



Pension Security Analysis

February 21, 2017

Prepared by Aon Hewitt



Legislative Commission on Pensions and Retirement (LCPR)

Key Principles of Pension Policy

“There should be equal pension treatment...among the various plans and...within the confines of plan demographics...”

Uniformity & Equal Treatment



Postretirement Benefit Increases

“Retirement benefits should be increased during the period of retirement...in order to maintain a retirement benefit that was adequate at the time of retirement”



Shared Responsibility

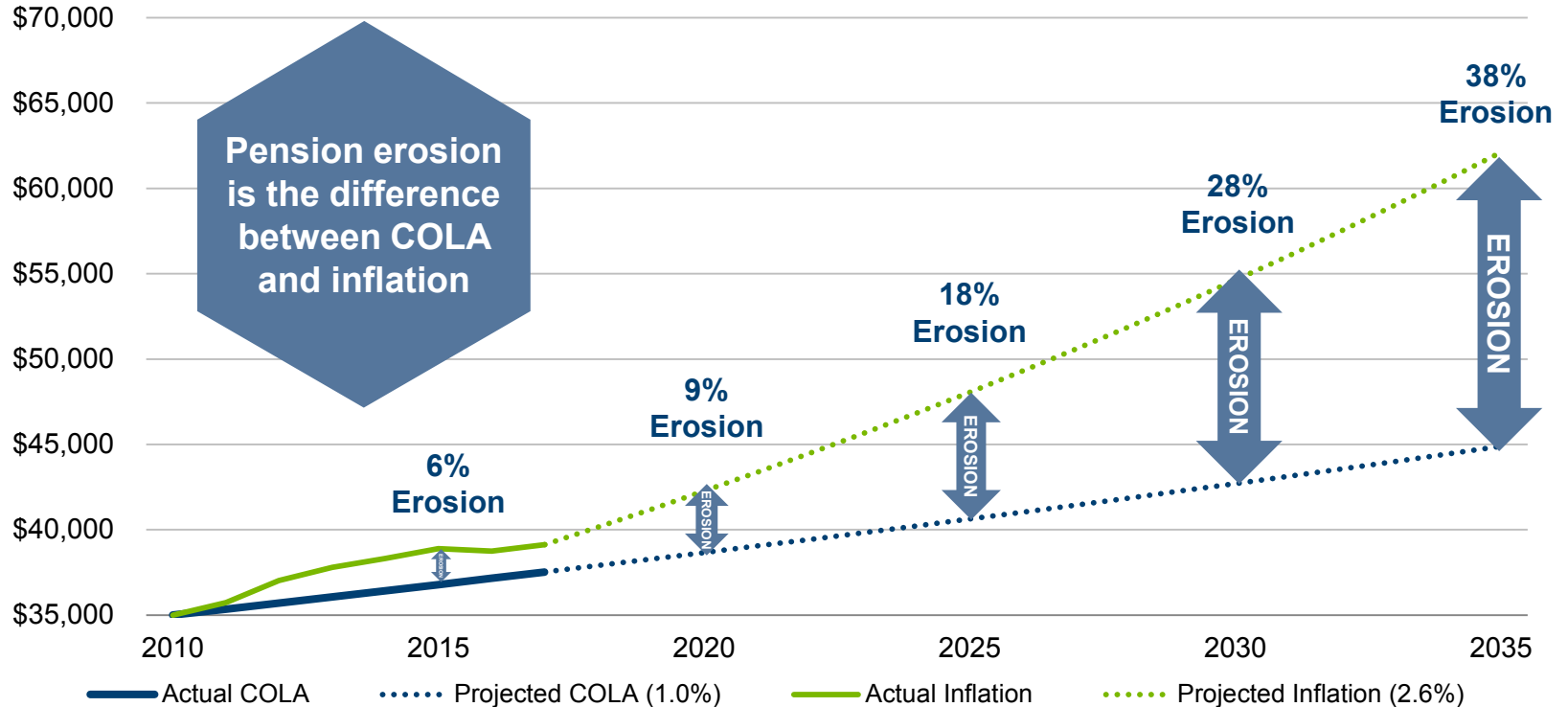
“...distribute total pension costs fairly among the current and future generations...”

&

“...retirement benefit coverage should be financed on a shared basis between the public employee and the public employer”

Current and Projected Pension Erosion for PERA General Retirees

Annual Benefit for Average Basic Retiree



- Projected PERA COLA is equal to 1%, consistent with the current PERA valuation assumption.
- Actual inflation is based on CPI-W, the measure used by the Social Security Administration (SSA) to determine annual COLA.
- Projected inflation is equal to 2.6%, the intermediate long-range assumption for CPI-W in the 2016 Social Security Trustees report.

Impact of Reduced COLA on PERA General Retirees

Lower COLA Results in Lost Benefits

- Increasing COLA back to 2.5% will not restore benefits lost during reduced COLA periods
- Reduced COLA for retirees are a permanent contribution to funding sufficiency



Average Basic Employee

- An average Basic retiree has already contributed over \$15,000 in lost benefits through 2017
 - Will continue to lose over \$4,000 in benefits annually going forward
- If a 1.0% COLA continues indefinitely
 - Over \$85,000 in total lost benefits through 2026
 - Over \$248,000 in total lost benefits through 2036
- If a 2.5% COLA is restored in 2018
 - Over \$56,000 in total lost benefits through 2026
 - Over \$97,000 in total lost benefits through 2036
- If a 1.5% COLA is implemented in 2018
 - Over \$76,000 in total lost benefits through 2026
 - Over \$206,000 in total lost benefits through 2036



Impact of COLA Change

| Year | Benefit with 2.5% COLA | Benefit with 1.0% COLA | Difference in Pension Check |
|------|------------------------|-----------------------------|-----------------------------|
| 2010 | \$35,000 | \$35,000 | \$0 |
| 2011 | \$35,875 | \$35,350 | \$525 |
| 2012 | \$36,772 | \$35,704 | \$1,068 |
| 2013 | \$37,691 | \$36,061 | \$1,630 |
| 2014 | \$38,633 | \$36,422 | \$2,211 |
| 2015 | \$39,599 | \$36,786 | \$2,813 |
| 2016 | \$40,589 | \$37,154 | \$3,435 |
| 2017 | \$41,604 | \$37,526 | \$4,078 |
| ... | | Total Through 2017 = | \$15,760 |
| 2026 | \$51,957 | \$41,041 | \$10,916 |
| ... | | Total Through 2026 = | \$85,181 |
| 2036 | \$66,510 | \$45,335 | \$21,175 |
| | | Total Through 2036 = | \$248,155 |

Impact of Reduced COLA on PERA General Retirees

Lower COLA Results in Lost Benefits

- Increasing COLA back to 2.5% will not restore benefits lost during reduced COLA periods
- Reduced COLA for retirees are a permanent contribution to funding sufficiency



Average Coordinated Employee

- An average Coordinated retiree has already contributed over \$6,000 in lost benefits through 2017
 - Will continue to lose over \$1,700 in benefits annually going forward
- If a 1.0% COLA continues indefinitely
 - Over \$36,000 in total lost benefits through 2026
 - Over \$106,000 in total lost benefits through 2036
- If a 2.5% COLA is restored in 2018
 - Over \$24,000 in total lost benefits through 2026
 - Over \$41,000 in total lost benefits through 2036
- If a 1.5% COLA is implemented in 2018
 - Over \$32,000 in total lost benefits through 2026
 - Over \$88,000 in total lost benefits through 2036



Impact of COLA Change

| Year | Benefit with 2.5% COLA | Benefit with 1.0% COLA | Difference in Pension Check |
|------|------------------------|-----------------------------|-----------------------------|
| 2010 | \$15,000 | \$15,000 | \$0 |
| 2011 | \$15,150 | \$15,375 | \$225 |
| 2012 | \$15,302 | \$15,759 | \$457 |
| 2013 | \$15,455 | \$16,153 | \$698 |
| 2014 | \$15,610 | \$16,557 | \$947 |
| 2015 | \$15,766 | \$16,971 | \$1,205 |
| 2016 | \$15,924 | \$17,395 | \$1,471 |
| 2017 | \$16,083 | \$17,830 | \$1,747 |
| ... | | Total Through 2017 = | \$6,750 |
| 2026 | \$17,589 | \$22,267 | \$4,678 |
| ... | | Total Through 2026 = | \$36,498 |
| 2036 | \$19,429 | \$28,506 | \$9,077 |
| | | Total Through 2036 = | \$106,357 |

About This Material

This material is intended to assist MMRA review financial and other considerations related to the Public Employees Retirement Association of Minnesota (PERA) General Employees Retirement Plan.

This material has been prepared pursuant to an engagement description and pursuant to contract language that are materially important to the limitations on usage and liability of the parties as it relates to this consulting assignment including this material. An important aspect of this report is that it is only part of a larger project. The content of this document is necessarily a summary of the position and does not deal with every important topic nor cover every aspect of the topics with which it deals.

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This analysis was prepared using streamlined calculation techniques. As such, the estimates included in the analysis are intended to provide an “order of magnitude” indication of the impact of the changes contemplated in this analysis. The results of more refined calculations may yield a result and conclusions different than suggested by this streamlined methodology. In addition, experience different than anticipated could have a material impact on the ultimate costs of the benefits.

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