



Date: October 10, 2024  
To: PERA Board of Trustees  
From: Doug Anderson, Executive Director  
Amy Streng, Policy Coordinator  
Subject: 2025 Stakeholder Legislative Initiatives

During the 2023 Legislative session Police & Fire Plan stakeholders sought legislation that would eliminate break in service requirements and allow for in-service distributions at the plan's normal retirement age of 55. In effect, this would allow all members to cease contributions and initiate their retirement benefit at age 55 regardless of whether they continue working or return to work. PERA's retained actuary provided cost estimates of the proposed legislation. PERA staff drafted several memos for the stakeholders and the Board in an attempt to explain why the change has a significant cost.

Staff believes that stakeholders may continue to seek this change during the 2024 session and staff have continued to develop educational materials to clarify outstanding questions. The attached document is intended to address the following: (1) clearly explain how the Plan works for members that return to work or work after retirement without a break in service, (2) clarify terminology – specifically the difference between in-service distributions and a Deferred Retirement Option Program (DROP), (3) demonstrate why a cost exists for the desired change and why it is significant, and (4) explain how PERA's Police & Fire Plan differs from the MSRS Highway Patrol plan.

The attached document will be presented at the board meeting and is intended for future use with stakeholders and legislators.

# PERA Police & Fire: Return to Work

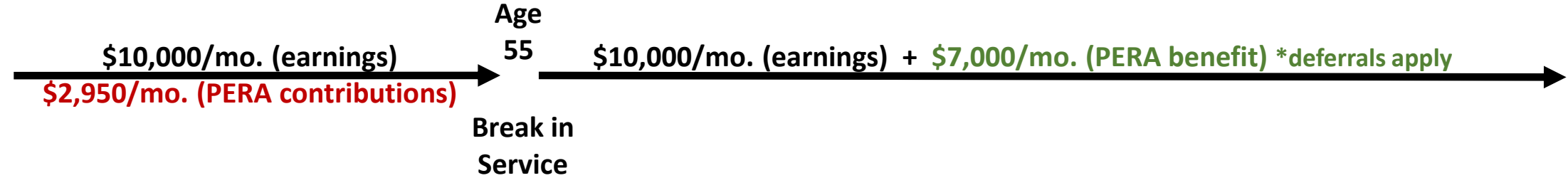
Doug Anderson, ASA, MAAA, Executive Director | September 2024

Amy Streng, Policy Coordinator

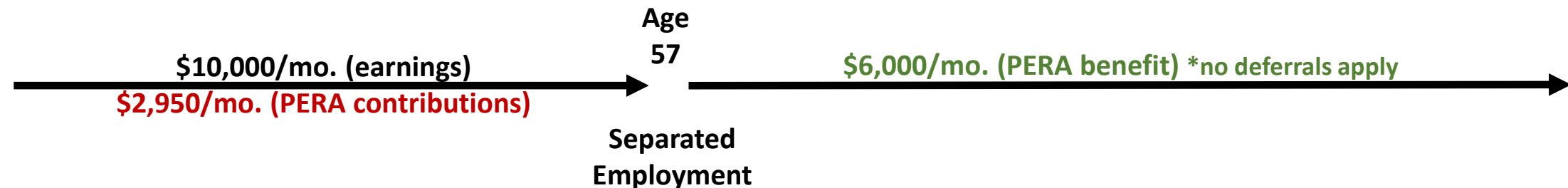


<b>Current Plan</b>	<ul style="list-style-type: none"> <li>• <b>Contribute to PERA:</b> Member (11.8%) and employer (17.7%) contribute up to separation of employment.</li> <li>• <b>Collect PERA Benefit:</b> Monthly benefit starts the month after separation.</li> <li>• <b>Return to Work:</b> After a bona fide break in service (30 days with no prearranged agreement), the member may return to work and continue to receive monthly benefits.</li> <li>• <b>Defer PERA Benefit:</b> Some or all monthly benefits are deferred for later distribution if the member is under their full Social Security retirement age and earnings exceed \$22,320/year (2024 limit).</li> </ul>
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## Ex. #1 Norm: Full Retirement with Return to Work (Age 55):



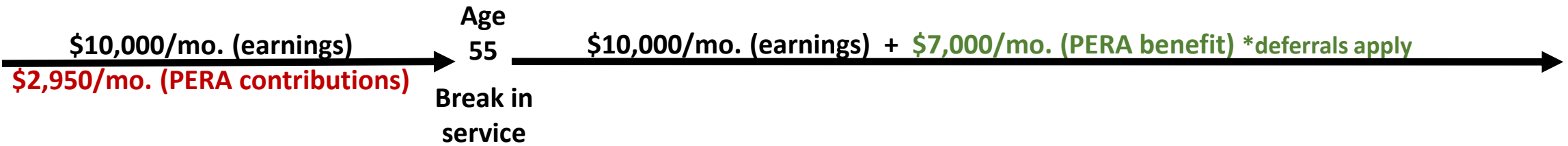
## Ex. #2 Lars: Late Retirement with No Return to Work (Age 57):



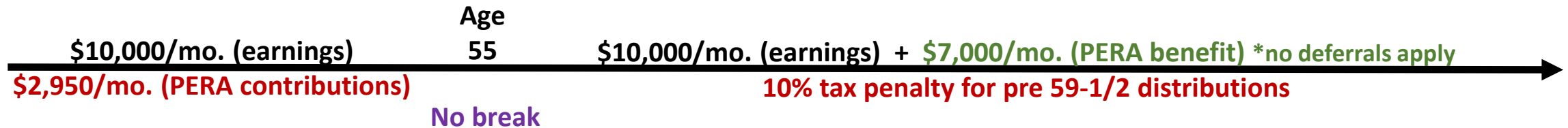
<p><b>Alternative #1</b> <b>In-service Distributions</b></p>	<p>“In-service Distributions” is the IRS term for benefits paid while actively employed prior to a bona fide separation of employment. “In-service Distributions” may only occur on or after age 55. Key provisions may include:</p> <ul style="list-style-type: none"><li>• Member and employer contributions stop when PERA monthly benefit begins.</li><li>• Benefit accruals (service credit and average salary) cease when benefit begins.</li><li>• No break in service is required and member continues to work.</li><li>• No deferrals because of earnings apply. Monthly benefits are paid directly to member.</li><li>• Member benefits received prior to age 59-1/2 are subject to an additional 10% tax.</li><li>• Upon separation of employment at the earlier of 50 or 25 years of service, the additional 10% tax no longer applies.</li></ul>
<p><b>Alternative #2</b> <b>DROP</b></p>	<p>A Deferred Retirement Option Program (DROP) allows a member to have their accrued benefit placed in a notional account in the Plan while actively employed. Distribution of the DROP account occurs when member separates employment. DROPs can be designed to increase benefits (and Plan costs) or be cost neutral. Key provisions include:</p> <ul style="list-style-type: none"><li>• Member and employer contributions may or may not stop at DROP election.</li><li>• Benefit accruals cease at DROP election.</li><li>• No break in service is required and member continues to work.</li><li>• Deferrals apply. Monthly benefits are not paid to member, but credited to a DROP account.</li><li>• DROP account may or may not have interest credits but it must have a floor of at least 0%.</li><li>• Upon separation of employment, member will receive the DROP account balance and monthly benefits are paid directly to member.</li></ul>

# Ex. #1 Norm: Full Retirement with Return to Work (Age 55)

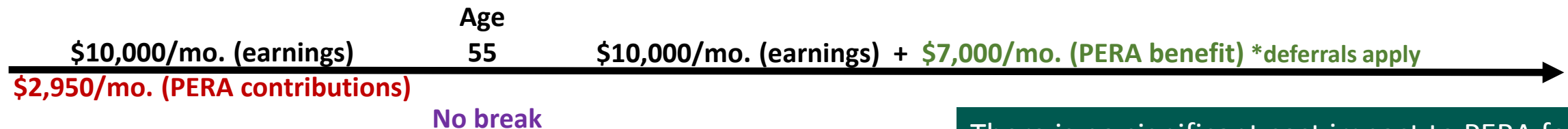
## Current Plan



## Alternative #1: In-service Distributions



## Alternative #2: DROP



There is no significant cost impact to PERA for retirements occurring at full retirement age (55).



# Ex. #1 Norm: Total Member Income

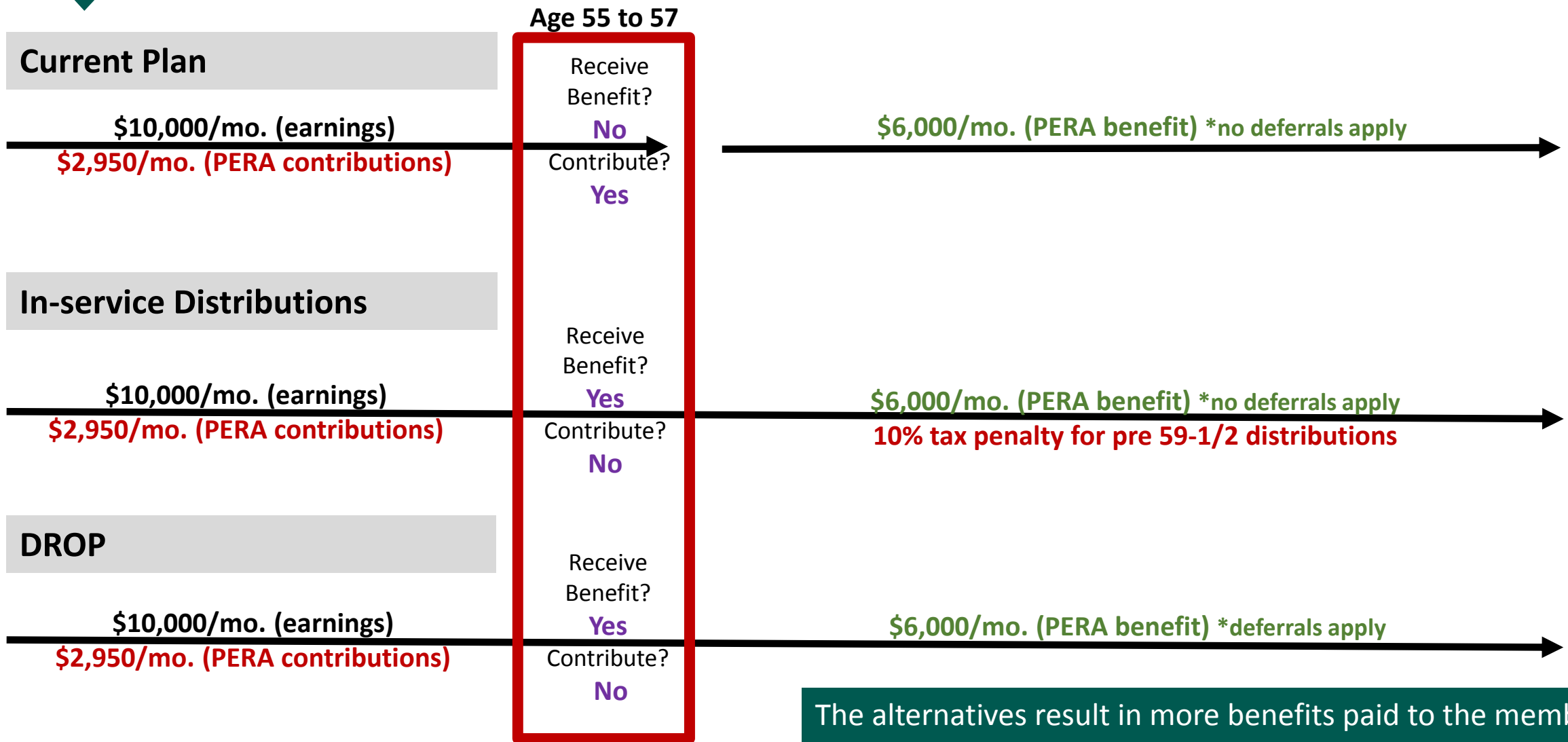
Scenarios: Norm (Current Plan) ends position (bona fide break in service) 11/30/24, starts benefit 12/1/24 at age 55, and returns to work 1/1/25, (Alt. #1) continues working and starts in-service distributions 12/1/24, or (Alt. #2) continues working and elects DROP 12/1/24 with DROP interest credit 3%. Norm's pay \$10,000/mo., PERA benefit \$7,000/mo., and ends employment 12/31/25.

Total Member Income						PERA Payments 2024 – 2028
	2024	2025	2026	2027	2028 (and after)	
<b>Current Plan</b>	\$117,000 (Pay & Benefit)	\$155,160 (Pay, Benefit, & Deferrals apply)	\$84,000 (Benefit)	\$132,840 (Benefit & Deferral payout)	\$84,000 (Benefit)	<b>\$343,000</b>
<b>Alternative #1 In-Service Distributions</b>	\$127,000 (Pay & Benefit)	\$204,000 (Pay & Benefit)	\$84,000 (Benefit)	\$84,000 (Benefit)	\$84,000 (Benefit)	<b>\$343,000</b>
<b>Alternative #2 DROP</b>	\$120,000 (Pay & DROP starts)	\$120,000 (Pay & DROP)	\$176,359 (Benefit & DROP payout)	\$84,000 (Benefit)	\$84,000 (Benefit)	<b>\$344,359</b>

PERA payments vary by year. Since the total payments are essentially the same across options, the cost impact to the Plan is negligible for members that retire at age 55 whether they return to work or not.



# Ex. #2 Lars: Late Retirement with No Return to Work (Age 57)



The alternatives result in more benefits paid to the member and fewer contributions received by PERA from age 55 to 57.



# Ex. #2 Lars: Total Member Income

Scenarios: Lars (Current Plan) ends position 11/30/26 and starts benefit 12/1/26 at age 57, (Alt. #1) continues working and starts in-service distributions 12/1/24 at age 55, or (Alt. #2) continues working and elects DROP 12/1/24 at age 55 with DROP interest credit 3%. Lar's pay \$10,000/mo., PERA benefit \$6,000/mo., and ends employment on 11/30/26 at age 57.

Total Member Income						PERA Payments 2024 – 2028
	2024	2025	2026	2027	2028 (and after)	
<b>Current Plan</b>	\$120,000 (Pay only)	\$120,000 (Pay only)	\$116,000 (Pay & Benefit)	\$72,000 (Benefit)	\$72,000 (Benefit)	<b>\$150,000</b>
<b>Alternative #1 In-Service Distributions</b>	\$126,000 (Pay & Benefit)	\$192,000 (Pay & Benefit)	\$182,000 (Pay & Benefit)	\$72,000 (Benefit)	\$72,000 (Benefit)	<b>\$294,000</b>
<b>Alternative #2 DROP</b>	\$120,000 (Pay & DROP Starts)	\$120,000 (Pay & DROP)	\$264,159 (Pay, Benefit & DROP payout)	\$72,000 (Benefit)	\$72,000 (Benefit)	<b>\$298,159</b>

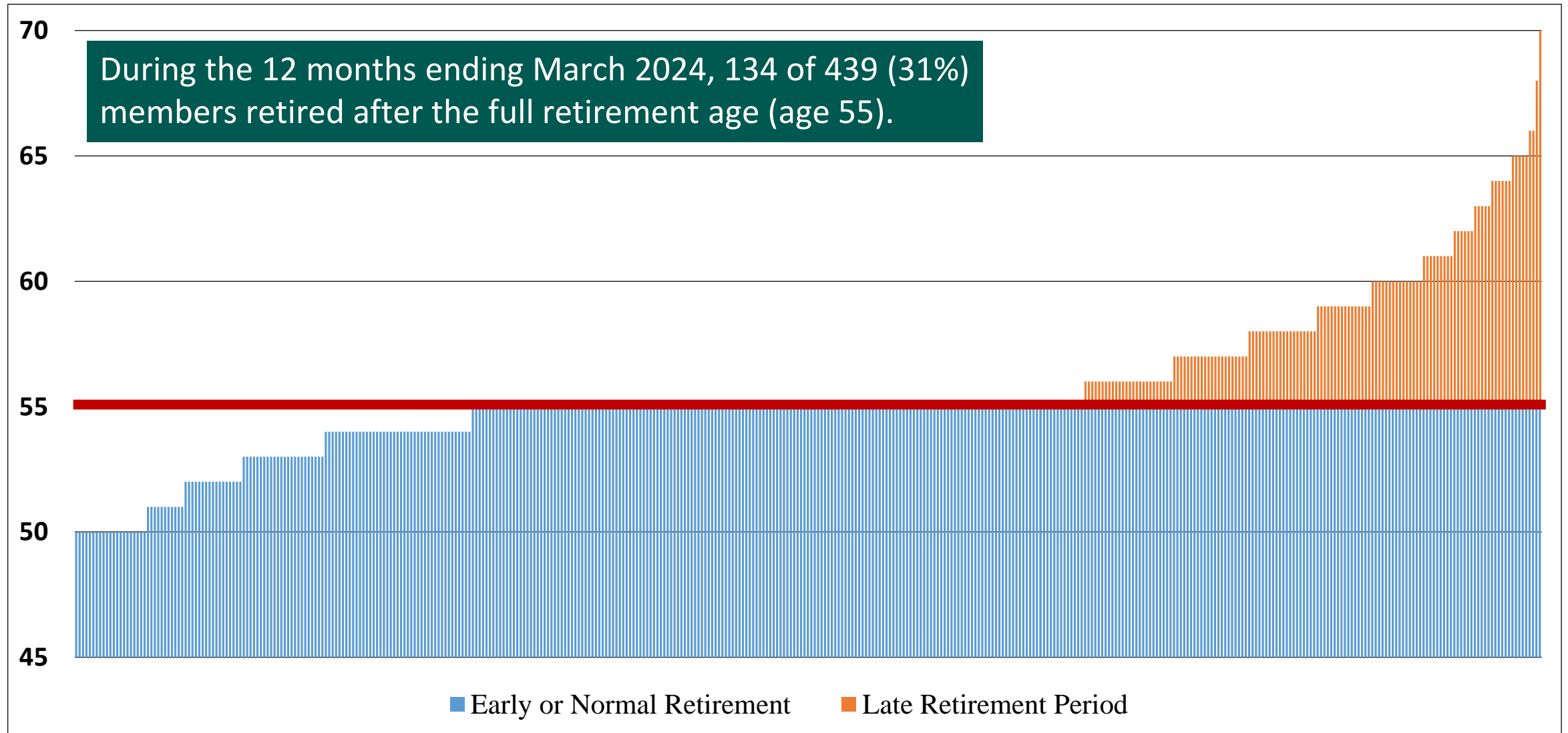
PERA payments significantly increase from age 55 to 57 under alternatives #1 and #2. In addition, PERA would not receive contributions of 29.5% of pay during this period.



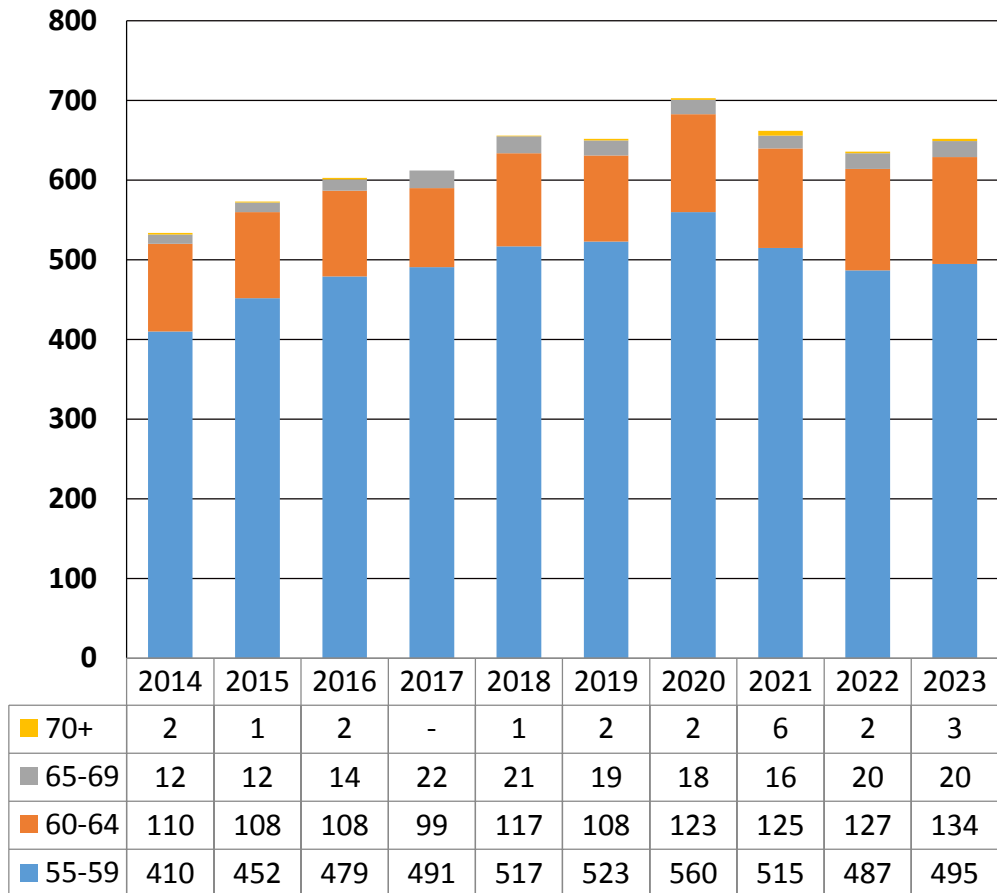


<b>DROP Design Decisions</b>	<ul style="list-style-type: none"><li>• Eligibility requirements</li><li>• Participation period</li><li>• Irrevocability</li><li>• DROP percentage</li><li>• Cost-of-living adjustments</li><li>• DROP account interest credit rates</li><li>• DROP account payout options</li><li>• Required contributions</li></ul>
<b>Important!!</b>	<ul style="list-style-type: none"><li>• The cost of the DROP depends on the design features</li><li>• <b>If the DROP increases benefits for the members, there will be additional cost</b></li><li>• If the DROP does not increase benefits for the members, there is no additional cost</li></ul>

# Police & Fire Ages at Retirement (no previous break in service)



## # of Active Members Over Age 55



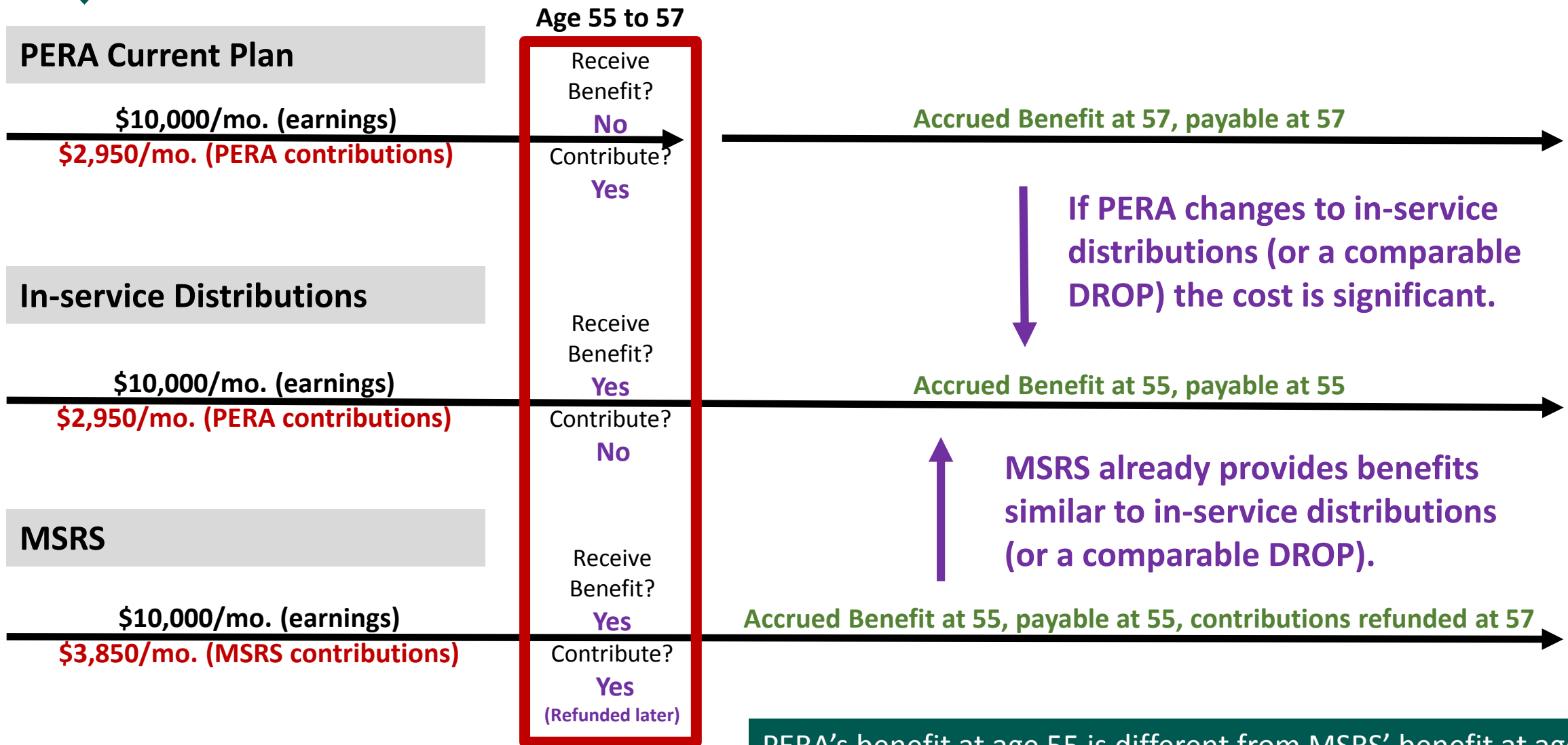
The Plan consistently has over 600 active members (roughly 5% of the actives) that have not had a break in service (retirement).

## Estimate of Annual Amount Retained by PERA Due to Late Retirements

A	Number of Members over age 55	600
B	Average Annual Pay	\$120,000
C	Average Service	20
D	Estimated Average Annual Benefit 3% x B x C	\$72,000
E	Estimated Average Annual Contributions 29.5% * B	\$35,400
F	Total Annual Retained Cash Flow A x (D + E)	\$64M

Actuarial estimates are more complex and assume that not all members will elect to start in-service distributions or a DROP at age 55 (even though it might be in their best interests to do so).

# Return to Work: PERA vs. MSRS



1	This document was prepared by PERA staff after consultation with our tax advisory firm and our retained actuary.
2	Example #1 was based on averages for active members at age 55. The average pay for members age 55 was approximately \$120,000 in FY23. The starting benefit for members retiring at age 55 in FY23 was approximately \$74,000. Example #2 was based on average salary (\$120,000) and average service (20 years) for active members over age 55 as of March, 2024. See the July 1, 2023 GRS Actuarial Valuation for supporting information.
3	Detailed calculations to support results on pages 5 & 7 will be provided upon request.
4	The In-service Distribution alternative is consistent with legislation (HF 5137) sought during the 2024 legislative session. The DROP alternative described in this document provides member benefits comparable to what is provided via the in-service distribution option.
5	Additional documents were provided to the PERA Board March 2024 and May 2024. Board materials previously provided are available on PERA's website. The documents provided further detail on how actuarial costs for HF5137 were determined.