

# Legislative Commission on Pensions and Retirement

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TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Susan Lenczewski, Executive Director

DATE: March 22, 2019

RE: H.F. 2387 (Murphy, by request); S.F. 2488 (Rosen): Annual State Aid to Local Governments for Employer Contributions under the PERA General Plan

## Background

In 1997, the legislature approved a significant public pension reform package that included increases in the rates for employer and employee contributions to the General Employee Retirement Plan of the Public Employees Retirement Association (PERA General). To help local government employers pay the higher employer contribution, the legislature approved the payment of an annual state aid based on total payroll for employees covered by PERA General. At that time, the plan was projected to be fully funded in 2020, so the legislation terminates the aid on June 30, 2020.

As reported by PERA's executive director at the Commission's March 5 meeting, as of June 30, 2018, PERA General was 79.5% funded, with \$21.6 billion in assets, \$27.1 billion in liabilities, and a resulting \$5.5 billion in unfunded liability. The plan will not be fully funded in 2020, as had been projected in 1997.

In 1997, the amount of the annual payment was approximately \$15 million. Since then, the amount has declined, as total payroll and the number of employers declined. The state aid is paid in two installments, by July 20 and December 26. The total aid for FY 2019 was \$13.919 million.

## Summary of the Bill

H.F. 2387 (Murphy, by request); S.F. 2488 (Rosen) amends Minnesota Statutes, Section 273.1385, which authorizes the payment of the annual state aid to local governments to cover the cost of increased employer contributions to PERA General. Subdivision 4 states that the aid provided under this section terminates on June 30, 2020.

The bill amends subdivision 4, by replacing the current June 30, 2020, termination date with a new provision that states that the aid continues under the earlier of:

- (1) the fiscal year after the fiscal year in which the PERA General Plan's assets equals or exceeds liabilities; that is, the plan becomes fully funded; or
- (2) June 30, 2048, which is the end of the current 30-year amortization period.

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MMB estimates that the state aid for payments for the next four years as follows:

FY 2020: \$13.860 million

FY 2021: \$13.210 million

FY 2022: \$13.150 million

FY 2023: \$13.100 million

The Governor's revised budget issued on March 22 does not include funding for the state aid payments beyond June 30, 2020. We understand this is because the Governor's office was not made aware of this issue until after the original budget was finalized.

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State of Minnesota  
HOUSE OF REPRESENTATIVES

NINETY-FIRST SESSION

H. F. No. **2387**

03/11/2019 Authored by Murphy, by request and Loeffler  
The bill was read for the first time and referred to the Committee on Government Operations  
03/20/2019 By motion, recalled and re-referred to the Committee on Taxes

- 1.1 A bill for an act
- 1.2 relating to state aid; extending the state aid to local governments to fund increased
- 1.3 employer contributions to the Public Employees Retirement Association; amending
- 1.4 Minnesota Statutes 2018, section 273.1385, subdivision 4.
- 1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:
- 1.6 Section 1. Minnesota Statutes 2018, section 273.1385, subdivision 4, is amended to read:
- 1.7 Subd. 4. **Aid termination.** The aid provided under this section ~~terminates on June 30,~~
- 1.8 ~~2020,~~ continues until the earlier of:
- 1.9 (1) the last day of the fiscal year immediately following the fiscal year in which the
- 1.10 actuarial value of assets of the general employees retirement plan of the Public Employees
- 1.11 Retirement Association first equals or exceeds the actuarial accrued liabilities of the plan
- 1.12 as reported in the annual actuarial valuation prepared under section 356.215; or
- 1.13 (2) June 30, 2048.
- 1.14 **EFFECTIVE DATE.** This section is effective the day following final enactment.