



MINUTES

The Board of Trustees of the Public Employees Retirement Association met in regular session in the Association offices, 60 Empire Drive, Room 117, Saint Paul, Minnesota, on Thursday, October 10, 2019 at 9:30 a.m., with notice given ten days prior thereto by the Secretary.

The following members were present:

Thomas Stanley, President	
Julie Blaha/Ramona Advani	Leigh Lenzmeier
Mary Falk	David Metusalem
Paul Ford	Thomas Rupp
Kathy Green	Lawrence Ward
Barbara Johnson	

constituting a quorum.

Member excused: Paul Bourgeois

Attorney General Representative: Kevin Finnerty

Staff members present: Doug Anderson, Executive Director; Julie Leppink, General Counsel; Luis Lugo, Chief Operations Officer; Mike Hagerty, Chief Financial Officer; Beth Reed, Manager of Benefit Services Center; Heather Schoenberger, Manager of AIM; Andrea Murphy, Benefit Services Coordinator; Amy Strenge, Policy Coordinator; Lance LaFrombois, Staff Attorney; Mary Daly, Continuity and Data Coordinator; Gladys Rodriguez, Executive Assistant.

Others present: Kelly Gibbons, SEIU Local 284; Matt Hilgart, AMC; Brian Rice, MPFF, MPFA, AFSCME #5; Luci Botzek, PEPSEA; Chad Burkitt and Susan Lenczewski, LCPR; Harry Grigsby, Retiree; Angie Huss, Lockridge Grundal Nuen; Matt Massma, MN Inter-County Association.

1. Call to Order and Approval of Agenda

President Stanley called the meeting to order at 9:30 a.m. He excused Trustee Bourgeois who was not able to attend the meeting.

Falk moved to adopt the agenda as presented. The motion was seconded by Ford and passed unanimously.

The agenda was taken in the following order.

2. Approval of Consent Calendar

The consent calendar included the following reports:

- Minutes:** August 8, 2019, Regular Board Meeting Minutes
- Operational Report:** Education, Payments, and Membership Counts

- c) **Financial Report** (Statement of Fiduciary Net Position as of August 31, 2019; Statement of Changes in Fiduciary Net Position as of August 31, 2019, unaudited)
- d) **Retirement Systems FY19 Building Financial Statements**

Johnson noted that she tried calling several times into the August Board meeting but was unsuccessful. She suggested having an alternate way to reach a staff person in case the call cannot be connected.

Green moved to accept the consent calendar as presented. The motion was seconded by Metusalem and passed unanimously.

3. **Operations Trend Analysis Report**

Reference was made to an analysis report presented by Luis Lugo, COO

Lugo presented a trend analysis report showing growth in the number of calls handled by the Member Service Center over the past five years and noted that the highest call volume is in regards to refunds. Likewise, the Benefit Services Center who provides core work functions and processes benefit applications, estimates, claims and refunds has seen an increase in benefit applications, service requests and refunds over the last three years.

[Advani joined the meeting at 9:34 am]

The Account Information Management Division, the gatekeepers of information, has seen a steady incline in terms of employee and employer enrollments and contributions.

[Blaha joined the meeting at 9:40 am]

Lugo highlighted two goals from the Action Plan that are in the forefront: the Business Intelligence Project seeks to formalize key metrics and revise the Operational Report to provide details on measurements. The second is a Communication Strategy Committee, which is looking at opportunities for improvement and engagement in the realm of communication.

4. **CIO Position Approval**

Reference was made to a memo from Doug Anderson dated October 10, 2019

Anderson noted that the FY 2020 Operating budget included a placeholder for the digital modernization project and requested approval to use a portion of the set aside resources to add a Chief Information Officer (CIO) to the PERA staff.

Falk moved to approve a full-time permanent Chief Information Officer (CIO) position. The motion was seconded by Metusalem and passed unanimously.

5. **Granite Falls Hospital Privatization Report Acceptance**

Reference was made to a memo from Doug Anderson dated October 10, 2019

Anderson presented the Privatization Study for Granite Falls Hospital, a participating employer of PERA General Employees Retirement Plan. 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.

Staff recommended that the PERA Board of Trustees accept the actuarial calculations for Granite Falls Hospital.

Lenzmeier moved to accept the recommendation of PERA staff. The motion was seconded by Blaha and passed unanimously.

6. Privatization Decision

Reference was made to a memo from Doug Anderson dated October 10, 2019

Minnesota Statutes Chapter 353F defines terms for member benefits and reporting requirements for entities that privatize. A privatizing entity can seek augmentation of benefits for eligible members by requesting an actuarial study measuring the impact to the General Employees Retirement Plan.

Anderson noted two significant equity issues exist with the current privatization process. The first is an issue of equitable benefits between the vast majority of Plan members who no longer receive any augmentation and those from privatized entities that continue to receive augmented benefits. The second issue is a shifting of costs from the privatized employer to the remaining participating employers and active members. Entities that privatize are no longer required to contribute to the Plan despite the Plan being less than fully funded.

While the test that currently exists seems to have validated that each privatization resulted in an actuarial gain and that the costs of augmentation was funded, it was misleading because it ignores the fact that the Plan is currently underfunded.

Based on this information, staff presented three issues for the board to consider:

- Issue 1 is augmentation for future privatized members. Eliminating augmentation for future privatized members achieves three goals:
 - (1) it would result in equitable benefits for all members that no longer provide public service,
 - (2) it would avoid increasing costs that would be assessed to all remaining active employees and employers,
 - (3) it would emphasize that the acquiring entity has the responsibility to provide retirement benefits for their employees.
- Issue 2 is the continuation of augmentation for current privatized members. 37 entities have privatized since 1991 and not one of those occurred during a time when the Plan was fully funded. Actually, eligible active members for those privatized entities continue to receive augmentation at an annual rate as high as 7.5 percent without making annual contributions.
- Issue 3 is the payment of withdrawal liability for future privatizing employers. When an employer privatizes there is a shift of costs from that employer to the remaining

participating employers and active members. The privatized entity no longer is required to contribute to the Plan even though the Plan is less than fully funded.

Anderson stated that a different perspective is to consider PERA's past practice for entities merging into the Plan. There was consideration made of any unfunded component when an entity merged its assets and benefit obligations with PERA resulting in the entity continuing to contribute to make up for that shortfall, which is done in recurring amortization payments over a period of 10 to 20 years.

After discussing each of these issues in depth, the Trustees moved the following:

Falk moved that staff be directed to seek legislation that the augmentation of future benefits be eliminated for active members of entities that privatize in the future. The motion was seconded by Ford and passed unanimously.

Green moved that staff be directed to seek legislation that all current augmentation rates be changed to 2 percent effective immediately and that augmentation be eliminated entirely for eligible active members effective December 31, 2023. The motion was seconded by Metusalem and passed unanimously.

Blaha moved that staff be directed to seek legislation that for any privatization occurring on or after July 1, 2022, the unfunded actuarial accrued liability for an entity's eligible active members be determined using current actuarial assumptions and the plan funding ratio from the most recent actuarial valuation. That amount would then be amortized using current plan assumptions to develop an annual contribution sufficient to reduce the unfunded actuarial accrued liability to zero over a period of not more than 10 years. The motion was seconded by Falk and passed unanimously.

7. ED Performance Review Process

Stanley provided each Trustee documents and directions to evaluate the performance of Executive Director Anderson. Stanley will compile the responses and create a summary document to be used in the formal review process at the December meeting.

8. PERA Board of Trustees 2020 Meeting Schedule

Reference was made to a Board Resolution – 2020 Regular Meeting Schedule.

President Stanley presented a resolution reflecting the meeting dates for 2020.

Ford moved that the Board adopt the resolution setting the 2020 regular meeting schedule of the PERA Board of Trustees. The motion was seconded by Rupp and passed unanimously.

9. Other Business

a. GFOA CAFR Recognition

President Stanley congratulated PERA's Finance team for being awarded the Government Finance Officers Association Certificate for Achievement for Excellence in Financial Reporting.

b. Board Recognition of PERA Retired Staff Chris Arcand

The Board of Trustees recognized Chris Arcand for 37 years of dedicated service and read the following into the record:

Recognition Chris Arcand

In recognition of over 37 years of dedicated service, we wish to express our sincere thanks and gratitude for your wisdom, commitment to excellence, and for your distinguished leadership in the association's efforts to maintain excellent customer service that our members value.

With a career spanning from December 1, 1981, to August 31, 2019, 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

10. **Date of Next Meeting**

The next meeting of the PERA Board of Trustees will be held Thursday, December 12, 2019 starting at 9:30 a.m. in the Board Room 117 of the Retirement Systems of Minnesota Building.

11. **Adjournment**

There being no further business to come before the PERA Board, Johnson moved to adjourn the meeting at 10:30 a.m. The motion was seconded by Falk and passed unanimously.

Following the regular meeting, the Board of Trustees and key staff participated in a planning session dedicated to funding values.



Doug Anderson, Executive Director
Saint Paul, Minnesota