



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Rachel Barth, Deputy Director
RE: Governor's Budget Recommendations for FY2018-2019
DATE: February 6, 2017

The Governor's Budget Recommendations for FY18-19 ("the Governor's budget") provides funding and recommendations for the Minnesota State Retirement System's (MSRS) General, State Patrol, and Correctional plans, the Public Employees Retirement Association Police and Fire Plan (PERA-P&F), the Teacher's Retirement Association (TRA), and the St. Paul Teachers Retirement Fund Association (SPTRFA). This is a unique situation, because, as far as Commission staff are aware, funding for pensions has never been a component of the budget.

The Governor's budget provides a specific breakout for each pension plan ("plan") into two main components.

Component 1: a recommendation for employer contribution increases and how the increases should be phased in over FY18-19 and FY20-21. The budget provides full funding for the recommended FY18-19 increases through FY20-21. The recommended increases for FY20-21 are not funded and are intended to be recommendations for future budgeting purposes. Further, the funding only covers the increases for employers' budgets that are funded by the state's General Fund or other direct appropriations.

Component 2: a comprehensive package that outlines a variety of changes that are addressed in each plan's proposal for the 2017 legislative session.

MSRS Plans

Component 1

The Governor's general fund budget recommendation provides an amount to cover the recommended employer contribution increases for all three MSRS plans. The amount is dispersed among the various agencies and incorporated into the respective agency's operating costs. The money allocated for contribution increases fully funds the recommended increases for FY18-19 for all three plans, but does not include additional amounts for the FY20-21 recommended increases. Payroll growth was not included in determining the necessary amount of money. The budget recommended phase-in for the contribution increases differs from all three plans' recommended phase-ins, which means the plans are not getting as much money upfront to pay off the expected liabilities.

The Governor's budget specifies appropriation increases for employer for state employees' salaries that are paid from the General Fund or direct appropriations. This has an impact on MSRS, because many MSRS employees' salaries are funded from sources other than the state's General Fund or direct appropriations and therefore are not included in the budget. This is why the amount of money allocated for contribution increases is less than the amount MSRS requested. Employers who receive salary funding from sources other than the General Fund will need to draw money from other sources, possibly in other parts of the Governor's budget, to pay for the contribution increases. MSRS will receive the increased contributions for all covered employees, regardless of funding source.

The budget provides a combined \$8.2 million for FY18, and \$13.86 million for FY19, FY20, and FY21 for all three plans.

EMPLOYER CONTRIBUTION RATE INCREASES					
GENERAL PLAN	FY18	FY19	FY20	FY21	Total
<i>MSRS Proposal</i>	1.5%	-----	1.0%	-----	2.5%
<i>Governor's Budget</i>	1.0%	0.5%	0.5%	0.5%	2.5%

EMPLOYER CONTRIBUTION RATE INCREASES					
STATE PATROL	FY18	FY19	FY20	FY21	Total
<i>MSRS PROPOSAL</i>	7.75%	-----	0.75%	-----	8.5%
<i>Governor's Budget</i>	2.5%	2.0%	2.0%	2.0%	8.5%

EMPLOYER CONTRIBUTION RATE INCREASES					
CORRECTIONAL PLAN	FY18	FY19	FY20	FY21	Total
<i>MSRS Proposal</i>	6.0%	-----	-----	-----	6.0%
<i>Governor's Budget</i>	1.55%	1.45%	1.5%	1.5%	6.0%

Component 2

The Governor's budget's comprehensive package change recommendations for the three plans are similar to what the MSRS Board approved for each plan except with regard to the phase-in of the employee contribution increase for the State Patrol plan.

GENERAL PLAN
MSRS PROPOSAL & GOVERNOR'S BUDGET
1. Increase employee contribution rate by 0.5% in FY18.
2. Lower COLA from 2.0% to 1.5%
3. Remove COLA triggers
4. Reset 30-year amortization period from 2043 to 2047
5. Reduce investment return rate from 8.0% to 7.5%

CORRECTIONAL PLAN
MSRS PROPOSAL & GOVERNOR'S BUDGET
1. Increase employee contribution rate by 0.5% in FY18.
2. Lower COLA from 2.0% to 1.5%
3. Remove COLA triggers
4. Reset 30-year amortization period from 2039 to 2047
5. Reduce investment return rate from 8.0% to 7.5%

STATE PATROL PLAN
PROPOSAL & GOVERNOR'S BUDGET
1. Remove COLA triggers
2. Reset 30-year amortization period from 2039 to 2047
3. Reduce investment return rate from 8.0% to 7.5%
4. Increase employee contribution rate by 0.5% in FY18 and another 0.5% in FY20. ¹

¹ The Governor's budget currently recommends that a full 1.0% increase in employee contributions take place in FY18, which was an oversight. The recommendation will be corrected in the republished version to reflect MSRS's proposal.

PERA POLICE AND FIRE

Component 1

The PERA Board did not make a funding request from the Governor’s office. The Governor’s budget, however, provides a direct state aid to the fund.

DIRECT STATE AID					
<i>PERA-P&F</i>	FY18	FY19	FY20	FY21	Total
<i>PERA Proposal</i>	None	None	None	None	None
<i>Governor’s Budget</i>	\$4.5M	\$4.5M	\$9M	\$9M	\$27M

Component 2

The Governor’s budget’s comprehensive package change recommendations for PERA P&F is similar to what the PERA Board approved for except with regard to the phase-in of the employee and employer contribution rate increases.

PERA-P&F	
PERA PROPOSAL & GOVERNOR’S BUDGET	
<ol style="list-style-type: none"> 1. Remove COLA triggers 2. Reset 30-year amortization period from 2041 to 2047 3. Reduce investment return rate from 8.0% to 7.5% 	
PERA PROPOSAL	GOVERNOR’S BUDGET
<ol style="list-style-type: none"> 1. Increase the employer contribution rate by 0.75% in FY18 and by 0.75% in FY19 for a total 1.5% increase. 2. Increase the employee contribution rate by 0.5% in FY18 and 0.5% in FY19 for a total 1.0% increase. 	<ol style="list-style-type: none"> 1. Increase the employer contribution rate by a total 1.5%. No timing or phase-in specified. 2. Increase the employee contribution rate by a total 1.0%. No timing or phase-in specified.

TRA

Component 1

The Governor’s budget funds the increases in TRA contributions through the school aid formula. The money allocated for contribution increases fully funds the recommended increases for FY18-19, but does not include additional amounts for FY20-21. Payroll growth and Minnesota State, which makes up about 3.9% of TRA’s payroll, were not included in determining the necessary amount of money.

The budget provides \$21.5 million for FY18, and \$43.1 million for FY19, FY20, and FY21.

EMPLOYER CONTRIBUTION RATE INCREASES					
<i>TRA</i>	FY18	FY19	FY20	FY21	Total
<i>TRA Proposal</i>	0.5%	0.5%	0.5%	0.5%	2.0%
<i>Governor’s Budget</i>	0.5%	0.5%	0.5%	0.5%	2.0%

TRA, continued

Component 2

The Governor’s budget’s comprehensive package change recommendations for TRA is similar to what the TRA Board approved for except for what the investment return rate should be.

TRA	
TRA PROPOSAL & GOVERNOR’S BUDGET	
1. No employee contribution increase 2. Lower COLA from 2.0% to 1.0% for 5 years, 1.5% thereafter 3. Remove COLA triggers 4. Reset 30-year amortization period from 2039 to 2047	
TRA PROPOSAL	GOVERNOR’S BUDGET
Reduce investment return rate from 8.5% to 7.5% for 5 years, 8.0% thereafter	Reduce investment return rate from 8.5% to 7.5%

ST PAUL TEACHERS RETIREMENT FUND ASSOCIATION

Component 1

The Governor’s budget funds the SPTRFA contribution increases through the school aid formula. The money allocated for contribution increases fully funds the budget’s recommended increases for FY18-19, and then is capped for FY20-21. **The budget’s recommendation is lower than what SPTRFA requested.** Payroll growth was not included in determining the necessary amount of money. The Governor’s budget also does not provide the \$5 million direct state aid SPTRFA requested.

The budget provides \$1.3 million for FY18, and \$2.6 million for FY19, FY20, and FY21.

EMPLOYER CONTRIBUTION RATE INCREASES					
SPTRFA	FY18	FY19	FY20	FY21	Total
<i>SPTRFA Proposal</i>	1.0%	0.75%	0.5%	0.75%	3.0%
<i>Governor’s Budget</i>	0.5%	0.5%	0.5%	0.5%	2.0%

DIRECT STATE AID				
SPTRFA	FY18	FY19	FY20	FY21
<i>SPTRFA Proposal</i>	\$5M	\$5M	\$5M	\$5M
<i>Governor’s Budget</i>	None	None	None	None

Component 2

The Governor’s budget’s comprehensive package change recommendations for SPTRFA is identical to what the SPTRFA Board approved.

SPTRFA
SPTRFA PROPOSAL & GOVERNOR’S BUDGET
1. Remove COLA triggers 2. Reset 30-year amortization period from 2042 to 2047 3. Reduce investment return rate from 8.0% to 7.5%