SF 2810 (Benson): PERA defined benefit plans; restores segmented annuities for members who have breaks in public employment

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Introduction

Affected Plans: General Employees Retirement Plan of the Public Employees Retirement Association (PERA), PERA Police and Fire Plan, PERA Local Government Correctional Service Plan

Laws Amended: Minnesota Statutes, Section 353.34

Brief Description: The bill restores segmented annuities for members who have had a break in public employment and provides for retroactive implementation for members who have retired since the provision was repealed in 2018.

Background

The 2018 omnibus pension bill repealed segmented annuities for defined benefit plans administered by either PERA or the Minnesota State Retirement System (MSRS).[1] Shortly after enactment of the 2018 bill, MSRS determined that the repeal of segmented annuities for MSRS was not intended and the 2019 omnibus pension bill reinstated the segmented annuity provisions for MSRS.[2] However, PERA did not pursue reinstatement of its segmented annuity provisions at that time. In 2021, a PERA member appealed a benefit calculation to the PERA Board of Trustees. The appeal resulted in the Board of Trustees directing PERA staff to seek legislation reinstating segmented annuities.

Segmented Annuities

Before January 1, 2019, a member that left public employment before retirement received a percentage increase in their pension benefit each year until the member started to collect the benefit.[3] This annual increase is called "deferred augmentation" and is similar to compounding interest. Because of deferred augmentation, under current law it is possible for a deferred member's pension benefit to be reduced upon the member's return to covered public employment. The term "segmented annuity" refers to a

[1] 2018 Laws of Minnesota, Chapter 211, Article 2, Section 4 (repealing section 353.71 for PERA); and Article 1, Section 11 (repealing section 352.72 for MSRS).
[2] 2019 Laws of Minnesota, 1st Special Session, Chapter 8, Article 8, Section 4.
[3] The 2018 omnibus pension bill terminated augmentation for deferred members of PERA defined benefit for deferred annuities effective January 1, 2019. See, 2018 Laws of Minnesota, Chapter 211, Article 2, Section 3.

method of calculating a pension annuity that avoids this reduction to a returning member's pension benefit by separately calculating the annuity for each "segment," or period of uninterrupted service, and then adding the pension amount for each segment together.

For example, suppose a member has 10 years of service ending in the year 2000, when the member accepted a position in the private sector. The member then returns to public service in 2018. Because of deferred augmentation, the member's benefit from her first 10-year segment has grown from $800 per month to $1,000 per month. Without a segmented annuity calculation, the member loses her deferred augmentation on the day that she accepts her new position, causing her benefit to return to $800 per month. But with a segmented annuity calculation, the member retains the $1,000 for the first segment and starts a new pension for the second segment. The member is immediately vested in the pension for the second segment, but this pension will be calculated based on only the salary and service credit from the second segment.

The circumstances in which a deferred member's benefit is reduced because of returning to public employment are rare. However, it does happen occasionally as demonstrated by Ms. Diane Edward's situation.

Diane Edwards

Diane Edwards was a member of the PERA General Employees Retirement Plan (General Plan) when she worked at Hennepin Technical College from November 24, 1980, until June 30, 1997. After leaving PERA-covered employment in 1997, Edwards was entitled to augmentation of her annuity through December 31, 2018. With the augmentation, her age 65 retirement benefit was estimated to be $1,261 per month.

In October of 2020, Edwards accepted a nine-month clerical job with the Anoka-Hennepin School District, making $14.65 per hour, working with disabled young adults. In this position, she was once again covered by the PERA General Plan. About four and a half months after accepting the position, PERA informed Edwards that her age 65 retirement benefit was now estimated to be $867 per month. Edwards appealed the loss of augmentation to the PERA Board of Trustees. In the recommendation submitted by the Administrative Law Judge to the PERA Board, the Judge noted that because of the repeal of the deferred segment statute in 2018, "current law does not allow PERA to calculate an annuity based on separate public employment segments."[4]

The PERA Board denied Edwards' appeal but directed PERA staff to seek reinstatement of the segmented annuity statute. SF 2810 reinstates PERA's segmented annuity provisions, which will allow Edwards' pension benefit to be calculated with the deferred augmentation she was entitled to before accepting her position with the Anoka-Hennepin School District.

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[4] In the Matter of the PERA Coordinated Retirement Plan Annuity of Diane Edwards, Recommendation on Summary Disposition, p. 6.

Section by Section Summary

SF 2810 is in two sections as follows:

Section 1

Section 1 amends section 353.34 by establishing a new subdivision, which entitles a member who has more than one period of uninterrupted service, or segment, to have augmentation applied to each segment. Members using the provision cannot use salary credit from one segment in another segment. Members would only use this provision if it resulted in a larger pension benefit than the standard annuity calculation. This section effectively reinstates the pre-2018 segmented annuity provisions for PERA.

Section 2

Section 2 provides for the changes in section 1 to be applied retroactively back to July 1, 2018, the effective date of the 2018 omnibus pension bill. This retroactive application would allow a member who retired since 2018 and who would have received a bigger pension if calculated as a segmented annuity to have receive the bigger segmented annuity amount. The section would also provide the member with back payment of the segmented annuity amount pension payments already made. The back payment would be paid in a lump sum.

Effective date

Sections 1 and 2 are effective July 1, 2022.

Analysis

Who is affected and how much does it cost?

This bill affects a small number of PERA defined benefit plan members who would experience a benefit increase. The increase would result in a small cost to the affected PERA plans. Because deferred augmentation was terminated in 2018, this provision is expected to eventually become obsolete once there are no more deferred members entitled to augmentation. LCPR staff requested estimates from PERA of the numbers affected and cost but has not yet received the estimates.

Equitable Considerations

Current law allows for some deferred members' pension amount to be reduced upon accepting a public sector position covered by PERA. This disincentivizes deferred members from returning to public employment, undermining a core policy objective for public pensions: to encourage recruitment to the public sector. Furthermore, it is challenging for PERA to provide deferred members who are seeking reemployment with an accurate estimate of the effect of reemployment on pension benefits. Thus, some deferred members may be unaware that they will experience a reduction in their pension benefit as a result of returning to public employment.

On the other hand, very few deferred members would benefit from this provision because segmented annuities are beneficial only in a limited set of circumstances where the break in service is substantial, the subsequent segment is short, and the subsequent salary is similar to or lower than during the previous segment or segments.

Legislative Commission on Pensions and Retirement

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