



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Rachel Barth, Deputy Director
RE: LCPR16-015: MSRS-General; Service Credit Purchase and Rule of 90 Eligibility for Certain MnDOT employees
DATE: February 19, 2016

Summary of LCPR16-015

LCPR16-015 permits certain members of the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) employed by the Minnesota Department of Transportation (MnDOT) to purchase service credit at the employee and employer contribution rates, plus interest, that would have been paid from June 1, 1989, to the individual's actual MSRS-General membership date. If a member chooses to purchase service credit, he or she will have a membership start date of June 1, 1989, and gain eligibility for Rule of 90 early normal retirement age.

Background Information

Twenty-two current MnDOT employees with membership in MSRS-General were informed from 2005 to 2015 by MSRS that they were eligible to retire under the Rule of 90 early normal retirement age provision. The Rule of 90 allows eligible members to retire when the sum of their age and years of service equals 90, providing for an early normal retirement with full benefits. Only individuals with membership start dates before July 1, 1989, are eligible. All 22 individuals were employed by MnDOT in seasonal or temporary jobs before July 1, 1989, but because they were not permanent employees, were not eligible for MSRS-General coverage and therefore did not make contributions to the plan. Eventually, all 22 individuals were hired into permanent positions within MnDOT between August 30, 1989, and September 27, 1989, and became contributing MSRS-General members. However, MSRS informed the 22 individuals that they were eligible for the Rule of 90, presumably using the individuals' seasonal/temporary employment start dates rather than their permanent employment start dates. The individuals presumably relied on the information MSRS provided and believed that they were eligible for the Rule of 90, possibly planning their retirement accordingly. MSRS recently discovered the error and is now asking for special legislation to provide the individuals an option to purchase service credit to gain a membership start date of June 1, 1989, and Rule of 90 eligibility.

Policy Considerations

LCPR16-015 raises the following pension and public policy issues:

1. **Cost and Equity.** The proposed legislation will only require the group of individuals to pay the employer and employee contributions, plus interest, which would have been paid had they been contributing MSRS-General members from June 1, 1989, to their actual membership start date. The individuals will only have to pay between two to three months of employer and employee

contributions, which will cost below \$5,000, depending on the individual's age and how close they are to retirement. MSRS-General will assume a majority of the liability because the individuals are not required to pay the full actuarial value of the enhanced retirement benefit. MSRS estimates that the present value cost to the general fund for allowing the individuals to purchase the service credit and obtain Rule of 90 eligibility is between \$230,000 and \$325,000. The true cost will depend on how many of the individuals choose to purchase the service credit.

The cost to the MSRS-General is not a small amount, especially during a time when the plan is facing some funding deficiencies. If the individuals were required to purchase the service at the full actuarial value, there would be no financial impact on MSRS-General. The period of service was also never intended to be eligible for MSRS coverage and providing such coverage would be adverse to the law. However, as discussed, MSRS mistakenly informed the group of individuals that they were eligible to retire under the Rule of 90. The individuals are not seeking to purchase service credit because they feel their uncovered service should have been covered. An error was made and the individuals were under the impression for at least ten years that they had the ability to retire at a younger age without early retirement penalties. A majority of these individuals are in their mid to late 50's and likely could have relied on the misinformation and planned to retire soon under the Rule of 90. Providing some form of remedy would correct an error and allow the individuals to maintain any retirement plans they may have made based on the misinformation.

2. Precedent. Permitting these individuals to purchase service credit for uncovered employment to qualify for the Rule of 90 due to an MSRS error would not set a new precedent. Although there is a precedent of disallowing Rule of 90 eligibility if an individual purchases service credit for uncovered employment before July 1, 1989, those cases did not involve a retirement system error. During the 2013 legislative session, the Legislative Commission on Pensions and Retirement approved a bill that allowed an individual to purchase service credit for Rule of 90 eligibility under similar circumstances. The individual was an MSRS-General member and had received several statements over the years from MSRS stating that he was eligible for Rule of 90. MSRS discovered that the individual's membership start date was for temporary employment and that he was therefore not eligible for coverage and would not be eligible for Rule of 90. Under the enacted legislation, the individual was only required to pay the employee and employer contributions that would have been paid rather than the full actuarial value. The proposed legislation attempts to provide the same remedy to a similarly situated group of individuals and would therefore not create a new precedent.

Attachment

- Bill Draft LCPR16-015