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March 23, 2021

Senator John R. Howe
3231 Minnesota Senate Building
Saint Paul, MN 55155

Representative Tim O'Driscoll
237 State Office Building
Saint Paul, MN 55155

Senator Howe, Representative O'Driscoll and Pension and Retirement Commission Members:

Our organizations strongly support ensuring a realistic opportunity for local government employees who take leave to serve our country, to purchase allowable service credit when they return to work with their local government employer.

Current Minnesota law governing the Public Employee Retirement Association (PERA) aligns with requirements of the federal Uniformed Services Reemployment Rights Act (USERRA), by requiring that local government employees who return from military leave be allowed up to three times the length of their military leave, but not less than one year or more than five years, to purchase allowable service credit. Further, when purchasing service credit, current law specifies that the employee pays the employee contribution while the employer pays the employer portion plus accrued interest for both the employee and employer contribution amounts for the period of leave.

PERA treats each leave period with a separate purchase timeline. SF1993 (Howe)/HF2163 (O'Driscoll) proposes to amend Minn. Stats. 353.014, subdivision 4, to allow employees returning from military leave the "greater of" five years, or three times their length of military leave, to purchase service credits. While this change would allow returning employees more time to adjust to post-leave family and financial circumstances before the deadline for paying service credit, it substantially expands the enhanced benefit local employers are mandated to pay for interest on the employee contribution share.

For example, for leaves shorter than one year, the proposed change could expand the service credit purchase period from one, to a full five years, with the employer paying interest for that full additional time. Anecdotally, we understand that shorter leaves are more common for individuals employed prior to taking leave (*new hires may also be eligible for purchase of service credits for military service prior to initial hire*). With each leave having a separate purchase period, the expansion up to five years will apply to each of these periodic leaves.

Statutes set the interest rate on repurchases of service credits at 7.5%. Two examples help illustrate the range of possible employer interest costs under the proposed law change.

- Under current law, an employee earning a \$50,000 salary would have a maximum of five years following their return to work to pay military service credit. In this scenario, the employee would pay \$30,680 and the employer would pay \$96,881, including the employer's higher contribution rate plus interest for both the employee and employer.
- Under the proposed law, that same employee earning a \$50,000 salary would have fifteen years following return to work to purchase service credit. In this case, the employee would still pay \$30,680 but the employer would pay \$232,226, again including the employers' higher contribution share plus interest on both the employee and employer contributions.

Expanding the time to pay allowable service credits results in property taxpayers bearing the cost for pension value growth that could better accrue from investment earnings if service credit is repurchased within five years. Three additional considerations are that: (1) the timing of increased interest costs will be difficult for local employers to predict and plan for; (2) employer costs could be disproportionately large for smaller employers; and (3) the structure of the law could result in employer paid interest costs being borne by a PERA member employer other than the PERA member employer at which the employee was a public servant when the military leave occurred.

We greatly appreciate the willingness of both authors to meet with us to discuss these concerns and we respectfully request consideration of options for providing employees more time to purchase service credit in a way that better balances employer and employee repayment of lost interest.

Sincerely,

Signature redacted

Signature redacted

Matt Massman, Executive Director
Minnesota Inter-County Association

Matt Hilgart, Government Relations Director
Association of Minnesota Counties

Signature redacted

Gary Carlson, Government Affairs Director
League of Minnesota Cities