HF 4300 (Her); SF 4201 (Jasinski): Amending Augmentation and Withdrawal Liability for Privatized Hospitals and their Employees.

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Introduction

Pension Plans: PERA General Employee Retirement Plan (PERA-General)

Provisions of Law: Minnesota Statutes, Sections 353F.02; 353F.025; 353F.04

Short Summary: The bill makes the following changes:

- Phases out augmentation for existing privatized hospital employees
- Employees of publically controlled hospitals and medical facilities that privatize after June 30, 2020, will no longer be eligible for augmentation
- Requires privatizing hospitals to assess withdrawal liability prior to privatizing
- Establishes a new method of calculating withdrawal liability resulting in higher withdrawal costs for medical facilities privatizing after July 1, 2022

Background

Augmentation

In 1999, the legislature established Chapter 353F in order to:

> *". . .ensure, to the extent possible, that persons employed at public medical facilities who are privatized and consequently are excluded from retirement coverage by the Public Employees Retirement Association will be entitled to receive future retirement benefits . . . commensurate with the prior contributions made by them or made on their behalf upon the privatization of the medical facility."* - Minn. Stat. § 353F.01

Chapter 353 provides privatized employees of former government controlled hospitals with a benefit called augmentation. Without augmentation, when a member privatizes the member's benefit freezes. For example, if the member's benefit was $500 / month at age 40, then 25 years later, at age 65, when the member retires the benefit is still $500 / month. With augmentation, the benefit increases by a compounding percentage each year until the member retires. For example, the same member's benefit of $500 / month increases by 2% per year over 25 years to $820 at age 65.

Since 1999, the augmentation rate for privatizing employees has changed twice. The table below shows the augmentation rates since 1999:

If the privatization date is:	Then the augmentation rate is:
Between 1999 and 2007*	5.5% until age 55 and 7.5% after age 55
Between 2007 and 2011**	4% until age 55 and 6% after age 55
2011 or later	2%

* *This category also includes Hutchinson Area Heath Care, which privatized after January 1, 2007.*

** *This category also includes Sanford Health Wheaton Medical Center, which privatized after January 1, 2011.*

Since the mid-2000s, the legislature has reduced and eliminated augmentation benefits for all of the statewide pension plans. In 2010, the legislature discontinued future augmentation for PERA's non-privatized employees. In the 2018 Omnibus Pension Bill, the legislature discontinued future augmentation for all of the remaining statewide plans. The bill also included the phase-out of augmentation for privatized employees of the former University of Minnesota Hospital (now Fairview) under the Minnesota State Retirement Association. Today, only the PERA privatized employees continue to receive augmentation.

Calculating Withdrawal Liability

Minnesota Statutes, Section 353F.025, requires PERA to determine if there is a net gain or loss due to the privatization. The statute provides that if a net loss occurs, the augmentation benefits are only available if the employer pays an amount sufficient to keep the PERA fund whole. However, PERA reports that since 1999, no liability calculation has resulted a net loss for the fund; thus, no employer has ever had to make a payment to keep the fund whole.

Section by Section Summary

Section 1

A definition for the term "executive director" is added to the definitions section in Chapter 353F.

Section 2

A definition for the term "medical facility" is added to the definitions section in Chapter 353F.

Section 3

A definition for the term "privatization" is added to the definitions section in Chapter 353F.

Section 4

Section 4 makes a number of changes to the existing process for determining whether a medical facility privatizes and calculating the withdrawal liability. The changes are:

- A local government with control of a privatizing hospital must request a calculation of withdrawal liability from PERA. The request must be made prior to privatization. Under current law, the local government is permitted to request a calculation but is not required to and there is no requirement that the calculation be requested prior to privatization.

- PERA's actuary calculates withdrawal liability under a new methodology. The proposed calculation is:

  Withdrawal liability = (present value of accrued benefits) – (present value of accrued benefits x the plan's funding ratio)

  Under current law, the actuary is required to assess whether there is an increase or decrease in liabilities as a result of the privatization and if there is an increase, how much.

- New definitions are added for "present value of accrued benefits" and "funding ratio."

Section 5

The privatized medical facility is required to pay the withdrawal liability in a lump sum within 6 months after privatizing or over a period 10 years with interest at the assumed rate or return (7.5%).

Section 6

Section 6 updates PERA's reporting requirements to include the withdrawal liability calculation and requires that PERA update its list of privatized employees to include withdrawal liability information for employers that privatize after July 1, 2022.

Section 7

Section 7 reduces augmentation to 2% per year for already privatized employees from July 1, 2020, until January 1, 2024. Employees that privatize after June 30, 2020, do not receive augmentation.

Discussion and Analysis

Who is affected by the bill?

HF 4300; SF 4201 affects already privatized employees receiving augmentation and governmental hospitals that privatize after June 30, 2022.

PERA reports that as of June 30, 2018, there were a total of 3,332 privatized employees currently receiving augmentation. Since 1999, 37 medical facilities have privatized. It is unclear how remaining medical facilities in the state could be eligible to privatize.

What is the financial impact?

PERA reports that removing augmentation reduces PERA's liabilities by $52 million. Changing the withdrawal calculation would also result in a financial benefit for the plan if medical facilities continue to privatize.

Is a benefit reduction for already privatized employees appropriate?

1. The legislature enacted similar legislation affecting University of Minnesota Hospital (now Fairview) employees in 2018. The 2018 legislation reduced phased out augmentation for former U of M Hospital employees. The bill also removed augmentation from all statewide pension plans. Removing augmentation here is consistent with the policy expressed by the legislature in 2018.

2. The benefit reduction may result in hardship for some employees. If this bill is enacted, some privatized employees will experience a significant reduction in their expected benefit. The most affected people are employees that privatized under the highest augmentation rates and who were relatively young at the time they were privatized *(see table below)*.

If a member privatized in …	**Benefit at age 66 under <u>current</u> law**	**Benefit at age 66 under <u>proposed</u> legislation**
2006 at age 30, having earned a normal retirement benefit of $250 / month	$2,110	$590
2006 at age 50, having earned a normal retirement benefit of $750 / month	$2,170	$2,060
2010 at age 30, having earned a normal retirement benefit of $250 / month	$1,260	$410
2010 at age 50, having earned a normal retirement benefit of $750 / month	$1,730	$1,430

If a member privatized in …	Benefit at age 66 under current law	Benefit at age 66 under proposed legislation
2012 at age 30 having earned a normal retirement benefit of $250 / month	$510	$330
2012 at age 50 having earned a normal retirement benefit of $750 / month	$1030	$990

DISCLAIMER: The figures in this table approximate the actual effect of the proposed law change for a person in the situations described. The table does not indicate what a typical benefit is. The actual value of a typical benefit might differ significantly from what is shown.

While the youngest employees are most affected, youngest employees also have the most opportunity to alleviate any hardship through increasing their own retirement savings. This legislation may result in hardship for some employees, especially older employees, who do not have sufficient time or resources to fully address the difference in benefits.

3. Privatized employees may be covered by the new employers' retirement plans. Most large employers offer retirement coverage to their employees. It is likely that most, if not all, privatized employees received some type of retirement benefit from their new employer. Commission staff does not have any information on whether such benefits were made available or the types of benefits offered.

The current method of calculating withdrawal liability does not properly address the effect on the PERA general fund.

When a hospital privatizes, PERA's liability is reduced because the privatized employees' benefits are frozen except for augmentation. PERA also expects to receive less in contributions from the employees and employer. If the plan was fully funded, the decrease in liability would offset the loss of future contributions. Since the plan is underfunded, the loss of future contributions exceeds the reduction in liability thus creating a net loss for the fund. Current law does not account for this loss. The proposed law changes the calculation to require the hospital to pay an approximation of the unfunded liability adjusted for the decrease in liability due to the employees privatizing. This more accurately addresses the effect that privatizations have on the fund.

The bill will increase the cost of privatizing for hospitals.

The proposed withdrawal liability calculation creates additional cost when a medical facility privatizes. The cost will be borne by the parties in the transaction, though payment is owed by the new owners of the medical facility. The amount of the additional cost depends the number of employees at the facility and the PERA funding ratio.

A 2017 hospital survey found that there were 32 state and local hospitals in the state of Minnesota.[1] A non-profit hospital monitoring organization reports that there are 17 local government controlled hospitals outside of the metro area.[2] PERA estimates that including smaller facilities and nursing homes there are approximately 80 local governmental medical facilities in Minnesota. With the notable exception of Hennepin County Health, most government-controlled hospitals are in rural Minnesota. Rural Minnesota is currently facing challenges in providing access to medical care.[3] The Commission may wish to obtain additional information on the potential impact of this legislation on rural healthcare.

Possible Amendments.

- H4300-1A: deletes sections 1-6; removing the change in calculating withdrawal liability from the bill.
- H4300-2A: deletes section 7; removing the reduction and elimination of augmentation from the bill.

Legislative Commission on Pensions and Retirement

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[1] Statista, https://www.statista.com/statistics/202869/number-of-hospitals-in-minnesota-by-ownership-type
[2] Association of Health Care Journalists, http://www.hospitalinspections.org/state/mn
[3] MN Dept. of Health, Health Care Access in Rural Minnesota, https://www.health.state.mn.us/facilities/ruralhealth/pubs/docs/2017access.pdf

Hospitals/Nursing Homes

ADAMS HEALTH CARE CENTER
APPLETON MUNICIPAL HOSPITAL
BATTLE LAKE NURSING HOME
BELVIEW PARKVIEW HOME
CHIPPEWA COUNTY HOSPITAL
CLARA CITY CARE CENTER
CLARKFIELD CARE CENTER
CLEARWATER COUNTY HOSPITAL
COOK COUNTY HOSPITAL
COOK HOSPITAL
DODGE COUNTY FAIRVIEW NURSING HOME
DOUGLAS COUNTY HOSPITAL
ELLSWORTH PARKVIEW MANOR NURSING HOME
FAIRWAY VIEW SENIOR COMMUNITY
FERTILE FAIR MEADOW NURSING HOME
FIRSTLIGHT HEALTH SYSTEMS KANABEC CTY
GRAND VILLAGE
GRANITE FALLS HOSPITAL AND MANOR
HAYFIELD FIELD CREST CARE CENTER
HENNEPIN HEALTHCARE SYSTEM
HERITAGE LIVING CENTER (PARK RAPIDS)
HUTCHINSON AREA HEALTH CARE
JANESVILLE NURSING HOME
LAKE CITY NURSING HOME
LAKEFIELD MUNICIPAL HOSPITAL
LAKEVIEW HOME
LAMBERTON VALLEY VIEW MANOR
LITTLEFORK MEDICAL CENTER
MEEKER COUNTY HOSPITAL
MENAHGA NURSING HOME
MULTI COUNTY NURSING SERVICE
MURRAY COUNTY MEMORIAL HOSPITAL
NEW RICHLAND CARE CENTER
NORMAN-MAHNOMEN PUBLIC HEALTH
NORTHFIELD HOSPITAL
ORTONVILLE HOSPITAL
PHEASANT COUNTRY HOME CARE
PIPESTONE COUNTY MEDICAL CENTER
REDWOOD AREA HOSPITAL
REGIONS HOSPITAL - MAIL STOP
RIVERS EDGE HOSPITAL & CLINIC
SLEEPY EYE HOSPITAL
SPRINGFIELD MEDICAL CENTER
ST PAUL RAMSEY CLINIC
SUNNYSIDE NURSING HOME
SWIFT COUNTY BENSON HOSPITAL
TRIMONT HEALTH CARE CENTER
ULEN VIKING MANOR
WILLMAR RICE MEMORIAL HOSPITAL
WINDOM AREA HOSPITAL