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Minnesota State Retirement System

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<https://msrs.state.mn.us/>

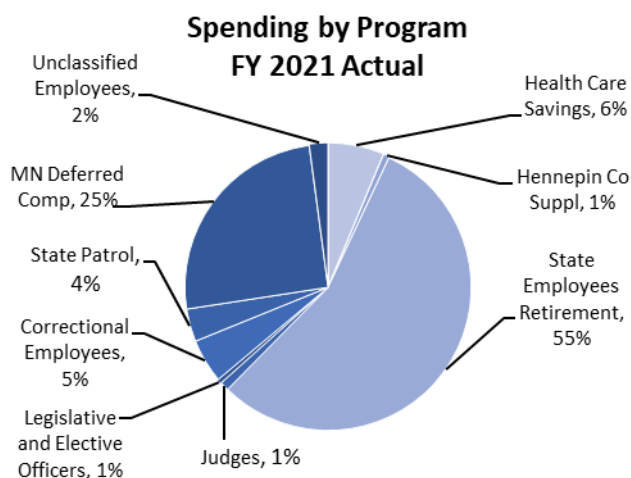
AT A GLANCE

- The Minnesota State Retirement System (MSRS) was established in 1929.
- MSRS manages five defined benefit retirement funds and four defined contribution retirement funds.
- MSRS has \$20.3 billion in defined benefit fund net assets held at trust and \$11.9 billion in defined contribution fund net assets held at trust as of June 30, 2021.
- MSRS has 137,193 defined benefit fund members and 242,759 defined contribution fund participants.
- MSRS has 940 total participating employers.
- MSRS manages a fiscal year 2023 administrative and recordkeeping budget of \$27.19 million.
- MSRS is governed by an 11-member board of directors.
- MSRS employs 155 people.

PURPOSE

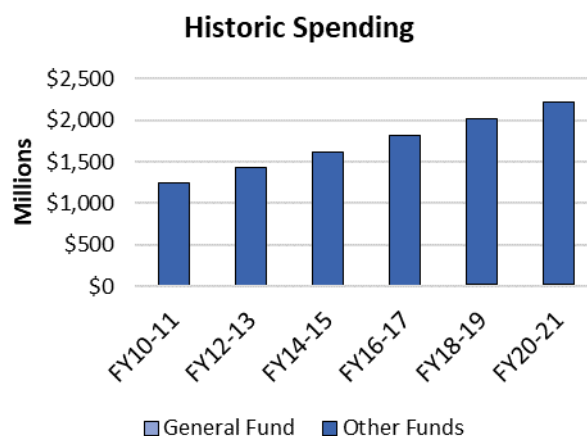
The Minnesota State Retirement System's (MSRS) mission is to empower Minnesota public employees to build a strong foundation for retirement.

BUDGET



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

Source: MSRS 2021 Annual Comprehensive Financial Report



1. **Other Funds includes MSRS' pension trust funds.**
2. **Although indiscernible on the bar chart, General Fund appropriations finance some retirement benefits and other administrative expenses for the State Patrol, Judges, and Legislators Retirement Plans.**

Source: MSRS Annual Comprehensive Financial Reports

MSRS administers multiple retirement plans that provide retirement, survivor, and disability benefit coverage for Minnesota state employees and select component units, the Metropolitan Council, the Minnesota Sports Facilities Authority, and non-instructional employees at the University of Minnesota. MSRS covers almost 57,000 active employees and currently pays monthly benefits to over 51,000 retirees and survivors. We also administer the Minnesota Deferred Compensation Plan and the Health Care Savings Plan.

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, which comprise approximately 87 percent of revenues for the

period ending June 30, 2021. Plan member and employer contributions comprised about 13 percent of revenues in the same period. MSRS contribution rates were 6.0 percent for employees and 6.25 percent for employers for the State Employees Retirement fund for the period ending June 30, 2021. The defined benefit funds have realized an annualized investment rate of return of 30.3 percent for the period ending June 30, 2021, and 10.4 percent for the ten-year period ending June 30, 2021. MSRS' administrative expenses for these funds continue to be less than one percent of plan net assets.

MSRS receives an annual \$6 million General Fund contribution to the Judges Retirement Fund until the fund is fully funded or until July 1, 2048, whichever is earlier. For the State Patrol Retirement Fund, MSRS receives supplemental General Fund aid of \$1 million annually until the Public Employees Retirement Association Police and Fire Retirement Fund and the State Patrol Retirement Fund become 90 percent funded on a market value of assets basis. 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.

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

The MSRS vision is to be a nationally recognized leader in public retirement plans by leveraging our engaged workforce, customer-focused culture, and innovative technologies to promote sustainable retirement options for Minnesota public employees.

MSRS uses the following strategies to accomplish its stated mission and vision:

- **Talent Management:** Our goal is to attract, hire, develop, empower, and retain an engaged workforce by promoting team and individual development goals, making work more flexible, encouraging cross training and crossover work, encouraging communication, recruiting creatively, and promoting diversity, equity, inclusion and belonging efforts.
- **Service Delivery:** Our goal is to enhance customer service to each other and to our external customers by standardizing internal service delivery, enhancing our pension application system, improving internal business communication, expediting financial transactions, improving and documenting workflows, implementing, enhancing, and maintaining controls based on risk, and performing business-continuity management lifecycles.
- **Participant Success:** Our goal is to increase retirement readiness of Minnesota public employees by responding faster to participants, enabling customized and self-service options, getting better participant feedback, providing comprehensive counseling, engaging with new public employees, creating user-centered interfaces, and expanding recordkeeper technology.
- **Financial Sustainability:** Our goal is to ensure the long-term financial viability of MSRS pension plans by advocating policies focused on long-term goals, developing a focused, multi-year strategic communication plan, and reviewing and updating business rules to calculate benefits.

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. Retirement Services staff provide records management, education, benefit determinations, and retirement counseling to members of all MSRS retirement plans by phone, web conference, onsite visits, and through the MSRS web site. Administrative divisions support includes accounting, contract administration, information technology, and financial reporting.

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

The 2018 Legislature enacted significant pension reforms for the State Employees, State Patrol, and Correctional Retirement Plans by increasing member and employer contributions and trimming plan features, including the lowering of the annual post-retirement benefit increases. The bill also modified MSRS's investment earnings assumption from 8.0% annually to 7.5% annually.

Three measures 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 meet 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 members' future benefits.
- **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, 2020, and June 30, 2021, based on computations using the market value of assets.

<i>Type of Measure</i>	<i>Performance Measure by MSRS Fund</i>	<i>June 30, 2020</i>	<i>June 30, 2021</i>
MSRS State Employees Retirement Fund			
Quality	Contribution Sufficiency/(Deficiency)	1.5%	7.1%
Quality	Unfunded Actuarial Accrued Liability	\$1.3 billion	\$(1.8 billion)
Quality	Funded Ratio	91.3%	111.5%
State Patrol Retirement Fund			
Quality	Contribution Sufficiency/(Deficiency)	3.7%	20.6%
Quality	Unfunded Actuarial Accrued Liability	\$231 million	\$34 million
Quality	Funded Ratio	76.6%	96.6%

<i>Type of Measure</i>	<i>Performance Measure by MSRS Fund</i>	<i>June 30, 2020</i>	<i>June 30, 2021</i>
Correctional Employees Retirement Fund			
Quality	Contribution Sufficiency/(Deficiency)	0.6%	8.1%
Quality	Unfunded Actuarial Accrued Liability	\$447 million	\$190 million
Quality	Funded Ratio	73.2%	89.3%
Judges Retirement Fund			
Quality	Contribution Sufficiency/(Deficiency)	(0.7)%	9.2%
Quality	Unfunded Actuarial Accrued Liability	\$186 million	\$115 million
Quality	Funded Ratio	53.8%	70.7%

Note: The Legislators Retirement Fund is funded by the General Fund on a pay-as-you-go basis and therefore performance trends are not measurable.

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. Section 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)

	Actual	Actual	Actual	Estimate	Forecast Base		Enacted Budget	
	FY20	FY21	FY22	FY23	FY24	FY25	FY24	FY25
<u>Expenditures by Fund</u>								
2001 - Other Misc Special Revenue							1,000	
7210 - Correctional Employees Retire	80,396	84,870	91,294	105,983	115,453	125,772	115,453	125,772
7230 - Highway Patrol Retirement	62,266	63,529	64,826	72,172	75,055	78,053	75,055	78,053
7240 - Judicial Retirement	26,436	27,207	28,146	37,858	42,017	46,632	42,017	46,632
7250 - Legislative Annuities	8,850	8,761	8,755	8,717	8,543	8,372	8,543	8,372
7260 - State Employees Retirement	918,424	955,771	1,005,375	1,155,489	1,237,014	1,324,279	1,237,014	1,324,279
7401 - Retirement System Building	1,735	1,873	2,042	1,776	1,869	1,962	1,869	1,962
Total	1,098,106	1,142,011	1,200,438	1,381,995	1,479,951	1,585,070	1,480,951	1,585,070
Biennial Change				342,316		482,588		483,588
Biennial % Change				15		19		19
Enacted Budget Change from Base								1,000
Enacted Budget % Change from Base								0

Minnesota State Retirement System

Agency Financing by Fund

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Enacted Budget	
	FY20	FY21	FY22	FY23	FY24	FY25	FY24	FY25
1000 - General								
Direct Appropriation	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Open Appropriation	8,850	8,761	8,755	8,717	8,543	8,372	8,543	8,372
Transfers In			131					
Transfers Out	14,850	14,761	14,886	14,717	14,543	14,372	14,543	14,372

2001 - Other Misc Special Revenue

Transfers In							1,000	
Expenditures							1,000	
Biennial Change in Expenditures				0		0		1,000
Biennial % Change in Expenditures								
Enacted Budget Change from Base								1,000
Enacted Budget % Change from Base								

7210 - Correctional Employees Retire

Open Appropriation	80,396	84,870	91,294	105,983	115,453	125,772	115,453	125,772
Expenditures	80,396	84,870	91,294	105,983	115,453	125,772	115,453	125,772
Biennial Change in Expenditures				32,012		43,948		43,948
Biennial % Change in Expenditures				19		22		22
Enacted Budget Change from Base								0
Enacted Budget % Change from Base								0

7230 - Highway Patrol Retirement

Open Appropriation	61,266	62,529	63,826	71,172	74,055	77,053	74,055	77,053
Transfers In	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Expenditures	62,266	63,529	64,826	72,172	75,055	78,053	75,055	78,053
Biennial Change in Expenditures				11,204		16,110		16,110
Biennial % Change in Expenditures				9		12		12
Enacted Budget Change from Base								0
Enacted Budget % Change from Base								0

7240 - Judicial Retirement

Open Appropriation	20,436	21,207	22,146	31,858	36,017	40,632	36,017	40,632
Transfers In	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Expenditures	26,436	27,207	28,146	37,858	42,017	46,632	42,017	46,632

Minnesota State Retirement System

Agency Financing by Fund

(Dollars in Thousands)

	Actual FY20	Actual FY21	Actual FY22	Estimate FY23	Forecast Base FY24 FY25		Enacted Budget FY24 FY25	
Biennial Change in Expenditures				12,360		22,645		22,645
Biennial % Change in Expenditures				23		34		34
Enacted Budget Change from Base								0
Enacted Budget % Change from Base								0

7250 - Legislative Annuities

Transfers In	8,850	8,761	8,886	8,717	8,543	8,372	8,543	8,372
Transfers Out			131					
Expenditures	8,850	8,761	8,755	8,717	8,543	8,372	8,543	8,372
Biennial Change in Expenditures				(139)		(557)		(557)
Biennial % Change in Expenditures				(1)		(3)		(3)
Enacted Budget Change from Base								0
Enacted Budget % Change from Base								0

7260 - State Employees Retirement

Open Appropriation	918,997	956,349	1,005,953	1,156,070	1,237,598	1,324,566	1,237,598	1,324,566
Transfers Out	573	577	578	581	584	287	584	287
Expenditures	918,424	955,771	1,005,375	1,155,489	1,237,014	1,324,279	1,237,014	1,324,279
Biennial Change in Expenditures				286,669		400,429		400,429
Biennial % Change in Expenditures				15		19		19
Enacted Budget Change from Base								0
Enacted Budget % Change from Base								0

7401 - Retirement System Building

Balance Forward In	49	318	515	496	496	496	496	496
Receipts	2,003	2,071	2,024	1,776	1,869	1,962	1,869	1,962
Balance Forward Out	318	515	496	496	496	496	496	496
Expenditures	1,735	1,873	2,042	1,776	1,869	1,962	1,869	1,962
Biennial Change in Expenditures				210		13		13
Biennial % Change in Expenditures				6		0		0
Enacted Budget Change from Base								0
Enacted Budget % Change from Base								0

(Dollars in Thousands)

	FY23	FY24	FY25	Biennium 2024-25
Direct				
Fund: 1000 - General				
FY2023 Appropriations	6,000	6,000	6,000	12,000
Forecast Base	6,000	6,000	6,000	12,000
Total Enacted Budget	6,000	6,000	6,000	12,000
Open				
Fund: 1000 - General				
FY2023 Appropriations	8,878	8,878	8,878	17,756
Base Adjustments				
Forecast Open Appropriation Adjustment	17	195	377	572
November Forecast Adjustment	(274)	(624)	(975)	(1,599)
February Forecast Adjustment	96	94	92	186
Forecast Base	8,717	8,543	8,372	16,915
Total Enacted Budget	8,717	8,543	8,372	16,915
Fund: 7210 - Correctional Employees Retire				
FY2023 Appropriations	105,981	105,981	105,981	211,962
Base Adjustments				
Forecast Open Appropriation Adjustment	2	9,472	19,791	29,263
Forecast Base	105,983	115,453	125,772	241,225
Total Enacted Budget	105,983	115,453	125,772	241,225
Fund: 7230 - Highway Patrol Retirement				
FY2023 Appropriations	72,172	72,172	72,172	144,344
Base Adjustments				
Forecast Open Appropriation Adjustment	(1,000)	1,883	4,881	6,764
Forecast Base	71,172	74,055	77,053	151,108
Total Enacted Budget	71,172	74,055	77,053	151,108
Fund: 7240 - Judicial Retirement				
FY2023 Appropriations	31,858	31,858	31,858	63,716
Base Adjustments				
Forecast Open Appropriation Adjustment		4,159	8,774	12,933
Forecast Base	31,858	36,017	40,632	76,649
Total Enacted Budget	31,858	36,017	40,632	76,649
Fund: 7260 - State Employees Retirement				
FY2023 Appropriations	1,162,864	1,162,864	1,162,864	2,325,728

Minnesota State Retirement System

Agency Change Summary

(Dollars in Thousands)

	FY23	FY24	FY25	Biennium 2024-25
Base Adjustments				
Forecast Open Appropriation Adjustment	(6,794)	74,734	161,702	236,436
Forecast Base	1,156,070	1,237,598	1,324,566	2,562,164
Total Enacted Budget	1,156,070	1,237,598	1,324,566	2,562,164
<i>Dedicated</i>				
Fund: 2001 - Other Misc Special Revenue				
Change Items				
Duty Disability Modifications		1,000		1,000
Total Enacted Budget		1,000		1,000
Fund: 7401 - Retirement System Building				
Planned Spending	1,776	1,869	1,962	3,831
Forecast Base	1,776	1,869	1,962	3,831
Total Enacted Budget	1,776	1,869	1,962	3,831
<i>Revenue Change Summary</i>				
<i>Dedicated</i>				
Fund: 7401 - Retirement System Building				
Forecast Revenues	1,776	1,869	1,962	3,831
Total Enacted Budget	1,776	1,869	1,962	3,831
<i>Non-Dedicated</i>				
Fund: 1000 - General				
Forecast Revenues	73	73	73	146
Total Enacted Budget	73	73	73	146
Fund: 7210 - Correctional Employees Retire				
Forecast Revenues	179,258	196,604	215,739	412,343
Total Enacted Budget	179,258	196,604	215,739	412,343
Fund: 7230 - Highway Patrol Retirement				
Forecast Revenues	114,847	123,837	134,857	258,694
Total Enacted Budget	114,847	123,837	134,857	258,694
Fund: 7240 - Judicial Retirement				
Forecast Revenues	61,058	67,297	74,325	141,622
Total Enacted Budget	61,058	67,297	74,325	141,622

(Dollars in Thousands)

	FY23	FY24	FY25	Biennium 2024-25
Fund: 7250 - Legislative Annuities				
Forecast Revenues	23	25	28	53
Total Enacted Budget	23	25	28	53
Fund: 7260 - State Employees Retirement				
Forecast Revenues	1,441,227	1,526,460	1,617,149	3,143,609
Total Enacted Budget	1,441,227	1,526,460	1,617,149	3,143,609

(Dollars in Thousands)

	FY23	FY24	FY25	Biennium 2024-25	FY26	FY27	Biennium 2026-27
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Duty Disability Modifications

This provision is for the Minnesota State Retirement System's (MSRS) costs associated with the modifications made to the duty disability process. This one-time funding is available until expended.

2001 - Other Misc Special Revenue Fund Cost (Savings)	0	0	0	0	0	0	0
Transfers In	0	1,000	0	1,000	0	0	0
Expenditures	0	1,000	0	1,000	0	0	0