

Legislative Commission on Pensions and Retirement

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TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Chad Burkitt, Analyst
Susan Lenczewski, Executive Director

DATE: December 13, 2019

SUBJECT: Cost of Living Adjustment (COLA) Study – Project Overview

Background

One of the cost-saving measures included in the 2018 omnibus retirement bill was to reduce the percentage rate used to determine postretirement adjustments (often referred to as COLAs or cost of living adjustments) for many of the statewide plans:

- MSRS General went from 2% to 1% for five years, followed by 1.5% thereafter
- MSRS Correctional went from 2% to 1.5%
- TRA went from 2% to 1% for five years, followed by an increase of 0.1% each year until it reaches 1.5%, then 1.5% thereafter
- St. Paul Teachers went from 1% to 0% for 2 years, then 1% thereafter

The 2018 bill also included a significant change in the method for computing the postretirement adjustment for PERA General and PERA Correctional. Instead of annually increasing retirees' benefits by applying a percentage that is fixed in statute, PERA's new method ties the percentage of annual increase to the annual increase used by the Social Security Administration (SSA) in annually adjusting Social Security benefits. This increase is based on inflation, specifically, the percentage increase in CPI-U, for the prior year. For PERA General, the increase as of each January 1 will be 50% of the increase announced by the SSA, but no less than 1% and no greater than 1.5%. For PERA Correctional, the increase as of each January 1 will be equal to the increase announced by the SSA, but no less than 1% and no greater than 2.5%. When the plan's funded ratio is less than 85% for two years or less than 80% for one year, the 2.5% maximum is reduced to 1.5% and remains at 1.5% thereafter.

Due to the significance of the changes to the COLA in the 2018 bill and legislators' interest in possibly expanding the use of the inflation-based approach to the other public pension plans, the 2018 bill also required the Commission to conduct a study of postretirement adjustments for the statewide pension plans and St. Paul Teachers (*see Laws 2018, Ch. 211, Art. 5, Sec. 14*). The Commission must complete the study by December 31, 2020, and report its conclusions during the 2021 legislative session.

The study is required to:

- take into account the purpose of postretirement adjustments and whether governing statutes are consistent with the purpose of postretirement adjustments;
- consider alternative methodologies for determining postretirement adjustments; and
- evaluate the new methodology to be used by PERA.

Study Outline and Timeline

LCPR staff has kicked off work on the study by meeting twice so far with the executive directors and staff from the statewide plans and St. Paul Teachers to put together an outline and schedule for completing the study by the end of 2020, in time for the 2021 legislative session. We hope to complete the study in four phases:

<u>Phase</u>	<u>Timeline</u>
(1) Research and inquiry	November 2019 through August 2020
(2) Produce preliminary draft	by August 31, 2020
(3) Commission and stakeholder input	September 2020 through November 2020
(4) Finalize the report	by December 31, 2020

See the attached schedule of tasks and completion dates for more details.

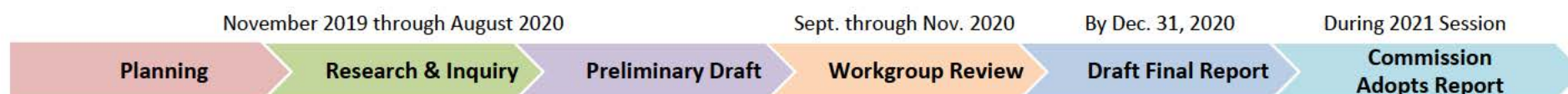
We welcome your comments and suggestions on this and will communicate progress and seek your feedback throughout the process.

MN Pensions – COLA Study

Completion Date (Final Report): December 31, 2020

STUDY. Before December 31, 2020, the Legislative Commission on Pensions and Retirement must conduct a study of postretirement adjustments for the covered plans as defined in Minnesota Statutes, section 356.415, subdivision 2, and the St. Paul Teachers Retirement Fund Association. The study shall take into account the purpose of postretirement adjustments and whether governing statutes are consistent with the purpose of postretirement adjustments. The study shall also consider alternative methodologies for determining postretirement adjustments and evaluate the new methodology to be used by the Public Employees Retirement Association under this act. The Legislative Commission on Pensions and Retirement shall report its conclusions based on the study during the 2021 legislative session.

-- Laws 2018, Chapter 211, Article 5, Section 14



Done	Due Date	Description	Comments / Status
<input checked="" type="checkbox"/>		Planning	
<input checked="" type="checkbox"/>		– Identify members of work group	LCPR: Susan, Chad TRA: Jay, Rachel MSRS: Erin, Holly St. Paul: Jill, Christine PERA: Doug, Amy
<input checked="" type="checkbox"/>	10.22 Mtg	– Brainstorm scope, tasks, timeline	
<input checked="" type="checkbox"/>	11.21 Mtg	– Assign tasks	
<input checked="" type="checkbox"/>		– Create data room for posting written materials	MSRS sponsored, user name and password required to use
<input type="checkbox"/>		Research & Inquiry	
<input type="checkbox"/>	1/13	• Collect and Share Published Research and Articles	Post all publications to MSRS shared workspace
<input type="checkbox"/>		– NASRA	
<input type="checkbox"/>		– NEA Characteristics of Large Public Plans	
<input type="checkbox"/>		– Credit Rating Agencies (S&P, Moody's)	
<input type="checkbox"/>		– Center for Retirement Research at Boston College	
<input type="checkbox"/>		– EBRI	
<input type="checkbox"/>		– AARP?	
<input type="checkbox"/>		– COLAs in private sector defined benefit plans	
<input type="checkbox"/>	1/13 Mtg	– Summarize for rest of group	Gather articles, studies, publications and prepare summaries for presentation to the rest of the group

Done	Due Date	Description	Comments / Status
<input type="checkbox"/>	TBD in Feb.	<ul style="list-style-type: none"> Interview Plan Representatives and Experts 	Identify individual(s) who will speak for the identified entity on COLAs and schedule a telephone interview
<input type="checkbox"/>		– Colorado Public Pension Plan	
<input type="checkbox"/>		– Wisconsin Public Pension Plan	
<input type="checkbox"/>		– Iowa Public Pension Plan	
<input type="checkbox"/>		– N. Dakota Public Pension Plan	
<input type="checkbox"/>		– S. Dakota Public Pension Plan	
<input type="checkbox"/>		– Other states with creative approaches to COLAs	
<input type="checkbox"/>		– Center for Retirement Research at Boston College	Alicia Munnell
<input type="checkbox"/>		– Social Security Administration	
<input type="checkbox"/>		– Minnesota PERA	
<input type="checkbox"/>		– Others?	
<input type="checkbox"/>		<ul style="list-style-type: none"> Research on Purpose of COLAs and Adequacy of Current Policy 	
<input type="checkbox"/>		– History of COLAs in Minnesota public pension plans	
<input type="checkbox"/>		– Summary of current approaches	
<input type="checkbox"/>		– Coordinated v. basic plans	
<input type="checkbox"/>		– Impact of 2018 pension bill on COLAs	
<input type="checkbox"/>		– Appropriate measure of inflation? (CPI-U, CPI-W, CPI-E)	
<input type="checkbox"/>		– Retiree spending patterns study by EBRI	
<input type="checkbox"/>		<ul style="list-style-type: none"> Research on Alternatives for Providing a COLA 	
<input type="checkbox"/>		– Identify 1-3 alternative methods in addition to PERA method	
<input type="checkbox"/>		– Identify metrics for comparison between alternative methods	
<input type="checkbox"/>		<ul style="list-style-type: none"> Cost / Benefit Analysis 	
<input type="checkbox"/>		– Actuary performs valuation of alternatives	Consider whether actuarial work should be performed by plan actuaries or LCPR actuary
<input type="checkbox"/>		Draft Preliminary Report	
<input type="checkbox"/>		Workgroup Review	
<input type="checkbox"/>		– Identify stakeholders	
<input type="checkbox"/>		– Public meeting	
<input type="checkbox"/>		– Communicate and Discuss Preliminary Study Results with Selected Stakeholders	

Done	Due Date	Description	Comments / Status
		– Determine revisions needed to the report to incorporate LCPR and stakeholder comments	
<input type="checkbox"/>		– Identify additional questions for study	
<input type="checkbox"/>		– Consider collateral implications of the alternative methods (funding policies, assumed rate of return, others?)	
<input type="checkbox"/>		Final Report	
<input type="checkbox"/>		– Prepare final report	Consider whether the report will include recommendations as to legislation
<input type="checkbox"/>		– Distribute final report for review and comment to members of the work group and LCPR	
<input type="checkbox"/>		– Submit Report to the LCPR for adoption	
<input type="checkbox"/>		Prepare PowerPoint summarizing the final report for presentation to the LCPR	