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2014-15 Governors Budget - Public Employees Retirement Association

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Mission:

Create opportunities for members to achieve a successful and secure retirement by providing the highest quality benefits and services that members will value and trust.

Statewide Outcome(s):

Public Employees Retirement Assn 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 Public Employees Retirement Association (PERA) of Minnesota administers five defined benefit retirement plans, one defined contribution retirement plan, and one agency fund in accordance with Minnesota Statute (M.S.) sections 353, 353A, 353D, 353E, 353G and 356. PERA's membership includes approximately 320,000 active and inactive employees and 90,000 benefit annuitants from over 2,100 separate governmental entities, including townships, cities, counties, schools and other miscellaneous local governments as defined in M.S. 353.01, subd. 6. PERA's overarching goal is to ensure that contributions collected from members and employers and the investment earnings on those contributions will be sufficient to provide promised benefits to benefit recipients, allowing public employees the opportunity to achieve a successful and secure retirement without needing to rely on the State for financial support. Investment income accounts for almost 64% of PERA's revenues. Member contributions account for another 16% and employer contributions from local governments make up the difference of 20%. The State of Minnesota contributes a maximum of \$24 million each year through the year 2031 (or until the Minneapolis Employees Retirement Fund (MERF) becomes fully funded, whichever occurs first) to help pay off the unfunded liability that existed when MERF was consolidated into PERA in 2010. PERA does not receive any other direct appropriations from the general fund.

Strategies:

PERA's core functions include collecting, recording and maintaining the accounting of retirement contributions; collecting and managing member information; issuing benefit and refund payments; and delivering education and training through counseling, workshops and publications. Benefit payments have a financial impact on the state's economy and provide benefit recipients and their families the opportunity to lead healthy, productive lives during their retirement years. Since 1980 when the State Board of Investment adjusted their asset allocation, investments have returned an annualized 9.9 percent, allowing contribution rates to remain relatively stable. PERA's administrative costs are also very low at 5.5 basis points or 5.5 hundredths of one percent of assets.

Results:

In 2008 the three statewide pension systems, MSRS, PERA and TRA were the focus of an economic impact study. The study noted that in fiscal year 2007, the pension systems had a positive economic impact of \$3.3 billion on Minnesota's economy and beneficiaries' spending led to 22,500 additional jobs statewide. Over 90 percent of PERA's retirees stay in Minnesota after they retire. State and local taxes paid by the beneficiaries and holders of the 22,500 new jobs exceeded the employers' contributions to the pension systems by \$80 million that year. The impact of benefits paid was larger than the gross state product attributable to several major economic sectors in Minnesota, including the mining sector; the crop and animal production sector; and the air, rail and water transportation sector (for more information regarding this study, please visit the PERA website <http://www.mnpera.org>).

The two most important measures of the health of a defined benefit retirement system are (1) the level of funding and (2) whether contribution rates are sufficient to earn enough assets to cover pension liabilities over the life time of the members. The following Performance Measures table shows the funded ratio, by plan, and the contribution

sufficiency/(deficiency) as a percent of payroll, along with the unfunded actuarial accrued liability as of 6/30/07 (just before the Great Recession) and as of 6/30/12 (the most recent data available as of the writing of this narrative) for the three defined benefit plans that existed in 2007.

Performance Measures	Previous	Current	Trend
PERA General Plan Funding Ratio	73.3%	73.5%	Improving
PERA General Plan Contribution Sufficiency	(1.06)%	(0.96)%	
PERA General Plan Unfunded Actuarial Liability	\$4.7 Billion	\$4.9 Billion	
PERA Police & Fire Plan Funding Ratio	91.7%	78.3%	Worsening
PERA Police & Fire Plan Contribution Sufficiency	(7.98)%	(7.94)%	
PERA Police & Fire Plan Unfunded Actuarial Liability	\$470 Million	\$1.6 Billion	
PERA Correctional Plan Funding Ratio	98.4%	89.3%	Worsening
PERA Correctional Plan Contribution Sufficiency	2.22%	0.13%	
PERA Correctional Plan Unfunded Actuarial Liability	\$2.6 Million	\$36.7 Million	

Performance Measures Notes:

Performance Measures compare valuation dates from 6/30/2007 (previous) to 6/30/2012 (current).

Benefit provision changes passed by the legislature in 2010 coupled with actuarial assumption changes reduced PERA's actuarial liability by \$3.3 billion. The General Plan has improved, but will likely need additional minor modifications in order for it to become fully funded within 20 years. Some significant modifications are needed in the benefits and revenue sources for the Police & Fire Plan to ensure a better funding position. PERA is working with various police and fire groups to develop a package that will be brought to the legislature in 2013 or 2014. Contributions in the Correctional Plan are still sufficient for that plan to become fully funded within 12 years.

Public Employees Retirement Association
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)		\$3,421,272		\$3,421,272
Current Law Expenditures (FY 2014-15)		\$4,177,104		\$4,177,104
Governor's Recommended Expenditures (FY2014-15)		\$4,177,104		\$4,177,104
\$ Change from FY 2014-15 Current Law to Governor's Rec		\$0		\$0
% Change from FY 2014-15 Current Law to Governor's Rec		0%		0%

Public Employees Retirement Association**Sources and Uses**

(Dollars in Thousands)

Biennium FY14-FY15				
	General Funds	Other State Funds	Federal Funds	Total Funds
REVENUE		\$1,210		\$1,210
APPROPRIATION		\$4,175,894		\$4,175,894
SOURCES OF FUNDS		\$4,177,104		\$4,177,104
EXPENDITURES		\$4,177,104		\$4,177,104
PAYROLL EXPENSE		\$15,541		\$15,541
OPERATING EXPENSES		\$13,785		\$13,785
OTHER FINANCIAL TRANSACTIONS		\$4,147,778		\$4,147,778
USES OF FUNDS		\$4,177,104		\$4,177,104

Public Employees Retirement Association
All Funds FTE by Program

	Current	Forecast Base	Governor's Recommendation
Program	FY 2013	FY 2015	FY 2015
Program: Public Employee Retirement Asn	89.3	89.3	89.3
Public Employees Retirement Association	89.3	89.3	89.3

Public Employees Retirement Association**Revenue Summary**

(Dollars in Thousands)

		Biennium FY14-15			
		General Fund	Other State Funds	Federal Funds	All Funds
Non Dedicated	INVESTMENT INCOME		2,000,000		2,000,000
	ALL OTHER		1,681,000		1,681,000
	Subtotal		3,681,000		3,681,000
Dedicated	INVESTMENT INCOME		10		10
	ALL OTHER		1,200		1,200
	Subtotal		1,210		1,210
Total			3,682,210		3,682,210