



Date: April 14, 2022  
To: PERA Board of Trustees  
From: Doug Anderson, Executive Director  
Amy Streng, Policy Coordinator  
Subject: Legislative Update

The Legislative Commission on Pensions and Retirement (LCPR) is taking a different approach this year. Rather than a single pension and retirement omnibus bill, there are likely to be two pension and retirement omnibus bills.

### *The Omnibus Policy Bill*

SF3540/HF4017 is the 2022 Pension and Retirement Omnibus Policy Bill (the "Policy Bill"). The LCPR approved the Policy Bill on March 22, 2022, and has since also advanced to the Senate floor and the House Ways and Means Committee. The LCPR staff summary of the bill is [attached](#).

The Policy Bill includes the changes to segmented annuities that the Board supported on December 9, 2021 and a change in vesting options for new departments entering the SVF that the SVF Advisory Board approved at the March 2, 2022 meeting. The bill also an administrative change which incorporates Advanced Practice Registered Nurses (APRN's) into the disability statutes for all funds, provisions related to the exclusion from PERA of Duluth Transit Authority union members who are covered by a national multiemployer plan, and a requirement for PERA to assist the Department of Labor and Industry to study the adequacy of current benefits for disabled or injured police officers.

### *The Omnibus Benefits and Funding Bill*

The second bill is SF3541/HF4016 DE1 and is referred to as the 2022 Pension and Retirement Omnibus Benefits and Funding Bill (the "Benefits and Funding Bill"). The Benefits and Funding Bill was scheduled for a hearing at the April 5, 2022 LCPR meeting. The meeting was cancelled and unlikely to occur until at least April 19, 2022 due to the Legislature's spring break. The LCPR staff summary of the bill and a schedule of the General Fund annual appropriations are attached ([SF3541/HF4016](#); [Appropriations Summary](#)).

### *Board Considerations*

There are two issues for the Board to consider. First, does the Board support the existing provisions in the Benefits and Funding Bill, including the proposed reduction of the investment return assumption to 7.0 percent and the benefits and funding related to the Police & Fire Plan? Second, does the Board support possible actions that may move to include the General and Correctional Plan members in the Benefits and Funding Bill?

The provisions related to the Police & Fire Plan, and their associated costs are summarized on the following page. PERA staff provided information from our actuary to develop the annual costs on

the exhibit. PERA staff also worked with the bill's chief author and with the member stakeholder groups to include benefit changes that are consistent with PERA values.

While the bill accurately reflects the initial annualized cost of the package, the annual funding does not increase with payroll growth and includes sunset provisions which would most likely ensure that the full cost of the benefits are not fully paid by the State. The Board should consider what funding terms would be needed to gain the Board's support.

The exclusion of the General Plan from the bill has caused concerns. One possible solution would be to include the General Plan by applying the same 0.25% reduction in employee contribution rate as is applied to the MSRS General employees in the bill. The cost to the State to include that provision would be \$17M/year.

Important to note is that the funding for the MSRS State contribution is not tied to payroll growth and is scheduled to sunset when that plan reaches full funding. If similar language were to apply to the PERA General Plan, the State's contribution would cease in about 10 years (under the 7.0 percent assumption, and if all other assumptions are met). At that time the employee contribution rate would remain at 6.25 percent (there is no bounce-back feature). The employer rate would reduce to 6.5 percent from its current level of 7.5 percent. The employer rate drop reflects the sun-setting of the current additional 1.0 percent supplemental contribution.

Inclusion of the Correctional Plan may not be viewed as critical to the success of the Benefits and Funding Bill for two reasons. First, the Correctional Plan has the most favorable postretirement increases of all of the statewide funds. Second, the active member and employer contribution rates are already relatively low due to the well-funded nature of the Plan.

PERA's board does have two Long Term Position that should be considered. Long Term Position #4 – Plan Provision Changes [adopted May 13, 2021] states: *The PERA Board of Trustees opposes any change in benefits or contributions unless they are made consistent with the values stated in PERA's Funding Values document.* A copy of the Funding Values document is attached. Long Term Position #7 – Legislation Pertaining to Individuals or Groups Benefit Eligibility [adopted August 12, 2021] states: *The PERA Board of Trustees generally opposes legislation that provides an exception with respect to the benefits made available to one or a group of individuals, but may review such legislation on a case by case basis.*

PERA staff will provide more information at the meeting. There is also likelihood that stakeholder and legislative discussions will continue and there will be more information to share.

## PERA Police & Fire Member Stakeholder Package March 14, 2022

#	Bill	Support	Description	Target Group	Lump Sum Cost	Annualized Cost
1	N.A	Members support PERA supports	Remove sunset provision for the two separate \$9M/year current State funding commitments	All Members	\$224M*	\$18M 1.6% of pay
2	N.A.	Members support PERA neutral	State picks up 2.4% of employee contribution. Employee rate reduced from 11.8% to 9.4%.	Actives	\$328M*	\$26M 2.4% of pay
3	N.A.	Members support PERA supports (if funded)	Increase all future COLAs from 1% to 100% of CPI, capped at 1.5%.	Actives & Retirees	\$678M	\$46M 4.2% of pay
4	N.A.	Members support PERA supports (if funded)	Change COLAs to begin at retirement (eliminate two year waiting period)	Actives	\$214M	\$16M 1.5% of pay
5	N.A.	Members support PERA neutral	Change current vesting schedule (50% after 10 years increasing to 100% after 20 years) to 100% after 10 years	Future Hires & Non-vested Active	\$15M**	\$3M 0.3% of pay
6	SF3604 (Senjem+3)	Members neutral PERA neutral (?)	Annuity recipients may return to employment without reduction or suspension of benefit	Retired members	\$0M	\$0M 0.0% of pay
					<b>\$1,459M</b>	<b>\$109M 10.0% of pay</b>

\*PV determined based on 7.0% investment return assumption during target amortization period (until 2048)

\*\* PERA staff estimates



PERA's Funding Values December 12, 2019	
#1 – Funding Status	The Plan's funding ratio (Market Value of Assets / Actuarial Accrued Liability), determined using approved assumptions, should project to achieve and sustain a level of at least 100 percent within a reasonable period of time.
#2 – Approved Assumptions	Assumptions should be based upon the actuary's recommendations made in accordance with Actuarial Standards of Practice. Assumptions should not be changed exclusively for the purpose of achieving benefit or funding motives.
#3 – Amortization Period	The current Unfunded Actuarial Accrued Liability (UAAL) should be fully amortized by June 30, 2048. Subsequent annual UAAL changes resulting from actuarial gains, or losses, assumption changes, or benefit changes should be amortized over 20 years from the date of establishment.
#4 – Funding Commitment	A commitment should be made to meet the funding status goal within the amortization period by using automatic annually adjusted retiree Cost of Living Adjustments (COLAs) and periodically adjusted employee and employer contribution rates.
#5 – Contribution Allocation	The allocation of ongoing contributions between employee and employer within each Plan should reflect the goal of achieving inter-generational equity.
#6 – Supplemental Contributions	The status of supplemental contributions intended to reduce the Unfunded Actuarial Accrued Liability should be considered before contributions are reduced or benefits are enhanced.
#7 – Contribution Target	The long-term target for contributions is that the total employee and employer contributions should be approximately equal to the normal cost for the agreed upon, reasonable level of benefits.

The above statements collectively express PERA's funding values relative to the General Employees, Police & Fire, and Correctional Employees Plans. The values will be used to facilitate communication with PERA stakeholders and to set foundations for potential future legislative initiatives.