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2014-15 Governors Budget - Minn State Retirement System

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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 53,600 active (contributing) employees from 29 governmental entities, 23,300 inactive employees, and 35,800 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, 2012. 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; .068 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 \$1,500. 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 \$671 million in benefits paid in 2012, \$611 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, 2012 (the date of the most recent actuarial valuation results).

Performance Measures	Previous	Current	Trend
<u>MSRS State Employees Retirement Fund (General Plan)</u>			
Funding Ratio	85.90%	82.67%	Worsening
Contribution Sufficiency/(Deficiency)	(5.35)%	(2.32)%	Improving
Unfunded Actuarial Accrued Liability	\$1.482 billion	\$1.921 billion	Worsening
<u>State Patrol Retirement Fund</u>			
Funding Ratio	80.58%	72.84%	Worsening
Contribution Sufficiency/(Deficiency)	(12.16)%	(11.52)%	Improving
Unfunded Actuarial Accrued Liability	\$141 million	\$207 million	Worsening
<u>Correctional Employees Retirement Fund</u>			
Funding Ratio	71.88%	68.55%	Worsening
Contribution Sufficiency/Deficiency	(6.05)%	(4.58)%	Improving
Unfunded Actuarial Accrued Liability	\$231 million	\$304 million	Worsening
<u>Judges Retirement Fund</u>			
Funding Ratio	60.84%	51.46%	Worsening
Contribution Sufficiency/(Deficiency)	(3.73)%	(13.50)%	Worsening
Unfunded Actuarial Accrued Liability	\$95 million	\$137 million	Worsening
<u>Legislators Retirement Fund</u>			
Funding Ratio	31.70%	6.27%	Worsening
Contribution Sufficiency/(Deficiency)	\$4.5 million	\$18.2 million	Worsening
Unfunded Actuarial Accrued Liability	\$62 million	\$232 million	Worsening
<u>Elective State Officers Retirement Fund</u>			
Funding Ratio	5.49%	0.00%	Worsening
Contribution Sufficiency/(Deficiency)	\$(602,000)	\$(990,661)	Worsening
Unfunded Actuarial Accrued Liability	\$4 million	\$9 million	Worsening

Performance Measures Notes:

Source of Performance Data Presented: Actuarial Valuation Reports as of July 1, 2009 (previous) and 2012 (current), respectively.

For more information about funding progress, refer to the 2012 Actuarial Valuation Reports and the MSRS Comprehensive Annual Financial Report (Actuarial Section) at <http://www.msrs.state.mn.us/info/fincl.htmls>.

Minnesota State Retirement System
Current, Base and Governor's Recommended Expenditures

(Dollars in Thousands, Biennial Totals)

	General Funds	Other State Funds	Federal Funds	All Funds
Current Biennium Expenditures (FY 2012-13)	\$7,380	\$1,411,201		\$1,418,580
Current Law Expenditures (FY 2014-15)	\$7,726	\$1,486,205		\$1,493,931
Governor's Recommended Expenditures (FY2014-15)	\$7,726	\$1,486,205		\$1,493,931
\$ Change from FY 2014-15 Current Law to Governor's Rec	\$0	\$0		\$0
% Change from FY 2014-15 Current Law to Governor's Rec	0%	0%		0%

Minnesota State Retirement System**Sources and Uses**

(Dollars in Thousands)

	Biennium FY14-FY15			
	General Funds	Other State Funds	Federal Funds	Total Funds
APPROPRIATION	\$7,726	\$1,487,324		\$1,495,050
SOURCES OF FUNDS	\$7,726	\$1,487,324		\$1,495,050
TRANSFERS OUT		\$1,120		\$1,120
EXPENDITURES	\$7,726	\$1,486,205		\$1,493,931
PAYROLL EXPENSE		\$17,851		\$17,851
OPERATING EXPENSES	\$55	\$24,951		\$25,006
OTHER FINANCIAL TRANSACTIONS	\$7,671	\$1,443,203		\$1,450,874
CAPITAL OUTLAY-REAL PROPERTY		\$200		\$200
USES OF FUNDS	\$7,726	\$1,487,325		\$1,495,051

Minnesota State Retirement System
All Funds FTE by Program

	Current	Forecast Base	Governor's Recommendation
Program	FY 2013	FY 2015	FY 2015
Program: Mn State Retirement System	111.4	110.6	110.6
Minnesota State Retirement System	111.4	110.6	110.6

Minnesota State Retirement System
Revenue Summary
(Dollars in Thousands)

		Biennium FY14-15			
		General Fund	Other State Funds	Federal Funds	All Funds
Non Dedicated	ALL OTHER	245	672,114		672,359
	Subtotal	245	672,114		672,359
Dedicated	ALL OTHER		0		0
	Subtotal		0		0
Total		245	672,114		672,359