



MINUTES

The Board of Trustees of the Public Employees Retirement Association met remotely in regular session in the Association offices, 60 Empire Drive, Room 117, Saint Paul, Minnesota, on Thursday, August 13, 2020 at 9:30 a.m., with notice given ten days prior thereto by the Secretary.

The following members were present by telephone or video conference:

Thomas Stanley, President

Julie Blaha/Ramona Advani

Leigh Lenzmeier

Paul Bourgeois

David Metusalem

Paul Ford

Thomas Rupp

Kathy Green

Thomas Thornberg

Barbara Johnson

constituting a quorum.

Excused: Mary Falk

Attorney General Representative: Kevin Finnerty

Staff members present: Doug Anderson, Executive Director; Julie Leppink, General Counsel; Luis Lugo, Chief Operations Officer; Beth Reed, Benefit Services Center Manager; Heather Schoenberger, Account Information Management Manager; Amy Streng, Policy Coordinator; David Andrews, Accounting Director; Luis Argueta, Mary Daly, Continuity and Data Coordinator and Gladys Rodriguez, Executive Assistant.

Others present: Luci Botzek, Public Employees Pension Service Association; Matt Hilgart, Association of Minnesota Counties; Gary Carlson, League of Minnesota Cities; Harry Grigsby, Retiree; Angela Huss and Ann Lenczewski, Lockridge Grindal Nauen PLLP; Matt Massman, MN Inter-County Association; Chad Burkitt and Susan Lenczewski, Legislative Commission on Pensions and Retirements; Melissa Lam Young, Minnesota Management and Budget; Bonnie Wurst and Sheri Christensen, Gabriel, Roeder, Smith; James Balmer, Falsani, Balmer, Peterson & Balmer.

1. Call to Order and Approval of Agenda

President Stanley called the meeting to order at 9:30 a.m. He noted that Trustee Falk would not be joining the meeting. Trustees participated remotely via telephone or video conference as permitted in Minnesota Statutes Section 13D.015. Anderson was present at the meeting location. Roll call was taken to establish quorum.

Thornberg moved to adopt the revised agenda to reflect a change to item 6. The motion was seconded by Bourgeois and passed unanimously by roll call vote.

The agenda was taken in the following order.

2. **Approval of Consent Calendar**

The consent calendar included the following reports:

- a) June 11, 2020, Regular Board Meeting Minutes
- b) Operational Report: Education, Payments, and Membership Counts
- c) Financial Report (Statements of Changes in Fiduciary Net Position as of June 30, 2020; Statement of Fiduciary Net Position as of June 30, 2020)

Johnson moved to accept the consent calendar. The motion was seconded by Metusalem and passed unanimously by roll call vote.

3. **In the Matter of PERA Police & Fire Plan Benefit Payment for James Larson**

Reference was made to a memo and staff recommendation from Julie Leppink dated August 13, 2020

Leppink presented on behalf of PERA staff. Balmer, Esq., represented Larson at the hearing. Larson is a former St. Louis County Deputy Sheriff and a member of PERA's Police & Fire Plan who has been receiving duty disability benefits since November 1997. He also receives supplemental benefits under Minnesota's workers compensation laws.

Per statute, PERA Police & Fire Plan disability benefits are required to be offset by lump sum or periodic benefits under workers' compensation laws, when the disability benefit plus the workers' compensation benefit is more than the equivalent salary. The equivalent salary is the greater of (1) the salary the disabled member received as of the date of the disability; or (2) the salary currently payable for the same employment position or substantially similar positions in the applicable government subdivision.

Minn. Stat. ch. 353.656(b) states:

"When a member receiving a disability benefit as specified in this section is also entitled to receive a lump sum or periodic benefits under workers compensation laws, the single life annuity actuarial equivalent disability benefit amount and the workers compensation amount must be added."

Subdivision (a) of the same statute states:

"When the amount determined under paragraph (b) exceeds the equivalent salary determined under paragraph (c), the disability benefit amount must be reduced to that amount which, when added to the workers compensation benefits, equals the equivalent salary."

In July 2018, PERA staff determined that Larson's disability benefits plus his supplementary workers compensation benefits exceeded the equivalent salary by \$1,278.06 for 2017 and 2018. PERA had not offset the disability benefits in 2017, so he had been overpaid \$15,336.72. PERA had also not offset for his supplementary benefits for January through March 2018, so he was overpaid \$9,271.50 in 2018. The overpayment totaled \$24,608.22.

PERA's Executive Director, through his designee, determined that Larson's disability benefits needed to be reduced and that past overpayments needed to be recouped. PERA reduced Larson's benefit, which had increased from \$2,282.13 in 1997 to \$4,015.50 in 2018, by \$1,324.50 per month to reflect the offset. PERA also began recouping the overpayment at the rate of \$256.57 per month over Larson's lifetime. For 2020, Larson's benefit is \$4,096.22, the workers' compensation offset is \$1,405.22 and the recoupment amount is \$256.94, so his benefit is \$2,434.06.

Larson challenged the determination, and both he and PERA agreed to submit the matter for competing summary disposition motions to an administrative law judge (ALJ). The ALJ issued a recommendation in favor of PERA. Larson then appealed the determination to the PERA Board of Trustees.

[Lenzmeier disconnected and reconnected within 5 minutes]

After considering the entire record, Rupp moved that the PERA Board of Trustees adopt the Administrative Law Judge's Recommendation in its entirety and directed its counsel to draft an order reflecting its decision for the Board President's signature. The motion was seconded by Green and passed unanimously by roll call vote.

Stanley reminded Trustees to properly dispose the material related to the appeal or to store in a secure location while waiting to resume in-person meetings.

4. Police & Fire Plan and Correctional Plan Experience Study Presentation

Reference was made to a memo from Doug Anderson dated August 13, 2020 and a presentation from Bonnie Wurst, GRS

Anderson shared that the Police and Fire Plan and the Local Government Correctional Service Retirement Plan Experience Studies were both issued by GRS; the studies cover the four-year period from July 1, 2015 through June 30, 2019.

Wurst noted that each year the actuarial liabilities of the plans are calculated as part of the June 30th valuation. In order to perform the valuation, assumptions must be made about the future experience of the plans with regard to various risk areas and the results of the liability calculations depend upon those assumptions. An important thing to note is that no single set of assumptions will be suitable indefinitely and that things can change.

Economic assumptions are generally based on expectations of future economic conditions determined under Actuarial Standard of Practice. Demographic assumptions are generally based on plan experience, taking into account developing trends such as disability, retirement, turnover, mortality, etc.

Police and Fire Plan highlights:

- The actual number of unreduced retirements was 5% greater than predicted by current assumptions
- There were 30% fewer early retirements than predicted
- Early retirement benefits are lower for post-2014 retirements

- Current turnover rates are based on both age and service, with higher turnover rates during the first three years of service
- Recommended rates for the Police and Fire Plan are service based
- Disability rates are age-based
- The actual number of disabilities during the past four years was 32% more than predicted by current assumptions
- The rate of disability in the year ending June 30, 2019 was 30% higher than in the prior three years combined (this is reflected in the experience study)
- Potentially record numbers of disability applications are in process at this time. GRS will continue to monitor and recommend needed changes

Local Government Correctional Service Retirement Plan highlights:

- The actual number of unreduced retirements was very close to the predicted number
- There were 2.5 times more early retirements than predicted
- Early retirement benefits are lower for post-2019 retirements
- Current turnover rates are based on both age and service, with higher turnover rates during the first three years of service
- Disability rates are age-based
- The actual number of disabilities during the past four years was 26% lower than predicted by current assumptions

Experience Study Recommendations:

- Assumption changes are expected to be effective for the July 1, 2021 valuation
- GRS recommends maintaining the statutory contribution rate at its current level although both plans show a contribution sufficiency after assumption changes are reflected. The General Plan experience study showed that the probability of achieving the 7.5% return assumption is less than 50%.

A change in actuarial assumptions is typically approved by PERA's Board and sent to the LCPR for approval after each experience study. Assumption changes are expected to be effective for the July 1, 2021 valuation.

The recommended changes are summarized below:

Assumption	Police and Fire Plan Proposed Change
Price Inflation	Decrease from 2.50% to 2.25%.
Wage Inflation	Decrease from 3.25% to 3.00%.
Individual Merit and Seniority	Adjust current rates to be approximately 24 basis points lower in total than the current rates.
Retirement Rates	Increase the rate of unreduced retirements and lower early retirement rates at ages 50 to 53, resulting in fewer early retirements in total.
Termination Rates	Increase the rates of termination, especially for early years of service.

Disability Rates	Increase rates of disability for ages 25 to 44 and decrease rates over age 50. The proposed rates result in a higher number of projected disabilities.
Mortality Rates	Change the base mortality rate table to the PUB-2010 public safety mortality table with future improvement projected using scale MP-2019.
Other	Minor changes to the form of payment and percent married assumptions.

Assumption	Correctional Plan Proposed Change
Price Inflation	Decrease from 2.50% to 2.25%.
Wage Inflation	Decrease from 3.25% to 3.00%.
Individual Merit and Seniority	Adjust current rates to be approximately 11 basis points lower in total than the current rates, with higher increases assumed at younger ages (< age 30) and lower increases assumed at older ages (40 and older).
Retirement Rates	Increase the rate of unreduced retirements at ages 56-59 and age 66 and lower early retirement rates at ages 55, 62, 63 and 68. Increase rates of assumed early retirement at all ages.
Termination Rates	Increase the rates of termination at all service levels especially for males younger than age 40 and females younger than age 30.
Disability Rates	Lower the rates of disability, especially for those over age 55.
Mortality Rates	Change the base mortality rate table to the PUB-2010 public safety mortality table with future improvement projected using scale MP-2019.
Other	Minor changes to the percent married and form of payment assumptions.

Blaha moved that the PERA Board of Trustees approve the actuarial assumption changes recommended by GRS for the Police and Fire Plan and the Local Government Correctional Service Retirement Plan. The motion was seconded by Bourgeois and passed unanimously by roll call vote.

5. Long Term PERA Board Legislative Positions

Reference was made to a memo from Doug Anderson dated August 13, 2020

Anderson provided background information on the Long Term PERA Board Legislative Positions adopted in 2015 and PERA's Funding Values adopted in 2019. The two documents are

intended to be complimentary. The PERA Funding Values document is more plan specific. While, the Long Term PERA Board Legislative Positions apply more broadly. These positions are to be reviewed periodically to make sure that they continue to meet the needs of members and employers.

Anderson presented two positions and recommended changes.

Long Term Position #6 – Groups/Individuals Entering or Leaving PERA

This position currently covers situations for merging groups, but is silent on groups leaving PERA. During the 2020 legislative session, PERA pursued changes to assess a Withdrawal Liability for privatizing entities. Those changes were a specific attempt to ensure groups leaving PERA would be required to pay their fair share of an unfunded liability.

Thornberg moved that the PERA Board of Trustees modify Long Term Position #6 – Groups/ Individuals Entering or Leaving PERA to more clearly include groups that leave PERA, with the following language as recommended:

The PERA Board of Trustees opposes providing benefits that add to the actuarial accrued liability for individuals or groups requesting membership in a PERA fund unless the merging group's sponsoring entity agrees to a payment or series of payments sufficient to fully fund the associated unfunded actuarial accrued liability of the merging group.

The PERA Board of Trustees opposes the discontinuation of membership for an individual or group in a PERA fund unless the departing individual or group's sponsoring entity agrees to a payment or series of payments sufficient to fully fund the associated unfunded actuarial accrued liability for the departing group.

The motion was seconded by Bourgeois and passed unanimously by roll call vote.

Long Term Position #7 – Changes in Actuarial Assumptions

This position was modified slightly and incorporated into the PERA Funding Values document, therefor it is redundant.

Ford moved that the PERA Board of Trustees remove Long Term Position #7 – Changes in Actuarial Assumptions from the Long Term PERA Board Legislative Positions document since it is included in the PERA Funding Values document. The motion was seconded by Johnson and passed unanimously by roll call vote.

6. Police & Fire Disability Application Process

Reference was made to a memo from Doug Anderson dated August 13, 2020

Anderson shared that the number of Police & Fire disability applications have increase from 61 in 2017 to 81 in 2018 to 105 in 2019, an increase of over 30% per year. The percentage of approved duty disabilities due to Post Traumatic Stress Disorder (PTSD) have increased from about 42% of disabilities in 2018 to 71% of disabilities in 2019.

Staff continues to identify and understand those changes and want to make sure that the disability process and benefits are fair and appropriate. As part of PERA's process evaluation, claims review methods have been discussed with MMRO, third - party administrator, to better assess PTSD claims.

In the current process, PTSD claims are initially evaluated by disability nurse case managers. In the proposed modification, a board certified psychiatrist at the beginning of the process will review PTSD claims. The board certified psychiatrist will review whether the diagnostic criteria for PTSD has been met and whether the claimant meets Police & Fire Plan disability standards. If necessary, the board certified psychiatrist will recommend further independent psychological testing and independent psychological evaluations. The extra cost will be applied only in those cases that are identified for further assessment; the ultimate total cost is uncertain. Staff will carefully monitor usage and results and will report an estimated annual cost to the Board in a few months.

Anderson shared that the Board workshop in October will be devoted to disability issues, trends, processes, and methods to improve practices.

7. **Board Recognition for Retired PERA Staff Members–Lisa Colstrom and Elizabeth Mickelson**
The Board of Trustees recognized Lisa Colstrom and Elizabeth Mickelson for their retirement. Stanley read the following into the record:

Lisa Colstrom

In recognition of nearly 39 years of dedicated service to the Public Employees Retirement Association (PERA) members, employers, stakeholders, and employees.

We wish to express our sincere thanks and gratitude for your wisdom, commitment to excellence, and for your distinguished service to our members. Your commitment to providing members with support when they are experiencing a divorce or support as a retiree is particularly appreciated.

With a career spanning from August 24, 1981, to July 30, 2020, your impact as a co-worker, contributor, team player and friend will be missed and never forgotten.
We wish you good health, relaxation and happiness in your retirement.

Elizabeth Mickelson

In recognition of 32 years of dedicated state service, we wish to express our sincere thanks and gratitude for your wisdom, commitment to excellence, and unwavering support of the association's efforts to maintain excellent customer service that our members value.

With a career spanning from July 18, 1988, to July 29, 2020, your impact as a co-worker, contributor, team player, and friend will be missed.

We wish you good health, happiness and continued success in your retirement.

8. **Date of Next Meeting**

The meeting and workshop of the PERA Board of Trustees will be held remotely on Thursday, October 8, 2020 starting at 9:30 a.m.

9. **Adjournment**

There being no further business to come before the PERA Board, Bourgeois moved to adjourn the meeting at 11:45 a.m. Motion was seconded by Rupp and passed unanimously by roll call vote.

A handwritten signature in black ink, appearing to read "Doug Anderson", is written over a horizontal line.

Doug Anderson, Executive Director
Saint Paul, Minnesota