

Governor vetoes bill containing pension reforms

After a special session, Gov. Mark Dayton vetoed the bill (Special Session S.F. 3) containing the 2017 Omnibus Retirement Bill, which included a lower investment return assumption of 7.5 percent, benefit reforms for the Police & Fire Plan, and a number of administrative changes. In his veto letter to the Legislature, the Governor did recognize that the legislation included changes to public employee retirement plans that would improve the economic security of tens of thousands of Minnesotans. However, he ultimately vetoed the bill because it contained provisions that would preempt local governments' ability to set wage and benefit levels higher than state law.



The provisions of the Omnibus Retirement Bill were initially included in S.F. 545 during the regular legislative session, which was passed by the Legislative Commission on Pensions and Retirement (LCPR) and the Minnesota Senate. During the Special Session, the PERA-related provisions in S.F. 545 were rolled into Special Session S.F. 3 bill.

Police & Fire Plan Sustainability Package details

What the vetoed bill contained

The PERA Board of Trustees voted in December 2016 to propose a Police & Fire Plan sustainability package to the Legislature. The proposal, which was part of the vetoed bill, included contribution rate increases for both employees and employers, extending the plan's amortization period, along with removing the future possibility of a 2.5 percent cost-of-living adjustment to Police & Fire Plan retirees. In addition, the vetoed bill contained supplemental state aid for the Police & Fire Plan provided by the Legislature.

Before proposing legislative changes, the Board considered actuarial information showing a projected decline in the plan's funded status based on updated assumptions of increased lifespan and a lower investment return

assumption. Had the bill been signed into law, the sustainability measures, along with the additional funding, would have put the Police & Fire Plan on track to reach 94 percent funded in 30 years.

Contribution rate increase

The vetoed bill called for an employee increase of 1 percent and an employer increase of 1.5 percent, phased in over two years beginning in 2018. With the veto, the contribution rates will remain the same. Currently the employee pays 10.80 percent of salary and the employer pays 16.20 percent.

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Looking ahead...

General Plan benefit reform package

The PERA Board of Trustees voted not to bring a proposal before the 2017 Legislature making changes to the General Plan since the funding levels were expected to gradually improve. However, the PERA Board did discuss developing a package of benefit reforms and policy changes to bring before the 2018 Legislature. The vetoed bill would have required the PERA Board to bring a package of benefit changes to the 2018 Legislative session. The Board will also revisit the vetoed sustainability provisions for the Police & Fire Plan.

Getting a peek into history being made. See inside for more details on the Capitol restoration project.

Photo courtesy: MN Dept. of Admin. Cathy Klima photographer.

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

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PERA NEWS

PRESIDENT’S MESSAGE



Kathryn A. Green
President
PERA Board of Trustees

“We will continue to work tirelessly as fiduciaries, and focus on the enduring goal that everyone shares— sustainable plans.”

The proactive, long-term thinking to fulfill our mission statement to administer and promote sustainable retirement plans, embodied by the PERA Board of Trustees, reminds me of the guiding principles of the Minnesota State Capitol renovation project. The renovation project, the first since the Capitol first opened in 1905, will prepare the building for the next 100 years. As the trustees of your pension, we also have principles to guide our decisions to prepare our plans for the future.

Over the past 86 years, this association has taken the steps necessary to make sure that any change that comes from new legislation never poses a threat, or gives way to any adverse effect on our number one responsibility: the sustainability of our plans. Decades of past experiences have helped PERA face opposition and challenges head on by preparing, evaluating, and making the right choices that have kept our plans viable for prior, current, and future generations. That’s exactly why the PERA Board voted to propose a lower assumed investment return and reforms to the Police & Fire Plan.

While the Board’s proposal was included in a bill vetoed by the governor, we will adapt and continue to evaluate our retirement plans, and establish long-term objectives so that we are equipped to meet the future with certainty. We will continue to work tirelessly as fiduciaries, and focus on the enduring goal that everyone shares— sustainable plans. Over the summer and fall months, the PERA Board will carry on work to ensure the long-term financial solvency of our plans.

Just as we must adapt to the veto of the bill containing the Board’s sustainability provisions, we must also adapt to changes within the organization. On behalf of the PERA Board of Trustees, I would like to recognize our former colleague and vice president, David Metusalem, who retired from his deputy position with Ramsey County in March. Mr. Metusalem was instrumental in facilitating the support of police and fire representatives from around the state in the development of a 2017 legislative package to address funding of the Police & Fire Plan. We are grateful for his dedicated service as the elected Police & Fire representative.

As a result of Mr. Metusalem’s retirement, the Board held a special election for the Vice Presidency, and elected Ross Arneson to serve in this position for the next year. Mr. Arneson has served as the elected retiree/disabillant representative since February 2015, and he formerly held an elected general membership seat for 14 years. He is a fountain of knowledge and experience.

Even when change occurs within the association, we adapt and remain at the ready and well equipped to continue our work in maintaining and monitoring your retirement plans.

Vetoed bill included lower assumed investment return

The PERA Board of Trustees voted in December to propose lowering the investment return assumption from 8 percent to 7.5 percent for PERA’s defined benefit plans—the General, Police & Fire, and Correctional Plans. This provision was part of the bill vetoed by the Governor.

The PERA Board of Trustees voted in December to propose the more conservative assumed investment return after reviewing information from PERA’s consulting actuary, and other local and national studies. 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.

Assumed investment return: this is what we expect our investments to earn. The investment return assumption is the single, most impactful assumption in the plan.

Why lower the rate?

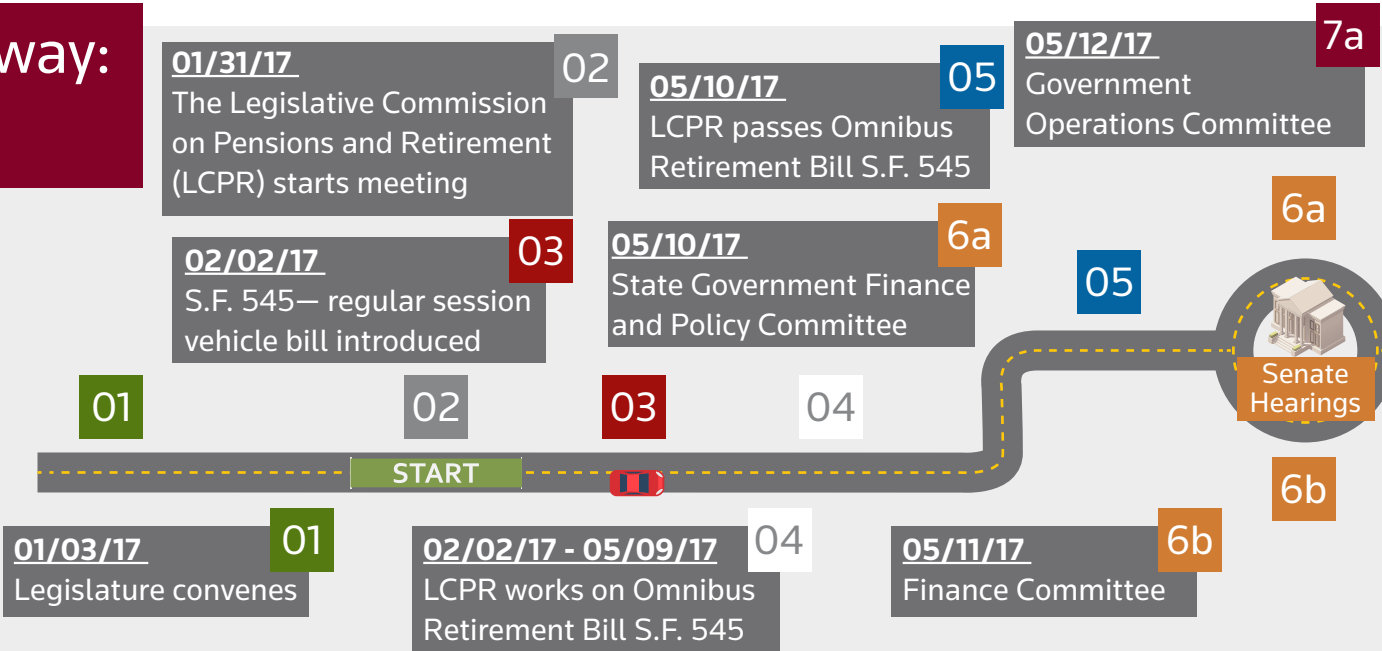
The number of pension plans nationally using 8 percent or higher for the assumed investment return is diminishing, according to the National Association of State Retirement Administrators. Nationally, the median investment expectation for public pension funds is 7.5 percent.

The State Board of Investment (SBI), which is responsible for investing the assets of the statewide public retirement plans, released a study showing a projected 7.3 percent return based upon the fund’s investment allocation. PERA’s actuary also cautioned that an 8 percent return assumption might not be reasonable in a period of declining capital market and inflation expectations. Minnesota Management & Budget, which is responsible for overseeing the state’s finances and maintaining the state’s bond ratings, and the Governor, supported lowering the rate to 7.5 percent. A more conservative investment expectation is viewed favorably by bond rating agencies that have increasingly looked at states’ pension management in determining the ratings that impact the credit worthiness of the state.

On the legislative highway:
PERA’s pension bill

A detailed time line of the Omnibus Retirement Bill S.F. 545— where it started, what stages the bill went through, and where it ended up.

In the later stages, this bill was rolled into the controversial Special Session S.F. 3 bill, which was vetoed by Gov. Dayton.



Governor vetoes pension reform bill

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Police & Fire Plan Sustainability Package details, continued

Amortization period

The amortization period is the time frame during which the plan’s unfunded liabilities are re-quired to be fully funded. The current statutory date by which the plan is required to reach full funding is set at 2038. The bill proposed to extend the amortization period nine years to 2047.

Post-retirement adjustment

The sustainability measures adopted by the 2010 and 2013 Legislatures fixed the post-retire-ment adjustment at 1.5 percent, and later at 1 percent, with a trigger to 2.5 percent only when the plan reaches 90 percent funded. With the projected decline in the plan’s funded status, it was projected that the 2.5 trigger would not occur. To keep the plan sustainable, the package called to remove the 2.5 percent trigger so that any additional funding for the plan would move the plan toward reaching full funding, rather than increasing liabilities by moving up the date of the higher adjustment.

Additional funding

The Legislature agreed with the Governor’s recommendation to provide additional state funding for the Police & Fire Plan and included it in the vetoed bill. The Police & Fire Plan would have received \$4.5 million in 2017 and 2018, and \$9 million each year after. This would have been in addition to the 2013 legislation providing \$9 million annually to the Police & Fire Plan that re-mains unchanged.

Other policy details of the bill

The vetoed bill contained several administrative changes that would have streamlined PERA’s processes and increased uniformity with the other statewide pension plans. Additionally, the bill would have required PERA to bring a package of benefit reforms for the General Plan to the Legislature in 2018 and included a change to the Correctional Plan cost-of-living adjustment. The bill, if not vetoed, would have set the Correctional Plan cost-of-living adjustment at 1.5 per-cent beginning January 1, 2018. For the past several years the Correctional Plan has reached a 90 percent funded ratio triggering the 2.5 percent adjustment. Projections for future years, with assumption changes in the plan’s liabilities, show that the actual adjustment paid is likely to fluctuate between 1 and 2.5 percent. Given this uncertainty, it is difficult to determine if the 1.5 percent cost-of-living adjustment would have been a benefit increase or decrease.



SBI posted a 12.5 percent return for the 10-month period ending April 30, 2017

After a negative investment return at the end of fiscal year 2016, the combined retirement funds invested by the State Board of Investment (SBI) posted a 12.5 percent return for the 10-month period ending April 30, 2017. It is important to note that the returns show a snapshot of a particular time period. For example, the negative 0.1 percent 2016 return was for the fiscal year ending June 30, 2016, not the calendar year ending December 31, 2016. The late 2016 stock market rally was not captured in the 2016 financial results.

SBI maintains a diversified portfolio consisting of domestic stocks (45 percent), international stocks (15 percent), bonds (18 percent), alternative assets (20 percent), and unallocated cash (2 percent).

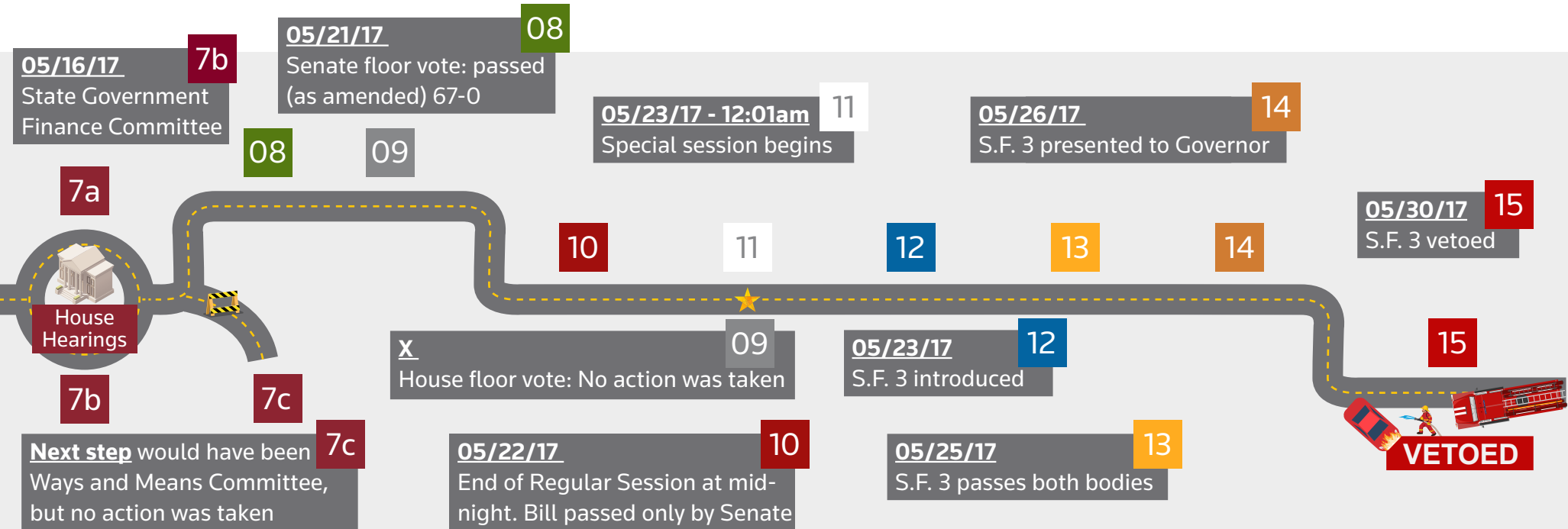
The Board of Trustees always closely monitors the funded status of the plans, PERA invests looking at a 50-plus-year horizon. It is important to remember that market fluctuations and volatility, either positive or negative, are expected, and as a long-term investor PERA looks closely at best practices and funding projections before initiating plan changes.



Capitol Restoration project nears completion

The Capitol opened for the 2017 legislative session, after undergoing a comprehensive preservation effort since 2013, the first since it opened in 1905. The restoration project will be complete in August 2017. When completed, this historic project will prepare our Capitol for the next 100 years. The Minnesota State Capitol Restoration Project is governed by three guiding principles established by the Minnesota State Capitol Preservation Commission. The principles focus on architectural integrity, building functionality, and life safety and security.

Photos (from top left) This master carver’s work station sits on scaffolding outside the Capitol’s south facade. Various tools are on a nearby table for easy retrieval. Upgrading electrical wiring in the Governor’s Reception Room. Restoring wood inlay bordering the Governor’s Reception Room floor. Courtesy: MN Dept. of Admin. Cathy Klima photographer.



POLICE & FIRE

PERA Board of Trustees seeking candidate

Metusalem retirement results in board vacancy

David Metusalem, PERA board Police and Fire trustee, retired from the Ramsey County Sheriff’s Office at the end of March. By doing so, he was required to relinquish his seat on PERA’s Board of Trustees.

Elected in February 2015, as the Police and Fire Plan representative, Metusalem served for two years. He stepped down from the PERA Board in April because the law governing board membership requires that the seat must be held by a current active member of the Police & Fire Plan.

Filling out the term

The PERA Board is now in the process of selecting a trustee to fill the remainder of Metusalem’s four-year term, which ends in January 2019, and is soliciting candidates for the post. PERA will accept applications from June 20 through July 19. Interested active members of the Police & Fire Plan can apply by completing a brief biography and answering three questions concerning the position. Letters of recommendation will not be considered. The application materials can be found on PERA’s website, www.mnpera.org, under *About PERA/Board of Trustees/Board Elections*, or you may call 651-201-2691.

If there are more than five candidates for the seat, a subcommittee of the Board will review the candidate statements and present a slate of three to five candidates for consideration by the Board of Trustees at the August Board meeting.

PERA WILL ACCEPT APPLICATIONS JUNE 20 THROUGH JULY 19.



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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.

Kathryn A. Green, President
Appointed School Board Representative
Email: kathryn.green@mnpera.org

Ross Arneson, Vice President
Elected Retiree/Disabilitant Representative
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Paul Bourgeois
Elected General Membership Representative
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Mary Falk
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Barbara Johnson
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Leigh Lenzmeier
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Rebecca Otto
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Lawrence J. Ward
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VACANT
Elected Police & Fire Representative

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