

TO: Legislative Retirement Study Commission

RE: Brief Summary of the 1973 Session Pension Legislation

DATE: June, 1973

I. Bills

During the 1973 Legislative Session, over 150 bills were introduced which concerned public pension matters in Minnesota. Also, for the first time, 10 additional bills were introduced which concerned private pensions of Minnesota residents. In accordance with the statutes, these bills were reviewed and analyzed by the commission members and staff. Several of these bills were commission sponsored as a result of studies during the 1971-73 interim, and also during the Session itself. The appointed legislative members served the dual role as commission members and also as members of the pension subcommittees of the House and Senate.

Of the 160 bills introduced concerning pensions, 57 of these became law (see attachment). An additional 11 bills were in process at the end of the Session, either in the House or Senate, or both. Presumably, these bills and others which received no action during the 1973 Session are "alive" and may be considered during the ensuing interim period and the 1974 Legislative Session.

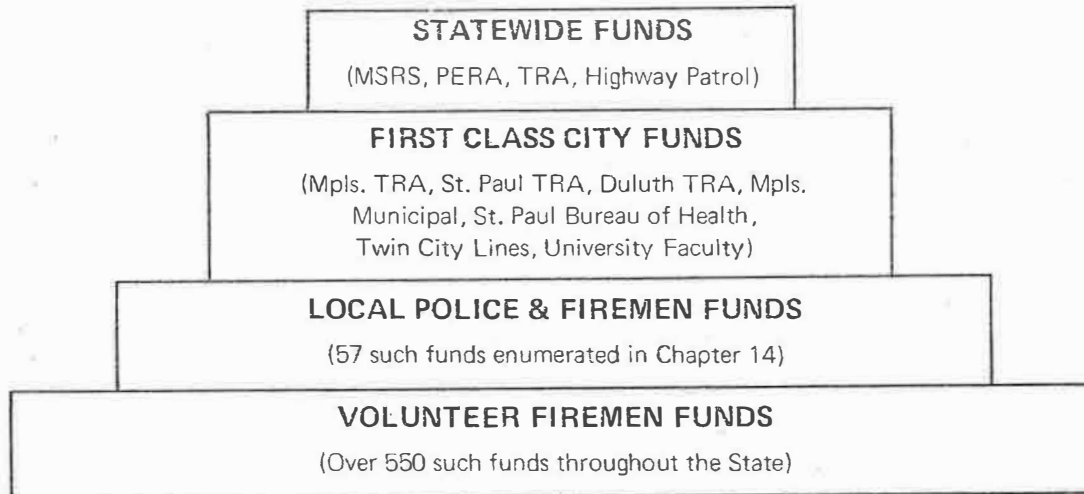
The 57 bills which became law may be classified as follows:

Statewide Funds	11 bills
1st Class City Funds	4 bills
Local Police & Fire Funds	12 bills
Volunteer Fire Funds	21 bills
Miscellaneous	<u>9 bills</u>
Total	57 bills

Several of these Session laws represent major pension changes which are briefly reviewed in the following section.

II. Major Changes

- A. Public Pension Overview: The following overview of Minnesota public pensions was graphically illustrated in this commission's report to the 1973 Legislature -



This overview was significantly changed during the 1973 Session.

Statewide Funds

- The Highway Patrol Fund was merged with MSRS for administrative purposes and will henceforth be handled much in the same manner that the PERA Police & Fire Fund is administered by PERA.
- A new statewide fund was created during this session--the so-called Statewide Judicial Pension Plan. For the first time, all elected judges of the state will have the right to pension coverage under the same system.

First Class City Funds

- The St. Paul Bureau of Health Plan was phased out during this session by placing its members within PERA.
- The MMER Plan which has heretofore operated under a complex general law--M.S. Chapter 422--now is governed by a simplified special law applicable only to this fund.

Local Police & Fire Funds

- There were 57 such funds at the start of the session. As a result of special laws enacted during this session, 9 of these funds are now on "phase out" basis.

Volunteer Funds - No change

B. Statewide Funds Changes: Probably the most significant pension bills passed during the 1973 Session were those enacting major policy and benefit changes for the statewide funds--MSRS, PERA, Tra and the Highway Patrol.

These changes included:

- Redefining "average salary" for computation purposes from the modified career average salary to the five highest consecutive year average.
- Changing the 4-step graduated formula to a 2-step formula.
- Permitting retirement at age 62 with 30 years of service with no actuarial reduction.
- Providing a 25% improvement in benefits for those already receiving benefits.
- Requiring an increase in employee and employer support rates.

Fund participants - active and retired:

	<u>PERA</u>	<u>TRA</u>	<u>MSRS</u>	<u>Highway Pat.</u>	<u>Total</u>
Active Employees	73,900	58,192	36,962	723	169,777
Retirees	6,608	4,476	4,732	126	15,942
Survivors (W & C)	3,555	479	32	87	4,153
Disabilitants	231	69	222	2	524
					<u>190,396</u>

Comparative Projection of Benefits (Present Formulas vs. New High 5 Plan

Assumptions:

Retirement age = 65

Salary starting = \$500 @ mo. (\$6000 @ year)

High 5 Formula = years 1 to 10 - 1% per year

Years thereafter = 1.5% per year

<u>Pension Fund</u>	<u>Yrs of Serv.</u>	<u>Present Benefit</u>	<u>High 5 Benefits</u>	<u>% Increase</u>
<u>PERA</u>	10	\$ 36.66	\$ 63.69	73.7%
Coordinated	20	132.55	224.59	69.4
	30	307.59	506.92	64.8
	40	631.48	983.18	55.7
<u>TRA</u>	10	36.66	63.69	73.7
	20	143.77	224.59	56.8
	30	337.70	506.92	50.1
	40	673.76	983.18	45.9
<u>MSRS</u>	10	58.66	63.69	8.6
	20	162.61	224.59	38.1
	30	369.97	506.92	37.0
	40	718.68	983.18	36.8

Benefit Accrual Rates (as a percent of the "5 high average)-

- Basic employees (PERA & TRA) = 2.0% per year for 1st 10 years
2.5% per year thereafter
- Coordinated employees (PERA, TRA, MSRS) 1.0% per year for 1st 10 years
1.5% per year thereafter
- Police & Fire (Highway & PERA P & F) = 2.5% per year for 1st 20 years
2.0% thereafter

Estimated Changes in Unfunded Liabilities (rough) -

	<u>PERA</u>	<u>TRA</u>	<u>MSRS</u>	<u>Highway Pat.</u>	<u>Totals</u>
A) Old Law - 3 1/2% int.	109.2M	154.3M	18.9M	10.4M	292.8M
* B) Old Law - 5% int.	61.2	114.1	3.3 (+)	7.6	179.6
* C) New Law - 5% int.	278.8	324.5	106.4	15.3	725.0

* Estimates only

Note: Row A reflects the unfunded liabilities at 3 1/2% interest as of 6/30/72, as reflected in the actuarial surveys submitted by the funds.

Note: Row B reflects the change in the unfunded liabilities of the old plans when a 5% interest assumption is applied. These estimates were calculated by Dr. Smith and are admittedly "rough estimates", based on data as of 6/30/72.

Note: Row C are also rough estimates furnished by the funds. Said estimates may not include all factors of cost in the improvement programs, such as the post retirement increases. These estimates are again based upon data as of 6/30/72.

Note: More accurate cost estimates of the benefit improvements enacted will be available in December, 1973, or January, 1974. These funds will then submit new valuations based upon the improved plans and data as of 6/30/73. Considerable variations with the above estimates may be expected.

MEMBERS OF THE SENATE
 John C. Chenoweth, Chairman
 Mel Hansen
 Jack Kleinbaum
 Harmon T. Ogdahl
 Eugene Stokowski



LEGISLATIVE RETIREMENT STUDY COMMISSION

State Capitol — St. Paul, Minnesota 55155
 Telephone 296-2750 - 296-6806

MEMBERS OF THE HOUSE
 Robert W. Johnson
 Calvin R. Larson
 Donald M. Mos, Secretary
 Richard J. Parish, Vice Chairman
 Al Patton

Summarized 1973 Law Provisions for PERA, MSRS and TRA Effective as of July 1, 1973

"Average Salary" for all three funds is defined as the average of the five highest consecutive years.

	<u>PERA and TRA Basic Plans</u>	<u>PERA, MSRS and TRA Coordinated Plans</u>
<u>Benefit accrual rate -</u>		
% of average salary	2.0% 1st 10 yrs.	1.0% 1st 10 yrs.
times number of years service	2.5% over 10 yrs.	1.5% over 10 yrs.
<u>Contribution Rates</u>		
Employee	8.0% of salary	4.0% of salary
Employer regular (PERA)	8.0% of salary	4.0% of salary (PERA)
" " (TRA)	7.0% of salary to 7/1/75; then	3 1/2% of salary to 7/1/75; then
	8.0% of salary	4.0% of salary
<u>Employer Additional</u>		
(PERA)	2 1/2% of salary	1 1/2% of salary
(TRA)	2.0% of salary to 7/1/75; then	2.0% of salary to 7/1/75; then
(MSRS)	2 1/2% of salary ---	2 1/2% of salary 2.0% of salary

Early retirement for all three funds--both Basic and Coordinated Plans--
 Age 62 with 30 years of service without actuarial adjustment.

For all persons now receiving pensions or benefits from PERA, MSRS and TRA:-

An increase of 25% divided between approximately a 10% increase
 effective 7/1/73;

An additional benefit effective 1/1/74 to reach a total of 25%.

(For those persons now retired and those receiving survivor benefits or
 disability benefits.)

For additional information, write or call the Legislative Retirement Study Commission
 or the individual funds.

LRSC Staff