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2016-17 Governor's Budget, Minnesota State Retirement System

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AT A GLANCE

Information is current as of June 30, 2014, unless otherwise stated

- Established in 1929
- Defined benefit retirement funds managed – 5
- Total defined benefit members – 118,352
- Net defined benefit fund position (net assets held in trust) - \$13.2 billion
- Defined contribution retirement funds managed – 4
- Total defined contribution participants as of June 30, 2014 with unique social security numbers – 145,897
- Net defined contribution fund position (net assets held in trust) - \$6.8 billion
- Total participating employers - 766
- FY15 administrative and recordkeeping expenses budget - \$24.5 million
- Number of employees – 120

Source: MSRS 2014 Comprehensive Annual Financial Report

PURPOSE

Minnesota State Retirement System's (MSRS) mission is to administer financially 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.

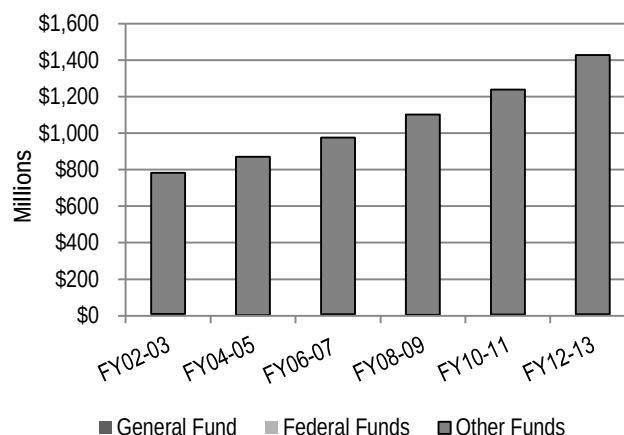
MSRS supports the following statewide outcomes:

- A thriving economy that encourages business growth and employment opportunities, by allowing retirees to remain self-supportive and purchase goods and services in the local community.
- Strong and stable families and communities, with over 90% of MSRS retirees living in Minnesota.
- Efficient and accountable government services.

An 11-member board of directors governs MSRS' administration. The MSRS Board has statutory authority to appoint an Executive Director to manage the system.

BUDGET

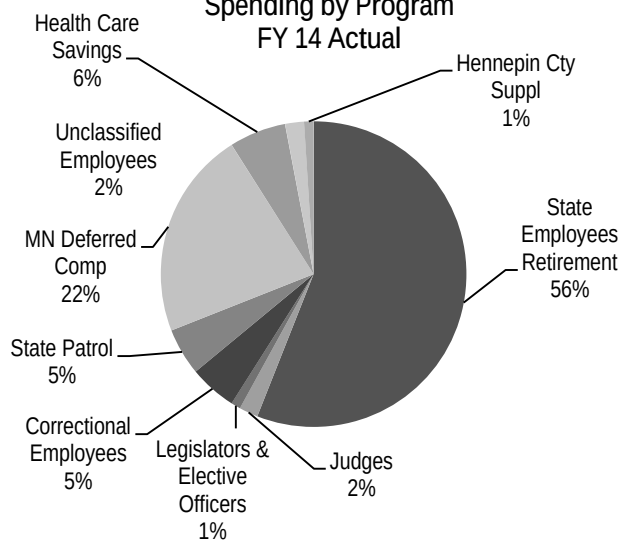
Historical Spending



Bar chart footnotes:

1. Other Funds includes MSRS' pension trust funds.
2. Although indecipherable on the bar chart, MSRS only utilized state General Fund appropriations to finance retirement benefits, annual actuarial valuation costs, and other administrative expenses for the Legislators and Elective State Officers Retirement Plans.
3. MSRS does not directly finance activities with federal funds.

Source: MSRS 2011 and 2013 Comprehensive Annual Financial Reports

Spending by Program
FY 14 Actual

Pie chart footnotes:

1. Spending includes retirement benefit payments, distributions to participants, and administrative expenses.
2. Effective July 1, 2013, the Legislators and Elective State Officers Retirement Funds merged for administrative cost saving purposes.

Source: MSRS 2014 Comprehensive Annual Financial Report

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 comprising 74 percent of revenues over the ten-year period ending June 30, 2013. Plan member and employer contributions

each comprised about 12 percent of revenues in the same period. MSRS contribution rates continue to remain relatively stable, given an annualized investment rate of return of 8.4% for the ten-year period ending June 30, 2014. These four plans require no direct state appropriation for funding purposes. MSRS' administrative expenses for these funds are less than 1/10 of 1% of plan net assets.

For the Legislators Retirement Plan, which includes the Elective State Officers Retirement Plan as of July 1, 2013, MSRS receives state General Fund appropriations to partially finance monthly regular retirement and survivor benefit payments, the cost of annual actuarial valuations and each plan's proportionate share of MSRS' administrative expenses. Since these plans have been closed to new members for 18 years, contributions and/or net assets are insufficient to pay future benefits to retired members and survivors. The plan continues to be funded on a pay-as-you-go basis.

As of June 30, 2014, \$8.3 million in net assets exists in the Legislators Retirement Fund to finance retirement benefits to members who retired prior to July 1, 2003, and their survivors. These assets are expected to be depleted during fiscal year 2016. Upon depletion of those assets, all benefits for the Legislators Retirement Fund will be funded on a pay-as-you-go basis with annual General Fund appropriations; thus creating a spike in General Fund appropriation amounts for the 2016-2017 biennium, in comparison to previous bienniums. The 2016-2017 General Fund appropriation includes funding to pay benefits to the pre-July 1, 2003 retirees and survivors, in addition to financing the benefits for all other retirees and survivors of the Legislators and Elective State Officers Retirement Plans.

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 finance recordkeeping, custodial, and other MSRS administrative expenses. These plans also require no state appropriation for funding purposes.

STRATEGIES

MSRS utilizes the following strategies to accomplish its stated mission:

- Develop, implement, and maintain retirement programs that are responsive to its 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 financially 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.

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 financial, information technology and systems, records management and contract administration services.

For MSRS' defined benefit plans, member and employer contributions are collected through payroll deduction and transferred 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 employees disburse monthly benefit payments to retired members, survivors, and disabled employees; and process lump-sum withdrawals and rollovers to members who have terminated employment.

For MSRS' defined contribution plans, participants' tax deferred contributions flow from the employer, via payroll deduction, through the recordkeeper to the 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

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

- **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.
- **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 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 member's future benefits. The more plan assets that a retirement fund has at a particular point in time, the lesser the unfunded actuarial accrued liability amount will be.

The table below presents performance measurement data for MSRS' defined benefit funds as of June 30, 2009, and June 30, 2014, based on computations using the market value of assets instead of the actuarial value of assets.

<i>Type of Measure</i>	<i>Performance Measure by MSRS Fund</i>	<i>Previous</i>	<i>Current</i>
	MSRS State Employees Retirement Fund		
Quality	Contribution Sufficiency/(Deficiency)	(15.1)%	1.0%
Quantity	Unfunded Actuarial Accrued Liability	\$3.6 billion	\$946.5 million
Quality	Funded Ratio	65.6%	92.4%
	State Patrol Retirement Fund		
Quality	Contribution Sufficiency/(Deficiency)	(24.2)%	(1.5)%
Quantity	Unfunded Actuarial Accrued Liability	\$275 million	\$133.1 million
Quality	Funded Ratio	62.1%	83.4%
	Correctional Employees Retirement Fund		
Quality	Contribution Sufficiency/(Deficiency)	(9.8)%	(1.9)%
Quantity	Unfunded Actuarial Accrued Liability	\$364 million	\$245 million
Quality	Funded Ratio	55.6%	78.1%
	Judges Retirement Fund		
Quality	Contribution Sufficiency/(Deficiency)	(8.5)%	(7.3)%
Quantity	Unfunded Actuarial Accrued Liability	\$127 million	\$122.7 million
Quality	Funded Ratio	47.4%	58.9%
	Legislators Retirement Fund (funded on a pay-as-you-go basis)		
Quality	Contribution Sufficiency/(Deficiency)	(329.2)%	(2,278.6)%
Quantity	Unfunded Actuarial Accrued Liability	\$62 million	\$242.6 million
Quality	Funded Ratio	31.7%	3.3%

Source: Actuarial Valuation Report as of July 1, 2009 ("Previous" column) and July, 1, 2014 ("Current" column).

Specific 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 Retirement Fund – M.S. Chapter 3A (<https://www.revisor.mn.gov/statutes/?id=3A>)
Elective State Officers Retirement Plan – M.S. 352C (<https://www.revisor.mn.gov/statutes/?id=352C>)
Unclassified Employees Retirement Fund – M.S. Chapter 352D(<https://www.revisor.mn.gov/statutes/?id=352D>)
Health Care Savings Plan – M.S. Chapter 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>)

Expenditures By Fund

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY13	FY14	FY15	FY16	FY17	FY16	FY17
1000 - General	3,626	3,898	0	0	0	0	0	0
7210 - Correctional Employees Retirement	43,885	48,197	52,552	53,163	55,821	55,954	55,821	55,954
7230 - State Patrol Retirement	50,330	52,345	53,978	55,256	57,970	58,105	57,970	58,105
7240 - Judges Retirement	18,557	19,881	20,896	21,124	22,180	22,233	22,180	22,233
7250 - Legislators Retirement	4,729	4,565	8,528	9,192	8,737	8,954	8,737	8,954
7260 - State Employees Retirement	575,158	614,409	655,886	664,959	696,951	698,369	696,951	698,369
Total	696,285	743,294	791,840	803,695	841,659	843,615	841,659	843,615
Biennial Change				155,956		89,739		89,739
Biennial % Change				11		6		6
Governor's Change from Base								0
Governor's % Change from Base								0

Expenditures by Program

Program: Mn State Retirement System	669,373	714,951	762,416	773,379	810,742	812,428	810,742	812,428
Program: Elective Officers Plan	459	476	0	0	0	0	0	0
Program: Judges Plan	18,557	19,881	20,896	21,124	22,180	22,233	22,180	22,233
Program: Legislators Plan	7,896	7,986	8,528	9,192	8,737	8,954	8,737	8,954
Total	696,285	743,294	791,840	803,695	841,659	843,615	841,659	843,615

Expenditures by Category

Compensation	7,050	7,896	8,812	10,961	10,961	10,961	10,961	10,961
Operating Expenses	4,234	10,113	12,871	12,201	12,042	11,914	12,042	11,914
Other Financial Transactions	685,002	725,285	770,158	780,483	818,656	820,740	818,656	820,740
Capital Outlay-Real Property				50				
Total	696,285	743,294	791,840	803,695	841,659	843,615	841,659	843,615

Full-Time Equivalents

90.6	97.8	104.2	104.2	104.2	104.2	104.2	104.2
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(Dollars in Thousands)

1000 - General

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY 13	FY 14	FY15	FY16	FY17	FY16	FY17
Open Appropriation	3,626	3,898	3,539	3,964	5,642	8,953	5,642	8,953
Net Transfers			(3,539)	(3,964)	(5,642)	(8,953)	(5,642)	(8,953)
Expenditures	3,626	3,898	0	0	0	0	0	0
<i>Biennial Change in Expenditures</i>				(7,524)		0		0
<i>Biennial % Change in Expenditures</i>				(100)		0		0
<i>Gov's Exp Change from Base</i>								0
<i>Gov's Exp % Change from Base</i>								0

6000 - Miscellaneous Agency

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY 13	FY 14	FY15	FY16	FY17	FY16	FY17
Balance Forward In	13	16	15	5	0	0	0	0
Receipts	3	(1)	(10)	(5)	0	0	0	0
Balance Forward Out	16	15	5	0	0	0	0	0

7210 - Correctional Employees Retirement

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY 13	FY 14	FY15	FY16	FY17	FY16	FY17
Open Appropriation	43,885	48,197	52,552	53,163	55,821	55,954	55,821	55,954
Expenditures	43,885	48,197	52,552	53,163	55,821	55,954	55,821	55,954
<i>Biennial Change in Expenditures</i>				13,633		6,060		6,060
<i>Biennial % Change in Expenditures</i>				15		6		6
<i>Gov's Exp Change from Base</i>								0
<i>Gov's Exp % Change from Base</i>								0

7230 - State Patrol Retirement

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY 13	FY 14	FY15	FY16	FY17	FY16	FY17
Open Appropriation	50,330	52,345	52,978	54,256	56,969	57,104	56,969	57,104
Net Transfers			1,000	1,000	1,000	1,000	1,000	1,000
Expenditures	50,330	52,345	53,978	55,256	57,970	58,105	57,970	58,105
<i>Biennial Change in Expenditures</i>				6,559		6,840		6,840
<i>Biennial % Change in Expenditures</i>				6		6		6
<i>Gov's Exp Change from Base</i>								0

(Dollars in Thousands)

7230 - State Patrol Retirement

Gov's Exp % Change from Base				0
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7240 - Judges Retirement

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY 13	FY 14	FY15	FY16	FY17	FY16	FY17
Open Appropriation	18,557	19,881	20,896	21,124	22,180	22,233	22,180	22,233
Expenditures	18,557	19,881	20,896	21,124	22,180	22,233	22,180	22,233
Biennial Change in Expenditures				3,582		2,392		2,392
Biennial % Change in Expenditures				9		6		6
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0

7250 - Legislators Retirement

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY 13	FY 14	FY15	FY16	FY17	FY16	FY17
Open Appropriation	4,729	4,565	4,989	5,228	3,095	0	3,095	0
Net Transfers			3,539	3,964	5,642	8,953	5,642	8,953
Expenditures	4,729	4,565	8,528	9,192	8,737	8,954	8,737	8,954
Biennial Change in Expenditures				8,426		(29)		(29)
Biennial % Change in Expenditures				91		0		0
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0

7260 - State Employees Retirement

	Actual		Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY12	FY 13	FY 14	FY15	FY16	FY17	FY16	FY17
Open Appropriation	575,668	614,967	656,441	665,516	697,509	698,926	697,509	698,926
Net Transfers	(511)	(558)	(555)	(557)	(558)	(557)	(558)	(557)
Expenditures	575,158	614,409	655,886	664,959	696,951	698,369	696,951	698,369
Biennial Change in Expenditures				131,279		74,475		74,475
Biennial % Change in Expenditures				11		6		6
Gov's Exp Change from Base								0
Gov's Exp % Change from Base								0
FTEs	90.6	97.8	104.2	104.2	104.2	104.2	104.2	104.2