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Minnesota State Retirement System

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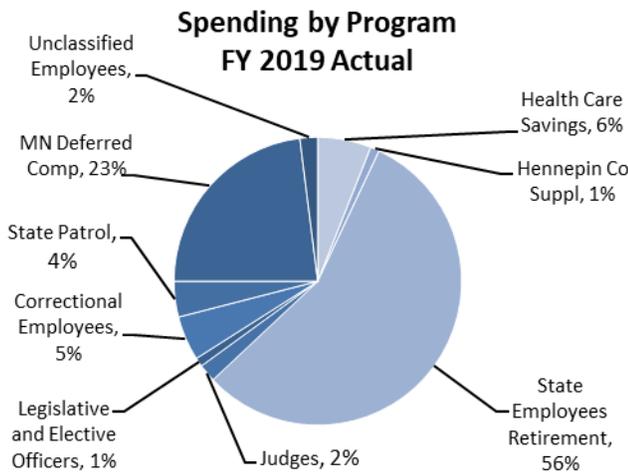
AT A GLANCE

- The Minnesota State Retirement System (MSRS) was established in 1929.
- MSRS manages five defined benefit retirement funds and four defined contribution retirement funds.
- MSRS has \$15.92 billion in defined benefit fund net assets held at trust and \$9.18 billion in defined contribution fund net assets held at trust as of June 30, 2019.
- MSRS has 134,225 defined benefit fund members and 225,553 defined contribution fund participants.
- MSRS has 920 total participating employers.
- MSRS manages a fiscal year 2021 administrative and recordkeeping budget of \$24.27 million.
- MSRS is governed by an 11-member board of directors.
- MSRS employs 144 people.

PURPOSE

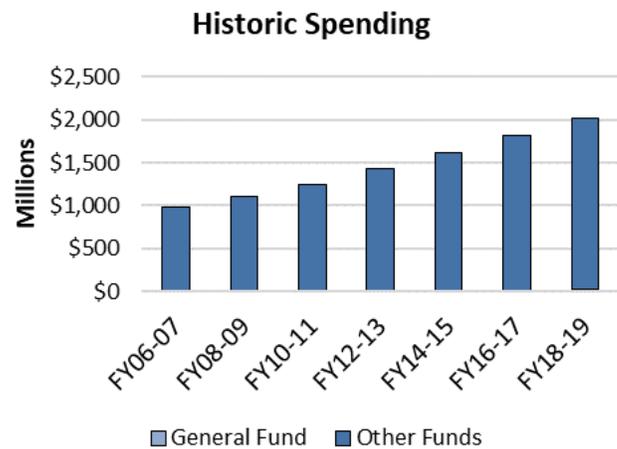
The Minnesota State Retirement System’s (MSRS) mission is to empower Minnesota public employees to build a strong foundation for retirement.

BUDGET



1. **Spending includes retirement benefit payments, distributions to participants, and administrative expenses.**

Source: MSRS 2019 Comprehensive Annual Financial Report



1. **Other Funds includes MSRS’ pension trust funds.**
2. **Although indiscernible on the bar chart, General Fund appropriations finance some retirement benefits and other administrative expenses for the State Patrol, Judges, and Legislators Retirement Plans.**

Source: MSRS Comprehensive Annual Financial Reports

MSRS administers multiple retirement plans that provide retirement, survivor, and disability benefit coverage for Minnesota state employees and select component units, the Metropolitan Council, the Minnesota Sports Facilities Authority, and non-instructional employees at the University of Minnesota. MSRS covers almost 58,000 active employees and currently pays monthly benefits to over 47,000 retirees and survivors. We also administer the Minnesota Deferred Compensation Plan and the Health Care Savings Plan.

MSRS administers five defined benefits funds internally: the State Employees, State Patrol, Correctional Employees, Judges, and Legislators Retirement Plans. All of these plans, except the Legislators Retirement Plan, are funded primarily with investment earnings, which comprise approximately 68 percent of revenues for the period ending June 30, 2019. Plan member and employer contributions each comprised about 30 percent of revenues in the same period. MSRS contribution rates were 5.75 percent for employees and 5.875 percent for employers for the State Employees Retirement fund for the period ending June 30, 2019. The defined benefit funds have realized an annualized investment rate of return of 7.3 percent for the period ending June 30, 2019, and 10.9 percent for the ten-year period ending June 30, 2019. MSRS' administrative expenses for these funds continue to be less than 1/10 of 1% of plan net assets.

MSRS receives an annual \$6 million General Fund contribution to the Judges Retirement Fund until the fund is fully funded. For the State Patrol Retirement Fund, MSRS receives supplemental General Fund aid of \$1 million annually until the Public Employees Retirement Association Police and Fire Retirement Fund and the State Patrol Retirement Fund become 90 percent funded on a market value of assets basis. For the Legislators Retirement Plan, MSRS receives state General Fund appropriations to finance monthly regular retirement and survivor benefit payments, and the plan's proportionate share of MSRS' administrative expenses on a pay-as-you-go basis.

MSRS also administers four defined contribution funds: the Unclassified Employees Retirement Plan, the Minnesota Deferred Compensation Plan, the Health Care Savings Plan, and the Supplemental Retirement Plan for Hennepin County. For these plans, participants' tax-deferred contributions are invested daily and held in trust until retirement or termination of employment. Participant administrative fees include recordkeeping, custodial, and other MSRS administrative expenses. These plans require no state appropriation for funding purposes.

STRATEGIES

The MSRS vision is to be a nationally recognized leader in public retirement plans by leveraging our engaged workforce, customer-focused culture, and innovative technologies to promote sustainable retirement options for Minnesota public employees.

MSRS uses the following strategies to accomplish its stated mission and vision:

- **Talent Management:** Our goal is to attract, hire, develop, empower, and retain an engaged workforce by encouraging collaboration and performance, promoting trust and accountability, coordinating learning and development opportunities, and routinely identifying staffing needs and filling gaps.
- **Service Delivery:** Our goal is to enhance customer service by fostering a customer service culture, modernizing organizational processes, enhancing our security posture, and preparing for disruptive events.
- **Participant Success:** Our goal is to increase retirement readiness of Minnesota public employees by offering a comprehensive customer experience, improving participant-facing technology, and enhancing retirement income with the Minnesota Deferred Compensation Plan.
- **Financial Sustainability:** Our goal is to ensure the long-term financial viability of MSRS pension plans by increasing pension sustainability and achieving further generational equity.

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. Retirement Services staff provide records management, education, benefit determinations, and retirement counseling to members of all MSRS retirement plans by phone, through onsite visits, and through the MSRS web site. Administrative divisions support accounting, contract administration, information technology and systems, and financial reporting.

For MSRS’ defined benefit plans, MSRS collects member and employer contributions through payroll deductions and transfers these assets to the Minnesota State Board of Investment where they are pooled with the assets of other statewide retirement associations and invested in various securities. MSRS disburses monthly benefit payments to retired members, survivors, and disabled employees, and processes lump-sum withdrawals and rollovers to members who have terminated employment.

For MSRS’ defined contribution plans, participants’ tax deferred contributions flow from the employer to the recordkeeper and custodian for daily investment. Individual participants select their own investments from the various options offered. At MSRS’ direction, the recordkeeper will make distributions to participants and vendors, and reimburse MSRS for each plan’s proportionate share of administrative expenses. 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.

RESULTS

The 2018 Legislature enacted significant pension reforms for the State Employees, State Patrol, and Correctional Retirement Plans by increasing member and employer contributions and trimming plan features, including the lowering of the annual post-retirement benefit increases. The bill also modified MSRS’s investment earnings assumption from 8.0% annually to 7.5% annually. Incorporating all these reforms, MSRS’s 30-year projected funding ratio for the State Employees Retirement Fund is over 100 percent by 2048.

Three measures of a defined benefit plan’s financial health are:

- **Contribution Sufficiency/Deficiency Rate** – This rate is the difference between the actuary’s computation of required employer and employee contributions rates and the statutory contribution rates, expressed as a percent of payroll. A sufficiency indicates that the plan is on target to reach a 100% funded ratio before its full funding date; conversely, a deficiency means the retirement system is not collecting enough contributions to meet its full funding target date.
- **Unfunded Actuarial Accrued Liability** – This is the difference between the actuary’s valuation of assets and the present value of members’ future benefits.
- **Funded Ratio** – This ratio is the percent of a retirement fund’s net assets, calculated for actuarial purposes, that is available to pay the present value of benefits that employees already earned. The higher the ratio, the better positioned the retirement plan is to pay future benefits when they become due.

The table below presents actual and estimated performance measurement data for MSRS’ defined benefit funds as of June 30, 2019, and June 30, 2020, based on computations using the market value of assets.

<i>Type of Measure</i>	<i>Performance Measure by MSRS Fund</i>	<i>June 30, 2019 Actual</i>	<i>June 30, 2020 Actual</i>	<i>Status</i>
MSRS State Employees Retirement Fund				
Quality	Contribution Sufficiency/(Deficiency)	1.2%	1.6%	Improving
Quality	Unfunded Actuarial Accrued Liability	\$1.4 billion	\$1.3 billion	Improving
Quality	Funded Ratio	90.7%	91.5%	Improving
State Patrol Retirement Fund				
Quality	Contribution Sufficiency/(Deficiency)	2.8%	3.8%	Improving
Quality	Unfunded Actuarial Accrued Liability	\$207 million	\$232 million	Worsening
Quality	Funded Ratio	78.5%	76.6%	Worsening

<i>Type of Measure</i>	<i>Performance Measure by MSRS Fund</i>	<i>June 30, 2019 Actual</i>	<i>June 30, 2020 Actual</i>	<i>Status</i>
Correctional Employees Retirement Fund				
Quality	Contribution Sufficiency/(Deficiency)	(0.1)%	0.6%	Improving
Quality	Unfunded Actuarial Accrued Liability	\$395 million	\$440 million	Worsening
Quality	Funded Ratio	75.0%	73.6%	Worsening
Judges Retirement Fund				
Quality	Contribution Sufficiency/(Deficiency)	(0.1)%	(1.3)%	Worsening
Quality	Unfunded Actuarial Accrued Liability	\$179 million	\$187 million	Worsening
Quality	Funded Ratio	54.3%	53.6%	Worsening

Note: The Legislators Retirement Fund is funded by the General Fund on a pay-as-you-go basis and therefore performance trends are not measurable.

Legal Citations:

State Employees Retirement Fund – M.S. Sections 352.01-352.87 (<https://www.revisor.mn.gov/statutes/?id=352>)

State Patrol Retirement Fund – M.S. Chapter 352B (<https://www.revisor.mn.gov/statutes/?id=352B>)

Correctional Employees Retirement Fund – M.S. Sections 352.90-352.955

(<https://www.revisor.mn.gov/statutes/?id=352>)

Judges Retirement Fund – M.S. Chapter 490 (<https://www.revisor.mn.gov/statutes/?id=490>)

Legislators and Constitutional Officers Plan – M.S. Chapter 3A (<https://www.revisor.mn.gov/statutes/?id=3A>)

Unclassified Employees Retirement Fund – M.S. Chapter 352D (<https://www.revisor.mn.gov/statutes/?id=352D>)

Health Care Savings Plan – M.S. Section 352.98 (<https://www.revisor.mn.gov/statutes/?id=352.98>)

Minnesota Deferred Compensation Fund – M.S. Section 352.965

(<https://www.revisor.mn.gov/statutes/?id=352.965>)

Hennepin County Supplemental Retirement Plan – M.S. Section 383B.46

(<https://www.revisor.mn.gov/statutes/?id=383B.46>)

Minnesota State Retirement System

Agency Expenditure Overview

(Dollars in Thousands)

	Actual FY18	Actual FY19	Actual FY20	Estimate FY21	Forecast Base		Governor's Recommendation	
					FY22	FY23	FY22	FY23
<u>Expenditures by Fund</u>								
7210 - Correctional Employees Retire	70,545	75,856	80,396	87,038	94,159	101,866	94,159	101,866
7230 - Highway Patrol Retirement	59,992	61,061	62,266	65,394	68,006	70,722	68,006	70,722
7240 - Judicial Retirement	23,709	25,332	26,436	33,640	36,190	38,975	36,190	38,975
7250 - Legislative Annuities	8,961	8,909	8,850	9,151	9,171	9,190	9,171	9,190
7260 - State Employees Retirement	826,582	874,558	918,424	957,780	1,014,769	1,075,160	1,014,769	1,075,160
7401 - Retirement System Building	1,573	1,764	1,735	2,117	2,308	2,516	2,308	2,516
Total	991,362	1,047,480	1,098,106	1,155,120	1,224,603	1,298,429	1,224,603	1,298,429
Biennial Change				214,384		269,806		269,806
Biennial % Change				11		12		12
Governor's Change from Base								0
Governor's % Change from Base								0
<u>Expenditures by Program</u>								
Mn State Retirement System	958,691	1,013,240	1,062,820	1,112,329	1,179,242	1,250,264	1,179,242	1,250,264
Judges Plan	23,709	25,332	26,436	33,640	36,190	38,975	36,190	38,975
Legislators Plan	8,961	8,909	8,850	9,151	9,171	9,190	9,171	9,190
Total	991,362	1,047,480	1,098,106	1,155,120	1,224,603	1,298,429	1,224,603	1,298,429
<u>Expenditures by Category</u>								
Compensation	11,163	11,953	13,154	14,437	15,014	15,615	15,014	15,615
Operating Expenses	6,983	6,767	8,096	11,855	12,391	12,956	12,391	12,956
Grants, Aids and Subsidies	1		1					
Capital Outlay-Real Property	39	12	13					
Other Financial Transaction	973,176	1,028,749	1,076,842	1,128,828	1,197,198	1,269,858	1,197,198	1,269,858
Total	991,362	1,047,480	1,098,106	1,155,120	1,224,603	1,298,429	1,224,603	1,298,429
Total Agency Expenditures	991,362	1,047,480	1,098,106	1,155,120	1,224,603	1,298,429	1,224,603	1,298,429
Internal Billing Expenditures	1,018	1,043	1,362	1,713	1,786	1,862	1,786	1,862
Expenditures Less Internal Billing	990,343	1,046,437	1,096,744	1,153,407	1,222,817	1,296,567	1,222,817	1,296,567
<u>Full-Time Equivalent</u>	117.69	122.59	128.30	144.00	144.00	144.00	144.00	144.00

Minnesota State Retirement System

Agency Financing by Fund

(Dollars in Thousands)

	Actual FY18	Actual FY19	Actual FY20	Estimate FY21	Forecast Base		Governor's Recommendation	
					FY22	FY23	FY22	FY23
1000 - General								
Direct Appropriation	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Open Appropriation	8,961	8,909	8,850	9,151	9,171	9,190	9,171	9,190
Transfers Out	14,961	14,909	14,850	15,151	15,171	15,190	15,171	15,190

7210 - Correctional Employees Retire

Open Appropriation	70,545	75,856	80,396	87,038	94,159	101,866	94,159	101,866
Expenditures	70,545	75,856	80,396	87,038	94,159	101,866	94,159	101,866
Biennial Change in Expenditures				21,033		28,591		28,591
Biennial % Change in Expenditures				14		17		17
Governor's Change from Base								0
Governor's % Change from Base								0

7230 - Highway Patrol Retirement

Open Appropriation	58,992	60,061	61,266	64,394	67,006	69,722	67,006	69,722
Transfers In	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Expenditures	59,992	61,061	62,266	65,394	68,006	70,722	68,006	70,722
Biennial Change in Expenditures				6,607		11,068		11,068
Biennial % Change in Expenditures				5		9		9
Governor's Change from Base								0
Governor's % Change from Base								0

7240 - Judicial Retirement

Open Appropriation	17,709	19,332	20,436	27,640	30,190	32,975	30,190	32,975
Transfers In	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Expenditures	23,709	25,332	26,436	33,640	36,190	38,975	36,190	38,975
Biennial Change in Expenditures				11,036		15,089		15,089
Biennial % Change in Expenditures				23		25		25
Governor's Change from Base								0
Governor's % Change from Base								0

7250 - Legislative Annuities

Transfers In	8,961	8,909	8,850	9,151	9,171	9,190	9,171	9,190
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Minnesota State Retirement System

Agency Financing by Fund

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY18	FY19	FY20	FY21	FY22	FY23	FY22	FY23
Expenditures	8,961	8,909	8,850	9,151	9,171	9,190	9,171	9,190
Biennial Change in Expenditures				131		360		360
Biennial % Change in Expenditures				1		2		2
Governor's Change from Base								0
Governor's % Change from Base								0

7260 - State Employees Retirement

Open Appropriation	827,154	875,135	918,997	958,357	1,015,347	1,075,739	1,015,347	1,075,739
Transfers Out	572	576	573	577	578	579	578	579
Expenditures	826,582	874,558	918,424	957,780	1,014,769	1,075,160	1,014,769	1,075,160
Biennial Change in Expenditures				175,063		213,725		213,725
Biennial % Change in Expenditures				10		11		11
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	117.69	122.59	128.30	144.00	144.00	144.00	144.00	144.00

7401 - Retirement System Building

Balance Forward In		4	49	318				
Receipts	1,577	1,810	2,003	2,118	2,308	2,516	2,308	2,516
Balance Forward Out	4	49	318					
Expenditures	1,573	1,764	1,735	2,117	2,308	2,516	2,308	2,516
Biennial Change in Expenditures				515		972		972
Biennial % Change in Expenditures				15		25		25
Governor's Change from Base								0
Governor's % Change from Base								0

Minnesota State Retirement System

Agency Change Summary

(Dollars in Thousands)

	FY21	FY22	FY23	Biennium 2022-23
Direct				
Fund: 1000 - General				
FY2021 Appropriations	6,000	6,000	6,000	12,000
Forecast Base	6,000	6,000	6,000	12,000
Total Governor's Recommendations	6,000	6,000	6,000	12,000
Open				
Fund: 1000 - General				
FY2021 Appropriations	9,151	9,151	9,151	18,302
Base Adjustments				
November Forecast Adjustment		20	39	59
Forecast Base	9,151	9,171	9,190	18,361
Total Governor's Recommendations	9,151	9,171	9,190	18,361
Fund: 7210 - Correctional Employees Retire				
FY2021 Appropriations	87,038	87,038	87,038	174,076
Base Adjustments				
Forecast Open Appropriation Adjustment		7,121	14,828	21,949
Forecast Base	87,038	94,159	101,866	196,025
Total Governor's Recommendations	87,038	94,159	101,866	196,025
Fund: 7230 - Highway Patrol Retirement				
FY2021 Appropriations	64,394	64,394	64,394	128,788
Base Adjustments				
Forecast Open Appropriation Adjustment		2,612	5,328	7,940
Forecast Base	64,394	67,006	69,722	136,728
Total Governor's Recommendations	64,394	67,006	69,722	136,728
Fund: 7240 - Judicial Retirement				
FY2021 Appropriations	27,640	27,640	27,640	55,280
Base Adjustments				
Forecast Open Appropriation Adjustment		2,550	5,335	7,885
Forecast Base	27,640	30,190	32,975	63,165
Total Governor's Recommendations	27,640	30,190	32,975	63,165
Fund: 7260 - State Employees Retirement				
FY2021 Appropriations	958,460	958,460	958,460	1,916,920
Base Adjustments				
Forecast Open Appropriation Adjustment	(103)	56,887	117,279	174,166

Minnesota State Retirement System

Agency Change Summary

(Dollars in Thousands)

	FY21	FY22	FY23	Biennium 2022-23
Forecast Base	958,357	1,015,347	1,075,739	2,091,086
Total Governor's Recommendations	958,357	1,015,347	1,075,739	2,091,086
<i>Dedicated</i>				
Fund: 7250 - Legislative Annuities				
Planned Spending	9,151	9,171	9,190	18,361
Forecast Base	9,151	9,171	9,190	18,361
Total Governor's Recommendations	9,151	9,171	9,190	18,361
Fund: 7401 - Retirement System Building				
Planned Spending	2,117	2,308	2,516	4,824
Forecast Base	2,117	2,308	2,516	4,824
Total Governor's Recommendations	2,117	2,308	2,516	4,824
<i>Revenue Change Summary</i>				
<i>Dedicated</i>				
Fund: 7401 - Retirement System Building				
Forecast Revenues	2,118	2,308	2,516	4,824
Total Governor's Recommendations	2,118	2,308	2,516	4,824
<i>Non-Dedicated</i>				
Fund: 7210 - Correctional Employees Retire				
Forecast Revenues	145,232	152,264	159,746	312,010
Total Governor's Recommendations	145,232	152,264	159,746	312,010
Fund: 7230 - Highway Patrol Retirement				
Forecast Revenues	95,873	101,292	107,223	208,515
Total Governor's Recommendations	95,873	101,292	107,223	208,515
Fund: 7240 - Judicial Retirement				
Forecast Revenues	47,273	48,330	49,411	97,741
Total Governor's Recommendations	47,273	48,330	49,411	97,741
Fund: 7250 - Legislative Annuities				
Forecast Revenues	88	84	81	165
Total Governor's Recommendations	88	84	81	165
Fund: 7260 - State Employees Retirement				

(Dollars in Thousands)

	FY21	FY22	FY23	Biennium 2022-23
Forecast Revenues	1,273,678	1,312,670	1,353,151	2,665,821
Total Governor's Recommendations	1,273,678	1,312,670	1,353,151	2,665,821