

January 10, 2014

The Honorable Sandra Pappas, Chair
 Legislative Commission on Pensions and Retirement
 120 Capitol
 75 Rev. Dr. Martin Luther King, Jr. Blvd.
 St. Paul, MN 55155-1606

Dear Senator Pappas:

The Board of Directors of the Minnesota State Retirement System (MSRS) is recommending contribution increases for two of its pension plans—the General Employees Retirement Plan and the Correctional Employees Retirement Plan. The proposed increases are shown below:

MSRS Plan	Employee Contribution Increase	Employer Contribution Increase
General Plan	0.50%	0.50%
Correctional Plan	0.50%	0.75%

A draft of the legislative language changing the contribution rates is enclosed for review by the staff and members of the Legislative Commission on Pensions and Retirement (LCPR).

Minnesota Statutes, Section 352.045, subdivision 3a, requires the MSRS Board to recommend a contribution increase when the total required actuarial contributions have been deficient by 0.5 percent of pay, or more, for two consecutive years. The actuarial required contributions and the contribution rate deficiencies are shown below for the MSRS General Plan on both an actuarial value of assets and market value of assets:

MSRS General Plan Current Funding Status

	Actuarial Value	Market Value
Actuarial Accrued Liability	\$11.4 billion	\$11.4 billion
Asset Value	\$ 9.4 billion	\$10.0 billion
Funding Ratio	82.40%	87.79%
Total Required Contribution	12.45%	10.80%
Employee plus Employer Contribution	10.00%	10.00%
Contribution Deficiency	-2.45%	-0.80%

The proposed contribution rate increases would leave a deficiency in the General Plan based on the actuarial value of assets, which are smoothed over five years, but would eliminate the contribution rate deficiency using the market value of assets.

MSRS Correctional Plan Current Funding Status

	Actuarial Value	Market Value
Actuarial Accrued Liability	\$1.026 billion	\$1.026 billion
Asset Value	\$ 701 million	\$747 million
Funding Ratio	68.3%	72.8%
Total Required Contribution	26.11%	24.67%
Employee plus Employer Contribution	20.7%	20.7%
Contribution Deficiency*	-5.41%	-3.97%

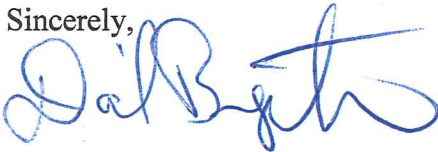
**Expected future savings of about 3% due to benefit changes enacted in 2010*

The MSRS Board had the legal authority to recommend a higher employee and employer contribution rate increase for the Correctional Plan, but changes enacted in 2010 are expected to lower future required contributions by about 3 percent of pay over the next 15 to 20 years.

The law requires the Board's recommendation be reported to the Chair and the Executive Director of the LCPR by January 15, following receipt of the most recent annual actuarial valuation report. The law further directs that if the LCPR does not recommend against the change, or modify the Board's recommendation, the rate change becomes effective the first day of the first full pay period in the next fiscal year, which would be July 1, 2014.

If you or the LCPR staff has any questions or concerns, please feel free to contact me at (651) 284-7888, or by e-mail at dave.bergstrom@msrs.us.

Sincerely,



David Bergstrom
Executive Director

Enclosures

C: Lawrence Martin, Executive Director
Legislative Commission on Pensions and Retirement

1.1 A bill for an act

1.2 relating to retirement; general state employees and correctional state employees
 1.3 retirement plans of the Minnesota State Retirement System; modifying employee
 1.4 and employer contribution rates; amending Minnesota Statutes 2012, sections
 1.5 352.04, subdivisions 2, 3; 352.92, subdivisions 1, 2.

1.6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.7 Section 1. Minnesota Statutes 2012, section 352.04, subdivision 2, is amended to read:

1.8 Subd. 2. **Employee contributions.** (a) The employee contribution to the fund must
 1.9 be equal to the following percent of salary:

1.10	before July 1, 2007	4.00
1.11	from July 1, 2007, to June 30, 2008	4.25
1.12	from July 1, 2008, to June 30, 2009	4.50
1.13	from July 1, 2009, to June 30, 2010	4.75
1.14	from July 1, 2010, and thereafter <u>to June 30,</u>	
1.15	<u>2014</u>	5.00.
1.16	<u>from July 1, 2014, and thereafter</u>	<u>5.50.</u>

1.17 (b) These contributions must be made by deduction from salary as provided in
 1.18 subdivision 4.

1.19 **EFFECTIVE DATE.** This section is effective on the first day of the first full pay
 1.20 period beginning after July 1, 2014.

1.21 Sec. 2. Minnesota Statutes 2012, section 352.04, subdivision 3, is amended to read:

1.22 Subd. 3. **Employer contributions.** The employer contribution to the fund must be
 1.23 equal to the following percent of salary:

2.1	before July 1, 2007	4.00
2.2	from July 1, 2007, to June 30, 2008	4.25
2.3	from July 1, 2008, to June 30, 2009	4.50
2.4	from July 1, 2009, to June 30, 2010	4.75
2.5	from July 1, 2010, and thereafter <u>to June 30,</u>	
2.6	<u>2014</u>	5.00-
2.7	<u>from July 1, 2014, and thereafter</u>	<u>5.50.</u>

2.8 **EFFECTIVE DATE.** This section is effective on the first day of the first full pay
 2.9 period beginning after July 1, 2014.

2.10 Sec. 3. Minnesota Statutes 2012, section 352.92, subdivision 1, is amended to read:

2.11 Subdivision 1. **Employee contributions.** (a) Employee contributions of covered
 2.12 correctional employees must be in an amount equal to the following percent of salary:

2.13	before July 1, 2007	5.69
2.14	from July 1, 2007, to June 30, 2008	6.40
2.15	from July 1, 2008, to June 30, 2009	7.00
2.16	from July 1, 2009, to June 30, 2010	7.70
2.17	from July 1, 2010, and thereafter <u>to June 30,</u>	
2.18	<u>2014</u>	8.60-
2.19	<u>from July 1, 2014, and thereafter</u>	<u>9.10.</u>

2.20 (b) These contributions must be made by deduction from salary as provided in
 2.21 section 352.04, subdivision 4.

2.22 **EFFECTIVE DATE.** This section is effective on the first day of the first full pay
 2.23 period beginning after July 1, 2014.

2.24 Sec. 4. Minnesota Statutes 2012, section 352.92, subdivision 2, is amended to read:

2.25 Subd. 2. **Employer contributions.** The employer shall contribute for covered
 2.26 correctional employees an amount equal to the following percent of salary:

2.27	before July 1, 2007	7.98
2.28	from July 1, 2007, to June 30, 2008	9.10
2.29	from July 1, 2008, to June 30, 2009	10.10
2.30	from July 1, 2009, to June 30, 2010	11.10
2.31	from July 1, 2010, and thereafter <u>to June 30,</u>	
2.32	<u>2014</u>	12.10-
2.33	<u>from July 1, 2014, and thereafter</u>	<u>12.85</u>

2.34 **EFFECTIVE DATE.** This section is effective on the first day of the first full pay
 2.35 period beginning after July 1, 2014.