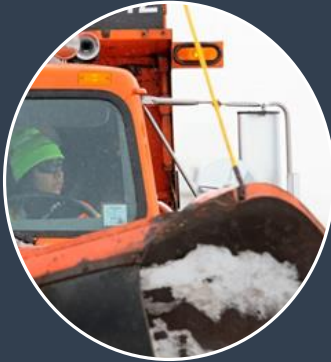




System Overview & 2017 Board Proposal

Erin Leonard, Executive Director

February 7, 2017



General Plan

- State Employees, University of Minnesota & Metropolitan Council
- 49,472 Active Members
- 17,019 Deferred Members
- 37,952 Benefit Recipients
- 112,014 Total Members



Correctional Plan

- Individuals working with inmates in the corrections system or patients in the security hospitals
- 4,521 Active Members
- 1,316 Deferred Members
- 2,918 Benefit Recipients
- 9,416 Total Members



State Patrol Plan

- State Troopers, Conservation Officers, Crime Bureau Officers, other state-employed peace officers
- 892 Active Members
- 55 Deferred Members
- 1,048 Benefit Recipients
- 2,015 Total Members



Judges Plan

- Elected or Appointed Judges
- 311 Active Members
- 17 Deferred Members
- 350 Benefit Recipients
- 678 Total Members



Legislators & Constitutional Officers

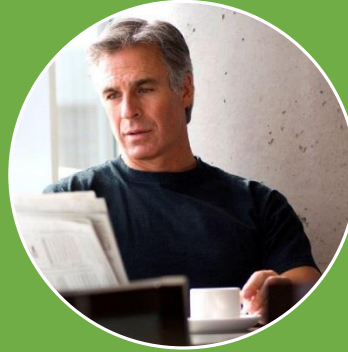
- Legislators and Constitutional Officers elected before 1997
- These plans are closed
- 23 Active Members
- 52 Deferred Members
- 372 Benefit Recipients
- 447 Total Members

MSRS Mandatory Pension (Defined Benefit) Plans



Unclassified Plan

- 401(a) defined contribution plan
- Mandatory participation depending on position
- Elected Officials, department heads, commissioners & Legislative staff
- 1,380 Active Members
- 1,846 Inactive Members
- 3,226 Total Members
- \$304.7 million Total Assets (7/1/2016)



Minnesota Deferred Compensation Plan (MNDCP)

- 457b Plan
- Voluntary Participation
- Available to all public employees in Minnesota
- 84,053 Total Participants
- 688 Participating Employers
- \$5.9 billion Total Assets (7/1/2016)



Health Care Savings Plan (HCSP)

- 115 Governmental Trust
- Group participation mandatory
- Available to all public employees in Minnesota
- 106,834 Total Participants
- 544 Participating Employers
- \$827.0 million Total Assets (7/1/2016)

MSRS Defined Contribution Plans

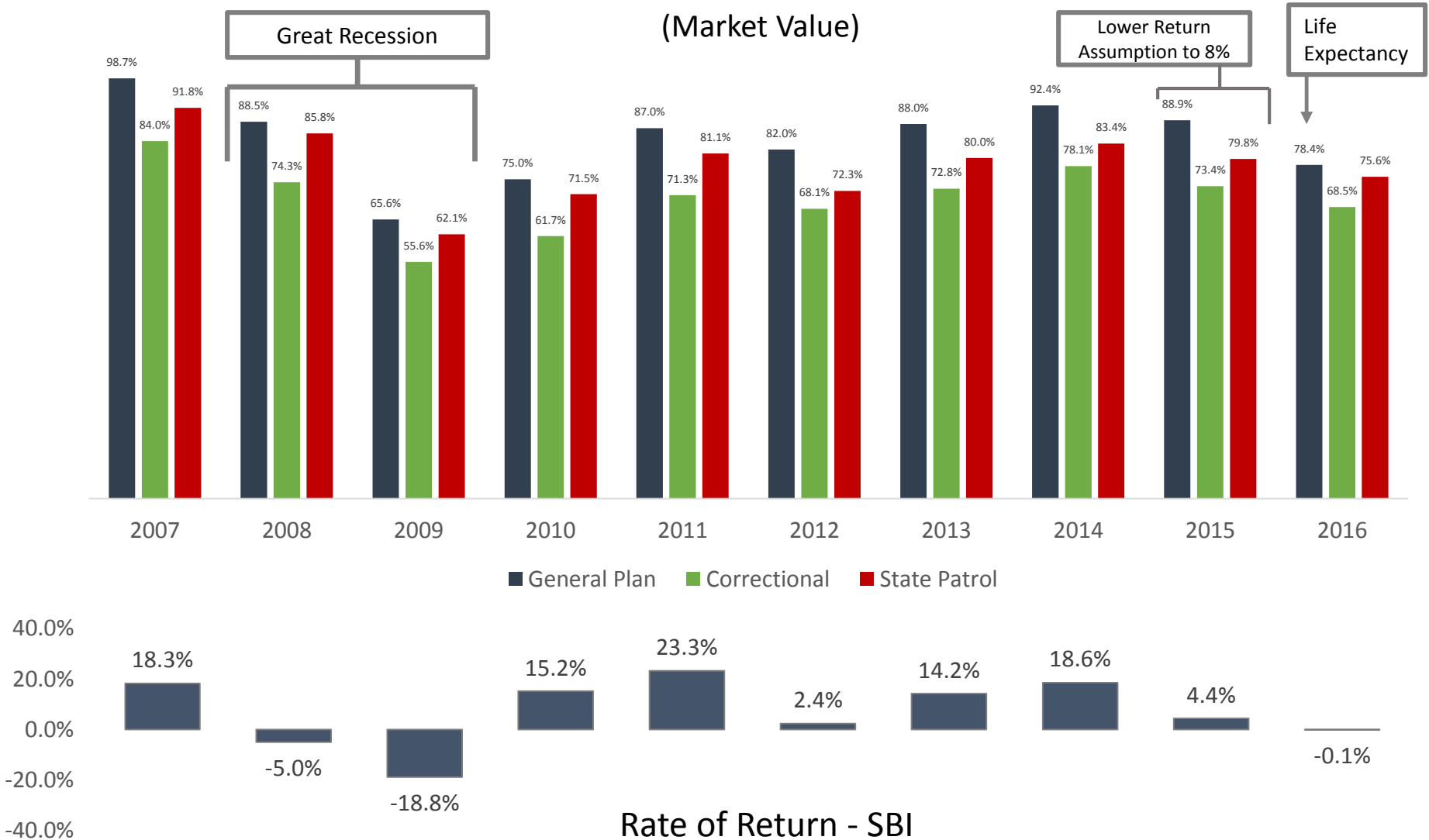
Financial Status- July 1, 2016

	General Plan*	Correctional Plan	State Patrol Plan**
Total Assets (market value)	\$11.2 billion	\$899.6 million	\$630.0 million
Unfunded Liability	\$3.1 billion	\$413.9 million	\$203.9 million
Funded Ratio (actuarial value)	81.6%	71.3%	78.5%
Funded Ratio (market value)	78.4%	68.5%	75.6%
Employee Contributions	5.5%	9.1%	14.4%
Employer Contributions	5.5%	12.85%	21.6%
Contribution Deficiency (actuarial value)	(3.5%)	(5.6%)	(3.1%)
Contribution Deficiency (market value)	(4.5%)	(6.7%)	(5.5%)
Average Initial Monthly Retirement Benefit	\$1,614	\$1,762	\$4,529

*General Plan numbers reflect assumption changes for longevity

** State Patrol Plan is not coordinated with Social Security

Investment Returns & Assumption Changes Impact Funding



Current Challenges

People are living longer

- General Plan assumption changes included in 2016 results
- Correctional & State Patrol life expectancy and mortality improvement will be included in 2017 results

Changes in Economic Environment

- Great Recession
- Lower than expected actual market returns in 2015 & 2016
- Lower rate of return assumption in 2015 from 8.5% to 8%.
- Proposing lowering return assumption in 2017 to 7.5%

Components of 2017 Legislative Proposals

- Adopt other demographic assumption changes recommended by the MSRS actuary
- Adopt the Combined Service Annuity load factor change recommended by the LCPR actuary
- Extend the amortization period
- Reduce the investment/discount rate assumption to 7.5%
 - Immediately increases plan liabilities
- Increase employee contributions
- Increase employer contributions
- Reduce post-retirement Increases (COLA)
 - Immediately decreases plan liabilities

Why Lower the Rate of Return Assumption?

- ▶ Study* from State Board of Investment says 10-year average expected return is 7.3% / year
- ▶ National trend towards lower return rate
- ▶ Most public pension plans are at 7.5% or lower**
- ▶ Currently our 8.0% assumption is at the high end of range considered acceptable by the MSRS actuary***
- ▶ We have been informed by our actuary that 8.0% may be deemed unreasonable for future valuations. ***

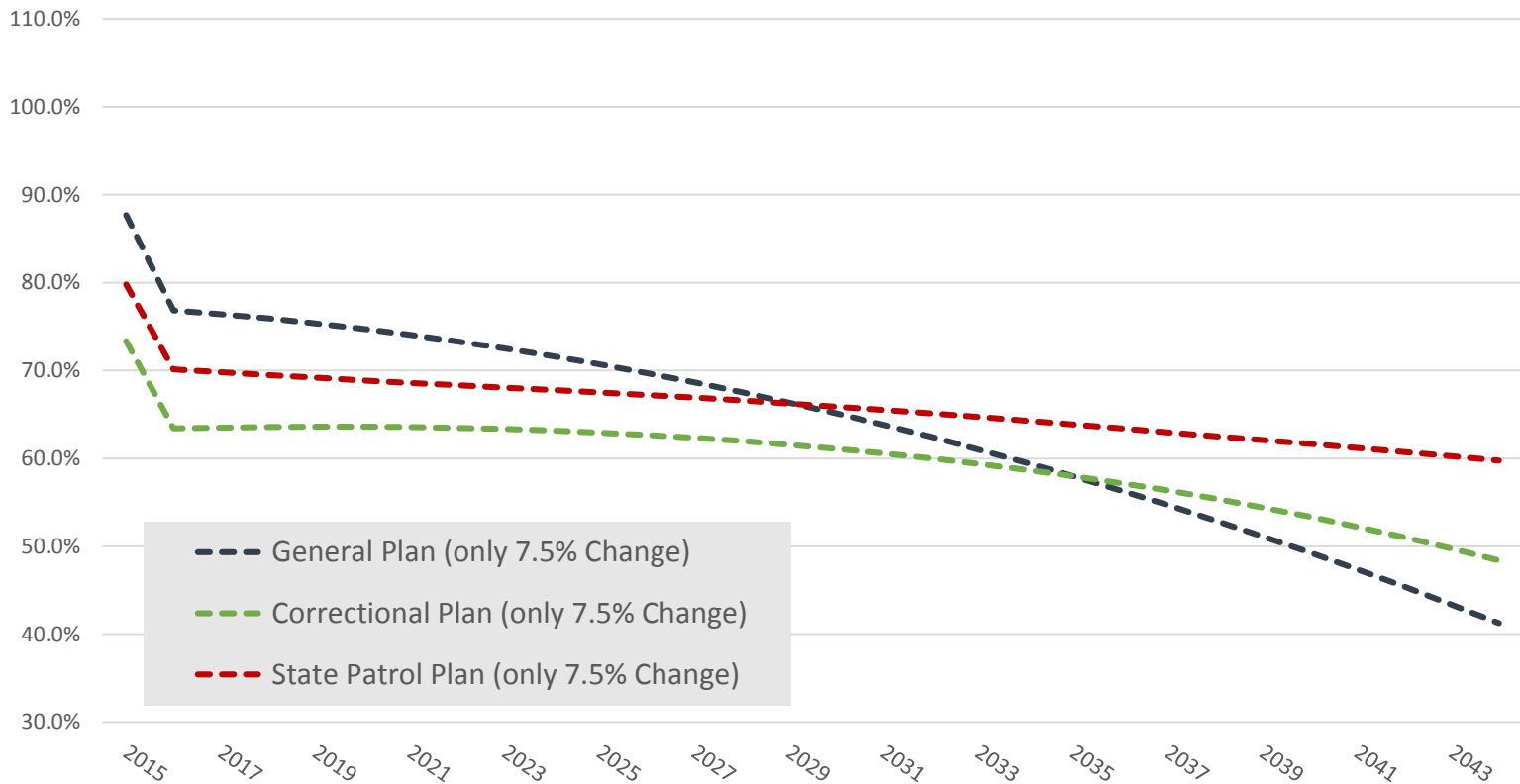
Cost of Lowering the Investment Assumption

Total \$931 Million increase to plan liabilities

General Plan- \$812 million

Correctional Plan- \$80 million

State Patrol Plan- \$39 million





General Plan 2017 Proposal

Market Value of Assets: **\$11.2 billion**

Unfunded Liability: **\$3.38 billion**

Contribution Deficiency: **5.7% of pay or \$164 million / year**

2017 Legislative Proposal	Impact/Savings as % of Pay	Impact / Savings \$ (millions per year)
Re – amortize from 26 years to 30 years (2047)	0.4%	\$11.6 per year
Reduce COLA to 1.5% (Immediately reduces unfunded liability by \$711 million)	1.9%	\$54.9
Remove COLA Trigger	Minimal short term impact	
FY2018 Contribution Increases Employer to 7.0% Employee to 6.0%	2.0% Total (1.5% ER) (0.5% EE)	\$57.7 Total (\$43.3 ER) (\$14.4 EE)
FY2020 Contribution Increase Employer to 8.0%	1.0%	\$28.9

Total Impact / Savings

5.3% of pay / \$153.1 million per year.

ER Impact is \$72 million per year.

0.4% of pay deficiency remains.



Correctional 2017 Proposal

Market Value of Assets

\$900 million

Unfunded Liability

\$517 million

Total Contribution Deficiency

9.5% of pay or \$23.5 million / year

2017 Legislative Proposal	Impact/Savings % of pay	Impact/Savings \$ (millions per year)
Re-amortize from 22 years to 30 years (2047)	2.1% (already included above)	\$5.2 million per year (already included above)
Reduce COLA to 1.5% (immediately reduces liability by \$76 million)	3.0%	\$7.4
Removal of COLA triggers	Minimal Short Term Impact	
Increase employer contributions to 14.4%	1.55%	\$3.8
Increase employee contributions to 9.6%	0.5%	\$1.2
Add state additional contribution of 4.45%	4.45%	\$11.2

Total Impact/Savings

9.5% of pay/\$23.5 million per year

ER impact is \$14.9 million per year

No deficiency remains



State Patrol 2017 Proposal

Market Value of Assets

\$630 million

Unfunded Liability

\$272 million

Total Contribution Deficiency

9.5% of pay or \$6.9 million per year

2017 Legislative Proposal	Impact/Savings % of pay	Impact/Savings \$ (millions per year)
Re-amortize from 22 years to 30 years (2047)	4.2% (already included above)	\$3.0 million per year (already included above)
Removal of triggers	Minimal Impact – short term	

FY2018 Contribution Increases Employer to 22.35% Employee to 14.9%	1.25% Total (0.75% ER) (0.5% EE)	\$0.9 Total (\$0.5 ER) (\$0.4 EE)
FY2020 Contribution Increases Employer to 23.1% Employee to 15.4%	1.25% (0.75% ER) (0.5% EE)	\$0.9 Total (\$0.5 ER) (\$0.4 EE)
Add state additional contribution of 7%	7.0%	\$5.1

Total Impact/Savings

**9.5% of pay/\$6.9 million per year
ER impact is \$ 6.2 million per year
No deficiency remains**

Action Needed if Investment Assumption Lowered

