

Legislative Commission on Pensions and Retirement

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TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Rachel Barth, Deputy Director

DATE: May 5, 2017

RE: LCPR17-035 (Murphy, M.): PERA; Authorizing an eligible Duluth township employee to elect retroactive PERA-General plan coverage.

Summary of LCPR17-035 (Murphy, M.)

Bill draft LCPR17-035 (Murphy, M.) permits Ann Cox, the Duluth Township clerk, to elect retroactive coverage in the Public Employees Retirement Association (PERA) General Employee Retirement Plan (PERA-General) back to April 2001.

Ms. Cox has been the Duluth Township clerk since January 1997. Prior to 2001, the township clerk was an elected official position and was therefore eligible for PERA Defined Contribution Plan (PERA-DC) coverage. PERA-DC provides coverage for local elected officials. Ms. Cox has been a member of PERA-DC since she was first elected township clerk in 1997.

In 2001, the township clerk position changed from an elected position to an appointed position. As a result of the change, Ms. Cox was no longer eligible for PERA-DC coverage. Instead, she should have been switched to PERA-General for prospective coverage. However, Ms. Cox erroneously remained a contributing member of PERA-DC until February 2017.

The error appears to have been a result of a misunderstanding. As the township clerk, Ms. Cox certifies employee eligibility for PERA-General and PERA-DC coverage. Ms. Cox states that she did not know and was not made aware that once her position changed from elected to appointed, she was no longer eligible for PERA-DC coverage.

PERA informed Ms. Cox in February 2017 that she had not been eligible for coverage under PERA-DC for the past 16 years. As a result, under current law, PERA must return all erroneous contributions made to the plan to the employee and employer, respectively. Ms. Cox would now like to elect retroactive PERA-General coverage to April 2001, when she should have switched from PERA-DC to PERA-General.

Generally, applying a change in pension plan coverage retroactively is prohibitively expensive because the cost of the benefit under the pension plan, taking into account prior years of service, exceeds the employee's and employer's ability to pay, even where there is an account balance that can be transferred, such as in the case of the PERA-DC. Both the employee and employer contribution rates under PERA-DC are lower than the general plan rates. In order to make the general plan whole, after

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Ms. Cox's DC account is transferred to the general plan, there will be a remaining balance of an estimated \$8,400. Ms. Cox would owe approximately \$2,600 and the township would owe \$5,800. On April 26, 2017, the Duluth Township board voted unanimously in favor of contributing the amount of employer money that should have been contributed to the general plan since April 2001. Ms. Cox will have the option of contributing the employee portion, if she elects to follow through on the transfer to general plan coverage, effective as of April, 2001.