SF9037 - 0 - "Omnibus Pension"

Chief Author:	**Julie Rosen**
Commitee:	**Finance**
Date Completed:	**02/26/2018**
Lead Agency:	Minn Management and Budget
Other Agencies:	

Other Agencies:
- Education Department
- Minn State Retirement System
- Public Employees Retirement Assoc
- Teachers Retirement Assoc

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology		X

Local Fiscal Impact	X	

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative.
Reductions shown in the parentheses.

State Cost (Savings)		Biennium		Biennium	
Dollars in Thousands	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**
Education Department					
General Fund	-	-	12,070	25,124	36,502
Minn Management and Budget					
General Fund	-	-	20,487	31,393	40,074
All Other Funds	-	-	6,659	13,051	14,548
Minn State Retirement System					
Correctional Employees Retirement	-	-	(5,327)	(9,186)	(12,853)
Highway Patrol Retirement	-	-	(2,168)	(3,614)	(5,422)
State Employees Retirement	-	-	(21,681)	(43,360)	(43,360)
Unclassified Employees Retire	-	-	(263)	(790)	(790)
Public Employees Retirement Assoc					
Public Employees Retirement Fund	-	-	1,750	3,500	3,500
Police And Fire	-	-	(10,822)	(24,130)	(36,090)
Teachers Retirement Assoc					
Teachers Retirement Fund	-	-	(18,800)	(39,300)	(50,780)
State Total					
General Fund	-	-	32,557	56,517	76,576
All Other Funds	-	-	6,659	13,051	14,548
Correctional Employees Retirement	-	-	(5,327)	(9,186)	(12,853)
Highway Patrol Retirement	-	-	(2,168)	(3,614)	(5,422)
State Employees Retirement	-	-	(21,681)	(43,360)	(43,360)
Unclassified Employees Retire	-	-	(263)	(790)	(790)
Public Employees Retirement Fund	-	-	1,750	3,500	3,500
Police And Fire	-	-	(10,822)	(24,130)	(36,090)
Teachers Retirement Fund	-	-	(18,800)	(39,300)	(50,780)
Total	**-**	**-**	**(18,095)**	**(47,312)**	**(54,671)**

State Cost (Savings)		**Biennium**		**Biennium**	
Dollars in Thousands	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**
	Biennial Total		**(18,095)**		**(101,983)**

Full Time Equivalent Positions (FTE)		**Biennium**		**Biennium**	
	FY2017	**FY2018**	**FY2019**	**FY2020**	**FY2021**
Education Department					
General Fund	-	-	-	-	-
Minn Management and Budget					
General Fund	-	-	-	-	-
All Other Funds	-	-	-	-	-
Minn State Retirement System					
Correctional Employees Retirement	-	-	-	-	-
Highway Patrol Retirement	-	-	-	-	-
State Employees Retirement	-	-	-	-	-
Unclassified Employees Retire	-	-	-	-	-
Public Employees Retirement Assoc					
Public Employees Retirement Fund	-	-	-	-	-
Police And Fire	-	-	-	-	-
Teachers Retirement Assoc					
Teachers Retirement Fund	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

Lead Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

EBO Signature: Paul Moore Date: 02/26/2018
Phone: 651 259-3776 Email: paul.b.moore@state.mn.us

State Cost (Savings) Calculation Details
This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.
*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2			Biennium		Biennium
Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
Education Department					
General Fund	-	-	12,070	25,124	36,502
Minn Management and Budget					
General Fund	-	-	20,487	31,393	40,074
All Other Funds	-	-	6,659	13,051	14,548
Minn State Retirement System					
Correctional Employees Retirement	-	-	(5,327)	(9,186)	(12,853)
Highway Patrol Retirement	-	-	(2,168)	(3,614)	(5,422)
State Employees Retirement	-	-	(21,681)	(43,360)	(43,360)
Unclassified Employees Retire	-	-	(263)	(790)	(790)
Public Employees Retirement Assoc					
Public Employees Retirement Fund	-	-	1,750	3,500	3,500
Police And Fire	-	-	(10,822)	(24,130)	(36,090)
Teachers Retirement Assoc					
Teachers Retirement Fund	-	-	(18,800)	(39,300)	(50,780)
Total	**-**	**-**	**(18,095)**	**(47,312)**	**(54,671)**
Biennial Total			**(18,095)**		**(101,983)**
1 - Expenditures, Absorbed Costs*, Transfers Out*					
Education Department					
General Fund	-	-	12,070	25,124	36,502
Minn Management and Budget					
General Fund	-	-	20,620	31,654	40,418
All Other Funds	-	-	6,659	13,051	14,548
Minn State Retirement System					
Correctional Employees Retirement	-	-	(316)	(632)	(632)
Highway Patrol Retirement	-	-	-	-	-
State Employees Retirement	-	-	(3,753)	(7,505)	(7,505)
Unclassified Employees Retire	-	-	-	-	-
Public Employees Retirement Assoc					
Public Employees Retirement Fund	-	-	1,750	3,500	3,500
Police And Fire	-	-	-	-	-
Teachers Retirement Assoc					
Teachers Retirement Fund	-	-	(9,000)	(19,100)	(19,680)
Total	**-**	**-**	**28,030**	**46,092**	**67,151**
Biennial Total			**28,030**		**113,243**
2 - Revenues, Transfers In*					
Education Department					
General Fund	-	-	-	-	-
Minn Management and Budget					
General Fund	-	-	133	261	344
All Other Funds	-	-	-	-	-
Minn State Retirement System					

State Cost (Savings) = 1-2			**Biennium**		**Biennium**
Dollars in Thousands	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**
Correctional Employees Retirement	-	-	5,011	8,554	12,221
Highway Patrol Retirement	-	-	2,168	3,614	5,422
State Employees Retirement	-	-	17,928	35,855	35,855
Unclassified Employees Retire	-	-	263	790	790
Public Employees Retirement Assoc					
Public Employees Retirement Fund	-	-	-	-	-
Police And Fire					
Revenues	-	-	6,322	19,630	27,090
Transfers In	-	-	4,500	4,500	9,000
Teachers Retirement Assoc					
Teachers Retirement Fund	-	-	9,800	20,200	31,100
Total	**-**	**-**	**46,125**	**93,404**	**121,822**
Biennial Total			**46,125**		**215,226**

SF9037 - 0 - "Omnibus Pension"

Chief Author:	**Julie Rosen**
Commitee:	**Finance**
Date Completed:	**02/26/2018**
Agency:	Minn Management and Budget

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X

Local Fiscal Impact	X	

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)			Biennium		Biennium
Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
General Fund	-	-	20,487	31,393	40,074
All Other Funds	-	-	6,659	13,051	14,548
Total	**-**	**-**	**27,146**	**44,444**	**54,622**
Biennial Total			**27,146**		**99,066**

Full Time Equivalent Positions (FTE)			Biennium		Biennium
	FY2017	FY2018	FY2019	FY2020	FY2021
General Fund	-	-	-	-	-
All Other Funds	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

EBO Signature: Paul Moore Date: 2/26/2018 4:33:29 PM
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State Cost (Savings) Calculation Details
This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.
*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2			Biennium		Biennium
Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
General Fund	-	-	20,487	31,393	40,074
All Other Funds	-	-	6,659	13,051	14,548
Total	**-**	**-**	**27,146**	**44,444**	**54,622**
Biennial Total			**27,146**		**99,066**
1 - Expenditures, Absorbed Costs*, Transfers Out*					
General Fund	-	-	20,620	31,654	40,418
All Other Funds	-	-	6,659	13,051	14,548
Total	**-**	**-**	**27,279**	**44,705**	**54,966**
Biennial Total			**27,279**		**99,671**
2 - Revenues, Transfers In*					
General Fund	-	-	133	261	344
All Other Funds	-	-	-	-	-
Total	**-**	**-**	**133**	**261**	**344**
Biennial Total			**133**		**605**

Bill Description

MMB's portion of this fiscal note addresses the fiscal impact to the state general fund and all other state funds related to employer contribution rate increases as well as direct aid to the PERA-Police and Fire Plan and St. Paul Teachers' Fund Association.

PERA-Police and Fire Direct Aid: Article 8, Section 1, provides for a $4.5 million payment annually in FY 2019 and FY 2020, and $9 million annually thereafter, from the state to the PERA-Police and Fire plan. Payments cease the earlier of: the first day of the fiscal year following the fiscal year in which fund assets equal or exceed 100% of liabilities on an actuarial basis as reported by the plan's actuary, or July 1, 2048.

SPTRFA Direct Aid: Article 8, Section 4, provides for a payment of $5 million annually beginning in FY 2019 from the state to the St. Paul Teachers' Retirement Fund Association. Payments cease the earlier of: the first day of the fiscal year following the fiscal year in which fund assets equal or exceed 100% of liabilities on an actuarial basis as reported by the plan's actuary, or July 1, 2048.

Employer Contribution increases: Article 7 provides for phased-in employer contribution rate increases for the MSRS-Correctional, MSRS-General, MSRS-State Patrol, MSRS-Unclassified, PERA-Police and Fire, SPTRFA, and TRA pension plans.

Assumptions

- MMB's portion of the fiscal note calculates the cost of MSRS, SPTRFA, and TRA employer contribution rate increases for the state executive branch (including constitutional officers and Minnesota State), judicial branch, legislative branch, Historical Society, Metropolitan Council, and University of Minnesota.
- School district costs and the pension adjustment formula related to the SPTRFA and TRA employer contribution rate increases are addressed in the Minnesota Department of Education's portion of the fiscal note.
- This fiscal note uses fiscal year 2017 payroll and pension contribution data, increased by 2.7% annually in FY 2018 and FY 2019 to account for estimated payroll growth. The rate of 2.7% is the 10 year historical average for payroll growth per FTE among state agencies in MMB's accounting system. No payroll growth was applied to FY 2020 or any year thereafter.

  FY 2019 payroll and pension contribution estimates are then multiplied by the respective pension plan's

- employer contribution increase phase-in schedule to calculate the cost of these increases.

- Minnesota Department of Human Services appropriations for operating expenses, including pension costs, are offset in a number of ways. Central office costs are offset by Federal Financial Participation (FFP), the federal share for administering federal programs, which is tracked as a negative expenditure pursuant to state law. Direct care and treatment costs are offset by payments from counties and other entities for their share of costs for individuals in state-operated facilities, which are tracked as revenue.
- Not all costs reflected in the All Other Funds category of this fiscal note will require increased appropriations (e.g., dedicated revenue funds such as the federal (3000) fund). As provided in Article 22, Section 2, MMB will determine which funds will require and can accommodate increased appropriations.
- Some state agencies have the statutory authority to conduct internal billing to pay for agency indirect costs from the special revenue fund. With internal billing, agencies charge an indirect rate to their various programs supported by the general fund and other direct appropriated funds, and then deposit that revenue in the special revenue fund. The agency then pays overhead costs, including pension contributions, from this fund. Because of this system, the pension costs calculated in the general fund or other direct appropriated funds within this fiscal note may not reflect the entire amount that would need to be appropriated to fully compensate for the pension costs of employees paid from the special revenue fund due to internal billing. To provide as an example, the Minnesota Department of Natural Resources would need an additional appropriation from the general fund above the amounts shown in this fiscal note of approximately $33,000 in FY 2019, $64,000 in FY 2020, $71,000 in FY 2021, and $79,000 in FY 2022 to fully compensate for general fund-funded employees' pension costs that are ultimately paid out of the special revenue fund.
- This fiscal note does not include the costs to state agencies related to PERA-Police and Fire employer contribution increases. One state agency, the Military Affairs Department, would be affected. The department pays these costs out of the federal (3000) fund, which is not a direct appropriated fund. Thus, these costs are excluded from the calculation.

Expenditure and/or Revenue Formula

	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
General Fund							
Expenditures							
MSRS							
Executive Branch Agencies, Boards, Commissions, Constitutional Officers, Judicial Branch, Legislative Branch, Historical Society, Metropolitan Council, Minnesota State, and University of Minnesota Operating Increase	10,916	21,737	25,717	29,698	29,698	29,698	29,698
DHS Central Office Operations Federal Financial Participation (decreased GF expenditures)	(225)	(441)	(581)	(722)	(722)	(722)	(722)
TRA							
Executive Branch Agencies and Minnesota State Operating Increase	423	846	1,269	1,692	2,115	2,518	2,518

SPTRFA							
Minnesota State Operating Increase	6	12	13	15	16	18	18
Direct Aid	5,000	5,000	5,000	5,000	5,000	5,000	5,000
PERA-Police and Fire							
Direct Aid	4,500	4,500	9,000	9,000	9,000	9,000	9,000
Revenues							
MSRS							
DHS Direct Care and Treat ment Offsets (increased GF revenue)	(133)	(261)	(344)	(427)	(427)	(427)	(427)
General Fund Total	20,487	31,393	40,074	44,256	44,680	45,085	45,085
All Other Funds							
Expenditures							
MSRS							
Executive Branch Agencies, Boards, Commissions, Constitutional Officers, Judicial Branch, Legislative Branch, Historical Society, Metropolitan Council, Minnesota State, and University of Minnesota Operating Increase	6,659	13,051	14,548	16,044	16,044	16,044	16,044
All Other Funds Total	6,659	13,051	14,548	16,044	16,044	16,044	16,044

Long-Term Fiscal Considerations

The employer contribution increase phase-in schedule extends beyond the budget tracking period of FY 2018-21. The table in the Expenditure and/or Revenue Formula section shows estimated costs through FY 2024-2025, the biennium when the SPTRFA and TRA phase-in schedule ends.

Local Fiscal Impact

The MSRS, PERA, SPTRFA, and TRA employer contribution rate increases in this bill will result in additional costs for units of local government with employees in these pension plans.

References/Sources

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SF9037 - 0 - "Omnibus Pension"

Chief Author:	**Julie Rosen**
Commitee:	**Finance**
Date Completed:	**02/26/2018**
Agency:	Education Department

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X

Local Fiscal Impact	Yes	No
Local Fiscal Impact	X	

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative.
Reductions shown in the parentheses.

State Cost (Savings)		Biennium		Biennium	
Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
General Fund	-	-	12,070	25,124	36,502
Total	**-**	**-**	**12,070**	**25,124**	**36,502**
Biennial Total			**12,070**		**61,626**

Full Time Equivalent Positions (FTE)		Biennium		Biennium	
	FY2017	FY2018	FY2019	FY2020	FY2021
General Fund	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

EBO Signature:Melissa Lam Young Date: 2/26/2018 4:31:41 PM
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State Cost (Savings) Calculation Details
This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.
*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2			**Biennium**		**Biennium**	
Dollars in Thousands		**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**
General Fund		-	-	12,070	25,124	36,502
	Total	**-**	**-**	**12,070**	**25,124**	**36,502**
	Biennial Total			**12,070**		**61,626**
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund		-	-	12,070	25,124	36,502
	Total	**-**	**-**	**12,070**	**25,124**	**36,502**
	Biennial Total			**12,070**		**61,626**
2 - Revenues, Transfers In*						
General Fund		-	-	-	-	-
	Total	**-**	**-**	**-**	**-**	**-**
	Biennial Total			**-**		**-**

Bill Description

This bill is related to Pensions.

Minnesota Department of Education (MDE) will address only Article 21 and Article 22 in this fiscal note that pertain to the agency.

Article 21, Section 1 of this bill adds the following calculation to the pension adjustment revenue component of general education revenue and is effective for revenue in fiscal year 2019 and later.

1. The product of the salaries paid to district employees who were members of the Teachers Retirement Association and the St. Paul Teachers' Retirement Fund Association for the prior fiscal year and the district's pension adjustment rate for the fiscal year. The pension adjustment rate for Independent School District No. 625, St. Paul, equals 0.84 percent for fiscal year 2019, 1.67 percent for fiscal year 2020, 1.88 percent for fiscal year 2021, 2.09 percent for fiscal year 2022, 2.3 percent for fiscal year 2023, and 2.5 percent for fiscal year 2024 and later. The pension adjustment rate for all other districts equals 0.21 percent for fiscal year 2019, 0.42 percent for fiscal year 2020, 0.63 percent for fiscal year 2021, 0.84 percent for fiscal year 2022, 1.05 percent for fiscal year 2023, and 1.25 percent for fiscal year 2024 and later.
    a. For fiscal year 2025 and later, the state total pension adjustment revenue, must not exceed the amount calculated for fiscal year 2024. The commissioner must prorate the pension adjustment revenue, so as not to exceed the maximum.
    b. Notwithstanding section 123A.26, subdivision 1, a cooperative unit, as defined in section 123A.24, subdivision 2, qualifies for pension adjustment revenue, as if it was a district, and the aid generated by the cooperative unit shall be paid to the cooperative unit.

Article 21, Section 2 of this bill sets the payment schedule for the new portion of pension adjustment revenue at one hundred percent of the aid for the current fiscal year. The 90-10 payment schedule for existing pension adjustment revenue is not changed. This is effective for revenue in fiscal year 2019 and later.

Article 22, Section 4 (a) of this bill increases the appropriations in fiscal year 2019 from the general fund to the Department of Education, Minnesota State Academies and the Perpich Center for the Arts for increased employer pension contributions to the Teachers Retirement Association for state agency employees who are TRA members. It provides a base for fiscal year 2020 through fiscal year 2024 and later. This is effective July 1, 2018.

Article 22, Section 5 of this bill increases the appropriation for General Education Aid to fund the increase in pension adjustment revenue. This would increase the overall total General Education Aid amount starting in fiscal year 2019. This section is effective July 1, 2018.

Assumptions

To calculate the estimated increase in pension adjustment revenue in Article 21, Section 1, MDE used FY17 payroll data from Saint Paul Teachers Retirement Fund Association (SPTRFA) and Teachers Retirement Association (TRA). For FY 2018 through FY 2021, it was assumed that TRA and SPTRFA salaries will increase each year in proportion to the change in total Average Daily Membership (ADM) as local education agencies hire additional staff to accommodate enrollment growth. It was also assumed that for FY 2018 and FY 2019, the average amount of salary per ADM will increase annually at the four year average rate of 3.14 percent occurring between FY 2014 and FY 2017. For FY 2020 and FY 2021, a 1.14 percent annual increase was assumed in salary per ADM, or 2% less per year than for FY 2014 FY 2019, because there is no formula allowance increase in law for FY 2020 and later. For FY 2014, the formula allowance increase was 1.5% and for FY 2015 FY 2019, the formula allowance was increased by 2% annually. No adjustment was made for ADM change after FY 2021.

It is assumed that the FY 2017 salary data used will be from school districts, charter schools and Educational Co-ops. State Agency costs will not be included in this fiscal note. Those costs related to the Agency (MDE) will be addressed in Minnesota Management and Budget's (MMB) fiscal note.

After total payroll costs were calculated for each fiscal year, the prior year salaries were multiplied by the pension adjustment rate for the current fiscal year to get the total cost for the appropriation increase.

Expenditure and/or Revenue Formula

Determining the percentage increase using actual data for FY13-FY17:

		FY13	FY14	FY15	FY16	FY17
	Payroll growth assumption					
1	Students - Feb 2018 forecast (AADM)	826,718	832,303	840,073	847,111	856,878
2	Pupil Unit Growth Factor (Line 1 divided by Previous Year Line 1)	NA	1.01	1.01	1.01	1.01
	Covered payroll ($ in thousands)					
3	TRA School Districts (Salary Previous Year Line 3 x Line 2 x Line 8)	3,786,036	3,909,404	4,094,437	4,385,182	4,464,951
4	St. Paul Public Schools (SPTRFA) (Salary Previous Year Line 4 x Line 2 x Line 8)	247,430	259,085	263,179	258,135	263,676
5	Total (Line 3 + Line 4)	4,033,466	4,168,489	4,357,616	4,643,317	4,728,626
6	Amount per ADM (For FY13-17, Line 5/Line 1) (For FY18-FY25, Previous Year Line 6 x Line 8)	4.879	5.008	5.187	5.481	5.518
7	Annual percent Increase (Current Year Line 6 - Previous Year Line 6 divided by Previous Year Line 6)	NA	2.7%	3.6%	5.7%	0.7%
8	4 year avg % incr payroll per ADM (for FY17, Sum of Line 7 for FY14-17 divided by 4)	NA	NA	NA	NA	3.14%
	Contribution increase rate					
9	LCPR TRA (from bill language)	NA	NA	NA	NA	NA

10	LCPR SPTRFA (from bill language)	NA	NA	NA	NA	NA
	Pension Adjustment Revenue ($ in thousands)					
11	TRA School Districts (previous year Line 3 x current year Line 9)	NA	NA	NA	NA	NA
12	St. Paul Public Schools (SPTRFA) (previous year Line 4 x current year Line 10)	NA	NA	NA	NA	NA
13	Total Aid Entitlement and Appropriation (Line 11 + Line 12)	NA	NA	NA	NA	NA
	Contribution increases					
14	TRA School Districts (Line 3 x Line 9)	NA	NA	NA	NA	NA
15	St. Paul Public Schools (SPTRFA) (Line 4 x Line 10)	NA	NA	NA	NA	NA
16	Total Contribution Increase based on Current fiscal Year (Line 14 + Line 15)	NA	NA	NA	NA	NA
17	Impact to Local School Districts (Line 16 - Line 13)	NA	NA	NA	NA	NA

Using the actual data and calculations from the previous table to calculate the appropriation amounts (in thousands) for FY18-FY25:

		FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
	Payroll growth assumption								
1	Students - Feb 2018 forecast (AADM)	866,074	873,894	878,574	886,378	886,378	886,378	886,378	886,378
2	Pupil Unit Growth Factor (Line 1 divided by Previous Year Line 1)	1.01	1.01	1.01	1.01	1.00	1.00	1.00	1.00
	Covered payroll ($ in thousands)								
3	TRA School Districts (Salary Previous Year Line 3 x Line 2 x Line 8)	4,654,709	4,844,352	4,925,960	5,026,514	5,026,514	5,026,514	5,026,514	5,026,514
4	St. Paul Public Schools (SPTRFA) (Salary Previous Year Line 4 x Line 2 x Line 8)	274,882	286,081	290,900	296,839	296,839	296,839	296,839	296,839
5	Total (Line 3 + Line 4)	4,929,590	5,130,434	5,216,860	5,323,352	5,323,352	5,323,352	5,323,352	5,323,352
6	Amount per ADM (For FY13-17, Line 5/Line 1) (For FY18-FY25, Previous Year Line 6 x Line 8)	5.692	5.871	5.938	6.006	6.006	6.006	6.006	6.006
7	Annual percent	NA	NA	NA	NA	NA	NA	NA	NA

	Increase (Current Year Line 6 - Previous Year Line 6 divided by Previous Year Line 6)								
8	4 year avg % incr payroll per ADM (for FY17, Sum of Line 7 for FY14-17 divided by 4)	103.14%	103.14%	101.14%	101.14%	100.00%	100.00%	100.00%	100.00%
	Contribution increase rate								
9	LCPR TRA (from bill language)	NA	0.21%	0.42%	0.63%	0.84%	1.05%	1.25%	1.25%
10	LCPR SPTRFA (from bill language)	NA	0.84%	1.67%	1.88%	2.09%	2.30%	2.50%	2.50%
	Pension Adjustment Revenue ($ in thousands)								
11	TRA School Districts (previous year Line 3 x current year Line 9)	NA	9,775	20,346	31,034	42,223	52,778	62,831	62,831
12	St. Paul Public Schools (SPTRFA) (previous year Line 4 x current year Line 10)	NA	2,295	4,778	5,469	6,204	6,827	7,421	7,421
13	Total Aid Entitlement and Appropriation (Line 11 + Line 12)	NA	12,070	25,124	36,502	48,427	59,606	70,252	70,252
	Contribution increases								
14	TRA School Districts (Line 3 x Line 9)	NA	10,173	20,689	31,667	42,223	52,778	62,831	62,831
15	St. Paul Public Schools (SPTRFA) (Line 4 x Line 10)	NA	2,389	4,858	5,581	6,204	6,827	7,421	7,421
16	Total Contribution Increase based on Current fiscal Year (Line 14 + Line 15)	NA	12,562	25,547	37,248	48,427	59,606	70,252	70,252
17	Impact to Local School Districts (Line 16 - Line 13)	NA	492	423	745	-	-	-	-

Long-Term Fiscal Considerations

The costs will be on going. MDE has provided the cost estimates for the future years FY 2022-FY 2025.

Local Fiscal Impact

The Local Impact would be the difference between what the contribution increases using the current fiscal year salary minus the Pension Adjustment Revenue. In the expenditure tables, this can be seen on line 17 showing the total additional impact to school districts for FY 2019-FY 2021.

References/Sources

FY 2013- 2017 Salary data from TRA and SPTRFA.
FY 2013- 2017 MARSS data

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Agency Fiscal Note Coordinator Signature: Jaclyn Miller **Date:** 2/26/2018 4:15:11 PM

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SF9037 - 0 - "Omnibus Pension"

Chief Author:	**Julie Rosen**
Commitee:	**Finance**
Date Completed:	**02/26/2018**
Agency:	Minn State Retirement System

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology		X

Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)		**Biennium**		**Biennium**	
Dollars in Thousands	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**
Correctional Employees Retirement	-	-	(5,327)	(9,186)	(12,853)
Highway Patrol Retirement	-	-	(2,168)	(3,614)	(5,422)
State Employees Retirement	-	-	(21,681)	(43,360)	(43,360)
Unclassified Employees Retire	-	-	(263)	(790)	(790)
Total	**-**	**-**	**(29,439)**	**(56,950)**	**(62,425)**
Biennial Total			**(29,439)**		**(119,375)**

Full Time Equivalent Positions (FTE)		**Biennium**		**Biennium**	
	FY2017	**FY2018**	**FY2019**	**FY2020**	**FY2021**
Correctional Employees Retirement	-	-	-	-	-
Highway Patrol Retirement	-	-	-	-	-
State Employees Retirement	-	-	-	-	-
Unclassified Employees Retire	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

EBO Signature: Paul Moore Date: 2/26/2018 9:26:29 AM
Phone: 651 259-3776 Email: paul.b.moore@state.mn.us

State Cost (Savings) Calculation Details
This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.
*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2			Biennium		Biennium
Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
Correctional Employees Retirement	-	-	(5,327)	(9,186)	(12,853)
Highway Patrol Retirement	-	-	(2,168)	(3,614)	(5,422)
State Employees Retirement	-	-	(21,681)	(43,360)	(43,360)
Unclassified Employees Retire	-	-	(263)	(790)	(790)
Total	**-**	**-**	**(29,439)**	**(56,950)**	**(62,425)**
Biennial Total			**(29,439)**		**(119,375)**
1 - Expenditures, Absorbed Costs*, Transfers Out*					
Correctional Employees Retirement	-	-	(316)	(632)	(632)
Highway Patrol Retirement	-	-	-	-	-
State Employees Retirement	-	-	(3,753)	(7,505)	(7,505)
Unclassified Employees Retire	-	-	-	-	-
Total	**-**	**-**	**(4,069)**	**(8,137)**	**(8,137)**
Biennial Total			**(4,069)**		**(16,274)**
2 - Revenues, Transfers In*					
Correctional Employees Retirement	-	-	5,011	8,554	12,221
Highway Patrol Retirement	-	-	2,168	3,614	5,422
State Employees Retirement	-	-	17,928	35,855	35,855
Unclassified Employees Retire	-	-	263	790	790
Total	**-**	**-**	**25,370**	**48,813**	**54,288**
Biennial Total			**25,370**		**103,101**

Bill Description

This Bill relates to financial solvency measures for the statewide, defined benefit pension plans. MSRS administers five defined benefit plans: the General Employees Retirement Plan, the Correctional Employees Retirement Plan, the State Patrol Retirement Plan, the Judges Retirement Plan and the Legislator's Retirement Plan. Assets and liabilities for each plan are accounted for within separate funds. This bill contains the funding solvency proposal adopted by the LCPR during the 2017 legislative session.

Investment Return Assumption:

Article 5. Section 1 of the bill lowers the annual investment return assumption from eight percent per year to 7.5% per year. This change applies to the General Plan, Correctional Plan, State Patrol Plan, and Judges Plan. Related provisions throughout the bill reduce the interest rate that MSRS charges employers and employees for late contribution payments and purchases of service credit.

General Employees Retirement Plan Provisions

This bill increases employee contributions, employer contributions, lowers postretirement adjustments (COLAs) and makes additional other changes in the General Plan.

Employee Contributions

- Increases from 5.5% of pay to 5.75% of pay effective July 1, 2018.

- Increases from 5.75% of pay to 6% of pay effective July 1, 2019.

Employer Contributions

- Increases from 5.5% of pay to 5.875% of pay effective July 1, 2018;

- Increases from 5.875% of pay to 6.25% of pay effective July 1, 2019;

Postretirement Adjustments (COLA)

- Postretirement adjustments are reduced from a 2% annual increase to a 1.0% annual increase effective January 1, 2019.

- Postretirement adjustments are increased from 1% to 1.5% effective January 1, 2024.

- Changes eligibility for postretirement increases to require that members attain normal retirement age before collecting a postretirement increase effective in 2024.

- Automatic triggers increasing the postretirement adjustment to 2.5% upon achieving two consecutive years during which the fund's assets meet or exceed 90% of the fund's projected liabilities are removed.

Other Changes

- Removes augmentation for employees who have terminated state employment but have not begun to collect an annuity.

- Lowers the interest paid on refunds of employee contributions from 4% to 3%.

Correctional Employees Retirement Plan Provisions

Employee Contributions

- Increases from 9.1% of pay to 9.6% of pay effective July 1, 2018.

Employer Contributions

- Increases from 12.85% to 14.4% of pay effective July 1, 2018.

- Increases from 14.4% to 15.85% of pay effective July 1, 2019.

- Increases from 15.85% to 17.35% of pay effective July 1, 2020.

- Increases from 17.35% to 18.85% of pay effective July 1, 2021.

- Employer contributions that exceed 60% of the combined employee and employer contribution rate will be automatically removed once the plan reaches 100% funded.

Postretirement Adjustments (COLA)

- Postretirement adjustments are reduced from a 2% annual increase to a 1.5% annual increase effective January 1, 2019.

- Removes automatic triggers increasing the postretirement adjustment to 2.5% upon achieving two consecutive years during which the fund's assets meet or exceed 90% of the fund's projected liabilities.

Other Changes

- Removes augmentation for employees who have terminated state employment but have not begun to collect an annuity.

- Lowers the interest paid on refunds of employee contributions from 4% to 3%.

State Patrol Retirement Plan Provisions

Employee Contributions

- Increases from 14.4% to 14.9% of pay effective July 1, 2018.

- Increases from 14.9% to 15.4% of pay effective July 1, 2020.

Employer Contributions

- Increases from 21.6% to 24.1% of pay effective July 1, 2018.

- Increases from 24.1% to 26.1% of pay effective July 1, 2019.

- Increases from 26.1% to 28.1% of pay effective July 1, 2020.

- Increases from 28.1% to 30.1% of pay effective July 1, 2021.

- Employer contributions that exceed 60% of the combined employee and employer contribution rate will be automatically removed once the plan reaches 100% funded.

Postretirement Adjustments (COLA)

Removes automatic triggers increasing the postretirement adjustment from 1% to 2% upon achieving two consecutive years during which the fund's assets meet or exceed 80% of the fund's projected liabilities and further increases postretirement adjustment from 2% to 2.5% upon achieving two consecutive years during which the fund's assets meet or exceed 90% of the fund's projected liabilities

Other Changes

- Removes augmentation for employees who have terminated state employment but have not begun to collect an annuity.

- Lowers the interest paid on refunds of employee contributions from 4% to 3%.

Unclassified Retirement Plan Provisions

Minn. Stat. §352D.04 Subd. 2. sets employee contribution rates equal to the rates used by the General Employees Retirement Plan. Changes to Postretirement

Employee Contributions

- Increases from 5.5% to 5.75% of pay effective July 1, 2018.

- Increases from 5.75% to 6% of pay effective July 1, 2019.

Employer Contributions

- Increase from 6% to 6.25% of pay effective July 1, 2019.

Postretirement Adjustments (COLA)

The changes to the postretirement adjustments are identical to those made to the General Employees Retirement Plan.

Assumptions

FY2017 base payroll for each of the affected plans is:

- $2.868 billion (General Plan);

- $244.4 million (Correctional Plan);

- $72.3 million (State Patrol Plan); and

- $105.4 million (Unclassified Plan).

Future payroll growth affects what the actual revenues into each of the funds will be. Actual payroll growth varies from year to year. This note provides revenues assuming a 0% payroll growth assumption 2018-19 biennium.

FY2017 Annuity benefits paid are:

- $750,526,000 (General and Unclassified Plans);

- $63,221,000 (Correctional Plan);

- $58,560,000 (State Patrol plan); and

MSRS does not anticipate that this legislation will measurably change the behavior of any of the groups affected by this bill: employees, employers, and retirees.

Expenditure and/or Revenue Formula

The provisions, which lower postretirement adjustments (COLAs) for the General, Unclassified, and Correctional plans, reduce projected expenditures for fiscal years 2019 through 2020 as follows:

(FY2017 annual benefits payments x 1.02) - (FY2017 annual benefits payments x 1.01)

Expenditures for FY2019 are half of the formula above due to the date of enactment of the postretirement adjustment changes.

Revenue Formula

Employer and employee contribution rate increases for the General, Correctional, and State Patrol Plans increase expected revenues into their respective plans. Actual increased revenue may vary depending on the actual covered payroll growth that occurs over the next four years. Below is a description of expected revenue based on payroll growth of 0% for all years

General Plan

Employer contributions increase 0.375% of covered payroll in FY2019 and an additional 0.375% of covered payroll in FY2020. Employee contributions increase 0.25% of covered payroll in FY2018 and an additional .25% of covered payroll in FY2019.

Fiscal Year	Increase in Employee Contributions	Increase in Employer Contributions	Total
2019	$7.2M	$10.7M	$17.9M
2020	$14.3M	$21.5M	$35.8M
2021	$14.3M	$21.5M	$35.8M
2022	$14.3M	$21.5M	$35.8M

(figures may not tie out due to rounding)

Correctional Plan

Employer contributions increase 1.55% in FY2018. A “supplemental” contribution rate increase of 4.45% is phased in over the subsequent three fiscal years. The supplemental increase terminates when the fund reaches 100% funded. The supplemental increase is phased in as follows: 1.45% in FY2019, 1.5% in FY2020, and 1.5% in FY2021. This is a total of 6% increase for all years. Employee contributions increase by 0.5% of base payroll for all years.

Fiscal Year	Increase in Employee Contributions	Increase in Employer Contributions	Total
2019	$1.2M	$3.8M	$5.0M
2020	$1.2M	$7.3M	$8.6M
2021	$1.2M	$11.0M	$12.2M

2022	$1.2M	$14.7M	$15.9M

(figures may not tie out due to rounding)

State Patrol Plan

Regular employer contributions increase by 0.75% of covered payroll in FY2019 plus an additional 0.75% increase in FY 2021. A "supplemental" increase 7% of covered payroll is phased in over four years starting in FY2019 as follows: 1.75% in FY2019, 1.25% in FY2020, 2% in FY2020, and 2% in FY2021. The supplemental contributions terminate when the fund reaches 100% funded. Employee contributions increasing by 0.5% for FY2019-20 and increasing an additional 0.5% in FY2021 and beyond.

Fiscal Year	Increase in Employee Contributions	Increase in Employer Contributions	Total
2019	$0.4M	$1.8M	$2.2M
2020	$0.4M	$3.3M	$3.6M
2021	$0.7M	$4.7M	$5.4M
2022	$0.7M	$6.1M	$6.9M

(figures may not tie out due to rounding)

Unclassified Retirement Plan

Employer increase by 0.25% of covered payroll in FY 2020. Employee contribution increase by 0.25% of covered payroll in FY2019 and an additional 0.25% of payroll in FY2020.

Fiscal Year	Increase in Employee Contributions	Increase in Employer Contributions	Total
2019	$0.3M	$0.0M	$0.3M
2020	$0.5M	$0.3M	$0.8M
2021	$0.5M	$0.3M	$0.8M
2022	$0.5M	$0.3M	$0.8M

Long-Term Fiscal Considerations

Long-Term Fiscal Considerations

Combined, the General, Correctional, and State Patrol plans have more than $14.1 billion in assets and $16.8 billion in liabilities. The impact that this legislation has on the health of these funds cannot be expressed in terms of expenditures and revenues as measured over the next four years. MSRS measures pension-funding health by utilizing three different measurements: contribution rate sufficiency/deficiency, current funded ratios, and projected funded ratios over the next thirty years.

Investment Return Assumption

Lowering the investment return assumption from 8% to 7.5% increases actuarial liabilities by $812 million for the General Plan, $80 million for the Correctional Plan, and $43 million for the State Patrol Plan.

Contribution and Benefit Changes

The proposed legislation for the General Plan decreases the contribution rate deficiency/sufficiency from 4.3% of pay deficient to a slight sufficiency. The postretirement adjustment reduction immediately increases the current funded ratio from 76.8% funded to more than 81% funded by eliminating more than $700 million in liabilities. The proposed funding package also improves the projected funding ratios in 2046 from 57.4% funded to more than 100% funded

The Correctional Plan contribution and postretirement adjustment changes decreases the contribution rate deficiency from 9.95% of pay deficient to 0.0% of pay deficient. The postretirement adjustment reduction immediately increases the current funded ratio from 68.1% to 72.1% funded. The proposed funding package also improves the projected funding ratios in 2046 from 56% to more than 100% funded in 2046.

The State Patrol Plan contribution and postretirement adjustment changes decreases the contribution rate deficiency from 8.3% of pay deficient to 0.0% of pay deficient.. The proposed funding package also improves the projected funding ratios in 2046 from 76.4% to more than 100% funded.

Local Fiscal Impact

References/Sources

Minnesota State Retirement System, Actuarial Valuation Report as of July 1, 2017, GRS Consultants & Actuaries

Proposed Plan, Assumption and Method Changes November 17, 2017, GRS Consultants & Actuaries

Agency Contact:

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SF9037 - 0 - "Omnibus Pension"

Chief Author:	**Julie Rosen**
Commitee:	**Finance**
Date Completed:	**02/26/2018**
Agency:	Public Employees Retirement Assoc

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings	X	
Tax Revenue		X
Information Technology		X

Local Fiscal Impact	X	

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative.
Reductions shown in the parentheses.

State Cost (Savings)			Biennium		Biennium
Dollars in Thousands	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**
Public Employees Retirement Fund	-	-	1,750	3,500	3,500
Police And Fire	-	-	(10,822)	(24,130)	(36,090)
Total	**-**	**-**	**(9,072)**	**(20,630)**	**(32,590)**
Biennial Total			**(9,072)**		**(53,220)**

Full Time Equivalent Positions (FTE)			Biennium		Biennium
	FY2017	**FY2018**	**FY2019**	**FY2020**	**FY2021**
Public Employees Retirement Fund	-	-	-	-	-
Police And Fire	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

EBO Signature:Paul Moore Date: 2/26/2018 10:10:24 AM
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State Cost (Savings) Calculation Details
This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.
*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2			Biennium		Biennium
Dollars in Thousands	FY2017	FY2018	FY2019	FY2020	FY2021
Public Employees Retirement Fund	-	-	1,750	3,500	3,500
Police And Fire	-	-	(10,822)	(24,130)	(36,090)
Total	**-**	**-**	**(9,072)**	**(20,630)**	**(32,590)**
Biennial Total			**(9,072)**		**(53,220)**
1 - Expenditures, Absorbed Costs*, Transfers Out*					
Public Employees Retirement Fund	-	-	1,750	3,500	3,500
Police And Fire	-	-	-	-	-
Total	**-**	**-**	**1,750**	**3,500**	**3,500**
Biennial Total			**1,750**		**7,000**
2 - Revenues, Transfers In*					
Public Employees Retirement Fund	-	-	-	-	-
Police And Fire					
Revenues	-	-	6,322	19,630	27,090
Transfers In	-	-	4,500	4,500	9,000
Total	**-**	**-**	**10,822**	**24,130**	**36,090**
Biennial Total			**10,822**		**60,220**

Bill Description

The bill provides a package of benefit adjustments and contribution increases designed to improve PERA's funded status
Article 2:

- phases-out augmentation of early retirement benefits through June 30, 2024;

- eliminates augmentation for deferred benefits.

- reduces the amount of interest paid on refunded member contributions from 4% to 3%.

These changes apply to all plans.

Article 5:

- Reduces the assumed rate of return on invested assets from 8% to 7.5%.

- Extends the full-funding target date to June 30, 2048.

- Changes the conditions under which post-employment adjustments ("COLA") are made as follows:

a) *General Plan:* eliminates the funding-level trigger to increase benefits; ties post-employment increases to the same inflation measure used by the Social Security Administration; post-retirement increases will be 50% of inflation with a 1% floor and a 1.5% cap.

b) *Police and Fire Plan*: Eliminates the funding-level trigger to increase benefits and fixes post-employment increases at 1%.

c) *Local Correctional Plan*: Ties post-employment increases to Social Security inflation; post- retirement increases to be 100% of inflation with a 2.5% cap; retains funding level trigger to reduce post-employment increases if funding drops below a predetermined level at which point post-employment increases would still be tied to inflation but permanently capped at 1.5%.

Article 7: Increases contribution rates for the Police and Fire plan

- for employees from 10.8% to 11.3% effective January 1, 2019 and to 11.8% effective January 1,2020;

- for employers from 16.2% to 16.95% effective January 1, 2019 and to 17.7% effective January 1, 2020.

Article 8: provides for direct state aid to the Police and Fire plan in the amount of $ 4.5 million for FY2019 and $9 million per year thereafter under the plan is fully funded.

Assumptions

To estimate the article 5 impact of the proposed changes in the General Plan post-benefit adjustments, we assumed:

Employee benefit (expense) base at FY2017 levels of $1.4 billion level for all three years (2019-2021).

Inflation for each year (2019-2021) at 2.5% and therefore, the 50% inflation adjustment (COLA) would be 1.25%. The assumed rate of inflation is higher than has been experienced in the past 20 years.

At the assumed inflation rate, benefit adjustments would be higher than current law's guaranteed level of 1% but lower than current law post-trigger maximum of 2.5%.

Based on twenty years' of historical inflation data from the U.S. Bureau Labor Statistics, we believe that over the long-term linking post-benefit changes to inflation with a 1.5% cap and removing the 2.5% trigger will be cost neutral. If we were to have used the average rate of inflation for the past twenty years (2.1%) instead of 2.5% the projected incremental expense would have been negligible.

For the proposed Police and Fire rate changes we assumed a 3.5% growth in covered payroll as follows:

FY	Covered Police and Fire Payroll
2017	944,296
2018	977,346
2019	1,011,553
2020	1,046,958
2021	1,083,601

Expenditure and/or Revenue Formula

Incremental Revenue Formulas for proposed Police and Fire Contribution Rate increase (amounts in thousands):

FY	Covered Payroll	Employer Rate	Employee Rate	Total Contributions (Employer + Employee)	Incremental change (Fiscal Impact)--additional contributions to plan

		current law	proposed	current law	proposed	current law	proposed	
2019	1,011,553	16.20%	16.95%	10.80%	11.30%	273,119	279,442	6,322
2020	1,046,958	16.20%	17.70%	10.80%	11.80%	282,679	302,309	19,630
2021	1,083,601	16.20%	17.70%	10.80%	11.80%	292,572	319,662	27,090

Note: contribution rates change on January 1of each year rather than at the beginning of the fiscal year. Therefore, the amount of incremental revenue for FY2019 reflects only 6 months at the FY2019 rate; the amount for FY2020 reflects six months at the FY2019 rate and six months at the FY2020 rate; and the amount for FY2021 reflects a full 12 months at the 2021 rate.

Incremental Expense Formula (amounts in thousands):

General Employee Plan Incremental expense				
Fiscal Year	Base Benefit payments	incremental rate (incrmental COLA)	number of months	Incremental post-employment adjustment (assuming 2.5% inflation)
2019	1,400,000	0.25%	6	1,750
2020	1,400,000	0.25%	12	3,500
2021	1,400,000	0.25%	12	3,500

Note: benefit rates change on January 1of each year rather than at the beginning of the fiscal year. Therefore, the amount of incremental revenue for FY2019 reflects only 6 months at the 0.25 incremental rate; the amount for FY2020 and FY2021 reflects a full 12 months at the incremental rate.

Long-Term Fiscal Considerations

Over the long-term, we believe that the combination of linking post-employment benefit adjustments to inflation will be cost neutral with the existing 2.5% trigger that it replaces.

Extending the amortization period to 2048 will improve the contribution sufficiency for all plans.

We expect all plans will be fully funded before the proposed 2048 target.

As mentioned above, to illustrate one possible outcome of changing the General Employee Plan post-benefit adjustment, we assumed an short-term inflation rate for 2019-2021 of 2.5% per year.

However, the U.S. Bureau of Labor Statistics (BLS) data show the average annual rate of inflation has been only 2.1% for the 20-year period 1997-2016 and only 1.76% for the past ten years. Based on BLS data, if the proposed inflation-based method of making post-retirement benefit adjustments had been used, the average annual increases would have been 1% over a forty-year time frame; 1% over over the past 20 years; and less than 1% (0.8%) over the past ten years. These results suggest the proposed inflation-based method of post-retirement benefit adjustments would actually be *at least* cost-neutral with, and likely cheaper than current law through the 30-year full-funding target period.

Local Fiscal Impact

The majority of Police and Fire Plan members are employees of cities and counties. Therefore, the incremental revenue to PERA for the changed ***employer*** (only) contribution rates will be an incremental cost to local governments.

References/Sources

PERA's actuarial consultant: Gabriel, Roeder, Smith & Company

PERA Annual Financial Report

U.S. Bureau of Labor Statistics https://www.bls.gov/cpi/research-series/home.htm

Agency Contact:

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SF9037 - 0 - "Omnibus Pension"

Chief Author:	**Julie Rosen**
Commitee:	**Finance**
Date Completed:	**02/26/2018**
Agency:	Teachers Retirement Assoc

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X

Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)			Biennium		Biennium
Dollars in Thousands	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**
Teachers Retirement Fund	-	-	(18,800)	(39,300)	(50,780)
Total	**-**	**-**	**(18,800)**	**(39,300)**	**(50,780)**
Biennial Total			**(18,800)**		**(90,080)**

Full Time Equivalent Positions (FTE)			Biennium		Biennium
	FY2017	**FY2018**	**FY2019**	**FY2020**	**FY2021**
Teachers Retirement Fund	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

Executive Budget Officer's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with MMB's Fiscal Note policies.

EBO Signature:Paul Moore Date: 2/26/2018 2:12:29 PM
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State Cost (Savings) Calculation Details
This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.
*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2			**Biennium**	**Biennium**	
Dollars in Thousands	**FY2017**	**FY2018**	**FY2019**	**FY2020**	**FY2021**
Teachers Retirement Fund	-	-	(18,800)	(39,300)	(50,780)
Total	**-**	**-**	**(18,800)**	**(39,300)**	**(50,780)**
Biennial Total			**(18,800)**		**(90,080)**
1 - Expenditures, Absorbed Costs*, Transfers Out*					
Teachers Retirement Fund	-	-	(9,000)	(19,100)	(19,680)
Total	**-**	**-**	**(9,000)**	**(19,100)**	**(19,680)**
Biennial Total			**(9,000)**		**(38,780)**
2 - Revenues, Transfers In*					
Teachers Retirement Fund	-	-	9,800	20,200	31,100
Total	**-**	**-**	**9,800**	**20,200**	**31,100**
Biennial Total			**9,800**		**51,300**

Bill Description

The bill increases TRA revenues through higher employee and employer contirbution rates. Plan expenses are lowered by decreasing the annual cost-of-living increase to TRA benefit recipients and increases the penality to newly retiring teachers who retire before their Normal Retirement Age. The package is designed to decrease TRA's current contribution deficiency and improve its funded status into the future.

Beginning July 1, 2024, newly retiring TRA members will not be eligible for their first COLA until their normal retirement age. This provision will not apply to members retiring under the Rule of 90 provision or the Age 62/30 yrs provision. It also does not apply to disabilitants and survivors of the teachers who die while still in active service.

The package also includes a new amortization period for TRA's unfunded liability. The current amortization target date of June 30, 2039 will be extended until June 30, 2048.

Assumptions

The bill lowers TRA's investment earnings assumption from 8.5% annually to 7.5% annually. The change significantly increaases TRA's contribution deficiency of 2.5% on June 30, 2017 to an estimated contribution deficiency of -7.14%. The Legislative Commission on Pensions and Retirement on February 19, 2018 approved changes to other actuarial economic assumptions. These changes lowered the annual assumed inflation rate from 2.75% to 2.50%. The assumed rate of the increase in annual member covered payrolls and individual salary growth were also lowered.

Expenditure and/or Revenue Formula

TRA employee contribution rates will increase by 0.25% beginning July 1, 2023.

TRA employer contribution rates will increase steadily from 7.50% to 8.75% beginning July 1, 2018, in nearly equal amounts. Effective July 1, 2023, the employer contribution rate will be 8.75%. The revenues estimated in section 2 above assume an annual payroll growth of 2.5% in member covered payroll.

The new revenues for FY 2019-2021 listed pertain to E-12 schools and charter schools. TRA is assuming a covered member payroll of $4.898 billion for FY 2019, with 2.5% annual payroll growth thereafter.

The package proposed produces the following reductions of TRA Fund benefit payments and long-term liabilities. In total, the package reduces TRA llabiilities by $2.047 billion (present value of savings). The cost line in Section 1 earlier represents the amount of money TRA will save during FY 2019-2021 due to the payment of the reduced COLA proposed.

Proposal affecting TRA	Savings/ revenue as % of pay	Liability Reduction	Impacts
COLA 1% for 5 years, then increase by 0.1% per year in each of the next five years to 1.5%	2.80%	$1.682 B	Actives & Retirees
COLA delay to age 66 (exempt: Rule of 90, disability, survivors, age 62/30 years)	0.29%	$0.120 B	Actives
Early retirement increase penalties, 5-yr phase in, age 62/30 years exempt	0.25%	$0.118 B	Actives
Deferred augmentation reduce to 0%	0.22%	$0.127 B	Actives
EE contribution increase: +0.25% in year 6 (7.5% to 7.75%)	0.25%		Actives
ER contribution increases: +1.25% phased in over 6 years (7.5% to 8.75%)	1.25%		Employers
Re-amortization over 30 years	1.10%		
TOTAL	6.16%	$2.047 B	

Long-Term Fiscal Considerations

The TRA Fund will continue to receive great employer contributions and reduce plan expenditures over future decades as the cost saving features are applied to the calculation of TRA member benefits. The projected funding ratio in fiscal year 2047 is expected to improve to 92%. TRA is currently funded at about 76%.

Local Fiscal Impact

Higher Employer Contribution rates for TRA employer units.

References/Sources

Plan changes estimated by TRA's actuary, Cavanaugh Macdonald.

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