

**SF 1303 (Pappas); HF 1459 (Nelson):
St. Paul Teachers Retirement Fund Association;
Delaying increase in contribution rate and
making administrative change**

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Introduction

Affected Plan:	St. Paul Teachers Retirement Fund Association (SPTRFA)
Laws Amended:	Minnesota Statutes, Sections 354A.12, Subdivision 1; and 354A.31, Subdivision 7
Brief Description:	The bill delays by one year the implementation of a higher employee contribution rate for members of the SPTRFA. The bill also makes an administrative change amending a drafting error in the 2018 omnibus pension bill
Attachment:	Letter from GRS , Impact of One Year Delay in Member Contribution Increase

Section by Section Summary

SF 1303 / HF 1459 is in two sections, as follows:

Section 1

The 2018 omnibus pension bill made significant funding reforms to the SPTRFA. Among the reforms was an increase in employee contribution rates from 7.5% of pay to 7.75% of pay scheduled to go into effect on July 1, 2022. Section 1 of this bill delays the implementation of the SPTRFA's 7.75% employee contribution rate by one year so that increased rate goes into effect on July 1, 2023 instead of on July 1, 2022.

The 2018 omnibus pension bill included a similar provision for the Teachers Retirement Association (TRA), which covers teachers in the state other than those covered by the SPTRFA. The TRA provision increased the employee contribution rate from 7.5% of pay to 7.75% of pay, but the increase was scheduled to go into effect on July 1, 2023. Under section 1 of this bill, the increase in SPTRFA's employee contribution would occur on the same date as the increase in employee contributions for TRA.

Section 1 is effective the day following final enactment.

Section 2

The 2020 omnibus pension bill addressed a drafting error in the 2018 omnibus bill affecting early retirement benefits for TRA. Section 2 of this bill fixes a nearly identical error in the 2018 omnibus bill for the SPTRFA. In both cases, the error resulted in the statute specifying that the “bend point” (described below) is at age 60 rather than the intended age 59.

Current law requires certain members of the SPTRFA retiring before normal retirement age to have their benefit reduced by 7% for each year that retirement precedes normal retirement age down to age 60 and for each year before age 60 the benefit is reduced by 4%. The age where the reduction changes from 7% to 4% is called the “bend point.”

As was the case with the TRA bill, it should be noted that the plain language of the current statute grants a higher benefit to some members who retire before age 60 than does the language under this bill. However, the SPTRFA has administered this section in accordance with the intended bend point at age 59. Thus, this bill would bring the statute into alignment with the SPTRFA’s current administrative practice.

Section 2 of the bill is effective retroactively from 2018.

Analysis

Who is affected?

Section 1 of the bill delays the implementation of a higher contribution rate for the active members of the SPTRFA. There are approximately 3,445 active members of the SPTRFA.¹ Under the bill, during the fiscal year starting on July 1, 2022, active members of the SPTRFA will contribute 7.5% of their pay instead of 7.75% of their pay, a difference of 0.25%.

How is the SPTRFA’s funding affected?

If the bill is enacted, the SPTRFA would receive 0.25% of covered payroll (approximately \$687,000) less in contributions during the fiscal year starting on July 1, 2022.² During the fiscal year beginning on July 1, 2020, the SPTRFA’s statutory contribution rate was 25.16% of covered payroll or approximately \$69.1 million.³

¹ The number of active members is as of the July 1, 2020, valuation.

² \$687,000 is equal to 0.25% of the SPTRFA’s FY 2020 covered payroll of \$274.7 million rounded to the nearest thousand dollars. The actual cost may be higher depending on payroll growth.

³ The statutory contribution rate of 25.16% is the total from all contribution sources, including employee contributions, employer contributions, additional employer contributions, and any state aid, as reported in the most recent actuarial valuation.

As of the most recent valuation, the SPTRFA had \$1.04 billion in assets and \$1.69 billion in liabilities for a funded ratio 61.35%. The valuation also showed a contribution sufficiency (the amount in excess of the annual required contribution) of 3.85% of covered payroll.

The plan is projected to become fully funded in 2043. If this bill is enacted, the plan would still be projected to become fully funded in 2043. The statutory date for full funding (also called the “amortization date”) is 2048.⁴

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⁴ See Minnesota Statutes, Section 356.215, subdivision 11, paragraph (i).