PUBLIC EMPLOYEES
RETIREMENT ASSOCIATION

Date: December 12, 2019
To: PERA Board of Trustees
From: Doug Anderson, Executive Director
Subject: Privatization Reporting

Minnesota Statutes Chapter 353F defines terms for member benefits and reporting requirements related to entities that privatize. A privatizing entity can seek augmentation of benefits for eligible members by requesting an actuarial study that measures the impact to the General Employees Retirement Plan (the Plan). If the actuarial calculation results in a net gain to the Plan, benefits are augmented at the rate of 2 percent. If a 2 percent augmentation results in a net loss, the augmentation rate is reduced to 1 percent. If a net loss occurs at the 1 percent augmentation rate, there is no augmentation of benefits.

The following entity recently requested and received an actuarial study:

Entity	Study result
Renville County Hospital	A total of 135 employees were candidates for augmentation. The privatization date is expected to be April 1, 2020. An actuarial report dated October 28, 2019 indicated a net gain to the Plan at the 2 percent augmentation rate.

Since the entity's actuarial calculations indicates a net gain to the Plan, member benefits are expected to be augmented consistent with terms under Chapter 353F.

Section 353F.025 of the Statute states that "...the executive director shall, following acceptance of the actuarial calculations by the board of trustees, forward notice and supporting documentation, including a copy of the actuary's report and findings, to the chair and the executive director of the Legislative Commission on Pensions and Retirement and the chairs and the ranking minority members of the committees with jurisdiction over governmental operations in the house of representatives and senate."

Staff Recommendation

Staff recommends that the PERA Board of Trustees accept the actuarial calculations for Renville County Hospital.

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October 28, 2019

Mr. Doug Anderson, Executive Director
Public Employees Retirement Association
of Minnesota
60 Empire Drive, Suite 200
St. Paul, Minnesota 55103

Re: Renville County Hospital – Privatization Study

Dear Doug:

Enclosed is the Privatization Study for Renville County Hospital, a participating employer of the Public Employees Retirement Association of Minnesota General Employees Retirement Plan (PERA General). To the best of our knowledge and belief, the calculations were completed in accordance with the requirements of Minnesota Statutes, Section 356.215, and the requirements of the Standards for Actuarial Work established by the Legislative Commission on Pensions and Retirement (LCPR).

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Examples of risk that may reasonably be anticipated to significantly affect the plan's future financial condition are described in detail in the valuation report dated November 28, 2018. Due to the limited scope of the actuary's assignment, the actuary did not perform an analysis of the potential range of such future measurements.

This report should not be relied on for any purpose other than the purpose described on the next page. Determinations of the financial results associated with the benefits described in this report in a manner other than the intended purpose may produce significantly different results.

This report was prepared at the request of PERA and is intended for use by the Retirement System and those designated or approved by PERA. This report may be provided to parties other than the System only in its entirety and only with the permission of PERA. GRS is not responsible for unauthorized use of this report.

The valuation was based upon information furnished by PERA, concerning Retirement System benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries.

The signing actuaries are independent of the plan sponsor.

Please call if you have any questions regarding the calculations enclosed.

Sincerely,

Bonita J. Wurst

Bonita J. Wurst, ASA, EA, FCA, MAAA

Brian B. Murphy

Brian B. Murphy, FSA, EA, FCA, MAAA, PhD

BJW/BBM:sc
Enclosure

Renville County Hospital
Privatization Study
as of July 1, 2018

Requested By:	Mr. Doug Anderson, Executive Director Public Employees Retirement Association of Minnesota
Date:	October 28, 2019
Submitted By:	Bonita J. Wurst, ASA, EA, FCA, MAAA, and Brian B. Murphy, FSA, EA, FCA, MAAA, PhD Gabriel, Roeder, Smith & Company

This report contains an actuarial valuation of proposed privatization of benefits for employees of Renville County Hospital ("the Hospital"). Eligible employees of the Hospital are currently members in the General Employees Retirement Plan. If the Hospital becomes a private employer, these employees will terminate active participation in the Plan and become eligible for privatized member provisions, as described on page 4 and in Minnesota Statutes, Section 353F. Privatization enhancements cannot be provided if they result in a liability loss to the General Employees Retirement Plan. The purpose of this supplemental valuation is to determine whether or not the privatization enhancements result in a liability loss.

The date of the valuation was July 1, 2018. This means that the report indicates what the July 1, 2018 liabilities would have been under a baseline (continuing active participation) scenario and under a privatization scenario. The date of the actuarial calculations used to determine whether privatization enhancements can be provided must be within one year of the effective date of privatization.

Bonita J. Wurst and Brian B. Murphy are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present and proposed plan provisions that are outlined in the report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the authors of this report prior to relying on information in the report.

If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the authors of the report prior to making such decision.

Actuarial assumptions and methods were consistent with those used in the regular actuarial valuation of the Retirement System on the valuation date, unless otherwise noted. Actuarial assumptions, including discount rates and mortality tables, are prescribed by Minnesota Statutes Section 356.215, the Legislative Commission on Pensions and Retirement (LCPR), and the Trustees. These parties are responsible for selecting the plan's funding policy, actuarial valuation methods, asset valuation methods, and assumptions. In particular:

- The assumed rate of interest was 7.5% for all years.
- The assumed post-retirement benefit increase rate was 1.25% per year.
- Mortality assumptions are as follows:

Healthy Pre-Retirement	RP-2014 Employee Mortality Table, adjusted for white collar and mortality improvements using projection scale MP-2017, from a base year of 2014. Rates are set forward one year for males and set back one year for females.
Healthy Post-Retirement	RP-2014 Healthy Annuitant Mortality Table, adjusted for white collar and mortality improvements using projection scale MP-2017, from a base year of 2014. Rates are set forward two years for males. Female rates are multiplied by a factor of 0.90.
Disabled Retirees	RP-2014 Disabled Mortality Table, adjusted for mortality improvements using projection scale MP-2017, from a base year of 2014. Rates are set forward one year for males and set forward six years for females.

Please see the 2018 valuation report dated November 28, 2018 for a detailed description of all assumptions and methods.

Renville County Hospital
Privatization Study
as of July 1, 2018

Eligible employees of Renville County Hospital are currently members in the General Employees Retirement Plan. If Renville County Hospital becomes a private employer, these employees will terminate active participation in the Plan. Minnesota Statutes 353F defines benefits for members of privatized employers.

When an employer privatizes, risk is transferred from the privatizing employer to the plan and other participating employers. Before privatization, as a participating employer who supports the Plan through employer contributions, Renville County Hospital shares in the risks of the Plan. After privatization, Renville County Hospital no longer shares in these risks; the risk is shifted to the Plan and remaining participating employers. Quantifying this risk is outside the scope of this study; if additional information is needed, please contact the authors of this report.

We have completed an analysis of the actuarial accrued liability of the active members employed by Renville County Hospital under the following scenarios:

- Ongoing Active Employees (i.e., 2018 valuation liability for eligible employees).
- Terminated Vested Employees (assumed termination July 1, 2018 for eligible employees).
- Terminated Vested Employees with the enhancements of the PERA Privatized Plan (assumed privatization July 1, 2018 for eligible employees); see description of privatization enhancements on page 4.

From the data file of 165 total employees that PERA provided, we identified 135 active members in the PERA General Employees Retirement Plan as of July 1, 2018. The remaining 30 employees were not included in the data supplied for the 2018 PERA valuation. Consequently, they were not included in the 2018 PERA valuation and were excluded from this study. If the privatization of Renville County Hospital occurs on a future date and the excluded employees have accrued service in the PERA GERP as of the date of privatization, these employees may be entitled to a benefit from the PERA GERP with privatization enhancements. This potential liability is not reflected in this study.

Participant statistics are shown below:

Participant Data	As of June 30, 2018
Number	135
Average Age	42.9
Average Years of Service	8.0
Average Annual Earnings	$ 61,821

It is our understanding that current inactive or retired members of Renville County Hospital will remain in PERA and would not be affected by the proposed benefit changes. They were excluded from this study.

Renville County Hospital
Privatization Study
as of July 1, 2018

The liabilities in this letter are determined as of July 1, 2018 and are based on the employee data provided by PERA, and the plan provisions, assumptions, and methods as summarized in the 2018 valuation report dated November 28, 2018 (including specific assumptions and methodologies regarding the post-retirement increase provisions).

The current privatization enhancements are as follows:

- All participants are 100% vested upon privatization.
- Augmentation rate of 2.0% annually, unless the enhancement results in a net loss to the Plan, in which case the augmentation rate equals 1.0% annually.

For comparison purposes, the current Plan provisions for PERA members are as follows:

- Participants are 100% vested upon three years of service (five years if first hired after June 30, 2010).
- Members who terminate after 2011 receive no augmentation.

Actuarial Statement

The actuarial accrued liabilities under the baseline and current privatization provisions are shown below:

Renville County Hospital		**($ in Thousands) Actuarial Accrued Liability as of July 1, 2018**
1. 2018 valuation liability - all members active	$	9,356
2. a. Current plan provisions, no privatization enhancements - all members treated as terminated vested as of July 1, 2018		6,275
b. Current enhancements of the PERA Privatized Plan (augmentation rate of 2%) - all members treated as privatized members as of July 1, 2018		7,571
3. Change in liability due to proposed privatization (i.e., net (gain)/loss due to proposed privatization) *(2.b. - 1.)*	$	(1,785)

According to MN Statutes 353F.025, privatization enhancements cannot be provided if they result in a liability loss to PERA:

Following receipt of a resolution and a determination by the executive director that the new employer is not a governmental subdivision, the executive director shall direct the consulting actuary retained under section 356.214 to determine whether the general employees retirement plan of the Public Employees Retirement Association, if coverage under this chapter is provided, is expected to receive a net gain or a net loss if privatization occurs. A net gain is expected if the actuarial liability of the special benefit coverage provided under this chapter, if extended to the applicable employees under the privatization, is less than the actuarial gain otherwise to accrue to the plan. A net loss is expected if the actuarial accrued liability of the special benefit coverage provided under this chapter, if extended to the applicable employees under the privatization, is more than the actuarial gain otherwise to accrue to the plan.

Based on methodology that PERA has consistently utilized for privatization evaluations, because the proposed privatization results in a net gain on actuarial accrued liability, the privatization enhancements may be provided. The additional liability due to privatization enhancements is $1,296,000 (2.b. – 2.a.), which is less than the $3,081,000 reduction in liability (1. – 2.a.) if all active members are treated as terminated vested members.

Other approaches may be reasonable, but may require statutory clarification.

Comments

Comment 1 — No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them.

Comment 2 — This report is intended to describe the financial effect of the proposed privatization changes on the Retirement System. Except as otherwise noted, potential effects on other benefit plans were not considered.

Comment 3 — The probabilities of retirement were not adjusted in connection with this proposal. If members retire differently than our assumptions, as a result of this benefit change, then the cost of the benefit change will be different.

Comment 4 — The reader of this report should keep in mind that actuarial calculations are mathematical estimates based on current data and assumptions about future events (which may or may not materialize). Please note that actuarial calculations can and do vary from one valuation year to the next, sometimes significantly if the group valued is very small (less than 30 lives). As a result, the cost impact of a benefit change may fluctuate over time, as the demographics of the group changes.

Comment 5 — Post-retirement benefit increases are equal to 50% of the Social Security Cost-of-Living Adjustment, not less than 1% and not more than 1.5%. For purposes of this report and the 2018 valuation report, it was assumed that the post-retirement benefit increase will equal 1.25% for all future years. This is only an assumption; actual increases will depend on actual experience.

Comment 6 — A review of these proposals for compliance with federal, state, or local law or regulation was out of scope and not performed.

Comment 7 — Please see our report, the *General Employees Retirement Plan of Minnesota 4-Year Experience Study*, dated June 27, 2019, for recommended changes to assumptions and to the *Standards for Actuarial Work*.

Comment 8 — We have provided this analysis in the same format as that used when plan or assumption changes are considered by the Trustees. For any legislative proposals, it may be necessary to follow up with a more in-depth analysis to comply with the Standards for Actuarial Work. We will provide the additional information upon request.

Comment 9 — Users of this report should be aware that if the calculations were made in a manner that accounted for the risks being retained by PERA, including risks related to present retired and inactive vested members, the results could be materially different from the results shown in this report. Such a calculation was not requested and was not within the scope of our assignment. Consequently, we did not make such a calculation.