PUBLIC EMPLOYEES
RETIREMENT ASSOCIATION

Date: June 9, 2022
To: PERA Board of Trustees
From: Doug Anderson, Executive Director
Subject: Privatization Reporting for Welia Health

Minnesota Statutes Chapter 353F defines terms for member benefits and reporting requirements related to entities that privatize. Members of all entities that privatize become fully vested upon privatization and continue to earn credit for Rule of 90 purposes. Members of entities privatizing prior to July 1, 2020 had also been eligible for benefit augmentation. The 2020 Pension Omnibus bill ceased augmentation as of December 31, 2023 for members of previously privatized plans and eliminated augmentation entirely for members of entities privatizing after June 30, 2020. Welia Health privatized effective July 1, 2021.

Although the benefits were changed effective with the 2020 legislative changes, the reporting requirements in the statutes were left unchanged. Section 353F.025 of the Statute states that "…the executive director shall, following acceptance of the actuarial calculations by the board of trustees, forward notice and supporting documentation, including a copy of the actuary's report and findings, to the chair and the executive director of the Legislative Commission on Pensions and Retirement and the chairs and the ranking minority members of the committees with jurisdiction over governmental operations in the house of representatives and senate."

The necessity of an actuary's report was considered by staff to be very questionable a few years ago. The purpose of the actuary's report is to disclose the result of actuarial calculations that prove that the General Employees Retirement Plan (the "Plan") would not experience an actuarial loss by granting certain benefits to members of a privatizing entity. However, the test was structured in a manner that it is nearly impossible (or maybe impossible) to fail.

In laymen's terms, the test will only be failed if benefits based on past service and past salaries is higher than benefits based on past service with salaries increased at the assumed rates for salary increases (In actuarial terms this would be if the Present Value of Accrued Benefits were greater than the Actuarial Accrued Liability). The test had been performed approximately 30 times over the past two decades with a 100 percent pass rate, as should be expected by the way it is structured.

PERA staff considered the need for actuarial calculations to be unnecessary and that the privatizing entity should not be required to pay $7,500 to obtain results that can be known without performing the work. While calculations may be considered unnecessary to prove a result, the statutes still require an actuary's report to be completed and submitted to the Legislature. Staff believes that an actuary's report, modified to reflect that actuarial calculations were not necessary, can be sufficient to meet the legislative requirement for the reporting process.

### *Staff Recommendation*

Staff recommends that the PERA Board of Trustees accept the modified actuary's report as presented by GRS Consulting for submission to the Legislature

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June 2, 2022

Mr. Doug Anderson, Executive Director
Public Employees Retirement Association
of Minnesota
60 Empire Drive, Suite 200
St. Paul, Minnesota 55103

**Re: Privatization Study—Welia Health**

Dear Doug:

Enclosed is our analysis of the privatization enhancements for the Public Employees Retirement Association of Minnesota (PERA). The purpose of this report is to comply with the reporting requirements in Minnesota Statute 353F.025. This report should not be relied on for any purpose other than the purpose described herein.

This report was prepared at the request of PERA and is intended for use by the Retirement System and those designated or approved by PERA. This report may be provided to parties other than the System only in its entirety and only with the permission of PERA. GRS is not responsible for unauthorized use of this report.

Welia Health privatized effective July 1, 2021. Prior to privatization, eligible employees of Welia Health were members in the General Employees Retirement Plan. When Welia Health became a private employer, employees terminated active participation in the Plan. Minnesota Statutes 353F defines benefits for members of privatized employers. Members of employers that privatize become fully vested upon privatization, and their additional years of service at the privatized employer continue to count for Rule of 90 purposes. For privatizations with effective dates before July 1, 2020, enhanced augmentation was also provided.

According to MN Statutes 353F.025, privatization enhancements cannot be provided if they result in a liability loss to PERA:

*Following receipt of a resolution and a determination by the executive director that the new employer is not a governmental subdivision, the executive director shall direct the consulting actuary retained under section 356.214 to determine whether the general employees retirement plan of the Public Employees Retirement Association, if coverage under this chapter is provided, is expected to receive a net gain or a net loss if privatization occurs. A net gain is expected if the actuarial liability of the special benefit coverage provided under this chapter, if extended to the applicable employees under the privatization, is less than the actuarial gain otherwise to accrue to the plan. A net loss is expected if the actuarial accrued liability of the special benefit coverage provided under this chapter, if extended to the applicable employees under the privatization, is more than the actuarial gain otherwise to accrue to the plan.*

In the past, actuarial studies were conducted to prove that enhancements do not result in a liability loss. Now that enhanced augmentation is no longer provided to privatized members, it is clear that the enhancements (full vesting and continued credit for Rule of 90) will not result in a liability loss. Based on the methodology consistently utilized for privatization evaluations, a liability loss will only be generated if the actuarial accrued liability based on past service and past salaries, including the privatization enhancements, is greater than the actuarial accrued liability based on continued active service and salary growth (with no privatization enhancements). In our professional opinion, the privatization enhancements provided to Welia Health do not result in a liability loss, and additional actuarial analysis is not needed.

Note that other approaches may be reasonable, but may require statutory clarification.

When an employer privatizes, risk is transferred from the privatizing employer to the plan and other participating employers. Before privatization, as a participating employer who supports the Plan through employer contributions, Welia Health shares in the risks of the Plan. After privatization, Welia Health no longer shares in these risks; the risk is shifted to the Plan and remaining participating employers. Quantifying this risk is outside the scope of this study; if additional information is needed, please contact the author of this report.

The signing actuary is independent of the plan sponsor.

Please call if you have any questions.

Sincerely,
Gabriel, Roeder, Smith & Company

Bonita J. Wurst

Bonita J. Wurst, ASA, EA, FCA, MAAA