Delete-Everything Amendment S3541.H4016-DE1: Pensions and Retirement Omnibus Benefits and Funding Bill

Prepared by: Susan Lenczewski, Executive Director *Date: April 3, 2022 (page 1 only of Summary dated April 2, 2022, revised)*

Introduction

Affected Plans: All statewide pension plans
St. Paul Teachers Retirement Fund Association (St. Paul Teachers)
MSRS Unclassified Plan
Minnesota State Higher Education Individual Retirement Account Plan (IRAP)

Plans Receiving Funding: MSRS General, Correctional, and State Patrol Plans
PERA Police and Fire Plan (P&F Plan)
Teachers Retirement Association (TRA)
St. Paul Teachers

Laws Amended: Sections in Chapters 126C, 352, 352B, 353, 354, 354A, and 354B

New Laws Added: Section 353.6513: "Reemployment of Retiree"
Sections 352.043, 352.922, 352B.025, 354.434: "Direct State Aid"

Brief Description: This Delete Everything amendment replaces SF 3541 (Rosen)/HF 4016 (Nelson) in its entirety and makes the following changes to current law and adds funding:

- reduces the employee contribution rates for the MSRS plans, the PERA Police and Fire Plan (P&F Plan), and the teacher plans (TRA and St. Paul Teachers);
- reduces the actuarial assumption for investment rate of return from 7.5% to 7% for all plans;
- increases the COLA (post-retirement adjustment) for retirees in the MSRS State Patrol Plan, the P&F Plan, and the teacher plans, and eliminates a two-year delay on a retiree's first COLA under the P&F Plan;
- for the P&F Plan, shortens the vesting schedule for active members and permits retirees to return to employment without having their pension affected by the earnings limitation that would otherwise apply; and
- funds many of the above changes with direct state aids, a pension revenue adjustment, and appropriations.

Attachment: "2022 Omnibus Pensions Finance Bill," dated April 1, 2022, prepared by Andrew Erickson, Fiscal Analyst, Senate Counsel, Research, and Fiscal Analysis

Summary

Article 1 – Employee Contribution Rate Decrease

Article 1 consists of 8 sections that amend applicable law to reduce employee contribution rates for each of the plans, as set forth in the following table, beginning July 1, 2022:

Employee Contribution Rates

Bill Section	Plan	% of Pay (under current law)	% of Pay (under the bill)
1	MSRS General Plan	6	5.75
2	MSRS Correctional Plan	9.6	7.5
3	MSRS State Patrol Plan	15.4	10.5
5	PERA Police and Fire Plan	11.8	9.4
6	TRA	7.5*	7.25
7	St. Paul Teachers	7.5*	7.25

** Current law would increase the employee contribution rate for TRA and St. Paul Teachers to 7.75% of pay on July 1, 2023. Under the bill, this increase will not occur.*

Impact on the MSRS Unclassified Plan. The employee contribution rate for the MSRS Unclassified Plan will also change because, under Section 352D, subdivision 2, the rate is tied to the rate for the MSRS General Plan, so when that rate changes, the rate for the Unclassified Plan changes too.

Cost-sharing ratio change for the P&F Plan. Section 4 amends a policy statement regarding the P&F Plan that has been in the law since 1959. Section 353.63 describes the reason for providing more generous benefits to police and fire employees and requires that the cost of the plan be shared 40-60, where 40% of the cost is covered by employee contributions and 60% by employer contributions. When employee contributions are reduced under the bill, the ratio of employee contributions to employer contributions will become 35 to 65 (9.6% of pay to 17.7% of pay), with 35% covered by employee contributions and 65% by employer contributions. Accordingly, the 40-60 required ratio is amended to require "no greater than 40% employee contributions" and "no less than 60% employer contributions."

Conforming change to the Minnesota State IRAP. Section 8 of Article 1 changes the employee contribution rate that is being phased in for Minnesota State's IRAP so that, instead of increasing to 7.75% of pay on July 1, 2023, it will increase to 7.25%.

No change to PERA General and Correctional Plans. The employee contribution rate for the PERA General Plan, at 6.5% of pay, and for the PERA Correctional Plan, at 5.83% of pay, are not changed in the bill.

Article 2 – Postretirement Adjustments (COLAs)

Article 2 increases the COLA from 1% to 1.5% for St. Paul Teachers, the P&F Plan, TRA, and the MSRS State Patrol Plan, beginning January 1, 2023.

Two-year deferral of first COLA eliminated in the P&F Plan. Section 2 of Article 2 also amends current law applicable to the P&F Plan to reduce the 36-month period before a retiree's first COLA to a 12-month period, making the P&F Plan consistent with the other public pension plans with regard to a retiree's first COLA.

No change to the COLA for other MSRS and PERA plans. Article 2 makes no change to the COLA for the MSRS plans, other than the State Patrol Plan. The COLA for retirees under the MSRS plans is currently 1%. Article 2 makes no change for the PERA General Plan and Local Correctional Plan, which are tied to CPI. The COLA for retirees under the PERA General Plan is 50% of the CPI, capped at 1.5%, and the COLA for the PERA Correctional Plan is 100% of the CPI, capped at 2.5%. (The CPI is as announced by the Social Security Administration in the last quarter of each year.)

Article 3 – Other PERA Police and Fire Plan Provisions

Article 3 amends current law applicable to the P&F Plan as follows:

- Vesting. Section 1 amends the vesting provisions applicable to P&F Plan members. Under the bill, a member will become 100% vested after ten years of service. Under current law, a member does not become 100% vested until after 20 years of service. Under current law, a member vests incrementally beginning at 50% vested after ten years of service and increasing by 5% each year thereafter, until the member reaches 100% vested after 20 years of service.

P&F Plan Vesting

Years of service completed	Vesting % under current law	Vesting % under the bill
0-9	0	0
10	50	100
11	55	
12	60	
13	65	
14	70	
15	75	
16	80	
17	85	
18	90	
19	95	
20	100	

- Reemployment of retirees. Section 2 adds a new statute to Chapter 353 that will be in effect until December 31, 2032. Under new section 353.6513, retirees receiving a pension from the P&F Plan will be able to return to employment without any reduction or suspension of their pension payments. The provision applies only to retirees who return to employment after the new law's effective date and only if they return with the approval of the police or fire chief.

Article 4 – Investment Rate of Return Actuarial Assumption

Article 4 reduces the actuarial assumption for investment rate of return from 7.5% to 7% for all the pension plans, effective June 30, 2022. For an explanation of this assumption and its significance, see the presentation by Van Iwaarden Associates, the Commission's actuary, to the Commission at its meeting on January 26, 2022: Investment Return Assumption Considerations.

Article 5 – Direct Aids to Pension Plans

Article 5 adds new state aids or increases the amount of current state aids, paid annually by the state directly to certain pension plans. These new or increased state aids begin October 1, 2022, and continue until the earlier of the first day of the year after the year in which the plan's funded status reaches 100% (using the actuarial value of assets, not market value) or July 1, 2048.

Article 5 consists of seven sections that add new law or amend applicable law requiring annual direct state aid payments by the state to each of the following pension plans, in the corresponding amounts:

Direct State Aids

Bill Section	Plan	Aid Amount
1	MSRS General Plan	$8 million
2	MSRS Correctional Plan	$6 million
3	MSRS State Patrol Plan	$16 million
4	PERA Police and Fire Plan	$100 million*
5	TRA	$7 million
6	St. Paul Teachers	$12 million**

* *Section 353.65 is amended to increase the state aid paid to the P&F Plan under this section by $91 million, from $9 million to $100 million.*

** *Section 354A.12 is amended to add a new state aid amount to the current state aids paid to the St. Paul Teachers Retirement Fund Association under this section. The new state aid is $12 million, which, when added to the $14,827,000 currently required by section 354A.12, results in a total of $26,827,000 in annual state aid.*

Article 6 – Teacher Plan Employer Contribution Increases and Funding

Article 6 consists of 4 sections, as follows:

- Increase in the pension adjustment revenue. Section 1 amends Section 126C.10, subdivision 37, to increase the "pension adjustment revenue" to all school districts by the same percentage of pay as the employer contribution increases in sections 2 and 3 for TRA and St. Paul Teachers Retirement Fund Association, respectively. Pension adjustment revenue is calculated as a percentage of salaries paid to employees of the school districts. The increases in the pension adjustment revenue are intended to provide state funding to school districts to fund the increases in the employer contribution rates required under the bill. This is the same approach used to fund increases in employer contributions for TRA and St. Paul Teachers under the 2018 pension bill.

- Increases in the employer contribution rates. Sections 2 and 3 amend current law to increase the employer contribution rates for TRA and St. Paul Teachers, respectively, as shown in the following tables. School districts and other employers with employees in TRA make employer contributions each payroll period that are calculated as a percentage of pay.

Employer Contribution Rates (% of pay)

TRA	**Coordinated Members**	**Basic Members**
Current rate	8.34	12.34
Effective July 1, 2022	8.8 (increased from 8.55 in current law)	12.8 (increased from 12.55 in current law)
Effective July 1, 2023	9.25 (increased from 8.75 in current law)	13.25 (increased from 12.75 in current law)

St. Paul Teachers	**Coordinated Members**	**Basic Members**
Current rate	8.59	12.09
Effective July 1, 2022	9.05 (increased from 8.8 in current law)	12.76 (increased from 12.3 in current law)
Effective July 1, 2023	9.5 (increased from 9 in current law)	13.21 (increased from 12.5 in current law)

- Appropriation. Section 4 appropriates $12,774,000 to the Department of Education from the general fund, which appears to fund the increase in the pension adjustment revenue under Section 1 of this article. Senate fiscal staff may be able to provide an explanation of the relationship between this appropriation and pension adjustment revenue.

Article 7 – Appropriation to the LCC for the Legislative Commission on Pensions and Retirement

Article 7 appropriates $30,000 to the Legislative Coordinating Commission (LCC) for the Legislative Commission on Pensions and Retirement (the Commission).

The Commission's current budget for the fiscal year ending June 30, 2022, is $594,000, which funds the following annual costs:

- $439,971 for salary and benefits for three full-time staff members; and
- Approximately $120,000 for the actuarial services agreement with Van Iwaarden Associates, the Commission's actuary.

The remaining $34,000 funds the purchase or repair of office equipment, supplies, computer and technical services, employee training and education, and on-line and print research publications.

The Commission's budget for the prior fiscal year, ending June 30, 2021, was $597,257.

The appropriation of $30,000 will cover additional costs arising from:

- Scheduled increases in salary and benefits;
- Actuarial services not covered by the fixed fee projects in the actuarial services agreement;
- Other professional services, within clear parameters and in consultation with the chair.

Staff occasionally needs to consult with the Commission's actuary on matters not covered by the annual fixed fee for projects specified in the actuarial services agreement. Such matters include actuarial cost assessments of pension bills to be heard by the Commission and presentations and analysis of topics considered by the Commission, such as this session's proposals to reduce the actuarial assumption for investment rate of return. The appropriation would provide flexibility to pay for additional analysis and advice from the Commission's actuary when the need arises.

In addition, staff provides legal analysis to legislators and legislative staff on topics such as the federal requirements applicable to pension plans for public employees. The appropriation would provide flexibility to staff to consult, within clear parameters and in consultation with the chair, with outside legal counsel with specialized public pension expertise.

Legislative Commission on Pensions and Retirement

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