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Minnesota State Retirement System

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

AT A GLANCE

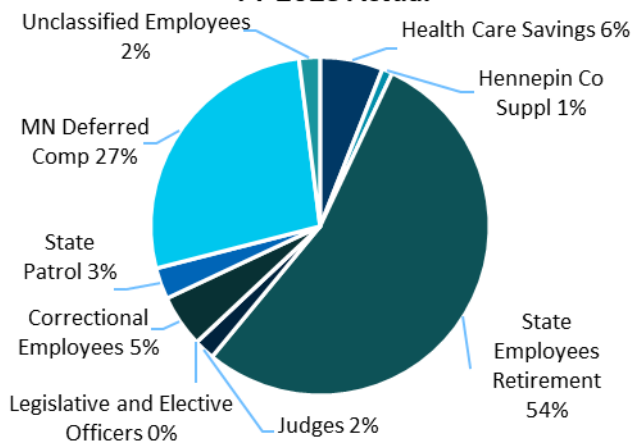
- The Minnesota State Retirement System (MSRS) was established in 1929.
- MSRS manages five defined benefit retirement funds and four defined contribution retirement funds.
- MSRS has \$19.5 billion in defined benefit fund net assets held at trust and \$11.6 billion in defined contribution fund net assets held at trust as of June 30, 2023.
- MSRS has 145,078 defined benefit fund members and 265,104 defined contribution fund participants.
- MSRS has 959 total participating employers.
- MSRS manages a fiscal year 2024 administrative and recordkeeping budget of \$29.6 million.
- MSRS is governed by an 11-member board of directors.
- MSRS employs 153 people.

PURPOSE

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

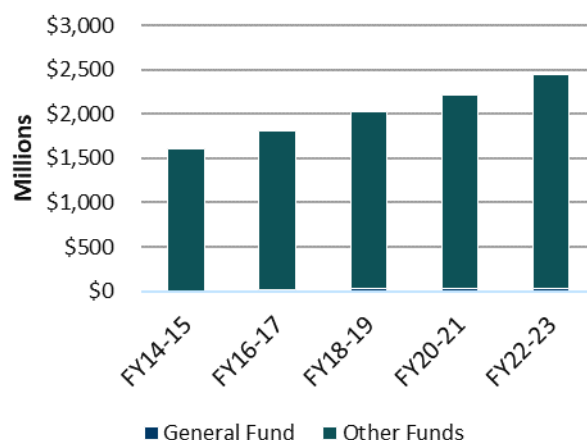
BUDGET

**Spending by Program
FY 2023 Actual**



*Spending by Program includes retirement benefit payments, distributions to participants, and administrative expenses.
Source: MSRS 2023 Annual Comprehensive Financial Report*

Historical Spending



Other Funds includes MSRS' pension trust funds. Although indiscernible on the bar chart, General Fund appropriations finance some retirement benefits and other administrative expenses for the 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 over 58,000 active employees and currently pays monthly benefits to over 54,000 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 70 percent of revenues for the period ending June 30, 2023. Plan member and employer contributions comprised about 30 percent of revenues in the same period. MSRS contribution rates were 5.5 percent for employees and 6.25 percent for employers for the State Employees Retirement fund for the period ending June 30, 2023. The defined benefit funds have realized an annualized investment rate of return of 8.9 percent for the period ending June 30, 2023, and 8.8 percent for the ten-year period ending June 30, 2023. 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 for three consecutive years on a market value of assets basis 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 that reflects the diversity of our state and the populations we serve by cultivating an organizational culture that encourages collaboration and performance; promoting trust and accountability; coordinating learning and development opportunities to further the MSRS mission to ensure employees understand their role and the roles of others; and identifying staffing needs and responding promptly to fill gaps.
- **Service Delivery:** Our goal is to provide exceptional customer-focused service to participants and to each other by fostering a customer-focused culture to provide excellent service; and modernizing organizational processes and technology to match or exceed industry peers.
- **Participant Success:** Our goal is to improve retirement readiness of all Minnesota public employees by providing a comprehensive customer experience; improving participant-facing technology; and enhancing participant retirement income with optional defined contribution plans.
- **Financial Sustainability and Organizational Resilience:** Our goal is to ensure the long-term viability of MSRS with a commitment to governance and adaptive leadership. This will be accomplished by maintaining pension plan sustainability with an awareness of generational equity; implementing, enhancing, and maintaining controls based on risk; and enhancing security posture and preparedness for disruptive events.

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 2023 Legislature enacted a one-time cost of living adjustment of up to 1 percent for the State Employees, Correctional Employees, Judges, and Legislators Retirement Plans and up to 3 percent for the State Patrol Plan. The 2023 legislature reduced employee contributions for active State Employees Retirement Plan members from 6 percent to 5.5 percent for the 2024-2025 biennium. The vesting period for active employees employed on July 1, 2023 was lowered from five years to three years for the State Employees Retirement Plan. The bill also modified MSRS's investment earnings assumption from 7.5 percent annually to 7.0 percent 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 percent 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, 2022, and June 30, 2023, based on computations using the market value of assets.

Measure name	Measure type	Measure data source	Historical trend	Most recent data
State Employees Plan - Contribution Sufficiency/(Deficiency)	<i>Quality</i>	FY 2023 Actuarial Valuation	Increasing since FY 2020	3.00%
State Employees Plan - Unfunded Actuarial Accrued Liability	<i>Quality</i>	FY 2023 Actuarial Valuation	Increasing since FY 2020	\$961 million

Measure name	Measure type	Measure data source	Historical trend	Most recent data
State Employees Plan - Funded Ratio	<i>Quality</i>	FY 2023 Actuarial Valuation	Increasing since FY 2020	94.50%
State Patrol Plan - Contribution Sufficiency/(Deficiency)	<i>Quality</i>	FY 2023 Actuarial Valuation	Increasing since FY 2020	17.60%
State Patrol Plan - Unfunded Actuarial Accrued Liability	<i>Quality</i>	FY 2023 Actuarial Valuation	Increasing since FY 2020	\$227 million
State Patrol Plan - Funded Ratio	<i>Quality</i>	FY 2023 Actuarial Valuation	Increasing since FY 2020	80.60%
Correctional Employees Plan - Contribution Sufficiency/(Deficiency)	<i>Quality</i>	FY 2023 Actuarial Valuation	Increasing since FY 2020	3.30%
Correctional Employees Plan - Unfunded Actuarial Accrued Liability	<i>Quality</i>	FY 2023 Actuarial Valuation	Decreasing since FY 2020	\$538 million
Correctional Employees Plan - Funded Ratio	<i>Quality</i>	FY 2023 Actuarial Valuation	Decreasing since FY 2020	74.80%
Judges Plan - Contribution Sufficiency/(Deficiency)	<i>Quality</i>	FY 2023 Actuarial Valuation	Increasing since FY 2020	2.90%
Judges Plan - Unfunded Actuarial Accrued Liability	<i>Quality</i>	FY 2023 Actuarial Valuation	Increasing since FY 2020	\$162 million
Judges Plan - Funded Ratio	<i>Quality</i>	FY 2023 Actuarial Valuation	Increasing since FY 2020	62.50%

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>)

Minnesota State Retirement System

Agency Expenditure Overview

(Dollars in Thousands)

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY22	FY23	FY24	FY25	FY26	FY27	FY26	FY27
<u>Expenditures by Fund</u>								
7210 - Correctional Employees Retire	91,294	97,456	103,450	112,344	120,363	129,048	120,363	129,048
7230 - Highway Patrol Retirement	64,826	66,937	70,310	73,115	75,590	78,184	75,590	78,184
7240 - Judicial Retirement	28,146	29,399	30,775	37,844	46,889	50,103	46,889	50,103
7250 - Legislative Annuities	8,755	8,758	8,843	8,610	8,696	8,783	8,696	8,783
7260 - State Employees Retirement	1,005,375	1,041,012	1,089,537	1,174,109	1,253,717	1,339,364	1,253,717	1,339,364
7401 - Retirement System Building	2,042	1,638	1,744	2,292	2,292	2,292	2,292	2,292
Total	1,200,438	1,245,201	1,304,660	1,408,314	1,507,547	1,607,774	1,507,547	1,607,774
Biennial Change				267,335		402,347		402,347
Biennial % Change				11		15		15
Governor's Change from Base								0
Governor's % Change from Base								0
<u>Expenditures by Program</u>								
Mn State Retirement System	1,163,538	1,207,043	1,265,041	1,361,860	1,451,962	1,548,888	1,451,962	1,548,888
Judges Plan	28,146	29,399	30,775	37,844	46,889	50,103	46,889	50,103
Legislators Plan	8,755	8,758	8,843	8,610	8,696	8,783	8,696	8,783
Total	1,200,438	1,245,201	1,304,660	1,408,314	1,507,547	1,607,774	1,507,547	1,607,774
<u>Expenditures by Category</u>								
Compensation	13,929	14,716	16,395	18,877	20,986	23,345	20,986	23,345
Operating Expenses	7,760	8,971	10,674	14,777	18,978	24,122	18,978	24,122
Capital Outlay-Real Property	392		2,069					
Other Financial Transaction	1,178,357	1,221,513	1,275,521	1,374,660	1,467,583	1,560,307	1,467,583	1,560,307
Total	1,200,438	1,245,201	1,304,660	1,408,314	1,507,547	1,607,774	1,507,547	1,607,774
<u>Expenditures by Agency</u>								
Total Agency Expenditures	1,200,438	1,245,201	1,304,660	1,408,314	1,507,547	1,607,774	1,507,547	1,607,774
Internal Billing Expenditures	1,669	1,825	2,639	3,145	3,630	4,197	3,630	4,197
Expenditures Less Internal Billing	1,198,769	1,243,375	1,302,021	1,405,169	1,503,917	1,603,577	1,503,917	1,603,577
<u>Full-Time Equivalents</u>								
	129.47	135.82	139.38	139.38	139.38	139.38	139.38	139.38

Minnesota State Retirement System

Agency Financing by Fund

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base		Governor's Recommendation	
					FY26	FY27	FY26	FY27
1000 - General								
Direct Appropriation	6,000	6,000	6,000	6,000	6,000	6,000	6,000	6,000
Open Appropriation	8,755	8,758	8,753	8,610	8,696	8,783	8,696	8,783
Transfers In	131							
Transfers Out	14,886	14,758	14,753	14,610	14,696	14,783	14,696	14,783

2001 - Other Misc Special Revenue

Balance Forward In				1,000	1,000	1,000	1,000	1,000
Transfers In			1,000					
Balance Forward Out			1,000	1,000	1,000	1,000	1,000	1,000

7210 - Correctional Employees Retire

Open Appropriation	91,294	97,456	93,004	112,344	120,363	129,048	120,363	129,048
Transfers In			10,446					
Expenditures	91,294	97,456	103,450	112,344	120,363	129,048	120,363	129,048
Biennial Change in Expenditures				27,044		33,617		33,617
Biennial % Change in Expenditures				14		16		16
Governor's Change from Base								0
Governor's % Change from Base								0

7230 - Highway Patrol Retirement

Open Appropriation	63,826	65,937	57,340	72,115	74,590	77,184	74,590	77,184
Transfers In	1,000	1,000	12,971	1,000	1,000	1,000	1,000	1,000
Expenditures	64,826	66,937	70,310	73,115	75,590	78,184	75,590	78,184
Biennial Change in Expenditures				11,662		10,349		10,349
Biennial % Change in Expenditures				9		7		7
Governor's Change from Base								0
Governor's % Change from Base								0

7240 - Judicial Retirement

Open Appropriation	22,146	23,399	24,482	31,844	40,889	44,103	40,889	44,103
Transfers In	6,000	6,000	6,293	6,000	6,000	6,000	6,000	6,000
Expenditures	28,146	29,399	30,775	37,844	46,889	50,103	46,889	50,103

Minnesota State Retirement System

Agency Financing by Fund

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base FY26 FY27		Governor's Recommendation FY26 FY27	
Biennial Change in Expenditures				11,075		28,373		28,373
Biennial % Change in Expenditures				19		41		41
Governor's Change from Base								0
Governor's % Change from Base								0

7250 - Legislative Annuities

Transfers In	8,886	8,758	8,843	8,610	8,696	8,783	8,696	8,783
Transfers Out	131							
Expenditures	8,755	8,758	8,843	8,610	8,696	8,783	8,696	8,783
Biennial Change in Expenditures				(59)		26		26
Biennial % Change in Expenditures				(0)		0		0
Governor's Change from Base								0
Governor's % Change from Base								0

7260 - State Employees Retirement

Open Appropriation	1,005,953	1,041,591	1,013,636	1,174,109	1,253,717	1,339,364	1,253,717	1,339,364
Transfers In			76,440					
Transfers Out	578	579	539					
Expenditures	1,005,375	1,041,012	1,089,537	1,174,109	1,253,717	1,339,364	1,253,717	1,339,364
Biennial Change in Expenditures				217,258		329,435		329,435
Biennial % Change in Expenditures				11		15		15
Governor's Change from Base								0
Governor's % Change from Base								0
Full-Time Equivalents	129.47	135.82	139.38	139.38	139.38	139.38	139.38	139.38

7401 - Retirement System Building

Balance Forward In	515	496	652	1,654	1,654	1,000	1,654	1,000
Receipts	2,024	1,794	2,745	2,292	1,638	1,675	1,638	1,675
Balance Forward Out	496	652	1,654	1,654	1,000	383	1,000	383
Expenditures	2,042	1,638	1,744	2,292	2,292	2,292	2,292	2,292
Biennial Change in Expenditures				355		548		548
Biennial % Change in Expenditures				10		14		14
Governor's Change from Base								0

Minnesota State Retirement System

Agency Financing by Fund

(Dollars in Thousands)

	Actual FY22	Actual FY23	Actual FY24	Estimate FY25	Forecast Base FY26 FY27		Governor's Recommendation FY26 FY27	
Governor's % Change from Base								0

Minnesota State Retirement System

Agency Change Summary

(Dollars in Thousands)

	FY25	FY26	FY27	Biennium 2026-27
Direct				
Fund: 1000 - General				
FY2025 Appropriations	6,000	6,000	6,000	12,000
Forecast Base	6,000	6,000	6,000	12,000
Total Governor's Recommendations	6,000	6,000	6,000	12,000
Open				
Fund: 1000 - General				
FY2025 Appropriations	8,643	8,643	8,643	17,286
Base Adjustments				
Forecast Open Appropriation Adjustment		(173)	(343)	(516)
November Forecast Adjustment	(33)	226	483	709
Forecast Base	8,610	8,696	8,783	17,479
Total Governor's Recommendations	8,610	8,696	8,783	17,479
Fund: 7210 - Correctional Employees Retire				
FY2025 Appropriations	112,344	112,344	112,344	224,688
Base Adjustments				
Forecast Open Appropriation Adjustment		8,019	16,704	24,723
Forecast Base	112,344	120,363	129,048	249,411
Total Governor's Recommendations	112,344	120,363	129,048	249,411
Fund: 7230 - Highway Patrol Retirement				
FY2025 Appropriations	73,115	73,115	73,115	146,230
Base Adjustments				
Forecast Open Appropriation Adjustment	(1,000)	1,475	4,069	5,544
Forecast Base	72,115	74,590	77,184	151,774
Total Governor's Recommendations	72,115	74,590	77,184	151,774
Fund: 7240 - Judicial Retirement				
FY2025 Appropriations	31,966	31,966	31,966	63,932
Base Adjustments				
Forecast Open Appropriation Adjustment	(122)	8,923	12,137	21,060
Forecast Base	31,844	40,889	44,103	84,992
Total Governor's Recommendations	31,844	40,889	44,103	84,992
Fund: 7260 - State Employees Retirement				
FY2025 Appropriations	1,174,747	1,174,747	1,174,747	2,349,494
Base Adjustments				

Minnesota State Retirement System

Agency Change Summary

(Dollars in Thousands)

	FY25	FY26	FY27	Biennium 2026-27
Forecast Open Appropriation Adjustment	(638)	78,970	164,617	243,587
Forecast Base	1,174,109	1,253,717	1,339,364	2,593,081
Total Governor's Recommendations	1,174,109	1,253,717	1,339,364	2,593,081
Dedicated				
Fund: 7401 - Retirement System Building				
Planned Spending	2,292	2,292	2,292	4,584
Forecast Base	2,292	2,292	2,292	4,584
Total Governor's Recommendations	2,292	2,292	2,292	4,584
Revenue Change Summary				
Dedicated				
Fund: 7401 - Retirement System Building				
Forecast Revenues	2,292	1,638	1,675	3,313
Total Governor's Recommendations	2,292	1,638	1,675	3,313
Non-Dedicated				
Fund: 7210 - Correctional Employees Retire				
Forecast Revenues	205,524	215,073	225,434	440,507
Total Governor's Recommendations	205,524	215,073	225,434	440,507
Fund: 7230 - Highway Patrol Retirement				
Forecast Revenues	137,100	150,125	164,579	314,704
Total Governor's Recommendations	137,100	150,125	164,579	314,704
Fund: 7240 - Judicial Retirement				
Forecast Revenues	49,128	52,987	57,240	110,227
Total Governor's Recommendations	49,128	52,987	57,240	110,227
Fund: 7250 - Legislative Annuities				
Forecast Revenues	35	35	35	70
Total Governor's Recommendations	35	35	35	70
Fund: 7260 - State Employees Retirement				
Forecast Revenues	1,547,907	1,609,935	1,674,453	3,284,388
Total Governor's Recommendations	1,547,907	1,609,935	1,674,453	3,284,388