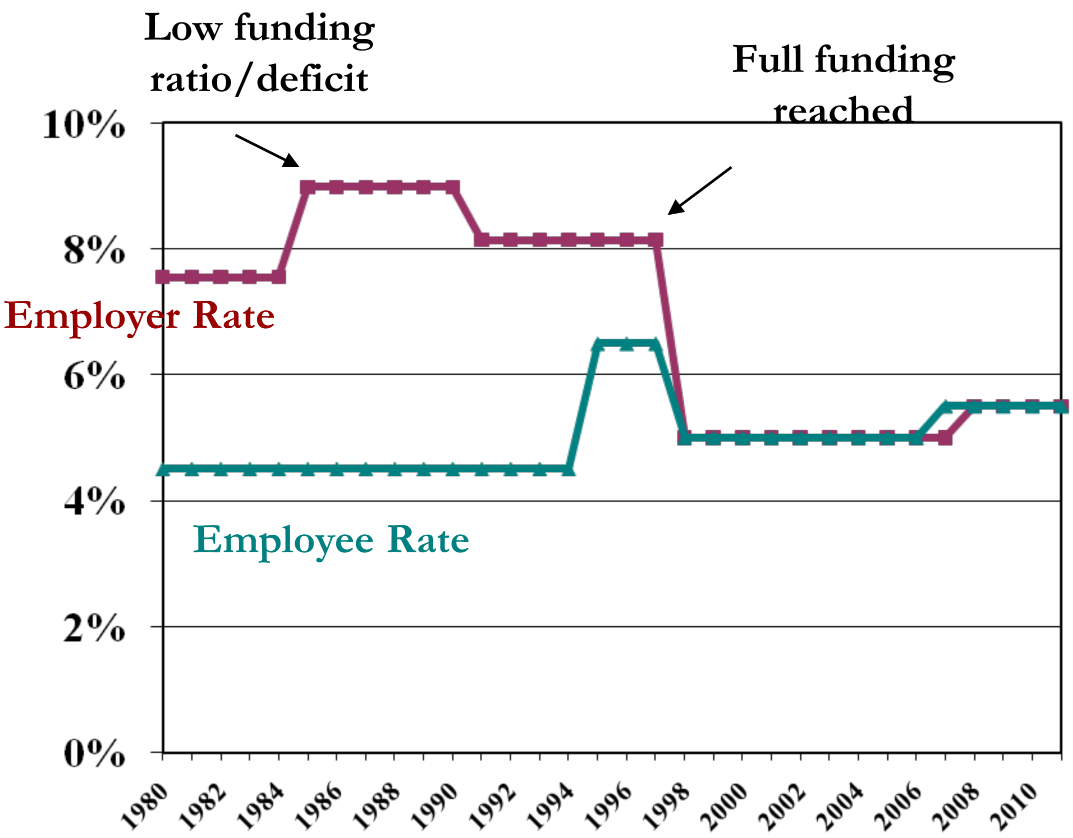
1. Severe market downturns in 2000's
   - ✓ Market declines in 2001- 2002 – down 15%+
   - ✓ Market plummets in 2008-2009 – down 24%

2. Extra investment returns of 1990's not retained in TRA Fund –

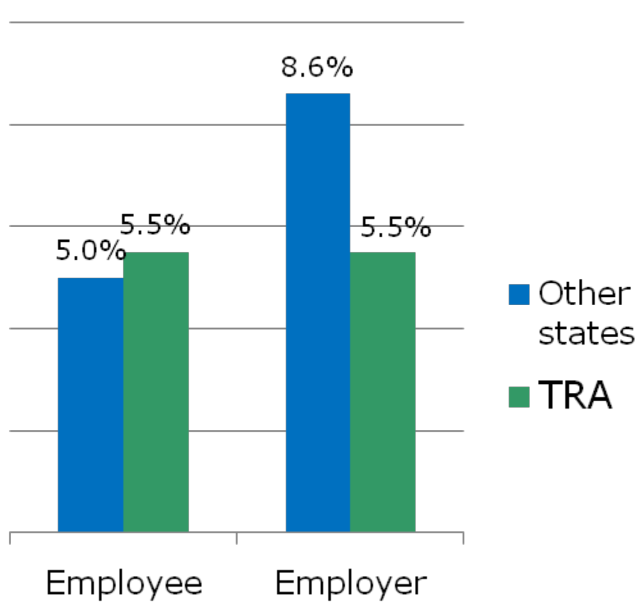
   - ✓ Large increases in retiree annual increases – 9.7%/year, 1997-2000; 3/4th of current unfunded liability is due to Post Fund; over 60% of TRA liabilities are for retirees

   - ✓ Precipitous rollback in TRA's employER & employEE contributions
     - EmployER rate cut from 8.14% to 5.0%
     - EmployEE rate cut from 6.5% to 5.0%
     - Rate cut = to $176 million/year

TRA Contributions Higher in Past



Employer /Employee Contributions in Other States



Path to TRA Long-Term Sustainability

Where do we go from here?

- ***Shared sacrifice*** – active members, employers, deferred members and benefit recipients will need to be part of the solution.
  - ✓ Reduce annual benefit recipient adjustment

    Temporary 2-year suspension (Jan. 2011 and Jan. 2012)

    2 percent annual increase thereafter until plan is stabilized
  - ✓ Increase employee and employer contributions - phased in over 4 years

    2 percent for employers – phased in 0.5% per year, July 1, 2011 – July 1, 2014

    2 percent for employees – phased in 0.5% per year, July 1, 2011 – July 1, 2014
  - ✓ Reduce certain active and former member benefits

    Reduce interest rate on refunds to 4%; reduce deferred interest for current deferred members and future terminated vested members to 2%; eliminate interest on re-employed retiree accounts.

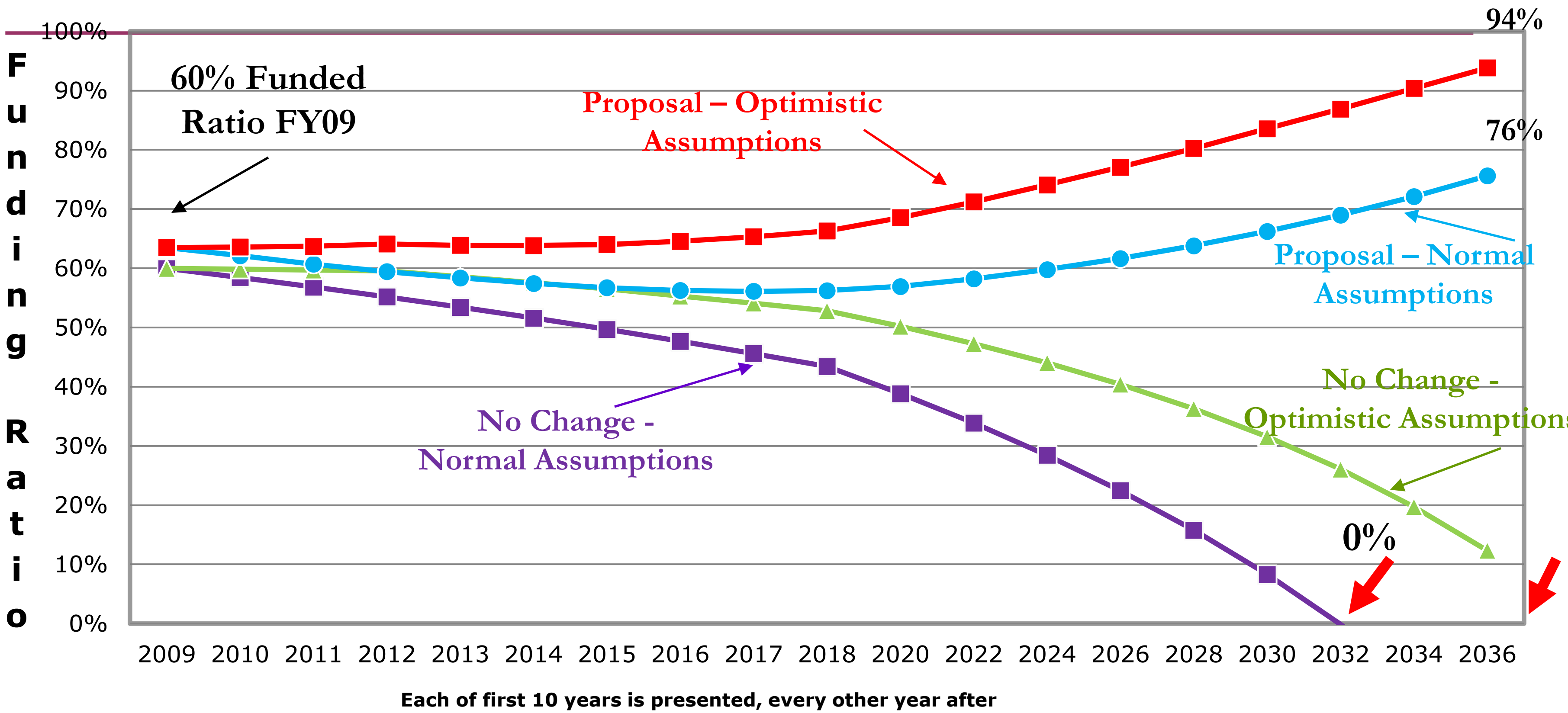
- ***Re-evaluation of all elements in 5 years*** – Investment returns will have a major impact (unknown).

Path to TRA Long-Term Sustainability

TRA Board Recommendations

	Deficiency Market value (11.07%)
Modify Annual Increase: 2 percent for future years until fund stabilized	2.0 %
Suspend Annual Increase for two years (2011-12)	1.0 %
Increase contributions: 2% employers, phased in 0.5%/yr, 2011-2014	2.0 %
Increase contributions: 2% employees; phased in 0.5%/yr, 2011 – 2014	2.0 %
Reduce deferred interest rate to 2%, reduce refund rate to 4% and ELSA rate to 0%	0.55 %
Savings from assumption changes	0.20 %
Expected revenue/savings from changes	**7.75 %**
Net remaining actuarial contribution (deficiency)/sufficiency	(3.42 %)

Path to TRA Long-Term Sustainability



Purple: Current Contributions (11.69%), no changes in contributions/benefits, 8.5% return in all years

Green: Current Contributions (11.69%), no changes in contributions/benefits, 11% return for 3 yrs; 9.5% thereafter

Blue: Higher Contributions (15.69%), 2 year COLA suspension with 2% thereafter, reset amortization period in 2016, 8.5% return in all yrs

Red: Higher Contributions (15.69%), 2 year COLA suspension with 2% thereafter, reset amortization period in 2016, 11% return for 3 yrs; 9.5% thereafter

* Source: Mercer Consulting actuarial projections, 12/16/09

MN Public Pensions Important to State

- MN's public pension systems serve nearly one-half million persons, 1 in 10 Minnesotans
- More than 90 percent of the systems' benefit recipients reside in Minnesota
- Systems paid out over $2.5 billion in benefits which added $3.3 billion on state economy and led to 22,500 additional jobs statewide
- State/local taxes paid by recipients and holders of new jobs exceeded public employer pension contributions to the systems by $80 million annually
- Economic impact of pension benefits was larger than the gross state product from mining and 92% of agricultural (crop/animal) production.

Source: Lubov, Andrea. "Measuring the Impact of Minnesota's Retirement Systems, March 2008