LCPR21-024: MSRS Unclassified Plan; Extends the grandfather provision regarding the actuarial assumptions used to compute an annuity

Prepared by: Chad Burkitt, Analyst *Date: March 21, 2021*

Introduction

Affected Plan: Unclassified Plan, Minnesota State Retirement System (MSRS)

Laws Amended: Minnesota Statutes, Section 352D.06, Subdivision 1

Brief Description: The bill extends until July 1, 2028, the application of factors used in converting a lump sum to an annuity under the Unclassified Plan. These annuity factors would have been replaced by less generous factors in 2017, without legislation passed in 2017. For some employees, the factors would again have been replaced by less generous factors in 2020, without legislation passed in 2020.

Attachment: 2017 LCPR staff memo regarding change in factors for the Unclassified Plan

Background

In 2016, changes in mortality and other assumptions prompted MSRS to adjust the annuity factors used to convert a balance in an Unclassified Plan account to a lifetime annuity. The adjusted factors were significantly less generous to Unclassified Plan members and resulted in an average reduction in the monthly benefit amount of about 7.3% when compared to the old factors. Wishing to delay the effects of this change for members nearing retirement, in 2017, the legislature passed a provision permitting certain employees to continue to elect an annuity computed using the old factors.[1] The employees that were grandfathered under the provision were those who retired when they were at least age 63 or had at least 26 years of covered service and retired between July 1, 2017, and July 1, 2020.

In 2020, the legislature passed another provision further delaying the application of the adjusted factors.[2] Under the 2020 law, employees that terminated employment between July 1, 2020, and July 1, 2021, and who were age 63 and with at least 26 years of service as of June 30, 2020 could also use the old annuity factors. Under current law, all employees terminating employment after June 30, 2021, who elect an annuity distribution will receive an annuity computed using the less generous factors.

For additional background information, see the attached 2017 LCPR Staff Memo.

---

[1] Laws 2017, 1st Special Session, Chapter 4, Article. 2, Section 43

[2] Laws 2020, Chapter 108, Article 18, Section 1.

Description of the Bill

This bill extends the application of the old annuity factors, described above, by expanding who is eligible and for how long eligible employees can use the old annuity factors. Under the bill, an employee is eligible if the employee terminates employment between June 30, 2021 and July 1, 2028 when the employee:

(i) Is at least age 63; or

(ii) has at least 26 years of covered service.

Eligible employees will be able to use the old annuity factors when they begin to collect an annuity regardless of how long after 2028 that occurs. The bill also strikes a paragraph that no longer applies. The bill is effective on July 1, 2021.

Analysis and Discussion

Who is Affected?

The bill greatly expands the group of employees who could be eligible for the old annuity factors. Under the bill, the group of eligible employees would expand to anyone who matches that eligibility criteria when they terminate employment at any point during the 7-year period between June 30, 2021, and July 1, 2028. In 2020, MSRS showed that on average they have 57 Unclassified Plan members retire per year meeting the age 63 or 26 years of service requirements. If this average continues, then the old factors would apply to about 400 employees during the next 7 years.

It is worth noting that the bill could cause the old annuity factors to be applied well beyond 2028. For example, an employee covered by the Unclassified plan who is currently age 42 with 20 years of service could attain 26 years of service before July 1, 2028. If the employee also terminated employment before July 1, 2028, the employee could remain entitled to the old annuity factors when the employee begins to receive the annuity in 2045 at age 65. If the Commission does not want the bill to effect annuities after the year 2028, the bill should be amended to require that eligible employees must also “retire” (begin to collect their annuity) before July 1, 2028.

Cost to MSRS?

This bill carries some cost to the MSRS state employees retirement fund, because annuities for Unclassified Plan members are paid from that fund. As of this writing, MSRS had not provided a cost estimate to Commission staff.

Legislative Commission on Pensions and Retirement

55 State Office Building 100 Rev. Dr. Martin Luther King Jr. Blvd. St. Paul, MN 55155-1201
Phone: 651-296-2750 TDD: 651-296-9896; Fax: 651-297-3697 www.lcpr.leg.mn