

Subcommittee on Employee Relations Legislative Coordinating Commission

72 State Office Building St. Paul, MN 55155-1201 Phone: (651) 296-2963 or (651) 296-9002 Fax: (651) 297-3697
TDD (651) 296-9896 www.ser.leg.mn

House

Representative Steve Drazkowski, Vice Chair
Representative Bob Barrett
Representative Glenn Gruenhagen
Representative Debra Hilstrom
Representative Leon Lillie

Senate

Senator James Metzen, Chair
Senator Michelle Benson, Secretary
Senator Gary Dahms
Senator Chris Eaton
Senator Tom Saxhaug

Date: September 14, 2015

To: Members of the Subcommittee

From: Greg Hubinger

Re: State pension fund directors' salaries

Background

The boards of the three state-wide pension funds are proposing to increase the salaries of their respective directors. (The PERA director position is vacant, and the Board is involved in a national search.) Under current law, appointing authorities (the three pension fund boards of directors) must request approval of salary increases from the Subcommittee, which must be ultimately ratified by the legislature. The Subcommittee may accept, modify, or reject the proposed salary changes.

The three pension funds' proposals are attached.

The three salaries were last changed in January, 2014, and are currently all at the same level of \$126,003. The Minnesota State Retirement System and Teachers Retirement Association boards propose salaries of \$144,991 to be effective July 1, 2015. The proposed salaries represent a 15% increase.

The Public Employees Retirement Association Board proposes an increase to \$150,000, which represents a 19% increase.

The maximum salary for these three positions is set in law at 133% of the salary of the governor—the limit is \$164,803.

MMB conducted a compensation study of all managerial positions in the executive branch, with the goal of better aligning them with comparable positions in the private sector and other relevant public sector employers. The study included heads of state agencies, and includes the three pension fund directors. That 2015 study (of salaries paid in 2014), found that comparable public market positions average \$138,600, and comparable private sector positions average \$190,900.

The three pension funds contracted for a market analysis on their own. The McLagan firm, which has prepared similar evaluations for the Minnesota pension funds in the past, found that the median salary for a pension fund of comparable size (adjusted to 2013) is \$185,600. A copy of the McLagan study was included in each of the three funds' proposals.

The three funds collaborated to conduct their own evaluation of directors' salaries. That evaluation found that the average salary for comparable funds was \$146,245 and \$150,973 in the Midwest. That data is also included in their requests.

Appointing authorities are required to provide information regarding the director's performance, and in meeting the agency's affirmative action goals. Each of the pension funds provided this information.

PERA request

The PERA board has been conducting a nationwide search for their executive director since the former director retired earlier this year. The Board engaged a search firm and received 21 applications. After completing the interview process, none of the candidates was found to be appropriate.

The search firm believes that the current salary is too low to attract candidates that meet the needs of the Board. The firm recommends a salary of \$150,000. The Board is not currently considering any candidates for the position.

The boards of both MSRS and TRA will soon face the issue of the retirement of their directors. As a result, those boards are also concerned about the need to be able to offer a salary that enables them to attract candidates with the statutorily required experience, and the expertise to manage these state wide retirement plans.

When proposing salary changes, appointing authorities are required to consult with Minnesota Management and Budget. MMB has not provided any comment regarding these three salary proposals to the Subcommittee.

Please let me know if you have any questions.

Attachments: Agency head salaries
Pension fund director salary proposals

Public Employees Retirement Association of Minnesota

60 Empire Drive, Suite 200

Saint Paul, Minnesota 55103-2088

Member Information Services: 651-296-7460 or 1-800-652-9026

Employer Response Lines: 651-296-3636 or 1-888-892-7372

PERA Fax Number: 651-296-8392 ♦ PERA Website: www.mnpera.org



August 31, 2015

RECEIVED SEP 3 - 2015

KJG

The Honorable James P. Metzen, Chair
Subcommittee on Employee Relations
Legislative Coordinating Commission
75 Rev. Dr. Martin Luther King Jr. Blvd.
Capitol, Room G-9
St. Paul, MN 55155-1606

Dear Senator Metzen:

On behalf of the Public Employees Retirement Association (PERA) Board of Trustees, I request approval of a salary change for the PERA Executive Director position. The Board's salary request was thoroughly discussed and voted upon by the Board and is justified by the following findings.

The Executive Director's compensation is governed by Minn. Stat. § 15A.0815, which sets the maximum salaries for many state agency officials, including PERA's Executive Director. The maximum salary is 133% of the governor's salary plus increases in the Consumer Price Index as measured from October to October. Under state statute, the Executive Director's maximum salary for 2015 is set at \$164,803.

PERA's Executive Director retired in January 2015. At the time of retirement, the Executive Director earned \$126,003. The PERA Board hired a search firm, EFL Associates, to conduct a nationwide search for an Executive Director. The Board also established a sub-committee of Trustees charged with forwarding candidates to the full Board for consideration. The sub-committee is responsible for working with EFL and recommending candidates based upon the initial screening by the search firm, work experience, and the interviews with sub-committee members and PERA staff.

During an eight-month search, EFL Associates received applications from 21 candidates, three of whom withdrew due to salary concerns. After reviewing the applicants' qualifications and conducting interviews, EFL Associates submitted eight applicants to the sub-committee for further consideration. The sub-committee conducted formal interviews with three candidates they believed met the minimum qualifications. One candidate lacked overall management experience, while the other candidate withdrew for personal reasons. A third candidate was considered by the Board of Trustees. The Board determined the candidate would not be the appropriate leader for PERA. Currently no candidate is being considered for the PERA Executive Director position.

PERA is the largest public pension plan in Minnesota and one of the largest public pension plans in the United States, responsible for four cost-sharing defined benefit plans, one agent lump-sum defined benefit plan, an Other Post-Employment Benefit (OPEB) Trust fund, and a defined contribution plan. PERA serves over 440,000 members from more than 2,000 local units of government. EFL Associates concluded that attracting a quality Executive Director to administer such a large and diverse plan is challenging because current compensation is restricted to the \$126,003 paid to the previous Executive Director. Although EFL Associates continues to search for a qualified candidate, the search firm stated in its March 31, 2015, letter (enclosed) that a salary in the \$150,000 range would make a material difference in attracting qualified candidates. Should the salary not be increased, PERA could become a “stepping stone” position for candidates, based on the salaries of other Executive Directors in similar plans and nearby states, and CEOs of the local governments PERA serves.

EFL’s conclusion is supported by the most recent national survey conducted by McLagan-AON-Hewitt in July, 2013. The McLagan survey of public pension plan Executive Directors without investment responsibility showed the following for public funds:

Salaries	Low quartile (25%)	Median quartile (50%)	High Quartile (75%)	Average
2012 salary	\$152.4	\$188.1	\$221.1	\$188.9
2013 salary	\$152.4	\$185.6	\$221.1	\$190.2

The retirement systems conducted an executive director salary survey in 2015 which was sent to 21 public systems that are similar in structure to Minnesota’s pension systems because investment responsibilities are handled by a separate entity like the State Board of Investment (SBI). Those results show the average executive director salary for all similar funds to be \$146,245 and for funds in the Midwest region, the average salary is \$150,973.

PERA serves school districts, counties, cities, and special districts. It is not uncommon for chief executive officers within member organizations who have less responsibility to receive compensation that exceeds PERA’s Executive Director. Salaries for metropolitan communities with a population between 20,000 and 50,000 are approximately \$135,000, while the salaries for communities with a population between 50,000 and 85,000 are approximately \$150,000.

The data indicates that market conditions within the public sector nationally and state-wide have changed. PERA’s search for an Executive Director revealed that the current compensation package is not sufficiently competitive to attract the quality professional the Board is seeking to lead the organization. PERA’s previous Executive Director served PERA for forty years, with the last seventeen as its Executive Director. Exceptionally long tenured employees are becoming a rare commodity and PERA must respond to the changed market conditions.

The PERA Board has consulted with the Commissioner of Minnesota Management and Budget, and further requests that the compensation for PERA's Executive Director be increased from \$126,003 to a maximum of \$150,000 for recruitment. This adjustment is requested in order to attract and retain a qualified Executive Director to provide the necessary leadership required by PERA.

Very truly yours,



Donald Rambow
President, PERA Board of Trustees

Enc.: EFL letter, March 31, 2015
EFL e-mail dated April 15, 2015



EFL Associates

8181 East Tufts Avenue, Suite 600

Denver, CO 80237-2579

Ph: 303.779.1724

www.effassociates.com

March 31, 2015

Mr. Don Rambow
President
c/o Trustees of the Public Employees' Retirement Association of MN
60 Empire Drive, Suite 200
St. Paul, MN 55103-2088

Dear Don:

At Dave DeJonge's request, I wanted to share some of the market feedback we've received and our thoughts on the currently approved compensation range for the PERA Executive Director search.

As compared to other Executive Director (and, even Deputy Executive Director) searches we've done, the currently approved compensation of \$126,000 is low and, in fact, *well below* ranges we typically see. For example, we're currently conducting a search for the Deputy ED of a \$10B public fund and their salary range is \$150K+. We also did the search for their Executive Director and his salary is over \$200K.

I know there's been talk of possibly adjusting PERA's range upwards to \$140K. As I already shared with Dave, we can't definitively say that will make a significant difference with potential candidates. First, even \$140K is lower than the examples I offered above. We believe to make any material difference; we realistically need to be closer to \$150K. However, any upward adjustment, even to \$140K, could have an incremental impact.

The second factor that comes into play relates to demand. In the last several months, there has been considerable movement with departures and retirements of public pension plan Executive Directors. The demand for candidates is very strong and many Deputies have adopted a "wait and see" attitude to determine if they might ascend in their current organizations. Many plans, including a number of our clients, have looked outside the traditional public DB plan space to identify what I'll call, "non-traditional" candidates. Most of these candidates have proven themselves as very effective administrators, spokespersons, legislative and stakeholder advocates, etc. in non-retirement plan roles. You and your search committee were exposed to a handful of such candidates amongst those we have presented to you thus far.

Given budgetary and political factors, PERA may have very little leeway with compensation. If that's the case, I would encourage you and the Board to have a discussion about your comfort level in looking at some of these "non-traditional" candidates. PERA has the luxury of having a strong senior leadership team that a new, resourceful ED could draw upon in learning the nuances of public pension administration. As we evaluated the "non-traditional"

candidates we have shared with you, we focused on those that bring a solid knowledge of the legislative process in the State, those that had previously worked for and with a board, and those we felt had the capacity to learn how to effectively administer, a complex financial services agency.

I'm happy to discuss these thoughts with you and the board members at any time.

Sincerely,

A handwritten signature in cursive script that reads "Daniel J. Cummings". The signature is written in dark ink and is positioned above the printed name.

Daniel J. Cummings
Vice President

From: Cummings, Daniel [<mailto:dcummings@eflassociates.com>]
Sent: Wednesday, April 15, 2015 2:51 PM
To: Dave Dejonge (PERA)
Cc: Hobson, Mary; Campbell, Ashley; Stearns, Christine
Subject: RE: Minnesota PERA

Dave-

We did meet this morning as a team to recalibrate our recruitment and outreach efforts. I think we've got a good plan in place which, hopefully, will produce some results soon in terms of potential candidates. It goes without saying, but I'll reiterate it again, as we think about our network of retirement plan contacts with at least five years of experience, we keep bumping up against this salary issue. We're going to focus on smaller, mid-sized plans where we might be able to draw an ED or Retirement Director that would find \$126K attractive and double-down on our efforts to try to recruit #2's from somewhat larger plans.

We'll send you updated search reports as of Friday of this week to share with the Board.

Dan



Daniel J. Cummings, CPA
Vice President
EFL Associates
8181 East Tufts Avenue, Suite 600 | Denver, CO 80237-2579
720.200.1765 | www.eflassociates.com





Teachers Retirement Association

60 Empire Drive • Suite 400 • St Paul MN 55103-4000
651.296.2409 • 800.657.3669 • 651.297.5999 FAX • 800.627.3529 TTY

August 11, 2015

The Honorable James Metzen, Chair
Legislative Coordinating Commission
Subcommittee on Employee Relations
371 State Office Building
St. Paul, MN 55155

Dear Chairman Metzen:

On behalf of the Board of Trustees of the Minnesota Teachers Retirement Association (TRA), I am requesting that the Legislative Coordinating Commission's Subcommittee on Employee Relations consider and approve a new salary level for TRA's Executive Director, Laurie Hacking.

Our board understands that PERA has been struggling for several months to fill the vacant director position caused by the retirement of PERA's previous director. TRA will soon face a similar recruitment challenge when its executive director retires.

With this in mind, at its June meeting, the TRA Board unanimously approved a motion to recommend that the Subcommittee increase the TRA executive director salary level to \$144,991 effective July 1, 2015.

The TRA Board's salary request is based on the following information:

- McLagan-AON-Hewitt 2013 national salary survey of public pension directors without investment responsibility which contained the following information (previously submitted to the Subcommittee on Employee Relations by PERA):

Salaries	Low quartile (25%)	Median quartile (50%)	High quartile (75%)	Average
2012	\$152,400	\$188,100	\$221,100	\$188,900
2013	\$152,400	\$185,600	\$221,100	\$190,200

- MMB's Hay Study (2014-15) which showed an average pension fund executive director salary level of \$138,600 for 12 peer public sector comparator states and a salary level of \$190,900 for comparable private sector positions.
- The retirement systems conducted its own executive director salary survey in 2015 which was sent to 21 public systems that are similar in structure to Minnesota's pension systems in that investment responsibilities are handled by a separate entity like the State Board of Investment (SBI). Those results show the

average salary for all similar funds to be \$146,245 and for funds in the Mid-west region, the average salary is \$150,973.

- The \$144,991 salary level requested is in line with salaries paid to Minnesota commissioners with similar ratings according to MMB's Hay Study and is in line with the salary paid to the executive director of the Legislative Commission on Pensions and Retirement given the differences in responsibilities and authority.

The TRA Executive Director is responsible for providing leadership for TRA which has involved merging with other funds (Minneapolis Teachers and Duluth Teachers) and developing reforms to address significant funding shortages in recent years. The TRA Executive Director position is responsible for directing and controlling the financial and administrative operations of an agency which expends \$1.6 billion annually in benefits, collects \$580 million annually in contribution revenue, has an annual administrative budget of \$12.5 million and has 90 staff members. The position serves a clientele of 90,000 active and inactive teachers, 59,000 benefit recipients and 585 school districts.

The executive directors of the retirement systems are career professionals who have been in their current jobs for many years and who serve much longer terms than other state agency heads. Ms. Hacking has spent 15 years directing pension systems in Minnesota (TRA and previously PERA) and 7 years directing much larger systems in other states. The director position requires a high level of financial expertise.

The law requires that increases provided to the executive director be based on performance. Ms. Hacking has demonstrated exemplary performance documented in each of the past nine years of her tenure and which has been re-affirmed in her most recent performance evaluation completed by the TRA Board in December 2014. Ms. Hacking has also adhered to the Board's affirmative action goals, demonstrating commitment and dedication to meeting all of the requirements of the Affirmative Action Plan over the past two years (see attachment).

I would be glad to provide you and the Subcommittee any additional documentation or information that you request. Thank you for your consideration of this matter.

Sincerely,



Martha Lee Zins
President, TRA Board of Trustees

Attachment: July 27, 2015 memo re Affirmative Action Goals

c: Members, Subcommittee on Employee Relations
Commissioner Myron Frans, Minnesota Management and Budget
Greg Hubinger, Director, Subcommittee on Employee Relations ✓



Teachers Retirement Association

60 Empire Drive • Suite 400 • St Paul MN 55103-4000
651.296.2409 • 800.657.3669 • 651.297.5999 FAX • 800.627.3529 TTY

DATE: July 27, 2015

TO: Micah Intermill
Acting MMB Compensation Manager

FROM: Kim Van Vleet
Retirement Systems
Human Resources Director

PHONE: (651) 201-2689

SUBJECT: Executive Director – Affirmative Action Goals

This letter is to confirm, that over the past year, Laurie Hacking, TRA Executive Director, has demonstrated commitment and dedication to meeting all of the requirements of the Affirmative Action Plan. The TRA has made a “good faith effort” to recruit, hire and retain a diverse workforce and has had no missed opportunities. A missed opportunity is described as a non-affirmative, non-justified hire.

If you have any questions or need further information, please feel free to contact me.

Thank you.

July 23, 2015

The Honorable James Metzen, Chair
Legislative Coordinating Commission
Subcommittee on Employee Relations
371 State Office Building
St. Paul, MN 55155

Dear Chairman Metzen:

On behalf of the Minnesota State Retirement System (MSRS) Board of Directors, I am requesting that the Legislative Coordinating Commission's (LCC) Subcommittee on Employee Relations consider approving a salary increase for our Executive Director, David Bergstrom.

The MSRS Board has completed its annual performance review on Mr. Bergstrom and, due to his exceptional leadership and accomplishments at MSRS, they recommend that he receive an increase in his salary to \$144,991 per year from his current annual salary of \$126,011.

Over the past year, the Board has discussed various issues with respect to the need to compensate its current Executive Director with a competitive salary, and also for any future recruitment efforts to avoid the difficulty the Public Employees Retirement Association (PERA) Board of Trustees has been currently experiencing to replace its long-term Executive Director, Mary Vanek. MSRS will be dealing with the same situation in the near future with the retirement plans of Mr. Bergstrom.

There are specific job qualifications of these retirement director positions. For example, the qualifications of the MSRS Executive Director require at least five years' experience on the administrative staff of a major retirement system (Minnesota Statutes 352.03, subdivision 5). Mr. Bergstrom has been in the public pension business for over 31 years, and has served as the Executive Director of MSRS for the past 23 years. Prior to his career at MSRS, he served in professional and management roles at PERA for 8 years.

The MSRS Executive Director responsibilities include the administration of five distinct retirement plans, the fifth largest deferred compensation plan in the country, and the largest publicly-administered health care savings plan. Mr. Bergstrom assumed a leadership role in developing solutions to resolve significant funding shortages caused by the steep market drop in 2008 and 2009. The MSRS General Plan is projected to be 88 percent funded as of June 30, 2015, based on the market value of assets. The Executive Director position oversees about 115 employees, with offices in St. Paul, Duluth, Mankato, and Detroit Lakes. Many of MSRS employees are required to hold Series 6 and 63 licenses in order to handle the financial transactions for the Minnesota Deferred Compensation Plan (MNDCP), and are subject to the Financial Industry Regulatory Authority (FINRA) requirements. MSRS not only provides service

to all Minnesota state employees, but also to public employees throughout the state through their participation in the MNDCP and Health Care Savings Plan (HCSP). Currently, MSRS holds \$20.6 billion in total assets, and is responsible for about 250,000 participant accounts.

The MSRS Board also reviewed salary information on: (1) the McLagen-AON-Hewitt 2013 national survey of public pension directors (without investment responsibility), which showed average salaries of \$188,900 to \$190,200; (2) the Minnesota Management and Budget's 2014 Hay Study, which showed an average salary level of \$138,600 in public sector (comparable states) and \$190,900 for comparable private sector positions; and (3) a 2015 study conducted by our retirement systems gathering information from 21 similar public pension systems, resulting in an annual salary range of \$146,245 to \$150,973 in the Mid-west region.

Following various discussions throughout the year on this matter and completion of Mr. Bergstrom's performance review, the MSRS Board, at its regular meeting held July 16, 2015, unanimously approved a motion requesting that I submit the salary increase recommendation of \$144,991 for Mr. Bergstrom to the LCC Subcommittee.

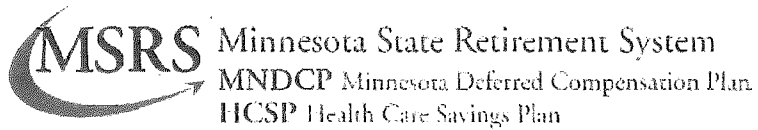
I encourage you to contact me with any additional information or concerns or questions you may have in regard to this recommendation. In advance, I want to thank you for your consideration of my request on behalf of the MSRS Board of Directors. My direct phone number is 612-325-7118 or you can email me at mgbenner@comcast.net.

Sincerely,



Mary Benner
Chair, MSRS Board of Directors

c: Members, Subcommittee on Employee Relations
Commissioner Myron Frans, Minnesota Management and Budget
✓ Greg Hubinger, Director of Subcommittee on Employee Relations



Office Memorandum

Date: July 27, 2014

To: Micah Intermill
Acting MMB Compensation Manager

From: Kim Van Vleet
Retirement Services
Human Resources Director

Subject: Executive Director – Affirmative Action Goals

This letter is to confirm, that over the past year, Dave Bergstrom, MSRS Executive Director, has demonstrated commitment and dedication to meeting all of the requirements of the Affirmative Action Plan. The MSRS has made a "good faith effort" to recruit, hire and retain a diverse workforce and has had no missed opportunities. A missed opportunity is described as a non-affirmative, non-justified hire.

If you have any questions or need further information, please feel free to contact me.

Thank you.
