HF xxxx; SF 5227 (Rasmusson): Correcting a conflict in the statutes requiring the pension plans to use a specified established date for full funding

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Date: April 2, 2024

Introduction

Affected Plans: Minnesota State Retirement System (MSRS):
- General State Employees Retirement Plan
- Correctional State Employees Retirement Plan
- State Patrol Plan

Public Employees Retirement Association (PERA):
- General Employees Retirement Plan
- Public Employees Police and Fire Retirement Plan (PERA P&F)
- Local Government Correctional Service Retirement Plan

Teachers Retirement Association (TRA)
St. Paul Teachers Retirement Fund Association (St. Paul Teachers)

Law Amended: Minnesota Statutes, section 356.215, subdivision 11

Brief Description: The actuarial valuation report as of July 1, 2023, for three of the statewide pension plans, MSRS General Plan, PERA P&F Plan, and PERA Local Government Correctional Plan, prepared by each plan's retained actuary, noted that, as required by Section 356.215, subdivision 11, the amortization period for the plan was required to be extended due to the change in actuarial assumptions. The extension of the amortization period results in an "established date for full funding" under paragraph (c) that is different than the established date for full funding under paragraphs (d) through (j) of the same subdivision. The bill reconciles this conflict.

Attachment: Amendment S5227-2A

Background

Minnesota Statutes, section 356.215, subdivision 11, requires the statewide pension plans and St. Paul Teachers to include, in the plan's actuarial valuation, an exhibit indicating the annual contribution needed to amortize the unfunded actuarial accrued liability, which must be calculated on a level percentage of covered payroll basis, using the plan's annual payroll growth assumption, by the established date for full funding in effect when the valuation is prepared. In non-actuary language, this means that the valuation must show the contribution needed each year to pay off the plan's unfunded liability by the end of the amortization period (the "established date for full funding"). Subdivision 11, paragraphs (d) through (j), sets forth the "established date for full funding" for each pension plan.

When the pension plans' actuaries performed the annual valuation for each pension plan as of July 1, 2023, they were required to use the approved actuarial assumptions, many of which had changed from the year before, including, most notably, the change in the investment rate of return assumption from 7.5% to 7%. These changes in the assumptions, which resulted in a net increase in the unfunded actuarial accrued liabilities, meant that paragraph (c) of subdivision 11 applied and required the actuaries to run the calculation in that paragraph to determine the established date for full funding.

Doug Anderson, the Executive Director of PERA, provided the following explanation of that calculation, as applied to the P&F Plan:

PERA Police and Fire Plan
July 1, 2023 Amortization Extension Calculation
$000s

Check for change in amort period	
Before change unfunded actuarial liability (UAL)	887,013
Before change amort period	25
Before change present value of future payrolls (PVFPAY)	18,186,724
Before change amort of unfunded	4.88%
After change UAL	1,660,057
Increase in UAL	773,044
Amort period for increase	30
After change PVFPAY, 30 years	21,167,797
Increase amort of unfunded, 30 years	3.65%
After change UAL	1,660,057
Target amort of unfunded	8.53%
Effective amortization period, unrounded	25.83
Revised amortization period, rounded, not to exceed 30 years	26.00

Mr. Anderson noted that the bigger the change relative to the unfunded actuarial accrued liability (UAAL) before changes, the bigger the change in amortization period. Plans with low funding ratios (higher starting UAAL) will be impacted less than plans with high funding ratios.

As a result of this calculation, the plan actuaries for three of the statewide plans, MSRS General Plan, PERA P&F Plan, and PERA Local Government Correctional Plan, determined that the plans are required to use an established date for full funding, under paragraph (c), that is different than the required established date for full funding in the applicable paragraph (d) through (j). The established date for full funding for each of these plans is the following:

MSRS General Plan.. June 30, 2053
P&F Plan... June 30, 2049
PERA Local Government Correctional Plan...... June 30, 2053

The statute in current law does not direct which paragraph controls when there is a conflict between the established date for full funding under paragraph (c) versus the established date for full funding under the applicable paragraph (d) through (j). The bill clears up this conflict by stating that the date in paragraph (d) through (j) (re-numbered paragraph (c), clauses (i) through (vii) in the bill) applies only if paragraph (c) (new paragraph (b) in the bill) does not apply.

Summary

Section 1 amends section 356.215, subdivision 11, as follows:

- **Paragraph (b)** is deleted because it is obsolete. It requires pension plans other than the plans listed in paragraphs (d) through (j) (i.e., the statewide pension plans and St. Paul Teachers) to use, in their actuarial valuations, an established date for full funding that is the "first actuarial valuation date occurring after June 1, 2020." These plans are required to have actuarial valuations done at least every two years, resulting in the first actuarial valuation date occurring no later than the end of a fiscal year in 2022 or 2023. This established date for full funding has now passed for all the affected pension plans.
- **Paragraph (c)** is re-numbered as paragraph (b). This paragraph requires the calculation explained above to determine the established date for full funding if any of the following has occurred and has resulted in a net increase in the unfunded actuarial accrued liability in the fund:
    - a change in any or all of the actuarial assumptions used for calculating the actuarial accrued liability of the fund,
    - a change in the benefit plan governing annuities and benefits payable from the fund,
    - a change in the actuarial cost method used in calculating the actuarial accrued liability of all or a portion of the fund, or
    - a combination of the three.
- **New paragraph (c)** begins with new language that states, "Unless paragraph (b) or (d) applies, the established date for full funding is the date provided for each of the following plans:". This resolves the conflict between current law paragraph (c) and paragraphs (d) through (j) by permitting the use of the specified date (e.g., June 30, 2048), now in clauses (i) through (vii), for the established date for full funding only if current law paragraph (c), now new paragraph (b), does not apply. In other words, if new paragraph (b) applies, requiring the calculation explained above, the pension plan is not permitted to use the specific date (e.g., June 30, 2048) that would otherwise apply to the pension plan under clauses (i) through (vii).
- **Current law paragraphs (d) through (j)** have been re-numbered as clauses (i) through (vii). Each clause sets forth the required established date for full funding, which, for all the statewide pension plans and St. Paul Teachers, except TRA, is June 30, 2048. The established date for full funding for TRA, set forth in clause (ii), is June 30, 2053.
- **Current law paragraph (k)** has been re-numbered as paragraph (d).

Effective date: The bill is effective the day following final enactment.

Amendment

Amendment S5227-2A establishes a work group, consisting of the executive director and a staff person from each of the statewide pension funds, the executive director of St. Paul Teachers, and the executive director of the Commission, to propose legislation that will update Minnesota Statutes, section 356.215, subdivision 11, to “conform to actuarial best practices for amortizing liabilities.” The group must meet by August 1, 2024, and submit its proposal to the Commission by January 10, 2025.