

Agency Purpose

The Minnesota State Retirement System (MSRS) was established by state law in 1929. It exists to administer secure retirement plans for its members, assure timely benefit payments, be proactive in public pension policies, and provide exemplary customer service through a one-stop shopping source.

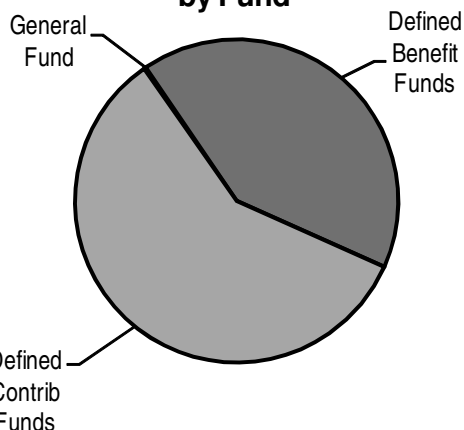
At a Glance

Information is current as of June 30, 2009, unless stated otherwise

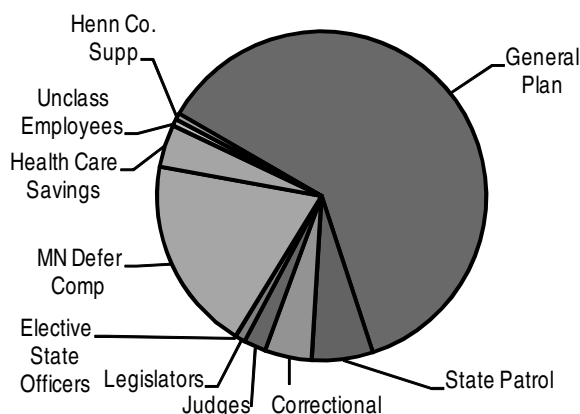
- Established in 1929
- Defined benefit plans managed - 6
- Total defined benefit members – 109,113
- Net assets held in trust - \$11.6 billion
- FY11 administrative and record keeping expenses (budget) - \$15.3 million
- Number of employees – 92
- Defined contribution plan managed - 4
- Total defined contribution participants – 120,528
- Total participating employers - 767

Source: MSRS 2009 Comprehensive Annual Financial Report

Est. FY 2010-11 Administrative Expenditures by Fund



Est. FY 2010-11 Expenditures by Plan



Source: FY 2010 Reallocation of Administrative Expenses-Bases File.

Source: FY 2009 Comprehensive Annual Financial Report

Strategies

MSRS administration is governed by an 11-member board of directors, who appoint an Executive Director to manage the system. MSRS utilizes the following strategies to accomplish its stated mission:

- Develop, implement and maintain retirement programs that are responsive to members needs.
- Seek approval of legislative initiatives designed to ensure the financial stability of the retirement plans.
- Deliver pension benefits and services in a customer oriented and cost-effective manner.
- Educate members to make informed decisions leading to a secure retirement future through counseling, workshops, newsletters, and web-based services and tools.
- Promote a respectful, ethical, high performance work environment that supports staff development, technological enhancements, and business process improvements.

Operations

MSRS operates from its main office in St. Paul and branch offices located in St. Cloud, Mankato, Detroit Lakes and Duluth. MSRS is organized around two functional areas: retirement services and administrative support processes. Retirement Services staff provide education, benefit determinations, and retirement counseling to members of all MSRS retirement plans by phone, through onsite visits and through the MSRS interactive web

site. Administrative divisions support provides financial, information technology, records management and contract administration services.

Defined Benefit Plan Administration

MSRS manages six cost-sharing, multiple-employer defined benefit (DB) retirement plans. The largest of these plans is the **General Plan** whose membership is comprised primarily of most Minnesota state employees, non-faculty employees of the University of Minnesota, and employees of the Metropolitan Council. The other five retirement plans are named after the employees eligible for membership: **Correctional Employees, State Patrol, Judges, Legislators, and Elective State Officers** (which covers elected officials voted into office prior to July 1, 1997). Each plan has specific member and employer contribution rates, retirement benefit formulas, survivor and disability options, and refund provisions.

MSRS administers its defined benefit plans internally. Staff collects member and employer contributions through payroll deduction and transfers these assets to the Minnesota State Board of Investment (SBI) where they are pooled with those of other funds and invested in various securities. MSRS staff disburses monthly benefit payments to retired members, survivors, and disabled employees; and processes lump-sum withdrawals and rollovers to members who have terminated employment.

DEFINED BENEFIT RETIREMENT PLANS – Four Largest Plans

State Employees (General Plan)

- Net Assets - \$6.9 billion
- Funding Ratio – 85.9%
- Total Membership – 98,454
- Active Membership Count – 48,989
- Benefit Recipients – 27,343
- Inactive Membership Count – 22,122
- FY 2009 Annuities Paid - \$446 million

State Patrol

- Net Assets - \$450 million
- Funding Ratio – 80.6%
- Total Membership – 1,836
- Active Membership Count – 876
- Inactive Membership Count – 52
- Members Receiving Benefits – 908
- FY 2009 Annuities Paid - \$45 million

Correctional Employees

- Net Assets – \$457 million
- Funding Ratio – 71.9%
- Total Membership – 7,687
- Active Membership Count – 4,403
- Benefit Recipients – 1,709
- Inactive Membership Count – 1,575
- FY 2009 Annuities Paid - \$33 million

Judges

- Net Assets - \$115 million
- Funding Ratio – 60.8%
- Total Membership - 617
- Active Membership Count – 287
- Benefit Recipients - 285
- Inactive Membership Count – 45
- FY 2009 Annuities Paid - \$16 million

Two smaller plans, the Legislators and Elective State Officers Plans, are pay-as-you-go plans and funded through state General Fund appropriations.

Source: MSRS 2009 Comprehensive Annual Financial Report

Defined Contribution Plan Administration

MSRS also administers four defined contribution (DC) plans. These plans include the **Unclassified Employees Retirement Plan**, which covers many of the governor's staff, legislative staff and elected officials first hired after July 1, 1997 and the **Supplemental Retirement Plan for Hennepin County** (SRHC), which is available to qualified county employees hired or rehired prior to April 14, 1982. MSRS also operates two other defined contribution plans for all public employees in the state: the **Minnesota Deferred Compensation Plan** (MNDCP) and the **Health Care Savings Plan** (HCSP).

Since July 1, 2009 MSRS has utilized third party service providers for record keeping and custodial services for all of the defined contribution plans. For these plans, participant contributions and other revenue flow from the employer unit, via payroll deduction, through the record keeper to the custodian for daily investment. Individual participants select their own investments from the investment options offered. At MSRS' direction, the record keeper will make distributions to members, vendor payments, and reimbursements to MSRS for administrative

fees. Financial transactions of these funds are not captured in the state’s accounting system. Thus, the fiscal pages of this budget document omit the financial activities for these plans.

DEFINED CONTRIBUTION RETIREMENT PLANS

Minnesota Deferred Compensation Plan

- Net Assets - \$3.1 billion
- Total Participants – 87,003
- Participating Employers – 507

Health Care Savings Plan

- Net Assets - \$255 million
- Total Participants – 58,050
- Participating Employers – 215

Unclassified Employees Retirement Plan

- Net Assets - \$234 million
- Total Participants – 3,261
- Participating Employers – 12

Hennepin County Supplemental Retirement Plan

- Net Assets - \$102 million
- Total Participants – 2,054
- Participating Employers – 1

Since July 1, 2009, MSRS has utilized third-party service providers to provide record keeping and custodial services for the defined contribution plans. Thus the fiscal pages of this budget document omit financial activities for these plans.

Source: MSRS 2009 Comprehensive Annual Financial Report

Key Activity Goals & Measures

MSRS measures the funding ratio of the defined benefit plans it administers. This ratio represents what portion of a plan’s net assets is available to pay the projected liability for member’s retirement benefits. Most of MSRS’ retirement plans are pre-funded and the higher the funding ratio the better. This measure is determined by an annual actuarial valuation; results of the 2009 valuation are shown in the table below. MSRS’s goal is to achieve full funding (100% funding ratio) for each defined benefit plan by its statutory defined target date.

<u>Retirement Plan</u>	<u>Funding Ratio</u>	<u>Full Funding Target Date</u>
State Employees Plan (General Plan)	85.90%	2040
State Patrol Plan	80.58%	2036
Correctional Employees Plan	71.88%	2038
Judges Plan	60.84%	2038
Legislators Plan ¹	31.70%	Not Applicable
Elective State Officers Plan ²	5.49%	Not Applicable

1. This plan is closed to new entrants since 1997. This plan is funded on a pay-as-you-go basis.
2. This plan is funded on a pay-as-you-go basis.

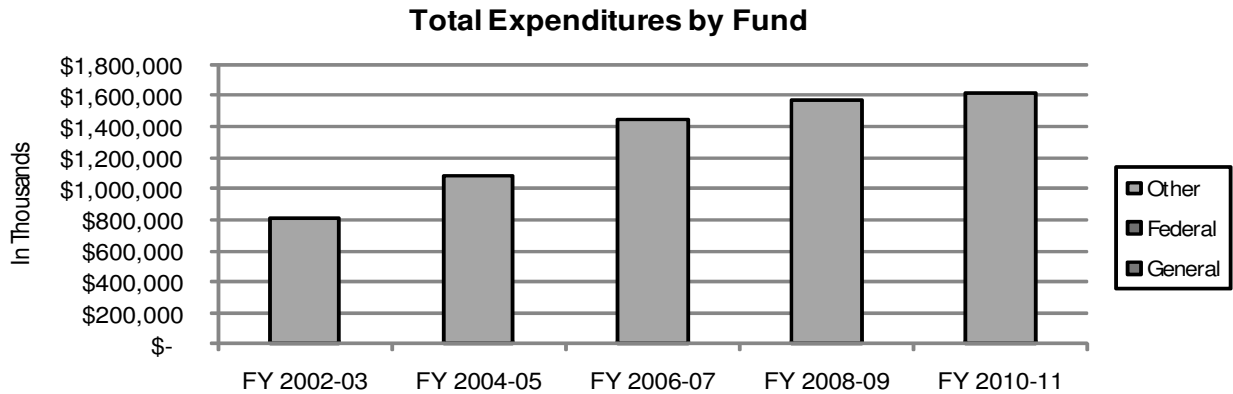
Budget Trends

As noted in the previous section, the Legislators and Elective State Officers Plans are pay-as-you go plans. Both plans’ contributions and/or net assets are insufficient to pay future benefits to retired members and survivors. Thus, MSRS receives state General Fund appropriations for these plans to finance monthly regular retirement and survivor benefits, the cost of annual actuarial valuations, and each plan’s proportionate share of other MSRS’ administrative expenses.

General Fund appropriations were significantly higher in FY 2002-03, as noted in the schedule below, because the Judges Plan also received an appropriation in FY 2002. A FY 2006 General Fund appropriation for the Legislators Plan to cover mortality losses spiked the increase in the FY 2006-07 biennium.

MSRS’ revenue is derived primarily from employer and employee contributions to the various retirement plans that MSRS administers and investment income on assets held in trust. Statutory contribution rates, expressed as a percentage of payroll, vary by retirement plan. To ensure plan stability in the long term, MSRS phased in

contribution rate increases for its four largest defined benefit retirement plans over a multi-year period that ended July 1, 2010.



Source data for the previous chart is from MSRS Comprehensive Annual Financial Reports. "Other" includes the pension trust funds established for MSRS' retirement plans.

Two key external factors that impact MSRS and trigger the need for MSRS to revisit its business strategies are:

- **Economic conditions** – The recession and global financial crisis have resulted in negative investment returns and decreases in net assets in recent years. In response, MSRS monitors changes in funding ratios and contribution deficiency percentages closely and proposed legislative changes in plan provisions to ensure the security and financial stability of its funds to pay future benefits. MSRS has curtailed the growth in its administrative budget as other agencies have reduced spending.
- **Demographic changes** – As baby boomers contemplate retirement, MSRS has responded to increased demand for retirement estimates and counseling services with personal planning and pre-retirement seminars, and on-line retirement resources and tools.

Contact

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MINN STATE RETIREMENT SYSTEM

Agency Overview

Dollars in Thousands

	Current		Forecast Base		Biennium
	FY2010	FY2011	FY2012	FY2013	2012-13
<u>Expenditures by Fund</u>					
Open Appropriations					
General	2,636	2,899	2,988	3,048	6,036
Correctional Employees Retire	37,689	39,024	39,807	40,605	80,412
Miscellaneous Agency	7	0	0	0	0
State Employees Retirement	493,833	507,386	517,633	528,090	1,045,723
Highway Patrol Retirement	46,263	47,107	47,814	48,532	96,346
Unclassified Employees Retire	548	0	0	0	0
Health Care Savings Fund	257	0	0	0	0
Henn Cty Supplemental Retirmnt	13	0	0	0	0
Legislative Annuities	5,002	4,763	4,858	4,955	9,813
Judicial Retirement	17,102	17,657	18,010	18,372	36,382
Total	603,350	618,836	631,110	643,602	1,274,712
<u>Expenditures by Category</u>					
Total Compensation	6,821	7,369	7,591	7,818	15,409
Other Operating Expenses	3,978	5,398	5,535	5,679	11,214
Other Financial Transactions	592,551	606,069	617,984	630,105	1,248,089
Total	603,350	618,836	631,110	643,602	1,274,712
<u>Expenditures by Program</u>					
Mn State Retirement System	578,333	593,517	605,254	617,227	1,222,481
Elective Officers Plan	452	433	472	481	953
Judges Plan	17,102	17,657	18,010	18,372	36,382
Legislators Plan	7,186	7,229	7,374	7,522	14,896
Health Care Savings Fund	257	0	0	0	0
Henn Cty Supplemental Retirmnt	13	0	0	0	0
Payroll Clearing	7	0	0	0	0
Total	603,350	618,836	631,110	643,602	1,274,712
Full-Time Equivalents (FTE)	86.0	90.0	90.4	90.4	

MINN STATE RETIREMENT SYSTEM

Agency Revenue Summary

Dollars in Thousands

	Actual FY2010	Budgeted FY2011	Current Law		Biennium 2012-13
			FY2012	FY2013	
<u>Non Dedicated Revenue:</u>					
Other Revenues:					
General	170	180	185	189	374
Correctional Employees Retire	36,973	40,634	41,447	42,275	83,722
State Employees Retirement	244,201	249,339	254,325	259,412	513,737
Highway Patrol Retirement	16,702	16,610	16,859	17,112	33,971
Unclassified Employees Retire	678	0	0	0	0
Henn Cty Supplemental Retirmnt	44	0	0	0	0
Legislative Annuities	0	4,763	4,858	4,955	9,813
Judicial Retirement	11,223	11,548	11,779	12,015	23,794
Total Non-Dedicated Receipts	309,991	323,074	329,453	335,958	665,411
<u>Dedicated Receipts:</u>					
Other Revenues:					
Miscellaneous Agency	17	0	0	0	0
Total Dedicated Receipts	17	0	0	0	0
Agency Total Revenue	310,008	323,074	329,453	335,958	665,411