



Date: April 11, 2019  
To: PERA Board of Trustees  
From: Doug Anderson, Executive Director  
Subject: Long-term Plan Goals

The 2018 Omnibus Retirement Bill improved the long-term sustainability for the PERA General Employees, Police & Fire, and Correctional Plans. Despite some recent market volatility, all three plans remain on track to be fully funded within 20 years.

While the funding status for each plan is expected to improve, there are still challenging issues ahead for which the Board should proactively consider potential changes. In addition to the impact of year-to-year economic and demographic gains and losses, and potential demographic assumption changes, the Board should consider how to respond to three specific issues.

The first issue is the possibility of a lower investment return assumption recommendation. As noted by GRS Retirement Consulting in their most recent actuarial valuations, "If capital market assumptions decline further from present levels, the 7.5% return assumption might not comply with actuarial standards for the July 1, 2019 valuation." Any adjustment to the investment return assumption would change the forecast for the plans and impact the likelihood and magnitude of future plan changes.

The second issue is the possibility of transitioning from fixed statutory contribution rates to funding the actuarial determined contribution. The concern regarding fixed statutory contribution rates was raised by S&P Global Ratings in their June 7, 2018 assessment of Minnesota's 2018 law change. They noted "... but because contributions remained fixed in state statute, there could eventually be a regression in plan funded status." Since PERA's fixed contribution rates currently exceed the actuarial determined contribution for each plan, there is not an immediate concern. However, if there is a statutory change to set actual contributions equal to the actuarially determined amount, there would need to be greater understanding of how those contribution fluctuations would be assessed and mitigated.

The third issue is what may result from a 2020 cost-of-living (COLA) study to be undertaken by the Legislative Commission on Pensions and Retirement (LCPR) for consideration during the 2021 session. A priority of the LCPR in recent years has been uniformity among the plans. Retiree groups will likely advocate for greater inflation protection and the cost of providing larger COLAs is high. PERA's recent COLA changes for the General and Correctional Plan that tie the increase to an inflation index may serve as a good model for other plans to follow. However, it is possible that other models could be considered, including those with a lower minimum amount or higher maximum.

There is no certainty that any of the above issues will result in the need for changes to occur. On the other hand, all three could arise at the same time. In addition, other variables such as a market surge or decline could also influence the thinking of stakeholders and legislators.

Ultimately, PERA should be a leader in defining the plan design features most appropriate to balance our stakeholder’s values. In order to be proactive in that process, we want to ensure preparedness for any possible combination of changes that may need to result from the above identified challenges. The process to understand current plan provisions and options will require a significant amount of time and staff recommends an early start to that process.

A proposed timeline for this evaluation process is shown below. Coinciding with this schedule will be stakeholder interactions to gather input for the Board. The proposed schedule consists of an introduction of each topic during board meetings and subsequent discussion. The series of topics would culminate in a workshop discussion occurring after all actuarial valuation data has been updated. The most likely time period for action, if needed, would be the 2021 legislative session.

It is proposed to review the plans in sequence, starting with the General Employees Plan, followed by the Police & Fire Plan, and then the Correctional Plan. The proposed schedule for the General Employees review process is:

Meeting Date	Type of Meeting	Topic
May 9	Regular board meeting	Retirement and ancillary benefits (appropriate amounts and start dates)
June 13	Regular board meeting	Post retirement income (COLAs)
August 8	Regular board meeting	Contribution and actuarial cost evaluation (including results at a lower assumed return rate)
October 10	Planning workshop	Evaluation of all benefits and cost components

The schedule for evaluations of the Police & Fire and Correctional Plans will be determined at a later date. Some of what is reviewed for the General Employees Plan will be applicable to the other two plans. July 11 and September 12 are currently tentatively being held for board meetings. These meetings may be used for additional discussion if desired.