

# Privatization of U of Hospital & Employees

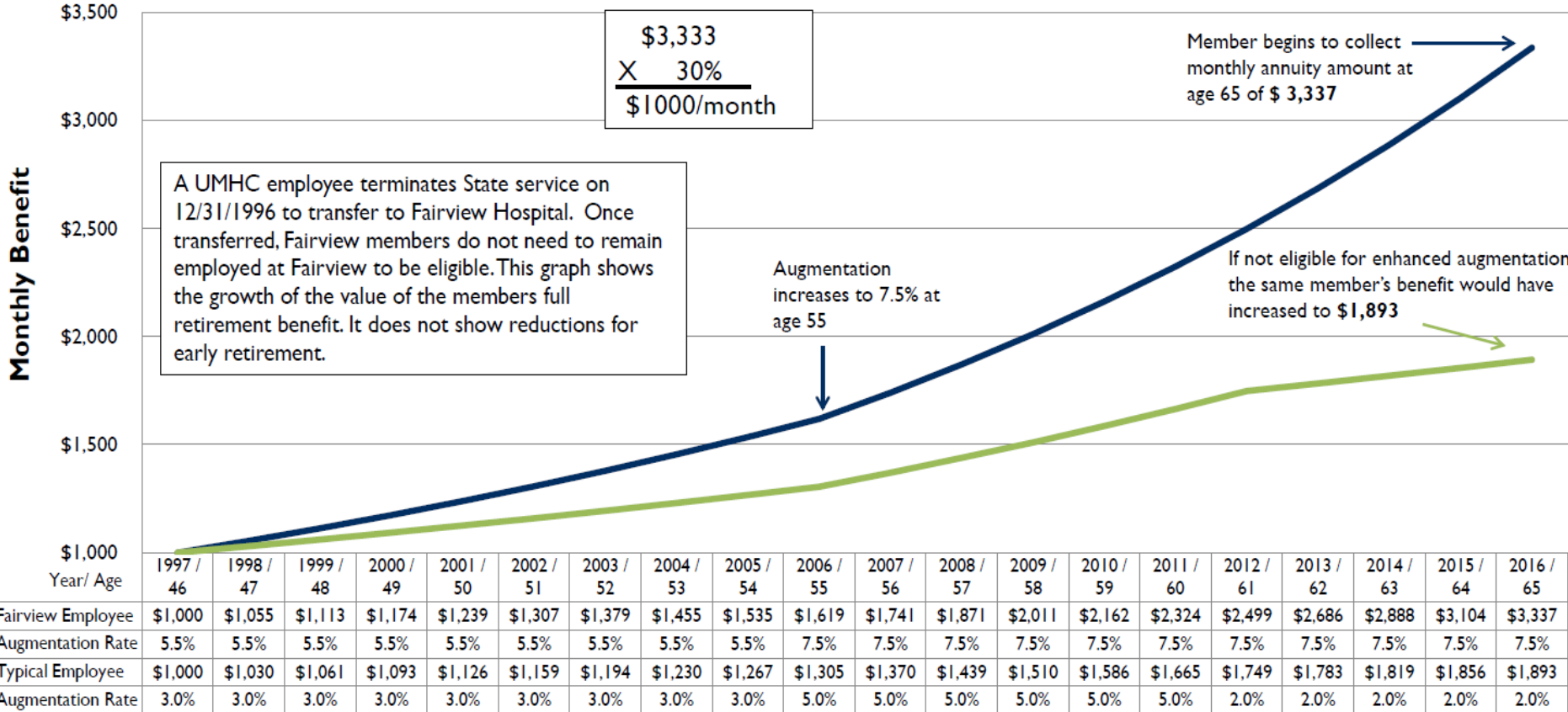
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- ▶ In 1996 MSRS worked with unions, and the U of M to maintain pension benefits for privatizing U of M Hospital and Clinic (UMHC) employees.
- ▶ Problem:
  - ▶ IRS – employees of private entities can not participate in public pensions.
    - ▶ No contributions. No additional service credit.
- ▶ Solution: Creation of Enhanced Deferred Augmentation
  - ▶ Enhanced Deferred Augmentation Rates
    - ▶ 2.5% greater than regular deferred augmentation
      - 5.5% and 7.5%
    - ▶ Enhanced augmentation rates continue to apply after terminating employment with Fairview
  - ▶ Immediate vesting for privatizing employees.
  - ▶ Employment with Fairview counts towards Rule of 90
    - ▶ Members cannot collect a benefit while working for Fairview

# How does Enhanced Deferred Augmentation work for former UMHC employees?

Fairview members receive higher augmentation than a typical former employee: 5.5% before age 55 and 7.5% thereafter  
 To be eligible: - Had to transfer to Fairview from U of M on 1/1/1997 - Can't collect while still working at Fairview  
 - Can't return to a public pension covered position in Minnesota.

Fairview Deferred Annuity = (High 5 Salary) x (Formula) x (Years of Service) x (Augmentation Rates Compounded Annually )  
 $\$3,333/\text{month} \times 1.5\% \times 20 \text{ Years} \times (\text{Augmentation Rates Compounded Annually})$



# Former UMHC/Fairview Population

<b>Total Population</b>	
Total Eligible:	2081
Retired:	861
Deferred Vested:	1220

<b>Important Age Ranges</b>	<b># of Members</b>
54 and below	411
55 - 60	415
61 and above	394

Age Range	Number of Members	Average Service Credit	Average High Five Salary	Current Average Projected Benefit
36-38	1	0.2	\$ 972	\$ 48
39-41	16	0.6	\$ 1,168	\$ 180
42-44	45	0.9	\$ 1,404	\$ 273
45-47	66	1.8	\$ 1,856	\$ 608
48-50	97	3.8	\$ 2,104	\$ 1,247
51-53	127	6.0	\$ 2,411	\$ 1,749
54-56	195	8.7	\$ 2,626	\$ 2,220
57-59	193	10.4	\$ 2,720	\$ 2,373
60-62	236	12.1	\$ 2,943	\$ 2,512
63-65	181	13.2	\$ 2,890	\$ 2,332
66-68	49	11.7	\$ 2,659	\$ 1,733
69-72	14	8.2	\$ 3,202	\$ 1,378
<b>Grand Total</b>	<b>1220</b>	<b>9.0</b>	<b>\$ 2,578</b>	<b>\$ 1,974</b>

Of the 1,220 Deferred Vested Employees, 535 currently still work at Fairview

Data as of 2/8/2017

# MSRS Board Proposals

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## 2016 Proposal

1. Lower augmentation to **2%** effective January 1, **2017**
2. Protect members who are re-employed in a covered position from losing their enhanced augmentation.

**Savings: \$53 million (present value)**

## 2017 Proposal

1. Reduce augmentation to **4.5%** starting January 1, **2021**.
2. Protect members who are re-employed in a covered position from losing their enhanced augmentation.
3. Allow Fairview employees to begin collecting at age 62 and continue to work

**Savings: \$13.7 million (present value)**

# Why Reduce Enhanced Augmentation

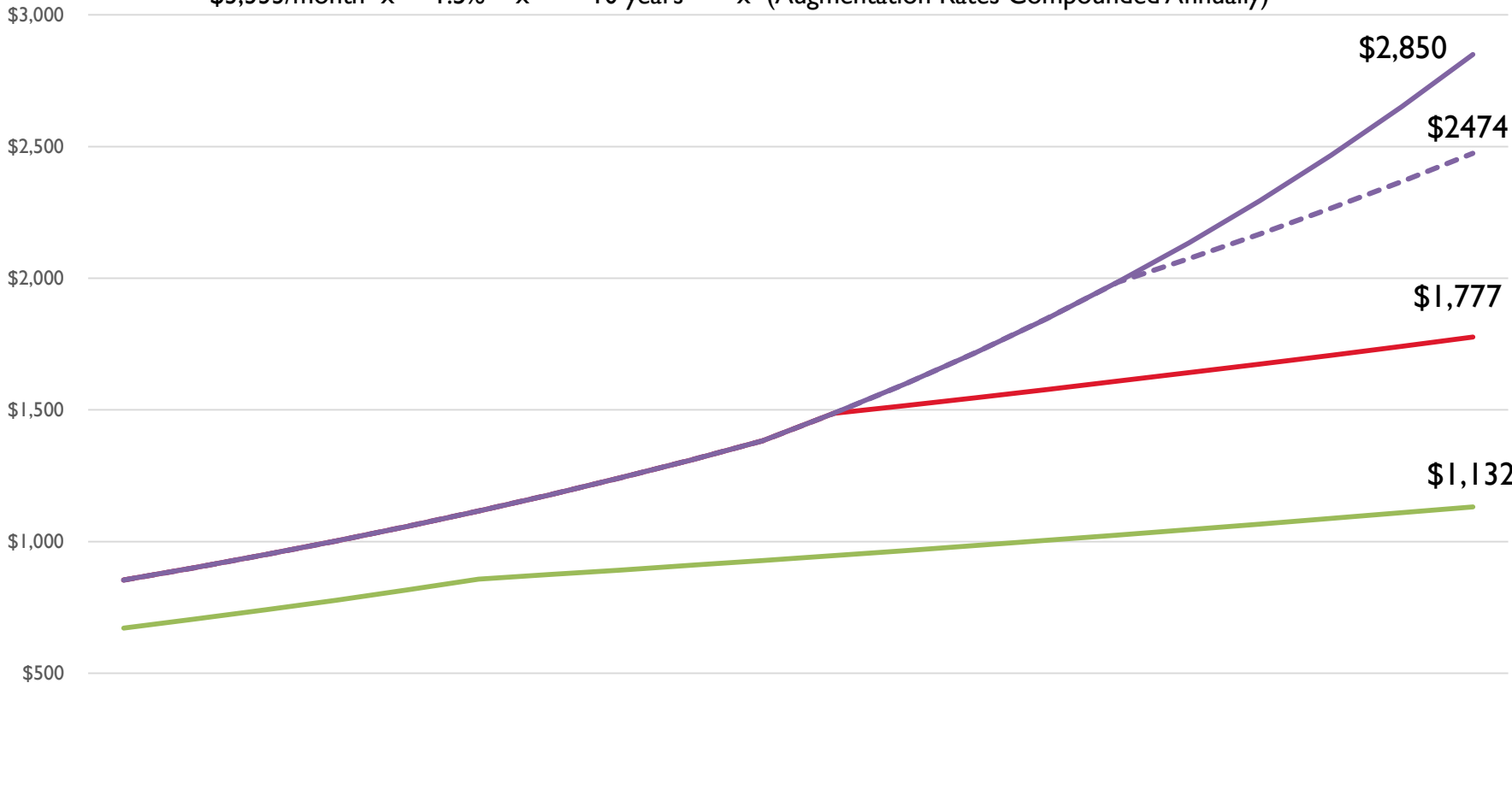
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- ▶ MSRS General Plan active members have increased contributions, reduced COLA's, increased vesting and reduced deferred augmentation benefits since 2010. We are proposing additional reforms in 2017 for General Plan and we feel all members should be part of the solution.
- ▶ The same reasons for the rest of our members to accept benefit reforms apply:
  - ▶ Longer Life Expectancy.
  - ▶ Lower Assumed Rate of Return.
- ▶ Current active members are covering the cost the enhanced benefit through contributions; approximately \$3.8 million per year.
- ▶ In 1996 enhanced augmentation was set at 2.5% higher than regular augmentation. Deferred augmentation was reduced to 2% in 2010 from 3% to 55, 5% after age 55.
- ▶ The 2017 proposal provides protections for members close to retirement.

# MSRS Proposed Augmentation Reduction for Fairview Members (56 Years Old Today)

Proposal: Reduce Enhanced Augmentation for all Fairview Members to 4.5% starting on January 1, 2021.

Example Fairview Annuity = (High 5 Salary) x (Formula) x (Years of Service) x (Augmentation Rates Compounded Annually)  
 \$3,333/month x 1.5% x 10 years x (Augmentation Rates Compounded Annually)



	2007 / 46	2008 / 47	2009 / 48	2010 / 49	2011 / 50	2012 / 51	2013 / 52	2014 / 53	2015 / 54	2016 / 55	2017 / 56	2018 / 57	2019 / 58	2020 / 59	2021 / 60	2022 / 61	2023 / 62	2024 / 63	2025 / 64	2026 / 65
Proposed Benefit	\$854	\$901	\$951	\$1,003	\$1,058	\$1,116	\$1,178	\$1,242	\$1,311	\$1,383	\$1,487	\$1,598	\$1,718	\$1,847	\$1,985	\$2,075	\$2,168	\$2,265	\$2,367	\$2,474
Typical Benefit	\$672	\$706	\$741	\$778	\$817	\$858	\$875	\$892	\$910	\$928	\$947	\$966	\$985	\$1,005	\$1,025	\$1,045	\$1,066	\$1,088	\$1,109	\$1,132
2016 Proposed benefit	\$854	\$901	\$951	\$1,003	\$1,058	\$1,116	\$1,178	\$1,242	\$1,311	\$1,383	\$1,487	\$1,516	\$1,547	\$1,578	\$1,609	\$1,641	\$1,674	\$1,708	\$1,742	\$1,777
Current Benefit	\$854	\$901	\$951	\$1,003	\$1,058	\$1,116	\$1,178	\$1,242	\$1,311	\$1,383	\$1,487	\$1,598	\$1,718	\$1,847	\$1,985	\$2,134	\$2,294	\$2,466	\$2,651	\$2,850

# Impact on Benefits by Retirement Age

If retirement date is in this year:	Benefit will be reduced by this %
2017	0.0%
2018	0.0%
2019	0.0%
2020	0.0%
2021	0.0% - 2.8%
2022	2.8% - 5.5%
2023	5.5% - 8.1%
2024	8.1% - 10.7%
2025	10.7% - 13.2%
2026	13.2% - 15.6%

If retirement date is in this year:	Benefit will be reduced by this %
2027	15.6% - 18.0%
2028	18.0% - 20.3%
2029	20.3% - 22.5%
2030	22.5% - 24.7%
2031	24.7% - 26.8%
2032	26.8% - 27.4%
2033	27.4% - 28.1%
2034	28.1% - 28.8%
2035	28.8% - 29.5%
2036	29.5% - 30.2%