



Date: February 8, 2024
To: PERA Board of Trustees
From: Doug Anderson, Executive Director
Amy Streng, Policy Coordinator
Subject: 2024 PERA Stakeholder Agenda

The 2024 legislative session begins February 12, 2024. This memo includes the legislative initiatives that PERA's stakeholders have brought to PERA staff for Board consideration. PERA staff asks that the Board review each stakeholder initiative and direct PERA staff involvement. Staff anticipates bringing additional legislative initiatives at the April board meeting or sooner if necessary.

The stakeholder memo includes the following legislative initiatives:

STAKEHOLDER: Becca Lundberg

- Initiative 1: PERA General Working After Retirement Retired Healthcare Worker Exemption Continued (pg. 2)
- Initiative 2: PERA General Working After Retirement Threshold Cap and Workforce Shortages Exemption (pg. 5)

STAKEHOLDERS: Minnesota Police and Peace Officers Association (MPPOA), Law Enforcement Labor Services (LELS), and Minnesota Chief of Police Association (MCPA)

- Initiative: PERA Police & Fire Working After Retirement (pg. 8)

STAKEHOLDER: Minnesota Professional Firefighters (MPFF)

- Initiative 1: PERA Police & Fire Retiree COLAs Increase (pg. 13)
- Initiative 2: PERA Police & Fire Retiree Delayed COLA Elimination (pg. 14)
- Initiative 3: PERA Police & Fire Employee Contributions (pg. 17)
- Initiative 4: State Funding for PERA Police & Fire (pg. 19)

STAKEHOLDERS: Minnesota Firefighter Coalition Association (MnFAC) and League of Minnesota Cities (LMC)

- Initiative: Firefighter Definition Modification (pg. 21)

OTHER STAKEHOLDER INITIATIVES (pg. 24)

Each section of the memo provides the initiative, background, the stakeholder initiative, staff review, and a staff recommendation. The memo concludes with a list of remaining issues that staff is aware.

STAKEHOLDER: BECCA LUNDBERG

Becca Lundberg approached PERA staff regarding the expired exemption of the working after retirement limitations for healthcare workers. Lundberg is a retired certified registered nurse anesthetist (CRNA) from Hennepin Health Care System. Lundberg submitted two requests for the PERA Board to review.

INITIATIVE 1: PERA GENERAL PLAN WORKING AFTER RETIREMENT HEALTHCARE WORKER EXEMPTION CONTINUED (*Decision Item*)

Lundberg seeks elimination of the sunset provision while PERA reviews the income cap established for working after retirement and staffing shortages exemptions from working after retirement.

Background

Legislation in 2020 exempted retired healthcare workers from the working after retirement threshold and deferral and phased retirement option requirements for the duration of the peacetime emergency. Legislation in 2022 extended the sunset until December 2023. A healthcare worker was defined as “a person, whether licensed or unlicensed, employed by a public employer during a peacetime emergency to provide health care, health-care-related services, or long-term care.” This legislation focused on the need to retain retired healthcare workers given the impact of COVID-19 on the healthcare industry. When consulted on the language, PERA staff helped develop the language and indicated support in light of the pandemic. PERA staff noted that there was no impact on funding of PERA General. In 2022, additional language was added to modify the definition of healthcare worker to require the healthcare worker “provides operational support to direct patient care environment.” The 2022 legislation also included the sunset date of December 31, 2023.

Minn. Stat. §353.37 subjects retired members under the Social Security retirement age and working in a PERA coverage position, to an earnings threshold. A retired member may earn up to \$22,320 in 2024 before a portion of their PERA benefit is deferred.¹ For every \$2 earned over the threshold, the PERA benefit is deferred by \$1. The amount deferred is held by PERA in a non-interest-accruing escrow account. If the earnings exceed the threshold to the point where the earnings defer the remainder of the benefit, PERA suspends and withholds the benefit the first of the month following the day the member earns more than the annual limit. The member receives the amount held in escrow approximately a year and half later. Included in the memo is PERA’s handout detailing more specifics regarding working after retirement.

Retired healthcare workers previously exempted from the working after retirement threshold are now subject to the threshold. This means in 2024 PERA will resume withholding benefits once a member has reached the earnings threshold. Benefits withheld in 2024 will be distributed to the member in 2026 (and 2025 withholdings will be distributed in 2027, etc.).

Minn. Stat. §353.71 establishes requirements for retired members to return to work in the same position with their employer under a phased retirement option (PRO) agreement. Statute requires that a retired member participating in a PRO agreement reduces their hours by at least 25 percent not to

¹ If the member reaches full Social Security retirement age in that year, the amount the member may earn is \$59,520.

exceed 1,044 in a year. The PRO agreement may not exceed 5 years. During the PRO agreement, the member receives their full benefit and does not need a 30-day break in service until the end of the agreement. The legislation lifted these PRO requirements and extended the time a member may be on a PRO agreement. Lundberg does not seek extending the PRO exemption.

Lundberg Initiative #1

Lundberg requests that the PERA Board of Trustees support the removal of the sunset for the exemption for retired healthcare workers while PERA reviews the income cap for working after retirement threshold and staffing shortages exemptions for working after retirement.

Lundberg Initiative Explanation: My name is Becca Lundberg and I am a retired CRNA from Hennepin Health Care System. Two years ago I proposed that the PERA policy of limiting retirees under the age of 65 from working above the stated allotted income cap should be removed. This was based on the shortage of Health Care staff during and after COVID. My proposal was just one small way geared at improving the staffing crisis situation. A five year extension was requested and a two year extension was granted. This extension ended December 31, 2023, but the shortages continue. I am requesting once again that the sunset be removed to allow time for the review of current PERA policies as it pertains to staffing shortages and income caps to retirees. I am aware that shortages are not restricted only to Health care but know that I am simply narrowing my approach to this board. This time around I think there is room for improvement from PERA in notification of eligible employees as I don't believe as many people took this up as could have. Health care systems are spending millions in paying agency staff to fill shifts, yet we are leaving employees who are already employed, trained, and skilled on the sidelines, costing more money to health care systems that are already hurting, impacting patient care, and placing more pressure on our colleagues who remain pushing them to further burnout. Keeping even one person on the sidelines who wants to work and fill these gaps places unnecessary pressure on our health systems, patients and colleagues. Please consider this request to allow myself and others to keep working while the larger issues and policies are addressed.

Staff Review

In reviewing this request, PERA staff considered the usage of the exemption, the purpose and scope of the exemption, and equity among member groups within PERA General.

Usage

Approximately 438 retired healthcare workers were eligible for the exemption from the working after retirement threshold under the 2020 legislation.² A healthcare worker was defined as "a person, whether licensed or unlicensed, employed by a public employer during a peacetime emergency to provide health care, health-care-related services, or long-term care." In 2022, additional language was added to the definition to require that the healthcare worker who "provides operational support to direct patient care environment." The 2022 legislation included the sunset date of December 31, 2023.

² PERA examined the number of exempt plan participants (retired employees) employed by healthcare entities (public hospitals and nursing homes) between 1/1/2020 and 12/31/2023. PERA does not have titles for these positions so this number may include non-healthcare related positions.

In total 4 retired healthcare workers elected to take the exemption from the working after retirement threshold made available by the legislation. PERA saw little usage of the exemption.

Given the limited usage of the exemption, there is not a policy justification to continue the exemption due to the usage.

Purpose and Scope of the Exemption

In 2020, due to the impact of the pandemic, the healthcare industry faced significant challenges including a workforce shortage. As a result, the legislation granted the exemption for retired healthcare workers developed with support from legislators, hospital stakeholders, retired members, and both MSRS and PERA. Much of the conversation focused on the phased retirement option restrictions in addition to the working after retirement threshold. It was clear that scope of the legislation was narrowly tailored to retired healthcare workers and the purpose was to meet the workforce demands of the pandemic.

That scope and purpose does not equally transition to today. Lundberg mentions the workforce shortages continue in the healthcare industry. The exemption she is seeking is for retired healthcare workers to fill in these shortages. PERA staff hear from other groups within PERA General about workforce shortages such as paraprofessionals, bus drivers, probation officers. These workforce shortages are not limited to healthcare workers.

Equity Among Member Groups

In 2023, 48 PERA General retired members had earnings that exceeded the threshold and had a portion of their benefit deferred to a later date.

One of PERA's long-term board positions states that:

The PERA Board of Trustees generally opposes legislation that provides an exception with respect to the benefits made available to one or group of individuals but may review such legislation on a case-by-case basis.

The PERA Board of Trustees should consider that extending the exemption for retired healthcare workers from working after retirement limitations creates an exception for one group of members within PERA General. As mentioned before, the healthcare industry is not the only industry facing workforce shortages. Other groups such as bus drivers, paraprofessionals, and probation officers are in industries facing workforce shortages. A retired member who returns to work in these professions are subject to working after retirement threshold.

Staff Recommendation

Staff recommends that the PERA Board of Trustees oppose the extension of the exemption for retired healthcare workers from working after retirement threshold as it establishes different treatment among member groups within PERA General.

INITIATIVE 2: PERA GENERAL WORKING AFTER RETIREMENT LIMITATIONS INCOME CAP (*Decision Item*)

The second initiative Lundberg requests is that the PERA Board review and lift the current income cap for working after retirement.

Background

Minn. Stat. §353.37 establishes the salary threshold (\$22,320 in 2024) for reemployed retirees in a PERA covered position. The statute uses the Social Security threshold to establish the maximum income a member may have before a portion of the member's PERA benefit is withheld to a later date. As noted above, when a member exceeds the salary threshold, a portion of their benefit is withheld, that amount is put in an escrow account, and the member receives that amount at a later date.

Lundberg Initiative #2

Lundberg requests that PERA review the income cap and establish a tiered income cap based on exit earnings.

Lundberg Initiative Explanation: I am requesting that the PERA board review and lift the current income cap policy that effects all pension earning retirees under the age of 65 who wish to work at a PERA facility post-retirement. Currently the income cap is \$22,320 for 2024. This income ceiling applies to ALL retirees despite their exit income, current pay, bonus pay, need for staff due to shortages, job qualifications, and professional and or educational background. There is a workforce crisis in health care. Covid shown a bright light on the challenges in health care that are resulting in more people leaving the industry due to exhaustion and burnout. This arbitrary cap leaves skilled people who want to work more on the sidelines. This cap does not freely allow needed service due to staffing shortages and therefore it does not benefit the people of Minnesota. There exists experienced retired employees who want to work more in support of their patients and colleagues, but because of this cap cannot work over this limitation without their hard earned retirement being penalized. We all would probably agree with the statement "there is a direct proportion in pay to the more highly skilled and trained the worker becomes". Having a low ceiling cap excludes those who are more skilled and trained. Thus, the people who possess a more specialized skill set, and the patients and their colleagues they could be providing care to, are penalized by not being able to work as much. This also translates to the inequality of future working pay and maintenance of skills per retiree across the board for all PERA retirees. I believe this needs to be changed even if staffing shortages decrease. Going forward I am requesting the board to create new income cap policies that take into account differences in skill that are reflected in income instead of a one size fits all approach. I understand this is a huge topic and not one to be resolved quickly so I ask that you remove the sunset on unlimited income for retirees while this is being reviewed and hopefully rewritten so more retirees like me are able to keep contributing to their professions, patients, and colleagues in a time when their efforts are in great need.

Staff Review

In reviewing the working after retirement threshold and deferral, PERA staff considered the impact of the deferral on members and the history behind the working after retirement threshold.

Impact on Members

The impact on members is more a matter of timing than an impact on the benefit the member receives. When a member exceeds the threshold, a portion of their benefit is deferred to a later date. The member receives the entirety of their benefit in phases.

Example: If a PERA General retiree returns to a PERA-covered position. The member exceeds the threshold in April 2024. Beginning May of 2024, a portion of the member's benefit is withheld. If a member exceeds the threshold by \$2,000, \$1,000 of the member's benefit is deferred. The amount deferred in 2024 is returned to the member at the beginning of 2026. If a member has a deferral in 2025, the amount deferred is return to the member at the beginning of 2027.³

History

In 2015, the Legislative Commission on Pensions and Retirement provided background information regarding the working after retirement earnings threshold. This summary noted five policy considerations: financial/funding considerations, enhanced recognition of retirement as employment conclusion, dissuade early retirement funding a second career, replication of Social Security benefit practices, and address public displeasure with actual or perceived double-dipping.⁴ The summary states:

Reemployed annuitant earnings limitations in Minnesota law support the requirement that a public employee must terminate the employment relationship in order to receive a retirement benefit. The limitations ensure that politically connected public employees cannot manipulate the personnel system and also maximize their income by drawing a full retirement benefit along with a full salary. In doing this, the reemployed annuitant earnings limitations follow one of the traditional purposes for a retirement plan, which is to assist the personnel system in producing an orderly and systematic outtransitioning of senior employees who have reached the end of their normal working lifetime.

However, when reemployed annuitant earnings limitations do not apply uniformly, when some plans have no limits, when the limitations impact differently when applicable, or when no limitations apply to most reemployed annuitant situations (i.e., a public plan annuitant employed by a private sector employer or by a public sector employer of a different level or branch of government), the basic fairness of the limitations can be questioned.

The summary also indicates that while not originally part of the plan, the working after retirement threshold has been part of PERA's statute since 1951. Throughout the years, the threshold and amount deferred have varied. Since 1980, PERA's statute has used the Social Security earnings threshold. While MSRS also uses the Social Security limit, other Plans such as the Teachers' Retirement Association uses a different \$46,000 as a threshold. The impact of the earnings threshold does vary by Plan.

³ See attached General Plan Retiree Working After Retirement for a more detailed example.

⁴ See attached 2015 LCPR Summary regarding Reemployed Annuitants

Staff recommends that the PERA Board does not support the recommendation regarding Lundberg's specific request to increase the income cap and establish a tiered income threshold as such a change needs appropriate vetting. Staff also recommends that the PERA Board does not support the request to remove the sunset on unlimited income while this issue is being reviewed.

Staff notes that there is an inconsistent amount used by the statewide Plans. As the LCPR summary stated, the earnings threshold supports the requirement that a member must terminate the employment relationship prior to receiving a benefit. As the workforce needs have changed significantly, it would be appropriate to review PERA's working after retirement statute to see if the current statute is the right policy for both PERA and its members.

Staff Recommendation

Staff recommends that the PERA Board of Trustees direct staff to review the working after retirement statutes and bring back to the Board any recommendations. Staff also recommends that the Board oppose removal of the sunset on unlimited income while this issue is being reviewed.

Now that you are retired and collecting your lifetime monthly benefit, you may consider returning to work. Federal and state statutes could affect your retirement benefit, but only if you return to work in a PERA-covered position. This publication provides helpful information on how earnings limits impact your PERA benefit.



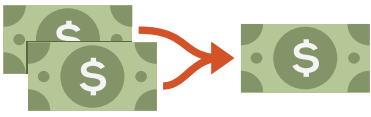
Did you have your 30-day separation?

If you return to a PERA-covered position before meeting ALL termination requirements, your benefit will be canceled, and you will have to repay any benefit collected as well as missed contributions.

WHAT DO I NEED TO KNOW?

- » If you return to PERA-covered employment after collecting your benefit, neither you nor your employer will make contributions to PERA.
- » If you are over full Social Security Administration (SSA) retirement age, there is no restriction on how much you can earn.
- » If you are under full SSA retirement age, you must remain within the annual earnings limits set by SSA, or your benefit will be reduced or possibly suspended. However, the reductions will be payable to you at a later date.
- » Income earned through private-sector employment, self-employment, investments, and elected service will not impact your PERA pension.

HOW DOES IT WORK?

For every \$2 you earn over the limit, your benefit will be reduced by \$1 and held by PERA in a non-interest-accruing escrow account.  For example, if you exceed the earnings limit by \$2,000, we would reduce your pension by half that amount, or \$1,000, and hold this in the escrow account.

If it is determined your earnings will exceed the limit to the point where they totally eliminate the remainder of your pension, we will suspend your benefit the first of the month following the day you earn more than your annual limit.

Your PERA benefit remains suspended until the beginning of the following year or until termination of your employment.



WHAT ARE THE 2024 EARNINGS LIMITS?

\$22,320

If you are a PERA retiree employed in a PERA-covered position and will not reach your full Social Security Administration (SSA) retirement age this year, you can earn up to \$22,320 before your benefit is affected.

\$59,520

If you will reach full SSA retirement age this year, the limit is \$59,520 between January and the month in which you reach full retirement age.

YEAR BORN	FULL SSA RETIREMENT AGE
1943-1954	66
1955	66 + 2 months
1956	66 + 4 months
1957	66 + 6 months
1958	66 + 8 months
1959	66 + 10 months
1960+	67

HOW DO I GET MY REDUCTIONS BACK?

The withheld amount stays with PERA for at least one year. For example, if you had a total of \$5,000 withheld in 2024, this amount stays with PERA for all of 2025 and may be paid out to you in 2026.

- In January of the eligible year, PERA will mail you a letter with the application paperwork.
- The amount may be paid directly to you as a lump sum and is considered taxable income. Or, you can defer the taxes and roll it over to another tax-qualified plan.
- If you die prior to claiming the withheld benefits, the eligible amount may be claimed by your spouse or beneficiaries.



CALL US IF YOU HAVE ANY QUESTIONS ABOUT WORKING IN A PERA-COVERED POSITION AFTER RETIREMENT.

EARNINGS LIMITS EXAMPLES

UNDER FULL SS RETIREMENT AGE

Pat retired, started benefits October 1, 2023, and receives \$1,200 per month.

Pat returns to a PERA-covered position in January 2024. Since Pat is under the full SSA retirement age, the \$22,320 earnings limit applies to this position.

Pat earns \$32,320 annually at work, which is \$10,000 over the 2024 limit, reducing the monthly benefit by \$5,000 (\$1 for every \$2 over) for the year, or \$416 per month.

Therefore, Pat's benefit will be:

$$\begin{aligned}
 & \$1,200 \\
 & -\$416 (\$5,000/12 \text{ months}) \\
 & = \mathbf{\$784 \text{ per month}}
 \end{aligned}$$

THE YEAR YOU REACH FULL SS RETIREMENT AGE

Sam retired, started benefits August 1, 2023, and receives \$2,000 per month in benefits.

Sam returned to a PERA-covered position in January 2024. The \$59,520 earnings limit applies to this position, because Sam will reach full SSA retirement age in November 2024.

Sam earns \$62,520 from January through October, which is \$3,000 over the 2024 annual limit. The benefit will be reduced by \$1 for every \$2 earned over the limit only for the first 10 months ($\$3,000 / 2 = \$1,500$). Then, in November, when Sam reaches full SSA retirement age, the benefit will return to \$2,000 per month because the limit no longer applies.

Therefore, Sam's benefit will be:

$$\begin{aligned}
 & \$2,000 \\
 & -\$150 (\$1,500 / 10 \text{ months before full retirement age}) \\
 & = \mathbf{\$1,850 \text{ per month (Jan–Oct)}} \\
 & \mathbf{\$2,000 \text{ per month (Nov–Dec)}}
 \end{aligned}$$

Q & A



What type of earnings will affect my PERA pension?

Only income from a PERA-covered job will affect your pension benefit. Income earned through private-sector employment, state agency employment, self-employment, investments, and elected service will not impact on your pension.

My full SSA retirement age is 66 + 4 months, but you said my full PERA retirement age is 66. Which is correct?

Full retirement age for Coordinated membership is 66 (65 if hired prior to July 1, 1989). In the Police & Fire and Correctional Plans, full retirement age is 55. Social Security has different full retirement ages based on the year you were born—your SSA age is used for earnings limits. See the chart on page one.

When are escrow funds available to me?

Availability of escrow funds depends on your employment status. If you have terminated re-employment, then funds are available one year after your separation date. If you work through the end of a calendar year and continue working, then deductions from that year must stay in escrow for at least one full year. For example, funds placed into escrow throughout calendar year 2024 would be available in January 2026.

Do earnings in the months before retirement count towards my limits?

No. Only earnings that occur after your 30-day separation and return to PERA-covered employment will be counted.

Do I have earnings limits under a PRO Agreement?

You do not have a limit while the agreement is in effect; however, you cannot work more than 1,044 hours in a year. See the *Phased Retirement* publication for more information.

If I return to any PERA-covered position after retirement, will I continue to pay contributions to PERA?

No. Neither you nor your employer will make contributions to PERA based on re-employment earnings.

This publication is intended to provide general information; the rights and obligations of PERA members are governed by state and federal laws, rules, and regulations. The Minnesota Legislature or the federal government may change the statutes, rules, and regulations governing PERA at any time. If there is a discrepancy between the law governing PERA and the information contained in this publication, the statutes and regulations will govern. This document can be made available in alternative formats to individuals with disabilities by calling -651-296-7460 or 1-800-652-9026, or through the Minnesota Relay Service at 1-800-627-3529.

Current Law
 General Plan member earns \$8,000/mo, retires 10/31/23 with \$4,000/mo benefit. Returns to work 1/1/24 earning \$4,000/mo. Final retirement 9/30/25. Earnings threshold is \$22,320 in 2024 (actual) and assumed unchanged in 2025. Future COLAs are not included for simplification purposes.

Impact of exemption from deferrals if the member passes the earnings threshold

	Monthly Earnings	Monthly Retirement	Deferral Account			Total Monthly Income	Cumulative Annual Income
			Monthly Deferred Benefit	Deferral Payout	Cumulative Deferred Balance		
2023 October	\$8,000	N/A				\$8,000	\$ 80,000
2023 November	30 day break	\$4,000				4,000	\$ 84,000
2023 December	return 1/1/23	\$4,000				4,000	\$ 88,000
2024 January	\$4,000	\$4,000	\$0	\$0	\$0	\$8,000	\$8,000
2024 February	\$4,000	\$4,000	\$0	\$0	\$0	\$8,000	\$16,000
2024 March	\$4,000	\$4,000	\$0	\$0	\$0	\$8,000	\$24,000
2024 April	\$4,000	\$4,000	\$0	\$0	\$0	\$8,000	\$32,000
2024 May	\$4,000	\$4,000	\$0	\$0	\$0	\$8,000	\$40,000
2024 June	\$4,000	\$3,160	\$840	\$0	\$840	\$7,160	\$47,160
2024 July	\$4,000	\$2,000	\$2,000	\$0	\$2,840	\$6,000	\$53,160
2024 August	\$4,000	\$2,000	\$2,000	\$0	\$4,840	\$6,000	\$59,160
2024 September	\$4,000	\$2,000	\$2,000	\$0	\$6,840	\$6,000	\$65,160
2024 October	\$4,000	\$2,000	\$2,000	\$0	\$8,840	\$6,000	\$71,160
2024 November	\$4,000	\$2,000	\$2,000	\$0	\$10,840	\$6,000	\$77,160
2024 December	\$4,000	\$2,000	\$2,000	\$0	\$12,840	\$6,000	\$83,160
2025 January	\$3,000	\$4,000	\$0	\$0	\$12,840	\$7,000	\$7,000
2025 February	\$3,000	\$4,000	\$0	\$0	\$12,840	\$7,000	\$14,000
2025 March	\$3,000	\$4,000	\$0	\$0	\$12,840	\$7,000	\$21,000
2025 April	\$3,000	\$4,000	\$0	\$0	\$12,840	\$7,000	\$28,000
2025 May	\$3,000	\$4,000	\$0	\$0	\$12,840	\$7,000	\$35,000
2025 June	\$3,000	\$4,000	\$0	\$0	\$12,840	\$7,000	\$42,000
2025 July	\$3,000	\$4,000	\$0	\$0	\$12,840	\$7,000	\$49,000
2025 August	\$3,000	\$3,160	\$840	\$0	\$13,680	\$6,160	\$55,160
2025 September	\$3,000	\$2,500	\$1,500	\$0	\$15,180	\$5,500	\$60,660
2025 October	\$0	\$4,000	\$0	\$0	\$15,180	\$4,000	\$64,660
2025 November	\$0	\$4,000	\$0	\$0	\$15,180	\$4,000	\$68,660
2025 December	\$0	\$4,000	\$0	\$0	\$15,180	\$4,000	\$72,660
2026 January	\$0	\$4,000	\$0	\$12,840	\$2,340	\$16,840	\$16,840
2026 February	\$0	\$4,000	\$0	\$0	\$2,340	\$4,000	\$20,840
2026 March	\$0	\$4,000	\$0	\$0	\$2,340	\$4,000	\$24,840
2026 April	\$0	\$4,000	\$0	\$0	\$2,340	\$4,000	\$28,840
2026 May	\$0	\$4,000	\$0	\$0	\$2,340	\$4,000	\$32,840
2026 June	\$0	\$4,000	\$0	\$0	\$2,340	\$4,000	\$36,840
2026 July	\$0	\$4,000	\$0	\$0	\$2,340	\$4,000	\$40,840
2026 August	\$0	\$4,000	\$0	\$0	\$2,340	\$4,000	\$44,840
2026 September	\$0	\$4,000	\$0	\$0	\$2,340	\$4,000	\$48,840
2026 October	\$0	\$4,000	\$0	\$2,340	\$0	\$6,340	\$55,180
2026 November	\$0	\$4,000	\$0	\$0	\$0	\$4,000	\$59,180
2026 December	\$0	\$4,000	\$0	\$0	\$0	\$4,000	\$63,180
	\$75,000	\$128,820		\$15,180		\$219,000	
	Paid Immediately		Deferred		Total		

	Monthly Earnings	Monthly Retirement	Total Monthly Income	Cumulative Annual Income
2023 November	\$8,000	\$4,000	4,000	\$ 84,000
2023 December	\$8,000	\$4,000	4,000	\$ 88,000
2024 January	\$4,000	\$4,000	\$8,000	\$8,000
2024 February	\$4,000	\$4,000	\$8,000	\$16,000
2024 March	\$4,000	\$4,000	\$8,000	\$24,000
2024 April	\$4,000	\$4,000	\$8,000	\$32,000
2024 May	\$4,000	\$4,000	\$8,000	\$40,000
2024 June	\$4,000	\$4,000	\$8,000	\$48,000
2024 July	\$4,000	\$4,000	\$8,000	\$56,000
2024 August	\$4,000	\$4,000	\$8,000	\$64,000
2024 September	\$4,000	\$4,000	\$8,000	\$72,000
2024 October	\$4,000	\$4,000	\$8,000	\$80,000
2024 November	\$4,000	\$4,000	\$8,000	\$88,000
2024 December	\$4,000	\$4,000	\$8,000	\$96,000
2025 January	\$3,000	\$4,000	\$7,000	\$7,000
2025 February	\$3,000	\$4,000	\$7,000	\$14,000
2025 March	\$3,000	\$4,000	\$7,000	\$21,000
2025 April	\$3,000	\$4,000	\$7,000	\$28,000
2025 May	\$3,000	\$4,000	\$7,000	\$35,000
2025 June	\$3,000	\$4,000	\$7,000	\$42,000
2025 July	\$3,000	\$4,000	\$7,000	\$49,000
2025 August	\$3,000	\$4,000	\$7,000	\$56,000
2025 September	\$3,000	\$4,000	\$7,000	\$63,000
2025 October	\$0	\$4,000	\$4,000	\$67,000
2025 November	\$0	\$4,000	\$4,000	\$71,000
2025 December	\$0	\$4,000	\$4,000	\$75,000
2026 January	\$0	\$4,000	\$4,000	\$4,000
2026 February	\$0	\$4,000	\$4,000	\$8,000
2026 March	\$0	\$4,000	\$4,000	\$12,000
2026 April	\$0	\$4,000	\$4,000	\$16,000
2026 May	\$0	\$4,000	\$4,000	\$20,000
2026 June	\$0	\$4,000	\$4,000	\$24,000
2026 July	\$0	\$4,000	\$4,000	\$28,000
2026 August	\$0	\$4,000	\$4,000	\$32,000
2026 September	\$0	\$4,000	\$4,000	\$36,000
2026 October	\$0	\$4,000	\$4,000	\$40,000
2026 November	\$0	\$4,000	\$4,000	\$44,000
2026 December	\$0	\$4,000	\$4,000	\$48,000
	\$75,000	\$144,000	\$219,000	
	Paid Immediately		Total	

Background Information on Reemployed Annuitant Exempt Earnings Limits

1. Purpose of Reemployed Annuitant Limitations. Reemployed annuitant earnings limitations are a feature of some defined benefit retirement plans that require either a forfeiture or withholding of all or a portion of a retirement annuity if the retiree becomes reemployed after retirement by an employer who is an employing unit covered by the retirement plan.

Although reemployed annuitant earnings limitations were not part of the original enactments of the major Minnesota retirement plans, they were enacted more than four decades ago no documentation exists as to the policy ends arguing for their addition. Five policy considerations could have provided the rationale, in whole or in combination, for the addition of reemployed annuitant savings limitations, as follows:

- a. Financial/Funding Considerations. The use of reemployed annuitant earnings limitations, especially if the limitation includes a forfeiture of some or all of the retiree's annuity, will produce an actuarial gain (i.e., liability release) when imposed, that will improve the financial or actuarial condition of the retirement plan. Additionally, the limitation can influence behavior, potentially causing delays in retirements by individuals in a position to retire earlier than the normal retirements age and to become reemployed at more than an incidental level of compensation with an employer also covered by the retirement plan, which will lead to actuarial gains in the short run and to reduced calculated actuarial normal costs when the behavior becomes fully reflected in the retirement age and withdrawal actuarial assumptions.
- b. Enhance Recognition of Retirement as Employment Conclusion. The use of reemployment earnings limitations will encourage active pension plan members to begin receiving retirement annuities no earlier than at the age when their regular substantial employment concludes, enhancing "normal retirement" as the regular or usual age for drawing a retirement annuity. This is consistent with the purpose for a retirement plan specified in the Pension Policy Principles of the Legislative Commission on Pensions and Retirement (Principle II. A. 1.), which is

...to augment the Minnesota public employer's personnel and compensation system by assisting in the recruitment of new qualified public employees, the retention of existing qualified public employees, and the systematic out-transitioning of existing public employees at the normally expected conclusion of their working careers or the systematic phasing-out of existing employees who are nearing the normally expected conclusion of their full-time working careers by providing, in combination with federal Social Security coverage, personal savings and other relevant financial sources, retirement income that is adequate and affordable.

- c. Dissuade Early Retirement Funding A Second Career. The use of reemployment earnings limitations could function to dissuade active retirement plan members from retiring before the normal retirement age and use their early retirement annuity to finance the creation of a second career, which has never been a stated purpose of a Minnesota public retirement plan.
 - d. Replication of Social Security Benefit Practices. The use of reemployed annuitant earnings limitations paralleled or replicated the practice of the Social Security System, which utilizes an "earnings test" originally in connection with all Social Security benefit recipients and currently in connection with pre-age 65/age 66/age 67 Social Security benefit recipients.
 - e. Address Public Displeasure with Actual or Perceived Double-Dipping. The use of reemployed annuitant earnings limitations can mollify any displeasure voiced by the general public over public retirement plan annuitants also being employed in substantial post-retirement public employment, a practice sometimes referred to as "double dipping". Where the reemployed annuitant earnings limitation results in a forfeiture of some or all of the retirement annuity when the earnings limitation has been exceeded, the acceptability of double compensation at the same time by a reemployed annuitant is addressed.
2. Reemployed Annuitant Earnings Limitations under Social Security. Since the creation of the Old Age and Survivors Insurance Program (Social Security) in the 1930s, Social Security benefits have been subject to an employment earnings limitation, known as the "earnings test." The Social Security Administration (SSA) maximum salary earnings limitations for continued receipt of full benefit amounts under the federal Old Age, Survivors and Disability Insurance Program are used by the SSA to determine whether Social Security benefits must be reduced because the individual has salary or

self-employment income in excess of the maximums permitted under federal law for continued full receipt of those benefits.

The table summarizes the annual maximum earnings permissible by Social Security benefit recipients for each year from 1995 onward, which a benefit recipient may receive without incurring a reduction in Social Security benefits. In the table, these maximums are referred to as exempt amounts, since they indicate the highest salary earnings, which are exempt from a reduction in the Social Security benefits that otherwise would be received. Originally, in 1935, there was no exempt amount and reemployment in a month by a Social Security benefit recipient in another gainful occupation would result in a reduction in the monthly Social Security benefit of an amount equal to one month's benefit. In 1939, an "exempt amount" was added to the Social Security earnings test, set at \$15 per month, with a dollar-for-dollar reduction above that figure. In 1950, the exempt amount was increased to \$50 per month and the earnings test was discontinued for Social Security recipients at age 75 or older. In 1952, the exempt amount was again increased, to \$1,200 per year. In 1954, the earnings test was changed from a monthly earnings amount to an annual earnings amount and the earnings test discontinuation age was reduced from age 75 to age 72. In 1960, the reduction for earnings above the exempt amount was modified, with the reduction of \$1 dollar for every \$2 dollars earned imposed on earnings between \$1,200 and \$1,500 and dollar-for-dollar over \$1,500. In 1972, the earnings test amounts were indexed to the increase in average earnings, effective in 1975. Under Social Security law, the exempt amount differs with the age of the individual. If an individual is under the Social Security full retirement age, once 65 and now between age 65 and age 67, depending on the person's year of birth, but drawing Social Security Old Age Insurance benefits, the maximums are fairly low. The exempt amount for the year in which the Social Security full retirement age is reached is notably higher. The following table has three columns, which are the applicable year, the maximum (exempt) amount under age 65 (before 2000) or under the full normal retirement age (after 1999), and the maximum amount for age 65-69 (before 2000) or for the full normal retirement age year (after 1999):

Year	Under Age 65	Age 65-69
1975	\$2,520	\$2,520
1976	\$2,760	2,760
1977	3,000	3,000
1978	3,240	4,000
1979	3,480	4,500
1980	3,720	5,000
1981	4,080	5,500
1982	4,440	6,000
1983	4,920	6,600
1984	5,160	6,960
1985	\$5,400	\$7,320
1986	\$5,760	\$7,800
1987	\$6,000	\$8,160
1988	\$6,120	\$8,400
1989	\$6,480	\$8,880
1990	\$6,840	\$9,360
1991	\$7,080	\$9,720
1992	\$7,440	\$10,200
1993	\$7,680	\$10,560
1994	\$8,040	\$11,160
1995	\$8,160	\$11,280
1996	\$8,280	\$12,500
1997	\$8,640	\$13,500
1998	\$9,120	\$14,500
1999	\$9,600	\$15,500
	Prior to Year of Full	Year of Full
Year	Retirement Age	Retirement Age
2000	\$10,080	\$17,000
2001	\$10,680	\$25,000
2002	\$11,280	\$30,000
2003	\$11,520	\$30,720
2004	\$11,640	\$31,080
2005	\$12,000	\$31,800
2006	\$12,480	\$33,240

If the Social Security benefit recipient is under the full retirement age, the reduction is one dollar of Social Security benefits for each two dollars of earnings in excess of the maximum amount earned. For the year in which the full retirement age is attained, the reduction is one dollar for each three dollars of earnings in excess of the maximum amount earned.

3. Reemployed Annuitant Earnings Limitations under the Minnesota Public Pension Plans. Among Minnesota public pension plans, but unlike Social Security, the public employee must terminate from active public employment with the employing unit to initially qualify to receive the public employee retirement annuity. If the individual's public pension plan has a reemployed annuitant earnings limit provision, the individual often (but not always) will be subject to that reemployed earnings limit if the individual returns to public employment with pension coverage in the same public pension system.

These reemployed annuitant provisions in Minnesota public pension plans bear a great similarity to the Social Security System but are far less global in scope. Under Social Security, the benefit reductions would be applied to any Social Security benefit recipient under the full retirement age who exceeded the maximum permissible exempt salary earnings, regardless of the employer, applicable for the individual's age. In contrast, if a Minnesota public pension plan has a reemployed annuitant earnings provision, reductions or suspension of the annuity by the plan will occur for those with salary income in excess of exempt amounts only from employment covered by the same pension plan or system. An annuitant from the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) who becomes reemployed in a position covered by the Minnesota State Retirement System (MSRS), the Teachers Retirement Association (TRA), or any other public pension system, would not be subject to the reemployed annuitant provisions in PERA law. Also, no Minnesota public pension plan benefit reductions would occur if the annuitant becomes employed by a governmental employer in another state, by the federal government, or in the private sector.

Even within the same public pension system, reemployed annuitant reductions may not apply if the individual becomes employed in a position covered by another plan within the system. Typically, the laws have been constructed or interpreted in a way that applies reemployed annuitant earnings provisions if an annuitant from one plan in a system becomes employed by another plan in that same system providing that both plans were originally created within that system. A Public Employees Police and Fire Retirement Plan (PERA-P&F) annuitant who become employed in PERA-General covered employment will be subject to PERA's reemployed annuitant provision because PERA-P&F was spun out of PERA-General in 1959. However, a retiree from the State Patrol Retirement Plan who becomes reemployed in an MSRS-General covered position faces no reemployed annuitant penalties because the State Patrol Plan was originally not administered by MSRS, but was moved into MSRS for administrative purposes in 1969. The State Patrol Retirement Plan has no reemployed annuitant earnings provision in the plan, and the provision in MSRS-General law has been interpreted as not applying to State Patrol annuitants.

Reemployed annuitant earnings limitations in Minnesota law support the requirement that a public employee must terminate the employment relationship in order to receive a retirement benefit. The limitations ensure that politically connected public employees cannot manipulate the personnel system and also maximize their income by drawing a full retirement benefit along with a full salary. In doing this, the reemployed annuitant earnings limitations follow one of the traditional purposes for a retirement plan, which is to assist the personnel system in producing an orderly and systematic out-transitioning of senior employees who have reached the end of their normal working lifetime.

However, when reemployed annuitant earnings limitations do not apply uniformly, when some plans have no limits, when the limitations impact differently when applicable, or when no limitations apply to most reemployed annuitant situations (i.e., a public plan annuitant employed by a private sector employer or by a public sector employer of a different level or branch of government), the basic fairness of the limitations can be questioned.

The following chart provides information on the reemployed annuitant earnings limitation laws in Minnesota's public plans:

Retirement Plan	Applicable Compensation	Limit Threshold	Effect After Threshold Exceeded	Reempl. Period Retirement Coverage	Exceptions
MSRS-General [352.115, Subd. 10]	Salary or wages from state of from employer of MSRS-General members.	Social Security maximums (\$14,160 annually if under the Social Security normal retirement age; \$37,680 in year in which Social Security normal retirement age is reached; no limit thereafter).	Suspension of annuity for the balance of the calendar year or until reemployment termination, with the suspended annuity amounts deposited in a separate account, earning 6% compound annual interest prior to 1/1/2011, payable one year after the reemployment ends.	No retirement coverage.	No application to service as temporary legislative employee. Suspension lifted during any sick leave.
MSRS-Correctional [352.951]	Same as MSRS-General.	Same as MSRS-General.	Same as MSRS-General.	Same as MSRS-General.	Same as MSRS-General.
State Patrol Plan	No provision.	No provision.	No provision.	No provision.	No provision.
Legislators Plan ¹	No provision.	No provision.	No provision.	No provision.	No provision.
Elective State Officers Plan	No provision.	No provision.	No provision.	No provision.	No provision.
Judges Plan ²	No provision.	No provision.	No provision.	No provision.	No provision.
MSRS-Unclassified	No provision.	No provision.	No provision.	No provision.	No provision.
PERA-General [353.87]	Salary from governmental subdivision employment or public employee labor union employment.	Social Security maximums (\$14,160 annually if under the Social Security normal retirement age; \$37,680 in year in which Social Security normal retirement age is reached; no limit thereafter).	Suspension or reduction, whichever produces higher annual amount. Suspension of amount is for the balance of the calendar year or until reemployment termination. Reduction is one-half of the excess over the maximum if under the Social Security full retirement age and one-third of the excess over the maximum if at the Social Security full retirement age. The reduction or suspended amount is deposited in a separate account, earning 6% compound annual interest prior to January 1, 2011, payable one year after the reemployment ends.	No retirement coverage.	No application to service as a local government elected official.
PERA-P&F [353.68]	Same as PERA.	Same as PERA.	Same as PERA.	Same as PERA.	Same as PERA.
PERA-Correctional [353E.08]	Same as PERA.	Same as PERA.	Same as PERA.	Same as PERA.	Same as PERA.
TRA [354A.31, Subd. 3]	Income from teaching for employing unit covered by TRA, income from consultant or independent contractor teaching services for employing unit covered by TRA, or income received by comparable position if greater than actual income received.	\$46,000 annually until Social Security normal retirement age; no limit thereafter.	Reduction in following calendar year annuity of one-half of the excess over the maximum, with the annuity reduction amount deposited in a separate account earning 6% compound annual interest prior to January 1, 2011, payable one year after the reemployment ends.	No retirement coverage.	No application to interim superintendents during a lifetime limit of three 90-day exemption periods or to reemployed retired MnSCU faculty working between 33.3% and 66.7% of full time with salary under \$46,000.
First Class City Teacher Retirement Fund Associations [354.44 Subd. 5]	Income from teaching for employing unit covered by first class teacher retirement fund association, income from consultant or independent contractor teaching services for employing unit covered by first class teacher retirement fund association, or income received by comparable position if greater than actual income received.	\$46,000 annually until Social Security normal retirement age; no limit thereafter.	Reduction in following calendar year annuity of one-half of the excess over the maximum, with the annuity reduction amount deposited in a separate account earning 6% compound annual interest prior to January 1, 2011, payable one year after the reemployment ends.	No retirement coverage.	No application to interim superintendents during a lifetime limit of three 90-day exemption periods or to reemployed retired MnSCU faculty working between 33.3% and 66.7% of full time with salary under \$46,000.

¹ While there is no explicit provision of Minn. Stat. Ch. 3A, or other statutory chapter, the practice of the Minnesota State Retirement System since the resumption of legislative service by Representative Leo J. Reding in 1987 after retiring in 1982 has been to suspend the Legislators Retirement Plan annuity of a reelected retired legislator and to recompute the benefit based on any additional allowable service credit and increased final average salary.

² Minn. Stat. Sec. 2.724, Subd. 2-3, permits the Supreme Court, by rule, or the Chief Justice of the Supreme Court to temporarily assign a retired justice or judge to act as a Supreme Court justice, Court of Appeals, or district court judge until the unfinished duties of the position are completed. Retired justices or judges qualify for pay and expenses as established by the Supreme Court.

Minn. Stat. Sec. 480.21 provides that the Supreme Court may appoint a resigned Supreme Court justice who is not engaged in the practice of law to function as a court commissioner to perform assigned duties, with per diem compensation payments. The provision presumably applies to retired judges.

Minn. Stat. Sec. 484.61 provides that, upon appointment and assignment, after retirement from the Judges Retirement Plan, a retired judge can consent to function as a district court judge.

4. Example of Teachers Retirement Association (TRA) Reemployed Annuitant Earnings Limitation Provision. The current TRA limit, Minnesota Statutes, Section 354.44, Subdivision 5, provides for a reduction in the subsequent year's annuity of one dollar for every two dollars earned in excess of the Social Security limitation, which is \$12,480 annually (\$1,040 monthly on a 12-month basis or \$1,387 monthly on a nine-month basis) in 2006 for retirees between age 65 and age 66 (the Social Security full retirement age for retirees with birth years between 1937 and 1955) and is \$33,240 for the year of attaining the Social Security full retirement age.

TRA Annuitant Retiring at Age 63
Final Five Years' Salary

Year 1	48,430
Year 2	50,850
Year 3	53,390
Year 4	56,060
Year 5	58,858

Highest Five Successive Years Average Salary \$53,517.65
Benefit Accrual Percentage (30 Years x 1.7) x .51
\$27,294 (\$2,274.50/month)

	Situation 1	Situation 2	Situation 3
	TRA Annuitant without any Reemployment	TRA Annuitant with \$25,000 Reemployment, Current Law	TRA Annuitant with \$25,000 Reemployment, Reemployment Earning Limit of \$23,000
Year 1	TRA Annuity <u>\$27,294</u> Total <u>\$27,294</u>	Reemployed Earnings \$25,000 TRA Annuity <u>27,294</u> Total <u>\$52,294</u>	Reemployed Earnings \$25,000 TRA Annuity <u>27,294</u> Total <u>\$52,294</u>
Year 2	TRA Annuity \$27,294	Reemployed Earnings \$25,000 TRA Annuity: Year 1 Earnings 25,000 Earnings Limit <u>12,480</u> Excess Amount 12,520 \$1 for \$2 Reduction ² 6,260 TRA Base Annuity 27,294 Reduction <u>6,260</u> Remaining Annuity 21,034 Total <u>\$46,034</u>	Reemployed Earnings \$25,000 TRA Annuity: Year 1 Earnings 25,000 Earnings Limit <u>23,000</u> Excess Amount 2,000 \$1 for \$2 Reduction ² 1,000 TRA Base Annuity 27,294 Reduction <u>1,000</u> Remaining Annuity 26,294 Total <u>51,294</u>
	Total \$27,294	Total \$46,034	Total 51,294

¹ Year 2 annuity amount assumes no Minnesota Post Retirement Investment Fund post-retirement adjustments and assumes no increase in the Social Security earnings test amount, although both are likely.

² Reduction amount is deposited in a separate account, credited with 6% compound interest annually, payable at the later of age 65 or one year after termination of the reemployment.

5. Development of Reemployed Annuitant Earnings Limitation Provisions.

- a. In General. Before 1951, none of the Minnesota statewide or major public retirement plans had a reemployed annuitant earnings limitation and annuity reduction provision. By 1963, the three major statewide retirement plans all had a reemployed annuitant earnings limitation and annuity reduction provision.
- b. State Employees Retirement Plan/General State Employers Retirement Plan of the Minnesota State Retirement System (MSRS-General).
 - In 1961 (Ex. Sess. Laws 1961, Ch. 67, Sec. 22, Subd. 2) as part of the "service in more than one retirement plan" portability provision, a provision was included that disallowed the payment of a retirement annuity from the State Employees Retirement Association to a former state employee who was an active member earning allowable service credit in either the Public Employees Retirement Association or the Teacher Retirement Association.
 - In 1963 (Laws 1963, Ch. 383, Sec. 32), a reemployed annuitant earnings limitation was added to the State Employees Retirement Association, providing that if any former member who again becomes entitled to a salary or wages from the state, the person's annuity ceases if the employment is longer than a ten-day emergency appointment, but no member contribution deductions are payable from the annuitant's salary or wages, and, if granted sick leave without

pay, the annuity resumes for the period of that leave, and resumes upon the termination of the reemployment without any change in amount by virtue of that reemployment.

- In 1965 (Laws 1965, Ch. 230, Sec. 4), the reemployed annuitant earnings limitation was modified by excluding annuitants reemployed as temporary legislation employees during the legislation session from its application by resetting the limitation at \$1,200 in any calendar year, and by providing that the reemployed annuitant earnings limitation must be constructed to be consistent with the 1961 service-in-more-than-one-retirement-plan provision restriction on annuity receipt while obtaining allowable service credit from another retirement plan.
- In 1967 (Ex. Sess. Laws 1967, Ch. 57, Sec. 16), the reemployed annuitant earnings limitation amount was increased from \$1,200 to \$2,000, and it was clarified that a retiree's annuity resumes either upon reemployment termination or upon the beginning of a new calendar year.
- In 1975 (Laws 1975, Ch. 368, Sec. 22), was increased the reemployed annuitant earnings limitation amount from \$2,000 to \$3,000.
- In 1980 (Laws 1980, Ch. 342, Sec. 3) the reemployed annuitant earnings limitation was clarified to apply to reemployment by any employing entity with employees covered by the General State Employers Retirement Plan of the Minnesota State Retirement System and reset the limitation amount from \$3,000 to the applicable Social Security earnings test limitation amount.
- In 1981 (Laws 1981, Ch. 224, Sec. 48), legislation clarified the title of the federal official administering Social Security and clarified the applicable Social Security earnings test limitation amount for retirees under age 62, the earliest Social Security old age benefit receipt age.
- In 1987 (Laws 1987, Ch. 229, Art. 6) legislation updated the language and style of retirement plan provisions.
- In 1999 (Laws 1999, Ch. 222, Art. 19, Sec. 3), a full-time employee of the Minnesota State Colleges and Universities System (MnSCU) full-time who retires from the General State Employees Retirement Plan with at least ten years of service and returns to MnSCU employment of at least one-third full time and no more than two-thirds of full-time with a salary that does not exceed \$35,000 is exempt from the reemployed annuitant earnings limitation.
- In 2000 (Laws 2000, Ch. 461, Art. 2, Sec. 2), the forfeiture aspect of the reemployed annuitant earnings limitation was eliminated with benefit reductions placed into a special deferral account with compound interest at six percent annually, payable at age 65 or the first of the month next following the termination of the reemployment, whichever is later.
- In 2000 (Laws 2000, Ch. 461, Art. 2, Sec. 3-4), the reemployment annuitant earnings limitation exemption amount for an MSRS-General annuitant who is reemployed by MnSCU was increased from \$35,000 to \$46,000.
- In 2010 (Laws 2010, Ch. 359, Art. 1, Sec. 83, and Art. 2, Sec. 4), interest on a reemployed annuitant earnings limitation deferral account for the retirement plan is payable only up to January 1, 2011, and the reemployed annuitant earnings limitation was made inapplicable for salary and wages of a temporary employee of the Legislature during the legislative session.

c. MSRS Correctional State Employees Retirement Plan (MSRS-Correctional).

- In 1981 (Laws 1981, Ch. 224, Sec. 60), a provision was added to the retirement plan statutes to specify that the provisions of MSRS-General apply to MSRS-Correctional unless otherwise specified.
- In 1993 (Laws 1993, Ch. 307, Art. 1, Sec. 23), the general law applicability provision was extended to cover the Military Affairs Personnel Retirement Plan and the Transportation Pilots Retirement Plan.
- In 2007 (Laws 2007, Ch. 134, Art. 2, Sec. 8), the general law applicability provision was extended to cover the Fire Marshal Employees Retirement Plan.

d. General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General).

- In 1951 (Laws 1951, Ch. 22, Sec. 23), a reemployed annuitant limitation provision was added to the retirement plan, specifying that a person otherwise eligible for a retirement annuity loses that entitlement if receiving compensation for services as a public or state employee or a judicial officer or if receiving a public employee or state employee retirement benefit or pension if any period of PERA service credit was also required to establish eligibility for the retirement benefit or pension.
- In 1955 (Laws 1955, Ch. 815, Sec. 6), the 1953 reemployed annuitant limitation relating to the receipt of another public retirement annuity was clarified to only apply if the retirement plan regional member contributions and the entire limitation was clarified to require a suspension of the PERA annuity on a monthly basis for months when disqualifying retirement compensation or a disqualifying annuity is received, does not increase when resumed by virtue of the

suspension, and no PERA member contributions are required on the disqualifying compensation.

- In 1957, (Laws 1957, Ch. 935, Sec. 17, 27), the prior reemployed annuitant limitation was repealed and was replaced with a suspension and forfeiture of a PERA retirement annuity if the annuitant reenters public employment in excess of 60 days in any 12 consecutive months or is receiving any other benefit or pension for a public or state employee if member contributions were required and any period of public service was used to qualify for the PERA annuity, with the suspension continuing for any month in which the disqualifying condition applies, and any subsequent employment does not increase the PERA annuity and no additional member contributions are required for the reemployment service. The limit does not apply to any federal law benefit to which the annuitant is entitled.
- In 1959, (Laws 1959, Ch. 650, Sec. 26), the prior disqualifying event of reemployment of 60 days in any 12 consecutive months was revised as reemployment of 60 days in any 12 or more consecutive months.
- In 1961 (Ex. Sess. Laws 1961, Ch. 87, Sec. 1), the 1957 reemployed annuitant limitation was further modified by exempting elected officials from the limitation, by specifying the time period for the 60 day reemployment trigger to a calendar year, by adding a dollar earning limit of \$75 per month, and by adding a special exemption for a particular 1953 retiree whose salary did not exceed \$80 a month.
- In 1963 (Laws 1963, Ch. 641, Sec. 31), clarified the annuity suspension for the duration of reemployment in a non-elective employment position in a governmental subdivision once compensation exceeds \$1,200 in any calendar year. Also in 1963 (Laws 1963, Ch. 853, Sec. 1-2), the special 1961 exemption from the reemployed annuitant earnings limitation was broadened to retirees between November 30, 1953 and before October 2, 1959, if the monthly average compensation year reemployment did not exceed \$95 per month and a special exemption for police officers who retired before August 1, 1959, and were reemployed as a police officer on an emergency basis and the average monthly earnings did not exceed \$95 per month, with any withheld annuity amount for the emergency service paid upon the end of the reemployment.
- In 1967 (Laws 1967, Ch. 711, Sec. 2), the reemployed annuitant earnings limitation triggering amount was increased from \$1,200 to \$2,000 annually.
- In 1971 (Laws 1971, Ch. 412, Sec. 2), the PERA reemployed annuitant earnings limitation was no longer made applicable to reemployment by the State of Minnesota.
- In 1973 (Laws 1973, Ch. 753, Sec. 63, 85), a specific reference to the PERA board in implementing the limitation was removed, an incorrect reference to benefit rather than annuity was corrected, an inapplicability provision relating to federal law benefits was eliminated and the 1961 and 1963 special exceptions were repealed.
- In 1975 (Laws 1975, Ch. 102, Sec. 18), the reemployed annuitant earnings limitation triggering amount was increased from \$2,000 to \$3,000 annually.
- In 1977 (Laws 1977, Ch. 429, Sec. 32), obsolete date references to 1959 were removed and a provision was added allowing a proportionate annuity for employees required to terminate employment under a uniform mandatory retirement policy or law even if employment as a substitute employee with compensation of less than \$3,000 per calendar year.
- In 1980 (Laws 1980, Ch. 342, Sec. 7), the reemployed annuitant earnings limitation triggering amount was increased from \$3,000 per year, by indexing the amount to the applicable Social Security earnings test amount, and the language style and usage of the provision were upgraded.
- In 1981 (Laws 1981, Ch. 224, Sec. 91- 92), the Social Security indexed reemployed annuitant earnings limitation was adapted for pre-age-62 retirements and obsolete references to the federal official administering Social Security.
- In 1988 (Laws 1988, Ch. 709, Art. 5, Sec. 21), the language style and usage of the provision was updated.
- In 1992 (Laws 1992, Ch. 440, Sec. 1), the reemployed annuitant earnings limitation provision was substantially revised, clarifying that annuities once the limitation is reached are reduced rather than suspended, the reemployment position triggering the limitation is governmental subdivision employment covered by the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) or the Public Employees Police and Fire Retirement Plan (PERA-P&F), the provision was divided into three paragraphs, and the amount of the reduction set at \$1 for \$2 in excess of the maximum if the annuitant was under the normal retirement age and was set at \$1 for every \$3 in excess of the maximum if the annuitant was over the normal retirement age and under age 70, with no reduction imposed after age 70, retroactive to January 1, 1992.
- In 1993 (Laws 1993, Ch. 307, Art. 4, Sec. 30), the reemployed annuitant earnings limitation provision was divided into paragraphs, clarified that the annuity suspension occurs on the first of the month after the month in which the salary maximum was met rather than in the following calendar year, clarified that no limit applies to an annuitant elected to a public

office, and clarified that the annuity resumed at the start of the next calendar year or the first of the month next following the termination of the reemployment, whichever is earlier.

- In 1994 (Laws 1994, Ch. 528, Art. 2, Sec. 9-11), the reemployed annuitant earnings provision was extended to person who return to work in a labor organization covered by PERA-General and was clarified to trigger an annuity resumption when the employment that caused the suspension termination.
 - In 2000 (Laws 2000, Ch. 461, Art. 2, Sec. 5), the forfeiture aspect of the reemployed annuitant earnings limitation was eliminated, with benefit reductions placed in a special deferral account with compound interest at 6% annually, payable at age 65 or on the first of the month next following the termination of the reemployment, whichever is later.
 - In 2004 (Laws 2004, Ch. 267, Art. 7, Sec. 2-3), a definition of the term “retirement age” was added, indexed to the Social Security full benefit age, and the prior reduction provision was revised based on the inapplicability of reductions after age 65.
 - In 2010 (Laws 2010, Ch. 359, Art. 2, Sec. 12, and Art. 11, Sec. 10-14), provision is made for the payment of insurance premium amounts when a reemployment suspension or reduction occurs for retirees paying insurance premiums by way of an annuity deduction and the inapplicability of the reemployed annuitant earnings limitation for the MERF Division of PERA following that plan’s administration consolidation into PERA was specified, with corresponding cross-references.
- e. Public Employees Police and Fire Retirement Plan (PERA-P&F). The general applicability of the law governing the General Employees Retirement Plan of the Public Employees Retirement Association to PERA-P&F provision was enacted in 1959.
- In 1959 (Laws 1959, Ch. 650, Sec. 36), the provision specifying that the general provisions of Minnesota Statutes, Chapter 353, apply to PERA-P&F members except where otherwise specifically provided in Minnesota Statutes, Sections 353.63 to 353.68, with four transitional provisions governing the computation of disability benefits, deferred annuities, and survivor benefits in Subdivisions 2 to 5.
 - In 1961 (Laws 1961, Ch. 743, Sec. 3), a cross-reference in the 1959 survivor benefit transitional provision was corrected.
 - In 1963 (Laws 1963, Ch. 639, Sec. 2, Ch. 641, Sec. 35-37, and Ch. 659, Sec. 1), a fifth transitional subdivision was added to the provision, allowing a person who became a PERA member before June 30, 1957, and who had at least ten years of allowable service to take an alternative method for calculating an annuity or survivor benefit, a sixth subdivision limiting disability benefits to the period prior to age 58 was added to the provision, a seventh subdivision was added to the provision specifying that a PERA-P&F benefit is not to be diminished or impaired by any public pension earned in subsequent service, and the 1959 survivor benefit transitional subdivision was modified to clarify the age 62 benefit commencement age.
 - In 1965 (Laws 1965, Ch. 814, Sec. 2) the 1963 fifth transitional subdivision was amended by eliminating the vesting period on the alternative annuity or survivor benefit entitlement and by clarifying the benefit accrual formula rates used in the annuity or benefit computation.
 - In 1967 (Ex. Sess. Laws 1967, Ch. 37, Sec. 4), the 1963 sixth added subdivision setting an age 58 limit on disability coverage was modified with a restriction on survivor benefits after age 58.
 - In 1969 (Laws 1969, Ch. 940, Sec. 15), the 1959 transitional provision relating to disability benefit computation was amended to specify that the disability benefit was equal to the normal retirement age annuity plus a phasing-out supplementary benefit.
 - In 1971 (Laws 1971, Ch. 412, Sec. 3) the 1959 transitional provision relating to deferred annuities was amended to reference deferred annuity augmentation.
 - In 1973 (Laws 1973, Ch. 753, Sec. 78 and 8), the 1959 provision relating to deferred annuities was amended to reflect changes to the PERA-P&F benefit plan made in the same act and the other 1959 transitional provisions and the 1963 and 1967 additional provisions were repealed.
 - In 1992 (Laws 1992, Ch. 432, Sec. 24), the 1959 deferred annuities provision was further modified to eliminate any age specification and to update the language usage and style of the provision.
- f. Teachers Retirement Association (TRA).
- In 1953 (Laws 1953, Ch. 750, Sec. 5), the TRA defined contribution provision was amended with the addition of a reemployed annuitant earnings limitation, with the discontinuation of the person’s retirement annuity and forfeiture for the balance of the year if reemployed in teaching service and earning from that teaching service more than \$900.
 - In 1957 (Ex. Sess. Laws 1957, Ch. 16, Sec. 19), as part of a general revision of the TRA benefit plan, the reemployed annuitant earnings limitation provision was repealed.

- In 1959 (Ex. Sess. Laws 1959, Ch. 50, Sec. 12), a re-imposed annuitant earnings limitation was reemployed, with a discontinuation of the person's annuity and forfeiture of the amount in excess of the limitation amount in the following quarter if reemployed in teaching service and earning from that teaching service more than \$300.
- In 1963 (Laws 1963, Ch. 246, Sec. 1), the reemployed annuitant quarterly earnings limitation amount was increased from \$300 to \$600.
- In 1967 (Laws 1967, Ch. 693, Sec. 2), the reemployed annuitant quarterly earnings limitation amount was increased from \$600 to \$800 if under age 72 and without limit upon reaching age 72.
- In 1974 (Laws 1974, Ch. 289, Sec. 26), the language usage and style of the reemployed annuitant earnings limitation provision were revised.
- In 1980 (Laws 1980, Ch. 342, Sec. 11), the reemployed annuitant earnings quarterly limitation amount was reset from \$800 to the applicable Social Security earnings test limitation amount expressed quarterly if the annuitant is under age 72.
- In 1981 (Laws 1981, Ch. 224, Sec. 108), the reemployed annuitant earnings limitation provision was clarified with respect to the applicable quarterly equivalent Social Security test limitation amount for retirees under age 62, the earliest Social Security old age benefit recipient age.
- In 1983 (Laws 1983, Ch. 148, Sec. 3), the reemployed annuitant earnings limitation was shifted from a quarterly limitation to an annual limitation, with the excess over the limitation amount deducted and forfeited from the following year's annuity if the recipient is under age 70.
- In 1985 (1st Spec. Sess. Laws 1985, Ch. 7, Sec. 17), the reemployed annuitant earnings' limitation was extended to earnings by an annuitant as a consultant or an independent contractor for a TRA-covered employer.
- In 1987 (Laws 1987, Ch. 284, Art. 6, Sec. 6), the salary for implementation of the reemployed annuitant earnings limitation for independent contractors was augmented by imputing the salary based on the rate paid to the employment position with the same number of pupils at the same employment level as the person, if greater than the income received.
- In 1989 (Laws 1989, Ch. 319, Art. 2, Sec. 14), the reemployed annuitant earnings limitation reduction was clarified to apply to post retirement employment with any employing unit covering TRA members, shifted to a calendar year-based limitation, the forfeiture amount was reset at one-half of the amount in excess of the limitation amount in the preceding calendar year, the pre-age 62 limitation as the age 62 Social Security earnings test amount was clarified to apply fractionally if retirement occurs for a partial year, and eliminated any limitation after age 70.
- In 1989 (Laws 1989, Ch. 319, Art. 2, Sec. 15), an exemption from the reemployed annuitant earnings limitation reduction was added for persons reemployed by a school district as an interim superintendent due to the death, disability, termination or resignation of the previous superintendent for a 90-day reemployment period for compensation not to exceed the compensation rate of the previous superintendent if the exemption application is unanimously approved by the school district board and is submitted to TRA prior to re-employment, with only one exemption available for a school district per year and with no more than three exemptions available during the lifetime of an interim superintendent and no more than one exemption for any interim superintendent in any fiscal year.
- In 1994 (Laws 1994, Ch. 528, Art. 3, Sec. 19), the interim superintendent exemption for the reemployed annuitant earnings limitation was modified to clarify that the exemption does not apply to a person who retires from a school district and who returns to the same school district as an interim superintendent within one year after retirement.
- In 1994 (Laws 1994, Ch. 602, Sec. 2), a full-time employee of the State University System or the Community College System who retires from the Teachers Retirement Association (TRA) with at least ten years of service and returns to higher education employment of at least one-third full time and more than two-thirds of full time with a salary not in excess of \$35,000 is exempt from the reemployed annuitant earnings limitation.
- In 1995 (Laws 1995, Ch. 262, Art. 1, Sec. 4), the higher education exemption from the reemployed annuitant earnings limitation was extended to technical college employment and the exemption was clarified that any compensation in excess of \$35,000 is subject to a reduction.
- In 1998 (Laws 1998, Ch. 390, Art. 2, Sec. 9), the provision was clarified that the authority to approve a higher education exemption from the reemployed annuitant earnings limitation is with the president of the institution, that the reemployed annuitant could not be required to waive collective bargaining rights as part of the exemption approval, and that the reemployed annuitant is covered by the applicable collective bargaining contract.
- In 1999 (Laws 1999, Ch. 222, Art. 19, Sec. 4), the higher education system references in the higher education exemption to the reemployed annuitant earnings limitation were replaced with references to the Minnesota State Colleges and Universities System (MnSCU) and the

restriction on earning additional deferred benefit plan service credit during reemployment was broadened to also include defined contribution retirement plan coverage.

- In 2000 (Laws 2000, Ch. 461, Art. 2, Sec. 6), the forfeiture aspect of the reemployed annuitant earnings limitation was eliminated, with benefit reductions placed into a special deferral account with compound interest at 6% annually, payable at age 65 or the first of the month next following the termination of the reemployment, whichever is later.
- Also in 2000 (Laws 2000, Ch. 461, Art. 2, Sec. 7), the exemption amount in the higher education exemption to the reemployed annuitant earnings limitation was increased from \$35,000 to \$46,000.
- In 2004 (Laws 2004, Ch. 267, Art. 7, Sec. 5), the reduction exemption age was changed from age 70 to the Social Security full retirement age.
- In 2008 (Laws 2008, Ch. 349, Art. 3, Sec. 8), the reemployed annuitant limitation was changed from a reduction to a deferral when the reemployment compensation exceeds \$46,000.
- Also in 2008 (Laws 2008, Ch. 349, Art. 3, Sec. 9), pre-retirement agreements for annuitants to return to work for TRA employing units were authorized for teachers who are at least age 62.

g. First Class City Teacher Retirement Plans.

- In 1979 (Laws 1979, Ch. 217, Sec. 16, Subd. 3), as part of the codification of the coordinated programs for the three retirement plans, a limitation was specified upon the resumption of teaching service for the school district covered by the applicable retirement plan, applicable until age 72, set at \$800 per quarter, with a reduction and forfeiture for the amount in excess of the limit imposed against the annuity for the following quarter.
- In 1981 (Laws 1981, Ch. 224, Sec. 139), the limitation amount was increased to the applicable Social Security earnings test limitation amount.
- In 1989 (Laws 1981, Ch. 319, Art. 2, Sec. 22), the reemployed annuitant earnings limitation was reset at an annual amount for each calendar year, the reduction and forfeiture amount was set at \$1 for every \$2 in excess of the limit, the limit was set at the earliest Social Security earnings test amount for retirement ages before the earliest Social Security benefit age, and was imposed in the succeeding calendar year, but not after age 70.
- In 1992 (Laws 1992, Ch. 598, Art. 6, Sec. 15), the reduction and forfeiture amount was reduced from \$1 for every \$2 to \$1 for every \$3 dollars in excess of the limitation.
- In 1994 (Laws 1994, Ch. 542, Sec. 3), the reemployed annuitant earnings limitation was made applicable to basic program annuitants and teaching service income for the limitation was defined as the greater of actual income or the compensation paid to equivalent or substantially similar consultant or employment positions.
- In 1995 (Laws 1995, Ch. 262, Art. 1, Sec. 7), a full time employee of the State University System or the Community College System who retires from a first class city teacher retirement plan with at least ten years of service and returns to higher education employment of at least one-third full time and no more than two-thirds of full time with a salary not in excess of \$35,000 is exempt from the reemployed annuitant earnings limitation.
- In 2000 (Laws 2000, Ch. 461, Art. 2, Sec. 8-9), the reemployed annuitant earnings limitation provision was divided into lettered paragraphs and the forfeiture aspect of the reemployed annuitant earnings limitation was eliminated, with benefit reductions placed into a special deferred account with compound interest at 6% annually, payable at age 65 or the first of the next month following the termination of the reemployment, whichever is later, and the higher education exemption from the reemployment annuitant earnings limitation amount was increased from \$35,000 to \$46,000.
- In 2001 (1st Spec. Sess. Laws 2001, Ch. 10, Art. 3, Sec. 23), a requirement was imposed on each employing unit covered by the teachers retirement fund association to report by February 15 annually to the retirement plan the income paid by the employer to reemployed annuitants during the previous calendar year.
- In 2008 (Laws 2008, Ch. 349, Art. 3, Sec. 10), the reemployed annuitant limitation was changed from a reduction to a deferral when the reemployment compensation exceeds \$46,000.
- In 2013 (Laws 2013, Ch. 111, Art. 13, Sec. 12), amounts in excess of the reemployed annuitant earnings limitation were shifted from a deferral to a forfeiture for the Duluth Teachers Retirement Fund Association (DTRFA) and the St. Paul Teachers Retirement Fund Association (SPTRFA), after June 30, 2013.

STAKEHOLDERS: MPPOA, LELS, and MCPA

MPPOA and LELS approached PERA staff regarding working after retirement for Police & Fire retired members. State Patrol stakeholders have also participated in the conversations. The MCPA is also interesting in exploring modifications to working after retirement for Police & Fire members.

INITIATIVE: PERA POLICE & FIRE WORKING AFTER RETIREMENT (*Informational Item*)

Police stakeholder groups are exploring options for modification to the working after retirement statute.

Background

Minn. Stat. §353.37 applies to all PERA Plans when a retired member (a former employee who has had a 30-day break in service with no prearranged agreement to return) returns to work in a PERA covered position. If a reemployed retiree's income exceeds \$22,320 (for 2024), a portion of their benefit is deferred and placed in a non-interest-accruing account. For every \$2 earned over the threshold, \$1 of the benefit is deferred. Depending on the amount in excess of the threshold and the benefit amount, a member's entire benefit could be deferred. The amount deferred is placed into a non-interest-accruing account for a full calendar year or until termination of the reemployment.

Example: A Police & Fire retiree returns to a PERA-covered position. The member exceeds the threshold in April 2024. Beginning May of 2024, a portion of the member's benefit is withheld. If a member exceeds the threshold by \$20,000, \$10,000 of the member's benefit is deferred. The amount deferred in 2024 is returned to the member at the beginning of 2026 if the member so requests. If a member has a deferral in 2025, the amount deferred may be returned to the member at the beginning of 2027. This one-year delay is required by statute.⁵

In 2023, 131 Police & Fire retired members met the earnings threshold and had a portion of their benefit withheld. This means that these members will receive the deferred portion of their benefit in January 2025.

Police Stakeholder Concerns

Police stakeholder groups note significant concern with recruitment and emphasize the need to retain employees. The stakeholder groups are interested in exploring statutory changes that could provide an opportunity to retain retired Police & Fire members.

Information Provided by PERA to Stakeholders

PERA staff created the included document to provide information relating to potential changes to the statute.

PERA Current Statute

The current statute, which is consistent with IRS statute and regulations, applies to all retirees until their Social Security full retirement age. The IRS generally prohibits in-service distributions, so a member is required to have a 30-day break in service with no prearranged agreement to return to work

⁵ See Police & Fire Working After Retirement for a more detailed example.

before a member may return to work with a PERA covered employer and continue to receive their pension. This establishes the bona-fide separation from service required by the IRS.

Current statute does not allow for additional benefit accruals, employer contributions, or employer contributions for reemployed retirees.

As mentioned, the statute automatically requires that once a member's employment earnings exceeds the threshold (\$22,430 in 2024), a portion of the benefit is deferred for a full calendar year. The amount deferred is held in a non-interesting-accruing account.

There are no age limitations or mandatory retirement age in the statute. A sunset date is not applicable to the current statute.

The burden of administering the deferral account and risk to PERA are low. The Fund earns interest on the amounts that are deferred. If the assumed 7.0 percent investment return is met, the annual earnings on member's accounts that are retained by the Fund is about \$200,000.

In-Service Distributions, no Additional Contributions

The IRS does permit in-service distributions in limited cases, including when members have reached their full retirement age. Under federal law, a plan may provide that once a member reaches full retirement age (55 for the Police & Fire Plan), the member may retire and return to work the next day. There is no break in service requirement. The member collects their retirement benefit and their full salary without a threshold or deferral. For members under full retirement age, who are not eligible for in-service distributions under federal law, the 30-day break in service with no prearranged agreement to return to work is still required before the member would be eligible to return to employment while collecting their pension benefit and full salary.

Under this model, there would be no additional benefit accruals, employer contributions, or employee contributions. There would be no option to defer any benefit amount for members.

In addition, there would be no age limitations or mandatory retirement. There could be a sunset date, though, PERA staff do not see the need for a sunset.

The burden of administering in-service distributions is relatively low as is the risk to PERA.

The Fund would no longer receive the interest from the member's deferral accounts. As noted above the cost impact is about \$200,000 per year.

Policy Considerations for In-Service Distributions

IRS regulations allow for a member to receive in-service distributions as long as the plan provides for in-service distributions at full retirement age, so there is no federal compliance issue.

There could be a negative perception that members are "double-dipping," which generally means the act of receiving a pension while collecting a salary with the same employer. It is important to note, however, that the pension benefit that the reemployed retiree would receive is compensation for previous service rendered. The member is receiving a benefit only for service prior to their benefit

commencement. The additional compensation for their work after benefit commencement does not have a pension benefit component. In other words, the pension benefit and the current salary are compensation for two different, non-overlapping, periods of service.

From an administrative perspective, in-service distributions, provide a simple solution. This does not add additional complexity to the plan, but rather simplifies the Plan. After full retirement age members could immediately return to work and would not have to comply with a 30-day break in service with no prearranged agreement to return requirements. This eliminates the current threshold and deferral without adding additional administration for the Plan.

MSRS State Patrol Model

MSRS State Patrol requires a one-day break in service for members over the age of 55 who wish to return to work. Members under 55 still require a 30-day break in service.

Under this model, in-service distributions are permitted at full retirement age, but employer and employees continue to contribute to the plan while the employee receives their pension benefit and salary. The member also continues to earn service credit. Upon termination, the member's benefit is recalculated to include the additional service credit and reflects the benefit already distributed.

Mandatory participation is required. Since the MSRS State Patrol Plan has a mandatory requirement age of 60, this option is capped at five years of participation.

A sunset date is not applicable for the current statute.

The administration burden and risk to PERA are high. There could also be a cost impact to the Fund.

Policy Considerations for MSRS State Patrol Model

This model, if adopted, is a significant change to the PERA Plan that adds complexity, administrative burden, and risk.

A basic premise of federal pension law is that pension plans provide a definitely determinable benefit usually for life upon retirement or normal retirement age. A policy consideration should be that this model does not create a finite benefit upon termination. Instead, a retired member could return to work, accrue more service credit, terminate, have their benefit recalculation, and then return to work, accrue more service credit, terminate, and have their benefit recalculated again.

The change introduces increased administrative work to the Plan. As mentioned earlier, PERA currently has 138 Police & Fire retired members exceeding the threshold. This number does not account for retired members who have not exceeded the threshold. Using this population, PERA staff would have to recalculate 138 benefits.

By allowing a retired member to return to work, continue contributions, earn service credit, and have the benefit adjusted when the member terminates introduces a complicated benefit calculation to the Police & Fire Plan. The new benefit calculation will reflect not only the additional service credit, but

also that the member has been receiving the benefit for a period of time. This requires an actuarial calculation that may not be transparent to members.

Currently, PERA provides member education regarding the various aspects of each plan. This model introduces more complexity that may be difficult to appropriately educate members on. PERA provides members with estimates and other retirement counseling that members may rely upon for retirement planning. With this model, PERA would not be able to project the high-five salary, service credit, or potential impact to monthly benefits and therefore would be unable to provide the member with the same level of information PERA provides currently.

Another consideration that needs to be evaluated is the impact to combined service annuities (CSA). If a member is covered by more than one fund, a member may be eligible for a CSA. For the calculation, which uses the combined years of service for vesting and eligibility purposes, each plan uses its own formula to calculate the benefit. All plans involved will use the same high five salary to calculate each monthly benefit, and the members receives a benefit payment from each retirement plan. CSA law requires that the member terminate all public service before any combined service benefits begin. Also, the effective date of the members' benefits from all plans must be within one year of each other. This model may impact the benefits granted by other funds or if the member does not terminate, may exclude the member from receiving a CSA. If that is the case, the reduction could be substantial.

As noted, the Police & Fire Plan does not have a mandatory retirement age. If the option is limited to a certain age group, for example, ages 55 to 60, the eligibility is based solely on age. A question to consider would be if this limitation can be challenged as age discrimination.

A consideration should be that creating such an incentive for members to return to work may have unintended consequences such as limiting opportunities for younger generations.

It is also important to consider that the normal cost for benefits at this stage in a career is higher. The normal cost reported in the actuarial valuation of 23.26% is an average for all members for their entire career. The additional cost to add benefit accruals late in a career that are immediately payable would be higher. The recalculation may include a higher salary or overtime. Whether the increased contributions by the employee (11.8%) and employer (17.7%) is sufficient to cover this cost would require an actuarial valuation.

Consideration should be given to the potential for an increased perception of double-dipping in this model. In the public's eye the member would be receiving three sources of income: public salary, public pension, and earning more towards their public pension. Under the in-service distribution with no contributions model, the member would receive only a finite pension for past service plus a full salary for current service, but there would be no public funding of additions to their pension benefit.

Lastly, the PERA Board of Trustees should consider consistent treatment between all PERA's Plans for reemployed retirees. Workforce shortages impact numerous groups within PERA General and PERA Correctional. Establishing a different working after retirement program for the Police & Fire Plan would create different treatment for reemployed retirees depending on which plan the retired member is receiving a benefit from.

DROP

Deferred Retirement Option Programs (DROPs) are not uncommon features of public safety plans. The design features can vary significantly from plan to plan. Because of that flexibility, there are many questions that could be considered including (1) full or partial amounts, (2) length of program, (3) distribution options (4) distribution options (5) disability eligibility (6) postretirement increases, and (7) access to DROP before retirement. Policy considerations are dependent on the design of the DROP.

Further analysis by PERA staff about the pros and cons of a DROP would require more specificity about what is desired. One thing that is clear is that if the desire to retain members includes the addition of increased benefits, there would be a cost that someone must absorb. Alternatively, if designed to be cost neutral to the Plan, there would be no actual value to the member.

Staff Recommendation

Staff recommends the PERA Board of Trustees discuss the options being explored and provide feedback for PERA staff to give stakeholders.

Current Law
P&F member earns \$8,000/mo, retires 10/31/23 with \$6,000/mo benefit. Returns to work 1/1/24 earning \$8,000/mo. Final retirement 9/30/25. Earnings threshold is \$22,320 in 2024 (actual) and assumed unchanged in 2025. Future COLAs are not included for simplification purposes.

Allowance of In Service Distributions

	Monthly Earnings	Monthly Retirement	Deferral Account			Total Monthly Income	Cumulative Annual Income
			Monthly Deferred Benefit	Deferral Payout	Cumulative Deferred Balance		
2023 October	\$8,000	N/A				\$8,000	\$ 80,000
2023 November	30 day break	\$6,000				6,000	\$ 86,000
2023 December	return 1/1/23	\$6,000				6,000	\$ 92,000
2024 January	\$8,000	\$6,000	\$0	\$0	\$0	\$14,000	\$14,000
2024 February	\$8,000	\$6,000	\$0	\$0	\$0	\$14,000	\$28,000
2024 March	\$8,000	\$5,160	\$840	\$0	\$840	\$13,160	\$41,160
2024 April	\$8,000	\$2,000	\$4,000	\$0	\$4,840	\$10,000	\$51,160
2024 May	\$8,000	\$2,000	\$4,000	\$0	\$8,840	\$10,000	\$61,160
2024 June	\$8,000	\$2,000	\$4,000	\$0	\$12,840	\$10,000	\$71,160
2024 July	\$8,000	\$2,000	\$4,000	\$0	\$16,840	\$10,000	\$81,160
2024 August	\$8,000	\$2,000	\$4,000	\$0	\$20,840	\$10,000	\$91,160
2024 September	\$8,000	\$2,000	\$4,000	\$0	\$24,840	\$10,000	\$101,160
2024 October	\$8,000	\$2,000	\$4,000	\$0	\$28,840	\$10,000	\$111,160
2024 November	\$8,000	\$2,000	\$4,000	\$0	\$32,840	\$10,000	\$121,160
2024 December	\$8,000	\$2,000	\$4,000	\$0	\$36,840	\$10,000	\$131,160
2025 January	\$8,000	\$6,000	\$0	\$0	\$36,840	\$14,000	\$14,000
2025 February	\$8,000	\$6,000	\$0	\$0	\$36,840	\$14,000	\$28,000
2025 March	\$8,000	\$5,160	\$840	\$0	\$37,680	\$13,160	\$41,160
2025 April	\$8,000	\$2,000	\$4,000	\$0	\$41,680	\$10,000	\$51,160
2025 May	\$8,000	\$2,000	\$4,000	\$0	\$45,680	\$10,000	\$61,160
2025 June	\$8,000	\$2,000	\$4,000	\$0	\$49,680	\$10,000	\$71,160
2025 July	\$8,000	\$2,000	\$4,000	\$0	\$53,680	\$10,000	\$81,160
2025 August	\$8,000	\$2,000	\$4,000	\$0	\$57,680	\$10,000	\$91,160
2025 September	\$8,000	\$2,000	\$4,000	\$0	\$61,680	\$10,000	\$101,160
2025 October	\$0	\$6,000	\$0	\$0	\$61,680	\$6,000	\$107,160
2025 November	\$0	\$6,000	\$0	\$0	\$61,680	\$6,000	\$113,160
2025 December	\$0	\$6,000	\$0	\$0	\$61,680	\$6,000	\$119,160
2026 January	\$0	\$6,000	\$0	\$36,840	\$24,840	\$42,840	\$42,840
2026 February	\$0	\$6,000	\$0	\$0	\$24,840	\$6,000	\$48,840
2026 March	\$0	\$6,000	\$0	\$0	\$24,840	\$6,000	\$54,840
2026 April	\$0	\$6,000	\$0	\$0	\$24,840	\$6,000	\$60,840
2026 May	\$0	\$6,000	\$0	\$0	\$24,840	\$6,000	\$66,840
2026 June	\$0	\$6,000	\$0	\$0	\$24,840	\$6,000	\$72,840
2026 July	\$0	\$6,000	\$0	\$0	\$24,840	\$6,000	\$78,840
2026 August	\$0	\$6,000	\$0	\$0	\$24,840	\$6,000	\$84,840
2026 September	\$0	\$6,000	\$0	\$0	\$24,840	\$6,000	\$90,840
2026 October	\$0	\$6,000	\$0	\$24,840	\$0	\$30,840	\$121,680
2026 November	\$0	\$6,000	\$0	\$0	\$0	\$6,000	\$127,680
2026 December	\$0	\$6,000	\$0	\$0	\$0	\$6,000	\$133,680
	\$168,000	\$154,320		\$61,680		\$384,000	
	Paid Immediately		Deferred		Total		

	Monthly Earnings	Monthly Retirement	Total Monthly Income	Cumulative Annual Income
2023 November	\$8,000	\$6,000	6,000	\$ 86,000
2023 December	\$8,000	\$6,000	6,000	\$ 92,000
2024 January	\$8,000	\$6,000	\$14,000	\$14,000
2024 February	\$8,000	\$6,000	\$14,000	\$28,000
2024 March	\$8,000	\$6,000	\$14,000	\$42,000
2024 April	\$8,000	\$6,000	\$14,000	\$56,000
2024 May	\$8,000	\$6,000	\$14,000	\$70,000
2024 June	\$8,000	\$6,000	\$14,000	\$84,000
2024 July	\$8,000	\$6,000	\$14,000	\$98,000
2024 August	\$8,000	\$6,000	\$14,000	\$112,000
2024 September	\$8,000	\$6,000	\$14,000	\$126,000
2024 October	\$8,000	\$6,000	\$14,000	\$140,000
2024 November	\$8,000	\$6,000	\$14,000	\$154,000
2024 December	\$8,000	\$6,000	\$14,000	\$168,000
2025 January	\$8,000	\$6,000	\$14,000	\$14,000
2025 February	\$8,000	\$6,000	\$14,000	\$28,000
2025 March	\$8,000	\$6,000	\$14,000	\$42,000
2025 April	\$8,000	\$6,000	\$14,000	\$56,000
2025 May	\$8,000	\$6,000	\$14,000	\$70,000
2025 June	\$8,000	\$6,000	\$14,000	\$84,000
2025 July	\$8,000	\$6,000	\$14,000	\$98,000
2025 August	\$8,000	\$6,000	\$14,000	\$112,000
2025 September	\$8,000	\$6,000	\$14,000	\$126,000
2025 October	\$0	\$6,000	\$6,000	\$132,000
2025 November	\$0	\$6,000	\$6,000	\$138,000
2025 December	\$0	\$6,000	\$6,000	\$144,000
2026 January	\$0	\$6,000	\$6,000	\$6,000
2026 February	\$0	\$6,000	\$6,000	\$12,000
2026 March	\$0	\$6,000	\$6,000	\$18,000
2026 April	\$0	\$6,000	\$6,000	\$24,000
2026 May	\$0	\$6,000	\$6,000	\$30,000
2026 June	\$0	\$6,000	\$6,000	\$36,000
2026 July	\$0	\$6,000	\$6,000	\$42,000
2026 August	\$0	\$6,000	\$6,000	\$48,000
2026 September	\$0	\$6,000	\$6,000	\$54,000
2026 October	\$0	\$6,000	\$6,000	\$60,000
2026 November	\$0	\$6,000	\$6,000	\$66,000
2026 December	\$0	\$6,000	\$6,000	\$72,000
	\$168,000	\$216,000	\$384,000	
	Paid Immediately		Total	

Summary of Alternatives Considered for Police & Fire Plan Working After Retirement

	PERA P&F Current	In Service Distributions	MSRS Highway Patrol	Deferred Retirement Option Program (DROP)
Age requirement	50/55	50/55	50/55	50/55
Break in service requirement	Yes (30 Days & no agreement)	None @55 30 Days @50	Yes (1 Day@55) (30 days@50)	Not required
Benefit Accruals	No	No	Yes	No
EE Contributions	No	No	Yes	No
ER Contributions	No	No	Yes	No
Benefit Deferral?	Yes (Mandatory)	No	N/A	Yes (Election)
Deferral Account Threshold	\$22,320 in 2024	No	N/A	No
Deferral Account Interest	No	No	N/A	Yes (Usually)
Mandatory Retirement	No	No	60	No
Sunset Date	N/A	No	N/A	No
PERA Administration, Member Communication, other Risk	Low	Very Low	High	Very High
PERA Fund Impact? (If PERA changes)	N/A	Minimal	Maybe	Depends

DROP Design questions: (1) full or partial amounts, (2) length of program, (3) interest amount, (4) distribution options, (5) disability eligibility, (6) postretirement increases, (7) access to account before retirement.

STAKEHOLDER: MINNESOTA PROFESSIONAL FIRE FIGHTERS (MPFF)

The Minnesota Professional Fire Fighters (MPFF) submitted four legislative initiatives for their 2024 legislative agenda. The initiatives include:

- Initiative 1: PERA Police & Fire Retiree COLAs Increase
- Initiative 2: PERA Police & Fire Retiree Delayed COLA Elimination
- Initiative 3: PERA Police & Fire Employee Contributions
- Initiative 4: State Funding for PERA Police & Fire

INITIATIVE 1: PERA POLICE & FIRE RETIREE COLAS INCREASE (*Decision Item*)

The first MPFF request is for a higher annual increase (COLA) for Police & Fire retirees.

Background

During the 2013 legislative session, PERA and stakeholders brought forward several sustainability measures due to funding deficits in the Police & Fire Plan. One of those changes set the COLA at a fixed 1%. Without these changes in place for the past ten years, the Plan would be in a significantly worse position than it is today.

MPFF Legislative Initiative #1

MPFF Request – Increase the current 1% COLA for retirement members of the PERA Police & Fire fund to a 2% COLA or at least equal to the 1.5% COLA granted to all other PERA retirees.

MPFF Initiative Explanation: PERA Police & Fire members are “basic employees” meaning they do not receive Social Security retirement income as part of their employment with political subdivisions of the state of Minnesota. Unlike other PERA retirees who have “coordinated plans” who receive a state pension and received significant Social Security increases over the last three years, PERA Police & Fire retirees have been stuck at a 1% COLA. It is absolutely imperative that the COLA for PERA Police & Fire retirees be raised at a minimum to 1.5% and more appropriately to 2% to match the Federal Personnel Board’s target rate for inflation.

Staff Review

PERA’s funding values and long-term Board positions, approved by the PERA Board of Trustees, focus on ensuring that changes are considered through a lens of long-term sustainability, correct assumptions, and equity between members. Using these principles, PERA staff has created a score card to measure each Plan.⁶ The scorecard helps set priorities on a plan by plan. While scoring is somewhat subjective, it can still indicate that a PERA Police & Fire priority should be improvements to postretirement increases to better protect retirees from inflation. MPFF’s goal to increase the COLA for retirees mirrors the goals set forth by the PERA Board of Trustees. Modifying the current 1% fixed COLA to either 2%, or 1.5%, or to the approach used by the PERA General plan (50% of inflation, 1% minimum, 1.5% maximum) is a step in the right direction with the goal of improving inflation protection for Police & Fire retirees.

⁶ See attached scorecard

As the PERA Board of Trustees is aware, increasing the COLA has significant costs. A change from 1% fixed to 2% fixed would increase the Unfunded Actuarial Accrued Liability (UAAL) by \$1.3 billion and would increase the annual contribution requirement by 9.3% of payroll. A change to 1.5% fixed would increase the UAAL by \$650 million and would increase the annual contribution requirement by about 4.7% of payroll. A change to the General Plan formula would increase the UAAL by about \$325 million and the annual contribution by about 2.3%.

PERA's Board has long maintained that benefit improvements cannot jeopardize the health of the Fund. While the benefit increase goal mirrors PERA's goal, the next question focuses on who pays for this benefit increase. The Police & Fire Plan is not currently in the position to absorb the cost of increasing the COLA. The other funding streams identified are either funding from the state or increased contributions by the employer and employee. For example, split 40/60, if the increase to the General Plan model were funded by contributions, it would need to be approximately a 1% employee contribution and a 1.5% employer contribution.

Staff Recommendation

PERA staff recommends that the Board not take a position unless or until a funding source is identified as part of the proposal.

INITIATIVE 2: PERA POLICE & FIRE DELAYED COLA ELIMINATION (*Decision Item*)

The second MPFF request is to eliminate the delayed COLA for Police & Fire retired members.

Background

As determined by statute, retirees receive a compounded annual increase (COLA). Minn. Stat. §356.415 requires retirees of all Plans to meet a waiting period before being eligible for an increase. This waiting period applies to PERA General, PERA Police & Fire, and PERA Correctional. The waiting period provides for a partial increase and a full increase.

Full Increase Eligibility

In statute, the waiting period is determined as of June 30 for next year's increase amount. If a benefit recipient has received at least 12 months of benefit as of June 30, the member will qualify for the full increase the following January 1.

Example: A General Plan retiree started benefits effective **July 1, 2022**. For January 1, 2023, the member has not met eligibility requirements to qualify for any increase. Therefore, the benefit amount will remain the same for all benefits paid in 2023. However, as of June 30, 2023, the member has received 12 months of payments. This member then qualifies for the full increase for their January 1, 2024 payment. In this case, the increase was 1.5%.

Partial Increase Eligibility

If a member has received at least one month of benefits but less than 12 as of June 30, the member will qualify for a prorated increase the following January 1. The proration is determined by multiplying the increase percentage by a fraction, where the numerator is the number of monthly benefits received as of June 30 and the denominator is 12.

Example: A General Plan retiree started benefits effective **March 1, 2022**. For January 1, 2023, the member has not met eligibility requirements for a full increase, but has met eligibility for a partial increase. As of June 30, 2022, the member has received 4 months of benefits. Therefore, the member will qualify for 4/12 of the increase of 1.5% effective January 1, 2023. This member then qualifies for the full increase of 1.5% for their January 1, 2024 payment.

Police & Fire Plan COLA Delay

In addition to the waiting period required for all other Plans, the Police & Fire Plan has a two-year delay. During the 2013 legislative session, PERA and stakeholders brought forward several sustainability measures due to funding deficits in the Police & Fire Plan. Two changes occurred related to Police & Fire increases. The first change lowered the fixed increase amount from 1.5% to 1% beginning January 1, 2014.⁷ The second change added a 24-month delay to the current increase waiting period schedule.

A Police & Fire retiree must receive at least 36 months of benefit (the original 12 months plus the added 24 months) as of June 30 to qualify for a full increase effective the following January 1. A Police & Fire retiree must receive between 25 (1 month plus the added 24 months) but less than 36 months as of June 30 to qualify for a prorated increase effective the following January 1. The same process to calculate the fraction was not changed. This delayed increase provision was effective for benefits beginning June 1, 2014 or later.

Police & Fire Example: A Police & Fire Plan retiree started benefits effective **March 1, 2022**. For January 1, 2023 and January 1, 2024, the member did not receive enough benefits to qualify for an increase. As of June 30, 2024, the member has received 28 months of benefits. Therefore, the member will qualify for 4/12 of the increase of 1% effective January 1, 2025. This member then qualifies for the full increase of 1% for their January 1, 2026 payment.

Calendar Year	Benefit Period	Increase	Monthly Benefit
2022	March-December	N/A	\$1,000
2023	January-December	N/A	\$1,000
2024	January-December	N/A	\$1,000
2025	January-December	0.3%	\$1,003
2026	January-December	1.0%	\$1,013

⁷ There were triggers having the increase move up or down based on the funding level, but the trigger was later removed in the 2018 legislative session.

To communicate the waiting period more clearly to members, PERA published the following waiting schedule for Police & Fire members. By adding the 6 months (July-December) into the waiting period, this schedule illustrates the total number of benefits the member must receive by January 1 to be eligible for a full or partial increase.

Benefit Begin Date	Schedule	Fraction of Increase	Percentage of Increase
July 1	42 months	12/12	100.0%
August 1	41 months	11/12	91.7%
September 1	40 months	10/12	83.3%
October 1	39 months	9/12	75.0%
November 1	38 months	8/12	66.7%
December 1	37 months	7/12	58.3%
January 1	36 months	6/12	50.0%
February 1	35 months	5/12	41.7%
March 1	34 months	4/12	33.3%
April 1	33 months	3/12	25.0%
May 1	32 months	2/12	16.7%
June 1	31 months	1/12	8.3%

This schedule is explained to a member by stating if the member begins their benefit on December 1, the member will need to wait 37 months to receive the first increase, which will be prorated. In the 38th month the member receives benefits (the month of January) the benefit will be recalculated and include 7/12 (58.3%) of the fixed 1% increase (.583%).

MPFF Legislative Initiative #2

MPFF Initiative- Eliminate the three-year waiting period to receive a COLA for PERA Police & Fire retirees.

MPFF Initiative Explanation: PERA Police & Fire retirees must wait three years to get a COLA increase. In the last three years inflation has increased nearly 20% while recently retired PERA Police & Fire retirees in that same time period have received no permanent COLA increase. No other pension plan has a waiting period this onerous. It must be eliminated, and it is appropriately paid for by the pension plan.

Staff Review

As provided in the background information, PERA Police & Fire retirees have a 2-year delay in addition to the current schedule for PERA General and PERA Correctional retirees. PERA staff asked GRS to provide a cost estimate to eliminate the 2-year delay to bring PERA Police & Fire retirees in line with PERA General and PERA Correctional retirees. The proposed change would increase the Unfunded Actuarial Accrued Liability by about \$103M. The annual cost increase would be about 0.95% of payroll which is about \$11.4M per year.

While inflation protection for retirees has been an area identified for improvement, PERA staff have significant concerns with the Plan bearing the cost of this change. The most recent actuarial valuation indicated the Plan has a funding deficiency and is not expected to be fully funded until 2061. These results are based on an outdated disability rate assumption. Staff is still concerned that despite recent disability provision changes, the assumption still may be too optimistic. The additional cost of this change may put the plan into funding status decline.

Staff Recommendation

PERA staff recommends that the Board not take a position unless or until a funding source is identified as part of the proposal.

INITIATIVE 3: PERA POLICE & FIRE EMPLOYEE CONTRIBUTIONS (*Decision Item*)

The third MPFF request is to reduce the current active employee contribution by 2.5% to be replaced by sufficient state aid.

Background

PERA General, PERA Correctional, and PERA Police & Fire have both varying normal costs and fixed employer and employee contributions as shown below.

Plan	EE Contributions	ER Contributions	Total	Normal Cost
PERA General	6.5%	7.5%	14%	8.52%
*Social Security	6.2%	6.2%	12.4%	-
Total	12.7%	13.7%	26.4%	
PERA Correctional	5.83%	8.75%	14.58%	13.92%
*Social Security	6.2%	6.2%	12.4%	-
Total	12.03%	14.95%	26.98%	
PERA Police & Fire	11.8%	17.7%	29.5%	23.26%
No Social Security	-	-	-	-
Total	11.8%	17.7%	29.5%	

Both employer and employees of PERA General and PERA Correctional contribute to Social Security. PERA Police & Fire employers and employees only contribute to the P& F Plan.

Minn. Stat. §353.63 establishes that special consideration should be given to members of PERA Police & Fire in recognition of the hazards of the job. The statute acknowledges that these benefits are more costly than similar benefits provided in other plans. Specifically, the statute states that

"this extra cost should be borne by the employee and employer alike at the ratio of 40 percent employee contributions and 60 percent employer contributions.

In addition, the Legislative Commission on Pensions and Retirement Principles of Pension Policy number 3(d) reaffirms the allocation method of contributions for the PERA Police & Fire Plan:

d. For protective and public safety employees covered by a statewide public pension plan, the employee should pay forty percent of the total actuarial costs of the defined benefit pension plan and the employer should pay sixty percent of the total actuarial costs of the defined benefit pension plan.

MPFF Legislative Initiative #3

MPFF's Request – Reduce the active employee contributions to PERA Police & Fire by 2.5% and increase state aid to make up the difference.

MPFF's Request Justification: The Legislative Commission on Pensions and Retirement has a policy that 60% of the normal cost of PERA Police & Fire pension be paid by the employers and 40% of the normal cost of the pension be paid by the employees. The PERA Police & Fire fund's 2023 actuarial report states the normal cost of the pension plan is 23.26%. Active police & fire members are now paying 11.8% contributions, well over 40% of the normal cost of the pension they are paying for. The active members of the PERA Police & Fire plan should contribute 9.3% of salary based on the 40% share called for by the LCPR policy. The state should pick up the cost of the 2.5% reduction in the employees' contribution rate.

Staff Review

Total contributions for the PERA Police & Fire Plan are currently 127% percent of the normal cost. The scorecard highlights this as yellow, which indicates this is an area of improvement. The total contributions required in statute for the PERA Police & Fire Plan are split according to the required allocation. Employers contribute 60% and employees contribute 40%.

The MPFF request shifts who is paying from active employees to the public by using state aid to reduce the employee contribution to 9.3%, leaving the employer at a contribution rate of 17.7%. The state aid required annually to cover the reduction of the employee contribution is about \$30M and would need to increase at the 3% total payroll growth rate. The funding shift does not improve the Plan's overall funding.

The Legislature has indicated that there is limited, if any, additional funding available this coming legislation session. If there is funding available for pensions, priorities should be based on PERA's funding values and long-term board positions. Absent specific direction from the Board on priorities, Staff would suggest to the legislature that available funding be focused on the MPFF legislative proposals related to postretirement increases.

Staff Recommendation

Staff recommends that the Board take no position on this legislative initiative since it is a lesser priority than initiatives to increase inflation protection after retirement.

INITIATIVE 4: STATE FUNDING FOR PERA POLICE & FIRE (*Decision Item*)

The fourth MPFF request is to make the state aid permanent for PERA Police & Fire.

Background

PERA Police & Fire currently receives two different state aids⁸.

- 1) Minn. Stat. § 432A.022, Subd. 2, (a)(3) which provides \$9,000,000 to PERA Police & Fire and \$1,000,000 to MSRS State Patrol. The aid sunsets the earlier of : (1) December 1 following the end of the fiscal year in which the funded ratio using the AVA of both the PERA Police & Fire Plan and The State Patrol Plan equal or exceed 90%; (2) July 1, 2048.
- 2) Minn. Stat. §353.65, Subd, 3b which provides \$9,000,000 to PERA Police & Fire. The aid sunsets the earlier of : (1) the first day of the fiscal year following the fiscal year in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048.

MPFF Legislative Initiative #4

MPFF Initiative – Support making permanent state funding for PERA Police & Fire

MPFF Initiative Justification: Given Minnesota’s ranking as 46th in the nation in state and local government spending on pensions, the 2024 legislature should make permanent the general fund state aids directed at the PERA Police & Fire plan.

Staff Review

The current state aids have played an important role in PERA Police & Fire’s current funding status. Staff believe it is important that these aids continue. The sunset dates for the state aids use the actuarial valuation of assets, using this method smooths both market gains and losses over a five-year period, resulting in less volatility. However, recently the first state aid reference did come close to meeting one of the sunset requirements. This provided some uncertainty for the Plan.

As noted previously, there are multiple areas of improvement for this plan including better funded status, lower employee and employer contributions, and better retiree inflation protection. All of which come at a significant cost. The fund is not projected to reach full funding until well after 2048. Continuation of the state aid after that date is important to help achieve all goals.

⁸ See the included LCPR summary on current state aids and supplemental contributions.

PERA's long term board positions have one reference to Police State Aid:

The PERA Board of Trustees supports the primary use of the police state aid financed by the tax on automobile insurance premiums for funding the PERA Police & Fire Fund.

While caution should be used if these continued state aids are used to justify benefit improvements until the Plan has reached full funding, seeking permanent state aid seems reasonable.

Staff Recommendation

The PERA Board of Trustees should support the permanent extension of state aid.

PERA 2024 Stakeholder Information

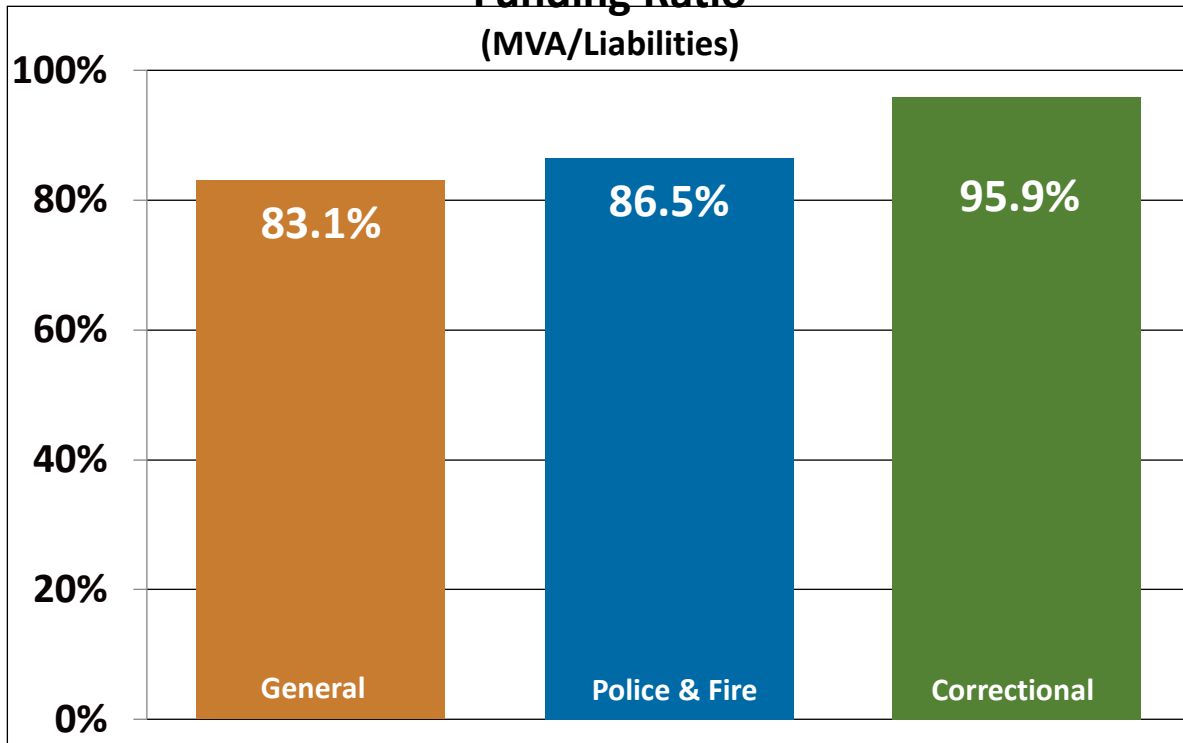
Doug Anderson, ASA, MAAA, Executive Director

Amy Strenge, Policy Coordinator

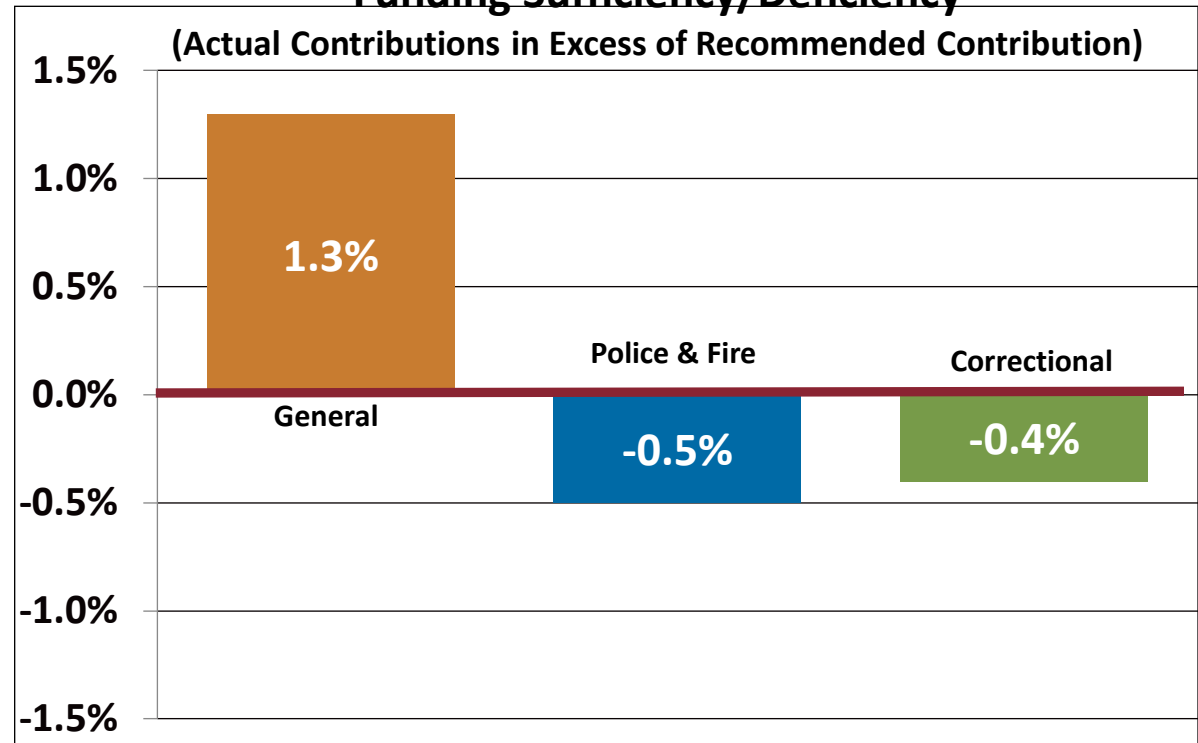


PERA Plan Funding Status as of July 1, 2023

Funding Ratio (MVA/Liabilities)

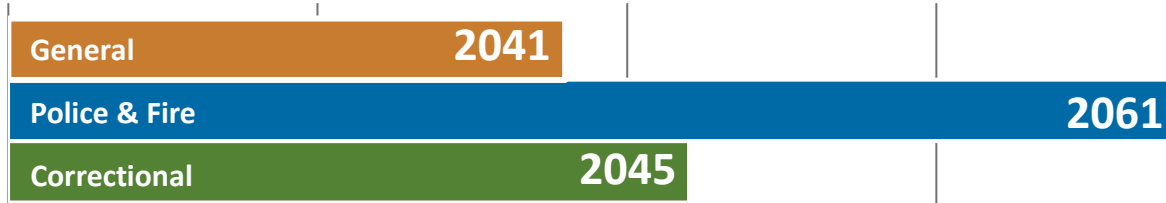


Funding Sufficiency/Deficiency



2023 2033 2043 2053 2063 2073 2083

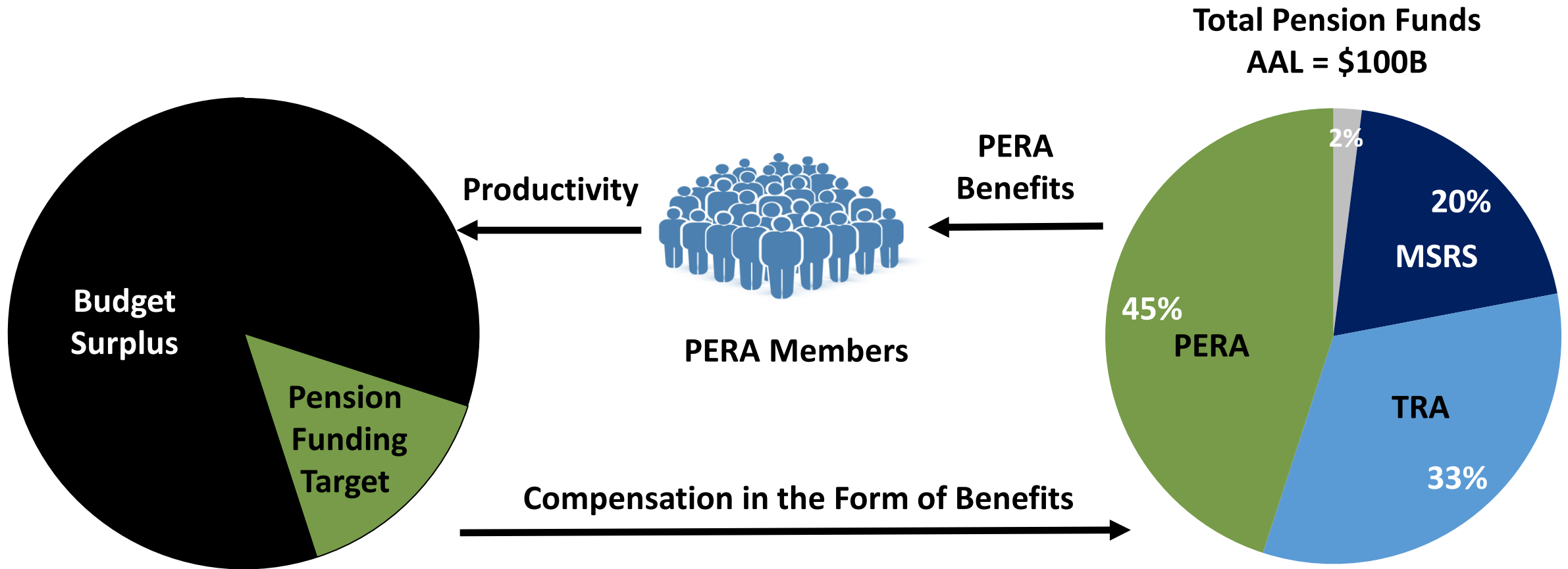
**Projected Full
Funding Date**



*P&F results are based on a questionable disability rate assumption.



How Should the Pension Funding Target be Allocated?



An active member's productivity is directly correlated to their compensation. Pension benefits are a form of compensation. ***The Actuarial Accrued Liability (AAL) is the amount of a member's compensation not yet paid to them for their past service.*** The value of each member's productivity and compensation can be measured.

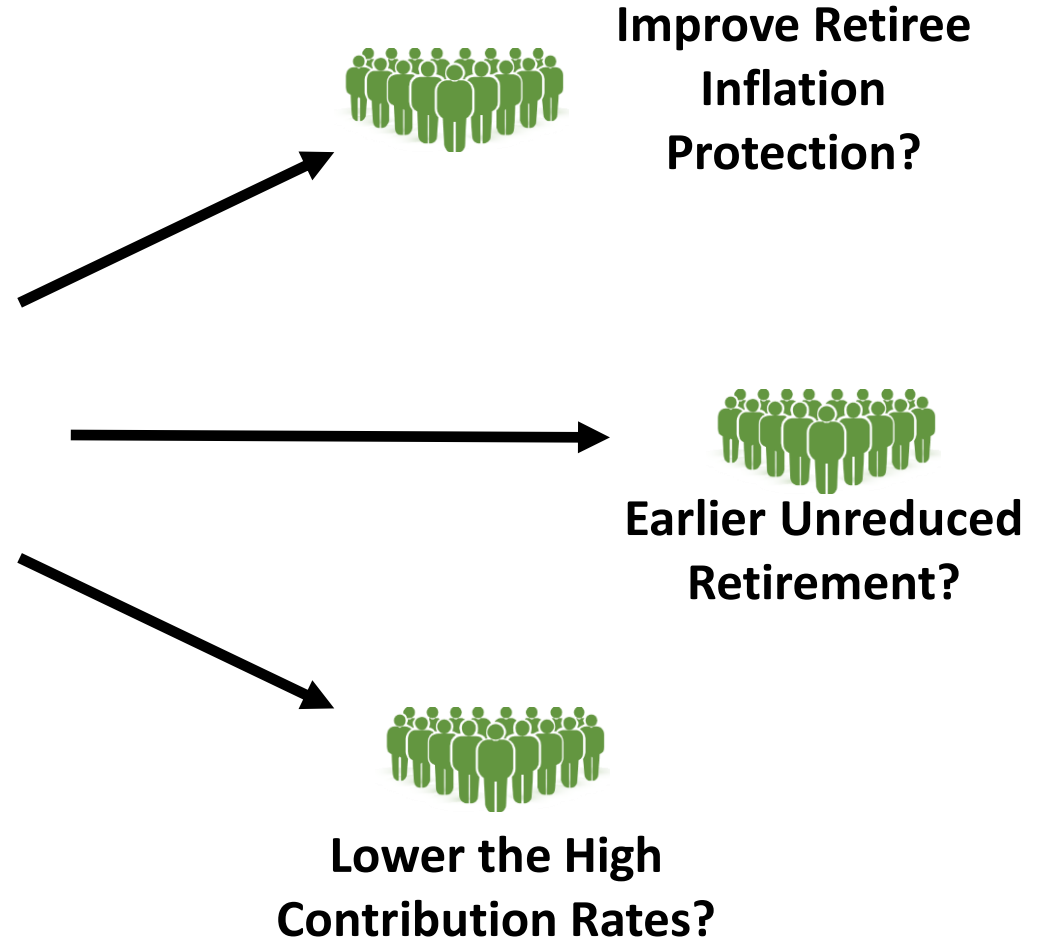
Should PERA Allocate Evenly or Prioritize Issues?

What should be done if the legislature has money available for PERA pensions?



150,000 Active
116,000 Retirees
153,000 Deferred

Allocate Evenly
to All?



PERA's Scorecard – What are our Priority Issues?

Metrics	Questions to Consider	General	Police & Fire	Correctional
Assumptions	Are the economic & demographic assumptions appropriate?	7.0% is reasonable	7.0% is reasonable, but disability rates are not	7.0% is reasonable
Funding Status	Is the Plan expected to achieve and maintain fully funded status?	83% now, 100% by 2041	87% now, 100% by 2061	96% now, 100% by 2045
Contributions	Do employees & employers contribute the appropriate amount?	Contributions 164% of Normal Cost	Contributions 127% of Normal Cost	Contributions 105% of Normal Cost
Benefits	Do retirees have sufficient inflation protection?	50% CPI, 1.0% Min 1.5% Max	1% fixed (No SS)	100% CPI, 1.0% Min 2.5% Max



How Would PERA Allocate Evenly to All?

If funds were provided to PERA's Board for the purpose of increasing benefits, PERA staff would recommend increasing the postretirement annual increase formulas. A change in the postretirement annual increase formula provides value to current and future retirees.

	Current Formula	
General Plan	50% of CPI 1.0% Min 1.5% Max	
Police & Fire Plan	Fixed 1%	
Correctional Plan	100% of CPI 1.0% Min 2.5% Max (Max drops to 1.5% if funding levels drop)	
		Our Long Term Goal 100% of CPI 0% Min 5% Max How We Get There 2018 – Change to formula with dials 2023 – Turn the dials with funding Future – Turn the dials further when it is affordable to do so

Yes but...It's not immediately gratifying to actives. **Response**...It's a retirement plan, it's not meant to be.

Yes but...There is no guarantee an increase won't be reversed. **Response**...There are no guarantees, but reasonable assumptions and a strong funding commitment should reduce this risk.



**PERA Public Employees Police and Fire Plan
Cost Impact of Proposals**

Results are based on data, assumptions, methods, and plan provisions as of July 1, 2023.

Potential Proposals	Impact on Required Contribution		Impact on Actuarial Accrued Liability
	% of Pay	Annual \$*	
1. Remove 2-year cola delay**	0.95%	\$ 11,449,000	\$ 103,411,000

* Based on projected payroll of \$1,205,147,000

** Actual cost of this benefit improvement is dependent on the actual number of retirements. For this study, we assumed no change to current retirement rates.

Supplemental Employer Contributions and Direct State Aid Payments to Public Pension Plans

Minnesota law provides for several types of supplemental contributions and direct state. This compilation describes each of these contributions or state aids, the plan to which the payment is made, when the aid expires, and the statute or session law that requires the payment.¹

Two acronyms that appear throughout this table are defined as follows:

MVA: “Market value of assets” means the value of plan assets as of the most recent fiscal year end (June 30th).

AVA: “Actuarial value of assets” means the value of plan assets resulting from the averaging of asset values over a five-year period to smooth the effect of market fluctuations.

Minnesota State Retirement System

	Aid Amount	Aid Expiration	Statute/Law
Correctional State Employees Retirement Plan	4.45% of covered salary <i>(about \$12.5 million in 2021)</i>	The first day of the first full pay period of the fiscal year immediately following the issuance of the actuarial valuation showing that the funded ratio using the MVA equals or exceeds 100%.	Minn. Stat. § 352.92, Subd. 2a, (a)
State Patrol Plan	\$1,000,000	The earlier of: (1) December 1 following the end of the fiscal year in which the funded ratio using the AVA of both the PERA P&F Plan and The State Patrol Plan equal or exceed 90%; (2) July 1, 2048	Minn. Stat. § 423A.022, Subd. 2, (a)(3)
Police and Firefighter Retirement Supplemental State Aid			
State Patrol Plan Supplemental Employer Contributions	7% of covered salary <i>(about \$6.2 million in 2021)</i>	The first day of the first full pay period of the fiscal year immediately following the issuance of the actuarial valuation showing that the funded ratio using the MVA equals or exceeds 100%.	Minn. Stat. § 352B.02, Subd. 1c, (d)
Judges Plan Direct State Aid	\$6,000,000	“continues each fiscal year until the Judges Plan reaches 100 percent funding as determined by the actuarial valuation”	Laws 2016, Ch. 189, Art. 13, Sec. 7

¹ The State also makes direct payments to public employers to help fund contributions the employer is required to make to public pension plans. For example, see the payments required to the cities of Fairmont, Minneapolis, Duluth, and Virginia under Section 423A.02 to defray employer contributions required to pension plans. This compilation does not include payments made directly to public employers.

Public Employees Retirement Association

	Aid Amount	Aid Expiration	Statute/Law
General Plan Additional Employer Contribution	1% of covered payroll <i>(about \$67.6 million in 2021)</i>	“First day of the first full pay period occurring after the March 31 of the calendar year following the issuance of the actuarial valuation” showing that the funded ratio using the AVA equals or exceeds 100%.	Minn. Stat. § 353.27, Subd. 3a.
General Plan MERF Direct State Aid	\$16,000,000	Sept. 15, 2031	Minn. Stat. § 353.505, para. (a)
Police & Fire Plan Police and Firefighter Retirement Supplemental State Aid	\$9,000,000	The earlier of: (1) December 1 following the end of the fiscal year in which the funded ratio using the AVA of both the PERA P&F Plan and The State Patrol Plan equal or exceed 90%; (2) July 1, 2048	Minn. Stat. § 423A.022, Subd. 2, (a)(1)
Police & Fire Plan 2018 Direct State Aid	\$9,000,000	The earlier of: (1) the first day of the fiscal year following the fiscal year in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048	Minn. Stat. § 353.65, Subd. 3b

Teachers Retirement Association

	Aid Amount	Aid Expiration	Statute/Law
Matching Aid and Additional Contributions by Special School District No. 1 and City of Minneapolis	\$4,500,000 from employers \$2,500,000 from state	The earlier of: (1) the first day of the fiscal year following the fiscal year in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048	Minn. Stat. § 354.435, Subd. 1 & 2
Amortization State Aid	\$1,259,073	The earlier of: (1) the December 1 following the end of the fiscal year in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048	Minn. Stat. § 423A.02, Subd. 3
State Aid related to the Minneapolis Teachers merger	\$12,954,000	The earlier of: (1) the first day of the fiscal year following the fiscal year in which the funded ratio AVA equals or exceeds 100%; (2) July 1, 2048	Minn. Stat. § 354.436
State Aid related to the Duluth Teachers Merger	\$14,377,000	The earlier of: (1) the first day of the fiscal year following the fiscal year in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048	Minn. Stat. § 354.436

St. Paul Teachers Retirement Fund Association

	Aid Amount	Aid Expiration	Statute/Law
Amortization State Aid	\$838,000*	The earlier of: (1) the December 1 following the end of the fiscal year in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048 <i>Note: The aid termination dates in 354A.12, Subd. 3c, and 423.02, Subd. 5, are in conflict.</i>	Minn. Stat. § 423A.02, Subd. 3
Direct State Aid	\$2,827,000	The earlier of: (1) the first day of the fiscal year following the fiscal year in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048	Minn. Stat. § 354A.12, Subd. 3a, Para. (a)
	\$7,000,000	The earlier of: (1) the first day of the fiscal year following the fiscal year in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048	Minn. Stat. § 354A.12, Subd. 3a, Para. (b)
Direct State Aid	\$5,000,000	The earlier of: (1) the first day of the fiscal year following the fiscal year in which the funded ratio using the AVA equals or exceeds 100%; (2) July 1, 2048	Minn. Stat. § 354A.12, Subd. 3a, Para. (c)

* The amount is based on a formula and is determined annually. The amount shown is for a prior year and may not be the amount of aid payable in 2021.

Prepared by: Chad Burkitt, Analyst, LCPR
January 25, 2022

Legislative Commission on Pensions and Retirement

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Supplemental ER Contributions and Direct State Aids.docx

STAKEHOLDERS: MnFAC and LMC

As mentioned in the December PERA Stakeholder Agenda memo, employer groups, such as the League of Minnesota Cities, and member groups, such as MnFAC, approached PERA staff regarding the definition of firefighter for the purposes of PERA Police & Fire membership.

INITIATIVE: PERA POLICE & FIRE FIREFIGHTER MEMBERSHIP DEFINITION MODIFICATION (Decision Item)

Background

Statute governs participate the Plan. Minn. Stat. §353.64, Subd. 1(2) and (3) defines firefighter for the purposes of the Plan's membership. The statute defines the position as:

(2) a full-time firefighter or a person in charge of a designated fire company or companies who is engaged in the hazards of firefighting; or

(3) a full-time police officer or firefighter meeting all requirements of clause (1) or (2), as applicable, who as part of the employment position is periodically assigned to employment duties in the same department that are not within the scope of this subdivision.

An individual to which clause (3) applies must contribute as a member of the police and fire plan for both the primary and secondary services that are provided to the employing governmental subdivision.

Minn. Stat. §353.64, Subd 5a allows for the Plan's membership to continue if the member is transferred to a different position with associated police or fire functions in the same department. This allows for example a member to maintain membership in a promotional setting if that position is not covered by the Plan. However, this language does not allow a member to continue the Plan's membership if they accept a promotional opportunity, which is not covered by the Plan, with a different police or fire department of a different employer within the state.

PERA administers the requirements outlined in statute for the Plan's membership. If questions regarding qualifications occur, PERA reviews individual position descriptions to determine if the position qualifies for the Plan's coverage.

Stakeholder Initiative

Both employer and employee stakeholders noted frustration with PERA's interpretation of the statute, the limitations of the current language regarding hazards of firefighting, and how primary and secondary duties were determined. Stakeholders perceived inconsistent determinations made by PERA during PERA's review of the individual position description review.

Stakeholders also noted that additional positions such as fire marshals and fire inspectors should be covered by the Plan.

Lastly, stakeholders sought the ability for the Plan's coverage to transfer with a member when the member moves to another position not specifically covered by the Plan in another police or fire departments in the state.

Resolution

PERA staff collaborated with MnFAC, the League of Minnesota Cities, and the LCPR staff to draft language. MPFF is also supportive of the draft language.

The current definition relies too much on ambiguous language regarding the hazards of firefighting. The ambiguous language does not impact positions that are full-time career firefighters. The issue becomes more apparent when dealing with positions qualify under clause 3 such as fire marshals, fire inspectors or deputy fire chiefs. Further, the reference to primary and secondary services has led to PERA to review individual position descriptions to determine if the position qualifies for PERA the Plan's membership. The impact of the case-by-case decisions is an appearance of inconsistency because two governmental entities may have the same position title, but the specific job responsibilities may differ. The existing statute limits PERA by not defining the hazards of firefighting appropriately to cover additional positions involved in the hazards of firefighting. Administratively, PERA cannot use the current statute to create new positions within the fire service that would be covered by the Plan.

To address the concerns raised by stakeholders and PERA's administrative issues with the current statute, the new language focuses on defining the requirements the position, detailing the hazards of firefighting, clarifying primary services, expanding the transfer language, and including other administrative modification to the statute.

The revised language in Minn. Stat. §353.64, Subd. 1(2) and (3) defines a firefighter as:

- (2) a full-time fighter or a supervisor of other firefighters who, in either case, is employed in a fire department, is required by the employing governmental subdivision to be and is licensed by the Minnesota Board of Firefighter Training and Education section 299N.05, and who is engaged in or exposed to hazardous conditions resulting from firefighter or fire prevention, suppression, or investigation; or
- (3) A full-time police officer or firefighter meeting the requirements of clause (1) or (2), as applicable, who as part of the employment position is assigned less than fifty percent of the time to perform employment duties in the same department that are not within the scope of the employment duties described in clause (1) or (2), as applicable.

In addition, the new language clarifies for the purpose of part-time positions that primary services mean at least fifty percent of the time.

The new transfer language allows for a Police & Fire members coverage to continue if the person moves to a different position with the same police or fire department, to a police department in another governmental subdivision in the state of Minnesota or to a fire department in another governmental subdivision in the state of Minnesota.

Staff Review

PERA staff appreciated the opportunity to collaborate with the stakeholders to address both their concerns and PERA's administrative issues. The new language provides clarity on who qualifies for the Plan's membership as a firefighter. The changes noted above will solve most issues that PERA, employers, and employees have faced with the current language. PERA staff has not identify any costs impact to the Plan.

Staff Recommendation

Staff recommends that the PERA Board of Trustees support the modified definition of a firefighter for the purposes of PERA Police & Fire membership, clarification of primary services, expansion of the transfer language, and the other administrative modification to the statute.

OTHER STAKEHOLDER INITIATIVES

No other stakeholder initiatives were finalized for this board meeting, however, PERA staff is aware of several items that the PERA Board may be asked to consider at the December board meeting.

The items known include:

1. PERA Correctional Multiplier and Contribution Increase: A member has inquired about increasing the current PERA Correctional Plan multiplier for future service to match the current MSRS Correctional Plan multiplier. The increased multiplier would be funded by an appropriate employer and employee contribution increase.
2. Probation Officers: A stakeholder group has inquired about the potential to change the eligibility age for an unreduced retirement benefit for probation officers covered in the General Employees Retirement Plan. Under consideration is a change from age 66 to the earlier of age 60 or 30 years of service.