A Message from the Executive Director

Dear members and stakeholders:

On behalf of the management and staff of the Minnesota Public Employees Retirement Association (PERA), it is our pleasure to present the Popular Annual Financial Report (PAFR) for the year ending June 30, 2022. The PAFR provides a summary of the performance and health of our plans.

Fiscal year 2022 provided PERA with an opportunity to reimage how we continue to achieve our mission and strategic goals, which include the administration and promotion of sustainable retirement plans. This year also saw continued volatility in the investment market with strong returns for the first six months followed by a sharp decline in returns for the last six months. The sharp decline in the market, together with negative net cash flow due to benefit payments exceeding contributions, resulted in a decrease of $3.6 billion or 8.8 percent in PERA’s fiduciary net position from $41.0 billion as of June 30, 2021 to $37.4 billion as of June 30, 2022 for the three defined benefit plans listed below.

Despite the decline in the investment market and decrease in PERA’s fiduciary net position, the funding ratio and contribution sufficiency for the General Employees Plan, Police and Fire Plan, and Correctional Employees Plan increased slightly when comparing to the prior fiscal year and using measurements based on the actuarial value of assets. The actual value of assets recognizes asset gains and losses over a five-year period and is used to mitigate volatility of certain measurements.

When looking at the funding ratio and contribution sufficiency or deficiency, it is important to recognize that the actuary calculates those using the statutory defined investment return assumption of 7.5 percent. PERA’s actuary determined, for the second consecutive year, that the statutorily defined investment return assumption of 7.5 percent deviates materially from the guidance set forth in the Actuarial Standards of Practice and suggest a range of 5.6% to 6.4% would be reasonable. If PERA used an investment return assumption within the actuary’s suggested range, as is 6.5 percent, the funding ratio would decrease by 10 to 15 percent and the contribution sufficiency would turn into a deficiency. This means that the contributions would not be sufficient to fully fund the unfunded liability by the legislatures targeted full funding.

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Recent volatility of investment returns and the wide range of future expectations makes current decision making challenging. At the moment, making no changes to benefits or contributions appears to be the most prudent decision. When the assumed direction of the Plans becomes more clear, the urgency for action will increase.

Sincerely,

Doug Anderson
Executive Director

PERA’s pension contributions from employees and employers are invested in the Combined Funds. Since these assets normally accumulate for 30 to 40 years, the State Board of Investment’s (SBI) objective is to take advantage of the long investment time horizon offered by equities and private markets in order to meet its actuarial return target and ensure sufficient funds are available to finance promised benefits at the time of retirement.

The long-term objective of the Combined Funds are:

- Provide returns that are 3 to 5 percentage points greater than inflation over the latest 20-year period; and
- Outperform a composite market index weighted in a manner that reflects the actual asset mix of the Combined Funds over the latest 10-year period.

SBI’s asset allocation policy is consistent with these objectives.

About the Combined Fund and Asset Allocation

For more investment information and to view SBI’s Annual Report, visit https://msbi.us/annual-reports

About the Popular Annual Financial Report (PAFR)

The Popular Annual Financial Report (PAFR) is a summary of key measurements contained in PERA’s Annual Comprehensive Financial Report (ACFR). Like the ACFR, the PAFR is consistent with generally accepted accounting principles and guidelines established by the Governmental Accounting Standards Board. The PAFR does not include information about PERA’s Defined Contribution Plan or Statewide Volunteer Firefighter Plan. Readers are encouraged to view PERA’s ACFR for additional information. For a copy of PERA’s ACFR, visit https://mnpera.org/financial/annual-comprehensive-financial-report

Public Employees Retirement Association
Pension Trust Funds of the State of Minnesota
60 Empire Drive, Suite 200 | St. Paul, MN 55103 -2088
1-800-652-9026 | 651-296-7460 | mnpera.org

Funding Ratio - Actuarial Value of Assets, as of 07/01/2022
Contribution Sufficiency (Deficiency), as of 07/01/2022
Investment Return Assumption of 6.5%

Funding Ratio - Actuarial Value of Assets, as of 07/01/2022
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### Actuarial Valuation for Funding Purposes - PERA Defined Benefit Retirement Plans

<table>
<thead>
<tr>
<th>As of July 1, 2022</th>
<th>General Employees</th>
<th>Police and Fire</th>
<th>Correctional</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Return Assumption of 7.5%</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution Sufficiency (Deficiency), as of 07/01/2022</td>
<td>3.3%</td>
<td>6.8%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Funding Ratio - Actuarial Value of Assets, as of 07/01/2022</td>
<td>87.4%</td>
<td>93.1%</td>
<td>105.1%</td>
</tr>
<tr>
<td><strong>Investment Return Assumption of 6.5%</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution Sufficiency (Deficiency), as of 07/01/2022</td>
<td>(1.2%)</td>
<td>(5.7%)</td>
<td>(4.2%)</td>
</tr>
<tr>
<td>Funding Ratio - Actuarial Value of Assets, as of 07/01/2022</td>
<td>77.7%</td>
<td>82.5%</td>
<td>90.0%</td>
</tr>
</tbody>
</table>

Recent volatility of investment returns and the wide range of future expectations makes current decision making challenging. At the moment, making no changes to benefits or contributions appears to be the most prudent decision. When the assumed direction of the Plans becomes more clear, the urgency for action will increase.

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Doug Anderson
Executive Director
### 2022 Contribution Rates (percentages applied to pensionable wages)

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Contributor</th>
<th>General Plan*</th>
<th>Police &amp; Fire</th>
<th>Correctional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1, 2020</td>
<td>Member</td>
<td>6.50%</td>
<td>11.80%</td>
<td>5.83%</td>
</tr>
<tr>
<td></td>
<td>Employer</td>
<td>7.50%</td>
<td>17.70%</td>
<td>8.75%</td>
</tr>
</tbody>
</table>

*Coordinated Plan members only

Contribution rates did not change between FY2020 and FY2022.

The Minnesota State Legislature set contribution rates.

### About the Financial Statements

The **Statement of Fiduciary Net Position** measures the assets PERA has invested and available to pay pension benefits less liabilities owned by PERA. However, the statement does not include the actuarially estimated pension liability owed to plan members.

The **Statement of Changes in Fiduciary Net Position** reports the changes in PERA's net position that occurred between the current and prior year.

PERA's Net Position for all defined benefit plans decreased by $3.6 billion, or 8.8 percent, to almost $37.4 billion as of June 30, 2022. This change is attributable to the fiscal year 2022 net investment loss of 6.4 percent and negative net cash flow due to benefit payments exceeding contributions.

Despite the decrease from fiscal year 2021 to fiscal year 2022, the fiduciary net position for PERA's defined benefit plans increased by approximately $5 billion over the past two fiscal years.

### Condensed Financial Statements

#### Fiduciary Net Position—Defined Benefit Plans (in millions)

<table>
<thead>
<tr>
<th>Assets</th>
<th>General Plan</th>
<th>Police &amp; Fire</th>
<th>Correctional</th>
<th>FY2022 Combined Total</th>
<th>FY2021 Combined Total</th>
<th>FY2020 Combined Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Receivables</td>
<td>$509</td>
<td>$204</td>
<td>$17</td>
<td>$730</td>
<td>$692</td>
<td>$1,445</td>
</tr>
<tr>
<td>Investments</td>
<td>25,531</td>
<td>10,218</td>
<td>959</td>
<td>36,708</td>
<td>40,342</td>
<td>30,957</td>
</tr>
<tr>
<td>Securities Lending Collateral</td>
<td>1,345</td>
<td>538</td>
<td>50</td>
<td>1,933</td>
<td>2,614</td>
<td>2,276</td>
</tr>
<tr>
<td>Capital Assets &amp; Other</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Total Assets</td>
<td>27,391</td>
<td>10,960</td>
<td>1,026</td>
<td>39,377</td>
<td>43,654</td>
<td>34,684</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Liabilities</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>9</td>
<td>7</td>
<td>1</td>
<td>17</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Accrued Compensated Absences</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Securities Lending Collateral</td>
<td>1,345</td>
<td>538</td>
<td>50</td>
<td>1,933</td>
<td>2,614</td>
<td>2,276</td>
</tr>
<tr>
<td>Bonds Payable</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>1,357</td>
<td>545</td>
<td>51</td>
<td>1,953</td>
<td>2,633</td>
<td>2,292</td>
</tr>
</tbody>
</table>

| Total Net Position             | $26,034      | $10,415       | $975         | $37,424              | $41,021              | $32,392              |
Public Employees Retirement Association (PERA)

Fiduciary Net Position— Defined Benefit Plans

<table>
<thead>
<tr>
<th></th>
<th>General Plan</th>
<th>Police &amp; Fire</th>
<th>Correctional</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retirees and beneficiaries receiving benefits</td>
<td>115,980</td>
<td>12,107</td>
<td>1,717</td>
<td>129,804</td>
</tr>
<tr>
<td>Vested and non-vested terminated employees not yet receiving benefits</td>
<td>153,311</td>
<td>8,282</td>
<td>6,609</td>
<td>162,794</td>
</tr>
<tr>
<td>Current, active vested and non-vested employees</td>
<td>149,987</td>
<td>11,629</td>
<td>3,564</td>
<td>165,179</td>
</tr>
<tr>
<td>Total</td>
<td>419,278</td>
<td>26,597</td>
<td>11,690</td>
<td>457,572</td>
</tr>
</tbody>
</table>

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Despite the decrease from fiscal year 2021 to fiscal year 2022, the fiduciary net position for PERA’s defined benefit plans increased by approximately $5 billion over the past two fiscal years.

A Message from the Executive Director.

Comparing Investment Return Assumption of 6.5% to 7.5%

Assumed rate of 6.5%

2018

Fiscal Year | Funding Ratio* | 2019 |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan 1, 2018</td>
<td>89.3%</td>
<td>98.7%</td>
</tr>
<tr>
<td>Jan 1, 2019</td>
<td>93.7%</td>
<td>101.6%</td>
</tr>
<tr>
<td>Jan 1, 2020</td>
<td>97.8%</td>
<td>105.0%</td>
</tr>
<tr>
<td>Jan 1, 2021</td>
<td>97.1%</td>
<td>102.4%</td>
</tr>
<tr>
<td>Jan 1, 2022</td>
<td>100.0%</td>
<td>105.0%</td>
</tr>
</tbody>
</table>

*For funding ratios, see A Message from the Executive Director

The funding ratio measures the actuarial value of assets (amassed over a 5-year period) to minimize the impact of investment volatility, compared to the actuarial accrued liability (the value of promised lifetime benefits).

Awards winning Popular Annual Financial Report

Government Finance Officers Association is pleased to announce that Public Employees Retirement Association of Minnesota has received GFOA’s Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR award) in 2021.

The award represents a significant achievement by the entity. In order to be eligible for the PAFR award, a government must also submit its comprehensive annual financial report to GFOA’s Certificate of Achievement for Excellence in Financial Reporting Program and receive the Certificate for the current fiscal year. Each eligible report is reviewed by judges who evaluate the report based on the following categories: reader appeal, understandability, distribution methods, creative reporting program and receive the Certificate for the current fiscal year. Each eligible report is reviewed by judges who evaluate the report based on the following categories: reader appeal, understandability, distribution methods, creative reporting program and receive the Certificate for the current fiscal year. Each eligible report is reviewed by judges who evaluate the report based on the following categories: reader appeal, understandability, distribution methods, creativity and other elements.
**2022 Contribution Rates** (percentages applied to pensionable wages)

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<thead>
<tr>
<th>Effective Date</th>
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<th>Correctional</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan. 1, 2020</td>
<td>Member</td>
<td>6.80%</td>
<td>11.0%</td>
<td>7.63%</td>
<td>15.43%</td>
</tr>
<tr>
<td></td>
<td>Employer</td>
<td>7.50%</td>
<td>17.10%</td>
<td>9.25%</td>
<td>25.85%</td>
</tr>
</tbody>
</table>

*The Minnesota State Legislature net contribution rates.

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Despite the decrease from fiscal year 2021 to fiscal year 2022, the fiduciary net position for PERA's defined benefit plans increased by approximately 17% over the past two fiscal years.

**Giving Back to Minnesota**

88 percent of annual benefit payments* are made to Minnesota residents. Out of $2.45 billion in benefit payments, $2.17 billion payments* are made to Minnesota residents. About 88 percent of benefit payments are made to Minnesota residents.

**Funding Ratio**

Comparing Investment Return Assumption of 6.5% to 7.5%

**What the numbers mean**

The funding ratio uses actuarial values of assets to determine the financial health of the retirement plans and how to fund them. The funding ratio measures the actuarial value of assets (amortized over a 10-year period) to minimize the impact of investment volatility, compared to the actuarially expected liability (the value of promised lifetime benefits).

*For funding ratios, see a Message from the Executive Director.

---

**PERA Membership — Defined Benefit Plans**

<table>
<thead>
<tr>
<th>General Plan</th>
<th>Police &amp; Fire</th>
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<th>Total</th>
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<td>3,564</td>
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Total | 419,278 | 26,557 | 11,890 | 457,725 |

**Changes in Fiduciary Net Position — Defined Benefit Plans (in millions)**

<table>
<thead>
<tr>
<th>Assets General Plan</th>
<th>Police &amp; Fire</th>
<th>Correctional</th>
<th>FY2022 Change</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock &amp; Securities</td>
<td>$509</td>
<td>$204</td>
<td>$11</td>
<td>$720</td>
</tr>
<tr>
<td>Cash &amp; Cash Equivalents</td>
<td>25,231</td>
<td>10,218</td>
<td>909</td>
<td>36,708</td>
</tr>
<tr>
<td>Securities Lending Collateral</td>
<td>1,345</td>
<td>538</td>
<td>50</td>
<td>1,933</td>
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</table>

**Liabilities**

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>General Plan</th>
<th>Police &amp; Fire</th>
<th>Correctional</th>
<th>FY2022 Change</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrued Payable</td>
<td>9</td>
<td>7</td>
<td>11</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Accrued Compensated Absentee Payable</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
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</tr>
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<td>2</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>1,037</td>
<td>845</td>
<td>1,985</td>
<td>2,822</td>
<td>2,292</td>
</tr>
</tbody>
</table>

**Total Net Position**

$52,064 | $37,412 | $37,544 | $97,020 | $138,940

---

**Public Employees Retirement Association (PERA)**

**Fiduciary Net Position as a Percentage of Total Pension Liabilities** (FY2018 - FY2022)

**What the numbers mean**

The Government Accounting Standards Board requires Fiduciary Net Position as a Percentage of Total Pension Liability to be used for financial reporting. It measures the market value of pension plan assets, compared to the actuarial value of promised lifetime benefits. This measure is significantly impacted by the volatility in the investment market, unlike the funding ratio shown in the chart below.

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Fiscal year 2022 provided PERA with an opportunity to reimagine how we continue to achieve our mission and strategic goals, which include the administration and promotion of sustainable retirement plans. This year also saw continued volatility in the investment market with strong returns for the first six months followed by sharp decline in returns in the last six months. The sharp decline in the market, together with negative net cash flow due to benefit payments exceeding contributions, resulted in a decrease of $13.6 billion or 8.8 percent in PERA’s fiduciary net position from $41.0 billion as of June 30, 2021 to $37.4 billion as of June 30, 2022 for the three defined benefit plans listed below.

Despite the decline in the investment market and decrease in PERA’s fiduciary net position, the funding ratio and contribution sufficiency for the General Employees Plan, Police and Fire Plan, and Correctional Employees Plan increased slightly when comparing to the prior fiscal year and using measurements based on the actuarial value of assets. The actuarial value of assets recognizes asset gains and losses over a five-year period and is used to mitigate volatility of certain measurements.

When looking at the funding ratio and contribution sufficiency or deficiency, it is important to recognize that the actuary calculates those using the statutorily defined investment return assumption of 7.5 percent. PERA’s actuary determined, for the second consecutive year, that the statutorily defined investment return assumption of 7.5 percent deviates materially from the guidance set forth in the Actuarial Standards of Practice and suggests a range of 5.64 to 6.84 would be reasonable. If PERA used an investment return assumption within the actuary’s suggested range, such as 6.5 percent, the funding ratio would decrease by 10 to 15 percent and the contribution sufficiency would turn into a deficiency. This suggests that the contributions would not be sufficient to fully fund the unfunded liability by the legislatures targeted full funding date of 2048.

Recent volatility of investment returns and the wide range of future expectations makes current decision making challenging. At the moment, making no changes to benefits or contributions appears to be the most prudent decision. When the assumed direction of the Plans becomes more clear, the urgency for action will increase.

Sincerely,

Doug Anderson
Executive Director

About the Combined Fund and Asset Allocation

PERA’s pension contributions from employees and employers are invested in the Combined Funds. Since these assets normally accumulate for 30 to 40 years, the State Board of Investment’s (SBI) objective is to take advantage of the long investment time horizon offered by equities and private markets in order to meet its actuarial return target and ensure sufficient funds are available to finance promised benefits at the time of retirement.

The long-term objective of the Combined Funds are:
- Provide returns that are 1 to 5 percentage points greater than inflation over the latest 20-year period; and
- Outperform a composite market index weighted in a manner that reflects the actual asset mix of the Combined Funds over the latest 10-year period.

SBI’s asset allocation policy is consistent with these objectives.

For more investment information and to view SBI’s Annual Report, visit https://msbi.us/annual-reports

About the Popular Annual Financial Report (PAFR)

The Popular Annual Financial Report (PAFR) is a summary of key measurements contained in PERA’s Annual Comprehensive Financial Report (ACFR). Like the ACFR, the PAFR is consistent with generally accepted accounting principles and guidelines established by the Governmental Accounting Standards Board. The PAFR does not include information about PERA’s Defined Contribution Plan or Statewide Volunteer Firefighter Plan. Readers are encouraged to review PERA’s ACFR for additional information. For a copy of PERA’s ACFR, visit https://mnpera.org/financial/annual-comprehensive-financial-report

Sincerely,

Doug Anderson
Executive Director

Public Employees Retirement Association Pension Trust Funds of the State of Minnesota
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For the Fiscal Year Ended June 30, 2022

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Public Employees Retirement Association Pension Trust Funds of the State of Minnesota

For the Fiscal Year Ended June 30, 2022

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