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Legislators Retirement Fund

Actuarial Valuation Report as of July 1, 2009

MERCER



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Highlights

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

- Present the results of a valuation of the Legislators 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 3A (% of Payroll)	9.00%	9.00%
Required Contributions – Chapter 356 (% of Payroll)	338.22%	243.21%
Sufficiency / (Deficiency)	(329.22%)	(234.21%)

This plan has a funding ratio of 31.7%. The required contribution shown above represents the annual contribution amount, as a percent of payroll, assuming future payroll increases of 4.5% per year, that would be needed in order for this plan to attain 100% funding by July 1, 2021, based upon the prescribed assumptions. Actual contributions have been less than the required amount since 2003. **Without a change in contribution policy, or extremely favorable actuarial experience, the fund’s assets will be depleted over the next 5-10 years, or earlier.**

This plan is partially funded on a pay-as-you go basis, by member contributions and annual appropriations from the General Fund. The expected benefit payments for the next 10 years are:

Fiscal Year Ending	Expected Annual Benefit Payments
2010	\$ 7,504,000
2011	8,253,000
2012	8,410,000
2013	8,534,000
2014	8,626,000
2015	8,642,000
2016	8,595,000
2017	8,498,000
2018	8,398,000
2019	8,337,000

Note that the current contribution levels are not sufficient to cover annual benefit payments. For the fiscal year ending June 30, 2009, total contributions were \$1.5 million and total benefit payments were \$7.0 million.

Highlights

The estimated benefit payments, actuarial accrued liability, and required contribution are based on prescribed assumptions. The economic assumptions are set in Statute, and the remaining assumptions are adopted by the MSRS Board of Directors and the Legislative Commission on Pensions and Retirement. These assumptions include an older mortality table that has been producing a historical pattern of annual mortality losses, and a retirement age assumption that has predicted more retirements than the plan has experienced. In addition, assumed payroll growth, for purpose of amortizing the unfunded liability, is 4.5%. This assumption when used for a closed plan with decreasing payroll produces an increasing amortization payment as a percent of pay. For GASB purposes, we have assumed no payroll growth for amortization purposes, resulting in a level dollar amortization payment. **We recommend that all assumptions be reviewed and updated, if possible, before the next actuarial valuation.**

The "Plan Assets" section provides detail on the plan assets used for the valuation. The plan assets earned (13.9%) for the plan year ending June 30, 2009 as compared to the 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 actuarial assumptions since the July 1, 2008 valuation. Changes in plan provisions and methods are reflected in this report and summarized in the Actuarial Basis section.

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 (% of Payroll)		
Statutory – Chapter 3A	9.00%	9.00%
Required – Chapter 356	338.22%	243.21%
Sufficiency / (Deficiency)	(329.22%)	(234.21%)
Funding Ratios (dollars in thousands)		
Accrued Benefit Funding Ratio		
– Current assets (AVA)	\$ 28,663	\$ 39,209
– Current benefit obligations	90,061	85,598
– Funding ratio	31.83%	45.81%
Accrued Liability Funding Ratio		
– Current assets (AVA)	\$ 28,663	\$ 39,209
– Actuarial accrued liability	90,431	86,131
– Funding ratio	31.70%	45.52%
Projected Benefit Funding Ratio		
– Current and expected future assets	\$ 29,987	\$ 40,594
– Current and expected future benefit obligations	91,755	87,516
– Funding ratio	32.68%	46.38%
Participant Data		
Active members		
– Number	48	52
– Projected annual earnings (000s)	2,061	2,093
– Average projected annual earnings	42,945	40,242
– Average age	62.9	61.6
– Average service	20.0	19.7
Service retirements	284	277
Survivors	74	69
Disability retirements	0	0
Deferred retirements	95	106
Terminated other non-vested	2	2
Total	503	506

Effects of Changes

The following changes in plan provisions and methods were recognized as of July 1, 2009:

Dissolution of Minnesota Post Retirement Investment Fund (MPRIF)

Because the MPRIF composite funding ratio was less than 80 percent as of June 30, 2008, the MPRIF was dissolved, and assets were transferred back to MSRS and merged with the respective active member fund. The transfer of assets and liabilities occurred on June 30, 2009.

In conjunction with the 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.

The MPRIF dissolution and COLA changes did not affect the valuation results.

Method Change - Automatic Survivor Benefits

The normal form of benefit is the 50% joint and survivor annuity. These automatic survivor benefits are funded through annual appropriations from the General Fund. In 2005, valuation methods were revised so that the value of automatic survivor benefits for members in payment status was excluded from the actuarial accrued liability. The Minnesota State Retirement System directed us to include the value of automatic survivor benefits in the actuarial accrued liability beginning in 2009.

This change in method increased the required contribution by 23.6% of pay.

Certification

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

- Present the results of a valuation of the Legislators 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

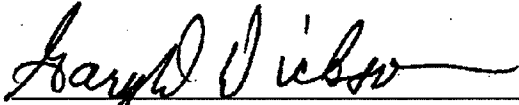

Actuarial Calculations, Methods and Assumptions

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 Board of 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 fully and fairly 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>12/10/2009</u>
Gary Dickson, FSA, EA, MAAA Principal	Date
	<u>12/10/2009</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 *(Dollars in Thousands)*

	Market Value	Cost Value
Assets in Trust		
▪ Cash, equivalents, short term securities	\$ 666	\$ 666
▪ Fixed income	5,346	5,348
▪ Equity	18,914	19,004
▪ Other	0	0
Total assets in trust	\$ 24,926	\$ 25,018
Assets Receivable	7,360	7,360
Total Assets	\$ 32,286	\$ 32,378
Accounts Payable	(3,623)	(3,623)
Net Assets held in trust for pension benefits	\$ 28,663	\$ 28,755

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 (dollars in thousands)	Non-MPRIF Assets	MPRIF Reserve	Market Value
1. Fund balance at market value at July 1, 2008	\$ 6,643	\$ 32,566	\$ 39,209
2. Contributions			
a. Member	\$ 248	\$ 0	\$ 248
b. Employer	0	0	0
c. Other sources	1,269	0	1,269
d. Total contributions	\$ 1,517	\$ 0	\$ 1,517
3. Investment income*			
a. Investment income/(loss)	\$ (4,989)	\$ 0	\$ (4,989)
b. Investment expenses	(32)	0	(32)
c. Net subtotal	\$ (5,021)	\$ 0	\$ (5,021)
4. Other	0	0	0
5. Total income (2.d. + 3.c. + 4.)	\$ (3,504)	\$ 0	\$ (3,504)
6. Benefits Paid			
a. Annuity benefits	\$ (1,841)	\$ (5,175)	\$ (7,016)
b. Refunds	0	0	0
c. Total benefits paid	\$ (1,841)	\$ (5,175)	\$ (7,016)
7. Expenses			
a. Other	\$ 0	\$ 0	\$ 0
b. Administrative	(26)	0	(26)
c. Total expenses	\$ (26)	\$ 0	\$ (26)
8. Total disbursements (6.c. + 7.c.)	\$ (1,867)	\$ (5,175)	\$ (7,042)
9. Other changes in reserves			
a. Annuities awarded	\$ 0	\$ 0	\$ 0
b. Transfer between reserves	26,351	(26,351)	0
c. Mortality gain/(loss) not transferred	1,040	(1,040)	0
d. Total other changes	\$ 27,391	\$ (27,391)	\$ 0
10. Fund balance at market value at June 30, 2009 (1. + 5. + 8. + 9.d.)	\$ 28,663	\$ 0	\$ 28,663

* MPRIF investment income allocated to non-MPRIF assets by the Minnesota State Retirement System.

Plan Assets

Actuarial Asset Value

The Actuarial Value of Assets (AVA) is equal to the Market Value of Assets.

