minnesota inter-county association

LEAGUE OF MINNESOTA CITIES

Association *of* Minnesota Counties

February 21, 2017

To: Members of the Legislative Commission on Pensions and Retirement
From: Gary Carlson, League of Minnesota Cities; Mathew Hilgart, Association of Minnesota Counties; and Keith Carlson, Minnesota Inter-County Association
Re: S.F. 1066 (Rosen); H.F. 1090 (O'Driscoll): PERA-P&F funding proposal.

As the employer representatives for the Police and Fire Plan, we are writing to express our thoughts on the PERA Board's proposal (as contained in SF 1066/ HF 1090) to address the plan's funding deficiency. While the PERA Board's recommended increase in the employee and employer contribution rates will reduce the plan's deficiency, we believe it is important that any bill the commission passes completely eliminate the plan's deficiency by going beyond the changes proposed in SF 1066/ HF 1090. That can be done in two ways:

1. Adopt the governor's aid proposal of ultimately $9 million a year
2. Make additional benefit reductions that **do not further shift the costs of future benefits o**nto active members and employers and their taxpayers.

An important principal in addressing the deficiency is that it must be **shared by all** – retirees, active members and employers. Simply increasing contribution rates for employees by 1% and for employers by 1.5% (50% more than for employees) without making benefit changes **beyond** those contained in SF 1066/ HF 1090 is untenable when these changes alone will not be enough to eliminate the plan's deficiency. Further benefit changes or state aid will be necessary to address the remaining gap.

In coming up with its bill to address the Police and Fire Plan's deficiency, it is important that the commission remember that contribution rates have increased **10 times** since 2004 - from 6.2% to 10.8% of payroll for **employees**, a 4.6% rate increase, and from 9.3% to 16.2% of payroll for **employers**, a 6.9% rate increase. Despite these large contribution increases, reducing the augmentation rate for delayed annuitants, increasing the pension reduction for early retirees and extending the vesting period twice since 2010, the plan continues to have a substantial deficiency – 3.2% of payroll. Removing the 2.5% COLA trigger, changing to a 30 year amortization period and increasing contribution rates by 1% for employees and by 1.5% for employers still leaves a deficiency of .7% of payroll **after having increased both employer and employee contribution rates by over 90% since 2004**.

Both employers and employees need assurances that the Police and Fire Plan's funding is sustainable and that we will not be back **again** in another few years to once again increase contribution rates and reduce future Police and Fire Plan members' benefits. Delaying cost of living increases until normal retirement age for early retirees (retiring before the normal retirement age of 55) and making the reduction in early retirees' pensions equal to what should be their true, actuarial equivalent or appropriating long-term state aid of $9 million annually would make sustaining the financing of the Police and Fire plan much more likely. Either would eliminate the deficiency that would remain under SF 1066/ HF 1090. Either would also better poise the plan to sustain investment return shortfalls in the future.

We appreciate the commission's consideration of our concerns and look forward to working with you on enactment of a long-term, sustainable funding package for the PERA Police and Fire Plan.