

May 9, 2017

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Legislative Commission on Pensions and Retirement (LCPR)
Minnesota House State Office Building
St. Paul, MN 55155

Re: Written response to LCPR 17-038

Dear LCPR Members:

As was suggested during the meeting on Monday, May 8th, I am submitting written comments regarding the proposed legislation included in LCPR 17-038.

I would like to thank LCPR staff and other legislative staff for their work on this proposed legislation. They were open to hearing concerns from the retirement systems and when possible, included compromise language in the bill. I would also like to thank the Commission for including the Governor's proposal for the Minnesota State Retirement System (MSRS) Correctional and State Patrol plans. The additional contributions to these plans that are included in this bill will sustain these plans long into the future; the projected funding is expected to reach or exceed 100% within the amortization period.

Earlier this year, the MSRS Board presented a sustainability package to the Commission for the General Employees Retirement Plan. The original proposal included the following provisions and reduced the current contribution deficiency from 5.7% to 0.4%:

- Reduce the investment assumption from 8% to 7.5%
- Reamortization to 2047
- Increase to employee contribution of 0.5%
- Increase to employer contribution of 2.5% (phased in)
- Reduction to post-retirement increases from 2% to 1.5%

While we would have preferred the MSRS Board proposal be the final legislation under consideration by the Commission, the proposal that is before you has many of these components and additional benefit changes for active and retired plan members. This proposal includes the following provisions and reduces the contribution deficiency from 5.7% to 0.85% (emphasis added for provisions not included in original proposal):

- Reduce the investment assumption from 8% to 7.5%
- Reamortization to 2047
- Increase to employee contribution of 0.5%

- *Increase to employer contribution of 0.75%*
- *Reduction to post-retirement increases from 2% to 1.0% for five years and 1.5% thereafter*
- *Implementation of full actuarial equivalent early retirement reduction factors over a five year period*
- *A delayed post-retirement (COLA) increase for those who retire early until they reach age 65 or 66*
- *Elimination of deferred augmentation for all members (active and deferred) beginning January 1, 2018*
- *Reduction of the refund interest rate from 4% to 3% for those members who do not collect a retirement benefit and choose to refund their contributions out of the fund*

The funding provisions and benefit changes go a long way toward addressing the funding deficiency that we presented to you this year; however, the majority of these changes impact active member benefits only. I would specifically like to raise two areas of concern.

The first concern relates to the delayed COLA increases until Normal Retirement age. Currently, MSRS pays a cost of living adjustment to members that retire early. The cost of the COLA is included in the early retirement reduction factors because they are actuarial equivalent. This legislation would make early retirees ineligible for a COLA until they reach age 65 or 66. We do not expect this change to affect the majority of our members. However, this change will affect our early retirement factors. When combined with some of the other changes included in the proposed legislation, the implementation timeline and process should be carefully analyzed to avoid unintended consequences. I recommend that this change only apply to plan members that are not immediately eligible for a retirement annuity or delayed to at least 2023 to lessen these concerns.

The other concern is the size of the remaining contribution deficiency even after the additional reforms proposed by the Commission and the additional contributions included in this bill. The estimated savings of this bill leaves between a 0.5% and a 0.85% deficiency. I am hopeful that during subsequent conversations we may be able to lessen this deficiency. For example, increasing the employer contribution from 0.75% to 1% would reduce the deficiency and bring more balance to the overall package between the active employees, inactive/retired, and the employer.

Again, thank you for the time and energy spent on pension issues over the last several months. This hard work will ensure that the nearly 125,000 plan members in MSRS will have a sustainable retirement plan well into the future.



Sincerely,
Erin Leonard
Executive Director
Minnesota State Retirement System