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1965

# STATEMENT TO MEMBERS DECEMBER 31, 1965

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STATE EMPLOYEES  
RETIREMENT ASSOCIATION  
TE OF MINNESOTA



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STATE OF MINNESOTA

**MEMBERS OF THE BOARD  
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STATE EMPLOYEES  
RETIREMENT ASSOCIATION**

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University of Minnesota  
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Michael N. Thome, Executive Secretary  
194 Centennial Office Building  
St. Paul, Minnesota 55101

Robert H. Little, Actuary  
COATES, HERFURTH AND ENGLAND  
CONSULTING ACTUARIES  
Pasadena, San Francisco, Denver

This report covering operations for the calendar year 1965 is set forth in the manner prescribed by Minnesota Statutes, Chapter 356.

The exhibits prepared by the Actuary include accounting data supplied by the Retirement Association staff.

### MEMBERSHIP STATISTICS

	December 31	
	1965	1964
Active Membership	31,396	29,517
Inactive Accounts	5,065	6,638
New Members and Former Members Returned	7,889	6,598
Refundments and Deaths	4,808	4,111
Net Increase	306	1,014

Age and service characteristics of members and former members were:

Active Members as of 12/31/65	Male	Female
Average Age	41.6 Years	37.7 Years
Average Service Credit	8.6 Years	5.6 Years
Average Accumulated Contributions	\$1,206.00	\$642.00

#### New Members in 1965

Average Age	31.4 Years	26.1 Years
Median Age	26.0 Years	21.0 Years

#### Refundments in 1965

Average Age	36.2 Years	29.7 Years
Average Service Forfeited	2.8 Years	2.0 Years

#### Inactive Accounts Qualifying for Benefits at 65

Number Qualifying	170	152
Average Age	55 Years	55 Years
Average Annuity at Age 65	\$57.73	\$48.90

The median ages of male and female active members was the same as the average ages. This means that one half of the active membership, which ranges in age from 15 years to 86 years, is on each side of the stated age.

33.8% of the male active membership and 18.6% of the female active membership, a total of 8,424 members, had at least 10 years of service credit.

998 members which is 3.1% of the active membership were at least 65 years of age; 679 of these had enough service credit to qualify for retirement benefits.

Former members who took refundments in 1965 included 142 who forfeited at least 10 years of service credit. The 142 represented 3% of the total number of refundments and 19 of these were age 65 or older.

### ANNUITANT STATISTICS

	December 31	
	1965	1964
Age and Service Retirement	3,244	3,037
Disability Retirement	115	93
Benefits Granted During the Year	368	363
Deaths	152	187

The average annuitant was 39.5 years of age at entry into State service, is now 72.3 years of age and receives an average monthly benefit of \$85.03.

The average disability annuitant was 35 years of age when he entered State service, is now 61.8 years of age and receives an average monthly benefit of \$64.47.

Social Security is paid in addition for those who retired after 1957.

The average benefit authorized in 1965 and the average service and salaries upon which the annuities were based was:

Type of Annuity	Age at Retirement	Average Salary		Credited Service	Average Benefit
		Before 7/1/57	After 6/30/57		
Service	66.4 Yrs.	\$284.89	\$360.85	23 Yrs. 9 Mos.	\$91.80
Disability	56.3 Yrs.	257.02	351.79	17 Yrs. 3 Mos.	56.77

The average benefit authorized in 1965 was \$10.50 higher than the average benefit granted in 1964. This was due to an increase in both average salary and service credit on which the benefit was based.

The average service annuitant received annuity payments in his lifetime equal to 3.2 times his accumulated contribution—that is, he received a return of his contributions, the state's contribution, plus interest on both his contribution and the state's contribution. Annuities are paid for the lifetime of the annuitant.

The average age at death and period of retirement for deceased annuitants in 1965 was:

		Male	Female
Service Annuitants:	Age at Death	74.4 Years	77.9 Years
	Average Retirement	7.6 Years	10.1 Years
Disability Annuitants:	Age at Death	64.3 Years	66.0 Years
	Average Retirement	1.6 Years	5.3 Years

### SURVIVOR BENEFITS

A total of 38 active members not eligible for Social Security coverage who contribute to SERA at the rate of 6% are still eligible for survivor benefit coverage if they die before State service terminates. 31 dependent spouses and 5 children began receiving survivor benefits prior to adoption of Social Security coverage. 6 dependent spouses of members not eligible to Social Security have begun receiving survivor benefits since adoption of Social Security.

### LAW CHANGES

The 1965 State Legislature made several changes in the law and also passed into law other bills relating to retirement funds generally. The most significant change in the State Employees Retirement Fund Law was an increase in the participating salary from a maximum of \$4,800 annually to \$7,200 annually. The \$7,200 maximum is a more realistic figure because salaries have increased substantially as a result of inflation since the \$4,800 maximum was established in 1949. Another change provides that service credit ceases with the last work day if accumulated annual leave is paid in a lump sum upon termination. The law also provides that unclaimed contributions of \$50 or less (previously \$25 or less) will revert to the fund after 5 years but if over \$25 will be refunded if application is made therefor.

Contributions which are transferred to the fund will be restored if the former member returns to State service in a classification eligible to SERA membership.

Other changes in the law were remedial in nature. The laws affecting retirement funds generally provided for uniform financial and actuarial reports and for amortization of bonds. These laws had little impact on SERA because the requirements are very much the same as those already used by us. We have always used the scientific method of amortizing bonds and will continue to do so.

A meaningful test of the financial progress of a fund is found in the comparison of net assets to matured liabilities. Matured liabilities consist of member's contribution credits and the present value of benefits granted and in force. This difference is labeled "State Contribution Reserve" in the six year comparative statement.

Net assets exceeded matured liabilities by \$23,782,623 at December 31, 1965 compared to \$18,476,394 at December 31, 1964. As recently as December 31, 1959, this comparison showed a deficit of \$1,139,842.

### REVENUES

Employee and employer contributions totaled \$3,979,369 and \$6,574,919, respectively in 1965. This compares with \$3,247,430 and \$5,376,401 in 1964.

Total investment income and interest on repayment of refundments and payment made for active military service increased by \$326,757, to a total of \$3,104,511 in 1965. Dividends on corporate stock accounted for \$535,436 of the investment income in 1965, an increase of \$174,866 for the year. The increase in dividends was due primarily to an increase of \$4,403,967 in corporate stock investments in 1965.

Past due employer contributions from the Department of Military Affairs for National Guard technicians paid on federal payrolls amounted to \$772,554 at December 31, 1965, compared to \$798,327 at December 31, 1964. The apparent decrease of \$25,773 in this amount is due to a state appropriation of \$54,730 under laws 1965, Chapter 646, for past due employer contributions applicable to service contract employees. The deficiency in employer contributions from Federal Funds for army and Air National Guard payrolls actually increased by \$28,957 during the year.

A total of 6½% of payroll is available from Federal Funds for FICA and SERA employer contributions, with FICA satisfied first. With the recent sharp increase in FICA it follows that the SERA deficiency will be much greater in 1966.

### EXPENDITURES

Benefit payments totaled \$3,357,538 in 1965, an increase of \$203,488 from the previous year. A breakdown of benefit payments for the two years is as follows:

	1965	1964
Service Retirement	\$3,195,249	\$3,012,897
Disability Retirement	82,417	71,364
Survivor Benefits	37,638	37,184
Interest, Member Deaths	42,234	32,605
	<u>\$3,357,538</u>	<u>\$3,154,050</u>

Refundments amounted to \$1,597,687 in 1965, an increase of \$324,122 from the previous year.

Operating expenses totaled \$240,685 in 1965 compared to \$229,915 in 1964.

## SALE OF INVESTMENTS

Divestment of low yield government bonds was continued in 1965. It is estimated the sale of tax exempt securities to tax paying investors in 1965 will result in a net gain to the fund of approximately \$81,929. This estimate is obtained by projecting interest income on reinvested sales proceeds for the life of the old bonds at the average yield of new purchases as compared to the income from the bonds if held to maturity:

Income from reinvested sales proceeds	\$791,789
Income from old bonds if held to maturity	<u>556,372</u>
Gain in interest income	235,417
Less: Book loss on sale	<u>153,488</u>
Net projected gain	\$ 81,929

The book loss from bond sales, \$153,488 was reduced by a gain of \$23,727 from stock sales, leaving a net loss of \$129,761 from sale of investments.

The long term policy of selling low yield government bonds and using the sales proceeds as well as new funds for purchasing of corporate securities has resulted in improved yield and a better balance of invested funds.

It is estimated the gain in interest income from the sale of tax exempt securities and reinvestment of proceeds in corporate securities during the past 5 years will be about \$2,337,688. Subtracting total book losses of \$875,605 leaves a projected net gain of about \$1,462,083 from the turnover.

The average yield on bonds sold, purchased and held as of the end of the year is as follows for the last 5 years:

	Sold	Purchased	Held
1961	3.18%	4.76%	3.55%
1962	3.10	4.75	3.77
1963	3.09	4.52	3.87
1964	3.06	4.60	3.98
1965	2.79	4.70	4.10

Four issues of corporate stock were sold in 1965, resulting in a net gain of \$23,727 to the fund.

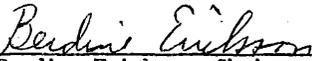
## ACTUARIAL VALUATION

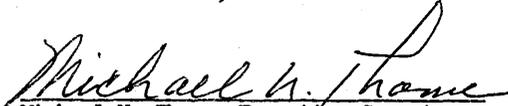
The report on the actuarial valuation of the State Employees Retirement Fund at December 31, 1965 shows an increase in the unfunded accrued liability from \$20,772,149.19 less the value of .38% of the Employer's 3% Contribution, \$8,349,316.00 or \$12,422,833.19 at December 31, 1964 to \$30,964,052.94 less the value of .89% of the Employer's 3% Contribution, \$11,141,594.00 or \$19,822,458.94 at December 31, 1965.

The increase in the unfunded liability (under the Entry Age Normal Cost method of funding) is due almost exclusively to the change in the participating salary from \$4,800 to \$7,200 in a calendar year. Based on the current benefit schedule and income, the actuary estimates it will take about 8 $\frac{3}{4}$  years to amortize the deficit in the fund.

The approximately \$31 million deficit was derived from a 3% interest assumption. If the law permitted a 3 $\frac{1}{2}$ % interest assumption, this deficit would be substantially less and could be amortized in a considerably shorter period.

Respectfully submitted,

  
Berdine Erickson, Chairman

  
Michael N. Thome, Executive Secretary

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TELEPHONE  
AREA CODE 213 681-4455

August 12, 1966

Board of Trustees  
State Employees Retirement Association  
of Minnesota  
Centennial Office Building  
St. Paul, Minnesota 55101

Gentlemen:

We hereby certify that we made an actuarial valuation of your Retirement System as of December 31, 1965 and that such valuation was made on the basis prescribed in Minnesota Statutes 1965, Chapter 356, namely:

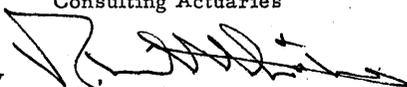
1. Interest assumption - 3%
2. Other actuarial assumptions as determined during the course of our investigation into the experience of the System for the four year period ending December 31, 1964, and
3. Use of the entry age normal cost method of funding to determine unfunded accrued liability.

We also certify that the results of the valuation referred to in the foregoing paragraph indicate that the contributions required from the employees and from the State under Minnesota Statutes 1961, Chapter 352, as presently constituted are adequate to provide the benefits that will be paid from the System.

Very truly yours,

COATES, HERFURTH & ENGLAND  
Consulting Actuaries

By

  
Robert H. Little, F.S.A.

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LEGISLATIVE REFERENCE BUREAU  
STATE OF MINNESOTA

**EXHIBITS REQUIRED BY MINNESOTA STATUTES, CHAPTER 356**

**AS OF**

**DECEMBER 31, 1965**

**ASSETS AND UNFUNDED ACCRUED LIABILITY**

**Assets**

Cash in Office		\$	25.00
Deposits in Banks			30,162.70
Short Term Investments			1,165,533.23
Accounts Receivable:			
(a) Members' Contributions	\$154,078.57		
(b) Employer Contributions	998,046.15		
(c) Other	<u>84,765.44</u>		1,236,890.16
Accrued Interest on Investments			755,745.14
Dividends declared but not received			4,151.90
Bonds at Amortized Cost			64,829,878.80
Stocks at Cost (Market Value 12/31/65— \$20,420,134.00)			17,545,633.60
Equipment at Cost, less depreciation			10,234.04
Other—Prepaid Postage			<u>1,000.00</u>
<b>TOTAL ASSETS</b>			<b>\$ 85,579,254.57</b>

**Unfunded Accrued Liability**

Unfunded Accrued Liability to be funded by portion of State's 3% "Matching Contri- bution" in excess of State's share of entry age normal cost contribution			\$ 11,141,594.00
Unfunded Accrued Liability to be funded by State's 2% "Additional" contribution			<u>19,822,458.94</u>
<b>Total Unfunded Accrued Liability</b>			<b>\$ 30,964,052.94</b>
<b>TOTAL ASSETS AND UNFUNDED     ACCRUED LIABILITY</b>			<b><u>\$116,543,307.51</u></b>

**CURRENT LIABILITIES AND RESERVES REQUIRED**

**Current Liabilities**

Accounts payable:			
(a) Annuity Payments	\$ 3,986.00		
(b) Survivor Payments	7,344.50		
(c) Refunds to members	1,970.84		
(d) Accrued expenses	<u>15,362.76</u>	\$	28,664.10
Suspense items			<u>2,708.41</u>
<b>Total Current Liabilities</b>			<b>\$ 31,372.51</b>

**Reserves Required**

Total Reserves Required per attached schedule			<u>116,511,935.00</u>
<b>TOTAL CURRENT LIABILITIES AND     RESERVES REQUIRED</b>			<b><u>\$116,543,307.51</u></b>

Note: Accumulated contributions, without interest, of members not yet retired amounted to \$30,724,611.87 as of December 31, 1965.

**DETERMINATION OF RESERVES REQUIRED**

**AS OF**

**DECEMBER 31, 1965**

	(1)	(2)	(3)
<b>Benefits For:</b>	<b>Present Value of Benefits</b>	<b>Present Value of Applicable Portion of Normal Cost Contribution</b>	<b>Reserves Required (1) - (2)</b>
<b>Active Members</b>			
(a) Retirement Benefits	\$115,644,679.00	\$42,062,647.00	\$ 73,582,032.00
(b) Disability Benefits	9,406,020.00	5,633,390.00	3,772,630.00
(c) Refundments due to death or withdrawal	21,636,659.00	16,274,239.00	5,362,420.00
Deferred Annuitants	1,930,338.00	—	1,930,338.00
Former Members Without Vested Rights	365,044.00	—	365,044.00
<b>Annuitants</b>			
(a) Retirement Benefits	30,049,018.00	—	30,049,018.00
(b) Disability Benefits	1,013,294.00	—	1,013,294.00
(c) Survivors' Benefits	437,159.00	—	437,159.00
<b>TOTAL</b>	<u>\$180,482,211.00</u>	<u>\$63,970,276.00</u>	<u>\$116,511,935.00</u>

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## ANALYSIS OF INCOME AND DEDUCTIONS FROM INCOME

### Income

<b>From Members:</b>	
(a) Employee Contributions	\$ 3,829,654.51
(b) Employee Accrued Contributions Receivable	141,367.80
(c) Employee Contributions Applied to Past Due Payments	8,346.55
<b>From Employers:</b>	
(a) Employer Contributions	3,829,231.21
(b) Employer Additional Contributions	2,520,196.59
(c) Employer Accrued Contributions Receivable	225,491.77
(d) Employer Past Due Contributions Receivable	28,957.56
<b>From Investments:</b>	
(a) Interest on Bonds and Notes (Net)	2,563,047.77
(b) Dividends on Corporate Stock	535,436.12
(c) Premiums on Bonds Called	1,284.53
<b>Other Revenues:</b>	
(a) Interest on Back Payments by Members	4,742.35
(b) Gain on Sale of Assets	14.25
(c) Adjustment in Prior Year Benefit Payments	374.24
(d) Unclaimed Contributions and Benefits Canceled	713.24
<b>TOTAL INCOME</b>	<b>\$13,688,858.49</b>

### Deductions from Income

<b>Benefits:</b>	
(a) Annuities, Disability and Retirement Allowances	\$ 3,277,665.95
(b) Survivor Benefits	37,638.45
(c) Interest Paid on Deposits of Deceased Members	42,233.70
<b>Refundments:</b>	
(a) Left Service	1,090,164.01
(b) Members of Other Retirement Systems	227,391.90
(c) Member Deaths	222,026.87
(d) Annuitant Deaths	45,942.55
(e) Erroneous Deductions	12,161.62
Operating Expenses	240,684.71
Net Loss on Sale of Investments	129,761.48
<b>Increase in Total Reserves Required:</b>	
(a) Reserves Required 12-31-64	\$ 97,956,844.00
(b) Reserves Required 12-31-65	116,511,935.00
<b>TOTAL DEDUCTIONS FROM INCOME</b>	<b>\$23,880,762.24</b>

**EXCESS OF DEDUCTIONS FROM  
INCOME OVER INCOME** **\$10,191,903.75**

### INCREASE IN UNFUNDED ACCRUED LIABILITY:

(a) Unfunded Accrued Liability 12-31-64	\$ 20,772,149.19
(b) Unfunded Accrued Liability 12-31-65	30,964,052.94
	<b>\$10,191,903.75</b>

**COMPARATIVE STATEMENT  
SIX YEARS ENDED DECEMBER 31, 1965**

	1965	1964	1963	1962	1961	1960
<b>Revenues</b>						
Employee Contributions	\$ 3,979,869	\$ 3,247,430	\$ 3,110,653	\$ 2,972,410	\$ 2,882,562	\$ 2,780,761
Employer Contributions	6,574,919	5,376,401	5,174,473	4,908,764	4,658,131	4,478,823
Employer Contributions (Receivable)	28,957	18,021	22,590	51,406	156,282	176,675
Net Interest, Dividends, Premiums	3,104,511	2,777,754	2,473,256	2,172,907	1,915,023	1,648,575
Miscellaneous Revenues	1,102	1,296	—	10	165	758
<b>Total</b>	<b>\$13,688,858</b>	<b>\$11,420,902</b>	<b>\$10,780,972</b>	<b>\$10,105,497</b>	<b>\$ 9,612,163</b>	<b>\$ 9,085,592</b>
<b>Distribution of Revenues</b>						
Benefits Paid	\$ 3,357,538	\$ 3,154,050	\$ 2,993,966	\$ 2,890,880	\$ 2,770,662	\$ 2,664,479
Refundments Paid	1,597,687	1,273,565	1,352,232	1,311,432	1,170,018	1,341,727
Operating Expenses	240,685	229,915	227,251	217,503	219,893	235,704
Loss on Sale of Investments	129,761	191,421	72,639	298,080	159,979	—
Miscellaneous Expenses	—	140	812	20,027	82,476	10,598
Increase in Reserves	8,363,187	6,571,811	6,134,072	5,367,575	5,209,135	4,833,084
<b>Total</b>	<b>\$13,688,858</b>	<b>\$11,420,902</b>	<b>\$10,780,972</b>	<b>\$10,105,497</b>	<b>\$ 9,612,163</b>	<b>\$ 9,085,592</b>
<b>Assets</b>						
Cash and Temporary Investments	\$ 1,195,721	\$ 1,252,530	\$ 677,177	\$ 658,430	\$ 808,864	\$ 585,626
Accounts Receivable:						
Accrued Contributions	366,860	—	—	—	—	—
Past Due Employer Contributions	772,554	798,326	780,305	801,137	766,428	610,146
Other Receivables and Accruals	857,373	695,881	720,548	668,896	632,817	658,351
Investments at Amortized Cost	82,375,512	74,471,935	68,460,171	62,382,948	56,924,770	52,068,795
Other Assets	11,234	13,362	13,436	16,273	17,673	20,146
<b>Total</b>	<b>\$85,579,254</b>	<b>\$77,232,034</b>	<b>\$70,651,637</b>	<b>\$64,527,684</b>	<b>\$59,150,552</b>	<b>\$53,943,064</b>
<b>Liabilities and Reserves</b>						
Current Liabilities	\$ 31,372	\$ 47,340	\$ 38,754	\$ 48,873	\$ 39,316	\$ 40,963
Employee Contribution Reserve	30,724,612	29,428,864	28,390,261	27,451,405	26,679,830	25,763,539
Retirement and Benefits Reserve	31,040,647	29,279,436	28,408,824	27,503,275	26,199,505	25,734,464
State Contribution Reserve	23,782,623	18,476,394	13,813,798	9,524,131	6,231,901	2,404,048
<b>Total</b>	<b>\$85,579,254</b>	<b>\$77,232,034</b>	<b>\$70,651,637</b>	<b>\$64,527,684</b>	<b>\$59,150,552</b>	<b>\$53,943,064</b>
<b>Rate of Return on Average</b>						
Invested Assets and Cash	3.8978%	3.8350%	3.7422%	3.5982%	3.4696%	3.2755%
Average Bond Yield to Maturity (Or Call)	4.1018%	3.9812%	3.8688%	3.7663%	3.5504%	3.3609%