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Minnesota State Retirement System

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<http://www.msrs.state.mn.us/>

AT A GLANCE

- Established in 1929
- Defined benefit retirement funds managed – 5
- Total defined benefit members – 121,335
- Net defined benefit fund position (net assets held at trust) - \$13.39 billion
- Defined contribution retirement funds managed – 4
- Total defined contribution participants – 187,232
- Net defined contribution fund position (net assets held in trust) - \$7.08 billion
- Total participating employers – 849
- Fiscal year 2017 administrative and recordkeeping budget - \$23.4 million
- Number of employees – 125

Source: MSRS 2015 Comprehensive Annual Financial Report

PURPOSE

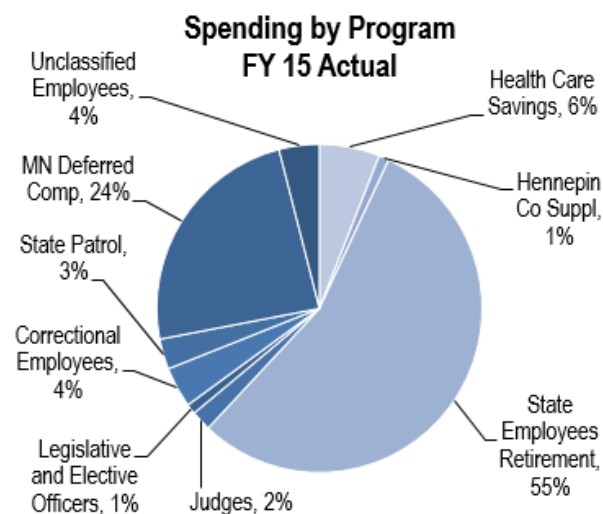
Minnesota State Retirement System's (MSRS) mission is to administer financially secure retirement plans for its members, assure timely benefit payments, be proactive in public pension policies, and provide exemplary customer service through a one-stop shopping source.

MSRS supports the following statewide outcomes

- A thriving economy that encourages business growth and employment opportunities by allowing retirees to remain self-supportive and purchase goods and services in the local community.
- Minnesotans have optimal health by allowing public employees access to a Health Care Savings Plan.
- Strong and stable families and communities, with over 90% of MSRS retirees living in Minnesota.
- Efficient and accountable government services.

An 11-member board of directors governs MSRS' administration. The MSRS Board has statutory authority to appoint an Executive Director to manage the system.

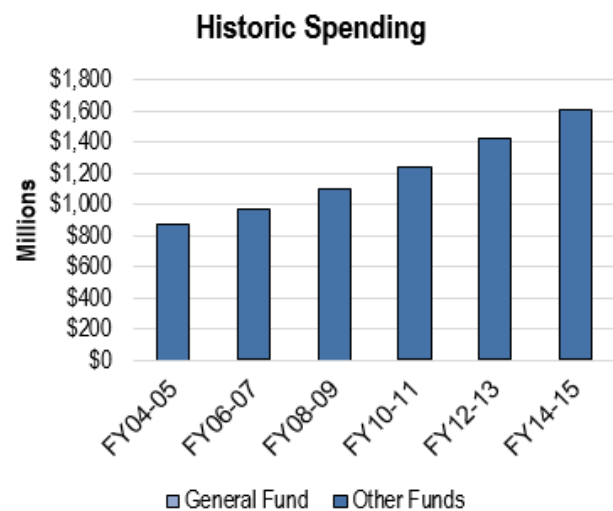
BUDGET



Footnotes about the pie chart:

1. Spending includes retirement benefit payments, distributions to participants, and administrative expenses.

Source: MSRS 2015 Comprehensive Annual Financial Report



Footnotes about the bar chart:

1. Other Funds includes MSRS' pension trust funds.
2. Although indiscernible on the bar chart, MSRS only utilized state General Fund appropriations to finance retirement benefits and other administrative expenses for the Legislators and Elective State Officers Retirement Plans.

Source: MSRS Fiscal Year 2014 and 2015 Comprehensive Annual Financial Reports

MSRS administers five defined benefits funds internally: the State Employees, State Patrol, Correctional Employees, Judges, and Legislators Retirement Plans. All of these plans, except the Legislators Retirement Plan, are funded primarily with investment earnings comprising 72 percent of revenues over the ten-year period ending June 30, 2015. Plan member and employer contributions each comprised about 13 percent of revenues in the same period. MSRS contribution rates continue to remain relatively stable, currently at 5.5%. The fund has realized an annualized investment rate of return of 7.8% for the ten-year period ending June 30, 2015. MSRS' administrative expenses for these funds continue to be less than 1/10 of 1% of plan net assets.

For the Legislators Retirement Plan, MSRS receives state General Fund appropriations to finance monthly regular retirement and survivor benefit payments, and the plan's proportionate share of MSRS' administrative expenses on a pay-as-you-go basis.

For the Judges Retirement Plan, the legislature appropriated MSRS General Fund appropriations totaling \$3 million in fiscal year 2017 and \$6 million annually thereafter until the plan reaches full funding.

MSRS also administers four defined contribution funds: the Unclassified Employees Retirement Plan, the Minnesota Deferred Compensation Plan, the Health Care Savings Plan, and the Supplemental Retirement Plan for Hennepin County. For these plans, participants' tax-deferred contributions are invested daily and held in trust until retirement or termination of employment. Participant administrative fees include recordkeeping, custodial, and other MSRS administrative expenses. These plans require no state appropriation for funding purposes.

STRATEGIES

MSRS utilizes the following strategies to accomplish its stated mission:

- Develop, implement, and maintain retirement programs that are responsive to its members' needs.
- Seek approval of legislative initiatives designed to ensure the financial stability of the retirement plans.
- Deliver pension benefits and services in a customer-oriented and cost-effective manner.
- Educate members to make informed decisions leading to a financially secure retirement future through counseling, workshops, newsletters, and web-based services and tools.
- Promote a respectful, ethical, high performance work environment that supports staff development, technological enhancements, and business process improvements.

MSRS operates from its main office in St. Paul and branch offices located in St. Cloud, Mankato, Detroit Lakes, and Duluth. MSRS is organized around two functional areas: retirement services and administrative support processes. Retirement Services staff provide education, benefit determinations, and retirement counseling to members of all MSRS retirement plans by phone, through onsite visits, and through the MSRS web site. Administrative divisions support accounting, contract administration, information technology and systems, financial reporting, records management services.

For MSRS' defined benefit plans, MSRS collects member and employer contributions through payroll deductions and transfers these assets to the Minnesota State Board of Investment where they are pooled with the assets of other statewide retirement associations and invested in various securities. MSRS disburses monthly benefit payments to retired members, survivors, and disabled employees; and processes lump-sum withdrawals and rollovers to members who have terminated employment.

For MSRS' defined contribution plans, participants' tax deferred contributions flow from the employer to the recordkeeper and custodian for daily investment. Individual participants select their own investments from the various options offered. At MSRS' direction, the recordkeeper will make distributions to participants and vendors, and reimburse MSRS for each plan's proportionate share of administrative expenses. Financial transactions of these funds are not captured in the state's accounting system. Thus, the fiscal pages of this budget document omit the financial activities for these plans.

RESULTS

Three measure of a defined benefit plan's financial health are:

- **Contribution Sufficiency/Deficiency Rate** – This rate is the difference between the actuary's computation of required employer and employee contributions rates and the statutory contribution rates, expressed as a percent of payroll. A

sufficiency indicates that the plan is on target to reach a 100% funded ratio before its full funding date; conversely, a deficiency means the retirement system is not collecting enough contributions to its full funding target date.

- **Unfunded Actuarial Accrued Liability** – This is the difference between the actuary's valuation of assets and the present value of member's future benefits. The more plan assets that a retirement fund has at a particular point in time, the lesser the unfunded actuarial accrued liability amount will be.
- **Funded Ratio** – This ratio is the percent of a retirement fund's net assets, calculated for actuarial purposes, that is available to pay the present value of benefits that employees already earned. The higher the ratio, the better positioned the retirement plan is to pay future benefits when they become due.

The table below presents performance measurement data for MSRS' defined benefit funds as of June 30, 2010, and June 30, 2015, based on computations using the market value of assets.

<i>Type of Measure</i>	<i>Performance Measure by MSRS Fund</i>	<i>Previous</i>	<i>Current</i>	<i>Trend</i>
	MSRS State Employees Retirement Fund			
Quantity	Contribution Sufficiency/(Deficiency)	(3.9)%	(0.45)%	Improving
Quantity	Unfunded Actuarial Accrued Liability	\$1.5 billion	\$1.9 billion	Worsening
Results	Funded Ratio	74.95%	88.89%	Improving
	State Patrol Retirement Fund			
Quantity	Contribution Sufficiency/(Deficiency)	(15.05)%	(5.52)%	Improving
Quantity	Unfunded Actuarial Accrued Liability	\$116 million	\$193 million	Worsening
Results	Funded Ratio	71.54%	79.77%	Improving
	Correctional Employees Retirement Fund			
Quantity	Contribution Sufficiency/(Deficiency)	(6.99)%	(4.56)%	Improving
Quantity	Unfunded Actuarial Accrued Liability	\$247 million	\$361 million	Worsening
Results	Funded Ratio	61.71%	73.55%	Improving
	Judges Retirement Fund			
Quantity	Contribution Sufficiency/(Deficiency)	(6.41)%	(10.85)%	Worsening
Quantity	Unfunded Actuarial Accrued Liability	\$96 million	\$147 million	Worsening
Results	Funded Ratio	52.46%	55.31%	Improving
	Legislators Retirement Fund is funded by the General Fund on a pay-as-you-go basis and therefore performance trends are not measurable.			

Specific Legal Citations:

State Employees Retirement Fund – M.S. Sections 352.01-352.87 (<https://www.revisor.mn.gov/statutes/?id=352>)

State Patrol Retirement Fund – M.S. Chapter 352B (<https://www.revisor.mn.gov/statutes/?id=352B>)

Correctional Employees Retirement Fund – M.S. Sections 352.90-352.955 (<https://www.revisor.mn.gov/statutes/?id=352>)

Judges Retirement Fund – M.S. Chapter 490 (<https://www.revisor.mn.gov/statutes/?id=490>)

Legislators and Constitutional Officers Plan – M.S. Chapter 3A (<https://www.revisor.mn.gov/statutes/?id=3A>)

Unclassified Employees Retirement Fund – M.S. Chapter 352D (<https://www.revisor.mn.gov/statutes/?id=352D>)

Health Care Savings Plan – M.S. Chapter 352.98 (<https://www.revisor.mn.gov/statutes/?id=352.98>)

Minnesota Deferred Compensation Fund – M.S. Section 352.965 (<https://www.revisor.mn.gov/statutes/?id=352.965>)

Hennepin County Supplemental Retirement Plan – M.S. Section 383B.46 (<https://www.revisor.mn.gov/statutes/?id=383B.46>)

(Dollars in Thousands)

Expenditures By Fund

	Actual FY14	Actual FY15	Actual FY16	Estimate FY17	Forecasted Base	
					FY18	FY19
7210 - Correctional Employees Retire	52,552	57,521	61,716	62,571	65,365	68,284
7230 - Highway Patrol Retirement	53,978	55,747	58,023	59,335	61,407	63,552
7240 - Judicial Retirement	20,896	21,994	22,468	25,674	26,763	27,899
7250 - Legislative Annuities	8,528	8,502	8,576	8,679	8,831	8,964
7260 - State Employees Retirement	655,886	698,608	739,071	749,973	783,081	817,778
Total	791,840	842,371	889,854	906,232	945,447	986,477
<i>Biennial Change</i>				161,874		135,838
<i>Biennial % Change</i>				10		8

Expenditures by Program

Program: Mn State Retirement System	762,416	811,876	858,810	871,879	909,853	949,614
Program: Judges Plan	20,896	21,994	22,468	25,674	26,763	27,899
Program: Legislators Plan	8,528	8,502	8,576	8,679	8,831	8,964
Total	791,840	842,371	889,854	906,232	945,447	986,477

Expenditures by Category

Compensation	8,812	9,380	10,147	12,839	12,991	13,251
Operating Expenses	12,871	11,345	8,815	9,762	9,956	10,157
Other Financial Transactions	770,158	821,627	870,892	883,631	922,500	963,069
Capital Outlay-Real Property		20		0	0	0
Total	791,840	842,371	889,854	906,232	945,447	986,477

Full-Time Equivalents

104.2	108.2	114.7	130.0	130.0	130.0
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1000 - General

	Actual		Actual	Estimate	Forecast Base	
	FY14	FY 15	FY 16	FY17	FY18	FY19
Direct Appropriation	0	0	0	3,000	6,000	6,000
Open Appropriation	3,539	3,369	5,177	8,679	8,831	8,964
Net Transfers	(3,539)	(3,369)	(5,177)	(11,679)	(14,831)	(14,964)

6000 - Miscellaneous Agency

	Actual		Actual	Estimate	Forecast Base	
	FY14	FY 15	FY 16	FY17	FY18	FY19
Balance Forward In	15	5	3	0	0	0
Receipts	(10)	(2)	(3)	0	0	0
Balance Forward Out	5	3	0	0	0	0

7210 - Correctional Employees Retire

	Actual		Actual	Estimate	Forecast Base	
	FY14	FY 15	FY 16	FY17	FY18	FY19
Open Appropriation	52,552	57,521	61,716	62,571	65,365	68,284
Expenditures	52,552	57,521	61,716	62,571	65,365	68,284
<i>Biennial Change in Expenditures</i>				14,214		9,362
<i>Biennial % Change in Expenditures</i>				13		8

7230 - Highway Patrol Retirement

	Actual		Actual	Estimate	Forecast Base	
	FY14	FY 15	FY 16	FY17	FY18	FY19
Open Appropriation	52,978	54,747	57,023	58,336	60,408	62,553
Net Transfers	1,000	1,000	1,000	1,000	1,000	1,000
Expenditures	53,978	55,747	58,023	59,335	61,407	63,552
<i>Biennial Change in Expenditures</i>				7,634		7,601
<i>Biennial % Change in Expenditures</i>				7		6

7240 - Judicial Retirement

	Actual		Actual	Estimate	Forecast Base	
	FY14	FY 15	FY 16	FY17	FY18	FY19
Open Appropriation	20,896	21,994	22,468	22,674	20,763	21,899
Net Transfers	0	0	0	3,000	6,000	6,000
Expenditures	20,896	21,994	22,468	25,674	26,763	27,899

7240 - Judicial Retirement

<i>Biennial Change in Expenditures</i>	5,252	6,520
<i>Biennial % Change in Expenditures</i>	12	14

7250 - Legislative Annuities

	Actual FY14	FY 15	Actual FY 16	Estimate FY17	Forecast Base FY18	FY19
Open Appropriation	4,989	5,133	3,399	0	0	0
Net Transfers	3,539	3,369	5,177	8,679	8,831	8,964
Expenditures	8,528	8,502	8,576	8,679	8,831	8,964
<i>Biennial Change in Expenditures</i>				225		540
<i>Biennial % Change in Expenditures</i>				1		3

7260 - State Employees Retirement

	Actual FY14	FY 15	Actual FY 16	Estimate FY17	Forecast Base FY18	FY19
Open Appropriation	656,441	699,165	739,643	750,545	783,653	818,354
Net Transfers	(555)	(557)	(572)	(572)	(572)	(576)
Expenditures	655,886	698,608	739,071	749,973	783,081	817,778
<i>Biennial Change in Expenditures</i>				134,550		111,815
<i>Biennial % Change in Expenditures</i>				10		8
Full-Time Equivalents	104.2	108.2	114.7	130.0	130.0	130.0