PUBLIC EMPLOYEES
RETIREMENT ASSOCIATION

Date: June 13, 2024
To: PERA Board of Trustees
From: Doug Anderson, Executive Director
Amy Strenge, Policy Coordinator
Subject: PERA Scorecard

PERA staff developed a scorecard to assess the status of the General Plan, Police & Fire Plan, and Correctional Plans. The scorecard identifies status and progress towards goals related to plan assumptions, the financial health of the plans, contribution rates, and postretirement benefits. Staff previously presented the document to the Board, stakeholders, and members of the LCPR.

The attached document provides further background on the scorecard including identification of the goal for each of the four categories, descriptions of the metrics that may be used to measure progress towards the goal, and staff's assessment of the current state of progress towards the goal. The document also provides history and forecasts of the metrics.

The metrics provided on page 5 are likely to change when the cost assessment component of the experience study is complete. The metrics will also change with each year's actuarial valuation. The next measurement date is July 1, 2024. Actuarial valuations with those results are expected in October.

The scorecard is ultimately intended to help Trustees, stakeholders, and Legislators with their decision making. Staff does not seek a specific motion, but would appreciate feedback from the Board at the June meeting. Including, but not limited to:

1. What questions do you have regarding the content of the report?

2. What is your opinion on staff's scorecard assessments?

3. Is this a helpful tool for making decisions?

4. Is there additional information you would like to see added? Are there additional metrics that should be added to the scorecard?

5. Should the Board's long-term positions be modified to reflect the goals in the scorecard?

PERA Plan Scorecard

Doug Anderson, ASA, MAAA, Executive Director

Amy Strenge, Policy Coordinator

This document is prepared by PERA staff for discussion at the June 13, 2024 board meeting. The views are those of staff and do not reflect formal board positions unless specifically noted.

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PERA's General, Police & Fire, and Correctional Plans are multi-employer cost sharing retirement plans intended to provide a reasonable amount of retirement income and security for members who engage in a full career of public service. The plans also offer benefits for members that participate for less than a full career or cease public employment due to termination, disability, or pre-retirement death.

401(a) Tax Qualified Plans. These PERA defined benefit plans are IRS tax-qualified plans providing a form of deferred compensation to members. Members and employers contribute to the plan during a member's period of service for their community. The benefits are the deferred compensation paid upon retirement, termination, disability or death.

Plan Sustainability and Equity. When properly designed and governed, a pension plan should be able to meet its objectives in perpetuity and fairly from one generation to the next. When a plan gets out of sync for any reason, it may create intergenerational inequities and require significant money and patience to restore to health.

Plan Scorecard. PERA staff has created a scorecard for the PERA plans. The scorecard:

1. Identifies specific goals for four key areas (assumptions, financial health, contributions, and benefits) that PERA trustees need to understand and monitor in order to help exercise their fiduciary responsibilities.
2. Defines specific metrics that can be used to objectively measure progress towards the stated goals.
3. Allows for an opportunity for the Board to determine priorities on a plan-by-plan basis.
4. Provides a document that can be used to share Board concerns and priorities with stakeholders and legislators.

Purpose of the Scorecard. This document provides the Board with staff's rationale for their grade of success, caution, or concern for each of the four scorecard metrics (assumptions, financial health, contributions, and benefits). The document: (1) describes metrics used, (2) provides a 20-year history of funding status, contributions, and annual postretirement increases information, and (3) recommends specific goals. The ultimate purpose of the scorecard is to provide a tool to help ensure legislative changes are consistent with the Board's long-term goals.

Scorecard Limitations. The scorecard is not all-inclusive. The focus is on four issues of extremely high impact to members. Two other areas not covered by the scorecard are: (1) whether each plan provides a reasonable benefit at an appropriate retirement age, and (2) whether the ancillary benefits are appropriate.

1. **Benefit Amount.** Generally speaking, staff believes the amount of retirement benefit at each plan's full retirement age is reasonable for most career employees. However, as demonstrated during the 2024 legislative session, there are stakeholders questioning these longstanding provisions. Examples include: (1) correctional stakeholders seeking and achieving a higher multiplier, (2) coordinated members of the General Plan employed as parole officers, probation officers, and 911 tele-communicators seeking an earlier unreduced retirement age, (3) police stakeholders seeking changes to promote later retirements, and (4) teachers successfully achieving a plan change to an earlier age for unreduced retirement.
2. **Ancillary Benefits.** Termination, disability, and pre-retirement death benefits (ancillary benefits) are also important plan features. Disability benefits in particular have become a significant component of the Police & Fire Plan. While these issues are of great importance to each plan, the scorecard, as noted above, is focused on issues of greatest importance to long-term plan sustainability.

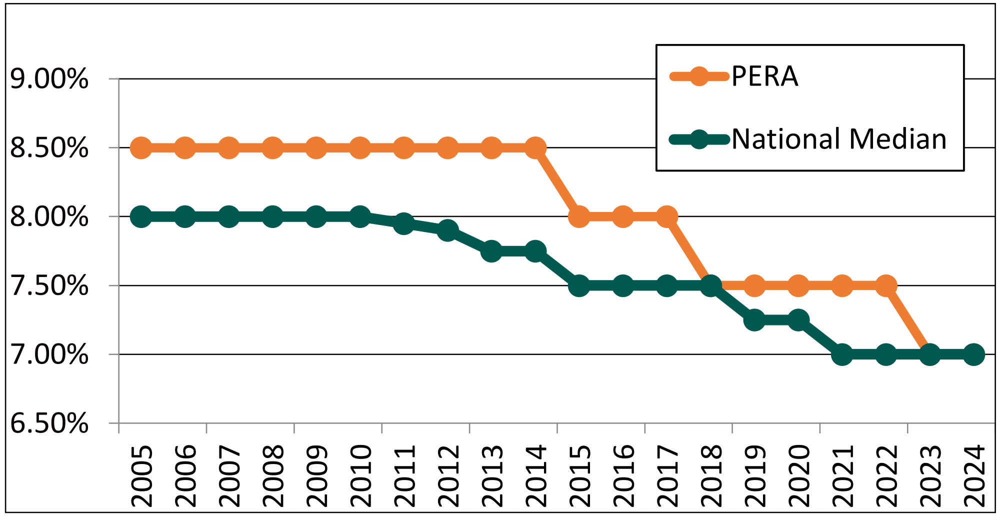
Success | Caution | Concern

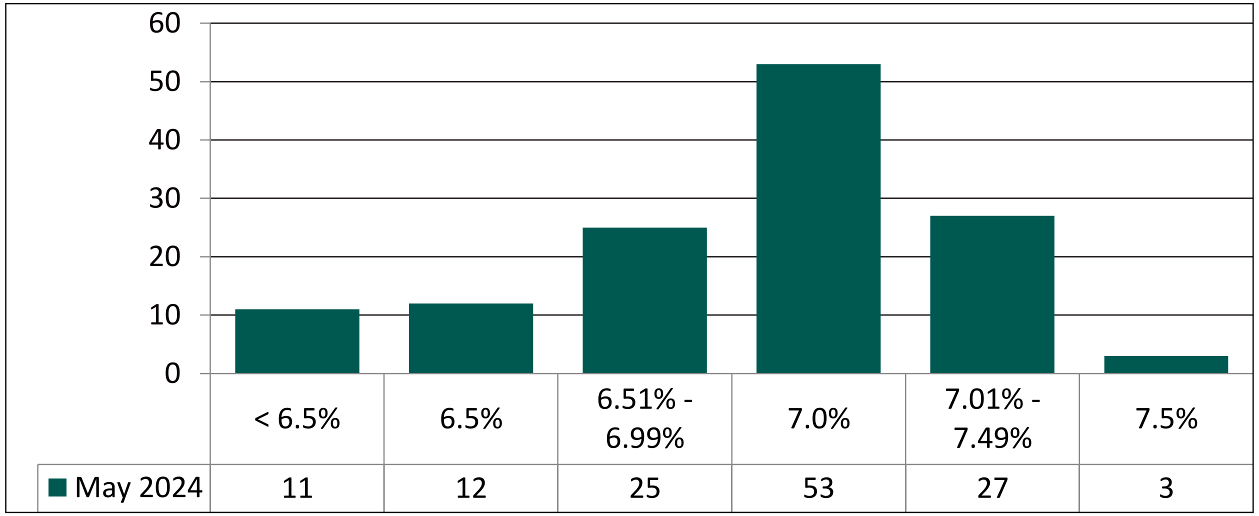
Metrics for P&F and Correctional do not reflect the recent experience studies.

Metrics	Questions to Consider	General	Police & Fire	Correctional
Assumptions	Are the economic & demographic assumptions appropriate?	Yes	Yes (Assuming recommendations are adopted)	Yes (Assuming recommendations are adopted)
Financial Health	Is the plan expected to achieve and maintain fully funded status?	83% now, 100% by 2041	87% now, 100% by 2061	96% now, 100% by 2045
Contributions	Do employees and employers contribute the appropriate amount?	Contributions 161% of Normal Cost	Contributions 126% of Normal Cost	Contributions 103% of Normal Cost
Benefits	Do retirees have sufficient inflation protection?	50% CPI, 1.0% Min 1.5% Max	1% fixed (No SS)	100% CPI, 1.0% Min 2.5% Max

Economic Assumptions. The investment return assumption, inflation, and salary increase assumptions are considered economic assumptions. These assumptions are evaluated and reported in each plan's experience study completed every four years. PERA's retained actuary also must report annually if any assumption is not considered reasonable.

- ***Investment Return Assumption.*** The investment return assumption is an important assumption and significantly impacts all metrics. The assumption is currently 7.0% and is set by the Legislature. PERA's retained actuary, GRS, has considered this assumption to be reasonable for use in the July 1, 2023 actuarial valuations. The following charts show how PERA's investment return assumption historically compares to the national median for statewide plans and the current assumption for those 131 plans.





Demographic Assumptions. Mortality, disability, and termination rates are considered demographic assumptions and are evaluated every four years for each plan.

- ***General Plan.*** An experience study was competed for the General Plan for the period July 1, 2018 to June 30, 2022. Recommendations from that study were accepted by the Board and submitted to the LCPR for approval. The LCPR approved the assumptions and they will be used in the July 1, 2024 actuarial valuation. The recommended assumption changes will not significantly impact the 2024 actuarial valuation results.

- ***Police & Fire Plan and Correctional Plan.*** Draft experience studies were recently completed for the Police & Fire Plan and the Correctional Plan. These studies were based on experience from July 1, 2019 to June 30, 2023. If the Board accepts and the LCPR approves the assumptions, they will become effective with the July 1, 2025 actuarial valuation. The experience study for the Police & Fire Plan includes a significant increase in disability rates and fewer early and late retirements. Those two changes are expected to have an adverse cost impact to the Plan. There are multiple recommended changes for the Correctional Plan. However, the impact of those changes is currently uncertain.

Metric 1 Staff Assessment. The investment return assumption is currently considered reasonable by PERA's retained actuary. The performance of experience studies for all three plans on a four-year cycle is considered a best practice. The Board has consistently accepted GRS' recommendations and they have historically been approved by the Legislature. Staff believes the current investment return assumption and all recommended economic and demographic assumptions are up to date and reasonable for use to develop all metrics used in the scorecard.

What is full funding and why is it important to achieve it and sustain it?

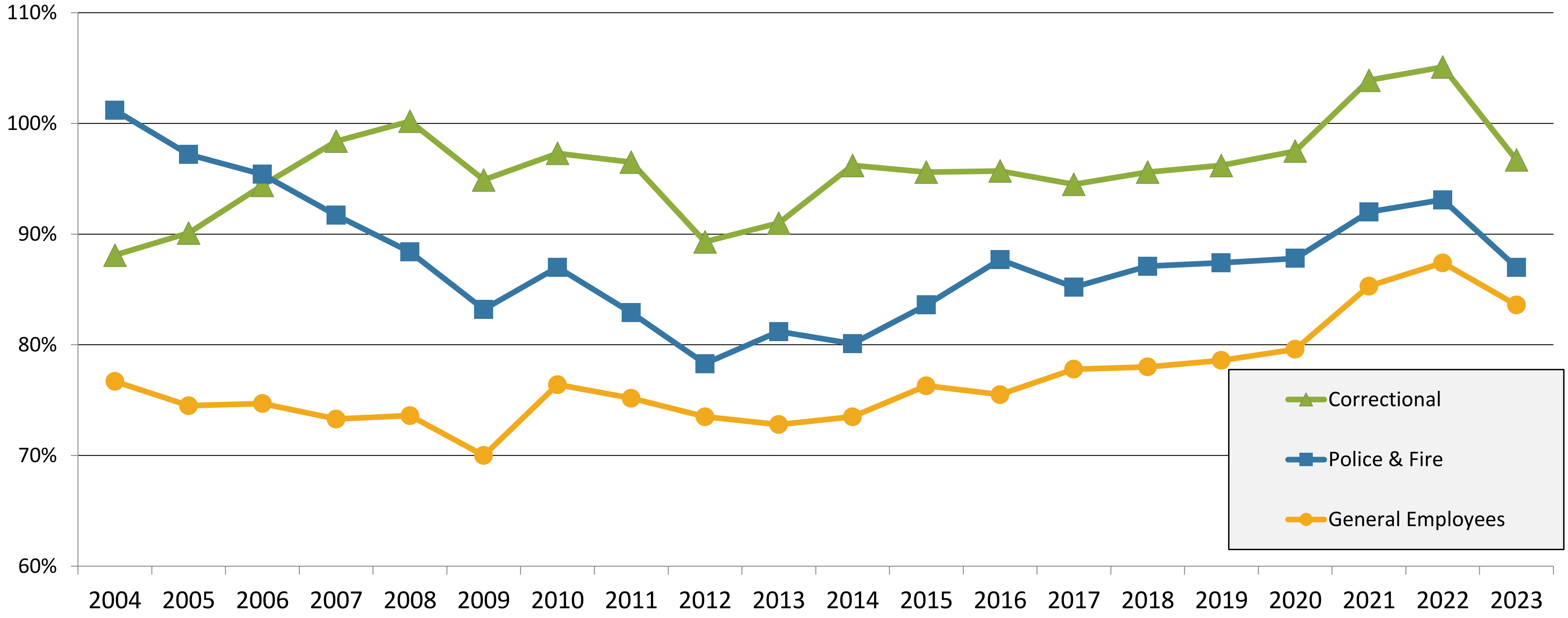
Funding Ratio. The universally accepted measure used for public sector plans is a comparison of either the Market Value of Assets (MVA) or the Actuarial Value of Assets (AVA) to the Actuarial Accrued Liability (AAL). This is known as the funding ratio and a plan is considered fully funded if the ratio is 100%. The AAL is a measure of the present value cost to provide future benefit payments attributable to each member's past service. The MVA is simply the assets available to pay benefits as of the measurement date. The AVA is a value that smooths out recent market fluctuations by recognizing gains or losses over a five year period. The funding ratio should not be considered in isolation. The expected change in the funding ratio is a better indicator of plan health.

UAAL. When an Unfunded Actuarial Accrued Liability (UAAL) exists, it means the plan only has a portion of the funding necessary to pay for all of the deferred compensation attributable to member's past service for their community. The can has been kicked down the road and the current and future generation of active members and taxpayers must help pay for the cost of services provided in the past by members for prior taxpayers. This is known as intergenerational inequity.

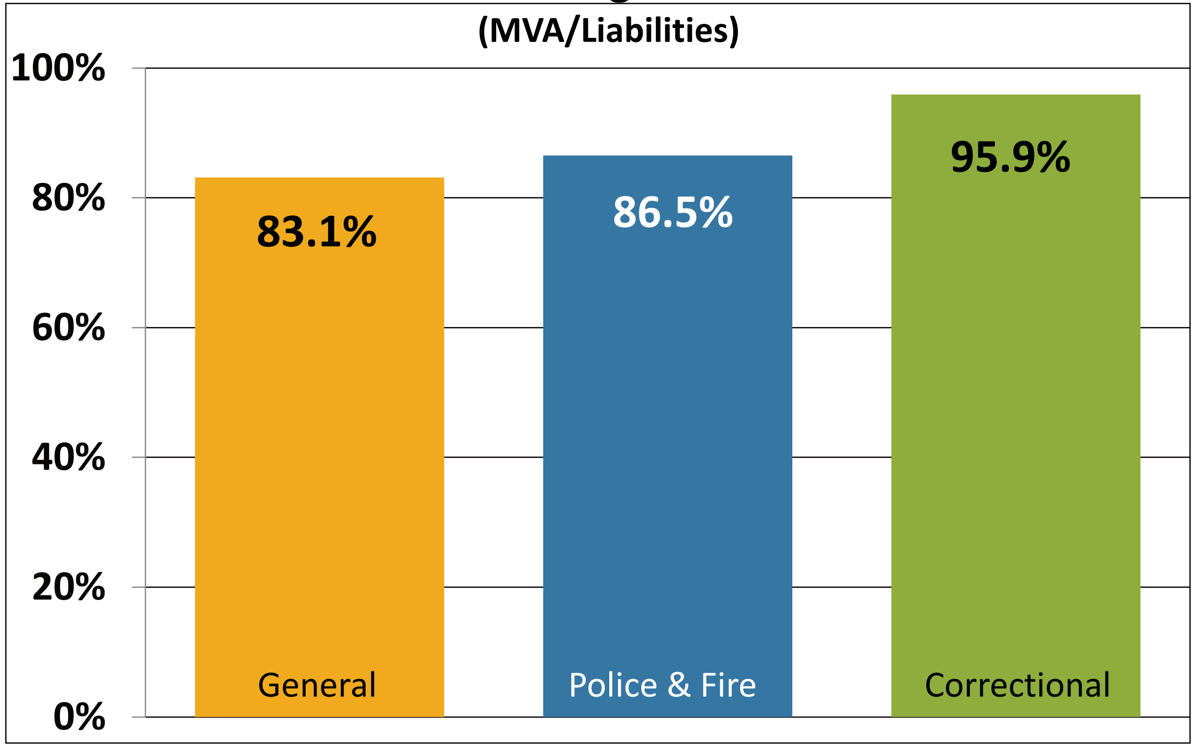
Goal is 100% Funded. The goal for each pension plan should be to achieve and maintain a plan that has no UAAL and is 100% funded. Page 9 shows how the plans have measured up against this goal since 2004. Page 10 shows the current funding ratio for each plan, the contribution sufficiency/deficiency, and the most recent forecast for when full funding is expected to be achieved.

Metric 2 Staff Assessment. Only the Correctional Plan is at or near the desired goal. The General Plan is expected to make reasonable progress that should be protected. The Police & Fire Plan is not making acceptable progress towards the goal and corrective action should be considered.

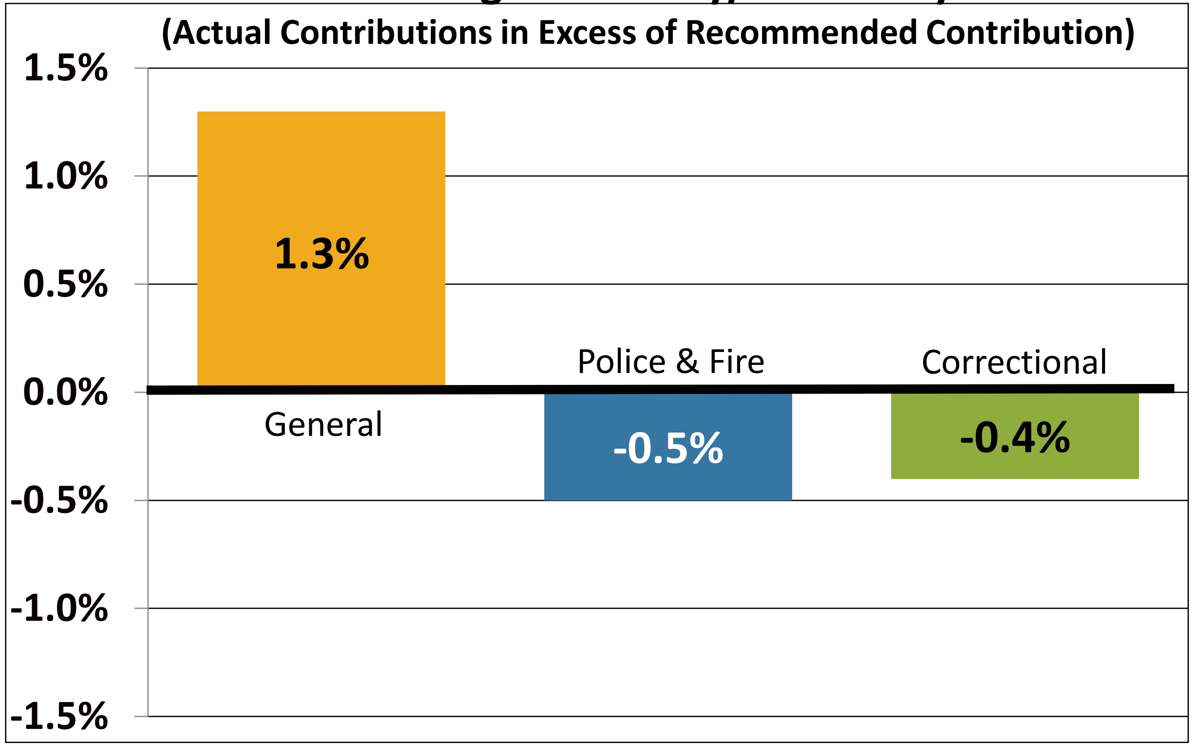
PERA plans have not been able to meet the objective of achieving and maintaining fully funding status over the past 20 years. Shown below is the ratio of Actuarial Value of Assets (AVA) to the Actuarial Accrued Liability (AAL).



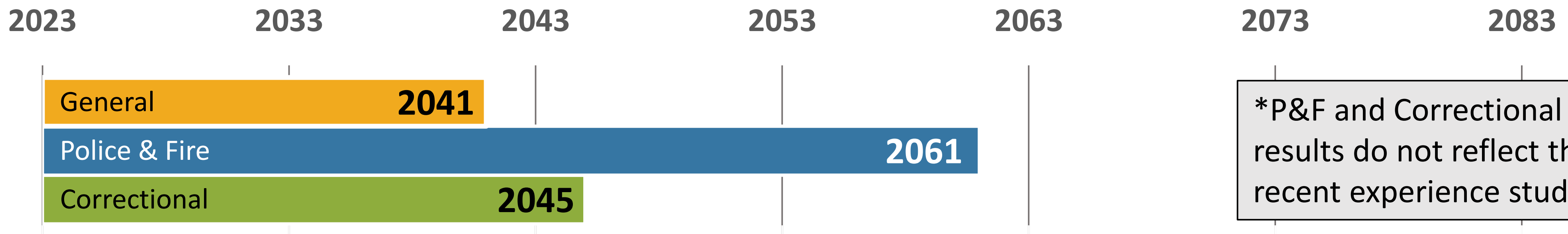
Funding Ratio



Funding Sufficiency/Deficiency



Projected Full Funding Date



*P&F and Correctional results do not reflect the recent experience study.

Metric 3: Contributions

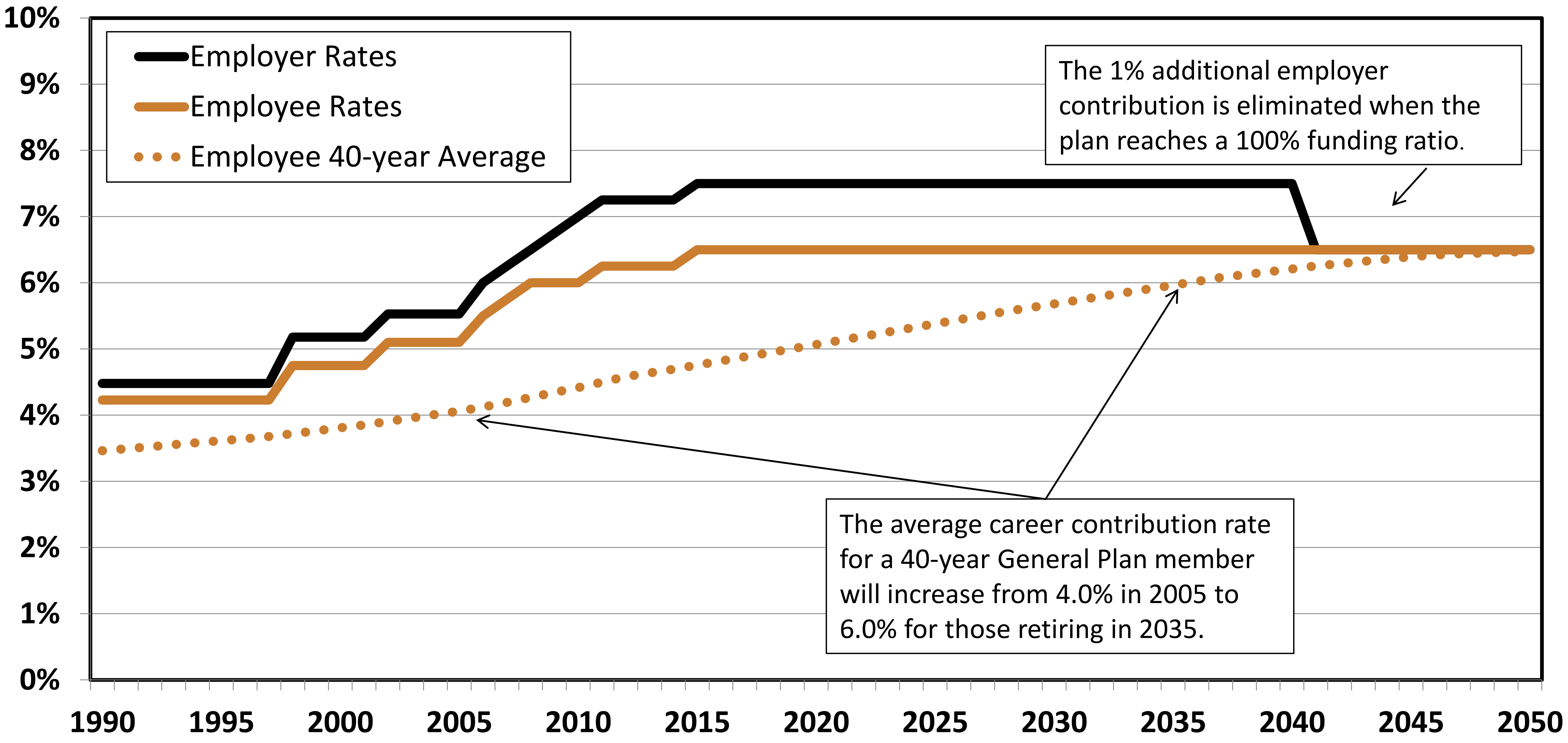
Benefits provided by PERA's plans are funded by member and employer contributions. These contributions are invested to create earnings to help meet future benefit payments. The Police & Fire Plan also includes funding directly (direct aid) from the State.

Normal Cost. Ideally, member and employer contributions combined would be exactly equal to the Normal Cost. The Normal Cost is the estimated value of benefits accrued by active members as a result of annual service credit and pay increases. The metric used to measure whether employees and employers are paying what they should for current benefit accruals is the ratio of total contributions to the normal cost. Current ratios are General Plan 161%, Police & Fire Plan 126%, and Correctional Plan 103%.

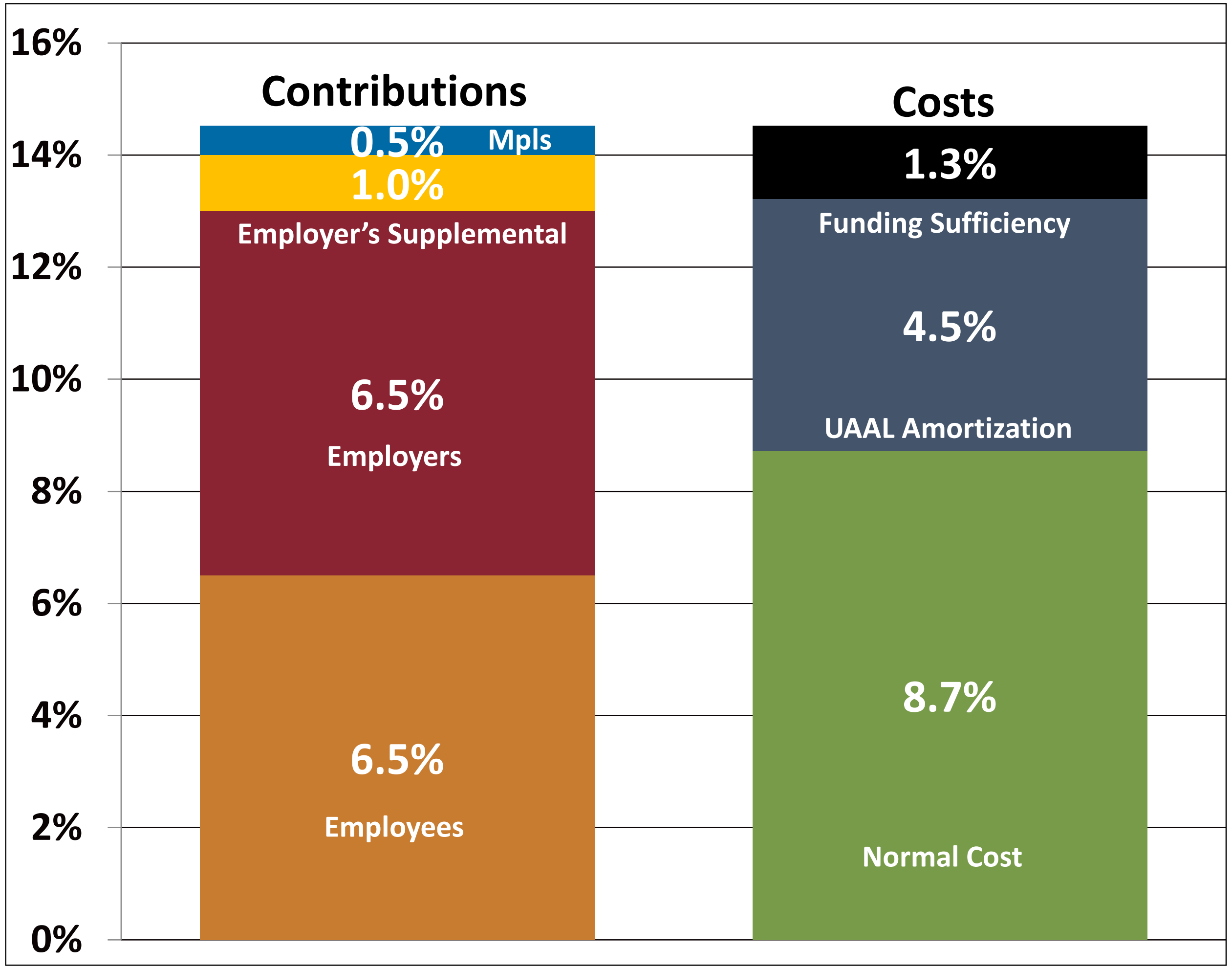
Unfunded Liability. When an Unfunded Actuarial Accrued Liability exists, the active members and employers must also contribute to pay off that unfunded liability. Contribution rates for General and Police & Fire members are at historically high levels (see pages 12 & 14 for historical rates). The information on pages 13, 15, & 16 show current contribution rates for each plan and how those contributions are allocated to pay off unfunded past service liabilities and how much is need to pay the normal cost.

Metric 3 Staff Assessment. Assessing unfunded past service costs to current active members and tax payers is an intergenerational inequity. The 61% excess paid in the General Plan is particularly high. There is a trade-off to be had when improving a plan's health via higher contributions. The General Plan has been able to improve its funding health at a more rapid pace than the Police & Fire plan. However, it has come at a great cost to active members. A priority for all plans is for these metrics to approach and maintain a balance closer to 100% normal cost. This may be achieved either by lowering contributions or increasing benefits (a higher normal cost). Neither should be done if it distresses the funding health.

Metric 3: General Plan Contribution Trend

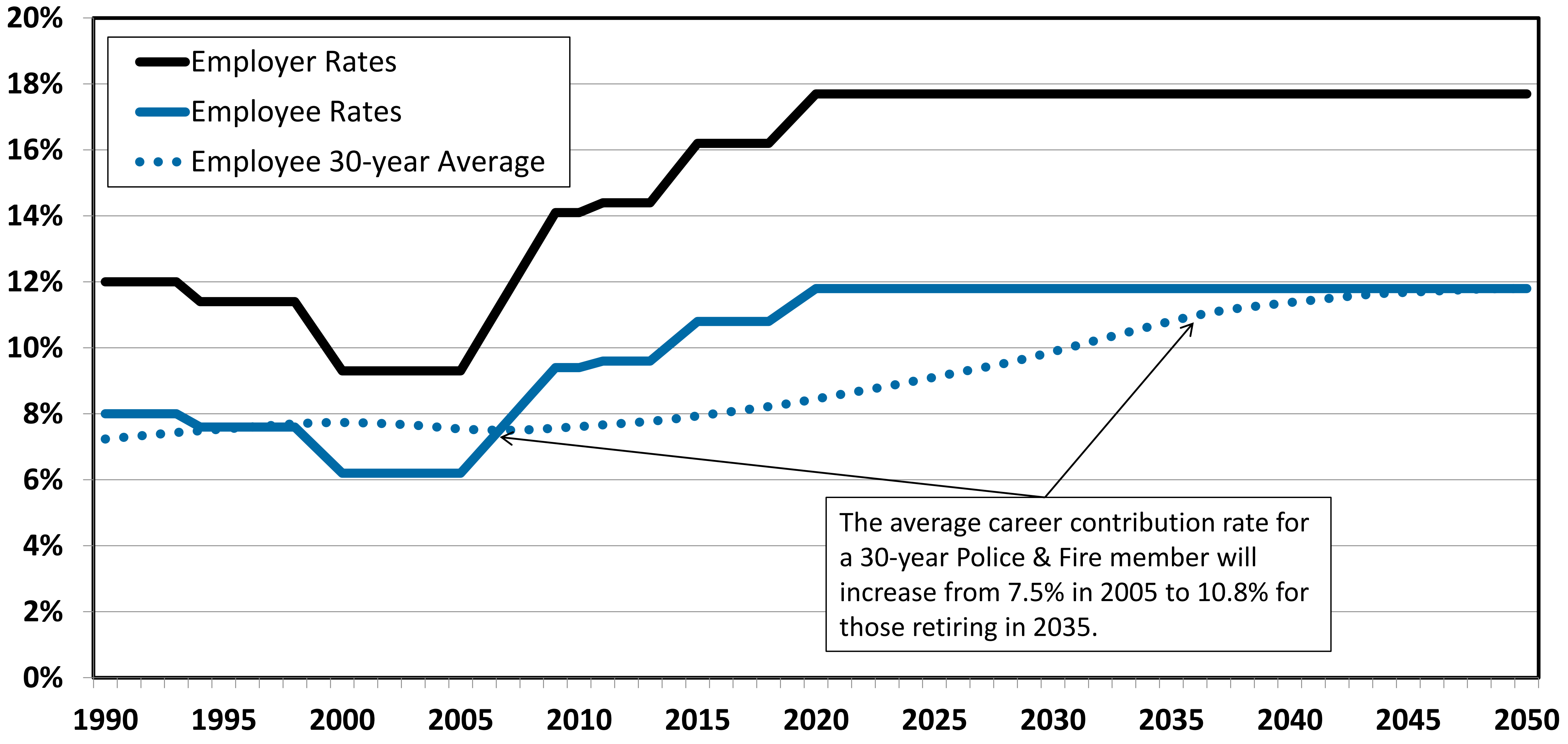


Metric 3: General Plan Contributions - 2023

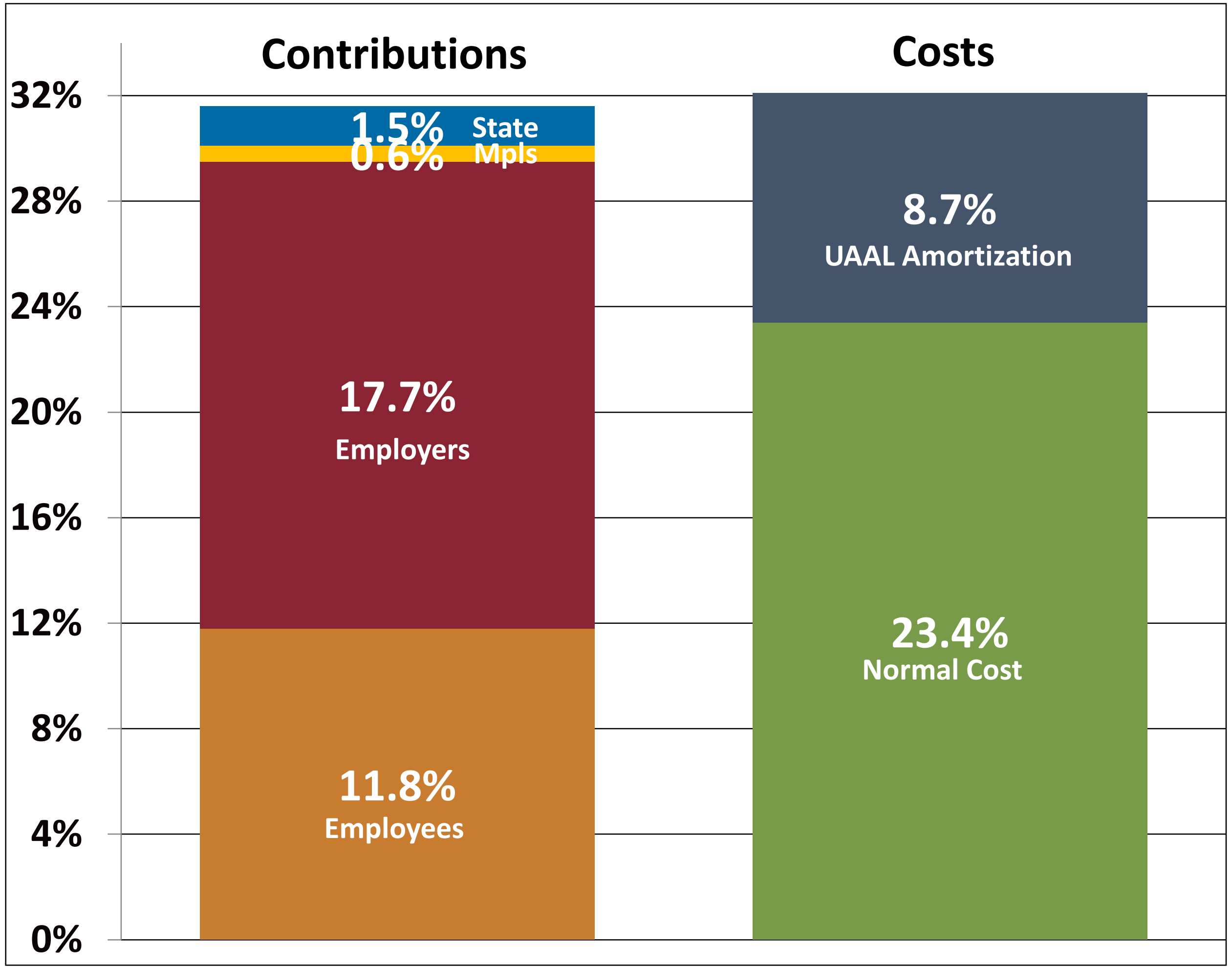


- The Minneapolis contributions will cease in 2031.
- The Employer Supplemental contribution ceases when full funding is reached (estimated to occur 2041 if all assumptions are met).
- Total member and employer contributions (14%) are currently 61% higher than the normal cost.
- Employees pay 75% of the cost of their benefit accruals (normal cost).
- ***Staff Assessment***: Member and employer contributions increased over 50% from 1997 to 2015. This change helped improve the financial health of the plan, but increased intergenerational equity. General Plan members pay the highest premium of all PERA plan members for the benefit they receive.

Metric 3: Police & Fire Plan Contribution Trend

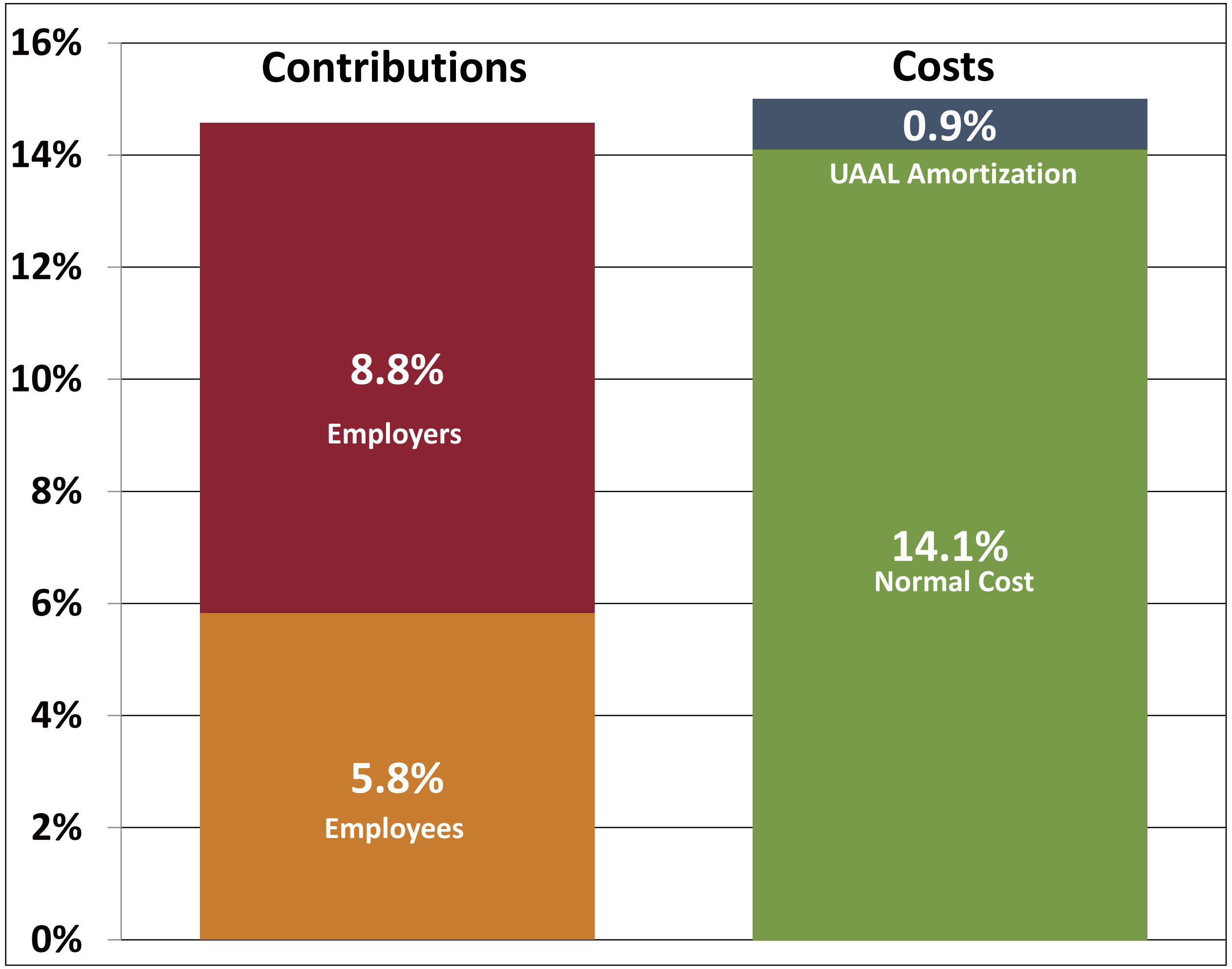


Metric 3: Police & Fire Plan Contributions - 2023



- The Minneapolis contributions will cease in 2031. The contribution deficiency will increase from 0.5% to 1.1% when that occurs.
- The State contributions include $9M that ceases when full funding is reached (estimated to occur 2061 if all assumptions are met) and another $9M that ceases when both the P&F Plan and Highway Patrol plan meet funding targets.
- Total member and employer contributions (29.5%) are 26% higher than the normal cost.
- Employees pay 50% of the cost of their benefit accruals (normal cost).
- ***Staff Assessment***: Police & Fire Plan costs have historically been shared 40% member/60% employer. With this in mind, member contributions are relatively high, but necessary to help the fund. Improved postretirement benefits would improve this metric.

Metric 3: Correctional Plan Contributions - 2023

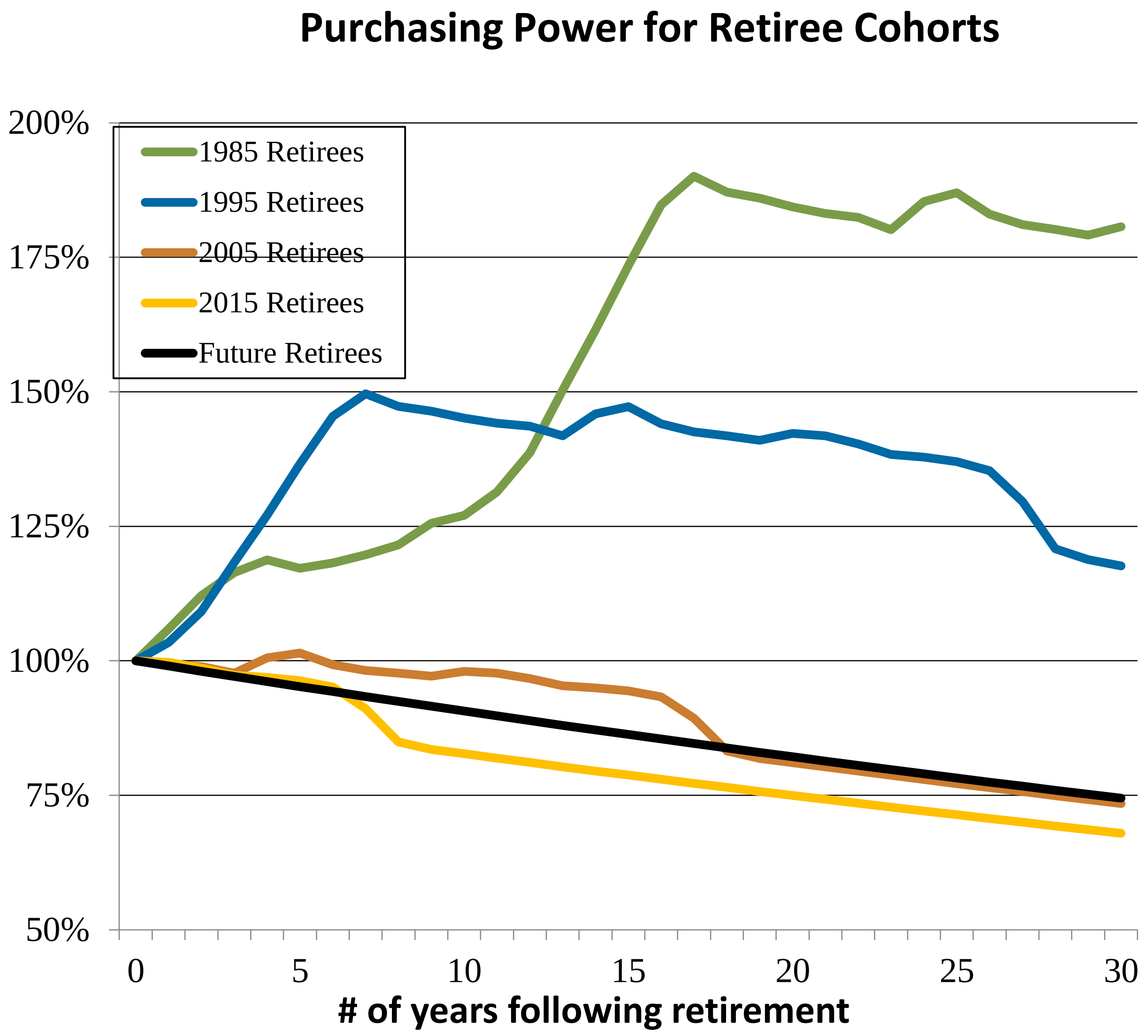


- Member (5.83%) and employer (8.75%) contributions have remained constant over the past 20 years.
- The current 0.4% contribution deficiency is expected to trend towards a contribution sufficiency due to demographic changes. The result is the plan expected to be fully funded by 2045.
- Total member and employer contributions (14.58%) are currently only 3% more than the normal cost (14.1%).
- Employees pay 41% of the cost of their benefit accruals (normal cost).
- Effective July 1, 2025 the benefit multiplier will increase from 1.9% to 2.2% for future service. The expected cost of this benefit increase is expected to be sufficiently paid for by a 1.0% employee and 1.5% employer increase.
- ***Staff Assessment***: Member and employer contributions are currently appropriate.

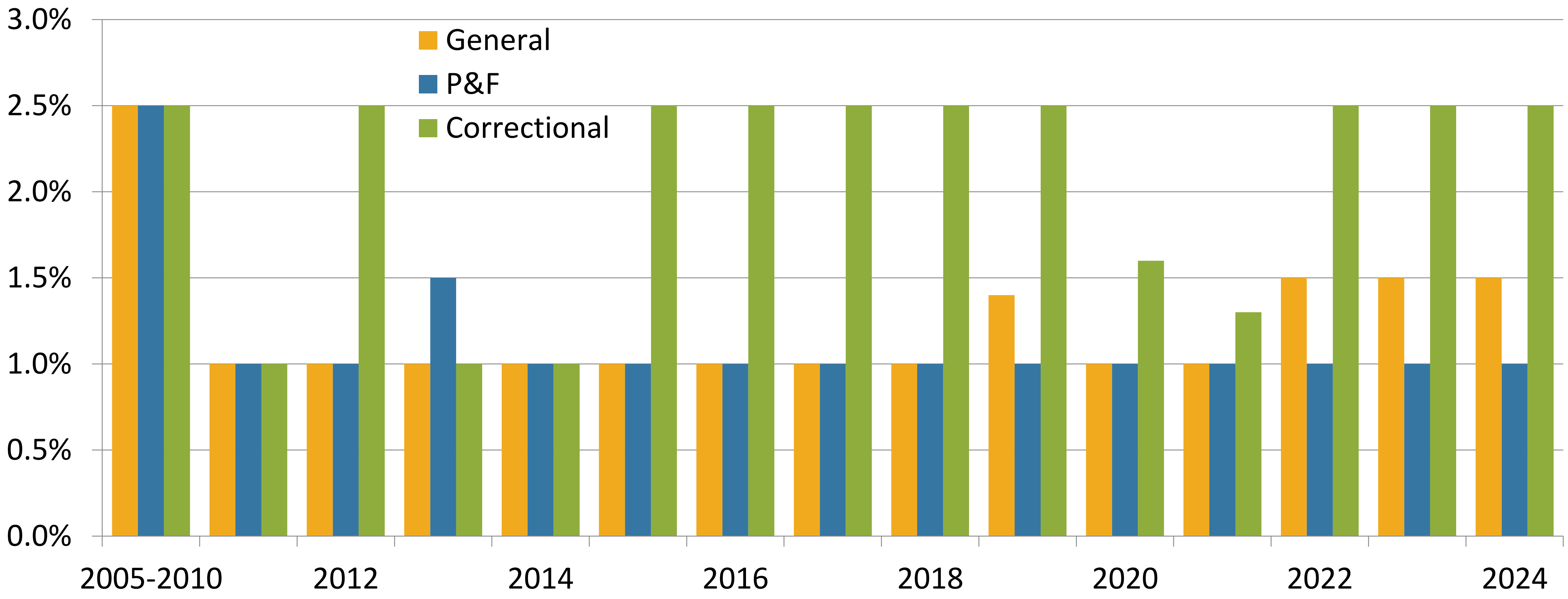
Metric 4: Benefits – Postretirement Increases (COLAs)

Retiree annual increases for all plans were based on investment returns prior to 2003. Increases averaged 6.9% over the 22-year period from 1981 to 2002. These increases were granted despite the plans being underfunded at that time. There was no mechanism to lower benefits when investment returns were poor. The increases were not tied to inflation.

The methodology of that period was unsustainable and created a large funding deficit when the plans experienced three consecutive years of returns far below the assumption. The Correctional Plan was spared due to being created at the very tail end of the high retiree increases. Changes were made for all plans to a fixed rate structure. Page 18 shows the actual rates over the past 20 years. The chart on this page shows the dramatic differences how benefits compare to actual inflation for different cohorts. The chart shows General Plan data. Police & Fire member data is the same except for the future cohorts which is slightly worse than General retirees.



Metric 4: Benefits – Postretirement Increases (COLAs)



Actual postretirement increases (COLAs) for the three plans are show above. Prior to 2019 the rates were the same for General Plan and Police & Fire retirees (except for 2013). The mechanism for General and Correctional Plan members was changed to a CPI based formula with minimums and maximums effective 2018. The Police & Fire Plan currently provides a 1% fixed annual increase.

Metric 4: Benefits – Postretirement Increases (COLAs)

Metric 4 Staff Assessment: If staff had time travel abilities, we would go back to each plan's inception and advocate for postretirement increases equal to an inflation index. This would accomplish the goal of providing retirement security AND intergenerational equity. Unfortunately, prior decision makers have preferred investment related increases or fixed rates. Staff has advocated strongly for inflation based increases, but acknowledge the challenge to make this change due to the high cost. Recognizing this issue, staff has suggested first creating a mechanism that can facilitate desired increases. Then focusing on prioritizing reasonable changes when it is affordable to do so. This message has been shared with many stakeholders and legislators.

	Current Formula
General Plan	50% of CPI 1.0% Min 1.5% Max
Police & Fire Plan	Fixed 1%
Correctional Plan	100% of CPI 1.0% Min 2.5% Max (Max drops to 1.5% if funding levels drop)

Staff Proposed Long Term Goal
100% of CPI 0% Min 5% Max
How We Get There
Step #1 – Change to formula with dials (Done in 2018 for General & Correctional **Step #2** – Turn the % of CPI and Max dials further when it is affordable to do so

Overall Scorecard Staff Assessment: Over the past 40 years the members of the General Plan and the Police & Fire Plan have fared increasingly worse than their predecessors (see General Plan metrics below). Current active members will contribute more than ever before, retire at a later age, and have less inflation protection. The primary reasons are overly generous benefits in the 80's and 90's, less optimistic forecasted future investment returns, and a relatively delayed response to adopt more conservative assumptions and make necessary plan changes.

A return to healthier plans and better intergenerational equity will take time, patience, discipline and money. Staff believes that the Board should set priorities for each plan with the focus on the return to two fundamental goals: member contributions proportionate to normal cost and retiree benefits tied to an inflation measure.

	1985 Retirees	2005 Retirees	2025 Retirees	General Plan Goal
Average Contribution Rate During 30 Year Career	3.4%	4.3%	5.8%	50% of Normal Cost
Earliest Age Available for Unreduced Retirement	55	60	66	66
Replacement Ratio if Retiring at Age 55	40%	36%	20%	20%
Purchasing Power 30 Years After Retirement	181%	75%	75%	100%

The statements below collectively express PERA's funding values relative to the General Employees, Police & Fire, and Correctional Employees Plans. The values were approved for use by the Board in December 2019 to be used to facilitate communication with PERA stakeholders and to set foundations for potential future legislative initiatives. They are frequently relied upon in this document.

	Value	Description
1	Funding Status	The Plan's funding ratio (Market Value of Assets / Actuarial Accrued Liability), determined using approved assumptions, should project to achieve and sustain a level of at least 100 percent within a reasonable period of time.
2	Approved Assumptions	Assumptions should be based upon the actuary's recommendations made in accordance with Actuarial Standards of Practice. Assumptions should not be changed exclusively for the purpose of achieving benefit or funding motives.
3	Amortization Period	The current Unfunded Actuarial Accrued Liability (UAAL) should be fully amortized by June 30, 2048. Subsequent annual UAAL changes resulting from actuarial gains, or losses, assumption changes, or benefit changes should be amortized over 20 years from the date of establishment.
4	Funding Commitment	A commitment should be made to meet the funding status goal within the amortization period by using automatic annually adjusted retiree Cost of Living Adjustments (COLAs) and periodically adjusted employee and employer contribution rates.
5	Contribution Allocation	The allocation of ongoing contributions between employee and employer within each Plan should reflect the goal of achieving inter-generational equity.
6	Supplemental Contributions	The status of supplemental contributions intended to reduce the Unfunded Actuarial Accrued Liability should be considered before contributions are reduced or benefits are enhanced.
7	Contribution Target	The long-term target for contributions is that the total employee and employer contributions should be approximately equal to the normal cost for the agreed upon, reasonable level of benefits.