Committee recommends Post Fund remain for now

The Post Retirement Fund Committee has agreed that the current structure of the Post Fund should remain as long as it continues to recover from the market losses suffered during the first three years of this decade.

The committee is composed of board representatives from PERA, the Minnesota State Retirement System and the Teachers Retirement Association. With the additional approval of the full boards of the three statewide systems, the committee has hammered out a proposal to be presented to the 2008 Legislature.

While recommending that the Post Fund structure be continued, it will also include a safeguard that should the funding levels of the fund fall below a certain level, each of the three systems would merge their holdings in the Post Fund with their current active funds.

Areas of agreement include continuing to pay the investment component as a percentage increase, but to pay this additional amount only to the extent inflation exceeds 2.5 percent. Should the Post Fund become fully funded again, future annual adjustments will equal inflation up to 2.5 percent—guaranteed, and continue to match it up to a maximum of 5 percent if allowed for by investment performance. That would require the Post Fund be over 100 percent funded and performance above the fund's expected rate of return of 8.5 percent.

Association sets pension earnings limits for 2008

PERA retirees who are at or over Social Security's full retirement age may earn as much as they wish without threatening their Association pensions.

However, retirees younger than full retirement age under Social Security are subject to the same earnings limits from PERA as they are from the federal program if they return to PERA-covered employment in 2008. This year retirees may earn up to $13,560 before the income impacts their pensions if they have not yet reached the year of their full retirement age. If they will reach their full retirement age during the year, the limit is boosted to $36,120.

PERA’s earnings limits only apply to positions that would normally qualify for Association membership. Earnings from private employment, self employment or elected service are exempt.

Should a retiree exceed the earnings limitation, PERA must reduce the benefit $1 for every $2 in excess of the limit. Any deductions are held in escrow until the retiree reaches age 65, or a year after leaving the position, whichever date is later. Escrow accounts earn 6 percent interest, compounded annually.
Thanks for all you have done

Public pensions have come in for their share of criticism over the past few years—some of it deserved, but much of it misplaced. One thing that should never be forgotten is that pensions are earned in more ways than one.

They are earned financially through the years of contributions by our members and their employers and through the prudent investment of that money. They are also earned as a reward for the many years of hard work and dedication our members have given to the public.

This was brought home recently with the celebration of Harold “Red” Haslach’s 100th birthday. Harold retired in 1969 after 38 years with the St. Paul Fire Department. He joined the department back in 1931, when firemen in heavy rubber turnout coats still clung to the sides of open trucks and breathing gear was unheard of. He witnessed fellow firefighters die in the line of duty but still loved the work enough to inspire his son and grandson to follow in his footsteps.

His service and well deserved retirement remind us of the reason why PERA and other public pension plans were created. Our members have dedicated a good portion of their lives to serving their communities. We are here to return the favor to them.

To Harold Haslach and the thousands of other retirees and benefit recipients we serve, we at PERA thank you.

The Benefit is published as a service to retirees of the Public Employees Retirement Association of Minnesota.

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**FY07 SBI Report**

Resource investments again lead Post Fund portfolio

For the third straight year, oil company stock and other resource securities were the top performers in PERA's investment portfolio.

This one sector, while making up only a small portion of PERA's overall portfolio, had a return on investment of 52.3 percent in Fiscal Year 2007 (FY07). The fiscal year ran from July 1, 2006 to June 30, 2007.

U.S. stocks make up slightly less than half of the Post Retirement Investment Fund (Post Fund) portfolio. Overall, domestic stocks returned 19.7 percent for the Association during the year and had a 10-year annualized return of 7.1 percent.

PERA’s assets, as well as those of the Minnesota State Retirement System and the Teachers Retirement Association are invested by the State Board of Investment (SBI). SBI pools PERA’s assets with those of the other two funds for both active members and retirees.

The benchmark for PERA’s domestic stock investments is the Russell 3000. During the year that index had a 20.1 percent return, 0.4 percent ahead of the returns of the State Board of Investment (SBI) domestic stock portfolio. However, over the last 10 years, SBI’s performance has been nearly identical to the index.

**Post Fund**

The Post Fund ended the fiscal year with an investment return of 18.2 percent, 0.5 percent ahead of the composite market index used by the SBI. Over the last 10 years, the Post Fund investments have an annualized return of 8.1 percent. PERA’s holdings in the Post Fund currently total $9.0 billion, an increase of approximately $1.2 billion over FY06. Investment returns are responsible for nearly all of the Post Fund’s income each year.

**Post Fund Investment Returns**

<table>
<thead>
<tr>
<th>Type</th>
<th>FY07</th>
<th>10-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stocks</td>
<td>19.7%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Bonds</td>
<td>6.3%</td>
<td>6.3%</td>
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<tr>
<td>International Stock</td>
<td>30.3%</td>
<td>8.3%</td>
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<td>Alternative Assets</td>
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<td>Real Estate</td>
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<tr>
<td>Yield Oriented Pool</td>
<td>20.6%</td>
<td>17.9%</td>
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</tbody>
</table>

**System Financial Results for FY07**

PERA’s annual financial report combines assets from our portion of the Post Fund with the assets of our Active Funds in looking at the Association’s overall financial performance for the year.

**Income**

Total revenues for all PERA funds, including our part of the Post Fund, during FY07 were $3.8 billion, compared to $2.5 billion last year.

Investment gains, after expenses of $29 million, brought in $3.1 billion during the year. (Historically, investment income accounts for nearly 75 percent of PERA’s income.) Employers contributed $372 million during the year while members contributed another $321 million.

**Expenses**

Benefits for retirees, survivors and disabled members has always represented the bulk of PERA’s expenses. These benefit payments totaled slightly over $1 billion during FY07, and made up 96.2 percent of the association’s total expenses of $1.1 billion. Refunds represented 2.6 percent of PERA’s outlays at $29 million, while administrative and other expenses were approximately $13.2 million during the year.

**Bottom Line**

With total revenues of $3.8 billion and expenses of $1.1 billion, PERA’s funds (both Active funds and the Post Fund) had a net gain of about $2.7 billion in FY07.
It’s in the bank

While state law requires that payments to benefit recipients be made during the first week of the month, PERA deposits payments in the accounts of benefit recipients who have signed up for direct deposit the first business day of each month. Deposit dates for 2008 are listed below:

January 2
February 1
March 3
April 1
May 1
June 2
July 1
August 1
September 2
October 1
November 3
December 1