

The increasing rate of disability recipients is adversely impacting the Police & Fire (P&F) Plan. During the period from 2015 to 2019, the Plan averaged about six new duty disability recipients per month. In calendar year 2022, the Plan averaged over 21 new applications per month. This 250% increase reflects the underlying statewide trend that exists - even without considering the large number of disability recipients from the City of Minneapolis.

## COST IMPACT TO THE PLAN

Because of this sustained trend in the number of applications, and the increasing number of younger members applying, PERA's Board commissioned a study<sup>1</sup> to determine the cost impact of the rate increase on the Plan. The study indicates that if the future disability rates are 250% higher than those from 2015-2019, the estimated annual cost of the Plan will increase by about \$40 Million per year, which is about 4% of payroll.

Contribution requirements for the Plan are set in statute and have always been split with 40% paid by the member and 60% by the employer. A 4% of payroll cost increase would require members to increase their contribution by 1.6%. The average salary in the Plan is close to \$100,000, meaning the average active member would need to contribute \$1,600 per year (\$133/month) to cover the estimated cost increase.

## FUTURE EXPECTATIONS

Two years ago, the Plan was in relatively good shape after a 30% investment return for fiscal year ending June 30, 2021. The higher disability rates were a concern, and as stated by Executive Director Doug Anderson during testimony at the February 23, 2021, LCPR hearing, the impact would reduce the likelihood of decreasing the record high employee and employer contributions and limit the ability of the Plan to provide more than a 1% annual increase to retirees<sup>2</sup>.

Since that time, the investment returns have been well short of expectations and our actuary has advised using a lower investment return assumption<sup>3</sup>. Based on a 7.0% investment return assumption that the Legislature is considering, which is still higher than our actuary's recommended range, the Plan is only 86% funded. More importantly, the current statutory contributions are 0.5% short of the actuarially recommended contribution of 32.3%. This means the Plan is not on track to be fully funded by the Legislature's 2048 target date. The estimated full funding date is 2082 under this assumption.

The projection noted above is determined without consideration of the higher disability rates. Consideration of higher disability rates will change the plan projections to reflect a decline in health. In other words, the 4% contribution mentioned above would be necessary, just to get the Plan back on track for a 60-year path to full funding.

## PURPOSE OF HF1234

HF1234 may help in two ways: (1) the Bill provides an important step in improving mental healthcare access for our members and reducing the number of future disability benefit recipients, and (2) the Bill more fairly balances benefits and contributions for current and future disability recipients that can work with what is expected from active members.

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<sup>1</sup>GRS Police & Fire Plan Disability Analysis, June 9, 2022

<sup>2</sup>LCPR testimony from Executive Director Doug Anderson, February 23, 2021

<sup>3</sup>GRS Valuation Interest Rate Letter, July 12, 2022