



## **Delete-Everything Amendment S1122-DE1 to SF 1122 (Frentz); HF 139 (O'Driscoll): PERA Police & Fire Plan; MSRS State Patrol Plan; Increasing COLAs; Reducing waiting period for a PERA P&F Plan COLA**

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*Date: April 13, 2026*

### **Introduction**

**Affected Plans:** Public Employees Retirement Association, Public Employees Police and Fire Plan  
Minnesota State Retirement System, State Patrol Retirement Plan

**Laws Amended:** Minnesota Statutes, section 356.415, subdivisions 1c and 1e

### **General Summary**

This summary assumes that Amendment S1122-DE1 is adopted. Amendment S1122-DE1, a delete everything amendment, replaces everything in SF1122 (Frentz)/HF139 (O'Driscoll) because the sections of statute that the bill amended were revised in 2025. Therefore, the bill needed to be updated to revise the current statutes.

SF1122 (Frentz)/HF139 (O'Driscoll), as amended by S1122-DE1, makes the following changes to current statutes:

- The bill changes the method for calculating postretirement adjustments (COLAs) for retirees under the Public Employees Retirement Association (PERA) Police and Fire Retirement Plan (P&F Plan) from a fixed rate increase of 1% to a variable rate increase that is linked to the COLA for Social Security benefits, with a minimum of 1% and a maximum of 1.5%. The bill also decreases the waiting period to begin receiving a COLA by 12 months.
- The bill increases the COLA for retirees under the Minnesota State Retirement System (MSRS) State Patrol Retirement Plan (State Patrol Plan) from a fixed rate of 1.25% to a fixed rate of 1.5%.

### **Background**

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 protect a retiree's pension benefit from the decline in purchasing power due to inflation. During the 2025 legislative session, the COLA for the State Patrol Plan was increased from 1% to 1.25%, effective January 1, 2026. Additionally, members of the P&F Plan, who started benefits before January 1, 2025, received a one-time 3% COLA increase in

2026, but the annual increase will be 1% in 2027 and future years. Lastly, the 3-year period by which a retirees first COLA was delayed under the P&F Plan was reduced by 12 months.

The P&F Plan and the State Patrol Plan are referred to as “basic” plans, which means the members and employers do not pay into Social Security through a member’s covered employment. As a result, the member’s covered employment is not counted when determining any Social Security benefit to which the member may be entitled due to other employment. The members and employers of “coordinated plans,” such as the PERA General Plan or the MSRS General Plan, contribute to Social Security and the members earn credit toward a Social Security benefit.

According to a report prepared by Commission staff and delivered to the Commission in December 2020 on a study of COLAs, members of basic plans are more likely to be vulnerable to inflation, because the members do not participate in Social Security through the member’s covered employment. (See [Report on the LCPR Study of Postretirement Adjustments \(COLAs\)](#), [LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT, 33 \(Dec. 2020\)](#) (hereinafter referred to as “LCPR COLA Study”).) Coordinated members, on the other hand, receive a COLA on the member’s Social Security benefit, which is tied to an inflation measure (or index) known as the Consumer Price Index for Urban Wage Earners and Clerical Workers. According to the LCPR COLA Study, “basic members receive smaller increases over time than coordinated members because of the COLAs on their Social Security benefit.” ([LCPR COLA Study](#), page 35.)

How long a member expects to receive retirement benefits may impact how vulnerable a member’s benefit is to inflation. Minnesota’s public safety plans, including the P&F Plan and the State Patrol Plan, have a normal retirement age of 55, which is earlier than the normal retirement age for Minnesota’s general plans. For example, the PERA General Plan has a normal retirement age of 66 for most active members. A member of the P&F Plan or the State Patrol Plan may be more vulnerable to inflation than a member of the PERA General Plan and the MSRS General Plan because a member of the P&F Plan or the State Patrol Plan is expected to collect a benefit as many as 11 more years than a member of the PERA General Plan and the MSRS General Plan. Amendment S1122-DE1, as written, is likely to provide more inflation protection to the P&F Plan and the State Patrol Plan retirees and benefit recipients than what is provided under current law.

## Section- by- Section Summary

### Section 1: Increasing the COLA and decreasing the waiting period for the P&F Plan

**Section 1** amends section 356.415, subdivision 1c, which provides the COLA for the P&F Plan. Section 1 makes two changes:

The first change is to replace the 1% fixed COLA with a new method for determining the COLA for the P&F Plan. Under current law, retirees of the P&F Plan are eligible for an annual 1% fixed COLA after a waiting period. Under the bill, the COLA for the P&F Plan is 1% unless the Social Security COLA is greater than 2%, in which case the COLA is 50% of the Social Security COLA, not to exceed 1.5%.

The second change reduces the COLA waiting period. Under current law, a retiree is first eligible for a partial COLA on January 1 if the retiree had been receiving at least 13 months of annuity payments as of the preceding June 30. A retiree is eligible for the full COLA on January 1 if after the retiree had been receiving at least 24 months of annuity payments as of the preceding June 30. The partial COLA is 1/12 of 1% for each month the member was receiving an annuity payment during the year the benefit was effective, as of June 30.

For example, under current law, if a P&F Plan member retires in February 2027 and begins receiving annuity payments on March 1, 2027, the member will be eligible for a partial COLA effective January 1, 2029. The partial COLA will be 4/12ths of the full COLA or 33%, because the member received 4 monthly payments as of June 30, 2027. The member will be eligible for the full, 1% COLA effective January 1, 2030, and every January 1 thereafter. Individuals receiving disability or survivor benefits are also eligible for a COLA, subject to the same waiting period.

Under the bill, the waiting period for a retiree or benefit recipient to receive a full COLA is reduced from 24 months to 12 months as of the June 30 preceding the January 1 COLA effective date. In addition, the waiting period for a partial COLA is reduced from 13 months to 1 month as of the preceding June 30. The partial COLA is determined by the following formula:

*Partial COLA = COLA \* (the number of payments received in the preceding calendar year, as of June 30 divided by 12).*

Under the new shorter waiting period, if a P&F Plan member retires and begins to receive annuity payments on March 1, 2027, the member will be eligible for a partial COLA effective January 1, 2028. Since the member received payments for 4 months, as of June 30, 2027, the member will be eligible for one third (1/3) of the COLA amount for that year. The member will be eligible for the full COLA effective January 1, 2029, and every January 1 thereafter.

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

## Section 2: Increasing the COLA for the State Patrol Plan

**Section 2** amends section 356.415, subdivision 1e, which provides the COLA for the State Patrol Plan. Under current law, retirees of the State Patrol Plan are eligible for an annual 1.25% fixed COLA. Section 2 increases the COLA from 1.25% to 1.5%, beginning January 1, 2027.

Section 2 is effective for postretirement adjustments beginning on or after January 1, 2027.

## Considerations

### Cost

According to PERA, the estimated annualized cost to increase the COLA to the P&F Plan is \$35 million per year if paid until 2048 or \$42 million per year for a 15-year period. The estimated annualized cost to remove the 2-year COLA delay is \$7 million per year if paid until 2048 or \$8 million per year for a 15-year period.

According to MSRS, the estimated annualized cost to increase the COLA to the State Patrol Plan is \$4.6 million per year for a 15-year period.

The bill does not include an increase in contributions or state aid so the cost of the COLA changes will be absorbed by the plans.

## Comparing COLAs

The COLAs for the P&F Plan and the State Patrol Plan are among the lowest COLA rates across Minnesota's public pension plans. The other pension plan that currently pays a COLA of 1% is the St. Paul Teachers' Retirement Fund Association. The PERA General Plan and the PERA Correctional Plan each use a formula that is linked to the Social Security COLA to determine the COLA; therefore, the COLAs for those plans may fluctuate from year to year. There are no public pension plans with a COLA less than 1%. 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<br>General | PERA<br>General | TRA  | St. Paul<br>Teachers | MSRS<br>State<br>Patrol | PERA<br>Police<br>and Fire | MSRS<br>Correc-<br>tional | PERA<br>Correc-<br>tional |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|------|----------------------|-------------------------|----------------------------|---------------------------|---------------------------|
| <b>COLA as of<br/>1/1/2026</b>                                                                                                                                                          | 1.75%           | 1.75%           | 1.3% | 1%                   | 1.25%                   | 1% *                       | 1.5%                      | 2.5%                      |
| *Note: PERA Police & Fire members whose pension started on or before January 1, 2025, received a one-time 3% increase in 2026. The annual increase will be 1% in 2027 and future years. |                 |                 |      |                      |                         |                            |                           |                           |

## Impact on annuity amount for a P&F Plan retiree starting to receive payments on March 1, 2027

The increased COLA and the decreased waiting period, under the bill, will increase a P&F Plan member's annuity benefit. The chart below compares the annual benefit increases under the current COLA and the minimum and maximum COLA under the bill. The chart reflects the reduced waiting period and assumes that a member covered by the P&F Plan will retire and start to receive a hypothetical monthly annuity benefit of \$1,000 on March 1, 2027. While the chart illustrates the minimum and maximum COLA under the bill, the COLA is likely to fluctuate from year to year.

| Period                | Current<br>COLA | Monthly<br>Benefit<br>(Current COLA) | New<br>COLA,<br>if 1% | Monthly<br>Benefit<br>(1% COLA) | New<br>COLA,<br>if 1.5% | Monthly<br>Benefit<br>(1.5% COLA) |
|-----------------------|-----------------|--------------------------------------|-----------------------|---------------------------------|-------------------------|-----------------------------------|
| March-December 2027   | 0%              | \$1,000                              | 0%                    | \$1,000                         | 0%                      | \$1,000                           |
| January-December 2028 | 0%              | \$1,000                              | 0.33%                 | \$1,003.33                      | 0.5%                    | \$1,005.00                        |
| January-December 2029 | 0.33%           | \$1,003.33                           | 1%                    | \$1,013.37                      | 1.5%                    | \$1,020.08                        |
| January-December 2030 | 1%              | \$1,013.37                           | 1%                    | \$1,023.50                      | 1.5%                    | \$1,035.38                        |

**Impact on annuity amount for a State Patrol Plan retiree starting to receive payments on March 1, 2027**

The increased COLA under the bill will increase a State Patrol Plan member's annuity benefit. The chart below compares the annual benefit increases under the current COLA and the COLA under the bill. The chart assumes that a member covered by the State Patrol Plan will retire and start to receive a hypothetical monthly annuity benefit of \$1,000 on March 1, 2027.

| <b>Period</b>         | <b>Current COLA<br/>at 1.25%</b> | <b>Monthly Benefit<br/>(Current COLA)</b> | <b>New COLA,<br/>at 1.5%</b> | <b>Monthly Benefit<br/>(1.5% COLA)</b> |
|-----------------------|----------------------------------|-------------------------------------------|------------------------------|----------------------------------------|
| March-December 2027   | 0%                               | \$1,000                                   | 0%                           | \$1,000                                |
| January-December 2028 | 0.42%                            | \$1,004.20                                | 0.5%                         | \$1,005.00                             |
| January-December 2029 | 1.25%                            | \$1,016.75                                | 1.5%                         | \$1,020.08                             |