



# Enhanced Benefits for Privatized Former Public Employees

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Public Employees Retirement Association  
Presentation to LCPR  
March 7, 2017

## PERA Coverage Generally

- **Employees of governmental subdivisions**
  - Not covered by another Minnesota pension plan
  - Participation by non-governmental employees can compromise IRS qualified status
- **Active membership ends when:**
  - A member retires, terminates their position, or is laid off; or
  - The entity is deemed no longer governmental, or ceases to exist
- **Inactive member is eligible for a refund of contributions, or if vested, a deferred benefit**



## Privatizing Governmental Entities

Pre-1996

- **Various special treatment**
  - Continued PERA participation
  - Refunds of employee *and employer* contributions

1996

- **University of Minnesota/Fairview**
  - Immediate vesting
  - Enhanced augmentation
  - Time with private counted towards Rule of 90

1999

- **Chapter 353F created\***
  - Response to 3 separate requests for enhanced benefits
  - Modeled after MSRS/Fairview structure
  - Applies only to PERA and allows for ongoing inclusion

\*Minnesota Laws 1999, Ch. 222, Art. 1

## Deferred Augmentation Rate Comparison

### Example

- \$1,000 benefit based upon age, service, high 5
- Terminates age 45, defers to age 65
- $\$1,000 \times (1.01)^{20} = \$1,220$

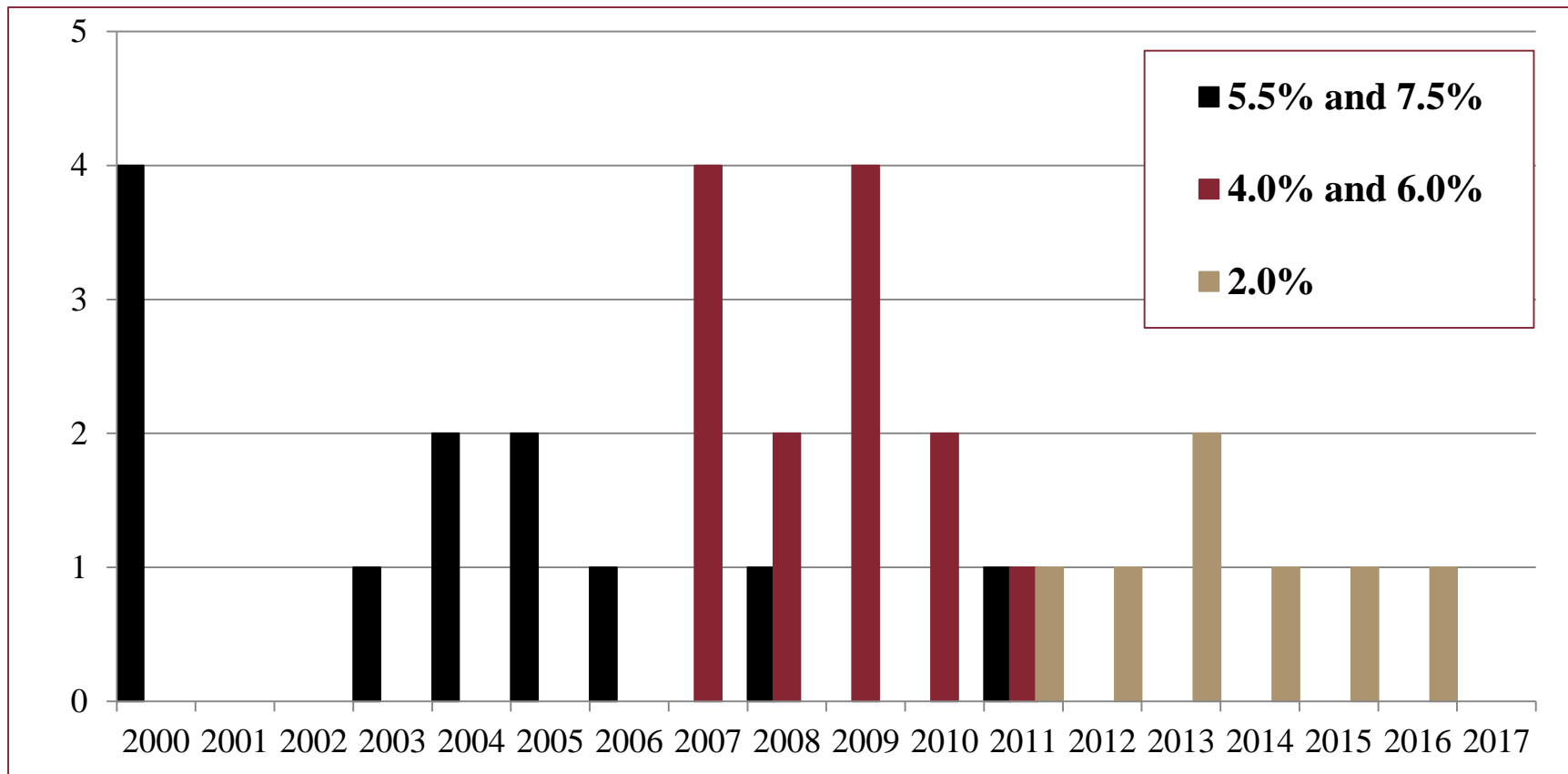
### Non-Privatized Member Rates

	7/1/1971 through 1980	1981 through 2011	2012 to retirement
Pre-2006 Hire	5%	3% until age 55 5 after age 55	1% if terminate < 2012 0% if terminate > 2011
Post-2006 Hire	N/A	2.5%	

### Chapter 353F Privatized Member Rates

Privatization Date	Before 2007 (or Hutchinson)	2007 through 2010 (or Sanford Wheaton)	2011 or Later
Augmentation Rates	5.5% until age 55 7.5% after age 55	4% until age 55 6% after age 55	2%

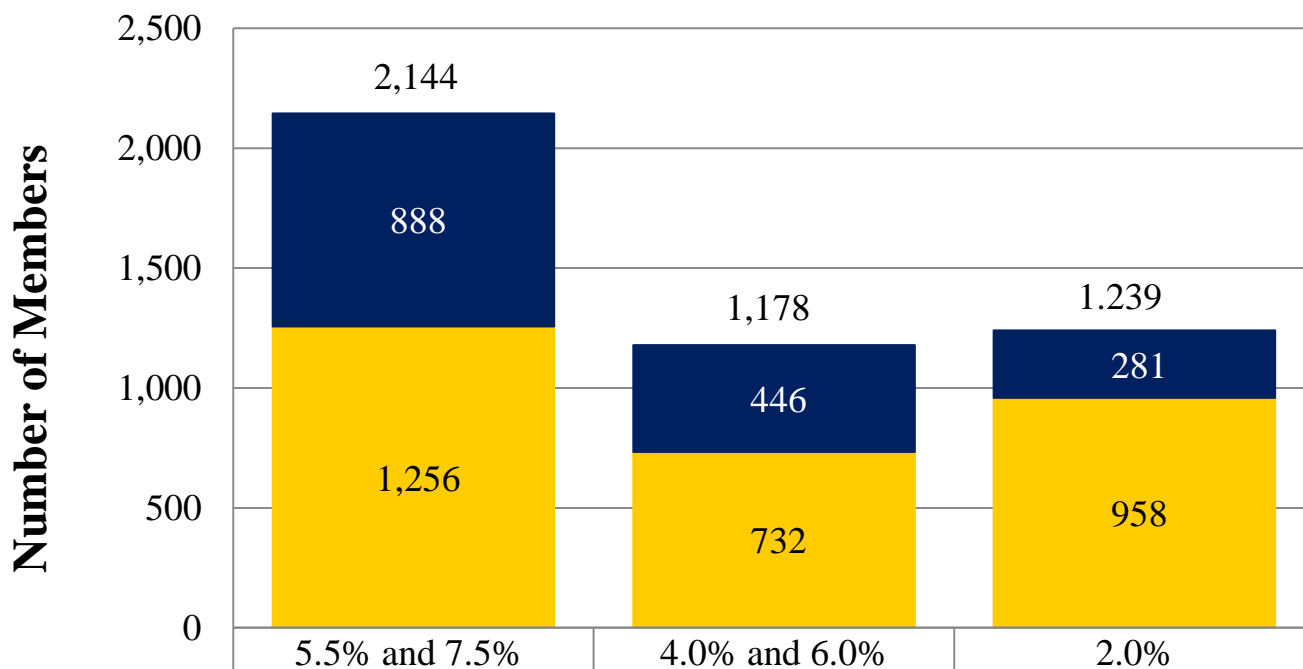
## Number of Privatized Entities by Year & Augmentation Rates



A soon-to-be privatizing employer must seek inclusion under Chapter 353F, and demonstrate that the enhanced benefits do not result in a net loss to the plan. The rates have varied based upon when the entity privatized, or in the case of Hutchinson Area Healthcare, if special legislation was enacted.

## Privatized Member Summary by Augmentation Rate Group

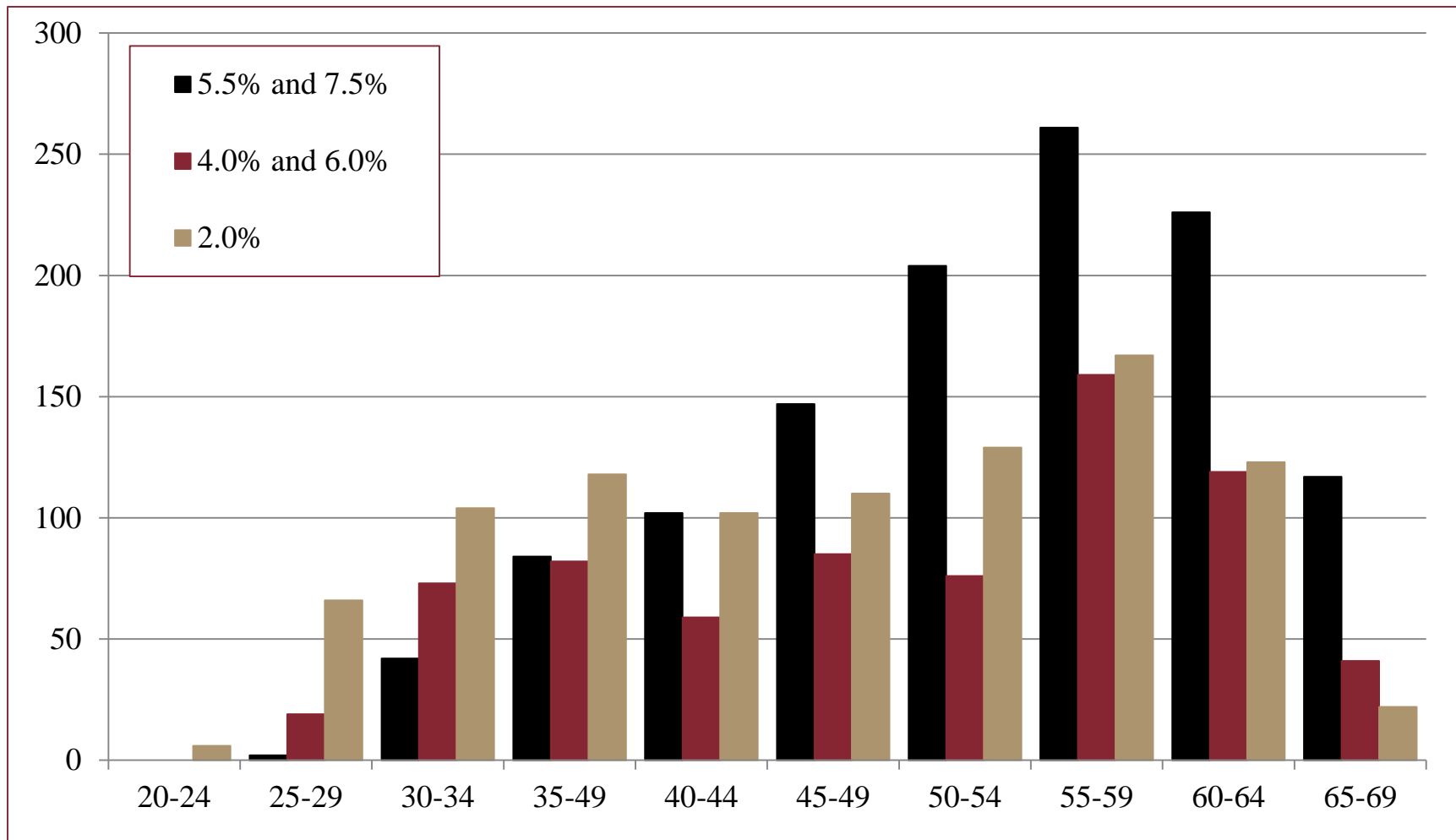
### Member Summary by Augmentation Rate Group



■ Retired	888	446	281
■ Currently Receiving Augmentation	1,256	732	958
% Receiving Augmentation	59%	62%	77%

As of June 30, 2016, the General Employees Retirement Plan had 52,516 deferred members. Those covered under Chapter 353F represent about 6 percent of the total inactive vested members.

## Privatized Members by Current Age Group



## Examples

**Privatized Member:** The benefit a former member working for a privatized employer would be eligible for at the applicable enhanced augmentation rate.

**Regular Member:** The benefit a former member would be eligible.

**Regular Rates 1/1/18:** The benefit a former member working for a privatized employer would be eligible for if regular augmentation rates applied effective January 1, 2018.

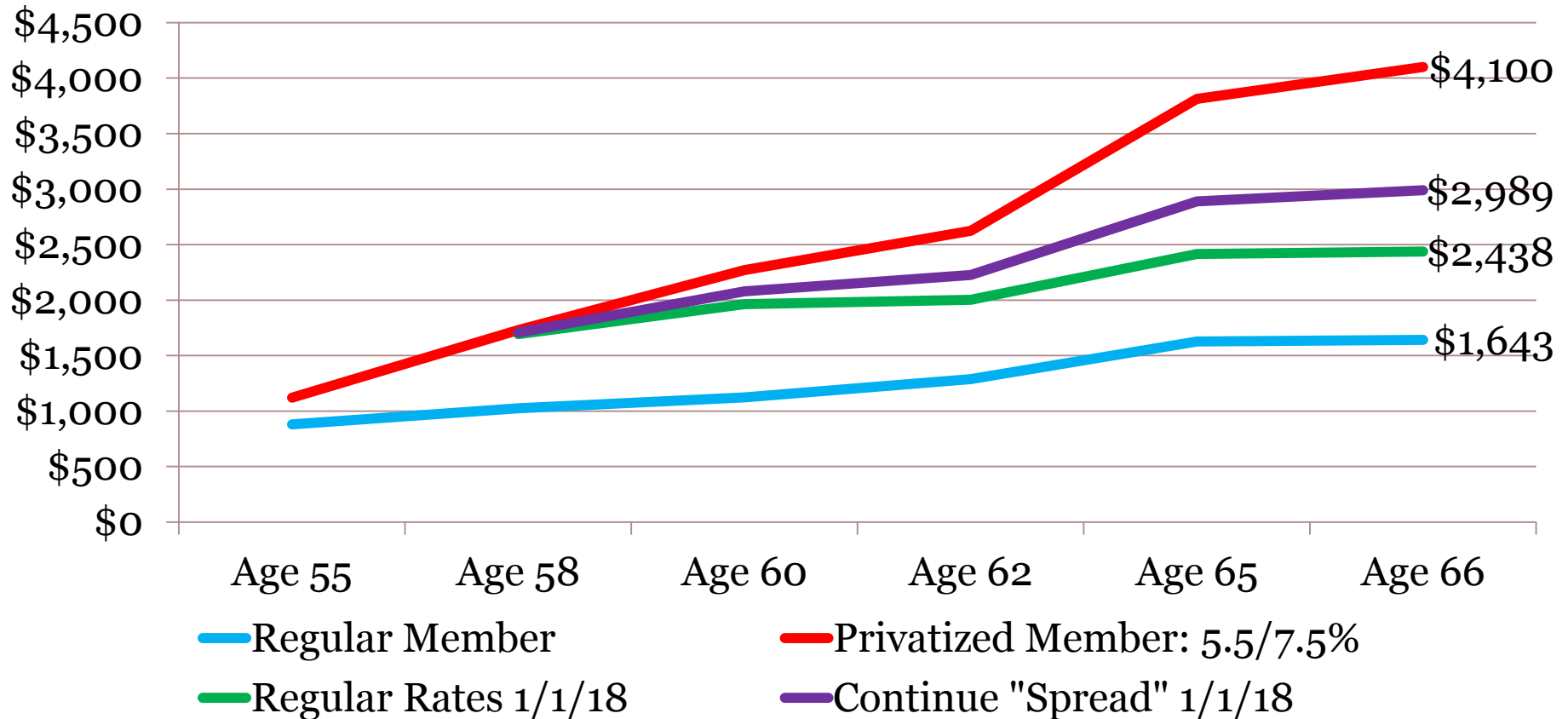
**Continue “Spread” 1/1/18:** The benefit a former member working for a privatized employer would be eligible for if augmentation rates were reduced to reflect the difference between regular member rates and enhanced rates was applied effective January 1, 2018. In other words, the benefit if enhanced rates were reduced by the same amount as regular rates in 2010.



# Example 1

5.5 and 7.5% augmentation

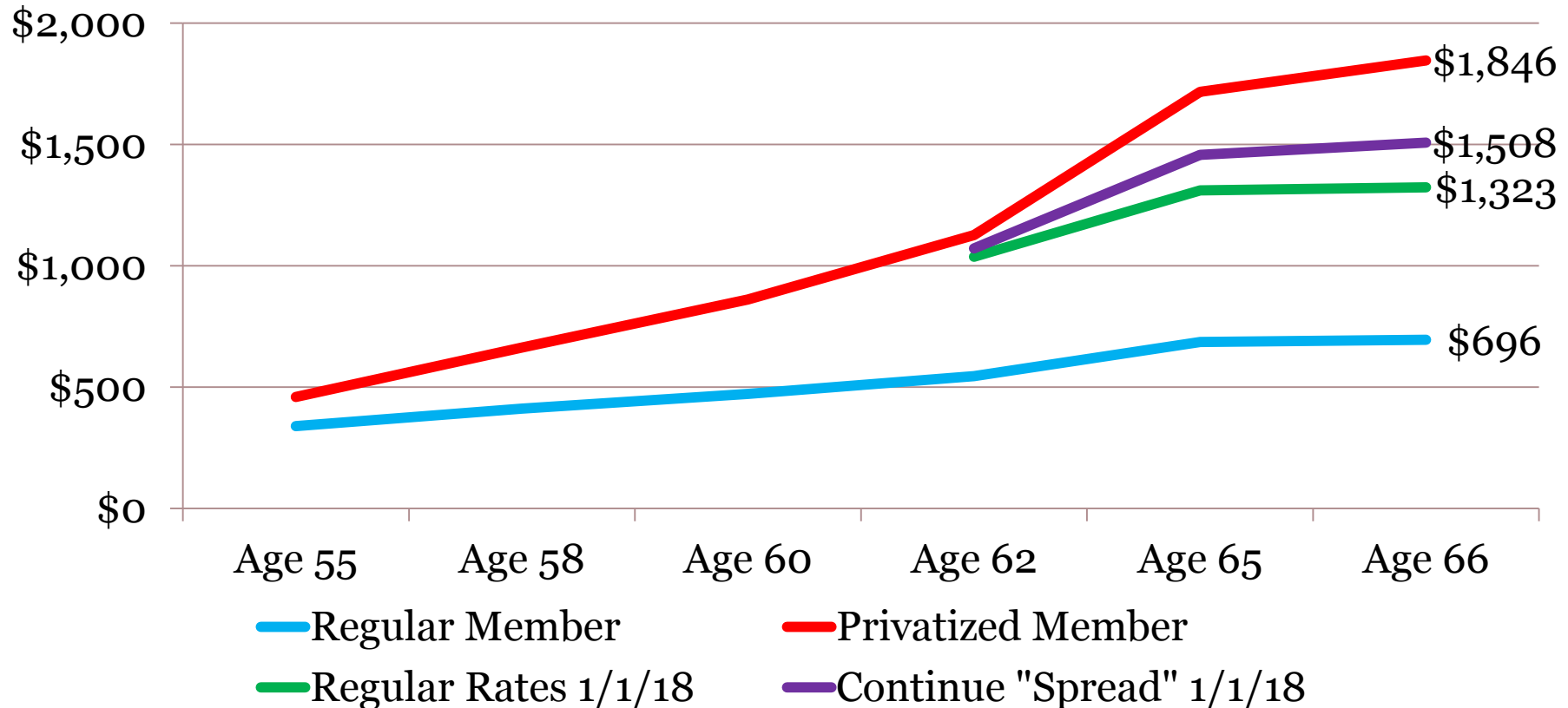
Pre-89, 20.25 Years Service, Age 55 5/1/2015, High 5 \$3,676



# Example 2

5.5 and 7.5% augmentation

Pre-89, 12.5 Years Service, Age 55 5/1/2012, High 5 \$2,051

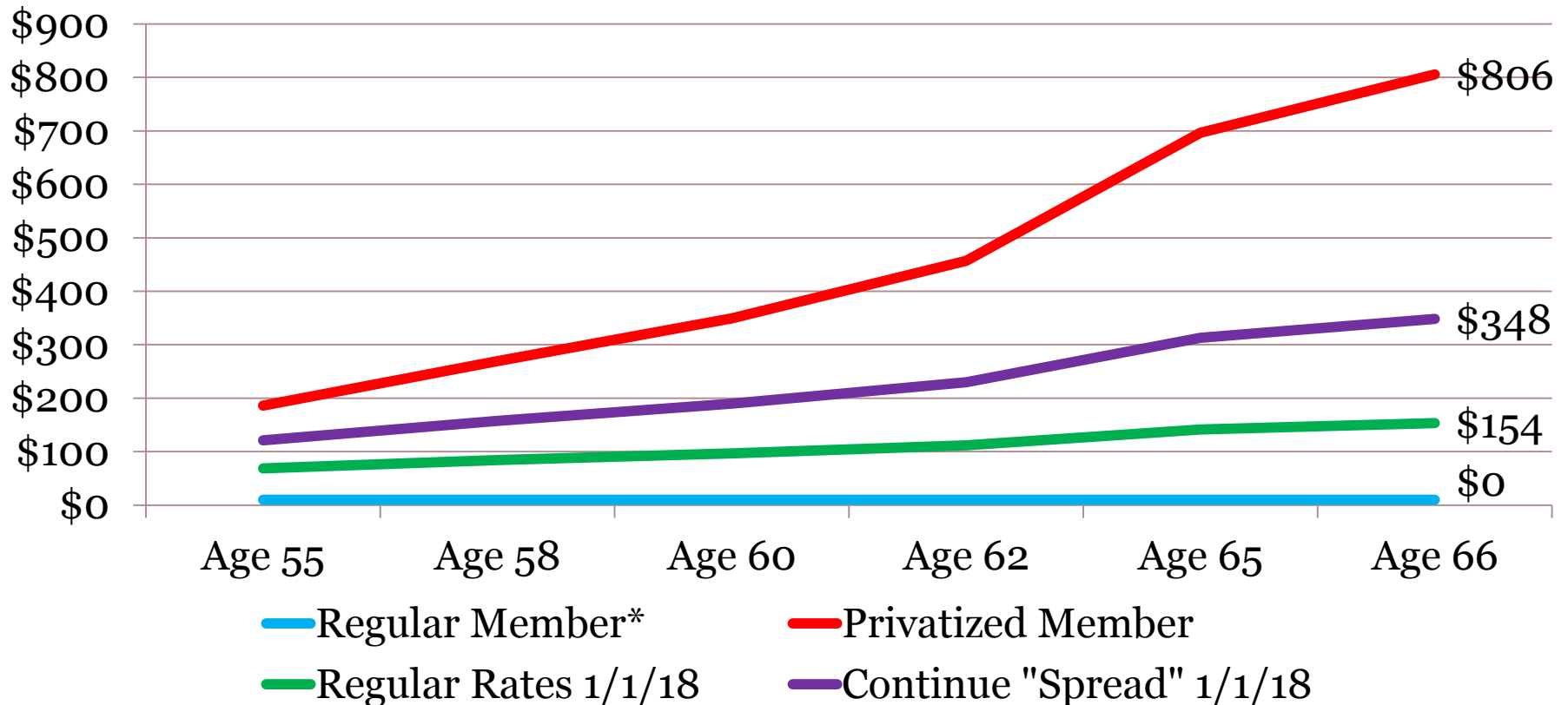


# Example 3

5.5 and 7.5% augmentation

2.83 Years Service, Age 55 7/1/2040, High 5 \$1,338

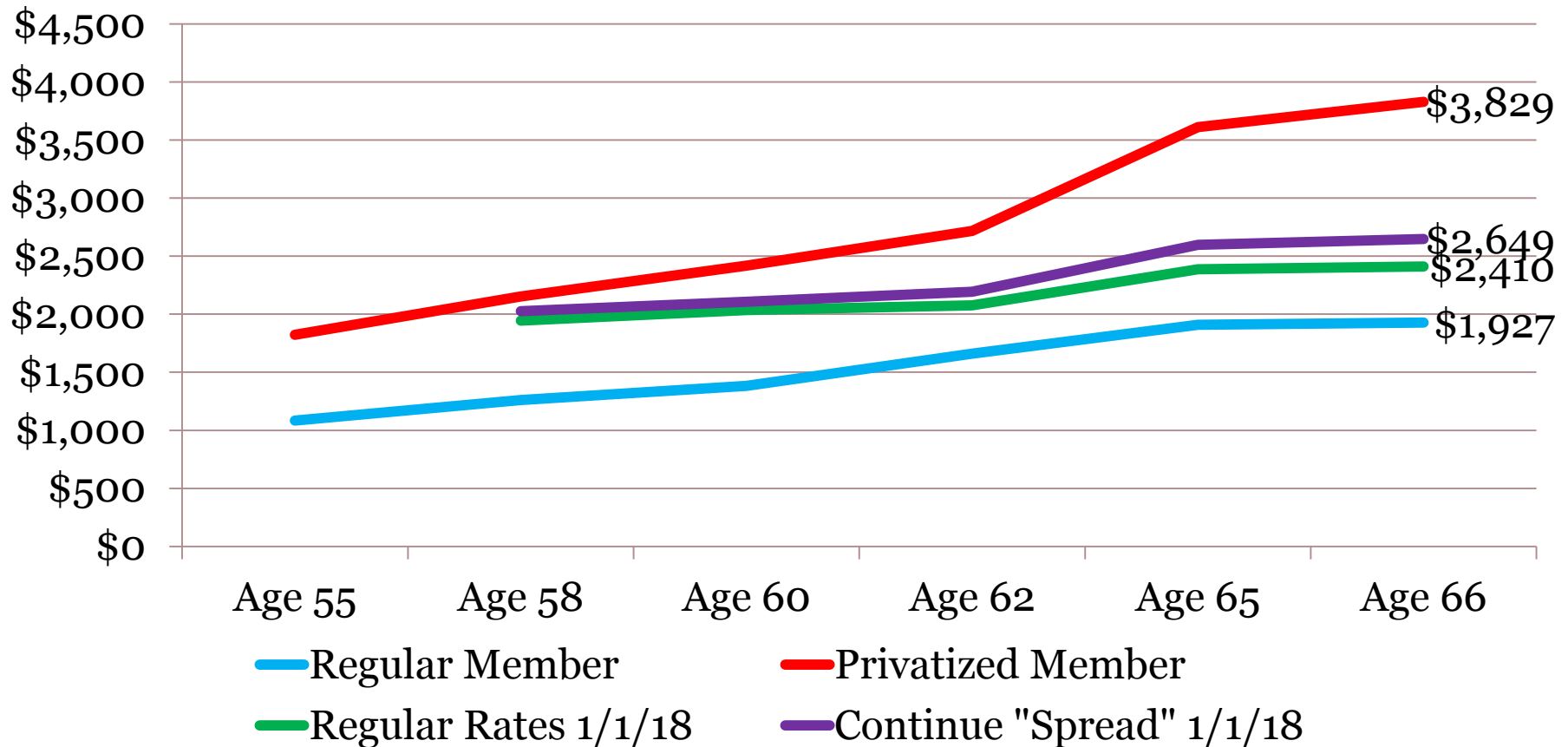
\*Only eligible for refund without 353F



# Example 4

## 4 and 6% augmentation

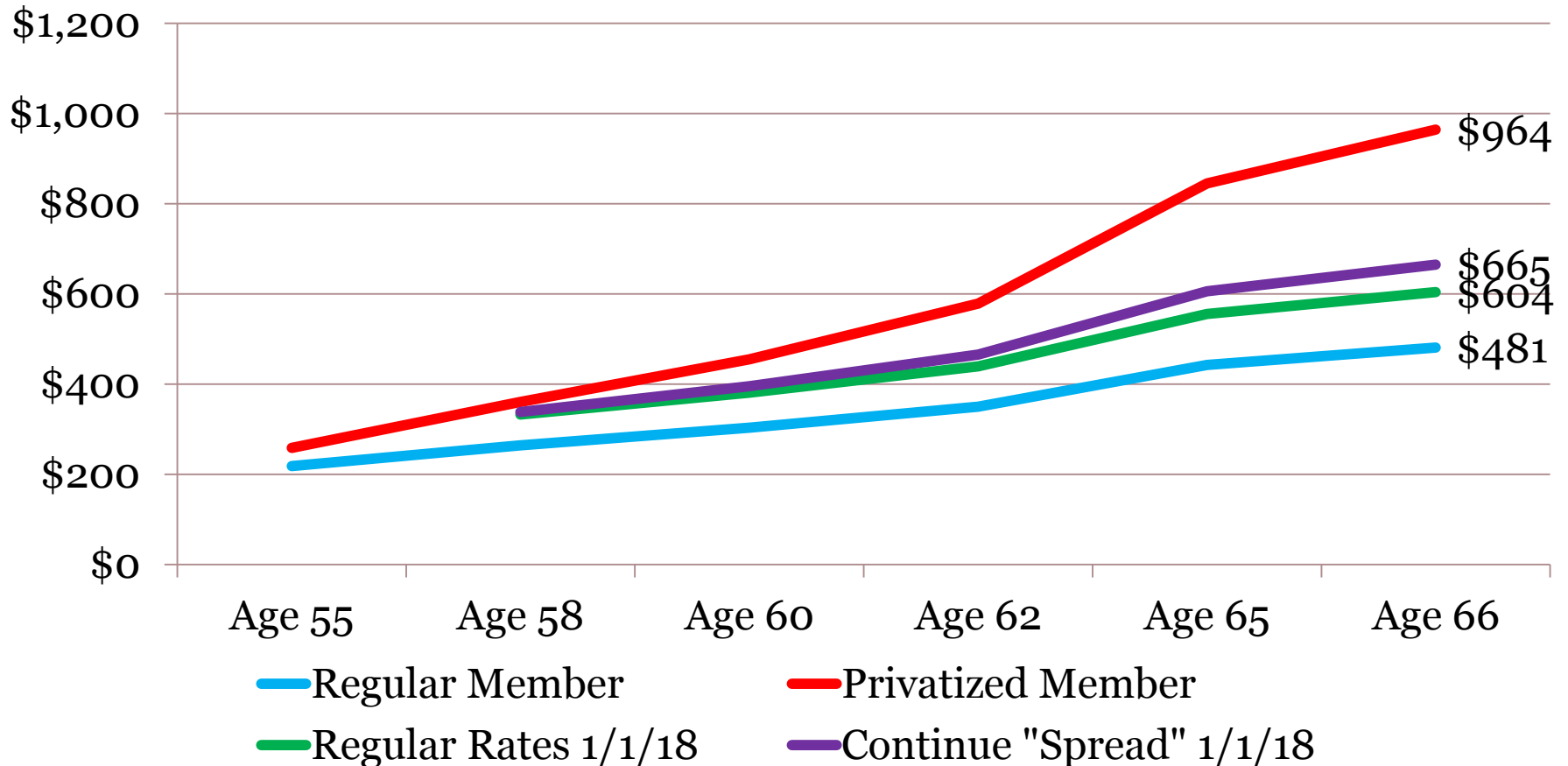
28.33 Years Service, Age 55 8/1/16, High 5 \$3,135



# Example 5

## 4 and 6% augmentation

3.25 Years Service, Age 55 10/1/16, High 5 \$7,065

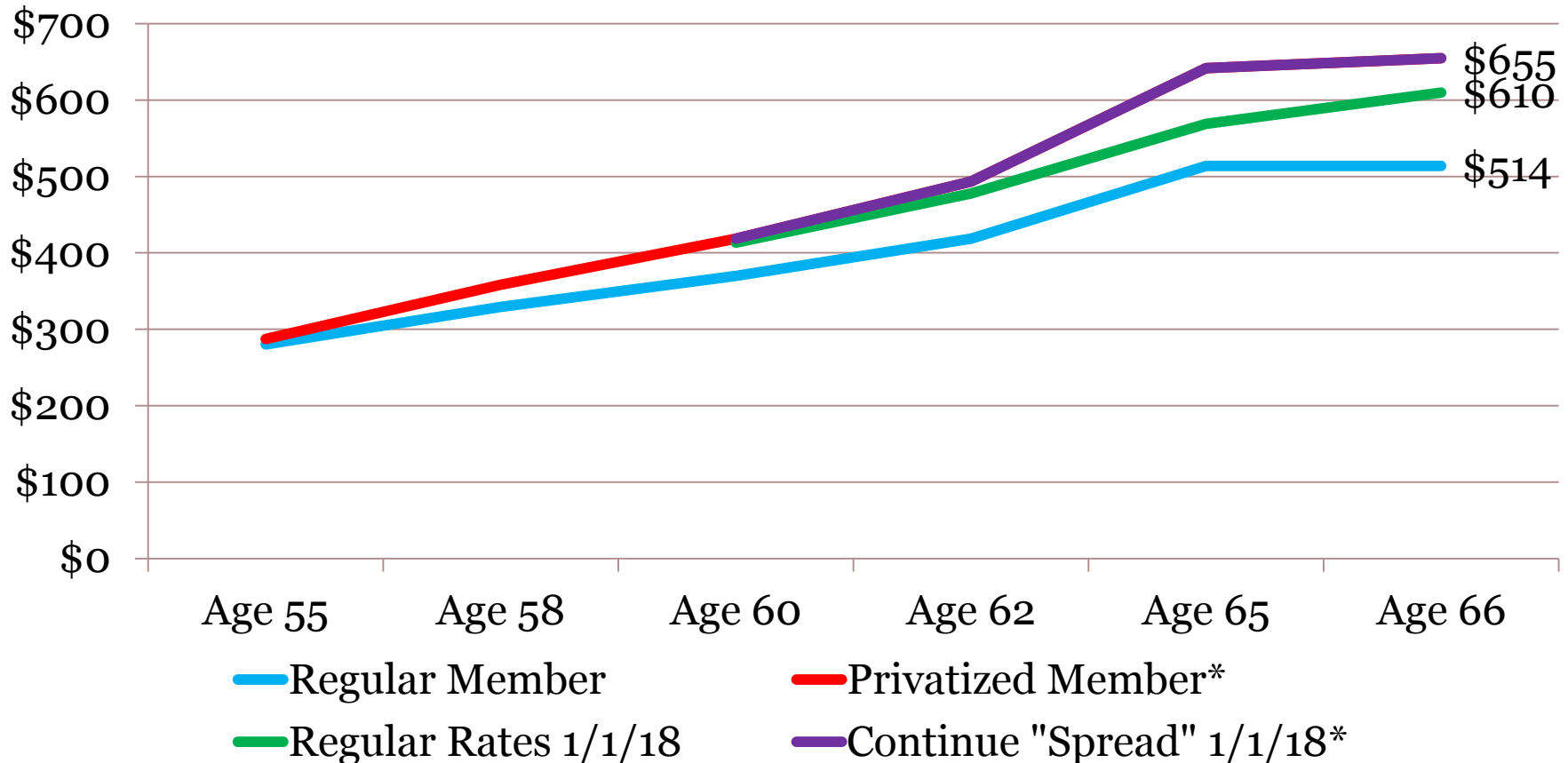


# Example 6

2% augmentation

4.12 Years Service, Age 55 4/1/14, High 5 \$3,454

\*Current benefit does not change if “spread” prospectively

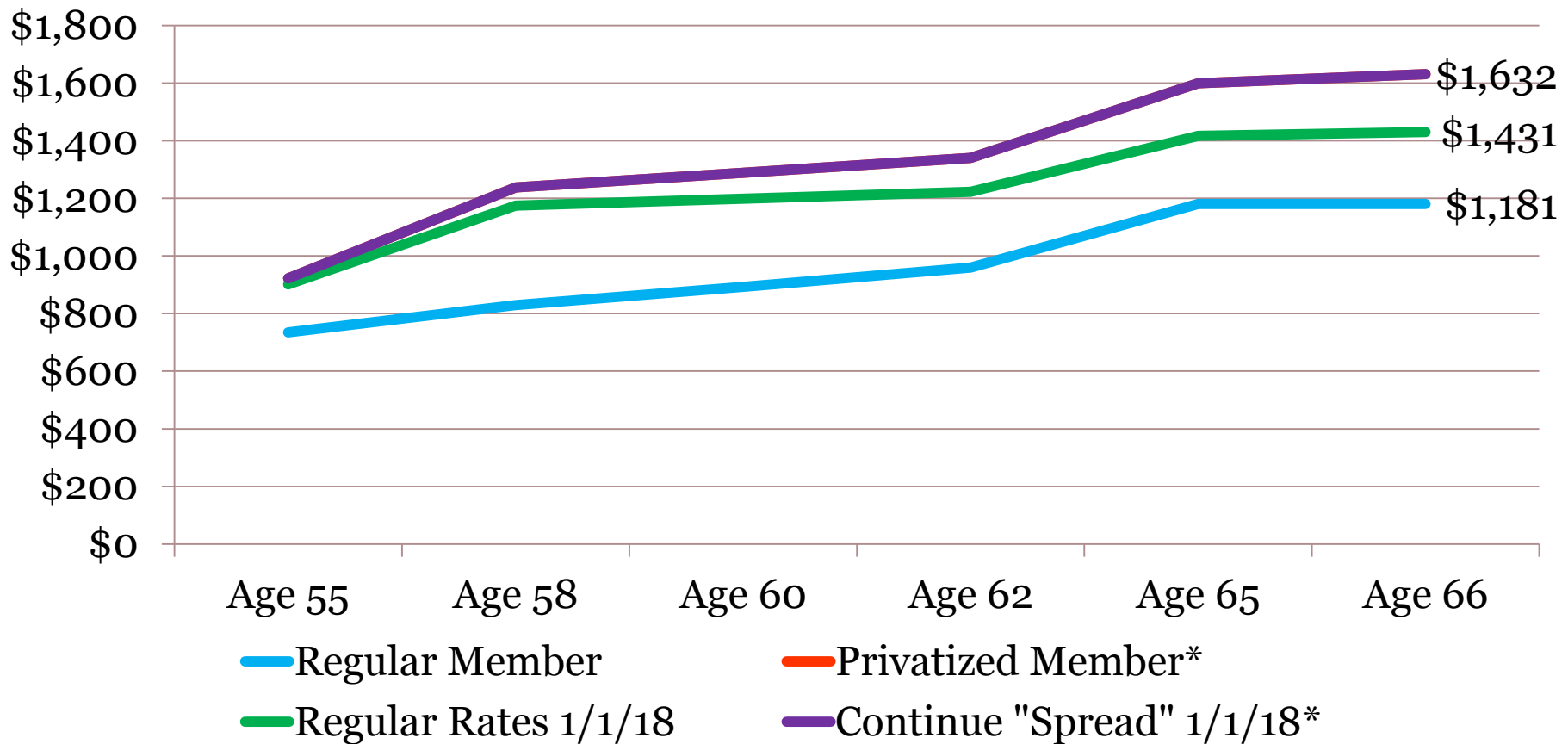


# Example 7

2% augmentation

26.58 Years Service, Age 55 1/1/2020, High 5 \$2,613

\*Current benefit does not change if “spread” prospectively



## Privatized Member Potential Cost Savings

Privatization Date	Before 2007 (or Hutchinson)	2007 - 2010 (or Sanford Wheaton)	2011 or Later	Total
Current Rates	5.5% before 55 7.5% after 55	4.0% before 55 6.0% after 55	2.0%	
Estimated Savings of Change to Non-privatized member rates (1%)	\$46M PV \$2.8M/year 0.05% of pay	\$19M PV \$1.1M/year 0.02% of pay	\$4M PV \$0.2M/year <0.01% of pay	\$69M PV \$4.2M/year 0.07% of pay
Estimated Savings of Change to Maintain Spread (5.5%/7.5% to 3.5% 4%/6% to 2.0%)	\$31M PV \$1.9M/year 0.03% of pay	\$16M PV \$1.0M/year 0.02% of pay	\$0M PV \$0M/year 0.00% of pay	\$47M PV \$2.9M/Year 0.05% of pay

Based on June 30, 2016, actuarial valuation investment return and mortality assumption. Two thirds of members assumed to be female, and normal retirement occurs at age 66. Augmentation change assumed to occur January 1, 2018



