



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Rachel Barth, Deputy Director
RE: S.F. 1839 (Miller); H.F. xxxx: IRAP, TRA; Providing a Second Chance Coverage Election
DATE: March 17, 2017

Summary of S.F. 1839 (Miller); H.F. xxxx

S.F. 1839 (Miller); H.F. xxxx provides an eligible Winona State University employee a second chance opportunity to elect Teachers Retirement Association (TRA) coverage and to receive retroactive coverage. Specifically, the bill:

1. Requires the employee to repay a Minnesota State Retirement System (MSRS) refund, plus interest, before he can elect TRA coverage;
2. Allows the employee to elect TRA coverage within one year after the bill is enacted;
3. Transfers all employee contributions, plus investment returns, the employee made to his Higher Education Individual Retirement Account Plan (IRAP) from January 1, 1995, to the date he applies for TRA coverage;
4. Requires the employee to pay any difference between the IRAP and TRA employee contributions, plus interest, that would have been made if he had been covered by TRA;
5. Transfers all employer contributions, plus investment returns, the Minnesota State system made to his IRAP from January 1, 1995, to the date he applies for TRA coverage; and
6. Requires the Minnesota State system to pay any remainder of the full actuarial value of the benefit.

Public Pension Problem of Joseph Reed

Joseph Reed is the student union/activities director at Winona State University (“WSU”), which is part of the Minnesota State system (formerly known as MnSCU). Prior to his employment with WSU, Mr. Reed had retirement coverage under the MSRS General State Employees Retirement Plan (MSRS-General), for which he eventually took a refund of the member contributions, plus interest. On September 11, 1989, Mr. Reed was hired at WSU and all employees at that time were required to join Minnesota State’s Individual Retirement Account Plan (IRAP), a defined contribution plan.

In 1994, enacted legislation¹ allowed individuals covered by IRAP as of July 1, 1994, and who were first employed after June 30, 1989, to make a one-time, irrevocable retirement coverage election to switch from IRAP to TRA. If an eligible employee chose TRA coverage, it was prospective from the election date and did not include coverage for past service. Mr. Reed was eligible at that time to make an election. The proposed legislation attempts to put Mr. Reed in the position he would have been had he been offered the election.

¹ Laws 1994, Chapter 508, Article 1, Section 10.

Under the law, the employer was required to notify eligible employees about the election option and provide election forms. Mr. Reed states that his employer never provided the required information or election forms and he was never made aware of his eligibility to elect TRA coverage. Minnesota State is currently unable to confirm or deny that Mr. Reed was provided the required information. Mr. Reed would now like to convert a portion of his IRAP account into TRA coverage. In order to elect TRA coverage, Mr. Reed must first repay the refund he took for his MSRS service, plus interest, pursuant to Minn. Stat. § 356.551, Subd. 1, Para. (c).

Policy Considerations

S.F. 1839 (Miller); H.F. xxxx raises the following public policy issues:

1. Evidence of Error. Mr. Reed states that he was unaware of his eligibility to elect TRA coverage and that his employer did not provide him with any information. Minnesota State has been unable to confirm or deny that Mr. Reed was notified of the retirement election option or provided with the required information to make an informed decision. Therefore, the equities appear to run with Mr. Reed and the proposed legislation will fix an employer error.
2. Precedent for Similarly Situated Individuals. The Pension Commission has approved past bills allowing an individual to retroactively elect to switch from IRAP to TRA coverage. Those cases presented evidence of an employer error, specifically that the employer never informed the individual about the election option or failed to provide the individual with the required information. Such cases also required the Minnesota State system to pay the remaining amount of the full actuarial value purchase amount. In Mr. Reed's case, there is an indication that the employer made an error and failed to inform him of his eligibility to elect TRA coverage. Mr. Reed's case is similar to past cases and the proposed legislation is therefore supported by precedent.
3. Cost. Mr. Reed will be required to both repay the MSRS refund and pay a portion of the actuarial value of his calculated benefit to cover the liability TRA will assume if he elects TRA coverage. MSRS estimated that the refund amount that Mr. Reed must repay is \$118,518.

Under Minn. Stat. § 356.551, the total amount that must be paid to cover the liability of Mr. Reed's retroactive and prospective TRA coverage is \$427,229.64. Mr. Reed must pay the portion that is based on the member contributions, plus investment earnings and interest, that he would have paid had he been a contributing TRA member beginning January 1, 1995. After the appropriate member and employer contribution amounts are transferred and Mr. Reed pays the remaining \$39,980 required member portion, the Minnesota State system will be required to pay \$166,417, which is the remaining amount of the total actuarial value of the TRA benefit.