



Date: May 9, 2024  
 To: PERA Board of Trustees  
 From: Doug Anderson, Executive Director  
 Amy Streng, Policy Coordinator  
 Subject: HF 5137-4A (Wolgamott) - Police & Fire Plan Work After Retirement Provisions

HF 5137-4A creates a three-year pilot program that allows active Police & Fire Plan (the Plan) members to commence full retirement benefits while remaining actively employed in a PERA covered position.

Currently, a Plan member may retire, commence their retirement benefit, and then return to work in a PERA covered position if they have had a 30-day break in service and no prearranged agreement for reemployment with their employer. Once re-employed, the member will have a portion of their monthly benefit withheld in a deferral account for later distribution if their earnings exceed a certain amount (\$22,320 in 2024).

HF 5137-4A temporarily eliminates the above-described break in service requirements and the potential benefit withholdings for a three-year period. A member would simply receive their full retirement and earnings. Similar to current statute, benefit accruals would cease. However, employee and employer contributions would continue. A benefit and cost summary is provided below:

	Current Statute	HF5137	HF5137-4A (3-Year Pilot)
Break in service required on or after 55?	Yes (30 Days & No pre-arranged agreement)	No	No
Deferral Account	Yes	No	No
Benefit accrual after benefit commencement	No	No	No
EE & ER Contributions after benefit commencement	No	No	Yes
<b>Cost Summary</b>			
Cost due to earlier benefit commencements (members electing to commence benefits at age 55 and remain active)		\$15.2M/year	\$15.9M/year
Cost due to cessation of employee and employer contributions to the plan		\$2.1M/year	\$0.0M/year
Annual Plan Cost (increases 3%/year)		\$17.3M/year for 25 years	\$15.9M/year for 3 years
<b>Total One-time Cost</b>			
		<b>\$290M</b>	<b>\$48M</b>

The cost study assumes that there will be a 50% increase in retirement rates at each age at and above Normal Retirement Age (age 55). If this assumption is too low, retention of members and actual costs will be higher than estimated. If the assumption is too high, retention of members and actual costs will be lower than estimated.

The following summary may help understand the expected benefit and cost impact of HF5137-4A on the Plan:

<b>A</b>	Estimated number of active members eligible during the 3-year pilot program (i.e. all active members currently age 52 or older)	<b>1,600</b>
<b>B</b>	% of eligible active members making election to commence benefits within the next 3 years and remain in PERA covered employment	<b>40%</b>
<b>C = A x B</b>	Estimated number of active members who either 1) Commence a retirement benefit <b>and</b> continue PERA covered employment due to HF 5137-4A, or 2) Intended to continue employment, and now commence a retirement benefit earlier than previously expected <b>and</b> remain in PERA covered employment	<b>650</b>
<b>D</b>	Average annual benefit received during the period from benefit commencement to actual retirement	<b>\$75,000</b>
<b>E</b>	Average period from benefit commencement to actual retirement	<b>1.0 years</b>
<b>F = C x D x E</b>	<b>Total One-time Cost</b>	<b>\$48M</b>

*Item A is based on actual membership data as of June 30, 2023. Item C is the current number of active members in the Plan over age 55. Item D is the average annual benefit for new retirees. Item F is calculated by GRS based on June 30, 2023 membership data and plan assumptions as disclosed.*

The proposed change introduces an election option for the active members which makes it easier to commence a benefit prior to termination of employment. This may reflect the following scenarios:

1. A member intending to retire at age 55 and uncertain about later reemployment in a PERA covered position (after a break in service) could now more easily resume or continue employment and receive their benefit without benefit deferment. In this instance an additional period of employee retention has been achieved. This scenario reflects stakeholder's viewpoint that this change serves as an incentive for members close to normal retirement age to stay in employment instead of terminating employment upon retirement.
2. A member already over age 55, or planning a retirement later than age 55 could now start their benefit either immediately or at 55. In this case, the expected PERA employment period is the same, but the benefit commencement is earlier. In this instance an additional period of employee retention has not been achieved. This scenario reflects no change in behavior due to the legislation, but this member would be impacted by the legislation and the Plan would incur higher costs.

In both cases above, the benefit commencement date is likely to occur earlier than previously assumed. In both instances, the Plan will incur costs, but only in the first instance has the stated purpose of the bill of employee retention has been achieved. This proposed change may help with

retention by prolonging careers after normal retirement age (at an increased cost to the Plan). However, it also increases the cost to the Plan for members working after retirement that will not choose to work longer. It is important to note that PERA cannot distinguish between the two identified groups.

Consideration should be given to the limited population impacted by this proposal and the gain received by these individuals in the Plan versus other legislative proposals that benefit more members of the Plan. In addition, the amendment establishes a pilot program for this benefit change. A pilot program may have unintended consequences.

### **PERA's Board Position**

PERA has a board position to oppose HF5137 (prior to amendment) because the legislation as currently proposed does not provide for an agreed upon funding source to offset the adverse estimated cost impact to the Plan. The current amendment does not address the entirety of the funding needed. The current Board position should **not** imply that the Board supports the bill, whether amended or not, if it were fully funded. The Board has expressed a clear preference that if the Legislature were to provide funding to the Police & Fire Plan that it would be for improved COLAs for existing and future retirees.

### **Staff Recommendation**

Staff recommends that the PERA Board of Trustees oppose HF5137 as amended, which creates an in-service distribution pilot program. Pilot programs have a potential to create inequity between Plan participants. Staff recommends that the PERA Board of Trustees not support changes to in-service distributions in the Plan at this time. If there is funding from the Legislature directed at the Plan, the PERA Board of Trustees supports improving COLAs for existing and future retirees.