Newsletter of the Public Employees Retirement Association of Minnesota mnpera.org

PERA NEWS

Assets Over $30 Billion
Serving over 450,000 public employees in Minnesota

GENERAL | POLICE & FIRE | CORRECTIONAL

SUMMER 2018

Gov. Dayton signs 2018 pension bill into law

Gov. Mark Dayton signed the 2018 Omnibus Retirement Bill into law in May. The bill was unanimously supported throughout the legislative session as it made its way through committees and to the floor of both the Senate and House.

The bill reduced the State's pension liabilities by $3.4 billion immediately with an additional estimated reduction of $2.7 billion to be recognized over the next 30 years. This legislation puts PERA retirement plans on a better path toward full funding and safeguards the retirement security of current, former, and future public employees.

The bipartisan legislation (H.F. 3053/S.F. 2620) included sustainability measures for all four of the State's public pension systems and lowered the rate of return on investments to 7.5 percent. It is the first pension bill signed into law since 2015.

Upon passage in the Senate in March, pension bill co-author and chair of the Legislative Commission on Pensions and Retirement (LCPR) Sen. Julie Rosen praised the engagement of those who have worked for three years on a pension sustainability package with "significant benefit reforms" as well as contribution rate increases for employers and employees of some of the plans. Rosen said the effort reflects "true shared sacrifice."

KEY FEATURES

Contributions

There is no change in contribution rates for employees and employers in the General and Correctional Plans. For the Police & Fire Plan, beginning January 1, 2019, there will be a two-year phase in of a 1 percent increase in member contributions and a 1.5 percent increase in employer contributions.

The Police & Fire Plan will receive an annual state aid payment of $4.5 million in fiscal years 2019 and 2020, and $9 million annually thereafter until 2048 or until fully funded.

	Member	Employer
Current	10.8%	16.2%
Jan. 1, 2019	11.3%	16.95%
Jan. 1, 2020	11.8%	17.7%

Cost-of-living adjustment (COLA)

GENERAL PLAN

Beginning in 2019, the COLA will be equal to 50 percent of the increase announced by the Social Security Administration (SSA), with a minimum increase of at least 1 percent and a maximum increase of 1.5 percent.

For members retiring Jan. 1, 2024, or later, the COLA will be delayed until normal retirement age (age 65 for individuals hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989).

IF SSA INCREASE IS...	2% or lower	2–3%	Higher than 3%
THE COLA WILL BE...	1%	50% of inflation	1.5%

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

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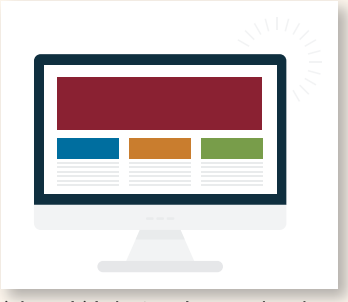

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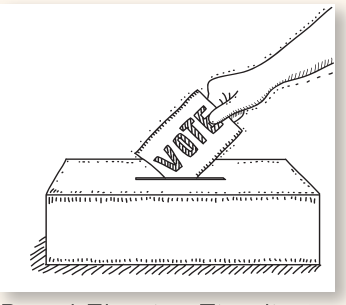

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PRESIDENT'S MESSAGE

Kathryn A. Green
President
PERA Board of Trustees

Success. The 2018 Omnibus Retirement Bill was passed by the Legislature and signed into law by Gov. Mark Dayton in May. It is the first retirement bill signed into law since 2015.

It is a time for celebration.

The 2018 bill is an important step toward improving funding of Minnesota's public pension plans. We appreciate the cooperation and support from PERA's stakeholders and the legislative committees for unanimously approving the Omnibus Retirement Bill.

For PERA, the legislative changes impact the funding projections for the plans we administer. We can now report that the three defined benefit plans-the General Plan, Police & Fire Plan, and Correctional Plan-are expected to reach full funding within 20 years. We are proud of the fact that we are the only public pension plans in the State that can make this claim.

The focus of the legislative changes was sustainability. And, the bill accomplishes that by reducing the State's pension liabilities by $3.4 billion immediately with an additional estimated reduction of $2.7 billion recognized over the next 30 years.

For PERA, sustainability of our plans is always important. Before this legislation, our plans were in solid financial standing; however, we are always interested in making our funding status stronger. Our stakeholders agreed. We met extensively with member and employer representatives to receive input. They were willing to make the shared sacrifices necessary to support the legislative changes. We accomplished our goal: our plans are stronger and better funded than before.

It is also a time of reflection. A time to ask, "what's next?"

Monitoring and maintaining healthy pension plans is an on-going task. Our Board has a history of being proactive in proposing legislative changes to maintain financially strong retirement plans. But, we also want to make decisions and take actions that align with our vision of the best pension policies. For example, this year we were able to implement a post-retirement adjustment in two of our plans tied to inflation. This is a structure used by many other pension plans across the country and PERA's General and Correctional Plans are piloting the model in Minnesota. With the improved position of our plans, we now have the opportunity to focus even more on plan design and policy best practices.

As a Board, it is our responsibility to monitor the ever-changing political and economic landscape, both in our state and on a national level. We are closely watching the demographic trends to anticipate the changing needs of members and employers and to continually meet those needs.

My fellow Trustees and I will continue to identify and examine good plan design policies and will act as fiduciaries of the plans to ensure positive results. Good plan design, just like strong funding levels, requires a long-term vision. We are dedicated to continuing to develop and implement this vision. Our commitment to fulfill our mission statement to administer and promote sustainable retirement plans and provide services that our members value remains as strong as ever.

Keeping your personal information secure online

Your MY PERA account is an excellent resource that provides real-time information on your PERA benefits. As with other online applications and services, doing your part to protect your personal information in MY PERA can help reduce your risk of fraud or identity theft.

Keep passwords private. While it may seem like it goes without saying, do not share your passwords with others.

Use strong passwords. Gone are the days of using passwords that include your spouse's name or child's date of birth. Instead, be creative by thinking of a phrase you can easily remember substituting numbers, symbols, and letters for words. For example, "I want to see the Eiffel Tower" could become 1W2SeaTEt.

Use different passwords. Use different passwords for your laptop, bank, MY PERA, and other accounts. If one is compromised, it will reduce the likelihood hackers will be able to get into your other accounts. If it's hard to remember all of your passwords, try using a password manager.

Don't overshare on Social Media. Posting too much information about yourself can make it easier for an identity thief to find information about your life, use it to answer challenge questions on your accounts, and unfortunately gain access to your personal information. Consider limiting access to your networking sites to people you know, and never share private information including your phone number or address on publicly accessible sites.

Be smart about Wi-Fi. Before you send personal information over your laptop or mobile device on a public wireless network in an airport, library, or coffee shop make sure your information will be protected. If you use an encrypted website, it protects only the information you send to and from that site. If you use a secure wireless network, all the information you send on that network is protected.

Watch for impersonators or phishing. Only give out personal information when you've initiated the contact or know who you are dealing with. **PERA will never contact you requesting your personal information. If you are suspicious, follow your instinct and call a PERA representative.**

WEBSITE REDESIGN: You are our top priority

Our mission remains the same: to provide services our members value.

Our goal is to provide you a website that is easy to navigate, using the best practices in website design. And, thanks to you, our new website achieves that and more.

This new site has a modern look and consistent themes that describe who we are and how we help more than 450,000 members and beneficiaries. This new design is responsive, so it's compatible with any device (desktops, laptops, tablets, and all mobile devices) and is compliant with accessibility best practices. The content of the website has undergone a rigorous review. It's been consolidated to offer the latest information to our members and employers.

WE LISTENED

Early in the redesign process we conducted extensive member and retiree surveys. It was clear that an overwhelming number of you wanted the website organized by why you were visiting. You'll notice that on our home page, we ask "How Can We Help You?" and offer the most common reasons why you visit our website.

The structure provides easy access to information for members, employers, retirees, and other stakeholders. Some of the key navigation features include:

- A homepage that puts the emphasis on members and provides easy access to the resources most commonly used. The navigation is based on why you visit our website.
- Separate landing pages for members, retirees, and employers. These landing pages allow us to provide information, news, and events that are important to all our stakeholders.
- A menu on each page that expands to show the site structure, making navigation easier.

visit www.mnpera.org

PERA's Executive Director shares views on pension bill

Passage of the 2018 Omnibus Retirement Bill in May generated numerous media articles. Initial stories focused on the rarity of unanimously supported legislation in the current political environment as well as the positive impact of the bill on the funding direction for the State's pension plans. Subsequent stories explained the reaction of rating agencies that challenged whether the changes have gone far enough. We sat down with our Executive Director Doug Anderson to try to better understand those viewpoints.

Why was passage of the bill initially so favorably received?
The bill was three years in the making and strongly supported by all actively engaged stakeholder groups from all four of Minnesota's public pension systems. The support was unprecedented and reflected the importance of this issue to the groups. While all groups had to make sacrifices, the changes were considered fair and are positive steps to sustain all of the plans. The changes are worthy of some celebration.

What did the bill accomplish?
The bill lowered the investment return assumption from 8.0 to 7.5 percent, a more conservative measure of future liabilities. The bill also made benefit and contribution changes that will result in the plans reaching full funding earlier than previously expected. For PERA's General and Correctional Plan members there were additional changes to more equitably distribute benefits to members, including tying retiree benefit increases to actual inflation. PERA's plans are now all expected to be fully funded within 20 years.

We've read that rating agencies still have some concerns. What concerns have they raised?
Rating agencies viewed the changes favorably, but did express concerns. Moody's for instance called it "credit positive" for state and local governments, but also noted "changes are far from a cure all." They specifically expressed concern about still existing high unfunded liabilities and the long time period needed to reduce those amounts.

S&P called it "a positive step toward sustainable funding." However, they remained concerned about regression in funded status for two reasons. They stated their view that the new 7.5 percent investment return assumption is high and noted that in Minnesota contributions are determined by statute rather than an actuarially determined contribution. They believe the current approach could lead to future underfunding.

Why do rating agencies care about pensions?
Rating agencies are ultimately trying to assess a state or local government's willingness and ability to meet its financial obligations in full and on time. As part of the total compensation for their employees, pension obligations are an important government financial commitment. If assumptions for future pension costs are not met, or recommended contributions are not made, unfunded liabilities and future contributions may increase.

Why should anyone care about rating agency opinions?
Rating agency opinions matter when state and local governments issue bonds. The better the governmental entity's credit rating, the lower their cost to borrow for things like infrastructure projects. Ultimately, if pension liabilities are under control, they will not adversely impact the cost of issuing those bonds. If a credit rating is negatively impacted, including by overwhelming pension obligations, the cost to issue bonds increases and is thereby passed on to taxpayers. Since taxpayers care about costs, members should care about rating agencies views on the containment of those costs.

Are ratings agency concerns about the investment return assumption valid?
Neither Moody's nor S&P promoted a specific assumption in their reports. Instead they noted Minnesota's assumption as being on the high end nationally. Given their role to watch cost containment, a degree of conservatism in their viewpoint may be valid.

A pension fund's perspective varies from a rating agency's in that assumptions should be as accurate as possible without bias towards aggressiveness or conservatism. Ultimately, the Legislature sets the investment return assumption. PERA's Board plays a role by supporting recommended changes based on work performed by our actuary. They adhere to a process defined by an Actuarial Standard of Practice, the key component of which is the reliance upon investment experts for their long-term forecasts for our fund's investments classes. The process is thorough and will be undertaken again in this coming year.

So, who is more likely to be right?
We will only know in the distant future. While it is extremely important to know that past returns do not influence future expectations, some historical perspective may be helpful. Looking backwards from the end of this most recent fiscal year, the average returns over the past 10, 20, and 30-year periods were 7.8, 6.8, and 9.1 percent respectively. A supporter of a low assumption could cherry pick the lowest average if they selected an 18-year look back, which averaged 6.3 percent. Whereas, a supporter of a higher assumption could look back 22 years or more to get a result no less than 8.0 percent.

I want to repeat that historical returns do not influence future expectations. My point is intended more to convey that longer periods of measurement take out short-term volatility and the returns gravitate to reasonable norms. We care about an indefinite future time period. It's really hard to argue in defense of a single assumption.

Should we be concerned about another recession or market correction?
While any recession or correction is concerning, we've also seen some nice recoveries during the periods immediately following those events. The funds have averaged over 11 percent returns in the nine fiscal years following the 2008-2009 recession. The five fiscal years following the dot com bubble burst was even better (12 percent). I would always prefer less volatility, but Minnesota's funds have benefited more in the long run than other public sector funds by taking on relatively higher risk and have been able to endure short term downturns.

What do you make of the rating agency concerns about funding recommended amounts compared to our current statutory contribution rates?
A pension fund can best ensure long-term equitability and sustainability if there are accurate assumptions and a commitment is made to fully fund the plan over a reasonable time period by making the actuarially recommended contribution. The message from the rating agencies included their concern about actual contributions set in statute as opposed to funding the actuarially recommended contribution.

Specifically for PERA, making the statutory contributions puts the plans on paths towards full funding within 20 years. Whereas, the actuarial recommended contribution is based on fully funding the plan over a 30 year period—a relatively low bar. Since the plans are on a fairly good path based on current assumptions, this should be less concerning relative to the PERA plans. However, if future assumptions are not met, and the statutory contributions become insufficient to meet the full funding obligation, it would require legislative action to ensure the plans don't become unsustainable. The message from the rating agencies shows a preference for built-in assurances as opposed to relying on legislative actions.

What conclusion should our members take from all of this?
Members should feel positive about the recent legislative changes as they improved long-term benefit security. Members should also consider the rating agencies' concerns as focusing on benefit security by encouraging full funding based on reasonable assumptions. Overall, PERA's plans are heading in a positive direction under the current assumptions and are built to withstand some market instability.

ABOUT PERA'S EXECUTIVE DIRECTOR
Anderson is an Enrolled Actuary (EA), an Associate in the Society of Actuaries (ASA), and a Member of the American Academy of Actuaries (MAAA). He has been the Executive Director of PERA since November 2014.

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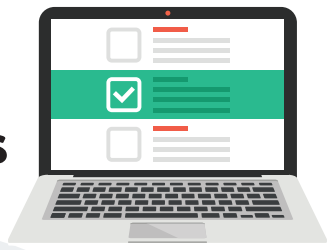
POLICE & FIRE PLAN
Starting in 2019, the COLA will be fixed at 1 percent. Under 2017 funding measurements, the 2.5 percent COLA trigger was never expected to occur and was removed from law.

CORRECTIONAL PLAN
Starting in 2019, the COLA will be equal to 100 percent of the increase the SSA announces, with a minimum increase of at least 1 percent and a maximum increase of 2.5 percent. If the Plan's funding status decreases to 85 percent or below for two consecutive years or 80 percent for one year, the maximum will be lowered from 2.5 to 1.5 percent.

More details
For more details on the 2018 legislation, visit our website at www.mnpera.org. See *2018 Legislative Update* under *The Latest from PERA*. Your personal information in your MY PERA account also reflects the legislative changes.

PERA to discontinue mailing COLA letters



Sign up for MY PERA

Each December, PERA sends letters to inform benefit recipients of their new benefit amounts after the annual cost-of-living-adjustment (COLA). After December 2018, PERA will discontinue sending these letters. However, it is easy to find your new benefit amount, along with much more information, in MY PERA.

Watch PERA's website at www.mnpera.org. We will announce the COLA adjustment percentages and the date the January payment details will be available in MY PERA.

We encourage PERA members to register for MY PERA and manage your PERA account information online. MY PERA allows you to verify your income, view gross and net pay information on monthly benefits, and more. You can also:

- Review and update your personal information
- View a current estimate of your benefits, just like your Personal Benefit Statement, or create your own custom estimates (active and deferred members only)
- Register for conferences and workshops (active and deferred members only)
- Sign up for PERA's e-publications
- Adjust tax withholding and direct deposit once you begin receiving your benefit, as well as print tax form 1099R and proof of income reports
- Add or update beneficiaries (active and deferred members only)
- Create and view estimates including a non-spouse survivor (active and deferred members only)

Need help?
We are here. If you need help, contact us at 651-296-7460 or 1-800-652-9026.

You can be confident that your MY PERA account is secure. We have made significant security updates to MY PERA for your protection. Remember, we respect your privacy and will never share your email or other private information with third parties.

Board Election

Five seats to be filled in 2019

Every four years, five PERA members are elected to serve on the Board of Trustees for four-year terms. Three of the seats are filled by active (currently working) members of PERA's three largest defined benefit plans. The fourth seat is designated to be occupied by an active member of the Police & Fire Plan. The fifth seat is designated to be filled by a former member of PERA who is receiving either a retirement or disability benefit.

All five trustees are elected at large by the retirees, benefit recipients, and active members of PERA's General Plan, Police & Fire Plan, and Correctional Plan. Defined Contribution Plan participants who do not also belong to one of PERA's defined benefit plans cannot vote.

Election information and forms will be made available to interested candidates and announced on PERA's website no later than August 24, 2018.

For more information, visit our website at www.mnpera.org or contact Gladys Rodriguez at 651-201-2691 or gladys.rodriguez@mnpera.org.

AUGUST 24 2018
Candidate filing info available on website

OCTOBER 1-7 2018
Candidate filing is accepted

OCTOBER 15 2018
Last day for candidates to withdraw their name

JANUARY 2-10 2019
Voting materials will arrive in mail

JANUARY 31 2019
Election closes

FEBRUARY 21 2019
Election results certified by the Board

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BOARD DIRECTORY

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. Board members serve four-year terms.

Kathryn A. Green, President
Appointed School Board Representative
Email: kathryn.green@mnpera.org

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

Ross Arneson
Elected Retiree/Disabilitant Representative
Email: ross.arneson@mnpera.org

Paul Bourgeois
Elected General Membership Representative
Email: paul.bourgeois@mnpera.org

Mary Falk
Appointed Public Representative
Email: mary.falk@mnpera.org

Barbara Johnson
Appointed Cities Representative
Email: barb.johnson@mnpera.org

Leigh Lenzmeier
Appointed County Representative
Email: leigh.lenzmeier@mnpera.org

Rebecca Otto
State Auditor
Email: rebecca.otto@mnpera.org

Lori Volz
Elected General Membership Representative
Email: lori.volz@mnpera.org

Lawrence J. Ward
Appointed Annuitant Representative
Email: larry.ward@mnpera.org

Paul Ford
Elected Police & Fire Representative
Email: paul.ford@mnpera.org

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