



Date: April 8, 2021
To: PERA Board of Trustees
From: Doug Anderson, Executive Director
Subject: Long Term PERA Board Legislative Positions

In 2015 the Board updated their *Long Term PERA Board Legislative Positions* (Exhibit A). As noted in the document, "These positions are to be reviewed periodically to ensure that they continue to meet the needs of members and employers participating in the plans administered by PERA."

The 2015 document was presented to the Board at the August 9, 2018 meeting. Noted at that time was that the document was useful for understanding some big picture positions, some very specific positions, and for crafting position statements when testifying on behalf of PERA on short notice. However, some of the positions appear to be dated or in need of clarification or updates. An intention was stated to evaluate and propose changes for the Board to consider.

During 2019, work was completed by PERA staff and the Board to create an additional document titled "PERA's Funding Values" (Exhibit C). The stated intention was to create a document that will enable PERA to (1) develop long-term goals, (2) anticipate, prepare for, and respond to future challenges, (3) minimize the risk for major plan changes, and (4) adopt informed and consistent positions.

The two documents are intended to be complimentary. The PERA Funding Values document is more plan specific. Whereas, the Long Term PERA Board Legislative Positions apply more broadly.

In August, 2020, the Board modified the Long Term PERA Board Legislative Positions by making two changes:

1. **Long Term Position #6 – Groups/Individuals Entering or Leaving PERA.** This position was expanded to also cover situations for groups leaving PERA. This change is consistent with PERA's recent legislative initiative to assess a Withdrawal Liability for privatizing entities. The new position is shown on the updated Long Term PERA Board Legislative Positions document (Exhibit B).
2. **Long Term Position #7 – Changes in Actuarial Assumptions.** This position was modified slightly in 2019 and incorporated into the PERA Funding Values document. Since it is included in the Funding Values document, it is no longer needed as a long term position.

Staff recommends that the Board re-consider three long term positions from the 2015 document. The recommendations include that one position be reaffirmed without changes, one position be modified slightly, and a third position be deleted. The following refer to three positions from the 2015 and summarize staff's recommendations for changes to incorporate two positions into the current document.

Long Term Position #8 – Investment Decision-Making Factors

The existing long term position addresses PERA's position with respect to matters related to investments managed by the State Board of Investment.

Staff Recommendation

Staff believes the existing long term position is effective and recommends that it be incorporated into the current document of Long Term PERA Board Legislative Positions as follows without any changes:

The PERA Board of Trustees recognizes its role as fiduciaries for its plans' assets and supports the State Board of Investment in fulfilling its fiduciary duties and its statutory purposes that pension assets are "responsibly invested to maximize the total rate of return without incurring undue risk." Minnesota Statute Chapter 11A.01.

Long Term Position #4 – Expanding Classification of Employees Included in the Correctional Plan

The existing position effectively addresses PERA's desire that expansion of coverage in the Correctional Plan be done only with respect to future coverage. However, the position could be expanded to ensure that the plan funded status is preserved if membership is expanded to also include a member's past service.

Staff Recommendation

Staff recommends that Long Term Position #4 – Expanding Classification of Employees Included in the Correctional Plan be modified and incorporated into the current document of Long Term PERA Board Legislative Positions as follows:

Absent a purpose statement or any clear criteria defining the types of positions intended to be covered by the Local Government Correctional Service Retirement Plan, the PERA Board of Trustees defers to the Legislature the policy determinations as to which local government correctional employee groups should be included in the Plan.

PERA asks that the Legislature ensure that any groups approved for participation in the Plan either come into the Plan as new members at contribution rates sufficient to fully fund the higher level of benefits, or if members enter the plan with past service credit, the merging group's sponsoring entity agrees to a payment or series of payments sufficient to fully fund the associated unfunded actuarial accrued liability of the merging group.

Long Term Position #10 – Automatic Funding Stabilizer

The existing position states *"The PERA Board of Trustees supports use of automatic funding stabilizers tailored to the needs of the three statewide pension systems."* The automatic funding stabilizer was removed for all state-wide pension plans as part of 2018 Omnibus Pension Bill. While the automatic funding stabilizer concept has merit, future consideration should occur in accordance with PERA's funding values.

Staff Recommendation

Staff recommends that that this position be discontinued and not incorporated into the update Long Term PERA Board Legislative Positions.

Long Term PERA Board Legislative Positions

These positions were last updated in early 2015.

The PERA Board of Trustees, as fiduciaries with oversight and governance of the PERA benefit plans and trusts, supports a number of *long-term* legislative positions. These positions are to be reviewed periodically to ensure that they continue to meet the needs of the members and employers participating in the plans administered by PERA. In the short-term, the Board will continue to advocate for the maintenance of the benefit plans currently in effect, for measures necessary to sustain the funding of the plans, and for improvements only when sufficient funds are available to finance those improvements.

The following is a list of the long standing positions established by former boards to be reviewed by the current PERA Board of Trustees. The positions are not listed in any priority order. These and other issues brought to the Board are evaluated periodically to determine which positions will become part of the priorities for an upcoming legislative session's agenda to be advocated on behalf of PERA's members.

Plan Structure/Benefit-related Issues

1. Employer/Employee Contribution Rate Changes

The PERA Board of Trustees opposes a rollback or change in contribution rates for non-pension purposes.

2. Defined Benefit vs. Defined Contribution Plan

The PERA Board of Trustees opposes substituting a defined contribution plan for an existing defined benefit plan and opposes transfer of past employer contributions from the defined benefit plan to the defined contribution plan.

3. Expanded Survivor Coverage for Dependent Children

The PERA Board of Trustees supports increasing to age 22 the maximum age for survivor coverage for dependent children of deceased Coordinated Plan members and the extension of survivor benefits to disabled dependent children, regardless of age, if funding is available.

4. Expanding Classifications of Employees Included in the Correctional Plan Proposed for Modification in April 2021; Renumbered as Long Term Position #2

Absent a purpose statement or any clear criteria defining the types of positions intended to be covered by the Local Government Correctional Service Retirement Plan, the PERA Board of Trustees defers to the Legislature the policy determinations as to which local government correctional employee groups should be included in the Plan, and asks that the Legislature ensure that any groups approved for participation in the Plan come into the Plan as new members at contribution rates sufficient to fully fund the higher level of benefits.

5. Legislation Pertaining to Individuals or Groups

Purchasing Service

The PERA Board of Trustees does not oppose the purchase of service allowed by remedial legislation for an individual or group of individuals provided:

- the service would have been eligible PERA service *if reported appropriately*; and
- the service is purchased at the full actuarial value *of the increased benefit* provided.

Furthermore, the Board opposes the purchase of service that would not otherwise be eligible for coverage in any of the PERA defined benefit plans, and opposes the purchase of PERA defined benefit plan coverage by an individual who elected participation in the PERA Defined Contribution Plan.

Exceptions to Benefits Payable

The PERA Board of Trustees generally opposes legislation that provides an exception with respect to the benefits made available to one or a group of individuals, but may review such legislation on a case-by-case basis.

Financial/Investment Issues

6. Groups/Individuals Entering or Leaving PERA Modified in August 2020 Renumbered as Long Term Position #1

The PERA Board of Trustees opposes assuming liability for individuals or groups requesting membership in a PERA fund unless the merging group's sponsoring entity agrees to an amortization payment sufficient to retire any unfunded liability of the merging group and that payment is made through the full funding date of the applicable PERA plan or earlier.

7. Changes in Actuarial Assumptions Modified in August 2020 Moved to PERA Funding Values Document

The PERA Board of Trustees supports the principle that actuarial changes should be based upon the experience of the fund and based upon the recommendations of the actuary retained by the Board of Trustees and reviewed by the actuary retained to advise the Legislative Commission on Pensions and Retirement. The Board further supports that changing actuarial assumptions should not be made exclusively for the purpose of funding increased pension benefits or responding to governmental fiscal problems.

8. Investment Decision-Making Factors Proposed for Review in April 2020 Renumbered as Long Term Position #3

The PERA Board of Trustees recognizes its role as fiduciaries for its plans' assets and supports the State Board of Investment in fulfilling its fiduciary duties and its statutory purposes that pension assets are "responsibly invested to maximize the total rate of return without incurring undue risk." Minn. Stat. § 11A.01.

9. Diversion of Assets for Other Uses

The PERA Board of Trustees opposes diversion of PERA income or assets for uses other than for funding pensions.

10. Automatic Funding Stabilizer No Longer Relevant - Proposed Review April 2021 Discontinue and Remove From Long Term Positions

The PERA Board of Trustees supports use of automatic funding stabilizers tailored to the needs of the three statewide pension systems.

11. Police State Aid

The PERA Board of Trustees supports the primary use of the police state aid financed by the tax on automobile insurance premiums for funding the PERA Police and Fire Fund should an unfunded liability and a deficiency develop.

Administrative/Structural Issues

12. Merger of Statewide Pension Systems

The PERA Board of Trustees opposes merger of the three separate, statewide retirement systems.



Long Term PERA Board Legislative Positions [Updated April 8, 2021]

The PERA Board of Trustees, as fiduciaries with oversight and governance of the PERA benefits plans and trusts, supports a number of long-term legislative positions. These positions are to be reviewed periodically to ensure that they continue to meet the needs of the members and employers participating in the plans administered by PERA. In the short-term, the Board will continue to advocate for the maintenance of the benefit plans currently in effect, for measures necessary to sustain the funding of the plans, and for improvements only when sufficient funds are available to finance those improvements.

The following is a list of current long standing positions. These positions and other issues brought to the Board are evaluated periodically to determine which positions will become part of the priorities for an upcoming legislative session's agenda to be advocated on behalf of PERA's members.

Long Term Position #1 – Groups/Individuals Entering or Leaving PERA *[Adopted August, 2020]*

The PERA Board of Trustees opposes providing benefits that add to the actuarial accrued liability for individuals or groups requesting membership in a PERA fund unless the merging group's sponsoring entity agrees to a payment or series of payments sufficient to fully fund the associated unfunded actuarial accrued liability of the merging group.

The PERA Board of Trustees opposes the discontinuation of membership for an individual or group in a PERA fund unless the departing individual or group's sponsoring entity agrees to a payment or series of payments sufficient to fully fund the associated unfunded actuarial accrued liability for the departing group.

Long Term Position #2 – Expanding Classification of Employees Included in the Correctional Plan *[Proposed as a staff recommendation April 8, 2021]*

Absent a purpose statement or any clear criteria defining the types of positions intended to be covered by the Local Government Correctional Service Retirement Plan, the PERA Board of Trustees defers to the Legislature the policy determinations as to which local government correctional employee groups should be included in the Plan.

PERA asks that the Legislature ensure that any groups approved for participation in the Plan either come into the Plan as new members at contribution rates sufficient to fully fund the higher level of benefits, or if members enter the plan with past service credit, the merging group's sponsoring entity agrees to a payment or series of payments sufficient to fully fund the associated unfunded actuarial accrued liability of the merging group.

Long Term Position #3 – Investment Decision Making *[Proposed as a staff recommendation April 8, 2021]*

The PERA Board of Trustees recognizes its role as fiduciaries for its plans' assets and supports the State Board of Investment in fulfilling its fiduciary duties and its statutory purposes that pension assets are "responsibly invested to maximize the total rate of return without incurring undue risk." Minnesota Statute Chapter 11A.01.



PERA's Funding Values December 12, 2019	
#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.

The above statements collectively express PERA's funding values relative to the General Employees, Police & Fire, and Correctional Employees Plans. The values will be used to facilitate communication with PERA stakeholders and to set foundations for potential future legislative initiatives.