

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. 2512 (Long); S.F. 2515 (Dziedzic): Annual Payment by the State to the PERA General Plan for Liabilities Related to MERF

Background

The Minneapolis Employees Retirement Fund (MERF) was merged into the General Employee Retirement Plan of the Public Employees Retirement Association (PERA General) in 2010, initially for administrative purposes. At that time, MERF was 60% funded. The legislation that directed the merger provided that a full merger of assets and liabilities would occur when MERF was 80% funded. The legislation also directed the State and the employers that had been participating in MERF to make annual contributions to pay down the unfunded liability. The participating employers include the City of Minneapolis, Minneapolis Public Schools, Hennepin County, the Met Council, the Metropolitan Airports Commission, and the Minneapolis Parks and Recreation Board. The legislation required cost-sharing between the State and the employers, at 43% for the State and 57% for the employers. In 2010, these amounts were \$24 million from the State and \$31 million from the employers, for a total of \$55 million.

The actuarial valuation of MERF in 2014 showed that MERF's funded ratio exceeded 80%. As a result, MERF was fully consolidated into PERA General and the payment amounts for the State and the employers was reduced. Legislation in 2015 set the payment amounts for the State at \$6 million for FY 2016 and 2017 and \$16 million for FY 2018 and subsequent years; for the employers, at \$31 million for 2015 and 2016 and \$21 million in 2017 and subsequent years. The total amount required decreased from \$55 million to \$37 million.

Legislation enacted in 2017 reduced the amount required to be paid by the State beginning with FY 2020 from \$16 million to \$6 million, resulting in an increase in the payment amount for the employers of \$10 million, to \$31 million, beginning in 2019 and subsequent years. As provided in the original legislation, employer and State payments are scheduled to continue until December 31, 2031.

Summary of the Bill

H.F. 2512 (Long); S.F. 2515 (Dziedzic) amends the statutes that require employer supplemental contributions and state contributions to PERA to amortize the unfunded liabilities PERA assumed when MERF was merged into PERA.

Section 1: Amends Minnesota Statutes, Section 353.27, subdivision 3c, by reducing the required employer supplemental contribution of \$31 million beginning in 2019 to \$21 million. Changes made to subdivision 3c, paragraph (f), require payment of the 2019 contribution by July 1, 2019.

Section 2: Amends Minnesota Statutes, Section 353.505, by increasing the required payment by the State to PERA, with respect to MERF, from \$6 million to \$16 million, beginning with the payment required on September 15, 2019, and annually thereafter. A new paragraph (c) is added to require an annual appropriation from the general fund to the Commission of Management and Budget to fund the payment to PERA.

Governor's Budget

The Governor's original budget and the revised budget issued on March 22, 2019, include an expenditure of \$10 million from the general fund for FY 2020 through FY 2023. See page 13 of the revised 2020-21 Biennial Budget from MMB's Non-Operating Budget Book, attached as Exhibit A.

Minnesota Management & Budget Non-Operating

FY 2020-21 Biennial Budget Change Item

Change Item Title: MERF State Aid

Fiscal Impact (\$000s)	FY 2020	FY 2021	FY 2022	FY 2023
General Fund				
Expenditures	10,000	10,000	10,000	10,000
Revenues	0	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	10,000	10,000	10,000	10,000
FTEs	0	0	0	0

Recommendation:

The Governor recommends \$10 million annually from the general fund to restore cuts made in 2017 legislation to state aid to the Minneapolis Employees Retirement Fund (MERF). This recommendation reinstates the full state aid amount first provided in 2015 legislation. With this proposal, Minneapolis local governments no longer face a \$10 million increase in their required MERF contributions set to go into effect beginning FY 2020.

Rationale/Background:

MERF was the pension fund providing retirement benefits to Minneapolis-based local government employees and was merged into the Public Employees Retirement Association (PERA) General Employees Fund in 2015. Currently, 3,100 MERF members receive benefits and 23 either remain active employees or do not yet receive benefits. 2015 legislation set direct aid amounts at \$37 million annually: \$6 million from the state and \$31 million from Minneapolis local governments. The state's direct aid amounts were set to increase to \$16 million annually beginning FY 2018, thereby lowering local government payments to \$21 million. This long-term allocation agreement was based upon the portion of the total cost being paid by the state and Minneapolis-based employers before the merger in 2015: 43 and 57 percent respectively. 2017 legislation lowered the state's contribution back down to \$6 million annually beginning FY 2020 and increased local government contributions back to \$31 million. These payments assist in paying off MERF's remaining unfunded liabilities. The payments end in 2031.

Proposal:

The Governor recommends restoring the cuts to MERF state aid enacted in 2017. By providing this state aid, Minneapolis-based local governments will no longer need to pay \$10 million more each year toward their required MERF contributions beginning FY 2020. The Governor's recommendation provides the original state and local contribution allocations agreed to in 2015 when MERF was officially merged into the PERA General Employees Fund.

Results:

This recommendation maintains the annual \$37 million contribution from state and local governments toward MERF's unfunded liabilities. The PERA General Employees Fund, which absorbed MERF in 2015, is 79.5% funded on a market value of assets basis as of FY 2018. The PERA General Employees Fund is projected to reach full funding in FY 2037.

Statutory Change(s):

Minnesota Statutes 353.27, subd. 3c, para. (d), and Minnesota Statutes 353.505, clause (a).

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State of Minnesota
HOUSE OF REPRESENTATIVES

NINETY-FIRST SESSION

H. F. No. **2512**

03/14/2019 Authored by Long, Gomez, Hornstein, Noor, Lee and others
The bill was read for the first time and referred to the Committee on Government Operations

- 1.1 A bill for an act
- 1.2 relating to retirement; revising the employer supplemental and state contributions
- 1.3 to the Public Employees Retirement Association related to the former MERF
- 1.4 division; amending Minnesota Statutes 2018, sections 353.27, subdivision 3c;
- 1.5 353.505.
- 1.6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:
- 1.7 Section 1. Minnesota Statutes 2018, section 353.27, subdivision 3c, is amended to read:
- 1.8 Subd. 3c. **Former MERF members; member and employer contributions.** (a) For
- 1.9 the period July 1, ~~2015~~ 2019, through December 31, 2031, the member contributions for
- 1.10 former members of the Minneapolis Employees Retirement Fund and by the former
- 1.11 Minneapolis Employees Retirement Fund-covered employing units are governed by this
- 1.12 subdivision.
- 1.13 (b) The member contribution for a public employee who was a member of the former
- 1.14 Minneapolis Employees Retirement Fund on June 29, 2010, is 9.75 percent of the salary of
- 1.15 the employee.
- 1.16 (c) The employer regular contribution with respect to a public employee who was a
- 1.17 member of the former Minneapolis Employees Retirement Fund on June 29, 2010, is 9.75
- 1.18 percent of the salary of the employee.
- 1.19 (d) The annual employer supplemental contribution is the employing unit's share of
- 1.20 ~~\$31,000,000. For calendar years 2017 and 2018, the employer supplemental contribution~~
- 1.21 ~~is the employing unit's share of \$21,000,000.~~
- 1.22 (e) Each employing unit's share under paragraph (d) is the amount determined from an
- 1.23 allocation between each employing unit in the portion equal to the unit's employer

2.1 supplemental contribution paid or payable under Minnesota Statutes 2012, section 353.50,
2.2 during calendar year 2014.

2.3 (f) The employer supplemental contribution amount under paragraph (d) for calendar
2.4 year ~~2015~~ 2019 must be invoiced by the executive director of the Public Employees
2.5 Retirement Association by July 1, ~~2015~~. ~~The calendar year 2015 payment is payable in a~~
2.6 ~~single amount on or before September 30, 2015~~ 2019. For subsequent calendar years, the
2.7 employer supplemental contribution under paragraph (d) must be invoiced on January 31
2.8 of each year ~~and~~. The employer supplemental contribution is payable in two parts, with the
2.9 first half payable on or before July 31 and with the second half payable on or before
2.10 December 15. Late payments are payable with interest, compounded annually, at the
2.11 applicable rate or rates specified in section 356.59, subdivision 3, per month for each month
2.12 or portion of a month that has elapsed after the due date.

2.13 (g) The employer supplemental contribution under paragraph (d) terminates on December
2.14 31, 2031.

2.15 **EFFECTIVE DATE.** This section is effective the day following final enactment.

2.16 Sec. 2. Minnesota Statutes 2018, section 353.505, is amended to read:

2.17 **353.505 STATE CONTRIBUTIONS; FORMER MERF DIVISION.**

2.18 (a) On September 15, 2019, and annually thereafter, the state shall pay to the general
2.19 employees retirement plan of the Public Employees Retirement Association, with respect
2.20 to the former MERF division, ~~\$6,000,000~~ \$16,000,000.

2.21 ~~(b) On September 15, 2017, and September 15, 2018, the state shall pay to the general~~
2.22 ~~employees retirement plan of the Public Employees Retirement Association, with respect~~
2.23 ~~to the former MERF division, \$16,000,000.~~

2.24 ~~(e)~~ (b) State contributions under this section end on September 15, 2031.

2.25 (c) The commissioner of management and budget shall pay the contribution specified
2.26 in this section. The amount required is appropriated annually from the general fund to the
2.27 commissioner of management and budget.

2.28 **EFFECTIVE DATE.** This section is effective the day following final enactment.