STATEWIDE GENERAL EMPLOYEE PENSION PLANS

Benefit Analysis and Possible Cost Savings Changes

February 6, 2017

I.	**MSRS GENERAL** (352.72, subd. 2 and 352F.04)	**PERA GENERAL** (353.71, subd. 2 and 353F.04)	**TRA** (354.55, subd. 11)
Automatic Pension Increases: Former Employees ("Augmentation"*)	**2%** compounded annually**	**0%****	**2%** compounded annually**
	For former employees who left public employment due to privatization (e.g., U of M Hospitals spin-off of Fairview): **5.5% until age 55, then 7.5%**	For former employees who left public employment due to privatization (e.g., U of M Hospitals spin-off of Fairview): **4% until age 55, then 6% thereafter** (for privatizations after 2010) **5.5% until age 55, then 7.5%**	
Possible Cost Saving Changes	• Eliminate augmentation prospectively for all former and current employees. **This would align MSRS and TRA with PERA and with all other state public plans except one (SD) and with all private sector defined benefit plans.** • Reduce augmentation for former employees who left public employment due to privatization to be equivalent to the rate for all other former employees.		

* *Augmentation example:*

Employee leaves after 10 years of public employment, having earned a pension benefit of $200 per month, payable monthly after the employee turns age 66.

Beginning about one year after leaving public employment, effective each January 1, the pension amount is increased at a rate of 2%, compounded annually.

The pension continues to grow even though the employee no longer works in the public sector and may have many years to go before retirement.

Annual growth of a $200 per month pension, for the first several years after leaving public employment: $204, $208.08, $212.24, $216.49, $220.82, $225.23; pension will double after 35 years to $400 per month.

** *Augmentation rate was higher prior to January 1, 2012.*

Statewide General Employee Pension Plans - Benefit Analysis and Possible Cost Saving Changes

<table>
<tr><th>II.</th><th>MSRS GENERAL (352.115, subd. 3)</th><th>PERA GENERAL (353.29, subd. 3(b))</th><th>TRA (354.44, subd. 6)</th></tr>
<tr><td>Benefit Formula</td><td>Service X Average High 5 Salary X 1.7%
Service = all years of service
Salary = average over 5 consecutive years of highest salary
Factor = 1.7%*</td><td>Service X Average High 5 Salary X 1.7%
Service = all years of service
Salary = average over 5 consecutive years of highest salary
Factor = 1.7%*</td><td>Service X Average High 5 Salary X 1.9%
Service = all years of service
Salary = average over 5 consecutive years of highest salary
Factor = 1.9% for years after 6/30/06
1.7% for years before 7/1/06*</td></tr>
<tr><td rowspan="2">Possible Cost Saving Changes</td><td colspan="3">• Cap service at 30 years (or another number)
• Cap annual salary at $100,000 (or another dollar amount)
• Change high 5 salary to high 10 salary
• Cap the monthly pension amount to a percentage of the member’s monthly pay in last month of employment or a specified amount (e.g., $5,000)
• If a member is still employed after cap is reached, ongoing future employee contributions would be contributed to the MSRS Unclassified Plan, similar to the Judges Plan, or refunded at the time of retirement, similar to the State Patrol Plan</td></tr>
<tr><td colspan="2"></td><td>• To align with MSRS and PERA:
– Lower the accrual rate for future service from 1.9% to 1.7%
– Lower the accrual rate for new hires from 1.9% to 1.7% (consider lowering the employee contribution rate to compensate for smaller benefit)</td></tr>
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* *Members who joined the plan before July 1, 1989 have a different formula multiplier.*

Statewide General Employee Pension Plans - Benefit Analysis and Possible Cost Saving Changes

III.	**MSRS GENERAL** (352.01, subd. 25)	**PERA GENERAL** (353.01, subd. 37)	**TRA** (354.05, subd. 38)
Normal Retirement Age**	**Age 66**	**Age 66**	**Age 66**
Possible Cost Saving Changes	Raise to age **67** for new hires • to reflect increased longevity • to match Social Security normal retirement age		

*** Members who joined the plan before July 1, 1989, receive full retirement benefits at age 65.*

IV.	**MSRS GENERAL** (352.115, subd. 1)	**PERA GENERAL** (353.30, subd. 5)	**TRA** (354.44, subd. 1)
Early Retirement Age*	**Age 55**	**Age 55**	**Age 55**
Possible Cost Saving Changes	• Raise to age **56** for new hires or to age **57** if Normal Retirement Age is increased to 67 (see III., above) – to reflect increased longevity and actual experience – to align early retirement age increases with normal retirement age increases, which went from 65 to 66 in 1989 and, under proposal at III., would go to 67. • Raise to age **62** to match Social Security early retirement age.		

** Members who joined the plan before July 1, 1989 can retire early under the Rule of 90.*

V.	**MSRS GENERAL** (356.415, subd. 1a)	**PERA GENERAL** (356.415, subd. 1b)	**TRA** (356.415, subd. 1d)
Automatic Pension Increases: Retirees **("Post Retirement Adjustments" or "COLAS")**	**2.0%** compounded annually**	**1.0%** compounded annually**	**2.0%** compounded annually**
Possible Cost Saving Changes	• For MSRS and TRA: Lower post-retirement adjustment to 1% to align with PERA. • Make the percentage of each annual adjustment equal to inflation (CPI-U) (or some percentage of inflation, e.g., 50%) and add a cap. • Require new retirees to be retired for a certain number of years before receiving an adjustment. • Eliminate post retirement adjustments for early retirees; begin annual adjustments when the retiree reaches normal retirement age. • Put a dollar cap on the total additional amount a retiree can receive each year as a post retirement adjustment. • Apply an overall dollar cap on the monthly amount a retiree can receive and when the monthly amount reaches the cap due to annual adjustments, the retiree's pension will be frozen at that amount and will not receive any future post retirement adjustments.		

*** Percentage will increase when specified funding ratios are met ("triggers"). All retirement annuity, disability benefit, and survivor benefit recipients are entitled to the adjustment.*

VI.	MSRS GENERAL (352.116, subd. 1a)	PERA GENERAL (353.30, subd. 5)	TRA (354.44, subd. 6)
Early Retirement Benefit	The pension amount (using formula in II., above) is calculated and then reduced using an actuarial factor based on mortality *and* on investment return assumptions *and* either a 3.0% or 2.5% augmentation rate*, depending on membership date, resulting in an annuity that is intended to be actuarially equivalent to a deferred annuity with augmentation.		<u>Early Retirements before July 1, 2015:</u> The pension amount (using formula in II., above) is calculated and then reduced using an actuarial factor based on mortality *and* investment return assumptions *and* either a 3.0% or 2.5% augmentation rate*, depending on membership date, resulting in an annuity that is intended to be actuarially equivalent to a deferred annuity with augmentation. <u>Early Retirements after June 30, 2015, and before July 1, 2020:</u> The annuity is reduced by a blended reduction increased monthly by 1/60 of the difference between reductions under the old and new factors. <u>Early retirements **after June 30, 2020**</u>: Actuarial equivalence replaced with flat percentage reductions that are offset/ subsidized by 3.0% or 2.5% augmentation rates*. This method applies unless the member is eligible for the 62/30 Rule. **62/30 Rule**: if a member is age 62 and has 30 years of service credit, the annuity is reduced by a flat 6.0% per year and offset by augmentation. **This new method results in a larger early retirement annuity than under the actuarial reduction factors, which are still used by MSRS and PERA. There is still the 3.0%/2.5% augmentation subsidy*.** If a retiree does not fall under the 62/30 Rule, the reduction is 4.0% per year the retiree is under age 59 and then reduced 7.0% from age 59 until retiree reaches normal retirement age, offset by augmentation. **This new method results in a smaller early retirement annuity than under the actuarial reduction factors up until age 63, but thereafter the annuity is larger under the new factors for ages 64 and 65. There is still the 3.0%/2.5% augmentation subsidy.**
	*Note: **Early retirement annuities are not actuarially equivalent to a normal retirement annuity commencing at an earlier age because the reduction to reflect a longer period of payments is increased by augmentation and the augmentation rates used in the calculations are higher than the current rates (3.0% and 2.5% versus 2.0% for MSRS and TRA; versus 1.0% and 0% for PERA). Any form of augmentation is a subsidy that makes the early retirement benefit more expensive to the plan than a normal retirement benefit actuarially reduced for early commencement.** **Both MSRS's actuary, GRS, and Deloitte have pointed out the subsidy created by the difference between the augmentation rates and have recommended the early retirement augmentation rate be lowered to match the current rate, 2.0% or 1.0%.**		
Possible Cost Saving Changes	• Calculate the early retirement benefit by reducing the pension amount by an actuarially determined reduction that makes the early retirement benefit actuarially equal in value to the normal retirement benefit. The actuarially reduced early retirement benefit would reflect the cost of the extra years of paying the benefit because of early retirement. • Use a flat percentage decrease (e.g., .5%) for each month that the start of the early retirement pension precedes normal retirement age, to reduce the cost of the early retirement benefit and make it easier to calculate by members. • Eliminate augmentation in the calculation of the early retirement benefit. • Simplify TRA's early retirement benefit provisions so they can be communicated and understood by plan staff, members, and legislators. Simplification would reduce erroneous calculations and misunderstandings. • Modify TRA's benefit to align with MSRS and PERA.		

VII.	MSRS GENERAL (356.30)	PERA GENERAL (356.30)	TRA (356.30)
Combined Service Annuity ("CSA")	Under the CSA provisions, members are eligible for an annuity from each plan in which the member has at least 6 months of service credit. The annuity from each plan is determined by counting the member's service under all plans to meet the vesting requirement under that plan and the annuity from each plan is calculated using the member's highest high five salary (typically, paid during the member's last employment) in the benefit calculation (see II., above). Plans in which the member was not vested or had a low salary, and therefore a lower high 5, must vest the member and pay a larger benefit than in the absence of the CSA. Under the CSA, the pension under the last employer is increased by augmentation (see I., above). Under "Coverage By More Than One Fund" provisions, the annuity from each plan receives augmentation (see I., above).		
Possible Cost Saving Changes	• Repeal the CSA provisions for future retirees. Each plan would pay a retiree the pension accrued under that plan, based on service and salary with the employer covered by that plan. • Maintain CSA provisions only for the purpose of counting service under all public employers for vesting purposes. High 5 salary used in computing the pension at the final employer would not be used to calculate the pension under previous employers. • Eliminate augmentation (see I., above) from the CSA and "Coverage By More Than One Fund" provisions.		

VIII.	MSRS GENERAL (352.115, subd. 1)	PERA GENERAL (353.01, subd. 47)	TRA (354.44, subd. 1)
Vesting	**5 years** of service*	**5 years** of service*	**3 years** of service
Possible Cost Saving Changes	No changes proposed	No changes proposed	To align with MSRS and PERA: Increase vesting to 5 years for new hires

* *Members who joined the plan before July 1, 2010 vest after 3 years of service.*

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<tr><th>IX.</th><th>MSRS GENERAL (352.116, subd. 3a)</th><th>PERA GENERAL (353.30, subd. 3a)</th><th>TRA (354.46, subd. 1a)</th></tr>
<tr><td>Joint and Survivor Annuity “Bounce Backs”</td><td colspan="3">Members can elect to receive their pension in the form of a joint and survivor annuity (J&SA). A J&SA is paid for the life of the member, then upon the member’s death, for the life of the member’s spouse. The monthly amount paid is less than the monthly amount that would be paid if paid as a single life annuity to take into account the extra time the benefit will be paid to the survivor, but is not further reduced to reflect the possibility that the benefit will “bounce back” to a single life annuity if the survivor dies before the member. If the spouse dies before the member, the J&SA bounces back to the higher single life annuity amount. There is no actuarial adjustment for the cost of the bounce-back feature and the actuarial gain of an early survivor death.</td></tr>
<tr><td>Possible Cost Saving Changes</td><td colspan="3">Remove the “bounce-back” feature so that if a member elects a joint and survivor annuity, the amount received remains the same whether the designated survivor dies before the member or not.</td></tr>
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<tr><th>X.</th><th>MSRS GENERAL (352.12, subd. 2b)</th><th>PERA GENERAL (353.32, subd. 1c)</th><th>TRA (354.46, subd. 2b)</th></tr>
<tr><td>Dependent Child Survivor Benefits</td><td>Biological/adopted child of deceased member under age 20 and dependent on member for more than one-half of support.
If active member dies and there is no surviving spouse, a dependent child is entitled to receive a 100% optional annuity. If under age 15 at time of death, receives annuity until age 20. If 15 years or older, receives annuity for 5 years.</td><td>Biological/adopted child of deceased member under age 20 and dependent on member for more than one-half of support.
If active member dies and there is no surviving spouse, a dependent child is entitled to receive a 100% optional annuity. If under age 15 at time of death, receives annuity until age 20. If 15 years or older, receives annuity for 5 years.</td><td>Biological/adopted child of deceased member either under age 18 or under age 22 and a full-time student and dependent for more than one-half support upon member.
If active member dies and there is no surviving spouse, a dependent child is entitled to receive a 100% optional annuity. If under age 15 at time of death, receives annuity until age 20. If 15 years or older, receives annuity for 5 years.</td></tr>
<tr><td>Possible Cost Saving Changes</td><td colspan="3">• Eliminate annuities for dependent children. This benefit is akin to life insurance, which most public employers already provide as a separate employee benefit.
• Instead of an annuity, a dependent child would receive the member’s contributions plus interest in the form of a refund.</td></tr>
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XI.	MSRS GENERAL (352.113)	PERA GENERAL (353.32, subd. 3)	TRA (354.48)
Disability Benefits	Benefit calculated at time of disability without any reduction for commencing before normal retirement age. The disability must be total and permanent, which is the inability to engage in any substantial gainful activity due to medically determinable physical/mental impairment expected to continue at least one year.		
Possible Cost Saving Changes	To reduce the amount of time and expense spent by the plan's executive director and the governing board on making this determination and hearing appeals, including the cost of administrative hearings, the definition could be revised to state that a "total and permanent disability" will be determined to have occurred if either (i) the federal Social Security Administration has determined that the member has suffered a total and permanent disability, entitling the member to SS disability benefits, or (ii) the public employer's long term disability insurer has determined that the member has suffered a total and permanent disability, entitling the member to long-term disability benefits.		