



SF 4721 (Frentz); HF 4514 (Lillie): PERA Correctional Plan; Reducing the employee and employer contribution rates and increasing the COLA maximum

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Introduction

Affected Plan: Public Employees Retirement Association (PERA), Local Government Correctional Service Retirement Plan (Correctional Plan)

Laws Amended: Minnesota Statutes, sections [353E.03](#) and [356.415](#)

General Summary

SF4721 (Frentz)/HF4514 (Lillie) makes the following changes to current statutes:

- lowers the employee contributions from 6.83% to 6% of salary;
- lowers the employer contributions from 10.25% to 9% of salary; and
- increases the maximum postretirement adjustment for retirees under the Correctional Plan from 2.5% to 3%.

Background

The Correctional Plan is a defined benefit retirement plan that provides retirement, survivor, and disability benefits to public employees who are county correctional guards, joint jailers or dispatchers, supervisors, or medical center protection officers. [PERA's presentation to the Commission on February 24, 2026](#), provided the following information about the Correctional Plan:

Active members	4,059
Retirees and survivors	1,822
Disability retirements	252
Actuarial accrued liability	\$1,278 million
Market value of assets	\$1,344 million
Funded ratio (MVA)	105.2%
Funding/contribution sufficiency	4.8%
Projected full funding date	2025

Contributions to the Correctional Plan

Currently, the employee contribution rate to the Correctional Plan is 6.83% of salary. (See Minn. Stat. § 353E.03, subd. 1.) The employer contribution rate to the Correctional Plan is 10.25% of salary. (See Minn. Stat. § 353E.03, subd. 2.)

Postretirement Adjustments for Correctional Plan Members

Minnesota's public pension plans provide annual postretirement adjustments, often referred to as cost-of-living adjustments or COLAs, to retirees, which are intended to provide some protection from the decrease in the value of the pension due to inflation. The Correctional Plan currently uses a formula to determine the COLA. The formula is 100% of the Social Security COLA (sometimes referred to as the Consumer Price Index (CPI)), but not less than 1% or more than 2.5%. (See Minn. Stat. § 356.415, subd. 1g.) For 2026, the Social Security COLA is 2.8%. (See [Social Security Administration, Cost-of-Living Adjustment \(COLA\) Information for 2026](#).) Therefore, the current COLA for the Correctional Plan is 2.5%.

Section- by- Section Summary

Section 1: Reducing the employee contribution rate

Section 1 amends section 353E.03, subdivision 1, which sets out the percentage salary an employee must contribute to the Correctional Plan. Section 1 decreases the employee contribution rate from 6.83% to 6% of salary.

Section 1 is effective January 1, 2027.

Section 2: Reducing the employer contribution rate

Section 2 amends section 353E.03, subdivision 2, which sets out the percentage of an employee's salary that the employer must contribute to the Correctional Plan. Section 2 decreases the employer contribution rate from 10.25% to 9% of salary.

Section 2 is effective January 1, 2027.

Section 3: Increasing the COLA maximum

Section 3 amends section 356.415, subdivision 1g, which provides the COLA for the Correctional Plan. Section 3 increases the maximum COLA for the Correctional Plan. Under current law, the COLA for the Correctional Plan is 1% effective each January 1, unless the Social Security COLA is greater than 1%, in which case the COLA is 100% of the Social Security COLA, not to exceed 2.5%. Under the bill, the COLA maximum is increased from 2.5% to 3%. The remainder of the changes in section 3 are technical changes.

Section 3 is effective for postretirement adjustments beginning on or after January 1, 2027.

Considerations

Cost and impact to the Correctional Plan

The bill does not include any increase in contributions or new state aid. Therefore, the cost of this benefit increase will be absorbed by the plan. According to PERA, the Correctional Plan will remain fully funded, but the recommended changes will decrease the funded ratio from 105.2% to 102.2% and decrease the contribution sufficiency from 4.8% to 1.44%. (See [Letter regarding 2026 PERA Legislative Agenda – Correctional Plan \(February 12, 2026\)](#).)

Comparing contribution rates

Each of the public pension plans in Minnesota have different employee and employer contribution rates. The table below compares the current employee and employer contribution rates for the general employee, teacher, and public safety plans.

	MSRS General	PERA General	TRA	St. Paul Teachers	MSRS State Patrol	PERA Police and Fire	MSRS Correctional	PERA Correctional
Employee contribution rate	6%	6.5%	8%	8.75%	15.4%	11.8%	9.6%	6.83%
Employer contribution rate	6.25%	7.5%	9.81%	13.59%	30.1%	17.7%	18.85%	10.25%

Comparing COLAs

Similar to the PERA General Employees Retirement Plan, the Correctional Plan uses a formula that is linked to the Social Security COLA to determine the percentage of increase each year; therefore, the COLAs for the Correctional Plan may fluctuate from year to year. With a minimum COLA of 1% and a maximum COLA of 2.5%, the Correctional Plan could potentially have the highest COLA rate across Minnesota’s public pension plans. The table below compares the current COLA for the general employee, teacher, and public safety plans. As the table shows, while it is common for plans with a similar membership to have the same COLA, it is not always the case.

	MSRS General	PERA General	TRA	St. Paul Teachers	MSRS State Patrol	PERA Police and Fire	MSRS Correctional	PERA Correctional
COLA as of 1/1/2026	1.75%	1.75%	1.3%	1%	1.25%	3% *	1.5%	2.5%
*Note: PERA Police & Fire members who started benefits on or before January 1, 2025, received a 3% increase in 2026. The annual increase will be 1% in 2027 and future years.								

Impact on annuity amount for a Correctional Plan retiree starting to receive payments in March 2027

Under the bill, the increased COLA maximum will increase a Correctional Plan member’s annuity benefit. The chart below compares the annual benefit increases under the current minimum and maximum COLA and the maximum COLA under the bill. The minimum COLA remains the same under the bill. The chart assumes that a member covered by the Correctional Plan will retire and start to receive a hypothetical monthly annuity benefit of \$1,000 beginning March 1, 2027. While the chart illustrates the minimum and maximum COLA, the COLA is likely to fluctuate from year to year.

Period	Current COLA, if 1%	Monthly Benefit (1% COLA)	Current COLA, if 2.5%	Monthly Benefit (2.5% COLA)	New COLA, if 3%	Monthly Benefit (3% COLA)
March-December 2027	0%	\$1,000	0%	\$1,000	0%	\$1,000
January-December 2028	0.33%	\$1,003.33	0.83%	\$1,008.30	1%	\$1,010.00
January-December 2029	1%	\$1,013.37	2.5%	\$1,033.51	3%	\$1,040.30
January-December 2030	1%	\$1,023.50	2.5%	\$1,059.35	3%	\$1,071.51
January-December 2031	1%	\$1,033.74	2.5%	\$1,085.83	3%	\$1,103.66

Result of having a variable COLA

As previously noted, the variable COLA for the Correctional Plan is likely to fluctuate from year to year, because the COLA is linked to the COLA for Social Security benefits. To demonstrate this fluctuation and the impact on members, the chart below compares (1) the Correctional Plan COLA under the current formula; (2) the Social Security COLA; and (3) what the Correctional Plan COLA would have been had SF4721 (Frentz)/HF4514 (Lillie) applied since 2020.

Year	PERA Correctional COLA (current formula)	Social Security COLA (CPI-W)	PERA Correctional COLA (proposed formula)
2020	1.6%	1.6%	1.6%
2021	1.3%	1.3%	1.3%
2022	2.5%	5.9%	3%
2023	2.5%	8.7%	3%
2024	2.5%	3.2%	3%
2025	2.5%	2.5%	2.5%
2026	2.5%	2.8%	2.8%