.... moves that the Legislative Commission on Pensions and Retirement, having received a recommendation for an employee contribution increase and an employer contribution increase for the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) from the PERA Board of Trustees on January 15, 2015, and having considered that recommendation as provided for under Minnesota Statutes, Section 353.27, Subdivision 3b, on March 3, 2015, and on March 24, 2015, recommends against the recommended contribution rate increases and directs the executive director of the Commission to communicate this response to the PERA Board and to the PERA executive director.

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January 15, 2015

The Honorable Sandy Pappas, Chair
Legislative Commission on Pensions and Retirement
323 Capitol
75 Rev. Dr. Martin Luther King, Jr. Blvd.
St. Paul, MN 55155-1606

Dear Senator Pappas:

Minnesota Statutes, Section 353.27, subdivision 3b directs that the PERA Board must make a recommendation to increase employee and employer contributions equally when the total required actuarial contributions have been deficient by 0.5 percent of pay, or more, for two consecutive years. The actuarial required contributions for the PERA General Plan were deficient by 1.65 percent of pay as of July 1, 2013, and deficient by 2.05 percent of pay as of July 1, 2014, two consecutive years. A copy of the July 1, 2014 "Summary of Valuation Results" displaying the contribution requirements and deficiency is enclosed for your reference.

The current law directs that a recommendation by the Board must be reported to the Chair and the Executive Director of the LCPR by January 15 following receipt of the most recent annual actuarial valuation report. The law further directs that if the LCPR does not recommend against the change, or modify the Board's recommendation, the rate change becomes effective the first day of the first full pay period in the next fiscal year.

The PERA Board is recommending an equal contribution rate adjustment of 0.25 percent of pay each for members and employers of the PERA General Plan effective for all salary paid on or after January 1, 2016.

We are making this recommendation based on the current language of Section 353.27, subdivision 3b, which requires a recommendation be forwarded. We have also submitted to LCPR staff our request for that language to be amended. The current language directs that we *"must"* make a recommendation, and that we *"may"* recommend increases, but that recommendation is based upon the actuarial measure of the contribution rate only. The current market value of the General Plan contributions indicates that contributions are sufficient at 0.52 percent of pay in total. The Board believes it prudent to be able to consider this information, as well as other factors, when determining whether a contribution increase should be advocated.

We are proposing that the language be modified to say the Board "may" recommend an adjustment based on advice from its consulting actuary. The actuary and the Board will consider a number of factors related to the funding of the plan including, but not limited to, the actuarial determined contributions and the market value contributions determined necessary to fund the plan, as well as the current funded ratio of the plan, the remaining years to attain full funding, the 30-year projections of expected funded position and contribution needs prepared every other year by the actuary, and other factors.

We request that our recommended changes to Section 353.27, subdivision 3b, be considered as part of the Commission's agenda for discussion during the 2015 session. We will be prepared to discuss the actuarial results and the contribution recommendation when directed. In the meantime, if you or any members of the LCPR or its staff have any questions or concerns, please feel free to contact Dave DeJonge at (651) 201-2641, or Shana Jones at (651) 355-0051. You can also reach them by e-mail at dave.dejonge@mnpera.org or shana.jones@mnpera.org.

Sincerely,

Mary Most Vanek
Executive Director

Enclosures

C: Members, Legislative Commission on Pensions and Retirement
Lawrence Martin, Executive Director, Legislative Commission on Pensions and Retirement

Minnesota Statutes, Section 353.27, subdivision 3b.

Change in employee and employer contributions in certain instances.

(a) For purposes of this section:

(1) a contribution sufficiency exists if the total of the employee contribution under subdivision 2, the employer contribution under subdivision 3, the additional employer contribution under subdivision 3a, and any additional contribution previously imposed under this subdivision exceeds the total of the normal cost, the administrative expenses, and the amortization contribution of the general employees retirement plan as reported in the most recent actuarial valuation of the retirement plan prepared by the actuary retained under section 356.214 and prepared under section 356.215 and the standards for actuarial work of the Legislative Commission on Pensions and Retirement; and

(2) a contribution deficiency exists if the total of the employee contributions under subdivision 2, the employer contributions under subdivision 3, the additional employer contribution under subdivision 3a, and any additional contribution previously imposed under this subdivision is less than the total of the normal cost, the administrative expenses, and the amortization contribution of the general employees retirement plan as reported in the most recent actuarial valuation of the retirement plan prepared by the actuary retained under section 356.214 and prepared under section 356.215 and the standards for actuarial work of the Legislative Commission on Pensions and Retirement.

(b) Employee and employer contributions to the general employees retirement plan under subdivisions 2 and 3 must be adjusted:

(1) if the regular actuarial valuation of the general employees retirement plan of the Public Employees Retirement Association under section 356.215 indicates that there is a contribution sufficiency under paragraph (a) greater than one percent of covered payroll and that the sufficiency has existed for at least two consecutive years, the coordinated program employee and employer contribution rates must be decreased as determined under paragraph (c) to a level such that the sufficiency is no greater than one percent of covered payroll based on the most recent actuarial valuation; or

(2) if the regular actuarial valuation of the general employees retirement plan of the Public Employees Retirement Association under section 356.215 indicates that there is a contribution deficiency equal to or greater than 0.5 percent of covered payroll and that the deficiency has existed for at least two consecutive years, the coordinated program employee and employer contribution rates must be increased as determined under paragraph (d) to a level such that no deficiency exists based on the most recent actuarial valuation.

(c) If the actuarially required contribution of the general employees retirement plan is less than the total support provided by the combined employee and employer contribution rates under subdivisions 2, 3, and 3a, by more than one percent of covered payroll, the general employees retirement plan coordinated program employee and employer contribution rates under subdivisions 2 and 3 must be decreased incrementally over one or more years by no more than 0.25 percent of pay each for employee and employer matching contribution rates to a level such that there remains a contribution sufficiency of at least one percent of covered payroll. No contribution rate decrease may be made until at least two years have elapsed since any adjustment under this subdivision has been fully implemented.

(d) If the actuarially required contribution exceeds the total support provided by the combined employee and employer contribution rates under subdivisions 2, 3, and 3a, the employee and matching employer contribution rates must be increased equally to eliminate that contribution deficiency. If the contribution deficiency is:

(1) less than two percent, the incremental increase may be up to 0.25 percent for the general employees retirement plan employee and matching employer contribution rates;

(2) greater than 1.99 percent and less than 4.01 percent, the incremental increase may be up to 0.5 percent for the employee and matching employer contribution rates; or

(3) greater than four percent, the incremental increase may be up to 0.75 percent for the employee and matching employer contribution.

(e) The general employees retirement plan contribution sufficiency or deficiency determination under paragraphs (a) to (d) must be made without the inclusion of the contributions to, the funded condition of, or the actuarial funding requirements of the MERF division.

(f) Any recommended adjustment to the contribution rates must be reported to the chair and the executive director of the Legislative Commission on Pensions and Retirement by January 15 following the receipt of the most recent annual actuarial valuation prepared under section 356.215. If the Legislative Commission on Pensions and Retirement does not recommend against the rate change or does not recommend a modification in the rate change, the recommended adjustment becomes effective for any salary paid on or after the January 1 next following the legislative session in which the Legislative Commission on Pensions and Retirement did not take any action to disapprove or modify the Public Employees Retirement Association Board of Trustees' recommendation to adjust the employee and employer rates.

(g) A contribution sufficiency of up to one percent of covered payroll must be held in reserve to be used to offset any future actuarially required contributions that are more than the total combined employee and employer contributions under subdivisions 2, 3, and 3a.

(h) Before any reduction in contributions to eliminate a sufficiency in excess of one percent of covered pay may be recommended, the executive director must review any need for a change in actuarial assumptions, as recommended by the actuary retained under section 356.214 in the most recent experience study of the general employees retirement plan prepared under section 356.215 and the standards for actuarial work promulgated by the Legislative Commission on Pensions and Retirement that may result in an increase in the actuarially required contribution and must report to the Legislative Commission on Pensions and Retirement any recommendation by the board to use the sufficiency exceeding one percent of covered payroll to offset the impact of an actuarial assumption change recommended by the actuary retained under section 356.214, and reviewed by the actuary retained by the commission under section 356.214, subdivision 4.

(i) No contribution sufficiency in excess of one percent of covered pay may be proposed to be used to increase benefits, and no benefit increase may be proposed that would initiate an automatic adjustment to increase contributions under this subdivision. Any proposed benefit improvement must include a recommendation, prepared by the actuary retained under section 356.214, subdivision 1, and reviewed by the actuary retained by the Legislative Commission on Pensions and Retirement as provided under section 356.214, subdivision 4, on how the benefit modification will be funded.