Legislative Commission on Pensions and Retirement

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The 2017 Pension Bill

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What happened to the pension bill after it was approved by the Legislative Commission on Pensions and Retirement (LCPR)?

The LCPR approved the 2017 omnibus pension bill at its meeting on May 10, 2017. From there, the bill, as S.F. 545, went to the State Government Finance and Policy and Elections, Rules and Administration, and Finance Committees in the Senate and, as H.F. 565, to the Government Operations and Elections Policy, Rules and Legislative Administration, and State Government Finance Committees in the House. The bill was amended in several committees and approved by each committee that considered it.

On Sunday, May 21, 2017, S.F. 545, the third engrossment, was considered by the Senate and, with several amendments adopted on the floor, was unanimously approved by all members. The bill was not heard in the House. The 2017 regular session ended just before midnight on May 22, and the Governor convened a special session shortly after midnight on May 23.

The pension bill was introduced as the first 21 articles of S.F. 3 in the 1st Special Session. The other articles in S.F. 3 related to:

- "Preemption," which prohibits local governments from adopting ordinances that regulate minimum wage, paid or unpaid leave, work hours, or particular benefits or terms of employment;
- ratifying the state's labor agreement with the Minnesota Government Engineering Council;
- conditioned ratification of memoranda of understanding and amendments to compensation plans relating to paid parental leave on the bill being enacted; and
- wage theft.

Governor Dayton vetoed S.F. 3 on May 30. The letter from the Governor explaining the reason for the veto focused on his objection to the preemption provisions.

What were the contents of the pension bill originally and as the bill progressed through the end of the regular session and in the special session?

Due to the negative impact on the funding status of the pension plans due to changes in the assumptions for mortality and investment rate of return (decreasing to 7.5%), the state's four largest pension plans (MSRS, PERA, TRA, and St. Paul Teachers) brought forward sustainability packages, early in the session, to improve funding. The Governor included aspects of the plans' sustainability packages and funding in his budget proposal.

The version of the omnibus pension bill approved by the LCPR contained sustainability provisions for MSRS, PERA, TRA, and St. Paul Teachers, which included:

- eliminating augmentation on deferred benefits;
- eliminating augmentation in the calculation of early retirement benefits;
- reducing rate of interest on refunds;
- eliminating "contribution stabilizer" provisions;
- reducing the cost of living adjustments (COLAs) for retirees;
- eliminating the COLA triggers;
- eliminating COLAs for early retirements that occur after January 1, 2023;
- lowering the investment return assumption from the current 8.5% (TRA only) or 8% to 7.5%;
- increasing employer and employee contribution rates;
- direct state aids for PERA P&F and St. Paul Teachers; and
- resetting the 30-years amortization periods.

If those provisions had been implemented, all of the plans' funding levels would have significantly improved and were expected to be between 85-95% funded in 30 years (depending on investment returns).

The bill also included the vetoed 2016 omnibus pension bill provisions, provisions relating to volunteer firefighters, individual constituents, and administrative and technical corrections.

The version of the bill that was unanimously approved by the Senate during the 2017 regular legislative session contained all of the same provisions as the version of the bill approved by the LCPR, with the following exceptions:

- Appropriations were provided for the MSRS and St. Paul Teachers increased employer contribution rates;
- All benefit reforms made to PERA-General were removed from the bill and replaced with a requirement that the PERA Board of Trustees present a similar package of reforms that results in a 90% funding ratio by the end of the plan's amortization period;
- TRA sustainability provisions, which had been removed during the committee process, were put back into the bill but were only effective if funding for the increase in the employer contribution rate was provided through an increase in the school aid formula.

What are the consequences of the Governor's veto of the pension bill?

Pension Plans

The proposed benefit reforms, along with the employer and employee contribution rate increases and direct state aids, will not go into effect. Depending on the extent to which favorable investment returns for the fiscal year ending June 30, 2017, offset the adverse impact of no additional funding, COLA reductions or benefit changes, the state's pension plans could see a significant decrease in their funding ratios.

Worsening funding ratios can negatively impact the state's bond rating and will increase the liabilities the state, local units of government, and school districts must show in financial statements due to required GASB reporting.

The assumed investment rate of return will also be unchanged, making TRA, at 8.5%, among a small handful of public pension plans nationwide that are still higher than 8%. The actuaries for the pension plans have determined that an assumption of 8% or higher is not reasonable and, therefore, will have to prepare two valuations for each plan, one at the statutory rate, and a second at a lower, "reasonable," rate.

Volunteer Firefighters

The veto of the pension bill will have negative consequences on pension benefits for volunteer firefighters or the cities that fund these benefits in certain parts of the state. Cities that will be most impacted by the veto are Austin, Cromwell and Wright, Eden Prairie, and Brook Park. Specifically, the City of Austin will receive no relief from indebtedness for the over $200,000 it owes to its Volunteer Firefighter Relief Association.

Public Safety Plans

MSRS Correctional and State Patrol Plans and the PERA Police and Fire Plan will not receive employer and employee contribution increases and direct state aids the plans needed to reverse a downward trend in funding ratio. These increases had been agreed to by all stakeholders, including public safety employees.

Individuals and Small Groups

Individuals who were excluded from a state pension plan due to plan or employer error are waiting to transfer to pension plan coverage. These individuals include employees of state universities and community colleges and a township.

Former public employees who transferred employment to Fairview Medical in 1996 will continue to receive automatic enhanced annual increases to their pension benefits (of 7.5% or 5.5%), which the MSRS board of directors and the LCPR had determined should be reduced as part of MSRS' sustainability package and to treat all MSRS members equitably (other members are at 2%).

MSRS Unclassified Plan

A provision in the pension bill that provided relief to many current senior legislative staffers from a reduction in monthly annuity payments if they retire after June 30, 2017, is unaffected by the Governor's veto because the provision was also included in the state government funding bill, S.F. 1, which was signed by the Governor. The provision grandfathers current annuity factors in calculating annuities for members who are close to retirement and who retire in the next three years. In the absence of this provision, annuity payments would have declined by 7% effective July 1, 2017.

Substantial revisions to claims procedures, provisions mirroring federal tax code requirements, and other administrative provisions

Each year, the staffs of the pension plans propose a number of changes to statutory language to bring the statutes into conformity with actual practice, make clarifying changes or reduce administrative burden. These changes have been collected over the last two years and have yet to be enacted, meaning that the plans have to continue operating under outdated provisions or operate in a manner that is inconsistent with the statute.

Will the pension bill be reintroduced next session?

We expect that the 2017 pension bill will be reintroduced in the 2018 session, as had been done early in the 2017 session with the pension bill that had been vetoed at the end of the 2016 session. The legislature is scheduled to convene on February 20, 2018. The LCPR may meet during the interim and, if so, the meeting announcement will be posted on the LCPR website at lcpr.leg.mn.