HF 5137 (Wolgamott); SF xxxx: Public Employees Police and Fire Retirement Plan; Permitting Payment of a Normal Retirement Annuity Without Reduction or Suspension upon Continued Employment or Reemployment After 55 Years of Age

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Introduction

Affected Plan: Public Employees Police and Fire Retirement Plan (PERA P&F)

Laws Amended: Minnesota Statutes, sections 353.01 and 353.37

New Law Added: Minnesota Statutes, section 353.6515

Brief Description: The bill permits members of PERA P&F who are at least age 55 to continue to work in a PERA-covered position without a break in service, receive a full salary, and receive a normal retirement annuity without a reduction or suspension. An eligible member may also separate from service, return to covered employment, and continue to receive a normal retirement annuity.

Background

The Public Employees Police and Fire Retirement Plan (PERA P&F) provides retirement coverage for law enforcement officers and firefighters employed by county and local governments that meet certain certification and job-related duties specified by statute. The normal retirement age is age 55, and members can retire as early as age 50, with the normal retirement benefit reduced for early commencement. Members do not pay into Social Security from the member's salary. As a result, the member's salary is not counted when determining any Social Security benefit to which the member may be entitled due to other employment.

Under Minnesota Statutes, section 353.37, if a PERA P&F member retires, starts to receive pension benefits, and returns to work in a PERA-covered position, the member's pension benefits may be reduced or suspended (whichever results in the higher annuity amount).

The member's pension benefit is reduced or suspended if the member earns more than the Social Security threshold for reemployment ($22,320 for 2024) and the member has not reached Social

Security normal retirement age.[1] If a member returns to employment after the Social Security retirement age, the earnings threshold does not apply, and the member will continue to receive the retirement annuity with no reduction.

The member's pension is reduced by 50% of the amount of earnings in excess of the threshold and held in a deferral account. If 50% of the earnings in excess of the threshold is greater than the member's pension amount, the entire pension amount will be suspended starting on the first of the month after the member's salary exceeds the threshold and resumes at the start of the next calendar year or after the member terminates employment. The suspended amount is held in a deferral account.

The member is entitled to a lump sum payment of the amount in the deferral account after the reemployment period ends. According to PERA, there are currently about 130 members with a deferral account balance: 110 of the account holders are police officers, 14 are firefighters, and 6 have unknown affiliation.

The bill modifies section 353.37 and adds a new section to Chapter 353, to allow members of PERA P&F who are at least age 55 to continue to work in a PERA-covered position without a break in service, receive a full salary, and receive a normal retirement annuity without a reduction or suspension. An eligible member may also separate from service, return to covered employment, and continue to receive a normal retirement annuity.

Section- by- Section Summary

Section 1 amends section 353.01, which is the definition section for PERA, by adding a new subdivision. The new subdivision adds a definition for "annuity starting date," which means the date that a member first receives an annuity payment from PERA.

Section 2 amends section 353.37, subdivision 1b, by modifying the definition of "retirement age" for purposes of section 353.37. The current definition of "retirement age" is the Social Security normal retirement age. Section 2 expands this definition to mean age 55 for PERA P&F.

Section 3 amends section 353.37, subdivision 2, by adding a provision that prohibits PERA from suspending an annuity based on a member's reemployment, regardless of the member's income, if the member has reached "retirement age," which is age 55 for PERA P&F (see section 2).

Section 4 adds a new section to Chapter 353, section 353.6515, which has 2 subdivisions.

- Subdivision 1 permits a member of PERA P&F who has not separated from service to receive a normal retirement annuity if the member is (1) at least age 55 and (2) partially or fully vested. The member must submit an application for the annuity to PERA, and member must select an annuity starting date that is after the member reaches age 55.

[1] The Social Security normal retirement age is 67 for people born in 1960 or later. For people born from 1955 to 1960, the normal retirement increases gradually in 2-month increments per year from 66 to 67. For more information, see on Social Security normal retirement age based on birth year, see https://www.ssa.gov/pubs/EN-05-10035.pdf.

- Subdivision 2 requires that the member's continued employment does not affect the member's annuity amount. As a result, the member will not continue to receive service or salary credit toward a pension benefit. The member will not continue to make employee contributions and the employer will not continue to make employer contributions on the member's behalf.

Effective Date. Sections 1 to 4 are effective January 1, 2025.

Public Policy Considerations

Cost

According to a memo from PERA staff to the Commission dated March 28, 2024,[2] the bill has a cost to PERA, because members are expected to start receiving benefits and stop making contributions to PERA P&F earlier, increasing the plan's liability. PERA estimates that the cost of earlier benefit commencement is about $15.2 million per year. In addition, the expected decrease in contributions to PERA P&F is about $2.1 million per year, resulting in a total cost to the plan of about $17.3 million per year. The estimated present value of the higher rates of earlier benefit commencement plus the loss of future contributions is about $290 million.

The PERA memo mentions that this cost is higher than originally anticipated. The PERA memo states:

> *The estimated cost impact is higher than originally expected due to both the favorable benefit impact to the member and the loss of contributions for the period from age 55 to the actual retirement age, if later than 55. The proposed change would not just increase Plan costs for the hoped for additional retention period, it would also increase costs for the existing period of employment already occurring after age 55 for many members.*

For more information about the cost study, please see the PERA memo.

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[2] The PERA memo is included in the materials for the April 2, 2024, Commission meeting.