

Summary of S.F. 3541 (Rosen), 1st Engrossment, Pension Benefits and Funding Bill

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Introduction

- Affected Plans:** All statewide pension plans
St. Paul Teachers Retirement Fund Association (St. Paul Teachers)
Minnesota State Retirement System (MSRS) Unclassified Plan
Minnesota State Higher Education Individual Retirement Account Plan (IRAP)
- Plans Receiving Funding:** MSRS General, Correctional, and State Patrol Plans
Public Employees Retirement Association (PERA) General and Police & Fire Plans
Teachers Retirement Association (TRA)
St. Paul Teachers
- Laws Amended:** Sections in Chapters 126C, 352, 352B, 353, 354, 354A, 354B, and 356
- New Laws Added:** Section 353.6513: "Reemployment of Retiree"
Sections 352.043, 352.922, 352B.025, 353.275, 354.434: "Direct State Aid"
- Brief Description:** SF 3541 (Rosen)/HF 4016 (Nelson), First Engrossment, makes the following changes to current law and adds funding:
- reduces the employee contribution rates for the MSRS plans, PERA General Plan, PERA Police and Fire Plan (P&F Plan), TRA, St. Paul Teachers, and Minnesota State IRAP;
 - 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 General, Legislators, Unclassified, and State Patrol Plans, the P&F Plan, TRA, and St. Paul Teachers;
 - 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 an appropriation.
- Attachment:** "[Pensions Appropriations](#)," SF 3541, 1st Engrossment, dated May 17, 2022, prepared by Andrew Erickson, Fiscal Analyst, Senate Counsel, Research, and Fiscal Analysis

Summary

Article 1 – Employee Contribution Rate Decrease

Article 1 consists of 9 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
4	PERA General Plan	6.5	6.25
6	PERA Police and Fire Plan	11.8	9.4
7	TRA	7.5*	7.25
8	St. Paul Teachers	7.5*	7.25
9	MN State IRAP	6.45**	7.25

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

** Under current law, employees who achieved tenure before July 1, 2018, contribute at a rate of 6.45%, which is scheduled to increase to eventually match TRA's employee contribution rate. With TRA's rate decreasing to 7.25% of pay under the bill, the rate for the IRAP would not increase to 7.75% on July 1, 2023, as required under current law, and instead would increase to 7.25% on July 1, 2023. Employees who achieved tenure on or after July 1, 2018, contribute at the TRA rate and would see their contribution rate decrease to 7.25% beginning July 1, 2022.

Impact on the MSRS Unclassified Plan. The employee contribution rate for the MSRS Unclassified Plan would 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.

No change to MSRS Judges and Legislator Plans and PERA Correctional Plan. The employee contribution rates for the Judges Plan, at 9% of pay for Tier I Judges and 7% of pay for Tier II Judges, for the Legislators Plan, at 9% 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 General Plan, Legislators Plan, State Patrol Plan, and Unclassified Plan, beginning January 1, 2023.

No change to the COLA for MSRS Correctional and Judges Plans and PERA General and Correctional Plans. Article 2 makes no change to the COLA for retirees in the MSRS Correctional Plan and the Judges Plan. Under current law, the COLA for these plans is already at 1.5%.

COLAs for retirees in the PERA General Plan and PERA Local Correctional Plan are not at a fixed percentage set by statute. Rather, COLAs for retirees in these plans are tied to the cost of living adjustment announced each year by the Social Security Administration. The COLA under the PERA General Plan is 50% of the SSA COLA, capped at 1.5%, and the COLA under the PERA Correctional Plan is 100% of the SSA COLA, capped at 2.5%. (The COLA is announced by the SSA in the last quarter of each calendar year.)

Article 3 – Police and Fire Plan Employer Contribution Rate

Under current law, for the P&F Plan, the employee contribution rate is 11.8% of pay and the employer contribution rate is 17.7% of pay, a ratio of 40 to 60. This ratio of employee to employer contributions is required by Minnesota Statutes, Section 353.63. 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 the employee contribution rate is decreased, as provided in Article 1, Section 5, of the bill, the ratio is no longer 40-60, unless the employer contribution rate is also decreased. Therefore, Article 3, Section 1, amends Section 353.65, subdivision 3, to decrease the employer contribution rate by 3.6%, resulting in an employer contribution rate of 14.1% of pay, beginning July 1, 2022. This maintains the 40-60 ratio, but at significant cost to the P&F Plan. To offset this cost, a new “supplemental employer contribution” is added as new paragraph (d) of subdivision 3. This supplemental employer contribution is 3.6% of pay, effective July 1, 2022, and expires on the earlier of July 1, 2048, or December 31 following two consecutive annual actuarial valuations indicating that the plan’s funded status equals or exceeds 100% (based on the actuarial value of assets, not market value).

“Supplemental employer contributions” are used by the MSRS State Patrol and Correctional Plans to maintain a 40-60 ratio of employee to employer contributions. The supplemental employer contributions in those plans expire upon attainment of specified funding thresholds. See Minnesota Statutes, Section 352B.02, for the State Patrol Plan and Section 352.92, for the MSRS Correctional Plan.

Article 4 – Other PERA Police and Fire Plan Provisions

Article 4 amends current law applicable to the P&F Plan as follows:

Vesting. Section 1 amends the vesting provisions applicable to P&F Plan members who were first hired after June 30, 2014. 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 (July 1, 2022) and only if they return with the approval of the police or fire chief.

Article 5 – Investment Rate of Return Actuarial Assumption

Section 1 of Article 5 reduces the actuarial assumption for investment rate of return from 7.5% to 7% for all the pension plans, effective June 30, 2022, except for pension plans for volunteer firefighters administered by volunteer firefighter relief associations or the PERA Statewide Volunteer Firefighter Retirement Plan. 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](#).

Section 2 of Article 5 amends Section 356.59 to change the rate of interest charged by the pension plans to match the investment rate of return assumption changed in Section 1 of Article 5. The public pension plans charge interest on a variety of payments, including payments of missed employee and employer contributions for periods of leave such as to perform military service, late payments of employer contributions, and repayment of refunds previously received by a public employee after leaving public employment upon return to public employment.

Article 6 – Direct Aids to Pension Plans

Article 6 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 July 1, 2048, or December 31 following two consecutive annual actuarial valuations indicating that the plan’s funded status equals or exceeds 100% (using the actuarial value of assets, not market value).

The pension plans receiving direct state aid and the amount of aid each plan is to receive, by section of Article 6, are as follows:

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	\$14.5 million
4	PERA General Plan	\$17 million
5	PERA Police and Fire Plan	\$84 million*
6	TRA	\$7 million
7	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 \$75 million, from \$9 million to \$84 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 7 – Teacher Plan Employer Contribution Increases and Funding

Article 7 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 <i>(increased from 8.55 in current law)</i>	12.8 <i>(increased from 12.55 in current law)</i>
Effective July 1, 2023	9.25 <i>(increased from 8.75 in current law)</i>	13.25 <i>(increased from 12.75 in current law)</i>

St. Paul Teachers	Coordinated Members	Basic Members
Current rate	8.59	12.09
Effective July 1, 2022	9.05 <i>(increased from 8.8 in current law)</i>	12.55 <i>(increased from 12.3 in current law)</i>
Effective July 1, 2023	9.5 <i>(increased from 9 in current law)</i>	13 <i>(increased from 12.5 in current law)</i>

Appropriation. Section 4 appropriates \$12,774,000 to the Department of Education from the general fund, which funds the increase in the pension adjustment revenue under Section 1 of this article.

Article 8 – Appropriation to the LCC for the Legislative Commission on Pensions and Retirement

Article 8 appropriates \$30,000 to the Legislative Coordinating Commission (LCC) for the Legislative Commission on Pensions and Retirement.

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, as the need arises, in consultation with the chair.

Pension Commission 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.