



NEWS

Assets Over \$30 Billion

Serving over 450,000 public employees in Minnesota

SUMMER 2019



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

GENERAL

POLICE & FIRE

CORRECTIONAL

Legislative Update

During the 2019 Legislative Special Session, the Legislature unanimously passed the Omnibus Retirement Bill (HF 10). The bill contains public-related retirement legislation, including several PERA Board recommendations and other legislation that impacts PERA members. Governor Walz signed the bill May 30.

Minneapolis Police and Fire Relief Associations

In 2011, the Minneapolis Fire Relief Association (MFRA) and the Minneapolis Police Relief Association (MPRA) merged into PERA's Police & Fire Plan. The City of Minneapolis makes an annual contribution to the Police & Fire Plan to ensure that the plan does not subsidize the benefits payable to relief association members. The annual contribution rate was subject to change. With the legislation adopted, the City of Minneapolis will contribute a fixed \$7.7 million annually through 2031.

Military Service Purchase

Active PERA members will now be able to purchase up to five cumulative years of military service that occurred (1) before becoming a public employee or (2) during PERA-covered public employment and the original purchase timeframe expired under Federal Law. The purchase cost will be the full actuarially determined cost associated with the benefit increase. PERA will charge a \$250 administrative fee for cost estimates that will apply towards the purchase cost.

Legislature adopts PRO

The Phased Retirement Option (PRO) became a permanent part of PERA's benefit structure when the Legislature passed the Omnibus Retirement Bill during the Legislative Special Session. Both employers and employees supported the PRO, which was set to expire. The program creates a flexible environment where employees can transition into retirement and employers are able to better navigate the necessary knowledge transfer.

With their employer's agreement, the PRO allows General Employees Retirement Plan (Coordinated and Basic) members to begin collecting a benefit as early as age 62 while continuing to work a reduced schedule with their employer for up to five years. Those eligible for a PRO must phase into retirement through the same employer and have worked at least 1,044 hours in each of the five preceding years. The employee must be immediately eligible for a benefit from the General Employees Retirement Plan. Elected officials are not eligible for the PRO.

In order to participate in the PRO, the employee must reduce their schedule by 25 percent in each pay period and may not work over 1,044 hours in the year. If the allowed hours in a pay period or the maximum hours per year are exceeded, the PERA monthly benefit will be suspended. The benefit will not be reinstated until all public employment has been terminated and a continuous separation for 30 days has occurred. The employee must enter into a PRO agreement prior to terminating employment and PERA must receive the PRO agreement before the PRO begins. Though there is no longer an annual renewal process, a PRO agreement is for a five-year maximum. During the PRO agreement, employees and employers do not contribute to PERA. After completing the PRO, the law requires a 30-day break in public service in order to continue to qualify for retirement benefits.

Employees who are currently on a PRO need to submit a new agreement to PERA. Employees should coordinate the completion of the PRO agreement with their employer.

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PRESIDENT’S MESSAGE



Thomas Stanley
President
PERA Board of Trustees

Greetings!

This past April, I was elected President of the PERA Board of Trustees. I have served as a trustee on the board for six years and spent the last two as vice president. I am elected to represent the General Membership of PERA and honored to represent our members and other stakeholders on the board.

I would like to begin my first President’s Message by thanking Kathryn Green for her leadership on the board. Kathy was the vice president when I joined the board, served as president the past three years, and continues on as vice president again. Her dedication, knowledge, and guidance have benefited PERA since 2006, and the value of the institutional and historical background she brings to the board cannot be understated.

I also want to welcome David Metusalem back to the board as the Retired, Disabled, and Survivor representative. Dave has prior experience on the PERA board as an elected Police and Fire representative and also served as vice president.

PERA News is one of the ways we communicate with you, our members. We cover important topics relating to PERA’s mission to administer and promote sustainable retirement plans and provide services that our members value. In this issue, we focus on our legislative initiatives that passed during this year’s session. The Legislature unanimously passed the Omnibus Retirement Bill containing several Board recommendations and other legislation that impacts our members. Gov. Waltz signed the bill May 30.

Included in the bill is a new benefit for our military members, allowing them to purchase up to five years of service outside of PERA-covered employment. The legislation also makes the Phased Retirement Option (PRO) a permanent part of PERA’s benefit structure. Both employees and employers supported this legislation. See page 1 for more information on the legislative details.

On this page, we highlight three issues the board may face in the future, but for which we are strategizing now. Our plans are on the road to full funding because of the proactive decisions and actions our board makes to ensure changes are fair for all stakeholders and keep our funds on solid financial ground. However, we cannot become complacent, and we must be prepared. We intend to repeatedly evaluate and analyze what we can do to ensure our collective financial future.

Also in this issue, we compare how our plans are similar and how they are different from Social Security. This is an important issue because the health of the Social Security system may have an impact on PERA members. The good news: Our General Employees Retirement Plan is projected to be fully funded within 20 years. The financial health of Social Security is not so positive. See page 3 for more information.

The PERA Board of Trustees represents you, our members. Your board will act in the best interest of you and our stakeholders to maintain the financial stability of our plans. We will be transparent in our decisions, actions, and will listen to your feedback and concerns.

Thank you for your support of the Board of Trustees.

Looking ahead

With the passage of the 2018 Omnibus Retirement Bill, PERA’s three major plans commenced on a path to be fully funded within 20 years. While the funding of the three plans improved, there are three issues that the Board may need to monitor.

1. Possible lower investment return assumption recommendation

According to PERA’s actuary, the 7.5 percent return assumption may not be accurate if changes continue in the financial markets. Any adjustment to the investment return assumption would change the forecast for the plans and impact future plan changes.

2. Governmental bond rating agencies monitor public pension plans closely

S&P Global Ratings raised a concern about fixed statutory contribution rates in their assessment of the 2018 law change. They wrote, “...but because contributions remained fixed in state statute, there could eventually be a regression in plan funded status.” Their preference would be a commitment for an actuarially determined contribution rate. Since PERA’s fixed contribution rates currently exceed the actuarially determined contribution for each plan, there is not an immediate concern. However, if the fixed contribution rates become insufficient in the future, the pressure to change could increase.

3. Greater inflation protection

Questions about appropriate inflation protection may result from a 2020 cost-of-living (COLA) study the Legislative Commission on Pensions and Retirement (LCPR) plans to undertake for consideration during the 2021 session.

There is no certainty that any of these issues will mean the need for plan changes to occur. However, proactive preparation by the Board will ensure that whatever changes may be necessary are fair for all stakeholders.

About the board

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. All elected and appointed board members serve four-year terms. The State Attorney General’s office provides legal counsel to PERA’s board.

PERA is governed by its Board of Trustees. The board approves PERA’s operating budget, decides legislative policy and priorities, and hires the executive director. In addition, the trustees establish the policies and procedures that govern operations at PERA, hear and rule on appeal matters of disabilitants, retirees, and members, and direct the dissemination of information to PERA’s members.



BOARD CONSISTS OF 11 MEMBERS

1

STATE
AUDITOR

5

GOVERNMENT
APPOINTED

CITIES
COUNTIES
SCHOOL BOARDS
RETIREES
PUBLIC

5

ELECTED

GENERAL ACTIVE MEMBERS
POLICE & FIRE PLAN MEMBERS
ALL BENEFIT RECIPIENTS

BOARD NEWS

Board election results and appointments

Following board elections and appointments in 2019, the PERA Board of Trustees welcomed new and returning trustees to the board. Six trustees either started or returned to the board in 2019.

From the 2019 board election, membership elected one new trustee, and re-elected three trustees to the board. The board accepted the election results at their February meeting. The board holds an election every four years. The returning trustees are: Paul Bourgeois, active General Plan representative, first elected in February 2011, and again in 2015; Thomas Stanley, active General Plan representative, first appointed to fill a vacant board seat in March 2013, and elected in 2015; and Paul Ford, Police & Fire representative, first appointed to fill a vacant board seat in August 2017. The new trustee to join the board is Thomas Rupp, active General representative. Julie Blaha joined the board in January 2019 after she won the 2018 election for Minnesota State Auditor. The State Auditor is a member of the PERA Board of Trustees by statute.

One seat left

Since there was not a candidate to fill the Retired, Disabled, and Survivor Representative seat in the

board election, the board announced it was seeking candidates to fill this position. After the announcement, 26 candidates submitted applications. A board subcommittee presented final candidates to the board at their April meeting. The board voted to confirm David Metusalem as the Retired, Disabled, and Survivor representative.

For more information on board members, visit mnpera.org.

Board elects new officers

PERA’s Board of Trustees elected new officers at the board’s April meeting. They are: president, Thomas Stanley, current vice president of the PERA Board; vice president, Kathryn Green, current president of the PERA Board.

Stanley, an elected General Membership Representative, has served as a trustee since May 2013. His term expires January 2023. Stanley is a senior attorney, civil division, for St. Louis County Attorney’s Office.

Green, an appointed School Board Representative, has served as a trustee since April 2006. Her term expires January 2022. Green is a member of the

Austin School Board, past president of the Minnesota School Boards Association (MSBA), and central region director for the National School Boards Association (NSBA).

Board election results information and trends

The overall ballot return rate for the 2019 Board of Trustee Elections continued the trend of steadily declining returns over the past 16 years. For the 2019 Board Elections, 25,336 ballots were returned out of nearly 282,000 sent to members. The ballot return rate was 9.0 percent, down from 18.1 percent in 2003.

For the election, members could vote by mail or on the Internet. Of the total ballots cast, 22 percent of members used the Internet and 78 percent used the mail to vote. The election costs decreased with the reduced response rates and more people using the Internet to vote.

State law outlines the election process for PERA to follow. PERA staff will continue to analyze the election data and make recommendations for future election procedures to minimize costs and maximize member participation.

Social Security’s sustainability may impact PERA members

The health of the Social Security system may have an impact on PERA members that participate as Coordinated members in the General Employees Retirement Plan. Non-coordinated plan members may also experience an impact if they obtain a Social Security covered position before or after their public service career.

There are both similarities and differences between benefits, costs, and funded status associated with the PERA General Employees Retirement Plan and Social Security. Benefits are similar from both sources in that they are based on earnings, length of service, and age at benefit commencement. However, a key difference is that the Social Security benefit is considered a progressive benefit, providing a larger percentage of postretirement income to members at relatively lower income levels. The PERA benefit is the same percentage for all members with similar service regardless of their income level.

Contribution rates paid by both employees and employers are also similar for Coordinated members. Coordinated members contribute 6.5 percent of their pay for their PERA benefit and 6.2 percent of pay for their Social Security benefits. Their employers pay 7.5 percent and 6.2 percent respectively. By comparison, Police & Fire members and employers will pay 11.8 percent and 17.7 percent respectively once the rate increases from the 2018 Omnibus Bill are fully phased in on January 1, 2020.

While Social Security and PERA Coordinated Plan benefits and costs are somewhat similar, there is a significant difference in their funding status projections. The PERA General Employees Retirement Plan is projected to be fully funded within 20 years. Upon attainment of full funding, the 14 percent total contribution to the Plan will be

about 75 percent greater than what is needed to maintain a full funding level. If all current assumptions are met, there will be future opportunity to discuss favorable contribution and/or benefit changes.

The forecast for Social Security is not favorable. According



to the 2019 Trustees Report, the trust fund that has been built up to support benefit payments will be exhausted in 20 years, after which the program can pay only about 75 percent of benefits. Congressional action will be needed to determine the right combination of contribution increases and/or benefit reductions to avoid the 25 percent drop in benefits.

The PERA plans are all headed on a path to have fully funded the accrued liabilities. Fully funded plans are able to generate tremendous amounts of income to support benefit payments. Whereas, the Social Security system will inevitably devolve into a pay-as-you-go system where the only source of revenue for benefit payments for current retirees are the contributions paid by current actives.

PERA members for all plans have very reliable sources for their retirement income. However, they should be aware that changes remain likely. In the case of Social Security, the change will come at some cost. The PERA plans, on the other hand, may be able to change in a more positive way. Members should stay vigilant and rely on the excellent resources available at www.ssa.gov and www.mnpera.org.

Background about the plans

Almost all of the over 150,000 active General Employees Retirement Plan members will also be entitled to receive a Social Security benefit. These individuals are referred to as Coordinated Plan members. The less than one dozen remaining active members who are not covered under Social Security are called Basic Plan members. The intention of coordinating PERA benefits with Social Security benefits is to ensure retirement security by providing a benefit that will reasonably maintain a members standard of living if they retire at “normal” retirement age and have worked a full career.

Coordinated members that retire at the PERA and Social Security normal retirement ages with 35 to 40 years of service credit will typically achieve post-retirement income in the range from 80 to 100 percent of their pre-retirement income. The Social Security benefit increases each year at the same rate as inflation, whereas, the PERA benefit currently increases at half of the inflation rate (but not less than 1 percent or more than 1.5 percent).

Police & Fire Plan members and some Correctional members’ benefits are not coordinated with Social Security. However, a member retiring at the normal retirement age in that Plan, age 55, with 30 years of service, would receive nearly 90 percent of their pre-retirement income. If a Police & Fire member moves onto employment that is covered by Social Security, they may also receive a Social Security benefit. However, that benefit is modified to reflect the value of their public pension.

Let us answer your retirement questions

Sessions now available for Summer & Fall 2019

Whether you just started your public service career or you are close to retirement, PERA's educational programs will give you valuable information.



Locations available for registration:

Saint Paul - 6/28	Rochester - 9/10
Grand Rapids - 7/12	Willmar - 9/19
Saint Paul - 7/19	New Prague - 9/20
Minneapolis - 8/6	Saint Paul - 9/20
Rochester - 8/9	Fergus Falls - 9/25
Albert Lea - 8/12	Little Falls - 9/25
Saint Cloud - 8/16	Mankato - 10/11
Saint Paul - 8/23	Gaylord - 10/29

Visit mnpera.org/education to view our calendar of events. PERA regularly adds sessions throughout the year.

PERA does require registration for our programs. It's easy to register. Simply use your MY PERA account or call our Member Service Center at 651.296.7460 or 1.800.652.9026.

Check online for benefit amount after COLA

Benefit recipients can go online beginning the first of January to learn their new benefit amount after the annual cost-of-living-adjustments (COLA). For income verification and detailed gross to net pay information on monthly benefits, recipients are encouraged to register for MY PERA and manage PERA account information online.

On the PERA homepage (mnpera.org), recipients will be advised of the COLA adjustment percentages and the date the January payment details will be available in MY PERA. For those not able to use MY PERA, detailed income verification letters will be available by contacting our Member Service Center at 1.800.652.9026 or 651.296.7460.

BOARD DIRECTORY

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Thomas Stanley, President
Elected General Membership Representative
Email: thomas.stanley@mnpera.org

Kathryn A. Green, Vice President
Appointed School Board Representative
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Julie Blaha
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Paul Bourgeois
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Mary Falk
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Paul Ford
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Barbara Johnson
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Leigh Lenzmeier
Appointed County Representative
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David Metusalem
Elected Retired, Disabled, and Survivor Representative
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Thomas Rupp
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Lawrence J. Ward
Appointed Annuitant Representative
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