



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Rachel Barth, Deputy Director
RE: S.F. 2233 (Rosen); H.F. 2486 (O'Driscoll): MSRS, TRA, SPTRFA; Governor's Funding Proposal
DATE: April 13, 2017

Summary of S.F. 2233 (Rosen); H.F. 2486 (O'Driscoll)

S.F. 2233 (Rosen); H.F. 2486 (O'Driscoll) is the Governor's funding proposal for the Minnesota State Retirement System (MSRS) General, Correctional, and State Patrol plans, the Teachers Retirement Association (TRA), and the St. Paul Teachers Retirement Fund Association (SPTRFA).

This memo summarizes the provisions of the bill, and compares the differences between the Governor's funding proposal and the proposals brought forward by the retirement plans' boards.

Article 1 – Changes applicable to MSRS, TRA, and SPTRFA

- Section 1:** Lowers the investment return assumption from 8% to 7.5% for all MSRS plans and SPTRFA and from 8.5% to 7.5% for TRA. Removes a portion of the post-retirement adjustment rate (COLA) language related to valuing the COLA triggers.
- Section 2:** Resets the 30-year amortization periods for MSRS-General, the Judges plan, TRA, and SPTRFA.
- Section 3:** Lowers interest rate to 7.5% that must be paid on certain payments like refunds, shortages etc., for all MSRS plans, TRA, and SPTRFA.
- Section 4:** Repeals a portion of the COLA language related to the COLA triggers.

Article 2 – Changes applicable to MSRS plans only

- Sections 1-3, 6-9, 13, 14, 17-22, 26, 29, and 30:** Revises interest rates that must be paid on certain types of payments.
- Section 4:** Increases the MSRS-General employee contribution rate by 0.5%.
- Section 5:** Increases the MSRS-General employer contribution rate by a total of 2.5% over four years. The employer contribution rate must decrease if the plan achieves a 100% funded ratio on a market value of assets.

Section 10: Increases the MSRS-Correctional employee contribution rate by 0.5%.

Section 11: Increases the MSRS-Correctional employer contribution rate by 1.55%.

Section 12: Implements a MSRS-Correctional supplemental employer contribution rate of 4.45% that is phased in over four years. The supplemental contribution is eliminated if the plan achieves a 100% funded ratio on a market value of assets.

Section 15: Increases the State Patrol employee contribution rate by 1%.

Section 16: Increases the State Patrol employer contribution rate by 1.5%. Also, implements a supplemental employer contribution rate of 7% that is phased in over four years. The supplemental contribution is eliminated if the plan achieves a 100% funded ratio on a market value of assets.

Section 23: Lowers the COLA from 2% to 1.5% for MSRS-General and MSRS-Correctional and removes the COLA triggers.

Section 24: Removes the State Patrol COLA triggers.

Sections 25, 27, and 28: Provides clarifying language to maintain the Judges plan COLA triggers.

Article 3 – Changes applicable to TRA only

Section 1: Increases the employer contribution rate made on behalf of coordinated and basic members by 2% over a four-year period.

Sections 2-5: Revises interest rates that must be paid on certain types of payments.

Section 6: Lowers the COLA from 2% to 1% for five years and 1.5% thereafter and removes the COLA triggers.

Article 4 – Changes applicable to SPTRFA only

Sections 1-4, 6, 8, and 9: Revises interest rates that must be paid on certain types of payments.

Section 5: Increases the employer contribution rate made on behalf of both coordinated and basic members by 2% over a four-year period.

Sections 7 and 10: Removes the COLA triggers.

DIFFERENCES BETWEEN THE PLANS' FUNDING BILLS AND THE GOVERNOR'S FUNDING BILL

**The Governor's Bill does not include any provisions from PERA's funding proposal (S.F. 1066).

SUBSTANTIVE DIFFERENCES FOR MSRS PLANS	
MSRS PROPOSAL – SF 1064/HF 1288	GOVERNOR'S BILL – SF 2233/HF 2486
<p>General Plan Employer Contribution Increase: July 1, 2014 → 5.5% July 1, 2017 → 7% July 1, 2019 and thereafter → 8%</p>	<p>General Plan Employer Contribution Increase: July 1, 2014 → 5.5% July 1, 2017 → 6.5% July 1, 2018 → 7% July 1, 2019 → 7.5% July 1, 2020, and thereafter → 8%</p>
<p>Correctional Plan Supplemental Employer Contribution: July 1, 2017 → 4.45%</p>	<p>Correctional Plan Supplemental Employer Contribution: July 1, 2018 → 1.45% July 1, 2019 → 2.95% July 1, 2020, and thereafter → 4.45%</p>
<p>State Patrol Employer Contribution Increase: July 1, 2016 → 21.6% July 1, 2017 → 22.35% July 1, 2019, and thereafter → 23.1%</p>	<p>State Patrol Employer Contribution Increase: July 1, 2016 → 21.6% July 1, 2017 → 22.35% July 1, 2018 and thereafter → 23.1%</p>
<p>State Patrol Supplemental Employer Contribution: July 1, 2017 → 7%</p>	<p>State Patrol Supplemental Employer Contribution: July 1, 2017 → 1.75% July 1, 2018 → 3% July 1, 2019 → 5% July 1, 2020, and thereafter → 7%</p>
<p>Extends amortization period for both Correctional and State Patrol plans to June 30, 2047.</p>	<p>Does not extend amortization period for either the Correctional or State Patrol plan (not included in bill by accident)</p>

SUBSTANTIVE DIFFERENCES FOR TRA	
TRA PROPOSAL – SF 930/HF 722	GOVERNOR’S BILL – SF 2233/HF 2486
Revises school aid formula to take into account the proposed increase in employer contributions without a cap.	The introduced version of SF 718 (the Omnibus E-12 Education Appropriations Bill) had a similar provision. However, the formula contained the cap on funding that was outlined in the governor’s budget recommendation.
Does not increase employer contributions made on behalf of Basic members.	Increases employer contributions made on behalf of Basic members by a total of 2% over four years.
Requires employers to make contributions on behalf of reemployed annuitants.	Does not contain a similar provision.
Effective the day following final enactment, investment return rate lowered to 7.5% for five years and 8% thereafter.	Effective July 1, 2017, investment return rate lowered to 7.5%.
Does not lower current interest rate of 8.5% that is paid on refunds, repayments etc.	Lowers interest that is paid on refunds, repayments, etc. from 8.5% to 7.5%.

SUBSTANTIVE DIFFERENCES FOR SPTRFA	
ST. PAUL TEACHERS PROPOSAL – SF 992/HF 1214	GOVERNOR’S BILL – SF 2233/HF 2486
Revises school aid formula to take into account the proposed increase in employer contributions without a cap.	The introduced version of SF 718 (the Omnibus E-12 Education Appropriations Bill) had a similar provision. However, the formula contained the cap on funding that was outlined in the governor’s budget recommendation.
Employer Contribution Increase: July 1, 2016 → 6.25% July 1, 2017 → 7.5% July 1, 2018 → 8.25% July 1, 2019 → 8.75% July 1, 2020, and thereafter → 9.5%	Employer Contribution Increase: July 1, 2016 → 6.25% July 1, 2017 → 7% July 1, 2018 → 7.5% July 1, 2019 → 8% July 1, 2020, and thereafter → 8.5%
Implements an additional annual direct state aid of \$5 million.	Does not contain a similar provision.