

HF 2713 (Nelson, M.); SF 2371 (Frentz): Public Employees Retirement Association (PERA); Increasing COLAs for Members Receiving a Basic Member Annuity from the General Plan

Prepared by: William Vogel, Legislative Coordinating Commission Analyst

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Introduction

Affected Plan: Public Employees Retirement Association (PERA)
General Employees Retirement Plan

Laws Amended: Minnesota Statutes, Sections 353.27; and 356.415, Subdivision 1b

Brief Description: The bill:

- increases the post-retirement adjustment (COLA) for members of the PERA General Plan who do not also receive Social Security benefits based on their PERA-covered service, and
- appropriates funds from the general fund to cover the cost.

Background

The PERA General Plan has “coordinated” members and “basic” members. Coordinated members receive Social Security retirement benefits based on their PERA-covered service in addition to their PERA pension. Basic members receive only their PERA pension.

As of June 30, 2022, there were a total of 4,294 basic members of PERA. Of that total, 1,938, or about 45%, are members of the former Minneapolis Employees Retirement Fund (MERF), which was fully incorporated into PERA in 2015.¹

Under current law (*Section 356.415, Subdivision 1b, Paragraph (b)*), coordinated and basic members are entitled to the same COLA of 1% or 50% of the Social Security COLA up to 3%, whichever is higher. However, because basic members do not receive Social Security payments for their PERA-covered employment, concerns have been raised about the fact that their COLA is the same as that for coordinated members who do.

¹ See “Minnesota Public Pension Plan Statistics,” produced by LCPR staff. The totals above include active, retired, disability, and inactive basic members.

Reflecting the high rate of inflation, on January 1, 2023, coordinated members who are retired and receiving Social Security payments received an 8.7% COLA increase; on January 1, 2022, these members received a 5.9% COLA increase.

The bill addresses these concerns by separating the COLA rates for coordinated and basic members, raising it to a higher rate for basic members, and making annual appropriations to PERA from the general fund to cover the cost of the increase.

Section- by- Section Summary

Section 1 appropriates annual direct state aid to cover the cost of the COLA increase for basic members in Section 2.

Section 1 amends Section 353.27 by adding a subdivision that pays for cost of the COLA increase by providing direct state aid payments to PERA in the amount of \$6 million annually, beginning October 1, 2023. These annual payments will continue every October 1 until the earlier of (i) the actuarial value of plan assets reaching 100% of liabilities, or (ii) July 1, 2048.

The effective date of Section 1 is the day following final enactment.

Section 2 increases the COLA for PERA basic members.

Section 2 amends Section 356.415, subdivision 1b, to differentiate the COLA for coordinated members from the COLA for basic members and to add a higher COLA for basic members. Section 356.415 governs post-retirement adjustment (COLAs) for the statewide pension plans, with subdivision 1b governing the PERA General Plan. Under the current language of Section 356.415 subdivision 1b, paragraph (b), PERA General members (both coordinated and basic) receive a 1% COLA unless the Social Security COLA is greater than 2%.² If this is the case, members receive a COLA equal to 50% of the Social Security COLA, up to 1.5%.

Section 2 inserts new language into paragraph (b) to apply the COLA under current law only to coordinated plan members. A new paragraph (c) states that basic members will be entitled to a 1.5% COLA unless the Social Security COLA is higher than that.³ If it is, basic members' COLA will be equal to the Social Security COLA, up to 3.5%. The changes made by Section 2 thus serve to treat coordinated and basic members' COLAs differently, giving basic members both a higher baseline and a higher maximum.

Section 2 also makes minor language changes to subdivision 1b, including changing "general employees retirement plan" to "general employees retirement fund" and adding a reference to new paragraph (c).

The effective date for Section 2 is January 1, 2024.

HF2713-SF2371 Summary.docx

² The Social Security COLA as given in 42 U.S.C. section 415(i).

³ Given in 42 U.S.C. section 415(i).