

January 16, 2014

The Honorable Leon Lillie
 Subcommittee of Employee Relations
 371 State Office Building
 100 Rev. Dr. Martin Luther King Jr. Blvd.
 Saint Paul, Minnesota 55155

Dear Representative Lillie:

On behalf of the Board of Directors of the Minnesota State Retirement System (MSRS), I am requesting the Subcommittee of Employee Relations to consider and approve a salary increase for MSRS' Executive Director, David Bergstrom. The Board of Directors is recommending the following salary increases which are modeled after the Managerial Plan that has been approved by the Legislative Coordinating Commission (LCC).

INCREASES		
DATE	Under Managerial Plan	SALARY
Current		\$114,287
1/2/13	2.0% General Increase	\$116,572
1/2/13	3.5% Performance Increase	\$120,652
7/1/13	3.0% General Increase	\$124,272
1/1/14	3.5% Performance Increase	\$128,621
7/1/14	3.0% General Increase	\$132,480

The MSRS Board followed the Managerial Plan in establishing a salary level which we believe is justifiable and reasonable for the position. It would be consistent with the percentage increases provided to employees of MSRS and other agencies who are not at the top of the range.

The law requires that increases provided to the executive director be based on performance. The members of the MSRS Board conducted a performance review at their September meeting and rated Mr. Bergstrom's performance as 5 on a scale of 5 in all of the responsibilities of his job description, which is attached. Mr. Bergstrom also has adhered to the agency's affirmative action goals, which is attached.

Mr. Bergstrom has been the Executive Director of the Minnesota State Retirement System since March 1992. His tenure in that position is among the longest in the country and his experience has helped guide MSRS through many changes. The Minnesota State Retirement System administers six defined benefit plans, two defined contribution plans, the Minnesota State Deferred Compensation Plan, which is the 5th largest in the country, and also the Health Care Savings Plan, which has grown to over 80,000 participants in just 12 years. In total, the MSRS administers 220,000 individual accounts and is responsible for assets exceeding \$17 billion as of June 30, 2013.

The Board did look at Mr. Bergstrom's counterparts in other states when determining an appropriate salary. The Board looked at a survey conducted by an outside compensation firm, McLagan, which

60 Empire Drive, Suite 300, Saint Paul, MN 55103-3000

shows his current salary is well below most public pension plan executive directors. Because the McLagan study included some retirement plans responsible for investing the assets of their plans, the retirement systems HR staff conducted a study of similar funds whose executive directors are not directly involved in investing assets. (The retirement fund executive directors are members of the Investment Advisory Council which serves in an advisory capacity for the State Board of Investment.)

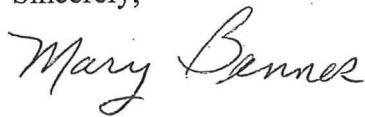
The average salaries for executive directors who serve at similar public pension plans have an average salary of \$130,727. If you look just at the Midwest region, the average salary is \$142,115. Most of the executive directors in that survey had fewer years of experience than Mr. Bergstrom. Because the current salary level is well below the average, it would be difficult to attract and retain qualified replacements should Mr. Bergstrom retire.

The executive directors of the state's three largest pension plans have provided critical leadership during the Great Recession in 2008 and 2009. Working with their Boards and Legislative Commission on Pensions and Retirement (LCPR), reforms were made to lower liabilities in excess of \$6 billion. Minnesota was one of the first states to enact important reforms to add financial stability. The MSRS General Plan is about 88% funded as of June 30, 2013, which is among the best funded plans in the country.

The Board intended to delay the decision to move forward with a salary increase until MMB conducted a compensation study, which was originally scheduled to be completed in November 2013. However, since the results of that study are not expected to be completed in time to move forward this legislative session, the Board decided to move forward with introducing this request and proposed methodology now, based on comparative data available from other states and within state agencies based on the pay of assistant and deputy commissioners.

The MSRS Board respectfully asks the LCC to approve the Board's salary request. I would be happy to provide further information to you and the Subcommittee. Thank you for your consideration.

Sincerely,



Mary Bennier,
MSRS Board of Directors Chair

c: Jim Schowalter, Commissioner, Minnesota Management and Budget
Greg Hubinger, Director, Subcommittee on Employee Relations

Enclosure



Office Memorandum

Date: January 17, 2014

To: Christine Rush
MMB Compensation Manager

From: Kim Van Vleet
Retirement Services
Human Resources Director

Subject: Affirmative Action Update

As requested, attached is the MSRS Affirmative Action status from 7/1/2008 through present. The MSRS has made a "good faith effort" to recruit, hire and retain a diverse workforce. The MSRS has increased its affirmative hires in the minority category by 13% over the past 5 years. An affirmative hire means the agency selected a protected group candidate from a category for which there is an underutilization. The MSRS has had no missed opportunities. A missed opportunity is described as a non-affirmative, non-justified hire.

Total 7/1/2008	Women	Minority	Disability
87	61	0	3
Percentage	70%	0	3.4%
Total 2013			
102	63	13	3
Percentage	62%	13%	3%

If you would like additional information, please let me know. Thank you.

Performance Review – 2008 – 2013 September 26, 2013, Meeting

Employee's Name		Agency	
David Bergstrom		MSRS	
Classification Title	Working Title (if different)	Position Control Number	
Executive Director		00121230	
Appraisal Period	Date Performance Indicators Established	Date Reviewed with Employee	
6/2008 – 7/2013			

NOTE: Full list of accomplishments is attached

Levels: 1 = unsatisfactory, 2 = marginal, 3 = satisfactory, 4 = above expectations, 5 = outstanding

Task	Description	Level	Comments
1	Plan, direct and manage MSRS operations	5	<p>Dave Bergstrom continues his excellent performance as a director and manager. His accomplishments in this area during the appraisal period include:</p> <ul style="list-style-type: none"> ▪ Risk assessment and comprehensive computer network redesign, with significant security enhancements that include a business continuity plan and restricted passwords that limit system access. ▪ Customer service survey participation, and development of metrics to measure productivity and customer call processing. ▪ MSRS was awarded the Government Finance Officers Association recognition for Excellence in Financial Reporting. ▪ Excellent progress in affirmative action hiring (see report)
2	Administer the statewide Deferred Compensation Plan (MNDCP) and Health Care Savings Plan (HCSP)	5	<p>Mr. Bergstrom's accomplishments related to the Deferred Compensation Plan and Health Care Savings Plan include:</p> <ul style="list-style-type: none"> ▪ Capably managing the significant growth of the Health Care Savings Plan (available to all city, county and school district employees), with over 80,000 participants and \$500 million in assets. ▪ Repeatedly reducing Minnesota Deferred Compensation Plan fees through efficient management. ▪ Enhancing the investment options available to Deferred Compensation Plan participants by adding Roth after-tax feature and target date funds. ▪ Both plans were switched from monthly valued to daily valued funds.
3	Consult with and advise the Board of Directors	5	<p>Mr. Bergstrom's communication skills are extraordinary:</p> <ul style="list-style-type: none"> ▪ Dave fully presents the pros and cons of complex issues to the Board of Directors in understandable terms, enabling the Board to make informed and prudent decisions, knowing the implications and potential outcomes of each issue. This ability also carries through in his interactions with the Legislature, stakeholders, and the media. ▪ Board meetings are always well organized and thoroughly prepared.
4	Serve as chief liaison to Federal and State government	5	<p>Mr. Bergstrom is acknowledged for his leadership, knowledge and integrity among Legislators. Accomplishments in the Legislative arena include:</p> <ul style="list-style-type: none"> ▪ Serving in a leadership role among the three statewide pensions systems to dissolve the Post Fund in 2008. ▪ Major sustainability legislation in 2010, and numerous sustainability measures to the Judges, State Patrol, Elective State Officers and Legislators plans. ▪ Submitting documentation to the Internal Revenue Service to reaffirm that MSRS' retirement plans are totally compliant with IRS rules and regulations.
5	Participate in Investment Advisory Council	5	<p>Mr. Bergstrom provides critical input to and oversight of the SBI, and is a valued participant on behalf of MSRS.</p>

Memorandum

Date: July 1, 2013

To: Mary Benner, Chair
MSRS Board of Directors

From: Dave Bergstrom,
MSRS Executive Director

Phone: (651) 284-7888

Subject: **ACCOMPLISHMENTS – 2013 PERFORMANCE REVIEW**

As you requested, I put together a list of major accomplishments since my last review. The accomplishments are a credit to the MSRS staff and the support of the Board.

LEGISLATIVE

Abolished Post Fund. Prior to 2009, all three statewide systems paid into the same Post Retirement Fund. Assets were transferred from the plan for active employees to the post fund at the time of termination. Eliminating the post fund was important as it allowed MSRS to manage its funding and post retirement increases based on the financial needs of the plan.

Passed 2010 sustainability legislation. In 2010, major legislation was passed to trim MSRS' liabilities by about \$600 million. The changes were supported by our unions and retiree representatives. The changes included reducing post-retirement increases, lowering the interest paid on benefits for those who have terminated but not yet collected benefits, and reducing interest on refunds for those who withdraw their employee contributions. The changes, along with the stock market recovery, have dramatically improved the funding status after the steep market drops in 2008 and 2009.

We successfully defended the law changes from a legal challenge brought forth by several retirees.

Passed 2013 sustainability legislation for Judges and State Patrol Plan members. Mortality changes and changes to the interest assumption resulted in projected funding problems for the Judges Plan and State Patrol Plan. We worked with representatives of both groups to develop a package to lower cost-of-living adjustments and increase employee and employer contributions for both plans. For the State Patrol Plan, we increased early retirement penalties and capped benefits.

Passed stronger guidelines for determining duty-related disability. Legislation was passed to provide duty-related disability claims only if an employee was injured while performing the inherently dangerous duties of the job. This has reduced the number of duty disabilities, especially in the Correctional Plan. For example, we had a member who hurt himself tripping over a table,

Developed Business Continuity Plan. MSRS continues to develop a comprehensive business continuity plan. We now have a “warm” site in Mankato, which serves as our back-up computer site, but has space to house about 15 - 20 staff in case of a substantial business outage. Our priority service is issuing monthly checks and processing new payments.

Participated in a customer survey and continue to develop performance metrics. We participated in a standardized customer service survey to develop a baseline for customer service. We will continue to participate. While we scored reasonably well, we hope to attain levels of the premier public pension plans. We also have been establishing metrics to measure productivity, such as phone hold time, length of calls, time for processing new payment, etc. This will allow us to monitor our agency performance.

Accelerated increase in membership to the Health Care Savings Plan (HCSP). The Health Care Savings Plan has grown from its start twelve years ago to over 80,000 participants, and assets of over \$500 million. The plan is available to all city, county, and school district employees.

Switched from monthly valued funds to daily valued funds. The HCSP and the Unclassified Plan were switched from monthly valued funds to daily valued funds in 2009. This allowed participants to make trades in a timely fashion and also check their balances on a daily basis. This was allowed by moving the HCSP and Unclassified Plan to an outside record keeper.

Reduced Minnesota Deferred Compensation Plan (MNDCP) fees. We have lowered MNDCP fees several times. Currently, we are charging .05% on assets up to \$100,000 (maximum fee is \$50 per year). Fees will go up slightly in the next year or so as we are spending down reserves.

Added Roth feature to the Minnesota Deferred Compensation Plan (MNDCP). We now offer a Roth feature under the MNDCP. The Roth allows employees to contribute on an after-tax basis, rather than a pre-tax basis. The payouts are not taxable when they are paid out. This program provides another savings opportunity for certain people to complement our pre-tax deferred compensation program.

Added Target Date Funds to the Minnesota Deferred Compensation Plan (MNDCP). Target date funds set asset allocations based on when participants are expected to start withdrawing their funds in the MNDCP. The funds automatically move to a more conservative asset allocation as a person gets closer to this target date of expected withdrawals.

Implemented System Migration Process. The system MSRS uses to process all benefits was developed in an old computer language. We are updating to a current language and streamlining our current system. Our old system was created over 40 years ago, and has a lot of unnecessary steps and manual processes. The new system will help improve service to our members. Our first phase will be deployed in November, and the project will be completed by the end of December 2014. We have hired CSC to help develop and program the new system. MSRS staff is working alongside the developers to fully learn how to maintain the programs.

Received Private Letter Ruling from IRS. We have received favorable private letter rulings from the IRS for the defined benefit plans MSRS administers (we did not submit a private letter ruling request for the Elective State Officers and the Legislators Retirement Plan since they have been closed to new members since 1997).

Implemented a Change Management Process for Information Systems and Information Technology. Any modifications to our system or local area network are now required to go through

July 12, 2013

Mary Benner
 Chair
 Minnesota State Retirement System
 60 Empire Drive
 Saint Paul, MN 55103

Dear Ms. Benner:

As discussed, the three Minnesota Pension Systems (MSRS, PERA and TRA) asked McLagan to provide competitive compensation data for the Executive Director role versus other public funds of a similar size (i.e., Funds with an active membership of between 50,000 and 200,000 members). The table below shows the low quartile (25th percentile), median (50th percentile) and high quartile (75th percentile) of the competitive peer group (listed on the next page).

Executive Director without CIO Responsibility- Compensation

	Select Public Funds			
	Low Quartile (25%)	Median (50%)	High Quartile (75%)	Average
2012 Salary	\$152.4	\$188.1	\$221.1	\$188.9
2012 Total Cash	152.4	188.1	221.1	188.9
2013 Salary	144.6	185.6	221.1	190.2

If you have any questions or require any additional information, please do not hesitate to contact us.

Sincerely yours,



Kathleen Maffei
 Director

Select Public Funds

- Public Employees Retirement System of Idaho
- Illinois Municipal Retirement Fund
- State Universities Retirement System of Illinois
- Indiana Public Employees' Retirement System
- Iowa Public Employees' Retirement System
- Kansas Public Employees Retirement System
- Louisiana State Employees Retirement System
- Maryland State Retirement and Pension System
- Public Employees Retirement System of Mississippi
- Public School & Ed. Employee Ret. System Missouri
- Missouri State Employees' Retirement System
- Public Employees' Retirement System of Nevada
- Pennsylvania State Employees' Retirement System
- Texas County and District Retirement System
- Texas Municipal Retirement System
- Utah Retirement Systems

Executive Directors Salary Survey 2013 (by Region)

US Region: MIDWEST	Director's Current Salary*	Current Salary Range	Years as Executive Director	Number of Employees	Sets the Executive Director Salary Level	Who Appoints the Executive Director	Investment Function Responsibility
Fund #10	\$116,040	None	7	53	Public Employees Retirement Board	Public Employees Retirement Board	Reports to separate agency
Fund #11	\$184,000	None	24	34	Board with legislative appropriation	The Board	Agency – asset allocation / Investment policy. State Board of Investment -manages funds/refines asset allocation.
Fund #12	\$124,000	None	10	33	Board of Trustees w/Legislative Retirement Committee approval if greater than state employee raise	Board of Trustees	State Investment Council
Fund #13	\$144,423	\$95,217 - \$147,588	1.5	264	Employee Trust Funds Board	Employee Trust Funds Board	State Investment Board
Average Salary:	\$142,115						
Average Years of Service :	10.5						
US Region: NORTHEAST	Director's Current Salary*	Current Salary Range	Years as Executive Director	Number of Employees	Sets the Executive Director Salary Level	Who Appoints the Executive Director	Investment Function Responsibility
Fund #14	\$125,000	None	10.5	55	Treasury Office	State Treasurer	Reports to separate entity
Fund #15	\$142,736	None	12	32	Retirement Board	Retirement Board	State Investment Commission
Average Salary:	\$133,868						
Average Years of Service :	11.25						
SUMMARY							
Total Average of All Salaries:	\$130,728						
Total Average of all Years of Service:	7.6						