



Date: December 9, 2021
To: PERA Board of Trustees
From: Doug Anderson, Executive Director
Amy Streng, Policy Coordinator
Subject: Additional 2022 Legislative Initiative

The following memo summarizes the effect of a 2018 legislative change that has had an adverse impact on some members that have returned to public service with coverage in the same Plan. The staff recommendation would retroactively reverse that impact for all affected members.

Deferred Segments

Deferred segments is an alternative benefit calculation method available to certain PERA eligible members. If a member leaves PERA-covered employment and returns to PERA-covered employment under the same plan, the member may be eligible for the deferred segment calculation. Each segment is calculated individually and then combined together for the total benefit amount. Minn. Stat. §353.71, subd. 2(e), the statutory language authorizing eligibility for a deferred segment benefit, was repealed effective July 1, 2018.

Background

Deferred segments allows an individual who has multiple periods of allowable service within a single plan the alternative calculation method. By using this method, deferred members who returned to public service are not negatively impacted. Members are eligible if the member vested in the first segment and there was a two-year break between each segment. The alternative calculation is paid if it is higher than the normal calculation under the applicable benefit calculation sections of the relevant plan. The alternative calculation allows periods of allowable service to be calculated separately and treated as if any subsequent service after the period ends did not occur. The result is that an individual may receive deferred augmentation on each segment per Minn. Stat. §353.34 subd. 3, and that any augmentation that would otherwise have been eliminated by the return to service may still apply.

An Example:

Member has allowable service from 1980 to 1990 (10 years), and from 2000-2005 (5 years). Two calculations are computed. The member receives the higher of calculation 1 or calculation 2.

- Calculation 1 (Normal calculation): Benefit is calculated using the highest overall high 5 for the 15 years. Deferred augmentation is applied from 2005 until 2019 (end of augmentation).
- Calculation 2, parts A/B (Deferred segments): Benefit is calculated in two segments. Benefit A is calculated using the high 5 and service for the first period of 10 years. Deferred augmentation is applied from 1990 until 2019 as if the member had not returned in 2000-2001. Benefit B is calculated using the high 5 and service for the second period of 5 years. Deferred augmentation is applied from 2005 until 2019. Benefit A and B are added together and known as a deferred segment benefit.

As noted above, Minn. Stat. §353.71, subd. 2(e) authorizing eligibility for a deferred segment calculation was repealed effective July 1, 2018. With the repeal of the statute, any segment established after June 30, 2018 does not qualify for a deferred segment calculation. Meaning, any eligible member who terminated in the past, but returned to work after June 30, 2018, no longer qualifies for augmentation on their deferred benefit. Segments established prior to June 30, 2018, are still calculated and paid to the member, if the calculation provides a higher benefit to the member. Deferred augmentation is no longer payable on the first segment if a member returns to service after July 1, 2018.

Deferred segments may have been repealed given the discrepancy between members who remain in public service and those who leave public service and return. Between July 1, 2018 and now, members have been negatively impacted by the repeal of deferred segments.

Recommendation

After reviewing the impact to members, the intent of deferred segments, and policy reasons for the repeal, staff is recommending that the PERA Board of Trustees direct staff to seek legislation that retroactively reinstates deferred segments. By retroactively reinstating deferred segments, members' benefits who have previously been negatively impacted, will be recalculated. Given the statutory changes to deferred augmentation, the impact to future members will be minimal.