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December 2010

Legislators Retirement Fund

Actuarial Valuation Report as of July 1, 2010

MERCER

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December 2010

Minnesota State Retirement System
Legislators Retirement Fund
St. Paul MN

Dear Board of Directors:

Submitted in this report are the July 1, 2010 actuarial valuation results for the Legislators Retirement Fund. The purposes of this report are to:

- Present Mercer's actuarial estimates of the Plan's liabilities and expenses as required by Minnesota Statutes, Section 356.215 and the Standards for Actuarial Work established by the State of Minnesota Legislative Commission on Pensions and Retirement (LCPR) for the Minnesota State Retirement System (MSRS) to incorporate, as MSRS deems appropriate, in its financial statements; and

- Provide the actuarial required contribution rate for the period beginning July 1, 2010.

To the best of our knowledge and belief, the valuation was performed in accordance with the requirements of Minnesota Statutes, Section 356.215, and the requirements of the Standards for Actuarial Work established by the LCPR, including one modification regarding decrement timing. The LCPR approved this modification prior to the preparation of this report in order to ensure consistency and comparability. For more information about the decrement timing methodology, please refer to the *Actuarial Basis* section.

We are available to answer any questions on the material in this report or to provide explanations or further details as appropriate. Moreover, this report contains a Glossary of certain terms referenced in the report, which you may wish to consult before reviewing the report. 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.

Respectfully submitted,

Gary D. Dickson, FSA, EA, MAAA

Bonita J. Wurst, ASA, EA, MAAA

Highlights

Contributions

The following table summarizes important contribution information as described in the *Development of Costs* section.

	Actuarial Valuation as of	
Contributions	**July 1, 2010**	**July 1, 2009**
Statutory Contributions – Chapter 3A (% of Payroll)	9.00%	9.00%
Required Contributions – Chapter 356 (% of Payroll)	359.43%	338.22%
Sufficiency / (Deficiency)	(350.43%)	(329.22%)

This plan has a funding ratio of 31.1%. 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.**

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 pupose 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 12.2% for the plan year ending June 30, 2010 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* sections detail the required accounting information for the Plan under GASB Statement No. 25 (as amended by GASB 50).

Changes in plan provisions and assumptions are reflected in this report and summarized in the *Actuarial Basis* and *Effects of Changes* sections.

Highlights

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
2011	$ 7,163,000
2012	8,432,000
2013	8,512,000
2014	8,571,000
2015	8,565,000
2016	8,497,000
2017	8,386,000
2018	8,259,000
2019	8,161,000
2020	8,058,000

Note that the current contribution levels are not sufficient to cover annual benefit payments. For the fiscal year ending June 30, 2010, total contributions were $2.1 million and total benefit payments were $7.2 million.

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, 2010	**July 1, 2009**
Contributions *(% of Payroll)*		
Statutory – Chapter 3A	9.00%	9.00%
Required – Chapter 356	359.43%	338.22%
Sufficiency / (Deficiency)	(350.43%)	(329.22%)
Funding Ratios *(dollars in thousands)*		
Accrued Benefit Funding Ratio		
– Current assets (AVA)	$ 26,821	$ 28,663
– Current benefit obligations	85,824	90,061
– Funding ratio	31.25%	31.83%
Accrued Liability Funding Ratio		
– Current assets (AVA)	$ 26,821	$ 28,663
– Actuarial accrued liability	86,236	90,431
– Funding ratio	31.10%	31.70%
Projected Benefit Funding Ratio		
– Current and expected future assets	$ 27,743	$ 29,987
– Current and expected future benefit obligations	87,158	91,755
– Funding ratio	31.83%	32.68%
Participant Data		
Active members		
– Number	47	48
– Projected annual earnings *(000s)*	$ 1,970	$ 2,061
– Average projected annual earnings	$ 41,925	$ 42,945
– Average age	63.7	62.9
– Average service	22.0	20.0
Service retirements	279	284
Survivors	80	74
Disability retirements	0	0
Deferred retirements	88	95
Terminated other non-vested	1	2
Total	**495**	**503**

Effects of Changes

The following changes in plan provisions and actuarial assumptions were recognized as of July 1, 2010:

- Post-retirement benefit increases changed from 2.5% to 2.0% beginning January 1, 2011. If the accrued liability funding ratio of the State Employees Retirement Fund reaches 90% (on a Market Value of Assets basis), the benefit increase reverts to 2.5%. The post-retirement investment return changed from 6.0% to 6.5% to reflect the change in post-retirement benefit increases from 2.5% to 2.0%. This change in plan provisions decreased the accrued liability by approximately $3.2 million.
- The interest earned on member contributions changes from 6.0% to 4.0% as of July 1, 2011. This change in plan provisions decreased the accrued liability by a negligible amount.
- The increase on deferred benefits changes to 2% after December 31, 2011. This change in plan provisions decreased the accrued liability by approximately $1.2 million.
- The requirement for benefit recipients to receive a full increase in benefits changed from 12 full months receiving as of December 31 to 18 full months and the requirement to receive a partial increase in benefits changed from 0 months receiving as of December 31 to 6 months.

The combined impact of the plan and assumption changes was to decrease the accrued liability by $4.4 million and decrease the required contribution by 26.3% of pay, as follows:

	Before Plan Changes	Reflecting Plan Changes	Impact of Changes
Normal Cost Rate (% of pay)	15.7%	14.9%	(0.8%)
Amortization of Unfunded Actuarial Accrued Liability (% of pay)*	368.7%	343.2%	(25.5%)
Expenses (% of pay)	1.3%	1.3%	-
Total Required Contribution (% of pay)	385.7%	359.4%	(26.3%)
Accrued Liability Funding Ratio (AVA)	29.6%	31.1%	1.5%
Projected Benefit Funding Ratio	30.3%	31.8%	1.5%
Unfunded Accrued Liability (AVA) (in thousands)	$ 63,832	$ 59,415	$ (4,417)

** Assuming future payroll increases of 4.5% per year.*

Valuation of Future Post-Retirement Benefit Increases

A very important assumption affecting the valuation results is the expectation of future post-retirement benefit increases. The accrued liability funding ratio of the State Employees Retirement Fund (on a market value of assets basis and assuming 2.0% post-retirement benefit increases in all future years) is currently 75.0%. If the State Employees Retirement Fund reaches a funding ratio of 90% (on a market value of assets basis) in the future, post-retirement increases in the Legislators Retirement Fund will revert to the 2.5% level.

We performed a projection of liabilities and assets of the State Employees Retirement Fund, using the 2010 valuation results as a baseline and assuming future experience follows the valuation assumptions. The projection indicates that, without contribution increases, changes in benefits or assumptions, or favorable experience, the funded status of the State Employees' Retirement Fund is expected to decline from the current level of 75.0%.

The liabilities in this report are based on the assumption that the post-retirement benefit increase will remain at the reduced level of 2.0% indefinitely. We relied on direction from MSRS including MSRS's interpretation of applicable Minnesota Statutes, on this issue. If we assumed future post-retirement benefit increases of 2.5% instead of 2.0%, the liability would be $89.4 million instead of $86.2 million, resulting in a funded ratio of 30.0% instead of 31.1%.

Important Notices

Mercer has prepared this report exclusively for the Board of Directors of the Minnesota State Retirement System (MSRS) and the Legislative Commission on Pensions and Retirement (LCPR); Mercer is not responsible for reliance upon this report by any other party. Subject to this limitation, MSRS may direct that this report be provided to its auditors in connection with audits of the Plan or its sponsoring entities.

The only purposes of this report are to:

- Present Mercer's actuarial estimates of the Plan's liabilities and expenses as required by Minnesota Statutes, Section 356.215 and the Standards for Actuarial Work established by the State of Minnesota LCPR for MSRS to incorporate, as MSRS deems appropriate, in its financial statements; and

- Provide the actuarial required contribution rate for the period beginning July 1, 2010.

This report may not be used for any other purpose; Mercer is not responsible for the consequences of any unauthorized use.

Decisions about benefit changes, granting new benefits, investment policy, funding policy, benefit security and/or benefit-related issues should not be made on the basis of this valuation, but only after careful consideration of alternative economic, financial, demographic and societal factors, including financial scenarios that assume future sustained investment losses.

The State Board of Investment (SBI) is solely responsible for selecting the plan's investment policies, asset allocations and individual investments. Mercer's actuaries have not provided any investment advice to the Board of Directors of the SBI.

A valuation report is only a snapshot of a Plan's estimated financial condition at a particular point in time; it does not predict the Plan's future financial condition or its ability to pay benefits in the future and does not provide any guarantee of future financial soundness of the Plan. 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, the period of time over which benefits are paid, plan expenses and the amount earned on any assets invested to pay benefits. These amounts and other variables are uncertain and unknowable at the valuation date.

Because modeling all aspects of a situation is not possible or practical, we may use summary information, estimates, or simplifications of calculations to facilitate the modeling of future events in an efficient and cost-effective manner. We may also exclude factors or data that are immaterial in our judgment. Use of such simplifying techniques does not, in our judgment, affect the reasonableness of valuation results for the plan.

To prepare the valuation report, actuarial assumptions, as described in the *Actuarial Basis* section of this report, are used in a forward looking financial and demographic model to present a single scenario from a wide range of possibilities; the results based on that single scenario are included in the valuation. The future is uncertain and the plan's actual experience will differ from those assumptions; these differences may be significant or material because these results are very sensitive to the assumptions made and, in some cases, to the interaction between the assumptions.

Important Notices

Different assumptions or scenarios within the range of possibilities may also be reasonable and results based on those assumptions would be different. As a result of the uncertainty inherent in a forward looking projection over a very long period of time, no one projection is uniquely “correct” and many alternative projections of the future could also be regarded as reasonable. Two different actuaries could, quite reasonably, arrive at different results based on the same data and different views of the future. A "sensitivity analysis" shows the degree to which results would be different if you substitute alternative assumptions within the range of possibilities for those utilized in this report. We have not been engaged to perform such a sensitivity analysis and thus the results of such an analysis are not included in this report. At MSRS’s request, Mercer is available to perform such a sensitivity analysis.

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. A change in assumptions is not an indication that prior assumptions were unreasonable when made.

Because valuations are a snapshot in time and are based on estimates and assumptions that are not precise and will differ from actual experience, contribution calculations are inherently imprecise. There is no uniquely “correct” level of contributions for the coming plan year.

Valuations do not affect the ultimate cost of the Plan, only the timing of contributions into the Plan. Plan funding occurs over time. Contributions not made this year, for whatever reason, including errors, remain the responsibility of the Plan sponsor and can be made in later years. If the contribution levels over a period of years are lower or higher than necessary, it is normal and expected practice for adjustments to be made to future contribution levels to take account of this with a view to funding the plan over time.

Data, computer coding and mathematical errors are possible in the preparation of a valuation involving complex computer programming and thousands of calculations and data inputs. Errors in a valuation discovered after its preparation may be corrected by amendment to the valuation or in a subsequent year’s valuation.

Actuarial assumptions, including discount rates, mortality tables and others identified in this report, are prescribed by Minnesota Statutes Section 356.215, the LCPR, and the Board of Directors. These parties are responsible for selecting the plan’s funding policy, actuarial valuation methods, asset valuation methods, and assumptions. The policies, methods and assumptions used in this valuation are those that have been so prescribed and are described in the *Actuarial Basis* section of this report. MSRS is solely responsible for communicating to Mercer any changes required thereto.

To prepare this report Mercer has used and relied on financial data and participant data supplied by MSRS and summarized in the *Plan Assets* and *Membership Data* section of this report. MSRS is responsible for ensuring that such participant data provides an accurate description of all persons who are participants under the terms of the plan or otherwise entitled to benefits as of the valuation date that is sufficiently comprehensive and accurate for the purposes of this report. Although Mercer has reviewed the data in accordance with Actuarial Standards of Practice No. 23, Mercer has not verified or audited any of the data or information provided.

Mercer has also used and relied on the summary of plan provisions, including amendments, and interpretations of plan provisions, supplied by MSRS as summarized in the *Actuarial Basis* section of this report and on plan provisions stipulated by statute. We have assumed for purposes of this valuation that copies of any official plan document including all amendments and collective bargaining agreements as well as any interpretations of any such document have been provided to Mercer along with a written summary of any other substantive commitments. The Board of Directors is solely responsible for the validity, accuracy and comprehensiveness of this information. If any data or plan provisions supplied are not accurate and complete, the valuation results may

Important Notices

differ significantly from the results that would be obtained with accurate and complete information; this may require a later revision of this report. Moreover, plan documents may be susceptible to different interpretations, each of which could be reasonable, and that the different interpretations could lead to different valuation results.

MSRS should notify Mercer promptly after receipt of the valuation report if MSRS disagrees with anything contained in the valuation report or is aware of any information that would affect the results of the valuation report that has not been communicated to Mercer or incorporated therein. The valuation report will be deemed final and acceptable to MSRS unless MSRS promptly provides such notice to Mercer.

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.

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. 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, 2010 *(Dollars in Thousands)*

	Market Value	Cost Value
Assets in Trust		
▪ Cash, equivalents, short term securities	$ 373	$ 373
▪ Fixed income	4,818	4,281
▪ Equity	14,344	11,172
▪ Other	0	0
Total assets in trust	**$ 19,535**	**$ 15,826**
Assets Receivable	7,321	7,321
Total Assets	**$ 26,856**	**$ 23,147**
Accounts Payable	(35)	(35)
Net Assets held in trust for pension benefits	**$ 26,821**	**$ 23,112**

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 Retirement System for the Plan's Fiscal Year July 1, 2009 to June 30, 2010.

Change in Assets *(dollars in thousands)*		**Market Value**
1. Fund balance at market value at July 1, 2009	$	28,663
2. Contributions		
a. Member	$	170
b. Employer		0
c. Other sources		1,975
d. Total contributions	$	2,145
3. Investment income		
a. Investment income/(loss)	$	3,230
b. Investment expenses		(31)
c. Net subtotal	$	3,199
4. Other		0
5. Total income *(2.d. + 3.c. + 4.)*	**$**	**5,344**
6. Benefits Paid		
a. Annuity benefits	$	(7,159)
b. Refunds		0
c. Total benefits paid	$	(7,159)
7. Expenses		
a. Other	$	0
b. Administrative		(27)
c. Total expenses	**$**	(27)
8. Total disbursements *(6.c. + 7.c.)*	**$**	**(7,186)**
9. Fund balance at market value at June 30, 2010 *(1. + 5. + 8.)*	**$**	**26,821**

Plan Assets

Actuarial Asset Value

The Actuarial Value of Assets (AVA) is equal to the Market Value of Assets (consistent with valuations since July 1, 2000).

Membership Data

Distribution of Active Members

Age	Years of Service as of June 30, 2010										
	< 3	3 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25 - 29	30 - 34	35 - 39	40+	Total
< 25											**0**
Avg. Earnings											**N/A**
25 – 29											**0**
Avg. Earnings											**N/A**
30 – 34											**0**
Avg. Earnings											**N/A**
35 – 39											**0**
Avg. Earnings											**N/A**
40 – 44				2							**2**
Avg. Earnings				41,279							**41,279**
45 – 49			1								**1**
Avg. Earnings			37,352								**37,352**
50 – 54				1	4	1					**6**
Avg. Earnings				41,233	39,901	36,721					**39,593**
55 – 59				2	1	3	1				**7**
Avg. Earnings				40,809	41,337	39,673	40,549				**40,360**
60 – 64					3		3				**6**
Avg. Earnings					38,610		39,924				**39,267**
65 – 69				4		4	3		2		**13**
Avg. Earnings				39,484		39,791	40,422		41,279		**40,071**
70+				2	1	2	3	2	2		**12**
Avg. Earnings				39,935	38,995	41,029	40,300	40,192	38,879		**39,997**
Total	**0**	**0**	**1**	**11**	**9**	**10**	**10**	**2**	**4**	**0**	**47**
Avg. Earnings	**N/A**	**N/A**	**37,532**	**40,292**	**39,529**	**39,696**	**40,249**	**40,192**	**40,079**	**N/A**	**39,929**

In each cell, the top number is the count of active participants for the age/service combination and the bottom number is average annual earnings.

Membership Data

Distribution of Service Retirements

	Years Retired as of June 30, 2010							
Age	**<1**	**1 - 4**	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25+**	**Total**
< 50								**0**
Avg. Benefit								**N/A**
55 – 59	2	3						**5**
Avg. Benefit	37,277	17,730						**25,549**
60 – 64	2	16	11					**29**
Avg. Benefit	7,739	13,510	13,380					**13,063**
65 – 69	3	24	25	8				**60**
Avg. Benefit	14,774	20,267	16,804	13,209				**17,608**
70 – 74	1	6	15	27				**49**
Avg. Benefit	17,648	17,710	18,552	17,682				**17,951**
75 – 79		2	10	22	26			**60**
Avg. Benefit		25,138	29,978	24,352	25,989			**26,025**
80 – 84		2	3	9	19	14		**47**
Avg. Benefit		24,148	20,725	23,016	29,743	16,259		**23,625**
85 – 89					3	6	13	**22**
Avg. Benefit					21,356	24,926	28,018	**26,266**
90+							7	**7**
Avg. Benefit							31,226	**31,226**
Total	**8**	**53**	**64**	**66**	**48**	**20**	**20**	**279**
Avg. Benefit	**19,000**	**18,124**	**18,868**	**20,091**	**27,185**	**18,859**	**29,141**	**21,186**

In each cell, the top number is the count of retired participants for the age/years retired combination and the bottom number is the average annual benefit amount.

Membership Data

Distribution of Survivors

	Years Since Death as of June 30, 2010							
Age	**<1**	**1 - 4**	**5 - 9**	**10 - 14**	**15 - 19**	**20 - 24**	**25+**	**Total**
< 50								**0**
Avg. Benefit								**N/A**
50 – 54	1	1						**2**
Avg. Benefit	12,443	11,972						**12,207**
55 – 59				1				**1**
Avg. Benefit				6,532				**6,532**
60 – 64	1	1	1					**3**
Avg. Benefit	7,753	33,991	39,126					**26,957**
65 – 69	2	2	2	2		1	1	**10**
Avg. Benefit	7,588	22,893	12,282	13,855		53,582	16,592	**18,341**
70 – 74		3	1	1	2	1		**8**
Avg. Benefit		15,873	8,258	7,156	18,431	12,706		**14,075**
75 – 79	2	2	4	1	2		1	**12**
Avg. Benefit	13,620	30,709	24,730	51,784	8,658		6,734	**21,951**
80 – 84	3	4	1	3	7		2	**20**
Avg. Benefit	17,471	20,332	12,023	19,210	9,712		14,471	**15,016**
85 – 89	2	4	1		2	3	3	**15**
Avg. Benefit	9,779	19,979	6,359		12,553	8,384	7,546	**11,915**
90+		1	1	2	2	1	2	**9**
Avg. Benefit		5,981	15,983	6,556	17,379	24,999	9,365	**12,618**
Total	**11**	**18**	**11**	**10**	**15**	**6**	**9**	**80**
Avg. Benefit	**12,235**	**20,445**	**18,658**	**16,392**	**12,135**	**19,406**	**10,404**	**15,798**

In each cell, the top number is the count of survivor participants for the age/years since death combination and the bottom number is the average annual benefit amount.

Membership Data

Reconciliation of Members

		Terminated		Recipients			
	Actives	Deferred Retirement	Other Non-Vested	Service Retirement	Disability Retirement	Survivor	Total
Members on 7/1/2009	**48**	**95**	**2**	**284**	**0**	**74**	**503**
New members	0	0	0	0	0	0	0
Return to active	0	0	0	0	0	0	0
Terminated-nonvested	0	0	0	0	0	0	0
Service retirements	(1)	(6)	0	7	0	0	0
Terminated deferred	0	0	0	0	0	0	0
Terminated refund/transfer	0	(1)	0	0	0	0	(1)
Deaths	0	0	0	(13)	0	(5)	(18)
New beneficiary	0	0	0	0	0	11	11
Disabled	0	0	0	0	0	0	0
Data correction	0	0	(1)	1	0	0	0
Net Change	(1)	(7)	(1)	(5)	0	6	(8)
Members on 6/30/2010	**47**	**88**	**1**	**279**	**0**	**80**	**495**

Terminated Member Statistics	Deferred Retirement	Other Non-Vested	Total
Number	88	1	89
Average Age	57.1	61.3	57.2
Average Service	10.9	4.0	10.8
Average annual benefits, with augmentation to Normal Retirement Date and 30% CSA load*	$22,723	N/A	$22,723
Average refund value, with 30% CSA load	$70,858	$34,099	$70,445

** Includes estimated benefits for 35 members who were reported without a benefit amount*

Development of Costs

Actuarial Valuation Balance Sheet *(Dollars in Thousands)*

The actuarial balance sheet is based on the fundamental equation that at any given time the present value of benefits to be paid in the future must be equal to the assets on hand plus the present value of future contributions to be received. The total rate of contribution is determined as that amount which will make the total present and potential assets balance with the total present value of future benefits. The members' rate of contribution is fixed at the current schedule of compensation. The employer's rate of contribution is the balance required to cover the total rate of contribution.

The contributions made in excess of amounts required for current benefit payments are accumulated as a reserve to help meet benefit payments in later years. It is this reserve system which permits the establishment of a level rate of contribution each year.

			June 30, 2010
A. Actuarial value of assets			$ 26,821
B. Expected future assets			
1. Present value of expected future statutory supplemental contributions			$ 0
2. Present value of future normal costs			922
3. Total expected future assets *(1. + 2.)*			$ 922
C. Total current and expected future assets			$ 27,743
	Non-Vested	Vested	Total
D. Current benefit obligations			
1. Benefit recipients			
a. Service retirements	$ 0	$ 49,911	$ 49,911
b. Disability	0	0	0
c. Survivors	0	9,318	9,318
2. Deferred retirements with augmentation	0	16,389	16,389
3. Former members without vested rights*	34	0	34
4. Active members	0	10,172	10,172
5. Total Current Benefit Obligations	$ 34	$ 85,790	$ 85,824
E. Expected Future Benefit Obligations			$ 1,334
F. Total Current and Expected Future Benefit Obligations			$ 87,158
G. Unfunded Current Benefit Obligations *(D.5. − A.)*			$ 59,003
H. Unfunded Current and Future Benefit Obligations *(F. − C.)*			$ 59,415

** Former members with less than 3 years of service that have not collected a refund of member contributions as of the valuation date.*

Development of Costs

Determination of Unfunded Actuarial Accrued Liability and Supplemental Contribution Rate *(Dollars in Thousands)*

	Actuarial Present Value of Projected Benefits	Actuarial Present Value of Future Normal Costs	Actuarial Accrued Liability
A. Determination of Actuarial Accrued Liability (AAL)			
1. Active Members			
a. Retirement annuities	$ 11,372	$ 817	$ 10,555
b. Disability benefits	0	0	0
c. Survivor's benefits	123	33	90
d. Deferred retirements	0	22	(22)
e. Refunds	11	50	(39)
f. Total	$ 11,506	$ 922	$ 10,584
2. Deferred retirements with future augmentation	16,389	0	16,389
3. Former members without vested rights*	34	0	34
4. Benefit recipients	59,229	0	59,229
5. Total	$ 87,158	$ 922	$ 86,236
B. Determination of Unfunded Actuarial Accrued Liability (UAAL)			
1. Actuarial accrued liability			$ 86,236
2. Current assets (AVA)			26,821
3. Unfunded actuarial accrued liability			$ 59,415
C. Determination of Supplemental Contribution Rate			
1. Present value of future payrolls through the amortization date of July 1, 2021 assuming payroll increases of 4.5% per year**			$ 17,313
2. Supplemental Contribution Rate *(B.3. / C.1.)*			343.19%
3. Present value of future payrolls through the amortization date of July 1, 2021 assuming no payroll increases.			$ 14,259
4. Supplemental Contribution Rate *(B.3. / C.3.)*			416.68%

** Former members with less than 3 years of service that have not collected a refund of member contributions as of the valuation date.*

*** The amortization factor as of July 1, 2010 is 8.7861.*

Development of Costs

Changes in Unfunded Actuarial Accrued Liability (UAAL) *(Dollars in Thousands)*

			Year Ending June 30, 2010
A.	Unfunded actuarial accrued liability at beginning of year	$	61,768
B.	Changes due to interest requirements and current rate of funding		
	1. Normal cost and actual administrative expenses	$	416
	2. Contributions		(2,145)
	3. Interest on A., B.1. and B.2.		5,177
	4. Total *(B.1. + B.2. + B.3.)*	$	3,448
C.	Expected unfunded actuarial accrued liability at end of year *(A. + B.4.)*	$	65,216
D.	Increase (decrease) due to actuarial losses (gains) because of experience deviations from expected		
	1. Salary increases	$	(413)
	2. Investment return		(948)
	3. Mortality of benefit recipients		416
	4. Other items		(439)
	5. Total	$	(1,384)
E.	Unfunded actuarial accrued liability at end of year before plan amendments and changes in actuarial assumptions *(C. + D.5.)*	$	63,832
F.	Change in unfunded actuarial accrued liability due to changes in plan provisions		(4,417)
G.	Change in unfunded actuarial accrued liability due to changes in actuarial assumptions*		0
H.	Change in unfunded actuarial accrued liability due to changes in methods		0
I.	Unfunded actuarial accrued liability at end of year *(E. + F. + G. + H.)*	$	59,415

** The change in the post-retirement investment return assumption required to reflect the change in the post-retirement benefit increases was reflected in item F.*

Development of Costs

Determination of Contribution Sufficiency/(Deficiency) *(Dollars in Thousands)*

The Annual Required Contribution (ARC) is the sum of normal cost, a supplemental contribution to amortize the Unfunded Actuarial Accrued Liability, and an allowance for expenses.

	Percent of Payroll		Dollar Amount
A. Statutory contributions – Chapter 3A			
1. Employee contributions	9.00%	$	177
2. Employer contributions	0.00%		0
3. Total	9.00%	$	177
B. Required contributions – Chapter 356			
1. Normal cost			
a. Retirement benefits	12.75%	$	252
b. Disability benefits	0.00%		0
c. Survivors	0.67%		13
d. Deferred retirement benefits	0.63%		12
e. Refunds	0.85%		17
f. Total	14.90%	$	294
2. Supplemental contribution amortization by July 1, 2021 of Unfunded Actuarial Accrued Liability*	343.19%		6,762
3. Allowance for expenses	1.34%	$	26
4. Total	359.43%	$	7,082
C. Contribution Sufficiency/(Deficiency) *(A.3. – B.4.)***	(350.43%)	$	(6,905)

Note: Projected annual payroll for fiscal year beginning on the valuation date: $1,970.

* *Supplemental contribution amortization increases to 416.68% of payroll ($8,211) if no payroll increases are assumed; resulting required contribution is 432.92% of payroll ($8,531).*

** *Plan is partially funded by annual appropriations from the General Fund.*

Actuarial Basis

Actuarial Cost Method

Liabilities and contributions in this report are computed using the Individual Entry Age Normal Cost Method. This method is prescribed by Minnesota Statutes.

The objective under this method is to fund each member's benefits under the Plan as payments which are level as a percentage of salary, starting at original participation date (or employment date), and continuing until the assumed date of retirement termination, disability or death. For valuation purposes, entry age for each member is determined as the age at valuation minus years of service as of the valuation date.

At any given date, a liability is calculated equal to the contributions which would have been accumulated if this method of funding had always been used, the current plan provisions had always been in place, and all assumptions had been precisely accurate. The difference between this liability and the assets (if any) which are held in the fund is the unfunded liability. The unfunded liability is typically funded over a chosen period in accordance with the amortization schedule.

A detailed description of the calculation follows:

The normal cost for each active member under the assumed retirement age is determined by applying to earnings the level percentage of salary which, if contributed each year from date of entry into the Plan until the assumed retirement (termination, disability or death) date, is sufficient to provide the full value of the benefits expected to be payable.

- The present value of future normal costs is the total of the discounted values of all active members' normal cost, assuming these to be paid in each case from the valuation date until retirement (termination, disability or death) date.
- The present value of projected benefits is calculated as the value of all benefit payments expected to be paid to the Plan's current members, including active and retired members, beneficiaries, and terminated members with vested rights.
- The accrued liability is the excess of the present value of projected benefits over the present value of future normal costs.
- The unfunded liability is the excess of the accrued liability over the assets of the fund, and represents that part of the accrued liability which has not been funded by accumulated past contributions.

Amortization Method

The unfunded liability is amortized as a level percentage of payroll each year to the statutory amortization date of July 1, 2021 assuming payroll increases of 4.5% per year. If the unfunded Actuarial Accrued Liability is negative, the surplus amount shall be amortized over 30 years as a level percentage of payroll.

Actuarial Basis

Asset Valuation Method

Market Value (consistent with valuations since July 1, 2000).

Valuation and Accounting Procedures

Financial and census data: We used financial data submitted by the Minnesota State Retirement System and the Minnesota State Retirement System's auditor and member data submitted by the Minnesota State Retirement System without further audit. This information would customarily not be verified by a plan's actuary. We have reviewed the information for internal consistency and we have no reason to doubt its substantial accuracy.

Benefits included or excluded

To the best of our knowledge, all material benefits have been included in the liability.

IRC Section 415(b): The limitations of Internal Revenue Code Section 415(b) have been incorporated into our calculations. Annual benefits may not exceed the limits in IRC Section 415. This limit is indexed annually. For 2010, the limit is $195,000.

IRC Section 401(a)17: The limitations of Internal Revenue Code Section 401(a)(17) have been incorporated into our calculations. Compensation for any 12-month period used to determine accrued benefits may not exceed the limits in IRC Section 401(a)(17) for the calendar year in which the 12-month period begins. This limit is indexed annually. For 2010, the limit is $245,000.

Decrement Timing

All decrements are assumed to occur on the anniversary of the valuation date, beginning on the valuation date. Decrement timing is a fundamental part of the computer programming underlying actuarial calculations. Mercer's valuation systems use beginning of year decrements, a generally accepted actuarial practice. The LCPR approved this modification to the Standards for Actuarial Work prior to the preparation of this report in order to ensure consistency and comparability.

Actuarial Basis

Summary of Actuarial Assumptions

The following assumptions were used in valuing the liabilities and benefits under the plan. All assumptions are prescribed by Statutes, the LCPR, or the Board of Directors.

Investment return:	6.50% compounded annually post-retirement. 8.50% compounded annually pre-retirement.
Benefit increases after retirement	Payment of 2.0% annual benefit increases after retirement accounted for by using a 6.5% post-retirement assumption, as required by statute.
Salary increases	5.00% annually.
Mortality	
Healthy Pre-retirement	1983 Group Annuity Mortality for males set back four years 1983 Group Annuity Mortality for females set back two years
Healthy Post-retirement	1983 Group Annuity Mortality for males 1983 Group Annuity Mortality for females
Disabled	N/A
Retirement	Age 62 or if over age 62, one year from valuation date.
Withdrawal	Rates based on years of service.

Year	House	Senate
1	0%	0%
2	30	0
3	0	0
4	20	25
5	0	0
6	10	0
7	0	0
8	5	10
9+	0	0

Disability	None.
Allowance for combined service annuity	Liabilities for former members not in pay status are increased by 30.00% to account for the effect of some participants having eligibility for a Combined Service Annuity.
Administrative expenses	Prior year administrative expenses expressed as percentage of prior year payroll.
Refund of contributions	All employees withdrawing after becoming eligible for a deferred benefit were assumed to take the larger of their contributions accumulated with interest or the value of their deferred benefit.
Percentage married	85.00% of members are assumed to be married.
Age of spouse	Female are assumed to be three years younger than males.
Eligible children	Each member may have two dependent children depending upon member's age. Assumed first child born at member's age 28 and second child is born at member's age 31.
Commencement of deferred benefits	Members receiving deferred annuities (including current terminated deferred members) are assumed to begin receiving benefits at age 62.
Form of payment	Active married members are assumed to elect a 50% joint and survivor annuity. Active single members and deferred members are assumed to elect a life annuity.
Changes in actuarial assumptions	The post-retirement investment return changed from 6.0% to 6.5% to reflect the change in post-retirement benefit increases from 2.5% to 2.0%.

Actuarial Basis

Summary of Plan Provisions

This summary of provisions reflects the interpretation of applicable Statutes for purposes of preparing this valuation. This interpretation is not intended to create or rescind any benefit rights in conflict with any Minnesota Statutes.

Plan year	July 1 through June 30
Eligibility	Members of the State Legislature elected to office before July 1, 1997 and who elect to retain coverage under this plan (i.e., do not elect Social Security coverage). A member of PERA who is elected to the Legislature may elect to remain a member of PERA and receive credit under PERA for service as a legislator.
Contributions	
Member	9.00% of salary.
Employer:	Plan is funded by annual appropriations from the General Fund. Employee contributions are "picked up" according to the provisions of Internal Revenue Code 414(h).
Allowable service	Granted for the full term unless termination occurs before the end of the term. Service during all or part of four regular legislative sessions is deemed to be eight years of service.
Salary	Compensation received for service as a member of the legislature. Salary includes the monthly compensation paid to a legislator and the per diem payments paid during a regular or special session. Salary does not include additional compensation attributable to a leadership position.
Average salary	Average of the five highest successive years of salary.
Retirement	
Normal retirement benefit	
Age/service requirements	Age 62 and either six full years of service or service during all or part of four regular legislative sessions. For eligibility purposes, service does not include credit for time not served when a member does not serve a full term of office.
Amount	A percentage of Average Salary for each year of service as follows: First elected prior to January 1, 1979 (a) 5.00% for the first eight years of service prior to January 1, 1979; and (b) 2.50% for subsequent years Elected after December 31, 1978 (a) 2.50%

Actuarial Basis

Summary of Plan Providers *(continued)*

Retirement *(continued)*	
<u>*Early retirement benefit*</u>	
Age/service requirements	Age 55 and either six full years of Service or Service during all or part of four regular legislative sessions.
Form of payment	Normal retirement benefit based on service and Average Salary at retirement date and actuarially reduced for each month the member is under age 62 assuming augmentation to age 62 at 3.00% per year.
<u>*Form of payment*</u>	Paid as a 50% joint and survivor annuity to member, spouse and dependent children. Combined service annuitants with less than six years of Legislator service may elect 100% joint and survivor bounce back annuity, life annuity, or a term certain and life annuity on an actuarially equivalent basis.
<u>*Benefit increases*</u>	Benefit recipients receive future annual 2.0% benefit increases. When the funding ratio of the State Employees Retirement Fund reaches 90% (on a Market Value of Assets basis), the benefit increase will revert to 2.5%. A benefit recipient who has been receiving a benefit for at least 18 full months as of December 31 will receive a full increase. Members receiving benefits for at least six full months but less than 18 full months will receive a pro rata increase.
Disability	No additional benefits provided beyond standard plan. Treated as retirement or termination, depending on age and service at termination.
Death	
<u>*Surviving spouse benefit*</u>	
Age/service requirement	Death while active, or after termination if service requirements for a normal retirement benefit is met but payments have not begun.
Amount	Survivor payments of 50% of the retirement benefit of the member assuming the member had attained normal retirement age and had a minimum of eight years of service. Benefit is paid for life. A former member's benefit is augmented as a Deferred Annuity to date of death before determining the portion payable to the spouse. If the legislator was at least age 55 at death, the surviving spouse may elect an optional joint and survivor annuity. If a deferred benefit was not eligible to be in pay status before July 1, 1997, an actuarial increase shall be made for the change in the post-retirement interest rates from 5.00% to 6.00%.
Benefit increases	Same as for retirement.

Actuarial Basis

Summary of Plan Provisions *(continued)*

Death	
Surviving dependent children's benefit	
Age/service requirement	Same as spouse's benefit.
Amount	Benefit for first child is 25.00% of the retirement benefit (computed as for surviving spouse) with 12.50% for each additional child. Maximum payable (including spouse) is 100.00% of the retirement benefit. Benefits cease when a child marries or attains age 18 (22 if a full-time student).
Benefit Increases	Same as retirement.
Refund of contributions	
Age/service requirement	Member dies before receiving any retirement benefits and survivor benefits are not payable.
Amount	Member's contributions without interest.
Termination	
Refund of contributions	
Age/service requirement	Termination of service.
Amount	Member's contributions with 6.00% interest until June 30, 2011, 4.00% thereafter. If a member is vested, a deferred annuity may be elected in lieu of a refund.
Deferred benefit	
Age/service requirement	Same service requirements as for normal retirement.
Amount	Benefit computed under law in effect at termination and increased by the following annual percentage: (a.) 0.00% before July 1, 1973; (b.) 5.00% from July 1, 1973 to January 1, 1981; (c.) 3.00% until the earlier of January 1 of the year following attainment of age 55 and January 1, 2012; (d.) 5.00% until the earlier of January 1, 2012 and when the annuity begins; and (e.) 2.00% from January 1, 2012 forward. Amount is payable at normal or early retirement. For members who terminated prior to July 1, 1997 but were not eligible to commence their pensions before July 1, 1997, the benefit shall be increased to reflect the actuarial equivalent change in post-retirement interest rate from 5.00% to 6.00%.
Adjustment for Benefits Not In Pay Status	Benefits are adjusted on an actuarial equivalent basis to reflect the 1997 change in postretirement interest rate assumption from 5.0% to 6.0%.

Actuarial Basis

Summary of Plan Provisions *(continued)*

Changes in plan provisions	The following changes in plan provisions are reflected in this valuation: Post-retirement benefit increases change from 2.5% to 2.0% beginning January 1, 2011. If the accrued liability funding ratio of the State Employees Retirement Fund reaches 90% (on a Market Value of Assets basis), the benefit increase reverts to 2.5%. The interest earned on member contributions changes from 6.0% to 4.0% as of July 1, 2011. The increase on deferred benefits changes to 2% after December 31, 2011. The requirement for benefit recipients to receive a full increase in benefits changed from 12 full months receiving as of December 31 to 18 full months and the requirement to receive a partial increase in benefits changed from 0 months receiving as of December 31 to 6 months.

Plan Accounting Under GASB 25 (as amended by GASB 50)

Provided below is information required under GASB Statement No. 25 as amended by GASB Statement No. 50 – Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans as amended by GASB Statement No. 50.

Schedule of Funding Progress[1] *(Dollars in Thousands)*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b) – (a)	Funded Ratio (a)/(b)	Actual Covered Payroll (Previous FY) (c)	UAAL as a Percentage of Covered Payroll (b) – (a) / (c)
07/01/1991	$ 14,694	$ 30,403	$ 15,709	48.33%	$ 7,078	221.94%
07/01/1992	15,160	33,224	18,064	45.63%	6,556	275.53%
07/01/1993	17,169	36,801	19,632	46.65%	7,322	268.12%
07/01/1994	18,738	45,448	26,710	41.23%	6,589	405.37%
07/01/1995	21,213	50,255	29,042	42.21%	7,056	411.59%
07/01/1996	22,532	54,225	31,693	41.55%	6,267	505.71%
07/01/1997	25,678	60,055	34,377	42.76%	7,767	442.60%
07/01/1998	31,212	62,928	31,716	49.60%	6,802	466.27%
07/01/1999	33,474	66,418	32,944	50.40%	7,490	439.84%
07/01/2000	37,265	69,364	32,099	53.72%	5,808	552.67%
07/01/2001	42,608	75,072	32,464	56.76%	5,858	554.18%
07/01/2002	45,501	78,070	32,569	58.28%	5,089	639.99%
07/01/2003[2]	–	–	–	–	–	--
07/01/2004	46,155	83,197	37,042	55.48%	3,815	970.89%
07/01/2005	45,523	81,836	36,314	55.63%	3,014	1,204.84%
07/01/2006	48,504	81,361	32,858	59.62%	2,894	1,135.45%
07/01/2007	44,869	86,449	41,580	51.90%	2,380	1,747.42%
07/01/2008	39,209	86,131	46,922	45.52%	1,993	2,354.34%
07/01/2009	28,663	90,431	61,768	31.70%	1,963	3,146.61%
07/01/2010	26,821	86,236	59,415	31.10%	1,877	3,165.42%

[1] *Information prior to 2008 provided by The Segal Company.*
[2] *An actuarial valuation was not completed as of July 1, 2003.*

Plan Accounting Under GASB 25 (as amended by GASB 50)

Schedule of Contributions from the Employer and Other Contributing Entities[1]

(Dollars in Thousands)

The GASB Statement No. 25 required and actual contributions are as follows:

Plan Year Ended June 30	Actuarially Required Contribution Rate (a)	Actual Covered Payroll (b)	Actual Member Contributions (c)	Annual Required Contributions [(a)x(b)] – (c) = (d)	Actual Employer Contributions[2] (e)	Percentage Contributed (e) / (d)
1991	32.62%	$ 7,078	$ 637	$ 1,672	$ 1,889	112.98%
1992	27.67%	6,556	590	1,224	601	49.10%
1993	30.49%	7,322	659	1,573	2,284	145.20%
1994	31.12%	6,589	593	1,457	1,618	111.05%
1995	38.34%	7,056	635	2,070	2,938	141.93%
1996	41.54%	6,267	564	2,039	1,511	74.10%
1997	43.96%	7,767	699	2,715	3,176	116.98%
1998	48.03%	6,802	612	2,655	5,199	195.82%
1999	47.19%	7,490	674	2,861	2,091	73.09%
2000	52.72%	5,808	523	2,539	3,192	125.72%
2001	47.26%	5,858	527	2,241	5,039	224.85%
2002	60.14%	5,089	458	2,603	4,135	158.86%
2003[3]	63.12%	–	–	–	–	–
2004[4]	63.12%	3,815	343	2,065	–	–
2005	104.72%	3,014	384	2,773	–	–
2006	112.64%	2,894	264	2,995	–	–
2007	111.24%	2,380	239	2,408	–	–
2008[5,6]	171.10%	1,993	180	3,230	–[9]	–
2009[7]	243.21%[8]	1,963	248	4,526	–[9]	–
2010	413.00%	1,877	170	7,582	–[9]	–
2011	432.92%[10]					

[1] *Information prior to 2008 provided by The Segal Company.*
[2] *Includes contributions from other sources (if applicable).*
[3] *Actuarially Required Contribution Rate prior to change in Actuarial Assumptions is 61.36%.*
[4] *Actuarially Required Contribution Rate is equal to prior year's rate since an actuarial valuation was not completed as of July 1, 2003.*
[5] *Actuarially Required Contribution Rate prior to change in Asset Valuation Method is 161.95%.*
[6] *Actuarially Required Contribution Rate was provided by The Segal Company.*
[7] *Actuarially Required Contribution Rate prior to change in actuarial method is 237.40%.*
[8] *Actuarially Required Contribution Rate is based on assumed payroll growth of 4.5%, which is not appropriate for a closed group.*
[9] *Excludes contributions from other sources, as directed by Minnesota State Retirement System.*
[10] *Actuarially Required Contribution Rate is based on assumed level payroll. Actuarially Required Contribution Rate prior to change in plan provisions is 464.71%.*

Glossary

Actuarial Asset Value. The value of assets used in calculating the required contributions. The actuarial asset value may be equal to the fair market value of assets, or it may spread the recognition of certain investment gains or losses over a period of years in accordance with an asset valuation method. The goal of an asset valuation method is to produce a relatively stable asset value thereby reducing year-to-year volatility in contribution requirements.

Actuarial Cost Method. Sometimes called "funding method," a particular technique used by actuaries to establish the amount and incidence of the annual actuarial cost of pension plan benefits, or normal cost, and the related unfunded actuarial accrued liability. Ordinarily, the annual contribution to the plan comprises the normal cost and an amount for amortization of the unfunded actuarial accrued liability.

Annual Pension Cost. A measure of the periodic cost of an employer's participation in a defined benefit pension plan.

Annual Required Contributions (ARC). The employer's periodic required contributions to a defined benefit pension plan, calculated in accordance with the parameters of GASB 25 (as amended by GASB 50) or GASB 27.

ASA. Associate of the Society of Actuaries.

Current Benefit Obligations. The present value of benefits earned to the valuation date, based on current service and including future salary increases to retirement.

EA. Enrolled Actuary

FSA. Fellow of the Society of Actuaries.

MAAA. Member of the American Academy of Actuaries.

Normal Cost. The annual cost assigned to the current year, under the actuarial cost method in use.

Present Value. Sometimes called "actuarial present value," the current worth (on the valuation date) of an amount or series of amounts payable or receivable in the future. The present value is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Statement No. 25 of the Governmental Accounting Standards Board (GASB 25). The accounting standard governing the financial reporting for defined benefit pension plans and note disclosures for defined contribution plans.

Statement No. 27 of the Governmental Accounting Standards Board (GASB 27). The accounting standard governing a state or local governmental employer's accounting for pensions.

Statement No. 50 of the Governmental Accounting Standards Board (GASB 50). The accounting standard amending both GASB 25 and GASB 27 to require a schedule of funding progress under the Entry Age Normal method for plans that use the aggregate funding method to determine the Annual Required Contribution.

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