

Legislative Commission on Pensions and Retirement

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Summary of the 2017 Senate Omnibus Retirement Bill, S.F. 545 (Rosen), the Third Engrossment as passed by the Senate on May 21, 2017

Red font indicates what provisions were included in the amendments offered on the Senate floor.

Article 1: Benefit Changes for MSRS-General.

Article 1 modifies benefits under the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), as follows:

- Eliminates “augmentation,” which is automatic annual increases in the pension benefits accrued by former employees.
- Phases in, over a five-year period, the elimination of augmentation in the calculation of early retirement benefits.
- Reduces the rate of interest on refunds of employee contributions to former employees.

The article also repeals the contribution stabilizer provisions which allow the plan’s board to adjust contribution rates, subject to review by the Pension Commission.

Article 2: Changes for PERA.

PERA-General is no longer included in the augmentation, early retirement, or COLA benefit changes.

Article 2 now requires the PERA Board of Trustees to present to the Pension Commission a package of benefit and sustainability reforms for PERA-General that are similar to the changes being made to the other plans this session. The package must result in a 90% funding ratio by the end of the plan’s amortization period.

The article also repeals the contribution stabilizer provisions which allow the plan’s board to adjust contribution rates, subject to review by the Pension Commission.

Article 3: Benefit Changes for TRA.

Article 3 modifies benefits under the Teachers Retirement Association (TRA), as follows:

- Eliminates “augmentation,” which is automatic annual increases in the pension benefits accrued by former employees.
- Phases in, over a five-year period, the elimination of augmentation in the calculation of early retirement benefits, except for those who retire under the “62/30” Rule.
- Reduces the rate of interest on refunds of employee contributions to former employees.

The enactment of all TRA benefit changes are contingent on whether funding is provided in the 2017 legislative session for the increase in the TRA employer contribution rate. If the employer contribution rate increase is not funded through an appropriation, the benefit changes will not go into effect.

The article also repeals the contribution stabilizer provisions which allow the plan’s boards to adjust contribution rates, subject to review by the Pension Commission.

Article 4: Benefit Changes for St. Paul Teachers.

The article modifies benefits under the St. Paul Teachers Retirement Fund Association, as follows:

- Freezes post-retirement adjustments (COLAs) for two years.
- Delays the commencement of COLAs until normal retirement age for all retirements that occur after July 1, 2023, **except for those who retire under the “62/30” Rule.**
- Eliminates “augmentation,” which is automatic annual increases in the pension benefits accrued by former employees.
- Phases in, over a five-year period, the elimination of augmentation in the calculation of early retirement benefits, except for those who retire under the “62/30” Rule.
- Reduces the rate of interest on refunds of employee contributions to former employees.
- Repeals the COLA triggers.

Article 5: Actuarial and COLA Changes.

The article makes changes to actuarial assumptions and COLAs, as follows:

- Reduces the investment rate of return to 7.5% for all plans.
- Extends the amortization period to 2047 for all MSRS plans, all PERA plans, **TRA**, and SPTRFA.
- Reduces the COLAs:
 - for MSRS-General from 2% to 1% for five years and 1.5% thereafter
 - for MSRS-Correctional from 2% to 1.5%
 - for PERA-Correctional from 2.5% to 1.5%
 - **for TRA from 2% to 1% for five years and increases each year thereafter by 0.1% to a final 1.5% by January 1, 2027**
- Delays the commencement of COLAs until normal retirement age for retirements that occur after January 1, 2023 for MSRS-General and **July 1, 2023 for TRA, except for those who retire under TRA’s “62/30” Rule.**
- Repeals the COLA triggers for all plans except PERA-General.

The article also requires the Pension Commission to conduct a study on the COLA rates and the methodology for determining post-retirement adjustments.

The enactment of the TRA COLA changes are contingent on whether funding is provided in the 2017 legislative session for the increase in the TRA employer contribution rate. If the employer contribution rate increase is not funded through an appropriation, the changes will not go into effect.

Article 6: Interest Rate Language Clean-Up. The article adds a new interest rate section with the rates for all the plans, and makes conforming changes to other sections that refer to interest rate.

Article 7: Contribution Increases.

- MSRS-General employer contribution increased by 0.5%
- MSRS-General employee contribution increased by 0.75%
- MSRS-Correctional employer increased by 6%
- MSRS-Correctional employee increased by 0.5%
- State Patrol employer increased by 8.5%
- State Patrol employee increased by 1%

- PERA Police & Fire employer increased by 1.5%
- PERA Police & Fire employee increased by 1%
- SPTRFA employer increased by 2.5%
- SPTRFA employee increased by 0.25%
- TRA employer increased by 1.25%
- TRA employee increased by 0.25%

The enactment of the TRA contribution increases are contingent on whether funding is provided in the 2017 legislative session for the increase in the TRA employer contribution rate. If the employer contribution rate increase is not funded through an appropriation, the increases will not go into effect.

Article 8: New Direct State Aid Payments.

The article provides for annual state aid payments to the PERA P&F and SPTRFA.

Articles 9-13: MSRS, PERA, TRA, and SPTRFA Administrative Provisions.

The article makes administrative or technical changes to the statutes governing Minnesota public plans in general that bring statutory language into conformity with actual practice, clarify ambiguous or confusing language, and repeal obsolete provisions.

Article 14: Actuarial Assumptions.

The article updates the payroll growth and salary increase assumptions for MSRS-General, PERA-General, TRA, and SPTRFA and removes obsolete references.

Article 15: Volunteer Firefighter Relief Associations.

The article revises statutes governing volunteer firefighter relief associations governed under Chapter 424A, including specific provisions for the cities of Austin and Eden Prairie.

Article 16: MSRS-Administered Retirement Plan Modifications.

The article revises statutes that relate to pension and defined contribution plans administered by MSRS, including the following:

- Clarifies the deadline for submitting an application for disability benefits.
- Adds additional positions at the Department of Corrections and Department of Human Services eligible for coverage under the MSRS Correctional Plan and codifies the DHS review process.
- Extends the period for an additional three years for members close to retirement during which the current conversion factors will be used in converting an account balance to an annuity under the MSRS Unclassified Plan, a defined contribution plan.
- Reduces the enhanced rate of augmentation for former employees of the University of Minnesota Hospital and Clinics under MSRS-General who were transferred to Fairview Hospital and Healthcare Services in 1996 and makes changes to the exception from enhanced augmentation upon return to public service.

Article 17: PERA-Administered Retirement Plan Modifications.

The article revises statutes that relate to pension and defined contribution plans administered by PERA, including revisions for the Statewide Volunteer Firefighter Retirement Plan generally and to address issues for the Brook Park, Cromwell, and Wright fire departments.

Article 18: Generally Applicable Retirement Changes.

- Increases the maximum employer contribution for the laborers national industrial pension plan.
- Authorizes all state public retirement plans to accept gifts, donations, bequests, and life insurance death benefits.

Article 19: Plan or Benefit Changes for Small Groups or Individuals.

The article allows certain small groups of members or individuals to elect retroactive and prospective pension plan coverage in order to correct employer errors

Article 20: Technical Corrections.

Article 21: Appropriations.

The article makes the following appropriations:

- From the general fund, \$5,698,000 in FY18 and \$11,115,000 in FY19 and from any nongeneral funds the amounts necessary to pay the applicable portion of the increased MSRS employer contributions.
- From the general fund, \$1,950,000 in FY18 and \$3,250,000 in FY19 for payment to SPTRFA for increased employer contribution.
- From the general fund to the Judicial Branch for MSRS employer contribution increases:
 - \$73,000 in FY18 and \$146,000 in FY19 to the Supreme Court
 - \$15,000 in FY2018 and \$30,000 in FY2019 to the Court of Appeals.
 - \$344,000 in FY2018 and \$687,000 in FY2019 to the district courts.
 - \$139,000 in FY2018 and \$279,000 in FY2019 to the Board of Public Defense
 - \$31,000 in FY2018 and \$62,000 in FY2019 to the Guardian ad Litem Board
 - \$1,000 in FY2019 to the Board of Judicial Standards
- From the general fund, \$29,000 in FY18 and \$57,000 in FY19 to the Department of Education to pay the applicable portion of the increased TRA employer contributions.
- From the general fund, \$10,000 in FY18 and \$19,000 in FY19 to the Minnesota State Academies to pay the applicable portion of the increased TRA employer contributions
- From the general fund, \$8,000 in FY18 and \$15,000 in FY19 to the Perpich Center to pay the applicable portion of the increased TRA employer contributions.