



Date: December 12, 2024
To: PERA Board of Trustees
From: Doug Anderson, Executive Director
Amy Streng, Policy Coordinator
Subject: 2025 PERA Stakeholder Agenda – Decision Items

The 2025 legislative session begins January 14, 2025. This memo includes 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.

Initiative: PERA Correctional Board Member (Decision Item)

Stakeholder: Minnesota Correctional Officer Retirement Association (MNCORA)

MNCORA has requested PERA Board support for the creation of a new board position dedicated to the Correctional Plan. See the included letter from MNCORA.

In response to board discussion regarding the number of trustees, MNCORA has indicated that the revised legislation will also include a new retiree position.

Background.

As directed by statute, PERA’s Board consists of 11 positions consisting of 10 individuals and the State Auditor. The governor appoints 5 of the 10 available positions who represent school boards, cities, counties, a retired annuitant, and one who is a public member knowledgeable in pension matters. PERA plan members elect the five remaining members: one of which is a member of the Police & Fire Plan and one of whom is a former member who met the definition of public employee and who is receiving a retirement or disability benefit. It should be noted that there is no specific position designated for the PERA General or PERA Correctional Plans.

Elected Official	Five Governor Appointees Representing	Five Member Elected Trustees Representing
State Auditor	General Public	General Public Membership (3 positions) (may be a General, P&F, or Correctional Plan member)
	School Boards	
	Cities	
	Counties	Police & Fire Active
	Retired Annuitant	Retired, Disabled, and Survivors

Consideration

During the October workshop, the PERA Board of Trustees reviewed the composition of the board. In this discussion, the board considered the current board composition, the voting membership, the opportunity to serve, the fiduciary responsibility of each board member, and board history.

Minn. Statute § 353.03, Subd. 1, paragraph a, governs the membership of the PERA Board of Trustees. Three of the 11 board members represent employers and are appointed by the governor. The state auditor sits on the board. The governor also appoints one retiree and one member of the public knowledgeable in pension matters. The membership of the plan elects the remaining five members of the board. All members vote on the following positions: a member of the Police & Fire Plan, a former member who has met the definition of public employee and who is receiving a retirement or disability benefit, and three positions from within the membership.

The current board membership reflects a balance of appointed and elected members representing employers, active members, and retirees of PERA’s defined benefit plans. It is important to note the role that balance plays in the board makeup. In MNCORA’s legislation last year, the addition of the Correctional member left the board with an even number. MNCORA has modified their proposal to add two members (one Correctional and one retiree) to keep the board number uneven. The current makeup of the board is 6 member positions to 3 employer positions, adding additional board members representing member groups would weigh the board’s makeup further towards the membership. Several considerations would need to be given including to the employer’s representation on the board and whether added positions are elected or appointed.

MNCORA notes a comparison of PERA’s board to the MSRS board. The composition of MSRS’s board is three appointed members (two members of the public and one state official) by the governor, four state employees elected by MSRS General and Unclassified membership, one member of the Met Council Transit, one State Patrol member elected by the State Patrol membership, one Correctional Plan member elected by the Correctional Plan membership, and one retiree elected by the retirees of all the plans. When comparing boards, it is important to note that for MSRS’ elections voting is limited to those in the represented groups.

	General Plan	Police & Fire Plan	Correctional Plan	Totals	% of Total
Active	154,261	11,635	3,786	169,682	55.9%
Retirees & Survivors	115,812	10,490	1,606	127,908	42.2%
Disability Retirements	3,268	2,111	237	5,616	1.9%
Total Voting Members	273,341	24,236	5,629	303,206	100%
% of Total	90.1%	8.0%	1.9%	100%	

During its discussion, the board reviewed the voting membership of the plans when looking at board representation. PERA General has the most active, retired, and disabled members, followed by the Police & Fire Plan, and then the PERA Correctional Plan. The opportunity to serve on the board exists for members of all the plans. While there is a dedicated Police & Fire active member, the positions allocated to the general active membership may be filled by a member of the General Plan, the Police & Fire Plan, or the Correctional Plan. All members of the Correctional plan are also eligible to vote on all the elected positions. In addition, members of all plans can participate on the board as a member elected retiree/disabled/survivor representative. In recent elections, however, there have been few applicants for these positions. The opportunity exists currently for Correctional Plan members both active and retired to participate on the board.

Correctional Plan members are currently represented on the board because every trustee is a fiduciary bound by their statutory fiduciary duty to all active, deferred and retired members, no matter their plan membership. Ultimately, this fiduciary duty requires each trustee to represent the interests of members of all PERA's plans as well as the taxpayers and the state of Minnesota. By law, the trustees' fiduciary duty to members of the Correctional Plan must be carried out faithfully and without prejudice.

The board also considered recent history and whether there was a situation in which the board did not adequately represent the Correctional Plan. While there were legislative efforts to modify the cost of living adjustment in 2018, the PERA Board of Trustees and staff advocated to maintain the cost of living adjustment. For the past several years, there have been legislative conversations regarding the inclusion of 911 telecommunicators in the PERA Correctional Plan. One of the long-term board positions addresses the expansion of the Correctional Plan's makeup. During these conversations, the board has opposed the inclusion of 911 telecommunicators into the Correctional Plan. In 2023, when the Correctional multiplier was increased, the PERA Board and staff worked with the legislature to determine if this was in the plan's interest.

Lastly, the board considered modifications to the board on an individual basis. Approaching the board membership with individual additions may lead to unintended consequences. If there is interest in modifying PERA's board, serious consideration needs to be given to a wholistic approach where all membership of the defined benefit plans are considered, employer representation is noted, and whether these positions are appointed or elected.

The board concluded that the board opposes individual adjustments to the PERA Board of Trustees composition and if there is conversation about modifying the board composition, strongly encourages a wholistic approach to the board composition.

Initiative: PERA Police & Fire Working After Retirement (Decision Item)

Stakeholder: Minnesota Chief of Police Association (MCPA)

As part of their 2025 legislative agenda, MCPA highlighted the need for recruitment and retention. As part of that effort, MCPA renewed their legislative support of creating an in-service distribution option or a DROP for the PERA Police & Fire Plan.

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.

In 2024, approximately 160 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 2026.

Last session, police member stakeholders sought legislation establishing in-service distributions for the Police & Fire Plan which would allow members over the age of 55 to start collecting their benefit and continue working. There would be no additional benefit accruals. The member and employer would continue to contribute while the member continued working. The member would receive a refund of these contributions once the member terminated. Since the member has not had a break in service, the member may be subject to a 10% tax penalty.

The establishment of the in-service distribution in the Police & Fire Plan creates a cost to the Plan. The cost is attributed to a member electing to receive their benefit earlier than anticipated. As a result, the Plan is paying out more in benefits. Last session, PERA estimated that cost to be \$14 million a year, increasing by 3% per year, and payable through 2048.

PERA has continued to work on educating stakeholders on the cost implications of this change. Depending on the usage of the program the annual cost of the program could be up to \$64 million per year.

MCPA has noted interest in establishing a DROP program. The cost of the DROP program depends on the features of the DROP. However, if the program is advantageous to the member, there will be a cost to the Plan. There will likely still be a cost to the Plan given members collecting the benefit sooner than anticipated.

MCPA Rationale

Agencies across our state are having extreme difficulty recruiting and retaining officers for a variety of reasons. The MCPA supports a multi-faceted approach to helping agencies of all sizes recruit and retain officers. Part of this approach is the creation of an in-service distribution program for PERA Police & Fire.

The MCPA supports legislation to create an In-service Distribution Program as an enhancement to the Fire and Police Pension Plan. This would allow current Police and Fire personnel who are at least 55 years of age to begin drawing retirement benefits while they continue to work. Members are considered "retired" for purposes of pension calculations only. For all other purposes, you are considered an active member of your respective department.

Policy Considerations

While it is important to note the stakeholder's concerns regarding recruitment and retention, consideration needs to be given to the impact the change has on the Plan and how the change intersects with the Plans established priorities. The PERA Board has established increasing cost of living adjustments for the Plan as a priority. However, the Plan is not in the position to absorb the cost of any benefit increases. Any increases to the cost of living adjustment will need funding by the Legislature. Given that providing in-service distributions has a cost that would also need to be fully funded, this change conflicts with a priority established by the Board.

Staff Recommendation

Staff recommends the PERA Board of Trustees oppose changes to the current working after retirement provisions for the PERA Police & Fire Plan.

MNCORA

Minnesota Correctional Officer Retirement Association

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PERA Executive Director Doug Anderson and PERA Executive Board members,

The Minnesota Correctional Officer Retirement Association (MNCORA) understands the issue of adding a PERA Correctional Member to the PERA Executive Board is to be discussed at this upcoming planning meeting.

Last session a Bill was introduced to that effect, unfortunately it did not get a hearing from the LCPR, but that Bill will be reintroduced this year. (HF4342 and SF4464)

The Bill simply adds language to statute 353.03 sub 1... **“Of the six trustees elected by the membership, one of whom must be a member of the police and fire fund plan, one must be a member of the local government correctional service retirement plan, ...”**

Our plan has been in existence since 1999 and is the healthiest and best funded of the plans and MNCORA would like to keep it that way.

The PERA Correctional Plan has 12,611 members and almost \$1 Billion in the plan and is fully funded.

Over the years there have been many attempts to raid our plan and we need someone on the Board dedicated to watch it like Police and Fire have. We need a seat and voice at the table.

Almost every session there's an attempt or bill to add another group to our plan. Usually, 911 Dispatchers or Probation. They are members of other PERA Plans and they seek to become part of ours. We believe changing the definition of our plan weakens it from its original intent and would have dire consequences for the future funding of the PERA Correctional Plan affecting COLA's and the overall health.

The State Correctional Officers have a seat on their MSRS Pension Board and PERA Correctional Officers should to.

THIS IS COST NEUTRAL THE PERA BOARD IS NOT A PAID POSITION.

Also of note is that as of 2025 State and Local CO's will be recognized by the Federal Government as Public Safety Officers, no different than Police and Fire. This will have major implications for

taxes and disability benefits and would cause there to be multiple payout levels to any non-CO's added to the pension.

It is MNCORA's position that the time has come for a Correctional Officer to have a seat on the Board. MNCORA respectfully asks for your support.

Signed,

MNCORA Executive Board