2023 Pension Budget Omnibus Bill: Amendment DE1 to HF 3100 (Her); SF 3162 (Frentz)

Prepared by: Susan Lenczewski, Executive Director *Date: April 2, 2023*

Introduction

H3100.S3162-DE1, a delete-everything amendment, replaces everything in HF 3100 (Her); SF 3162 (Frentz) with the 2023 Pension Budget Omnibus Bill. The Commission considered a spreadsheet detailing the Chair's and Vice Chair's proposed allocation of the budget target for pensions of $600 million at its meeting on March 27, 2023. The DE1 puts into bill form the allocation and related benefit enhancements, as revised since the March 27th meeting.

Article- by- Article Summary

Article 1: Reduction in the Actuarial Assumption for Investment Rate of Return

Section 1, the only section of Article 1, amends Section 356.415 by replacing the current actuarial assumption for investment return of 7.5% with 7% for each of the pension plans. This change is effective June 30, 2023, so the pension plans will use the new assumption in their actuarial valuations as of July 1, 2023.

Article 2: Postretirement Adjustments (COLAs)

Sections 1 and 2 of Article 2 amend Section 356.415, subdivisions 1 and 1b, to delete a provision that takes effect on January 1, 2024. The provision delays the commencement of annual COLAs until the member reaches normal retirement age, which is age 66 for post-1989 public employees. This would have meant that members who elect early retirement would not receive a COLA until they reach normal retirement age. The change applies to the following plans:

- Minnesota State Retirement System (MSRS) General Plan
- Legislators Retirement Plan
- MSRS Unclassified Plan
- Public Employees Retirement Association (PERA) General Plan

Section 3 amends Section 356.415, subdivision 1g, which governs COLAs for members of the PERA Local Government Correctional Plan. Under current law, the COLA is 1% unless the Social Security COLA is greater than 1%, in which case the COLA is the same as the Social Security COLA, but not to exceed the "applicable maximum percentage." The applicable maximum percentage is 2.5% until either of the following occurs:

(1) the funded ratio, using market value of assets, is equal to or less than 85% for the previous two consecutive years; OR

(2) the funded ratio is equal to or less than 80% for the previous one year.

If either occurs, the applicable maximum percentage drops to 1.5% and remains there indefinitely. The amendment permits the applicable maximum percentage to go back up to 2.5% if neither (1) or (2) is true.

Sections 4 and 5 are session laws that pay a one-time COLA to all members of the statewide pension plans and St. Paul Teachers Retirement Fund Association in a lump sum no later than March 31, 2024. To be eligible for the one-time payment, a member must have received at least 12 months of pension payments as of June 30, 2023, and for the PERA Police and Fire Plan, at least 12 months of a COLA.

The COLA is equal to the difference between the rate in effect in current law on January 1, 2024, and (1) 2.5% for coordinated members and members of the Legislators Plan or (2) 4% for basic members. All members of the MSRS State Patrol Plan and PERA Police and Fire Plan are basic members, and a subset of the members of the PERA General Plan, Teachers Retirement Association (TRA), and St. Paul Teachers are basic members.

The COLA in effect on January 1, 2024, for all members is 1% except for the following:

- MSRS General, Unclassified, Legislators, Correctional, and Judges plans will be at 1.5%;
- PERA General Plan will be at 1.5%;
- PERA Local Government Correctional Plan will be at 2.5%; and
- Teachers Retirement Association will be at 1.1%.

Article 3: MSRS Changes

Section 1 of Article 3 reduces the employee contributions to the MSRS General Plan and Unclassified Plan from 6% of pay to 5.5% of pay for two years, from July 1, 2023, to June 30, 2025.

Section 2 reduces the number of years of service required for full vesting from 5 years to 3 years for members of the MSRS General Plan employed on or after July 1, 2023.

Sections 3 through 5 amends the expiration date for supplemental employer contributions to the MSRS Correctional Plan and the State Patrol Plan and for annual state aids to the Judges Plan. The expiration date in each case was defined with reference to the funded status of the plan for the most recent year. The one year look back is replaced with a three year look back, so the contributions or state aid will not end until the plan has met the 100% funded threshold for the prior three years.

Article 4: PERA Changes

Section 1, the only section of Article 4, reduces the number of years of service required for full vesting from 5 years to 3 years for all members of the PERA General Plan.

Article 5: St. Paul Teachers Retirement Fund Association Changes

Section 1 of Article 5 increases the employee contribution rate, beginning on July 1, 2025, by 1% of pay. This means that coordinated members will contribute 8.75% of pay, an increase from 7.75% of pay, beginning July 1, 2025.

Section 2 adds a new benefit effective for all members retiring on or after July 1, 2023. A member who retires when the member is at least age 62 and has at least 30 years of service will receive an unreduced retirement annuity. This is similar to the Rule of 90 but requires a member to meet both an age threshold and a service threshold.

Section 3 makes changes to the early retirement statute, Section 354A.31, to conform the statute as necessary to take into account the new early retirement benefit added by Section 2.

Article 6: Appropriations

Section 1 appropriates a total of $485,900,000 as one-time state aids, allocated among each of the pension plans in fiscal year 2024. See lines 15.17 through 15.30.

Section 2, subdivision 2, appropriates $5 million to the PERA Statewide Volunteer Firefighter Plan to be used to incentivize volunteer firefighter relief associations to join Statewide Plan. The incentive program would deposit a one-time incentive payment into the account of each fire department that joins the Statewide Plan on or after January 1, 2024. The appropriation is a one-time appropriation and is available until expended.

Section 2, subdivision 3 requires the executive director of PERA to provide to the Commission by January 5, 2024, an outline of the program and proposed legislation that adds a defined contribution component and makes other changes as appropriate to encourage fire departments and their affiliated relief associations to join the Statewide Plan.

Amendment H3100.S3162-1A changes the eligibility date, making fire departments that join the Statewide Plan on or after July 1, 2023, eligible for the program, rather than on or after January 1, 2024. This will permit the fire departments of Hamel and Loretto to benefit under the program. The Commission approved special legislation for these fire departments earlier this session, which allows them to join the Statewide Plan mid-year rather than wait until January 1, as required under current law.

Section 3 appropriates $100,000 to be used by the Commission for actuarial cost assessments to assist the Commission with decision-making on pension policy and legislation. The appropriation is a one-time appropriation and is available until expended. During the 2023 session, bills that would have enacted pension benefit improvements and alternatives proposed by the Chair and members of the Commission for expending the $600 million target could not be given serious consideration because of the need to know the actuarial cost of proposed changes. The Commission's limited budget for actuarial fees would not have covered this need. The pension fund directors have been willing to provide cost assessments, but only to the extent they, as fiduciaries of their pension plans, believe the expense is reasonably paid using pension plan assets.

Article 7: Minnesota Secure Choice Retirement Program

This article consists of the language of delete-everything amendment H0782.S0413-DE2, approved by the Commission at its last meeting, on March 27, 2023, with the omission of one subdivision. The DE2 replaced the language of HF 782, 1st Engrossment (Becker-Finn); SF 413, 2nd Engrossment (Pappas). See the attached summary of the Secure Choice program.

The one subdivision not included in Article 7 had also not been included in the HF 782, 1st Engrossment, or SF 413, 2nd Engrossment, but was included in the DE2. The subdivision addresses employee leasing companies and states that the workforce provided by an employee leasing company to a Minnesota taxpaying employer is to be treated as employed by the Minnesota company, not by the employee leasing organization. Under this language, the Minnesota company would be required to participate in the Secure Choice program even though (1) the Minnesota company is not doing the payroll for the workforce and thus would have to pay the employee leasing company to do the payroll deductions required by the program, and (2) the employee leasing company may be providing a retirement savings plan to the workforce being leased to the Minnesota company.

Amendment H3100.S3162-2A is the language of the subdivision that had been included in the DE2, but not in Article 7.

Amendment H3100.S3162-3A re-writes this subdivision for clarity and to state that if the leasing company provides a retirement savings plan to the workforce, the Minnesota company is not a covered employer under the program.

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