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Minn State Retirement System

Mission:

To administer secure retirement plans, a tax-free health care savings plan, and a low cost deferred compensation plan; assure timely benefit payments; be proactive in public pension policies; and provide exemplary customer service through a one-stop shopping source.

Statewide Outcome(s):

Minnesota State Retirement System supports the following statewide outcome(s).

A thriving economy that encourages business growth and employment opportunities.

Strong and stable families and communities.

Efficient and accountable government services.

Context:

The Minnesota State Retirement System (MSRS) manages six defined benefit trust funds that provide pension income to retired state of Minnesota employees, University of Minnesota non-faculty employees, state troopers, judges, certain employees in direct contact with inmates or patients at Minnesota correctional facilities, legislators, and elected constitutional officers. MSRS' membership in these plans includes approximately 53,500 active (contributing) employees from 29 governmental entities, 23,200 inactive employees, and 33,800 benefit recipients. MSRS' primary goal is to ensure these retirement plans are funded in a sustainable manner to ensure their long-term viability to provide promised benefits to members, thus enabling them to have financial security in their retirement years.

MSRS' four largest defined benefit plans are funded primarily with investment earnings comprising about 70 percent of revenues over the ten-year period ending June 30, 2011. Since 1980 when the State Board of Investment adjusted their asset allocation, investments have returned an annualized 9.9%, allowing contribution rates to remain relatively stable. Plan member and employer contributions each comprised nearly 15 percent of revenues in the ten-year period ending June 30, 2011. These plans require no state appropriation for funding purposes. MSRS's administrative expenses are also very low; .073 percent of plan net assets.

For MSRS' **Legislators** and **Elective State Officers** retirement plans, which have been closed to new members since 1997, contributions and net assets are insufficient to pay benefits and administrative expenses, including annual actuarial valuations. These plans are funded primarily on a pay-as-you-go basis with state General Fund appropriations. Appropriations are expected to increase annually due to growth in the number of new retirees and a 2% annual cost-of-living adjustment of pension benefits.

MSRS also administers four defined contribution plans including the **Unclassified Employees Retirement Plan**, the **Minnesota Deferred Compensation Plan**, the **Health Care Savings Plan**, and the **Supplement Retirement Plan for Hennepin County**. For these plans, participants' tax-deferred contributions and other revenue flow to a third-party record keeper and custodian for daily investment until retirement or termination of employment. These plans also require no state appropriation for funding purposes.

Strategies:

MSRS utilizes the following strategies to achieve 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. MSRS' administrative costs are very low at approximately seven basis points or seven hundredths of one percent of assets.

- 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 developments, technological enhancements, and business process improvements.

Results:

MSRS pensions provide members with a monthly income for life. The majority of MSRS retirees receive modest benefits. The average monthly pension is about $1,600. This allows most retirees to sustain their lifestyle during retirement, stay in their homes and have quality health care available to them. Approximately 91 percent of MSRS retirees remain in Minnesota after leaving public service. Of the $633 million in benefits paid in 2011, $575 million stayed in the state, thus having a positive economic impact on the state's economy as they spend money at Minnesota businesses, which, in turn, creates jobs statewide, and they pay state and local taxes.

Three measures of a defined benefit plan's financial health are: (1) **the funding ratio** (the percent of net assets, calculated for actuarial purposes, available to pay the present value of benefits already earned by employees); (2) **contribution sufficiency/(deficiency)** rate (the difference between the actuary's computation of required employer and employee contribution rates and the statutory rates, expressed as a percent of payroll); and (3) **the unfunded actuarial accrued liability** (the difference between the actuary's valuation of assets and the present value of member's future benefits). The table below presents performance measurement data for MSRS' defined benefit plans as of June 30, 2009, and June 30, 2011 (the date of the most recent actuarial valuation results).

Performance Measures	Previous	Current	Trend
MSRS State Employees Retirement Fund (General Plan)			
Funding Ratio	85.90%	86.32%	Improving
Contribution Sufficiency/(Deficiency)	(5.35)%	(1.03)%	Improving
Unfunded Actuarial Accrued Liability	$1.482 billion	$1.446 billion	Stable
State Patrol Retirement Fund			
Funding Ratio	80.58%	80.33%	Stable
Contribution Sufficiency/(Deficiency)	(12.16)%	(5.25)%	Improving
Unfunded Actuarial Accrued Liability	$141 million	$138 million	Improving
Correctional Employees Retirement Fund			
Funding Ratio	71.88%	70.23%	Improving
Contribution Sufficiency/Deficiency	(6.05)%	(5.30)%	Improving
Unfunded Actuarial Accrued Liability	$231 million	$270 million	Worsening
Judges Retirement Fund			
Funding Ratio	60.84%	58.72%	Worsening
Contribution Sufficiency/(Deficiency)	(3.73)%	(5.17)%	Worsening
Unfunded Actuarial Accrued Liability	$95 million	$103 million	Worsening
Legislators Retirement Fund			
Funding Ratio	31.70%	8.84%	Worsening
Contribution Sufficiency/(Deficiency)	(329.22)%	(1,311.95)%	Worsening
Unfunded Actuarial Accrued Liability	$62 million	$217 million	Worsening
Elective State Officers Retirement Fund			
Funding Ratio	5.49%	0.00%	Worsening
Contribution Sufficiency/(Deficiency)	$(602,000)	$(1.3) million	Worsening
Unfunded Actuarial Accrued Liability	$4 million	$8 million	Worsening

Performance Measures Notes:

Source of Performance Data Presented: Actuarial Valuation Reports as of July 1, 2009 (previous) and 2011 (current), respectively.

For more information about funding progress, refer to the 2011 Actuarial Valuation Reports and the MSRS Comprehensive Annual Financial Report (Actuarial Section) at http://www.msrs.state.mn.us/info/fincl.htmls.