

December 2009

Elective State Officers Retirement Fund

Actuarial Valuation Report as of July 1, 2009

MERCER



MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

Consulting. Outsourcing. Investments.

Contents

- Highlights.....1
- Principal Valuation Results.....3
- Certification4
- Supplemental Information6
- Plan Assets.....7
 - Statement of Plan Net Assets for Year Ended June 30, 2009..... 7
 - Reconciliation of Plan Assets..... 8
 - Actuarial Asset Value..... 9
- Membership Data.....10
 - Distribution of Service Retirements 10
 - Distribution of Survivors..... 11
 - Reconciliation of Members 12
- Development of Costs.....13
 - Actuarial Valuation Balance Sheet..... 13
 - Determination of Unfunded Actuarial Accrued Liability and Supplemental Contribution Amount 14
 - Changes in Unfunded Actuarial Accrued Liability..... 15
 - Determination of Contribution Sufficiency/(Deficiency) 16
- Actuarial Basis17
 - Actuarial Cost Method 17
 - Summary of Actuarial Assumptions 18
 - Summary of Plan Provisions 19
- Plan Accounting Under GASB 25 (as amended by GASB 50).....22
 - Schedule of Funding Progress Under Entry Age Normal Method..... 22
 - Schedule of Contributions from the Employer and Other Contributing Entities 23
- Glossary24

Highlights

This report has been prepared by Mercer for the Minnesota State Retirement System to:

- Present the results of a valuation of the Elective State Officers Retirement Fund as of July 1, 2009.
- Review experience under the Plan for the year ended June 30, 2009.
- Provide reporting and disclosure information for governmental agencies and other interested parties.

Contributions

The following table summarizes important contribution information as described in the “Development of Costs” section.

Contributions	Actuarial Valuation as of	
	July 1, 2009	July 1, 2008
Statutory Contributions – Chapter 352C	\$ 0	\$ 0
Required Contributions – Chapter 356	601,274	557,643
Sufficiency / (Deficiency)	(601,274)	(557,643)

This plan has a funding ratio of only 5.5%. The Chapter 356 Required Contribution shown above represents the estimated annual contribution amount that would be needed in order for this plan to attain 100% funding by July 1, 2017, based upon the prescribed assumptions. Actual contributions have been less than the required amount since 1998. Without a change in contribution policy, the funding target identified by Chapter 356 will not be met.

This plan is currently funded on a pay-as-you go basis by annual appropriations from the General Fund approximately equal to the amount of annual benefit payments. The expected benefit payments for the next 10 years are:

Fiscal Year Ending	Expected Annual Benefit Payments
2010	\$ 463,000
2011	452,000
2012	443,000
2013	432,000
2014	421,000
2015	408,000
2016	395,000
2017	380,000
2018	365,000
2019	349,000

Highlights

The estimated benefit payments, actuarial accrued liability, and required contribution are based on prescribed assumptions. The economic assumptions are prescribed by Statute, and the remaining assumptions are adopted by the MSRS Directors and the Legislative Commission on Pensions and Retirement. We have a number of concerns about the prescribed assumptions. First, the current contribution and investment policy of this plan does not seem to support an investment return assumption of 8.5%. For contribution calculations, a significantly lower discount rate, perhaps even 0%, would be more consistent with the recent experience of the plan and lack of any expected future investment earnings due to the current pay-as-you-go contribution policy. Second, the prescribed mortality table is not a modern table and has been producing a consistent pattern of mortality losses. We recommend that all assumptions be reviewed and updated, if possible, before the next actuarial valuation. Lowering the discount rate and the mortality table will increase the actuarial accrued liability. Finally, please note that the current assumptions may not comply with GASB standards for financial reporting.

The "Plan Assets" section provides detail on the plan assets used for the valuation. The plan assets did not earn any investment income for the plan year ending June 30, 2009 as compared to the prescribed assumed rate of 8.5%.

Participant reconciliation and statistics are detailed in the "Membership Data" section. The "Actuarial Basis" section includes a summary of plan provisions and actuarial methods and assumptions used for the calculations in this report. The "Plan Accounting" section details the required accounting information for the Plan under GASB Statement No. 25 (as amended by GASB 50).

There were no changes in valuation methods or actuarial assumptions since the July 1, 2008 valuation. Changes in plan provisions are reflected in this report and summarized in the Actuarial Basis section. Plan provisions were changed to reflect that, in conjunction with the Minnesota Post Retirement Investment Fund (MPRIF) dissolution, benefit recipients will receive future annual 2.5% cost-of-living adjustments (COLA). The waiting period and proration schedule for the COLA paid in the first year of retirement were also revised. These changes did not have an impact on plan liabilities.

Principal Valuation Results

A summary of principal valuation results from the current valuation and the prior valuation follows. Any changes in plan provisions, actuarial assumptions or valuation methods and procedures between the two valuations are described after the summary.

	Actuarial Valuation as of	
	July 1, 2009	July 1, 2008
Contributions		
Statutory – Chapter 352C	\$ 0	\$ 0
Required – Chapter 356	601,274	557,643
Sufficiency / (Deficiency)	(601,274)	(557,643)
Funding Ratios		
Accrued Benefit Funding Ratio		
– Current assets (AVA)	\$ 213,165	\$ 212,336
– Current benefit obligations	3,885,951	3,907,991
– Funding ratio	5.49%	5.43%
Accrued Liability Funding Ratio		
– Current assets (AVA)	\$ 213,165	\$ 212,336
– Actuarial accrued liability	3,885,951	3,907,991
– Funding ratio	5.49%	5.43%
Projected Benefit Funding Ratio		
– Current and expected future assets	\$ 213,165	\$ 212,336
– Current and expected future benefit obligations	3,885,951	3,907,991
– Funding ratio	5.49%	5.43%
Participant Data		
Active members	0	0
Service retirements	11	11
Survivors	4	4
Disability retirements	0	0
Deferred retirements	1	1
Terminated other non-vested	0	0
Total	16	16

Certification

Mercer has prepared this report exclusively for the Board of Directors of the Minnesota State Retirement System Retirement Fund and the Legislative Commission on Pensions and Retirement (LCPR) for the following purposes:

- Present the results of a valuation of the Elective State Officers Retirement Fund as of July 1, 2009 as required by Minnesota Statutes, Section 356.215 and the Standards of Actuarial Work established by the State of Minnesota Legislative Commission on Pensions and Retirement
- Review plan experience for the year ended June 30, 2009
- Provide the Annual Required Contribution for the period beginning July 1, 2009
- Provide reporting and disclosure information for financial statements for governmental agencies pursuant to GASB Statements Number 25 (as amended by GASB Number 50) and 27.

This valuation report may not be relied upon for any other purpose or by any party other than the Board of Directors, the LCPR, or the Plan's auditors solely for the purpose of completing an audit related to the matters herein. Mercer is not responsible for the consequences of any unauthorized use.

A valuation report is a snapshot of a plan's estimated financial condition at a particular point in time; it does not predict a plan's future financial condition or its ability to pay benefits in the future.

Over time, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people paid benefits, plan expenses and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the valuation date, but are predicted to fall within a reasonable range of possibilities.

To prepare this report, *Actuarial Assumptions*, as described in the Actuarial Basis section, are used to select a single scenario from a range of possibilities. The results of that single scenario are included in this report. However, the future is uncertain and the plan's actual experience will differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. Actuarial assumptions may also be changed from one valuation to the next because of changes in mandated requirements, plan experience, changes in expectations about the future and other factors. Due to the limited scope of our assignment, we did not perform, nor do we present, an analysis of the potential range of future possibilities and scenarios.

Because actual plan experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts, benefit security and/or benefit-related issues should be made only after careful consideration of alternative future financial conditions and scenarios, and not solely on the basis of a valuation report or reports.

Data and plan provisions

To prepare this report, Mercer has used and relied on financial data submitted by the Minnesota State Retirement System as of June 30, 2009, as well as participant data supplied by the Minnesota State Retirement System as of June 30, 2009. We have reviewed the financial and participant data for internal consistency and general reasonableness, but we have not verified or audited any of the data or information provided. We have also used and relied on the Statutes and summary of plan provisions supplied by the Minnesota State Retirement System. A summary of the plan provisions valued is presented in our report. The Board of Directors are solely responsible for the accuracy, validity and comprehensiveness of this information. If the data or plan provisions supplied are not accurate and complete, the valuation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a later revision of this report.

Certification

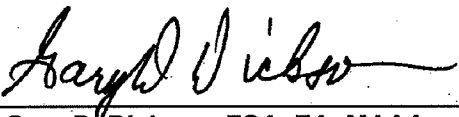
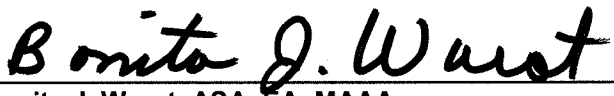
Actuarial Calculations, Methods and Assumptions

To the best of our knowledge and belief, this report is complete and accurate and all costs, liabilities and other factors under the plan were determined in accordance with generally accepted actuarial principles and procedures, in accordance with the requirements of Minnesota Statutes Section 356.215 and the requirements of the Standards of Actuarial Work established by the LCPR. The economic assumptions, including discount rates, are set in Minnesota Statutes, and the remaining assumptions are adopted by the Directors and the LCPR. This valuation is based on assumptions, plan provisions, methods and other parameters as summarized in this report. If this information is inaccurate or incomplete or does not reflect current statutes, regulations or Board directives, the reader of this report should not rely on the valuation results and should notify Mercer promptly. In our opinion, this report discloses the actuarial position of the plan on this mandated basis. Note that other assumptions may be more appropriate for GASB disclosures and funding purposes, as discussed elsewhere in this report.

Professional qualifications

We are available to answer any questions on the material in this report or to provide explanations or further details as appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. In addition, Mr. Dickson meets the requirements of "approved actuary" under Minnesota Statutes, Section 356.215, Subdivision 1, Paragraph (c). We are not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict of interest, that would impair the objectivity of our work.

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

	<u>12/9/2009</u>
Gary D. Dickson, FSA, EA, MAAA Principal	Date
	<u>12/9/2009</u>
Bonita J. Wurst, ASA, EA, MAAA Principal	Date
Mercer 333 South 7th Street, Suite 1600 Minneapolis, MN 55402-2427 612 642 8600	

Supplemental Information

The remainder of the report includes information supporting the results presented in the previous sections.

- **Plan assets** presents information about the plan's assets as reported by the Minnesota State Retirement System and the Minnesota State Board of Investments. The assets represent the portion of total fund liabilities that has been funded.
- **Membership data** presents and describes the membership data used in the valuation.
- **Development of costs** shows the liabilities for plan benefits and the derivation of the contribution amount.
- **Actuarial basis** describes the plan provisions, as well as the methods and assumptions used to value the plan. The valuation is based on the premise that the plan is ongoing.
- **Plan accounting under GASB 25 (as amended by GASB 50)** shows the disclosures required by GASB Statement No. 25 as amended by GASB Statement No. 50.
- **Glossary** defines the terms used in this report.

Plan Assets

Statement of Plan Net Assets for Year Ended June 30, 2009

	Market Value
Assets in Trust	
▪ Cash, equivalents, short term securities	\$ 0
▪ Fixed income	0
▪ Equity	0
▪ Other	0
Total assets in trust	\$ 0
Assets Receivable	214,003
Total Assets	\$ 214,003
Amounts Payable	(838)
Net Assets held in trust for pension benefits	\$ 213,165

Plan Assets

Reconciliation of Plan Assets

The following exhibit shows the revenue, expenses and resulting assets of the Fund as reported by the Minnesota State Board of Investment, for the Plan's Fiscal Year July 1, 2008 to June 30, 2009.

Change in Assets	Market Value
1. Fund balance at market value at July 1, 2008	\$ 212,336
2. Contributions	
a. Member	0
b. Employer	442,099
c. Other sources	0
d. Total contributions	\$ 442,099
3. Investment income	
a. Investment income/(loss)	\$ 0
b. Investment expenses	0
c. Total investment income/(loss)	\$ 0
4. Other	0
5. Total income (2.d. + 3.c. + 4.)	\$ 442,099
6. Benefits paid	
a. Annuity benefits	\$ (440,432)
b. Refunds	0
c. Total benefits paid	\$ (440,432)
7. Expenses	
a. Other	\$ 0
b. Administrative	(838)
c. Total expenses	\$ (838)
8. Total disbursements (6.c. + 7.c.)	\$ (441,270)
9. Other changes in reserves	
a. Annuities awarded	\$ 0
b. Transfer between reserves	0
c. Change in assumptions	0
d. Total other changes	\$ 0
10. Fund balance at market value at June 30, 2009 <i>(1 + 5. + 8. + 9.d.)</i>	\$ 213,165

Plan Assets

Actuarial Asset Value

Actuarial Asset Value is equal to Market Value.

Membership Data

Distribution of Service Retirements

Age	Years Retired as of June 30, 2009							Total
	<1	1 – 4	5 – 9	10 – 14	15 – 19	20 – 24	25+	
<55								0
Avg. Benefit								N/A
55 – 59								0
Avg. Benefit								N/A
60 – 64								0
Avg. Benefit								N/A
65 – 69		2	1					3
Avg. Benefit		9,080	51,185					23,115
70 – 74				2				2
Avg. Benefit				72,181				72,181
75 – 79				2	3			5
Avg. Benefit				18,559	28,277			24,390
80 – 84				1				1
Avg. Benefit				17,273				17,273
85 – 89								0
Avg. Benefit								N/A
90+								0
Avg. Benefit								N/A
Total	0	2	1	5	3	0	0	11
Avg. Benefit	N/A	9,080	51,185	39,751	28,277	N/A	N/A	32,085

In each cell, the top number is the count of retired participants for the age/years retired combination and the bottom number is the average annual benefit amount.

Membership Data

Distribution of Survivors

Age	Years Since Death as of June 30, 2009							Total
	<1	1 – 4	5 – 9	10 – 14	15 – 19	20 – 24	25+	
<55								0
Avg. Benefit								N/A
55 – 59								0
Avg. Benefit								N/A
60 – 64								0
Avg. Benefit								N/A
65 – 69					1			1
Avg. Benefit					8,673			8,673
70 – 74								0
Avg. Benefit								N/A
75 – 79				1				1
Avg. Benefit				49,982				49,982
80 – 84								0
Avg. Benefit								N/A
85 – 89								0
Avg. Benefit								N/A
90+					1		1	2
Avg. Benefit					23,414		10,870	17,142
Total	0	0	0	1	2	0	1	4
Avg. Benefit	N/A	N/A	N/A	49,982	16,043	N/A	10,870	23,235

In each cell, the top number is the count of survivor participants for the age/years since death combination and the bottom number is the average annual benefit amount.

