Table of Contents

Public Employees Retirement Association

www.mnpera.org

<table>
<tr><td>

AT A GLANCE

- Benefits Paid (in thousands)
  - Benefits $1,868,800
  - Refunds $44,370
- Membership
  - 160,400 Active Members
  - 192,000 Inactive Members
  - 105,000 Annuitants

Source: 2016 Financial Statements

</td></tr>
</table>

PURPOSE

The Public Employees Retirement Association (PERA) of Minnesota administers four defined benefit retirement plans, one defined contribution retirement plan, and one agency fund in accordance with Minnesota Statute sections 353, 353A, 353D, 353E, 353G and 356. PERA's membership includes approximately 356,000 active and inactive (vested and non-vested) employees and 105,000 benefit annuitants from over 2,100 separate governmental entities, including townships, cities, counties, schools and other miscellaneous local governments as defined in M.S. 353.01, subd. 6.

PERA's overarching goal is to ensure that contributions collected from members and employers and the investment earnings on those contributions will be sufficient to provide promised benefits to benefit recipients, allowing public employees the opportunity to achieve a successful and secure retirement without relying on the State for financial support. Investment income accounts for almost 66 percent of PERA's revenues. Member contributions account for another 15 percent and employer contributions from local governments make up the difference of 19 percent. The State of Minnesota contributes $16 million each year through the year 2031 to help pay off the unfunded liability that existed when MERF was consolidated into PERA in 2010. PERA also receives $9 million each year for the Minneapolis Police and Minneapolis Fire funds that consolidated with the PERA Police & Fire plan in 2012. PERA does not receive any other direct appropriations from the General Fund.

BUDGET
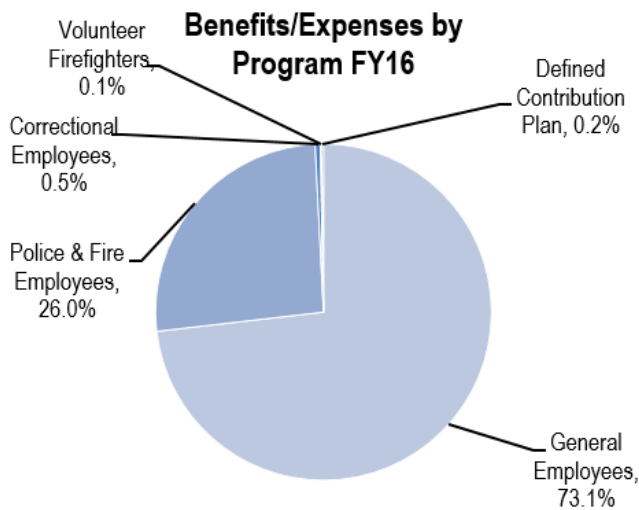
Source: 2016 Financial Statements
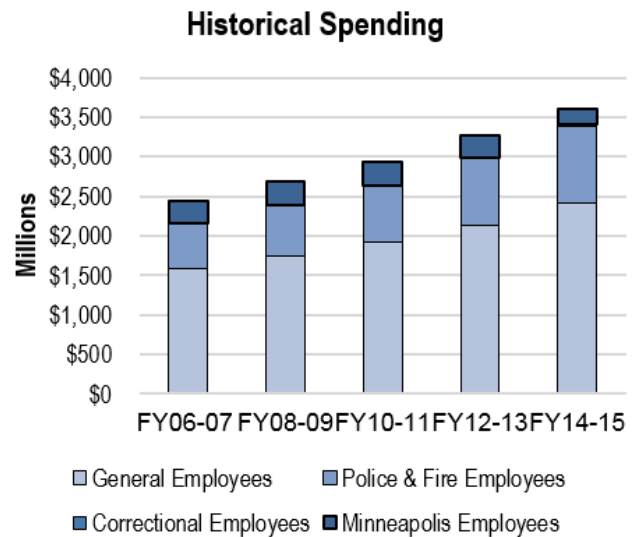
Source: 2015 CAFR

STRATEGIES

PERA's core functions include collecting, recording and maintaining the accounting of retirement contributions; collecting and managing member information; issuing benefit and refund payments; and delivering education and training through counseling, workshops and publications. Benefit payments have a financial impact on the state's economy and provide benefit recipients and their families the opportunity to lead healthy, productive lives during their retirement years. Since 1980 when the State Board of Investment adjusted their asset allocation, investments have returned an annualized 9.9 percent, allowing contribution rates to remain relatively stable. PERA's administrative costs are also very low at less than 5 hundredths of 1 percent of assets.

RESULTS

A recent study from the National Institute on Retirement Security (NIRS) found that in 2014 the income of retired public employees in the State of Minnesota resulted in the creation of 46,581 new jobs that paid $2.2 billion in wages and salaries. The benefits paid to residents of our state from the three major retirement systems generated $7 billion in economic output and federal, state, and local tax revenues of $1.2 billion in 2012. Every dollar of pension benefits paid generated $1.75 in total economic activity in Minnesota. PERA monthly pays over $155 million in annuity benefits to the 105,000 benefit recipients, of which more than 90 percent live in the State of Minnesota.

The two most important measures of the health of a defined benefit retirement system are (1) the level of funding and (2) whether contribution rates are sufficient to earn enough assets to cover pension liabilities over the life time of the members. The following Performance Measures table shows the funded ratio, by plan, and the contribution sufficiency/(deficiency) as a percent of payroll, along with the unfunded actuarial accrued liability as of 6/30/14 and as of 6/30/15 (the most recent data available as of the writing of this narrative) for PERA's three defined benefit plans. While all three plans are on track to become fully funded at some point in the future, Minnesota Statute requires that the unfunded liability be amortized over a closed period of time. The full funding amortization date for the General Plan is 2034; for the Police & Fire Plan is 2041; and for the Correctional Plan is 2031. The contribution sufficiency/deficiency ratios shown below indicate whether or not existing contribution rates are sufficient to get the plans fully funded by their full funding amortization date. The numbers below use the actuarial value of assets.

Type of Measure	Name of Measure	6/30/14	6/30/15
Quality	PERA General Plan Funding Ratio	73.5%	76.3%
Quality	PERA General Plan Contribution Sufficiency	(2.05)%	(1.23)%
Quantity	PERA General Plan Unfunded Actuarial Liability	$5.6 Billion	$5.6 Billion
Quality	PERA Police & Fire Plan Funding Ratio	80.1%	83.6%
Quality	PERA Police & Fire Plan Contribution Sufficiency	(5.12)%	(2.70)%
Quantity	PERA Police & Fire Plan Unfunded Actuarial Liability	$1.6 Billion	$1.4 Billion
Quality	PERA Correctional Plan Funding Ratio	96.2%	95.6%
Quality	PERA Correctional Plan Contribution Sufficiency	1.09%	0.04%
Quantity	PERA Correctional Plan Unfunded Actuarial Liability	$16 Million	$22 Million

Minnesota Statute sections 353 (https://www.revisor.mn.gov/statutes/?id=353), 353D (https://www.revisor.mn.gov/statutes/?id=353D), 353E (https://www.revisor.mn.gov/statutes/?id=353E)

Expenditures By Fund

	Actual	Actual	Actual	Estimate	Forecasted Base		Governor's Recommendation	
	FY14	FY15	FY16	FY17	FY18	FY19	FY18	FY19
7100 - Public Employees Retirement	1,163,472	1,223,186	1,287,391	1,514,395	1,659,591	1,823,644	1,659,591	1,823,644
7110 - Police And Fire	454,748	484,372	501,718	600,000	660,000	730,000	660,000	730,000
7120 - Pera Correctional Plan	7,838	8,887	10,417	12,000	13,000	14,000	13,000	14,000
7130 - Minneapolis Employee Ret Plan	134,999	132,014	127,621	130,000	130,000	130,000	130,000	130,000
7140 - Volunteer Firefighter Ret Plan	1,174	1,329	1,716	3,000	6,000	8,000	6,000	8,000
7190 - Pera Defined Contribution Plan	2,836	3,524	3,769	5,000	5,500	6,500	5,500	6,500
7401 - Retirement System Building	1,380	1,277	1,455	1,500	1,500	1,500	1,500	1,500
Total	**1,766,448**	**1,854,589**	**1,934,087**	**2,265,895**	**2,475,591**	**2,713,644**	**2,475,591**	**2,713,644**
Biennial Change				578,945		989,252		989,252
Biennial % Change				16		24		24
Governor's Change from Base								0
Governor's % Change from Base								0

Expenditures by Program

	Actual	Actual	Actual	Estimate	Forecasted Base		Governor's Recommendation	
Program: Publc Employee Retirement Asn	1,766,448	1,854,589	1,934,087	2,265,895	2,475,591	2,713,644	2,475,591	2,713,644
Total	**1,766,448**	**1,854,589**	**1,934,087**	**2,265,895**	**2,475,591**	**2,713,644**	**2,475,591**	**2,713,644**

Expenditures by Category

	Actual	Actual	Actual	Estimate	Forecasted Base		Governor's Recommendation	
Compensation	7,733	7,980	8,435	9,442	9,536	9,631	9,536	9,631
Operating Expenses	5,351	6,419	6,132	7,138	7,638	7,138	7,638	7,138
Other Financial Transactions	1,753,365	1,840,189	1,919,520	2,249,315	2,458,417	2,696,875	2,458,417	2,696,875
Grants, Aids and Subsidies	0							
Capital Outlay-Real Property		1						
Total	**1,766,448**	**1,854,589**	**1,934,087**	**2,265,895**	**2,475,591**	**2,713,644**	**2,475,591**	**2,713,644**
Full-Time Equivalents	**88.7**	**89.9**	**92.7**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

7100 - Public Employees Retirement

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY14	FY15	FY16	FY17	FY18	FY19	FY18	FY19
Open Appropriation	1,164,228	1,223,945	1,288,151	1,515,155	1,660,351	1,824,409	1,660,351	1,824,409
Net Transfers	(755)	(759)	(760)	(760)	(760)	(765)	(760)	(765)
Expenditures	**1,163,472**	**1,223,186**	**1,287,391**	**1,514,395**	**1,659,591**	**1,823,644**	**1,659,591**	**1,823,644**
Biennial Change in Expenditures				415,128		681,448		681,448
Biennial % Change in Expenditures				17		24		24
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0
Full-Time Equivalents	88.7	89.9	92.7	100.0	100.0	100.0	100.0	100.0

7110 - Police And Fire

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY14	FY15	FY16	FY17	FY18	FY19	FY18	FY19
Open Appropriation	454,748	484,372	501,718	600,000	660,000	730,000	660,000	730,000
Expenditures	**454,748**	**484,372**	**501,718**	**600,000**	**660,000**	**730,000**	**660,000**	**730,000**
Biennial Change in Expenditures				162,598		288,282		288,282
Biennial % Change in Expenditures				17		26		26
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0

7120 - Pera Correctional Plan

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY14	FY15	FY16	FY17	FY18	FY19	FY18	FY19
Open Appropriation	7,838	8,887	10,417	12,000	13,000	14,000	13,000	14,000
Expenditures	**7,838**	**8,887**	**10,417**	**12,000**	**13,000**	**14,000**	**13,000**	**14,000**
Biennial Change in Expenditures				5,692		4,583		4,583
Biennial % Change in Expenditures				34		20		20
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0

7130 - Minneapolis Employee Ret Plan

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY14	FY15	FY16	FY17	FY18	FY19	FY18	FY19

7130 - Minneapolis Employee Ret Plan

Open Appropriation	134,999	132,014	127,621	130,000	130,000	130,000	130,000	130,000
Expenditures	**134,999**	**132,014**	**127,621**	**130,000**	**130,000**	**130,000**	**130,000**	**130,000**
Biennial Change in Expenditures				(9,392)		2,379		2,379
Biennial % Change in Expenditures				(4)		1		1
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0

7140 - Volunteer Firefighter Ret Plan

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY14	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY18**	**FY19**
Open Appropriation	1,174	1,329	1,716	3,000	6,000	8,000	6,000	8,000
Expenditures	**1,174**	**1,329**	**1,716**	**3,000**	**6,000**	**8,000**	**6,000**	**8,000**
Biennial Change in Expenditures				2,212		9,284		9,284
Biennial % Change in Expenditures				88		197		197
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0

7190 - Pera Defined Contribution Plan

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY14	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY18**	**FY19**
Open Appropriation	2,836	3,524	3,769	5,000	5,500	6,500	5,500	6,500
Expenditures	**2,836**	**3,524**	**3,769**	**5,000**	**5,500**	**6,500**	**5,500**	**6,500**
Biennial Change in Expenditures				2,408		3,231		3,231
Biennial % Change in Expenditures				38		37		37
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0

7401 - Retirement System Building

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY14	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**	**FY18**	**FY19**
Balance Forward In	5,359	5,415	5,443	5,569	5,569	5,569	5,569	5,569
Receipts	1,400	1,305	1,581	1,500	1,500	1,500	1,500	1,500
Expenditures	**1,380**	**1,277**	**1,455**	**1,500**	**1,500**	**1,500**	**1,500**	**1,500**
Balance Forward Out	5,379	5,443	5,569	5,569	5,569	5,569	5,569	5,569
Biennial Change in Expenditures				298		45		45

7401 - Retirement System Building

Biennial % Change in Expenditures	11	2	2
Gov's Exp Change from Base			0
Gov's Exp % Change from Base			0

Change Item Title: PERA Police and Fire Plan Direct Aid

Fiscal Impact ($000s)	FY 2018	FY 2019	FY 2020	FY 2021
General Fund				
Expenditures	4,500	4,500	9,000	9,000
Revenues	0	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	4,500	4,500	9,000	9,000
FTEs	**0**	**0**	**0**	**0**

Recommendation:
The Governor recommends an increase direct aid to the Public Employee Retirement Association's (PERA) Police and Fire retirement plan. The increase in aid complements and enhances a comprehensive pension funding package approved by the PERA board.

Rationale/Background:
The PERA Police and Fire plan serves over 24,000 active and retired local government police officers, fire fighters, and paramedics. As of June 30, 2016 PERA Police and Fire held over $8 billion in assets invested by the State Board of Investments. PERA Police and Fire paid nearly $500 million in retirement and disability benefits each year.

The PERA Police and Fire's board supports a reduction of the investment return/discount rate assumption to 7.5%. Adoption of that change creates a contribution deficiency and downward projection of funded status that requires additional funding.

Proposal:
To achieve a positive funding trajectory, the Governor recommends $9 million in FY18-19 and $18 million in FY20-21 of direct state aid to the PERA Police and Fire plan.

The recommended increase in aid is in addition to the board proposed funding package which also includes:

- An increase in employer contributions of 1.5% to 17.7%;
- An increase in employee contributions of 1.0% to 11.8%;
- a re-amortization of payments on unfunded liabilities from a 18 year period to a 30 year period; and
- the removal of triggers which would automatically increase COLAs to 2.5% once the fund achieves a 90% funded ratio for two consecutive years.

The Governor also recommends lowering the assumed rate of return on investments/discount rate to 7.5%.

Results:
The proposed funding package eliminates the contribution deficiency for the PERA Police and Fire plan, and puts the plan on a trajectory to reach 100% funded within 30 years.

Statutory Change(s):
§ 353. Public Employees Retirement Association
§ 356. Retirement Systems, Generally
§ 356.215 Actuarial Valuations and Experience Studies.