Public Employees Retirement Association of Minnesota
60 Empire Drive, Suite 200
Saint Paul, Minnesota 55103-2088
Member Information Services: 651-296-7460 or 1-800-652-9026
Employer Response Lines: 651-296-3636 or 1-888-892-7372
PERA Fax Number: 651-297-2547
PERA Website: www.mnpera.org

File

December 16, 2013

The Honorable Sandy 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 PERA Board of Trustees is recommending a contribution increase of 0.25 percent of pay for Coordinated Plan members and a matching 0.25 percent of pay increase in the employers' contribution. A draft of the legislative language effecting a change in the contribution rates is enclosed for review by the staff and members of the Legislative Commission on Pensions and Retirement (LCPR).

Minnesota Statutes, Section 353.27, subdivision 3b requires the 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 for the PERA General Plan were deficient by 0.96 percent of pay as of July 1, 2012 and deficient by 1.65 percent of pay as of July 1, 2013, two consecutive years. A copy of the July 1, 2013 "Summary of Valuation Results" displaying the contribution requirements and deficiency is enclosed for your reference.

The current law directs that the Board's recommendation must 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.

In response to concerns of local governments regarding their budget setting time line, we are recommending a different effective date for this contribution rate change. We are also proposing that Section 353.27, subdivision 3b, paragraph (f) be modified to incorporate the change requested by the employer groups to better align with their budget setting needs. Enclosed is language to set the effective date of possible future contribution rate increases or decreases as the beginning of the next calendar year following the legislative session in which the LCPR is asked to review the PERA Board's recommendation. We will defer to LCPR staff for advice on how to best write the language.

We would also request that, if possible, this topic be included on the January 29, 2014 agenda of the LCPR meetings to provide public notice to all stakeholders about the need for the change. We have posted the Board's recommendation on our web site and will be contacting interested stakeholders, but the extra notice through an early discussion with the LCPR would be beneficial.

We will be prepared to discuss the actuarial results and the contribution recommendation when directed by you. In the meantime, if you or the LCPR staff have any questions or concerns, please feel free to contact me at (651) 296-8358, or by e-mail at mary.most.vanek@mnpera.org.

Sincerely,

Mary Most Vanek
Executive Director

Enclosures

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

Summary of Valuation Results

A summary of principal valuation results from the current valuation and the prior valuation follows. Any changes in Plan provisions, actuarial assumptions or valuation methods and procedures between the two valuations are described after the summary.

	Actuarial Valuation as of	
	July 1, 2013	**July 1, 2012**
Contributions *(% of Payroll)*		
Statutory - Chapter 353	13.50%	13.50%
Required - Chapter 356	15.15%	14.46%
Sufficiency / (Deficiency)	(1.65)%	(0.96)%
Funding Ratios *(dollars in thousands)*		
Accrued Benefit Funding Ratio		
- Current assets (AVA)	$ 14,113,295	$ 13,661,682
- Current benefit obligations	18,480,077	17,561,706
- Funding ratio	76.37%	77.79%
Accrued Liability Funding Ratio		
- Current assets (AVA)	14,113,295	$ 13,661,682
- Market value of assets (MVA)	15,084,608	13,577,653
- Actuarial accrued liability	$ 19,379,769	18,598,897
- Funding ratio (AVA)	72.82%	73.45%
- Funding ratio (MVA)	77.84%	73.00%
Projected Benefit Funding Ratio		
- Current and expected future assets	$ 20,846,228	$ 20,492,589
- Current and expected future benefit obligations	21,915,442	21,129,663
- Projected benefit funding ratio	95.12%	96.98%
Participant Data		
Active members		
- Number	139,763	139,330
- Projected annual earnings *(000s)*	$ 5,256,798	$ 5,201,524
- Average projected annual earnings	$ 37,612	$ 37,332
- Average age	47.3	47.3
- Average service	11.0	11.1
Service retirements	67,861	64,472
Survivors	7,539	7,425
Disability retirements	3,683	3,638
Deferred retirements	45,946	44,354
Terminated other non-vested	119,509	115,287
Total	**384,301**	**374,506**

A bill for an act

relating to retirement; general employees retirement plan of the Public Employees Retirement Association; modifying coordinated program employee and employer contribution rates; amending Minnesota Statutes 2012, section 353.27, subdivisions 2, 3, 3b.

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

Section 1. Minnesota Statutes 2012, section 353.27, subdivision 2, is amended to read:

Subd. 2. **General employees retirement plan; employee contribution.** (a) For a basic member of the general employees retirement plan of the Public Employees Retirement Association, the employee contribution is 9.10 percent of salary. For a coordinated member of the general employees retirement plan of the Public Employees Retirement Association, the employee contribution is the following percentage of salary plus any contribution rate adjustment under subdivision 3b:

~~Effective before January 1, 2011~~	~~6.00~~
Effective after December 31, 2010	6.25
Effective January 1, 2015	6.50

(b) These contributions must be made by deduction from salary as defined in section 353.01, subdivision 10, in the manner provided in subdivision 4. If any portion of a member's salary is paid from other than public funds, the member's employee contribution must be based on the total salary received by the member from all sources.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 2. Minnesota Statutes 2012, section 353.27, subdivision 3, is amended to read:

Subd. 3. **General employees retirement plan; employer contribution.** (a) For a basic member of the general employees retirement plan of the Public Employees Retirement Association, the employer contribution is 9.10 percent of salary. For a coordinated member of the general employees retirement plan of the Public Employees Retirement Association, the employer contribution is the following percentage of salary plus any contribution rate adjustment under subdivision 3b:

~~Effective before January 1, 2011~~	~~6.00~~
Effective after December 31, 2010	6.25
Effective January 1, 2015	6.5

(b) This contribution must be made from funds available to the employing subdivision by the means and in the manner provided in section 353.28.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 3. Minnesota Statutes 2012, section 353.27, subdivision 3b, is amended to read:

Subd. 3b. **Change in employee and employer contributions in certain instances.** (a) For purposes of this section:

(1) a contribution sufficiency exists if the total of the employee contribution under subdivision 2, the employer contribution under subdivision 3, the additional employer contribution under subdivision 3a, and any additional contribution previously imposed under this subdivision exceeds the total of the normal cost, the administrative expenses, and the amortization contribution of the general employees retirement plan as reported in the most recent actuarial valuation of the retirement plan prepared by the actuary retained under section 356.214 and prepared under section 356.215 and the standards for actuarial work of the Legislative Commission on Pensions and Retirement; and

(2) a contribution deficiency exists if the total of the employee contributions under subdivision 2, the employer contributions under subdivision 3, the additional employer contribution under subdivision 3a, and any additional contribution previously imposed under this subdivision is less than the total of the normal cost, the administrative expenses, and the amortization contribution of the general employees retirement plan as reported in the most recent actuarial valuation of the retirement plan prepared by the actuary retained under section 356.214 and prepared under section 356.215 and the standards for actuarial work of the Legislative Commission on Pensions and Retirement.

(b) Employee and employer contributions to the general employees retirement plan under subdivisions 2 and 3 must be adjusted:

(1) if~~, on or after July 1, 2010,~~ the regular actuarial valuation of the general employees retirement plan of the Public Employees Retirement Association under section 356.215

indicates that there is a contribution sufficiency under paragraph (a) greater than one percent of covered payroll and that the sufficiency has existed for at least two consecutive years, the coordinated program employee and employer contribution rates must be decreased as determined under paragraph (c) to a level such that the sufficiency is no greater than one percent of covered payroll based on the most recent actuarial valuation; or

(2) if~~, on or after July 1, 2010,~~ the regular actuarial valuation of the general employees retirement plan of the Public Employees Retirement Association under section 356.215 indicates that there is a contribution deficiency equal to or greater than 0.5 percent of covered payroll and that the deficiency has existed for at least two consecutive years, the coordinated program employee and employer contribution rates must be increased as determined under paragraph (d) to a level such that no deficiency exists based on the most recent actuarial valuation.

(c) If the actuarially required contribution of the general employees retirement plan is less than the total support provided by the combined employee and employer contribution rates under subdivisions 2, 3, and 3a, by more than one percent of covered payroll, the general employees retirement plan coordinated program employee and employer contribution rates under subdivisions 2 and 3 must be decreased incrementally over one or more years by no more than 0.25 percent of pay each for employee and employer matching contribution rates to a level such that there remains a contribution sufficiency of at least one percent of covered payroll. No contribution rate decrease may be made until at least two years have elapsed since any adjustment under this subdivision has been fully implemented.

(d) If the actuarially required contribution exceeds the total support provided by the combined employee and employer contribution rates under subdivisions 2, 3, and 3a, the employee and matching employer contribution rates must be increased equally to eliminate that contribution deficiency. If the contribution deficiency is:

(1) less than two percent, the incremental increase may be up to 0.25 percent for the general employees retirement plan employee and matching employer contribution rates;

(2) greater than 1.99 percent and less than 4.01 percent, the incremental increase may be up to 0.5 percent for the employee and matching employer contribution rates; or

(3) greater than four percent, the incremental increase may be up to 0.75 percent for the employee and matching employer contribution.

(e) The general employees retirement plan contribution sufficiency or deficiency determination under paragraphs (a) to (d) must be made without the inclusion of the contributions to, the funded condition of, or the actuarial funding requirements of the MERF division.

(f) Any recommended adjustment to the contribution rates must be reported to the chair and the executive director of the Legislative Commission on Pensions and Retirement by January 15 following the receipt of the most recent annual actuarial valuation prepared under section 356.215. If the Legislative Commission on Pensions and Retirement does not recommend against the rate change or does not recommend a modification in the rate change, the recommended adjustment becomes effective ~~on the first day of the first full payroll period in the fiscal year~~ for any salary paid on or after the January 1 next following ~~receipt of the most recent actuarial valuation that gave rise to the adjustment~~ the legislative session in which the Legislative Commission on Pensions and Retirement did not take any action to disapprove or modify the Public Employees Retirement Association board of trustees' recommendation to adjust the employee and employer rates.

(g) A contribution sufficiency of up to one percent of covered payroll must be held in reserve to be used to offset any future actuarially required contributions that are more than the total combined employee and employer contributions under subdivisions 2, 3, and 3a.

(h) Before any reduction in contributions to eliminate a sufficiency in excess of one percent of covered pay may be recommended, the executive director must review any need for a change in actuarial assumptions, as recommended by the actuary retained under section 356.214 in the most recent experience study of the general employees retirement plan prepared under section 356.215 and the standards for actuarial work promulgated by the Legislative Commission on Pensions and Retirement that may result in an increase in the actuarially required contribution and must report to the Legislative Commission on Pensions and Retirement any recommendation by the board to use the sufficiency exceeding one percent of covered payroll to offset the impact of an actuarial assumption change recommended by the actuary retained under section 356.214, subdivision 1, and reviewed by the actuary retained by the commission under section 356.214, subdivision 4.

(i) No contribution sufficiency in excess of one percent of covered pay may be proposed to be used to increase benefits, and no benefit increase may be proposed that would initiate an automatic adjustment to increase contributions under this subdivision. Any proposed benefit improvement must include a recommendation, prepared by the actuary retained under section 356.214, subdivision 1, and reviewed by the actuary retained by the Legislative Commission on Pensions and Retirement as provided under section 356.214, subdivision 4, on how the benefit modification will be funded.

EFFECTIVE DATE. This section is effective the day following final enactment.