Minnesota Statutes Chapter 353F defines terms for member benefits and reporting requirements related to entities that privatize. A privatizing entity can seek augmentation of benefits for eligible members by requesting an actuarial study that measures the impact to the General Employees Retirement Plan (the Plan). If the actuarial calculation results in a net gain to the Plan, benefits are augmented at the rate of 2 percent. If a 2 percent augmentation results in a net loss, the augmentation rate is reduced to 1 percent. If a net loss occurs at the 1 percent augmentation rate, there is no augmentation of benefits.

The following entities have requested and received an actuarial study since 2017:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Study result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice Memorial Hospital</td>
<td>A total of 978 employees were candidates for augmentation. The privatization date was January 1, 2018. An actuarial report dated May 19, 2017 indicated a net gain to the Plan at the 2 percent augmentation rate.</td>
</tr>
<tr>
<td>Redwood Area Hospital</td>
<td>A total of 188 employees were candidates for augmentation. The privatization date was January 1, 2019. An actuarial report dated June 7, 2018 indicated a net gain to the Plan at the 2 percent augmentation rate.</td>
</tr>
<tr>
<td>Swift County – Benson Hospital</td>
<td>A total of 160 employees were candidates for augmentation. The privatization date is expected to be January 1, 2020. An actuarial report dated May 2, 2019 indicates a net gain to the Plan at the 2 percent augmentation rate.</td>
</tr>
</tbody>
</table>

Since all three entities actuarial calculations indicate a net gain to the Plan, member benefits are expected to be augmented consistent with terms under Chapter 353F.

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.”

**Staff Recommendation**

Staff recommends that the PERA Board of Trustees accept the actuarial calculations for Rice Memorial Hospital, Redwood Area Hospital, and Swift County – Benson Hospital.
CHAPTER 353F

PRIVATIZED PUBLIC HOSPITAL, PERA PENSION BENEFITS

353F.01 PURPOSE AND INTENT.

The purpose of this chapter is to ensure, to the extent possible, that persons employed at public medical facilities who are privatized and consequently are excluded from retirement coverage by the Public Employees Retirement Association will be entitled to receive future retirement benefits under the general employees retirement plan of the Public Employees Retirement Association commensurate with the prior contributions made by them or made on their behalf upon the privatization of the medical facility.

History: 1999 c 222 art 1 s 1; 2015 c 68 art 12 s 27

353F.02 DEFINITIONS.

Subdivision 1. Generally. As used in this chapter, unless the context clearly indicates otherwise, each of the terms in the following subdivisions has the meaning indicated.

Subd. 2. Allowable service. "Allowable service" has the meaning provided in section 353.01, subdivision 16, of the edition of Minnesota Statutes published in the year before the year in which the privatization occurred.

Subd. 3. Effective date of privatization. "Effective date of privatization" means the date that the operation of a medical facility is assumed by another employer or the date that a medical facility is purchased by another employer and active membership in the Public Employees Retirement Association consequently terminates.

Subd. 4. [Repealed, 2013 c 111 art 3 s 31]

Subd. 5. [Repealed, 2013 c 111 art 3 s 31]

Subd. 5a. Privatized former public employer. "Privatized former public employer" means a medical facility that was included in the definition of governmental subdivision under section 353.01, subdivision 6, on the day before the effective date of privatization that is privatized and whose employees are certified for participation under this chapter.

Subd. 6. Privatized former public employee. (a) "Privatized former public employee" means a person who:

(1) was employed by the privatized former public employer on the day before the effective date of privatization; or
(2) terminated employment with the privatized former public employer on the day before the effective date; and

(3) was a participant in the general employees retirement plan of the Public Employees Retirement Association at the time of termination of employment with the privatized former public employer.

(b) Privatized former public employee does not mean a person who, on the day before the effective date of privatization, was simultaneously employed with the privatized former public employer and by a governmental subdivision under section 353.01, subdivision 6, and who, after the effective date of privatization, continues to accrue service credit under section 353.01, subdivision 16, through simultaneous employment with a governmental subdivision.

Subd. 7. **Years of allowable service.** "Years of allowable service" means the total number of years of allowable service under section 353.01, subdivision 18, of the edition of Minnesota Statutes published in the year before the year in which the privatization occurred.

**History:** 1999 c 222 art 1 s 2; 2000 c 461 art 8 s 1; 2002 c 392 art 5 s 1; 1Sp2003 c 12 art 5 s 1; 2004 c 267 art 12 s 1; 1Sp2005 c 8 art 6 s 1; 2006 c 271 art 5 s 2,4,5; 2007 c 134 art 5 s 1; 2008 c 349 art 5 s 26; art 7 s 1,2; 2009 c 169 art 4 s 20; 2010 c 359 art 5 s 17; 2012 c 286 art 7 s 1; 2013 c 111 art 3 s 3-16; 2015 c 68 art 12 s 28,29; 2018 c 211 art 10 s 14

353F.025 CERTIFICATION AND DECERTIFICATION OF MEDICAL FACILITIES AND OTHER PUBLIC EMPLOYING UNITS.

Subdivision 1. **Eligibility determination.** (a) The chief clerical officer of a governmental subdivision may submit a resolution from the governing body to the executive director of the Public Employees Retirement Association which supports providing coverage under this chapter for employees of that governmental subdivision who are privatized, and which states that the governing body will pay for actuarial calculations, as further specified in paragraph (c).

(b) The governing body must also provide a copy of any applicable purchase or lease agreement and any other information requested by the executive director to allow the executive director to verify that under the proposed employer change, the new employer does not qualify as a governmental subdivision under section 353.01, subdivision 6, making the employees ineligible for continued coverage as active members of the general employees retirement plan of the Public Employees Retirement Association.

(c) 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. The date of the actuarial calculations used to make this determination must be within one year of the effective date of privatization.

Subd. 2. **Reporting privatizations.** (a) If the actuarial calculations under subdivision 1, paragraph (c), indicate privatization can be approved because a net gain to the general employees retirement plan of the Public Employees Retirement Association is expected, or if paragraph (b) applies, 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.

(b) If the calculations under subdivision 1, paragraph (c), indicate a net loss, the executive director shall recommend to the board of trustees that the privatization be approved if the chief clerical officer of the applicable governmental subdivision submits a resolution from the governing body specifying that a lump sum payment will be made to the Public Employees Retirement Association equal to the net loss, plus interest. The interest must be computed using the applicable ultimate preretirement interest rate assumption under section 356.215, subdivision 8, expressed as a monthly rate, from the date of the actuarial valuation from which the actuarial accrued liability data was used to determine the net loss in the actuarial study under subdivision 1, to the date of payment, with annual compounding. Payment must be made on or after the effective date of privatization.

(c) The Public Employees Retirement Association must maintain a list that includes the names of all privatized former public employers in the association's comprehensive annual financial report and on the association's website.

Subd. 3. [Repealed, 2013 c 111 art 3 s 31]

History: 2008 c 349 art 5 s 27; 2010 c 359 art 5 s 18,19; 2013 c 111 art 3 s 17,18; 2018 c 211 art 10 s 15

353F.03 VESTING RULE FOR CERTAIN EMPLOYEES.

Notwithstanding any provision of chapter 353 to the contrary, a privatized former public employee is eligible to receive a retirement annuity under section 353.29 of the edition of Minnesota Statutes published in the year before the year in which the privatization occurred, without regard to the requirement specified in section 353.01, subdivision 47.

History: 1999 c 222 art 1 s 3; 2010 c 359 art 1 s 47; 2013 c 111 art 3 s 19

353F.04 AUGMENTATION INTEREST RATES FOR PRIVATIZED FORMER PUBLIC EMPLOYEES.

Subdivision 1. Enhanced augmentation rates. (a) The deferred annuity of a privatized former public employee is subject to augmentation under section 353.71, subdivision 2, of the edition of Minnesota Statutes published in the year in which the privatization occurred, except that the rate of augmentation is as specified in this subdivision.

(b) This paragraph applies if the effective date of privatization was on or before January 1, 2007, and also applies to Hutchinson Area Health Care with a privatization effective date of January 1, 2008. For a privatized former public employee, the augmentation rate is 5.5 percent compounded annually until January 1 following the year in which the person attains age 55. From that date to the effective date of retirement, the augmentation rate is 7.5 percent compounded annually.

(c) If paragraph (b) is not applicable, and if the effective date of the privatization is before January 1, 2011, the augmentation rate is four percent compounded annually until January 1, following the year in which the person attains age 55. From that date to the effective date of retirement, the augmentation rate is six percent compounded annually.
(d) If the effective date of the privatization is after December 31, 2010, the applicable augmentation rate depends on the result of computations specified in section 353F.025, subdivision 1. If those computations indicate no loss or a net gain to the fund of the general employees retirement plan of the Public Employees Retirement Association, the augmentation rate is two percent compounded annually until the effective date of retirement. If the computations under that subdivision indicate a net loss to the fund if a two percent augmentation rate is used, but a net gain or no loss if a one percent rate is used, then the augmentation rate is one percent compounded annually until the effective date of retirement.

Subd. 2. Exceptions. The increased augmentation rates specified in subdivision 1 do not apply to a privatized former public employee:

(1) beginning the first of the month in which the privatized former public employee becomes covered again by a retirement plan enumerated in section 356.30, subdivision 3, if the employee accrues at least six months of credited service in any single plan enumerated in section 356.30, subdivision 3, except clause (6);

(2) beginning the first of the month in which the privatized former public employee becomes covered again by the general employees retirement plan of the Public Employees Retirement Association;

(3) beginning the first of the month after a privatized former public employee terminates service with the privatized former public employer; or

(4) if the person begins receipt of a retirement annuity while employed by the employer which assumed operations of or purchased the privatized former public employer.

History: 1999 c 222 art 1 s 4; 2006 c 271 art 5 s 3; 2007 c 134 art 5 s 2; 2012 c 286 art 7 s 2; 2013 c 111 art 3 s 20; 2015 c 68 art 12 s 30; 2018 c 211 art 10 s 16

353F.05 AUTHORIZATION FOR ADDITIONAL ALLOWABLE SERVICE FOR EARLY RETIREMENT PURPOSES.

(a) For the purpose of determining eligibility for early retirement benefits provided under section 353.30, subdivision 1a, of the edition of Minnesota Statutes published in the year before the year in which the privatization occurred, and notwithstanding any provision of chapter 353, to the contrary, the years of allowable service for a privatized former public employee who transfers employment on the effective date of privatization and does not apply for a refund of contributions under section 353.34, subdivision 1, of the edition of Minnesota Statutes published in the year before the year in which the privatization occurred, or any similar provision, includes service with the privatized former public employer following the effective date. The privatized former public employer shall provide any reports that the executive director of the Public Employees Retirement Association may reasonably request to permit calculation of benefits.

(b) To be eligible for early retirement benefits under this section, the individual must separate from service with the privatized former public employer. The privatized former public employee, or an individual authorized to act on behalf of that employee, may apply for an annuity following application procedures under section 353.29, subdivision 4.

History: 1999 c 222 art 1 s 5; 2013 c 111 art 3 s 21; 2018 c 211 art 10 s 17
353F.051 CONTINUATION OF DISABILITY COVERAGE.

Subdivision 1. **Eligibility.** A privatized former public employee who is totally and permanently disabled under section 353.01, subdivision 19, and who had a medically documented preexisting condition of the disability before the termination of coverage, may apply for a disability benefit.

Subd. 2. **Calculation of benefits.** A person qualifying under subdivision 1 is entitled to receive a disability benefit calculated under section 353.33, subdivision 3. The disability benefit must be augmented under section 353.71, subdivision 2, from the date of termination to the date the disability benefit begins to accrue.

Subd. 3. **Applicability of general law.** Except as otherwise provided, section 353.33 applies to a person who qualifies for disability under subdivision 1.

**History:** 1Sp2001 c 10 art 9 s 2; 2013 c 111 art 3 s 22; 2015 c 68 art 12 s 31-33

353F.052 APPLICATION OF SURVIVING SPOUSE, DEPENDENT CHILD PROVISION.

Notwithstanding any provisions of law to the contrary, subdivisions within section 353.32 of the edition of Minnesota Statutes published in the year before the year in which a privatization occurred, applicable to the surviving spouse or dependent children of a former member as defined in section 353.01, subdivision 7a, apply to the survivors of a privatized former public employee.

**History:** 2004 c 267 art 9 s 16; 2013 c 111 art 3 s 23

353F.057 TERMINATION FROM SERVICE REQUIREMENT.

Upon termination of service from the privatized former public employer after the effective date of privatization, a privatized former public employee must separate from any employment relationship with the privatized former public employer for at least 30 days to qualify to receive a retirement annuity under this chapter.

**History:** 2013 c 111 art 3 s 24; 2018 c 211 art 10 s 18

353F.06 APPLICATION OF REEMPLOYED ANNUITANT EARNINGS LIMITATIONS.

If a privatized former public employee satisfies the separation from service requirement in section 353F.057 and thereafter resumes employment with the privatized former public employer or a governmental subdivision under section 353.01, subdivision 6, the reemployed annuitant earnings limitations of section 353.37 apply.

**History:** 1999 c 222 art 1 s 6; 2013 c 111 art 3 s 25; 2018 c 211 art 10 s 19

353F.07 EFFECT ON REFUND.

Notwithstanding any provision of chapter 353 to the contrary, privatized former public employees may receive a refund of employee accumulated contributions plus interest as provided in section 353.34, subdivision 2, at any time after the transfer of employment to the privatized former public employer. If a privatized former public employee has received a refund from a pension plan listed in section 356.30, subdivision 3, the person may not repay that refund unless the person again becomes a member of one of those listed plans and complies with section 356.30, subdivision 2.

**History:** 1999 c 222 art 1 s 7; 2012 c 286 art 7 s 3; 2013 c 111 art 3 s 26; 2018 c 211 art 10 s 20
353F.08 COUNSELING SERVICES.

The privatized former public employer and the executive director of the Public Employees Retirement Association shall provide privatized former public employees with counseling on their benefits available under the general employees retirement plan of the Public Employees Retirement Association during a period mutually agreed upon before or after the effective date of privatization.

History: 1999 c 222 art 1 s 8; 2013 c 111 art 3 s 27

353F.09 APPLICATION TO SALES OF PRIVATIZED FORMER PUBLIC EMPLOYERS.

A medical facility or other employing unit shall cease to be a privatized former public employer and its employees shall cease to be considered privatized former public employees under this chapter upon the sale of the operations of the medical facility or employing unit to another employer or the sale of the medical facility or employing unit to another employer. The privatized former public employees shall be entitled to benefits accrued under this chapter to the date of the sale, but shall not accrue additional benefits after the date of the sale.

History: 2018 c 211 art 10 s 21
May 19, 2017

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

Re: Rice Memorial Hospital – Privatization Study

Dear Doug:

Enclosed is the Privatization Study for Rice Memorial Hospital, a participating employer of the Public Employees Retirement Association of Minnesota General Employees Retirement Plan (PERA General). To the best of our knowledge and belief, the calculations were completed in accordance with the requirements of Minnesota Statutes, Section 356.215, and the requirements of the Standards for Actuarial Work established by the Legislative Commission on Pensions and Retirement (LCPR).

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan’s funded status); and changes in plan provisions or applicable law. Due to the limited scope of the actuary’s assignment, the actuary did not perform an analysis of the potential range of such future measurements.

This report should not be relied on for any purpose other than the purpose described herein. Determinations of the financial results associated with the benefits described in this report in a manner other than the intended purpose may produce significantly different results.

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.

The valuation was based upon information furnished by PERA, concerning Retirement System benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries.

The signing actuaries are independent of the plan sponsor.

Please call if you have any questions regarding the calculations enclosed.

Sincerely,

Bonita J. Wurst, ASA, EA, FCA, MAAA
Brian B. Murphy, FSA, EA, FCA, MAAA

BJW/BBM:mrb
Enclosure

cc: Linda Habel, PERA
This report contains an actuarial valuation of proposed privatization of benefits for employees of Rice Memorial Hospital. Eligible employees of the Hospital are currently members in the General Employees Retirement Plan. If the Hospital becomes a private employer, these employees will terminate active participation in the Plan and become eligible for privatized member provisions, as described on page 4. Privatization enhancements cannot be provided if they result in a liability loss to the General Employees Retirement Plan. The purpose of this supplemental valuation is to determine whether or not the privatization enhancements result in a liability loss.

The date of the valuation was July 1, 2016. This means that the report indicates what the July 1, 2016 liabilities would have been under a baseline (continuing active participation) scenario and under a privatization scenario. The date of the actuarial calculations used to determine whether privatization enhancements can be provided must be within one year of the effective date of privatization.

Bonita J. Wurst and Brian B. Murphy are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present and proposed plan provisions that are outlined in the report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the authors of this report prior to relying on information in the report.

If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the authors of the report prior to making such decision.
Actuarial assumptions and methods were consistent with those used in the regular actuarial valuation of
the Retirement System on the valuation date, unless otherwise noted. Actuarial assumptions, including
discount rates and mortality tables, are prescribed by Minnesota Statutes Section 356.215, the
Legislative Commission on Pensions and Retirement (LCPR), and the Trustees. These parties are
responsible for selecting the plan’s funding policy, actuarial valuation methods, asset valuation methods,
and assumptions. In particular:

• The assumed rate of interest was 8.0% for all years.
• The assumed post-retirement benefit increase rate was 1.0% per year through 2052 and 2.5% per
  year thereafter.
• Mortality assumptions are as follows:

  Healthy pre-retirement          RP-2014 Employee Mortality Table, adjusted for white
collar and mortality improvements using projection scale MP-2015, from a base year of 2014. Rates are set forward
one year for males and set back one year for females.

  Healthy post-retirement         RP-2014 Healthy Annuitant Mortality Table, adjusted for
white collar and mortality improvements using projection scale MP-2015, from a base year of 2014. Rates are set
forward two years for males. Female rates are multiplied by a factor of 0.90.

  Disabled retirees               RP-2014 Disabled Mortality Table, adjusted for mortality
improvements using projection scale MP-2015, from a base year of 2014. Rates are set forward one year for males and
set forward six years for females.

Please see the 2016 valuation report dated December 9, 2016 for a detailed description of all
assumptions and methods.
Eligible employees of Rice Memorial Hospital are currently members in the General Employees Retirement Plan. If Rice Memorial Hospital becomes a private employer, these employees will terminate active participation in the Plan. Minnesota Statutes 353F defines benefits for members of privatized employers.

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, Rice Memorial Hospital shares in the risks of the Plan. After privatization, Rice Memorial Hospital 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 authors of this report.

We have completed an analysis of the actuarial accrued liability of the active members employed by Rice Memorial Hospital under the following scenarios:

- Ongoing Active Employees (i.e., 2016 valuation liability for eligible employees).
- Terminated Vested Employees (assumed termination July 1, 2016 for eligible employees).
- Terminated Vested Employees with the enhancements of the PERA Privatized Plan (assumed privatization July 1, 2016 for eligible employees); see description of privatization enhancements on page 4.

From the data file of 978 total employees that PERA provided, we identified 879 active members in the PERA General Employee Retirement Plan as of July 1, 2016. The remaining 99 employees were not included in the 2016 valuation. If the privatization of Rice Memorial Hospital occurs on a future date and these 99 employees have accrued service in the PERA GERP as of the date of privatization, these employees may be entitled to a benefit from the PERA GERP with privatization enhancements.

At PERA’s request, we completed this study on the entire group provided by PERA and also a subset of the entire member group, as identified by PERA. The participant statistics for both groups are shown below:

<table>
<thead>
<tr>
<th>Participant Data</th>
<th>Total Member Group</th>
<th>Subset Member Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>879</td>
<td>820</td>
</tr>
<tr>
<td>Average Age</td>
<td>43.8</td>
<td>43.7</td>
</tr>
<tr>
<td>Average Years of Service</td>
<td>10.9</td>
<td>11.3</td>
</tr>
<tr>
<td>Average Annual Earnings</td>
<td>$ 43,666</td>
<td>$ 44,070</td>
</tr>
</tbody>
</table>

Gabriel Roeder Smith & Company
It is our understanding that current inactive or retired members of Rice Memorial Hospital will remain in PERA and would not be affected by the proposed benefit changes. They were excluded from this study.

The liabilities in this letter are determined as of July 1, 2016 and are based on the employee data provided by PERA, and the plan provisions, assumptions, and methods as summarized in the 2016 valuation report dated December 9, 2016 (including specific assumptions and methodologies regarding the post-retirement increase provisions). Liabilities under all scenarios were adjusted by 0.8% to reflect the possibility of Combined Service Annuities, consistent with the adjustment applied to all active employees in the PERA valuation. Note that this 0.8% load assumption will change to 0.0% with the 2017 valuation. Using a CSA load assumption of 0.0% will not change the outcome of this privatization study (i.e., there will not be a net loss to the Plan).

The current privatization enhancements are as follows:

- All participants are 100% vested upon privatization.
- Augmentation rate of 2.0% annually, unless the enhancement results in a net loss to the Plan, in which case the augmentation rate equals 1.0% annually.

For comparison purposes, the current Plan provisions for PERA members are as follows:

- Participants are 100% vested upon three years of service (five years if first hired after June 30, 2010).
- Members who terminate after 2011 receive no augmentation.
Actuarial Statement

The actuarial accrued liabilities under the baseline and current privatization provisions are shown below:

<table>
<thead>
<tr>
<th>Rice Memorial Hospital</th>
<th>Total Member Group</th>
<th>Subset Member Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 2016 valuation liability - all members active</td>
<td>$ 65,410</td>
<td>$ 63,967</td>
</tr>
<tr>
<td>2. a. Current plan provisions, no privatization enhancements - all members treated as terminated vested as of July 1, 2016</td>
<td>41,871</td>
<td>41,120</td>
</tr>
<tr>
<td>2. b. Current enhancements of the PERA Privatized Plan (augmentation rate of 2%) - all members treated as privatized members as of July 1, 2016</td>
<td>50,339</td>
<td>49,354</td>
</tr>
<tr>
<td>3. Change in liability due to proposed privatization</td>
<td>(15,071)</td>
<td>(14,613)</td>
</tr>
</tbody>
</table>

According to MN Statutes 353F.025, privatization enhancements cannot be provided if they result in a liability loss to PERA. Because the actuarial accrued liability with the current enhancements of the PERA Privatized Plan is less than the ongoing active actuarial accrued liability, the privatization enhancements do not result in a liability loss to PERA.
Comments

Comment 1 — No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them.

Comment 2 — This report is intended to describe the financial effect of the proposed privatization changes on the Retirement System. Except as otherwise noted, potential effects on other benefit plans were not considered.

Comment 3 — The probabilities of retirement were not adjusted in connection with this proposal. If members retire differently than our assumptions, as a result of this benefit change, then the cost of the benefit change will be different.

Comment 4 — The reader of this report should keep in mind that actuarial calculations are mathematical estimates based on current data and assumptions about future events (which may or may not materialize). Please note that actuarial calculations can and do vary from one valuation year to the next, sometimes significantly if the group valued is very small (less than 30 lives). As a result, the cost impact of a benefit change may fluctuate over time, as the demographics of the group changes.

Comment 5 — In the event the PERA General Plan becomes 90% funded on a market value of assets basis for two consecutive years, post-retirement benefit increases will change from 1.0% to 2.5%. For purposes of this valuation, it was assumed that the post-retirement benefit increase will remain at the reduced level of 1.0% through 2052 and increase to 2.5% thereafter, consistent with the recent valuation of the PERA General Plan dated December 9, 2016. This is only an assumption; actual timing will depend on actual experience.

Comment 6 — A review of these proposals for compliance with federal, state, or local law or regulation was out of scope and not performed.

Comment 7 — Please see our report, the General Employees Retirement Plan of Minnesota 6-Year Experience Study, dated June 30, 2015, for recommended changes to the Standards for Actuarial Work.
Comments (Concluded)

Comment 8 — We have provided this analysis in the same format as that used when plan or assumption changes are considered by the Trustees. For any legislative proposals, it may be necessary to follow up with a more in-depth analysis to comply with the Standards for Actuarial Work. We will provide the additional information upon request.

Comment 9 — Unless otherwise indicated, a funded status measurement presented in this report is based upon the actuarial accrued liability and the actuarial value of assets. Unless otherwise indicated, with regard to any funded status measurements presented in this report:

(1) The measurement is inappropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan’s benefit obligations.

(2) The measurement is dependent upon the actuarial cost method which, in combination with the plan’s amortization policy, affects the timing and amounts of future required contributions. The amounts of future required contributions will most certainly differ from those assumed in this report due to future actual experience differing from assumed experience based upon the actuarial assumptions. A funded status measurement in this report of 100% is not synonymous with no required future contributions. If the funded status were 100%, the plan would still require future normal cost contributions (i.e., contributions to cover the cost of the active membership accruing an additional year of service credit).

(3) The measurement would produce a different result if the market value of assets were used instead of the actuarial value of assets, unless the market value of assets is used in the measurement.

Comment 10 — Users of this report should be aware that if the calculations were made in a manner that accounted for the risks being retained by PERA, including risks related to present retired and inactive vested members, the results could be materially different from the results shown in this report. Such a calculation was not requested and was not within the scope of our assignment. Consequently, we did not make such a calculation.
June 11, 2018

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

Re: Redwood Area Hospital – Privatization Study

Dear Doug:

Enclosed is the Privatization Study for Redwood Area Hospital, a participating employer of the Public Employees Retirement Association of Minnesota General Employees Retirement Plan (PERA General). To the best of our knowledge and belief, the calculations were completed in accordance with the requirements of Minnesota Statutes, Section 356.215, and the requirements of the Standards for Actuarial Work established by the Legislative Commission on Pensions and Retirement (LCPR).

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan’s funded status); and changes in plan provisions or applicable law. Due to the limited scope of the actuary’s assignment, the actuary did not perform an analysis of the potential range of such future measurements.

This report should not be relied on for any purpose other than the purpose described on the next page. Determinations of the financial results associated with the benefits described in this report in a manner other than the intended purpose may produce significantly different results.

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.

The valuation was based upon information furnished by PERA, concerning Retirement System benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries.

The signing actuaries are independent of the plan sponsor.

Please call if you have any questions regarding the calculations enclosed.

Sincerely,

Bonita J. Wurst, ASA, EA, FCA, MAAA
Brian B. Murphy, FSA, EA, FCA, MAAA, PhD

BJW/BBM: dj
Enclosure

cc: Luis Lugo, PERA
Redwood Area Hospital
Privatization Study
as of July 1, 2017

Requested By: Mr. Doug Anderson, Executive Director
Public Employees Retirement Association of Minnesota

Date:       June 11, 2018

Submitted By: Bonita J. Wurst, ASA, EA, FCA, MAAA, and
Brian B. Murphy, FSA, EA, FCA, MAAA, PhD
Gabriel, Roeder, Smith & Company

This report contains an actuarial valuation of proposed privatization of benefits for employees of
Redwood Area Hospital (“the Hospital”). Eligible employees of the Hospital are currently members in the
General Employees Retirement Plan. If the Hospital becomes a private employer, these employees will
terminate active participation in the Plan and become eligible for privatized member provisions, as
described on page 4. Privatization enhancements cannot be provided if they result in a liability loss to the
General Employees Retirement Plan. The purpose of this supplemental valuation is to determine whether
or not the privatization enhancements result in a liability loss.

The date of the valuation was July 1, 2017. This means that the report indicates what the July 1, 2017
liabilities would have been under a baseline (continuing active participation) scenario and under a
privatization scenario. The date of the actuarial calculations used to determine whether privatization
enhancements can be provided must be within one year of the effective date of privatization.

Bonita J. Wurst and Brian B. Murphy are Members of the American Academy of Actuaries (MAAA) and
meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions
contained herein.

The calculations are based upon assumptions regarding future events, which may or may not materialize.
They are also based upon present and proposed plan provisions that are outlined in the report. If you
have reason to believe that the assumptions that were used are unreasonable, that the plan provisions
are incorrectly described, that important plan provisions relevant to this proposal are not described, or
that conditions have changed since the calculations were made, you should contact the authors of this
report prior to relying on information in the report.

If you have reason to believe that the information provided in this report is inaccurate, or is in any way
incomplete, or if you need further information in order to make an informed decision on the subject
matter of this report, please contact the authors of the report prior to making such decision.
Actuarial assumptions and methods were consistent with those used in the regular actuarial valuation of the Retirement System on the valuation date, unless otherwise noted. Actuarial assumptions, including discount rates and mortality tables, are prescribed by Minnesota Statutes Section 356.215, the Legislative Commission on Pensions and Retirement (LCPR), and the Trustees. These parties are responsible for selecting the plan’s funding policy, actuarial valuation methods, asset valuation methods, and assumptions. In particular:

- The assumed rate of interest was 8.0% for all years.
- The assumed post-retirement benefit increase rate was 1.0% per year through 2035 and 2.5% per year thereafter.
- Mortality assumptions are as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Mortality Table Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthy Pre-Retirement</td>
<td>RP-2014 Employee Mortality Table, adjusted for white collar and mortality improvements using projection scale MP-2015, from a base year of 2014. Rates are set-forward one year for males and set back one year for females.</td>
</tr>
<tr>
<td>Healthy Post-Retirement</td>
<td>RP-2014 Healthy Annuitant Mortality Table, adjusted for white collar and mortality improvements using projection scale MP-2015, from a base year of 2014. Rates are set-forward two years for males. Female rates are multiplied by a factor of 0.90.</td>
</tr>
<tr>
<td>Disabled Retirees</td>
<td>RP-2014 Disabled Mortality Table, adjusted for mortality improvements using projection scale MP-2015, from a base year of 2014. Rates are set forward one year for males and set-forward six years for females.</td>
</tr>
</tbody>
</table>

Please see the 2017 valuation report dated November 10, 2017 for a detailed description of all assumptions and methods. Note that in our professional judgement, the statutory discount rate of 8.0% deviates materially from the guidance set forth in Actuarial Standards of Practice No. 27 (ASOP No. 27).

The 2018 Omnibus Pension bill contains assumption and plan changes that are effective with the July 1, 2018 valuation, including a change in the interest rate from 8.0% to 7.5% and changes in future post-retirement benefit increases. These recent changes are not reflected in this analysis. We can provide additional information that reflects the provisions of the Omnibus Pension bill upon PERA’s request.
Eligible employees of Redwood Area Hospital are currently members in the General Employees Retirement Plan. If Redwood Area Hospital becomes a private employer, these employees will terminate active participation in the Plan. Minnesota Statutes 353F defines benefits for members of privatized employers.

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, Redwood Area Hospital shares in the risks of the Plan. After privatization, Redwood Area Hospital 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 authors of this report.

We have completed an analysis of the actuarial accrued liability of the active members employed by Redwood Area Hospital under the following scenarios:

- Ongoing Active Employees (i.e., 2017 valuation liability for eligible employees).
- Terminated Vested Employees (assumed termination July 1, 2017 for eligible employees).
- Terminated Vested Employees with the enhancements of the PERA Privatized Plan (assumed privatization July 1, 2017 for eligible employees); see description of privatization enhancements on page 4.

From the data file of 188 total employees that PERA provided, we identified 167 active members in the PERA General Employee Retirement Plan as of July 1, 2017. The remaining 21 employees were not included in the 2017 valuation. If the privatization of Redwood Area Hospital occurs on a future date and these 21 employees have accrued service in the PERA GERP as of the date of privatization, these employees may be entitled to a benefit from the PERA GERP with privatization enhancements. This potential liability is not reflected in this study.

At PERA’s request, we completed this study on the entire group provided by PERA and also a subset of the entire member group, as identified by PERA. The subset group excludes one individual identified by PERA who may or may not be entitled to the privatization enhancements. The participant statistics for both groups are shown below:

<table>
<thead>
<tr>
<th>Participant Data</th>
<th>Total Member Group</th>
<th>Subset Member Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>167</td>
<td>166</td>
</tr>
<tr>
<td>Average Age</td>
<td>43.5</td>
<td>43.5</td>
</tr>
<tr>
<td>Average Years of Service</td>
<td>12.2</td>
<td>12.2</td>
</tr>
<tr>
<td>Average Annual Earnings</td>
<td>$53,807</td>
<td>$52,939</td>
</tr>
</tbody>
</table>

It is our understanding that current inactive or retired members of Redwood Area Hospital will remain in PERA and would not be affected by the proposed benefit changes. They were excluded from this study.
Redwood Area Hospital
Privatization Study
as of July 1, 2017

The liabilities in this letter are determined as of July 1, 2017 and are based on the employee data provided by PERA, and the plan provisions, assumptions, and methods as summarized in the 2017 valuation report dated November 10, 2017 (including specific assumptions and methodologies regarding the post-retirement increase provisions) and, in particular, not including the effect of the 2018 Omnibus Pension bill.

The current privatization enhancements are as follows:

- All participants are 100% vested upon privatization.
- Augmentation rate of 2.0% annually, unless the enhancement results in a net loss to the Plan, in which case the augmentation rate equals 1.0% annually.

For comparison purposes, the current Plan provisions for PERA members are as follows:

- Participants are 100% vested upon three years of service (five years if first hired after June 30, 2010).
- Members who terminate after 2011 receive no augmentation.
Redwood Area Hospital
Privatization Study
as of July 1, 2017

Actuarial Statement

The actuarial accrued liabilities under the baseline and current privatization provisions are shown below:

<table>
<thead>
<tr>
<th></th>
<th>Total Member Group</th>
<th>Subset Member Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 2017 valuation liability - all members active</td>
<td>$14,957</td>
<td>$14,879</td>
</tr>
<tr>
<td>2. a. Current plan provisions, no privatization enhancements - all members treated as terminated vested as of July 1, 2017</td>
<td>9,314</td>
<td>9,289</td>
</tr>
<tr>
<td></td>
<td>b. Current enhancements of the PERA Privatized Plan (augmentation rate of 2%) - all members treated as privatized members as of July 1, 2017</td>
<td>11,318</td>
</tr>
<tr>
<td>3. Change in liability due to proposed privatization (i.e. net (gain)/loss due to proposed privatization)</td>
<td>(3,639)</td>
<td>(3,602)</td>
</tr>
</tbody>
</table>

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.*

Based on methodology that PERA has consistently utilized for privatization evaluations, because the proposed privatization results in a net gain on actuarial accrued liability, the privatization enhancements may be provided.

Other approaches may be reasonable, but may require statutory clarification.
Redwood Area Hospital
Privatization Study
as of July 1, 2017

Comments

Comment 1 — No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them.

Comment 2 — This report is intended to describe the financial effect of the proposed privatization changes on the Retirement System. Except as otherwise noted, potential effects on other benefit plans were not considered.

Comment 3 — The probabilities of retirement were not adjusted in connection with this proposal. If members retire differently than our assumptions, as a result of this benefit change, then the cost of the benefit change will be different.

Comment 4 — The reader of this report should keep in mind that actuarial calculations are mathematical estimates based on current data and assumptions about future events (which may or may not materialize). Please note that actuarial calculations can and do vary from one valuation year to the next, sometimes significantly if the group valued is very small (less than 30 lives). As a result, the cost impact of a benefit change may fluctuate over time, as the demographics of the group changes.

Comment 5 — Prior to the recent passage of the Omnibus Pension Bill, in the event the PERA General Plan would become 90% funded on a market value of assets basis for two consecutive years, post-retirement benefit increases would change from 1.0% to 2.5%. For purposes of this report, it was assumed that the post-retirement benefit increase will remain at the reduced level of 1.0% through 2035 and increase to 2.5% thereafter, consistent with the recent valuation of the PERA General Plan dated November 10, 2017.

Comment 6 — A review of these proposals for compliance with federal, state, or local law or regulation was out of scope and not performed.

Comment 7 — Please see our report, the General Employees Retirement Plan of Minnesota 6-Year Experience Study, dated June 30, 2015, for recommended changes to the Standards for Actuarial Work.

Comment 8 — We have provided this analysis in the same format as that used when plan or assumption changes are considered by the Trustees. For any legislative proposals, it may be necessary to follow up with a more in-depth analysis to comply with the Standards for Actuarial Work. We will provide the additional information upon request.
Comment 9 — Users of this report should be aware that if the calculations were made in a manner that accounted for the risks being retained by PERA, including risks related to present retired and inactive vested members, the results could be materially different from the results shown in this report. Such a calculation was not requested and was not within the scope of our assignment. Consequently, we did not make such a calculation.
May 2, 2019

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

Re: Swift County - Benson Hospital – Privatization Study

Dear Doug:

Enclosed is the Privatization Study for Swift County - Benson Hospital, a participating employer of the Public Employees Retirement Association of Minnesota General Employees Retirement Plan (PERA General). To the best of our knowledge and belief, the calculations were completed in accordance with the requirements of Minnesota Statutes, Section 356.215, and the requirements of the Standards for Actuarial Work established by the Legislative Commission on Pensions and Retirement (LCPR).

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan’s funded status); and changes in plan provisions or applicable law. Examples of risk that may reasonably be anticipated to significantly affect the plan’s future financial condition are described in detail in the valuation report dated November 28, 2018. Due to the limited scope of the actuary’s assignment, the actuary did not perform an analysis of the potential range of such future measurements.

This report should not be relied on for any purpose other than the purpose described on the next page. Determinations of the financial results associated with the benefits described in this report in a manner other than the intended purpose may produce significantly different results.

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.

The valuation was based upon information furnished by PERA, concerning Retirement System benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries.

The signing actuaries are independent of the plan sponsor.

Please call if you have any questions regarding the calculations enclosed.

Sincerely,

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

Brian B. Murphy, FSA, EA, FCA, MAAA, PhD

BJW/BBM: dj
Enclosure
This report contains an actuarial valuation of proposed privatization of benefits for employees of Swift County - Benson Hospital (“the Hospital”). Eligible employees of the Hospital are currently members in the General Employees Retirement Plan. If the Hospital becomes a private employer, these employees will terminate active participation in the Plan and become eligible for privatized member provisions, as described on page 4 and in Minnesota Statutes, Section 353F. Privatization enhancements cannot be provided if they result in a liability loss to the General Employees Retirement Plan. The purpose of this supplemental valuation is to determine whether or not the privatization enhancements result in a liability loss.

The date of the valuation was July 1, 2018. This means that the report indicates what the July 1, 2018 liabilities would have been under a baseline (continuing active participation) scenario and under a privatization scenario. The date of the actuarial calculations used to determine whether privatization enhancements can be provided must be within one year of the effective date of privatization.

Bonita J. Wurst and Brian B. Murphy are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present and proposed plan provisions that are outlined in the report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the authors of this report prior to relying on information in the report.

If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the authors of the report prior to making such decision.
Actuarial assumptions and methods were consistent with those used in the regular actuarial valuation of the Retirement System on the valuation date, unless otherwise noted. Actuarial assumptions, including discount rates and mortality tables, are prescribed by Minnesota Statutes Section 356.215, the Legislative Commission on Pensions and Retirement (LCPR), and the Trustees. These parties are responsible for selecting the plan’s funding policy, actuarial valuation methods, asset valuation methods, and assumptions. In particular:

- The assumed rate of interest was 7.5% for all years.
- The assumed post-retirement benefit increase rate was 1.25% per year.
- Mortality assumptions are as follows:

  **Healthy Pre-Retirement**  
  RP-2014 Employee Mortality Table, adjusted for white collar and mortality improvements using projection scale MP-2017, from a base year of 2014. Rates are set forward one year for males and set back one year for females.

  **Healthy Post-Retirement**  
  RP-2014 Healthy Annuitant Mortality Table, adjusted for white collar and mortality improvements using projection scale MP-2017, from a base year of 2014. Rates are set forward two years for males. Female rates are multiplied by a factor of 0.90.

  **Disabled Retirees**  
  RP-2014 Disabled Mortality Table, adjusted for mortality improvements using projection scale MP-2017, from a base year of 2014. Rates are set forward one year for males and set forward six years for females.

Please see the 2018 valuation report dated November 28, 2018 for a detailed description of all assumptions and methods.
Eligible employees of Swift County - Benson Hospital are currently members in the General Employees Retirement Plan. If Swift County - Benson Hospital becomes a private employer, these employees will terminate active participation in the Plan. Minnesota Statutes 353F defines benefits for members of privatized employers.

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, Swift County - Benson Hospital shares in the risks of the Plan. After privatization, Swift County - Benson Hospital 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 authors of this report.

We have completed an analysis of the actuarial accrued liability of the active members employed by Swift County - Benson Hospital under the following scenarios:

- Ongoing Active Employees (i.e., 2018 valuation liability for eligible employees).
- Terminated Vested Employees (assumed termination July 1, 2018 for eligible employees).
- Terminated Vested Employees with the enhancements of the PERA Privatized Plan (assumed privatization July 1, 2018 for eligible employees); see description of privatization enhancements on page 4.

From the data file of 160 total employees that PERA provided, we identified 135 active members in the PERA General Employees Retirement Plan as of July 1, 2018. There was one duplicate record reported by PERA. This participant was matched to a single participant record on the valuation file and valued consistent with the July 1, 2018 valuation. The remaining 24 employees were not included in the data supplied for the 2018 PERA valuation. Consequently, they were not included in the 2018 PERA valuation and were excluded from this study. If the privatization of Swift County - Benson Hospital occurs on a future date and the excluded employees have accrued service in the PERA GERP as of the date of privatization, these employees may be entitled to a benefit from the PERA GERP with privatization enhancements. This potential liability is not reflected in this study.

Participant statistics are shown below:

<table>
<thead>
<tr>
<th>Participant Data</th>
<th>As of June 30, 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>135</td>
</tr>
<tr>
<td>Average Age</td>
<td>46.2</td>
</tr>
<tr>
<td>Average Years of Service</td>
<td>10.8</td>
</tr>
<tr>
<td>Average Annual Earnings</td>
<td>$52,540</td>
</tr>
</tbody>
</table>

It is our understanding that current inactive or retired members of Swift County - Benson Hospital will remain in PERA and would not be affected by the proposed benefit changes. They were excluded from this study.
The liabilities in this letter are determined as of July 1, 2018 and are based on the employee data provided by PERA, and the plan provisions, assumptions, and methods as summarized in the 2018 valuation report dated November 28, 2018 (including specific assumptions and methodologies regarding the post-retirement increase provisions).

The current privatization enhancements are as follows:

- All participants are 100% vested upon privatization.
- Augmentation rate of 2.0% annually, unless the enhancement results in a net loss to the Plan, in which case the augmentation rate equals 1.0% annually.

For comparison purposes, the current Plan provisions for PERA members are as follows:

- Participants are 100% vested upon three years of service (five years if first hired after June 30, 2010).
- Members who terminate after 2011 receive no augmentation.
### Swift County - Benson Hospital Privatization Study as of July 1, 2018

**Actuarial Statement**

The actuarial accrued liabilities under the baseline and current privatization provisions are shown below:

<table>
<thead>
<tr>
<th>Swift County - Benson Hospital</th>
<th>Actuarial Accrued Liability as of July 1, 2018 ($ in Thousands)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. 2018 valuation liability - all members active</td>
<td>$ 10,123</td>
</tr>
<tr>
<td>2. a. Current plan provisions, no privatization enhancements - all members treated as terminated vested as of July 1, 2018</td>
<td>$ 6,362</td>
</tr>
<tr>
<td>b. Current enhancements of the PERA Privatized Plan (augmentation rate of 2%) - all members treated as privatized members as of July 1, 2018</td>
<td>$ 7,813</td>
</tr>
<tr>
<td>3. Change in liability due to proposed privatization (i.e., net (gain)/loss due to proposed privatization) (2.b. - 1.)</td>
<td>$ (2,310)</td>
</tr>
</tbody>
</table>

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.*

Based on methodology that PERA has consistently utilized for privatization evaluations, because the proposed privatization results in a net gain on actuarial accrued liability, the privatization enhancements may be provided. The additional liability due to privatization enhancements is $1,451,000 (2.b. – 2.a.), which is less than the $3,761,000 reduction in liability (1. – 2.a.) if all active members are treated as terminated vested members.

Other approaches may be reasonable, but may require statutory clarification.
Swift County - Benson Hospital
Privatization Study
as of July 1, 2018

Comments

Comment 1 — No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them.

Comment 2 — This report is intended to describe the financial effect of the proposed privatization changes on the Retirement System. Except as otherwise noted, potential effects on other benefit plans were not considered.

Comment 3 — The probabilities of retirement were not adjusted in connection with this proposal. If members retire differently than our assumptions, as a result of this benefit change, then the cost of the benefit change will be different.

Comment 4 — The reader of this report should keep in mind that actuarial calculations are mathematical estimates based on current data and assumptions about future events (which may or may not materialize). Please note that actuarial calculations can and do vary from one valuation year to the next, sometimes significantly if the group valued is very small (less than 30 lives). As a result, the cost impact of a benefit change may fluctuate over time, as the demographics of the group changes.

Comment 5 — Post-retirement benefit increases are equal to 50% of the Social Security Cost-of-Living Adjustment, not less than 1% and not more than 1.5%. For purposes of this report and the 2018 valuation report, it was assumed that the post-retirement benefit increase will equal 1.25% for all future years. This is only an assumption; actual increases will depend on actual experience.

Comment 6 — A review of these proposals for compliance with federal, state, or local law or regulation was out of scope and not performed.

Comment 7 — Please see our report, the General Employees Retirement Plan of Minnesota 6-Year Experience Study, dated June 30, 2015, for recommended changes to the Standards for Actuarial Work.

Comment 8 — We have provided this analysis in the same format as that used when plan or assumption changes are considered by the Trustees. For any legislative proposals, it may be necessary to follow up with a more in-depth analysis to comply with the Standards for Actuarial Work. We will provide the additional information upon request.

Comment 9 — Users of this report should be aware that if the calculations were made in a manner that accounted for the risks being retained by PERA, including risks related to present retired and inactive vested members, the results could be materially different from the results shown in this report. Such a calculation was not requested and was not within the scope of our assignment. Consequently, we did not make such a calculation.