

HF 3675 (Wolgamott); SF 3822 (Kupec): MSRS General State Employees Retirement Plan; Providing an Unreduced Early Retirement Annuity to Select Department of Corrections Employees

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Introduction

- Affected Plan:** Minnesota State Retirement System (MSRS)
General State Employees Retirement Plan (MSRS General)
- Laws Amended:** Minnesota Statutes, section 352.116
- Brief Description:** The bill provides an unreduced early retirement annuity to corrections agents responsible for probation or parole services upon retirement at age 62 or with 30 years of service.

Background

Minnesota's public pension plans are designed to pay a full, undiscounted annuity to eligible employees upon reaching "normal retirement age." This means that if the employee waits to retire until reaching an age set in statute, the benefit the employee receives is the amount calculated using the plan's benefit formula. The normal retirement age for MSRS General is age 66 for most active employees.¹ If an employee chooses to retire before reaching normal retirement age, the employee's monthly benefit is reduced as provided in statute, because the employee is receiving the annuity for a longer period of time.

Certain early retirement benefits allow eligible employees to receive a full, unreduced annuity before reaching normal retirement age. The first generally applicable early retirement benefits in Minnesota were established in 1973, which allowed employees covered by MSRS General, the Public Employees Retirement Association General Employees Retirement Plan (PERA General), or the Teachers Retirement Association (TRA) to retire at age 62 with 30 years of allowable service. This benefit, often referred to as "62 and 30," is no longer available for employees covered by MSRS, PERA, or TRA. However, the 2023

¹ Minn. Stat. §352.01, subdivision 25, defines normal retirement age for MSRS General. The normal retirement age is 65 for a person who first became a covered employee before July 1, 1989. For employees that became a covered employee on or after that date, the normal retirement age is the higher of 65 or the age eligible for full Social Security retirement benefits, but not to exceed age 66. Generally speaking, for most active employees, the normal retirement age is 66.

Omnibus Pension Budget Bill added a “62 and 30” benefit for members of the St. Paul Teachers Retirement Fund Association, which was funded by an increase in employee contributions and state aid.

Another example of an early retirement benefit is the “Rule of 90,” which was first enacted for PERA General in 1982 and was extended to MSRS General and TRA in 1989. Under Rule of 90, if a member’s age plus years of allowable service is equal to or exceeds 90, the member is eligible to retire with an unreduced annuity. This benefit is available only to members of PERA General, MSRS General, and TRA hired prior to July 1, 1989.

As explained in the section-by-section summary, the bill provides an early retirement benefit for a specific group of employees covered by MSRS General at retirement upon reaching age 62 or with 30 years of service.

Section- by- Section Summary

Section 1 amends Minnesota Statutes, section 352.116, subdivision 1a, (“Actuarial reduction for early retirement”) by preventing an employee’s annuity from being reduced by an early retirement reduction if the member is eligible for the unreduced annuity provided by subdivision 1b (see section 2).

Section 2 amends Minnesota Statutes, section 352.116, by adding a new subdivision, which is numbered 1b (“Unreduced annuity for select Department of Corrections employees”). The new subdivision provides an unreduced annuity to an employee if, on the day the employee terminates employment, the employee:

- is employed by the Department of Corrections as a corrections agent responsible for probation or parole services; and
- is at least age 62 or has at least 30 years of service.

This early retirement benefit is similar to the “62 and 30” benefit described above, but is better described as “62 or 30,” as the employee only needs to meet the age requirement or the service requirement to be eligible for the benefit.

This benefit is only available to eligible employees hired on or after July 1, 1989. Employees hired prior to that date are eligible for “Rule of 90,” a different early retirement benefit.

Effective Dates. Sections 1 and 2 are effective July 1, 2024.

Public Policy Considerations

Cost

LCPR staff are not aware of how many employees would be eligible for the “62 or 30” benefit. A cost estimate has not been conducted for the bill. The Commission may want to seek additional information about these employees from the Department of Corrections.

The bill does not include an increase in contributions or state aid. Without any funding, the cost of the bill would be absorbed by MSRS General. LCPR staff are not aware of the impact the bill may have on MSRS General's liabilities or funding ratio.

While a cost estimate has not been conducted for the bill, earlier this year, MSRS asked its retained actuary to provide a cost estimate for other benefit improvements for all MSRS General members. The results were presented to the MSRS Board of Directors in January 2024.

One of the benefit improvements was a "62 and 30" benefit, which would allow a member to retire at age 62 with 30 years of allowable service. The "62 and 30" benefit is estimated to cost 0.76 percent of pay or roughly \$29 million per year. Another benefit improvement was a reduction in the normal retirement age from age 66 to 64, which is estimated to cost 1.79 percent of pay or roughly \$68.29 million per year.

"62 or 30" vs "62 and 30"

Under "62 or 30," a corrections agent responsible for probation or parole services could be hired at age 22 or 23, work for 30 years, and retire with a full pension at age 52 or 53. The earliest age a member of MSRS General can begin to receive an early retirement benefit is age 55 but a member can apply for retirement with 30 years of service, regardless of age. No public employee in Minnesota is currently permitted to retire with a full pension benefit prior to age 55.

The bill would permit eligible members of MSRS General to retire with full benefits at an earlier age than permitted for members of the MSRS State Patrol Plan or the MSRS Correctional State Employees Retirement Plan (MSRS Correctional), both of which have a normal retirement age of 55. The MSRS State Patrol Plan and MSRS Correctional have an earlier normal retirement age and higher employee and employer contribution rates than MSRS General due to the associated risks and demands of working in law enforcement and corrections.

"62 and 30" requires a member to attain both the age and service requirements to be eligible for an unreduced retirement annuity. "62 and 30" still provides an unreduced annuity for career employees at an earlier age but guarantees that a member will not retire with an unreduced annuity prior to age 62. The Commission may wish to consider what an appropriate retirement age is for this group of employees considering the employees' job duties and working environment.

Fairness considerations

The Commission may also wish to consider the rationale for providing early retirement benefits for this group of employees within MSRS General, but not for all employees covered by the plan. The employees covered by MSRS General that do not benefit from the bill may perceive a benefit improvement provided to a particular group of employees as unfair, because the employee contribution rates will remain the same for all employees.

MSRS Correctional coverage

During the 2002 legislative session, a task force was established to determine the appropriate retirement coverage for emergency dispatchers and post-sentencing officers. The efforts of this task force resulted in a study published by the LCPR in 2003.² The study states that, at the time, “post-sentencing officer” was a job classification that included corrections agents working for the Department of Corrections.

While the task force did not reach a consensus on what the appropriate retirement coverage should be for these post-sentencing officers, the employee representatives proposed being included in MSRS Correctional. MSRS Correctional provides greater benefits to vested employees than is provided by MSRS General but is also more expensive for employees and employers. The employers participating in the task force objected to this proposal, due to the cost of the increase in employer contributions.

In addition to evaluating an early retirement benefit for corrections agents responsible for probation or parole services, the Commission may wish to evaluate if this group of employees should be added to the list of Department of Corrections positions covered by MSRS Correctional. As a result, the higher contribution rate to MSRS Correctional would pay for the enhanced pension benefit and may avoid some of the fairness concerns addressed above. The list of positions covered by MSRS Correctional and the process for adding new positions to the plan are in statute.³

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² Legislative Commission on Pensions and Retirement, (2003, February), [Mandated Study of Retirement Coverage for Post Sentencing Officers](#).

³ Minn. Stat. §352.91, subdivisions 1 to 3g, and 4a.