



HF xxxx; SF xxxx (Revisor #24-08106): Extending the expiration date for state aid and supplemental employer contributions to pension plans

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Introduction

- Affected Plans:** Minnesota State Retirement System (MSRS) State Patrol Retirement Plan
Public Employees Retirement Association (PERA):
 General Employees Retirement Plan (PERA General)
 Public Employees Police and Fire Retirement Plan (PERA P&F)
Teachers Retirement Association (TRA)
St. Paul Teachers Retirement Fund Association (St. Paul Teachers)
- Laws Amended:** Minnesota Statutes, Section 353.27, subdivision 3a, 353.65, subdivision 3b, 354.435, subdivision 4, 354.436, subdivision 3, 354A.12, subdivisions 3a and 3c, 423A.02, subdivision 5, 423A.022, subdivision 5
- Brief Description:** The bill amends the statutes that require the payment of state aid or supplemental employer contributions to the pension plans noted above. The amendment changes the expiration date if it is tied to the pension plan reaching a specified funding target (100% or 90%), by requiring that the pension plan meet the funding target for each of the three preceding fiscal years, rather than just the preceding fiscal year.
- Attachment:** [Supplemental Employer Contributions and Direct State Aid Payments to Public Pension Plans](#)

Background

As part of the 2023 Omnibus Pension Budget bill, statutes requiring employers to make a supplemental employer contribution to the MSRS Correctional Employees Retirement Plan and the State Patrol Retirement Plan were amended, at the request of MSRS, to change the date on which those contributions will cease. Generally, under the 2023 bill, the supplemental contributions would cease when the respective plan's funded ratio reached or exceeded 100% for three consecutive years, rather than for just one year. Specifically, the end date was changed from (1) the first pay period in the fiscal year following the issuance of an actuarial valuation stating that the market value of the assets of the Plan equaled or exceeded the actuarial accrued liability of the Plan, to (2) the first pay period in the fiscal year following the issuance of three consecutive actuarial valuations stating that the market value of the assets of the Plan equaled or exceeded the actuarial accrued liability of the Plan.

Similarly, the 2023 Omnibus Pension Budget bill changed the expiration date for direct state aid paid by the state annually to the Judges Retirement Plan from the earlier of:

- (1) The first day of the fiscal year following the fiscal year in which the actuarial value of assets equaled or exceeded the actuarial accrued liabilities, as reported in the annual actuarial valuation; or
- (2) July 1, 2048;

to the earlier of:

- (1) The first day of the fiscal year following three consecutive fiscal years in which the actuarial value of assets equaled or exceeded the actuarial accrued liabilities, as reported in the annual actuarial valuation; or
- (2) July 1, 2048.

These changes to the MSRS plans appeared late in the process of developing the 2023 omnibus pension budget bill, so Commission staff was not provided any rationale for these changes, nor was any provided to the Commission in any testimony taken at a Commission meeting.

Possible rationale:

- The change from a one-year lookback to a three-year lookback will ensure that a single year of extraordinary investment returns will not result in the end of employer supplemental contributions or state aid, which would be especially unfortunate when subsequent years’ investment returns bring the plan’s funded ratio back below 100%.
- If the plan’s funded ratio does hit 100%, having the additional two years before the supplemental contributions or state aid cease will provide the pension plan director, staff, and board with an opportunity to make changes, such as recommending a reduction in the plan’s rate of return assumption, an increase in a benefit, or a reduction in employee contributions, to ensure that the plan’s funded ratio does not exceed 100% for three consecutive years.

Once supplemental employer contributions or state aid ceases, they will re-start only through legislation.

General Summary

For each of the following pension plans, the bill changes the expiration date for supplemental employer contributions and state aid as follows:

<u>Retirement Plan</u>	<u>Expiration date for supplemental employer contributions and state aid</u>
State Patrol Plan	Supplemental state aid of 6.452% of \$15.5 million
PERA General Plan	Supplemental employer contributions of 2.68% of pay for basic members and 1% of pay for coordinated members
PERA P&F Plan	<ul style="list-style-type: none"> • Annual state aid of \$9 million • Supplemental state aid of 58.064% of \$15.5 million

Retirement Plan	Expiration date for supplemental employer contributions and state aid
TRA	<ul style="list-style-type: none"> • Annual state aids of \$7 million, \$12,954,000, and \$14,377,000 • Amortization state aid under Section 423A.02
St. Paul Teachers	<ul style="list-style-type: none"> • Annual state aids of \$2,827,000, \$7 million, and \$5 million • Amortization state aid under Section 423A.02

Section- by- Section Summary

Section 1 amends section 353.27, subdivision 3a, which requires additional employer contributions of 2.68% for basic members and 1% for coordinated members to the PERA General Plan, until the pay period after the March 31st following the issuance of an actuarial valuation that reports that the actuarial value of Plan assets equals or exceeds the actuarial accrued liability of the plan (i.e., 100% funded). The amendment repeals the additional contributions after the 100% funded target has been met for three consecutive years.

Section 2 amends section 353.65, subdivision 3b, which requires the state to pay an annual state aid of \$9 million to the PERA Police and Fire Plan. The aid ends on the earlier of (1) the first day of the fiscal year after the actuarial value of assets equals or exceeds 100% of the actuarial accrued liabilities (i.e., 100% funded) or (2) July 1, 2048. The amendment replaces the single fiscal year with three consecutive fiscal years.

Section 3 amends section 354.435, subdivision 4, which provides the expiration date for annual additional contributions from the city and school district of Minneapolis and matching state aid to TRA totaling \$7 million required by subdivisions 1 and 2. The aid continues until the earlier of (1) the first day of the fiscal year after the actuarial value of assets equals or exceeds 100% of the actuarial accrued liabilities (i.e., 100% funded) or (2) July 1, 2048. The amendment replaces the single fiscal year with three consecutive fiscal years.

Section 4 amends section 354.436, subdivision 3, which provides the expiration date for the annual state aids to TRA of \$12,954,000 on behalf of the Minneapolis Teachers Retirement Fund Association and \$14,377,000 on behalf of the Duluth Teachers Retirement Fund Association. The aids continue until the earlier of (1) the first day of the fiscal year after the actuarial value of assets equals or exceeds 100% of the actuarial accrued liabilities (i.e., 100% funded) or (2) July 1, 2048. The amendment replaces the single fiscal year with three consecutive fiscal years.

Section 5 amends section 354A.12, subdivision 3a, which requires the state to pay annual state aids to St. Paul Teachers Retirement Fund Association of \$2,877,000, \$7 million, and \$5 million. The amendment is to change the title to refer to St. Paul Teachers and change the term “shall” to “must.”

Section 6 amends section 354A.12, subdivision 3c, which provides the expiration date for the annual state aids to St. Paul Teachers required by subdivision 3a (described in the summary of section 5, above). The aids continue until the earlier of (1) the first day of the fiscal year after the actuarial value of assets equals or exceeds 100% of the actuarial accrued liabilities (i.e., 100% funded) or (2) July 1, 2048. The amendment replaces the single fiscal year with three consecutive fiscal years.

Section 7 amends section 423A.02, subdivision 5, which provides the expiration date for annual amortization state aid and additional amortization state aid to TRA and St. Paul Teachers required by subdivisions 1 to 4. The aids expire on the earlier of (1) December 31 following the end of the fiscal year in which, for TRA or St. Paul Teachers, the actuarial value of assets equals or exceeds 100% of the actuarial accrued liabilities (i.e., 100% funded) or (2) July 1, 2048. The amendment replaces the single fiscal year with three consecutive fiscal years.

Section 8 amends section 423A.022, subdivision 5, which provides the expiration date for annual supplemental state aid to the PERA Police and Fire Plan and the State Patrol Plan required by subdivisions 1 and 2. The aid expires on the earlier of (1) December 1 following the end of the fiscal year in which, for both the P&F Plan and the State Patrol Plan, the actuarial value of assets equals or exceeds 90% of the actuarial accrued liabilities (i.e., 90% funded) or (2) July 1, 2048. The amendment replaces the single fiscal year with three consecutive fiscal years.



Supplemental Employer Contributions and Direct State Aid Payments to Public Pension Plans

Minnesota law provides for several types of supplemental contributions and direct state. This compilation describes each of these contributions or state aids, the plan to which the payment is made, when the aid expires, and the statute that requires the payment.¹

Two acronyms that appear throughout this table are defined as follows:

MVA: “Market value of assets” means the value of plan assets as of the most recent fiscal year end (June 30).

AVA: “Actuarial value of assets” means the value of plan assets resulting from the averaging of asset values over a five-year period to smooth the effect of market fluctuations.

¹ The State also makes direct payments to public employers to help fund contributions the employer is required to make to public pension plans. For example, see the payments required to the cities of Fairmont, Minneapolis, Duluth, and Virginia under Section 423A.02 to defray employer contributions required to pension plans. This compilation does not include payments made directly to public employers.

Supplemental Employer Contributions and Direct State Aid Payments to Public Pension Plans

Minnesota State Retirement System

	Aid Amount	Aid Expiration	Funded Ratio (June 30, 2023)	Statute
Correctional State Employees Retirement Plan	4.45% of covered salary <i>(about \$14.36 million in 2023)</i>	The first day of the first full pay period of the fiscal year immediately following the issuance of the third actuarial valuation showing that the funded ratio using the MVA equals or exceeds 100%.	74.77% (MVA)	§ 352.92, Subd. 2a, Para. (a)
State Patrol Plan	\$1,000,060	The earlier of:	State Patrol Plan, 81.15% (AVA)	§ 423A.022, Subd. 2, Para. (a)(3)
Police and Firefighter Retirement State Aid		(1) December 1 following the end of the fiscal year in which the funded ratio using the AVA of both the PERA P&F Plan and The State Patrol Plan equal or exceed 90%; (2) July 1, 2048.	PERA P&F, 87% (AVA)	
State Patrol Plan Supplemental Employer Contributions	7% of covered salary <i>(about \$7.78 million in 2023)</i>	The first day of the first full pay period of the fiscal year immediately following the issuance of the third actuarial valuation showing that the funded ratio using the MVA equals or exceeds 100%.	80.59% (MVA)	§ 352B.02, Subd. 1c, Para. (d)
Judges Plan Direct State Aid	\$6,000,000	The earlier of:	62.89% (AVA)	§ 490.123, Subd. 5, Para. (a)
		(1) the first day of the fiscal year following three consecutive fiscal years in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048.		

Supplemental Employer Contributions and Direct State Aid Payments to Public Pension Plans

Public Employees Retirement Association

	Aid Amount	Aid Expiration	Funded Ratio (June 30, 2023)	Statute
General Plan Additional Employer Contribution	1% of covered payroll <i>(about \$75 million in 2023)</i>	“First day of the first full pay period occurring after the March 31 of the calendar year following the issuance of the actuarial valuation” showing that the funded ratio using the AVA equals or exceeds 100%.	83.6% (AVA)	§ 353.27, Subd. 3a
General Plan MERF Direct State Aid	\$16,000,000	Sept. 15, 2031		§ 353.505, Para. (a)
Police & Fire Plan Police and Firefighter Retirement Supplemental State Aid	\$9,000,000	The earlier of: (1) December 1 following the end of the fiscal year in which the funded ratio using the AVA of both the PERA P&F Plan and The State Patrol Plan equal or exceed 90%; (2) July 1, 2048.	State Patrol Plan, 81.15% (AVA) PERA P&F, 87% (AVA)	§ 423A.022, Subd. 2, Para. (a)(1)
Police & Fire Plan 2018 Direct State Aid	\$9,000,000	The earlier of: (1) the first day of the fiscal year following the fiscal year in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048.	87% (AVA)	§ 353.65, Subd. 3b

Supplemental Employer Contributions and Direct State Aid Payments to Public Pension Plans

Teachers Retirement Association

	Aid Amount	Aid Expiration	Funded Ratio (June 30, 2023)	Statute
Matching Aid and Additional Contributions by Special School District No. 1 and City of Minneapolis	\$4,500,000 from employers \$2,500,000 from state	The earlier of: (1) the first day of the fiscal year following the fiscal year in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048.	76.85% (AVA)	§ 354.435, Subd. 1 & 2
Amortization State Aid	\$1,246,259	The earlier of: (1) the December 31 following the end of the fiscal year in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048.	76.85% (AVA)	§ 423A.02, Subd. 3
State Aid related to the Minneapolis Teachers merger	\$12,954,000	The earlier of: (1) the first day of the fiscal year following the fiscal year in which the funded ratio AVA equals or exceeds 100%; (2) July 1, 2048.	76.85% (AVA)	§ 354.436
State Aid related to the Duluth Teachers Merger	\$14,377,000	The earlier of: (1) the first day of the fiscal year following the fiscal year in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048.	76.85% (AVA)	§ 354.436

Supplemental Employer Contributions and Direct State Aid Payments to Public Pension Plans

St. Paul Teachers Retirement Fund Association

	Aid Amount	Aid Expiration	Funded Ratio (June 30, 2023)	Statute
Amortization State Aid	\$838,000*	The earlier of: (1) the December 31 following the end of the fiscal year in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048.	65.25% (AVA)	§ 423A.02, Subd. 3
Direct State Aid	\$2,827,000	The earlier of: (1) the first day of the fiscal year following the fiscal year in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048.	65.25% (AVA)	§ 354A.12, Subd. 3a, Para. (a)
Direct State Aid	\$7,000,000	The earlier of: (1) the first day of the fiscal year following the fiscal year in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048.	65.25% (AVA)	§ 354A.12, Subd. 3a, Para. (b)
Direct State Aid	\$5,000,000	The earlier of: (1) the first day of the fiscal year following the fiscal year in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048.	65.25% (AVA)	§ 354A.12, Subd. 3a, Para. (c)

* The amount is based on a formula and is determined annually. The amount shown is for a prior year and may not be the amount of aid payable in 2024.