March 22, 2021

Legislative Commission on Pensions and Retirement (LCPR)

Re: LCPR 21-024 Unclassified Plan Factors

Dear honorable members of the Legislative Commission on Pensions and Retirement,

This letter is regarding the proposed amendment LCPR21-024, that extends grandfathering language for retirement annuity calculations under the Unclassified Employees Retirement Plan. As the administrator and a fiduciary of the Unclassified Plan, the Minnesota State Retirement System (MSRS) opposes this proposal because of the potential cost, expansion of eligibility, and inconsistency with statutory requirements of actuarial equivalence.

An Unclassified Plan member's lifetime retirement annuity is calculated using their account balance, the age when they begin collecting retirement, and a mathematical factor based on actuarial assumptions of the General Employees Retirement Plan (General Plan). This factor is an actuarial equivalence factor that considers life expectancy at the time the payments begin, as well as the other assumptions of General Plan. Unclassified benefits paid to retirees are underwritten, in part, by the General Plan, a defined benefit pension plan administered by MSRS.

Under current statute, most Unclassified Plan annuities are calculated using actuarial factors that were updated based on increased life expectancy and a lower rate of return assumption of 7.5%, which produce a lower monthly benefit. These actuarial factors were most recently updated based on 2016 experience study results with an implementation date of July 1, 2017.

In 2017, a three-year grandfathering window was created for Unclassified Plan participants who are at least age 63 or who have at least 26 years of service, to allow members time to plan for retirement. Qualifying individuals were notified by MSRS in 2017 and again in 2020 that they would have until June 30, 2020 to retire under the prior, more generous actuarial factors. MSRS communicated to more than 350 individuals regarding the expiration of the grandfather language. For reference, there are approximately 3,300 participants in the Unclassified Plan. Last year, this grandfather period was extended one year (until June 30, 2021) for active employees because of the uncertainty related to the pandemic.

LCPR21-024 proposes extending this grandfathering window through June 2028. This will be the third extension for a subset of Unclassified Plan members. In total, the extension will be 11 years past the original date to reflect the 2016 experience study results. The cost of this extension is borne by the General Plan, which is estimated to cost the plan approximately $9.1 million, based on preliminary calculations by the MSRS actuary. This assumes that an average of 57 retirees would meet the grandfathering criteria per year and that each individual would receive $23,000 more per year for the duration of their retirement compared to what they would have received under the post-2016 actuarial factors ($1.3 million, per year). Please note, cost estimates are based on information provided by the MSRS actuary in 2020 and are being revised to reflect the proposed amendment.

Additionally, as drafted, the extended grandfather provision expands the group that is eligible for the more generous factors because it allows individuals to earn another year of service and age an additional year. MSRS estimates that 250 employees that are not currently eligible for the pre-2016 factors would become eligible before 2028, either by meeting the age or service criteria. The draft language expands the eligible employees even further because it allows the pre-2016 factors to be used for any employee who meets the age/service criteria before June 30, 2028, terminates in that window, and collects in the future. This will increase the liability to the General Plan each year decades in the future.

MSRS must oppose this legislation, given the anticipated cost to the MSRS General Plan and the expansion of eligible individuals. MSRS has a responsibility to implement actuarial factors as recommended by its actuaries and as prescribed, by law.

I appreciate your attention to this matter and consideration of our concerns.

Sincerely,

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