Background Information on the State Patrol Retirement Plan

The State Patrol Retirement Plan was established in 1943 (Laws 1943, Ch. 637) and initially provided retirement coverage solely for state highway patrol troopers. Currently, the State Patrol Retirement Plan provides retirement coverage for four distinct groups of law enforcement officers: (1) the State Patrol Division of the Department of Public Safety, (2) the Bureau of Criminal Apprehension of the Department of Public Safety, (3) the Enforcement (Game Wardens) Division of the Department of Natural Resources, and (4) the Gambling Enforcement Division of the Department of Public Safety.

A separate retirement plan had been established for game wardens (the Game Wardens Retirement Plan) in 1955 (Laws 1955, Ch. 679, Sec. 1-12). In 1961, the State Police Retirement Plan was established for Bureau of Criminal Apprehension agents and officers and, when it was created, it absorbed the Game Wardens Retirement Plan (Laws 1961, Ch. 736). In 1969, the State Police Retirement Plan was in turn merged into the State Patrol Retirement Plan (Laws 1969, Ch. 693). In 1990, law enforcement officers in the Gambling Enforcement Division of the Department of Public Safety were added to the State Patrol Retirement Plan (Laws 1990, Ch. 570). With the exception of a small number of data processing personnel in the Bureau of Criminal Apprehension who were grandparented into the plan in 1987-1988, all members of the State Patrol Retirement Plan are peace officers licensed by the Peace Officers Standards and Training Board.

As a public safety pension plan, the State Patrol Retirement Plan pays larger retirement annuities, disability benefits, and survivor benefits than a general employee retirement plan and has an earlier normal retirement age for the retirement annuity. Because of these benefit plan differences, the plan has a greater actuarial cost and greater member and employer contributions than a general employee retirement plan. It is assumed that the State Patrol Retirement Plan will be the sole plan providing income during retirement. As law enforcement officers, members of the State Patrol Retirement Plan are not covered by Social Security for their state law enforcement employment.

The policy reason for having a more lucrative benefit program for public safety employee retirement plans is that public safety employment (police officer or firefighter service) is particularly hazardous, that it requires the maintenance of a particularly vigorous and robust workforce to meet the strenuous requirements of the employment position, and that the normally expected working career of a public safety employee will be significantly curtailed as a consequence of the hazards and strenuous requirements of that type of employment when compared to a general public employee. Also, as noted, this is a basic plan rather than one coordinated with Social Security.

Public employee pension plans are intended to assist the governmental personnel system by encouraging the recruitment of qualified and motivated new employees, the retention of able and valued existing employees, and the orderly and predictable out-transitioning of employees at the expected end or normal conclusion of their working career. For public safety employees, public safety employee retirement plans provide more lucrative benefits to assist in the recruitment and retention of new and existing personnel, but most clearly emphasize the out-transitioning function.

Regarding plan benefits, in addition to a refund of employee contributions plus interest for terminating members who are not vested or who elect that benefit, or in certain death refund situations, the plan provides several annuity benefits:

- <u>Normal retirement benefit</u>. The retirement benefit provided for a member retiring at the plan's normal retirement age, age 55, is 3% of the high-five average salary for each year of service. A member who is age 55 or older with 30 years of service and has a high-five average salary of $75,000 will receive an annuity of $67,500. To be eligible for any form of retirement annuity the person must be vested. The vesting requirement is three years for those first employed before July 1, 2010, and five years for those first employed on or after that date.

- <u>Early retirement benefit</u>. Vested members can retire as early as age 50 with only a slight reduction due to early retirement. The reduction is 1/10 of a percent for each month (1.2% per year) that the individual is under age 55. For employees first hired after June 30, 2010, the reduction will be 1/5 of a percent per month (2.4% per year) that the individual is under age 55. These early retirement annuities are subsidized.

- <u>Duty disability benefit</u>. The plan uses an occupational definition of disability, an inability to perform the specific job, rather than the more stringent definition used by general employee plans which require an inability to perform any gainful employment. A duty disability means a physical or psychological condition that is expected to prevent a member, for a period of not less than 12 months, from performing the normal duties of the position held by the person, that is a direct result of injury or disease arising from performance of duties that reflect the inherent dangers specific to the positions covered by the plan. The plan pays a minimum duty disability benefit equal to a 20-year service pension (60% of the high-five average salary), plus an additional 3% of that high-five salary for each year of service in excess of 20. There is no reduction due to early receipt.

- Regular disability benefit. A regular disability means a physical or psychological condition that is expected to prevent a member, for a period of not less than 12 months, from performing the normal duties of the position held by the person, that is a direct result of injury or disease arising from activities while not at work, or while at work but performing duties that do not reflect the inherent dangers specific to the positions covered by the plan. Non-duty-related disability benefits are computed like a retirement annuity, but without any reduction due to early receipt. The minimum benefit is equivalent to a 15-year service pension, and the individual must have at least one year of service credit to be eligible.

- Survivor, dependent child benefits. A retiree or disabilitant may choose to provide continuing coverage to a survivor by electing a joint-and-survivor annuity form. In addition, the plan has provisions providing survivor annuities and dependent child benefits in death-while-active situations.

Under current law, plan annuitants (retirees, disabilitants, survivors) receive annual increases of 1.5% per year. When the funding ratio based on market value reaches 90%, annual increases to annuitants will be 2.5% per year.

Actuarial Condition of the State Patrol Retirement Plan

Based on the most recent actuarial study, July 1, 2012, the State Patrol Retirement Plan had a 72.8% funding ratio. The total contributions are 11.5% of payroll less than the contribution level needed to pay off the remaining unfunded liabilities by the full funding date.

State Patrol Plan
2012

Membership		
Active Members		823
Service Retirees		733
Disabilitants		48
Survivors		182
Deferred Retirees		40
Nonvested Former Members		15
Total Membership		1,841
Funded Status		
Accrued Liability		$760,955,000
Current Assets		$554,244,000
Unfunded Accrued Liability		$206,711,000
Funding Ratio	72.84%	
Financing Requirements		
Covered Payroll		$66,592,000
Benefits Payable		$50,007,000
Normal Cost	21.63%	$14,404,000
Administrative Expenses	0.24%	$160,000
Normal Cost & Expense	21.87%	$14,564,000
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Amortization	20.65%	$13,751,000
Total Requirements	42.52%	$28,315,000
Employee Contributions	12.40%	$8,257,000
Employer Contributions	18.60%	$12,386,000
Employer Add'l Cont.	0.00%	$0
Direct State Funding	0.00%	$0
Other Govt. Funding	0.00%	$0
Administrative Assessment	0.00%	$0
Total Contributions	31.00%	$20,643,000
Total Requirements	42.52%	$28,315,000
Total Contributions	31.00%	$20,643,000
Deficiency (Surplus)	11.52%	$7,672,000

In recent years, the Legislature has taken several actions attempting to reduce the contribution deficiencies of this plan. In 2006, the Legislature passed employee and employer contribution rate increases of 2.0% for the employee (from 8.4% to 10.4% of salary) and 3.0% for the employer (from 12.6% to 15.6% of salary), to be phased in from July 1, 2007 to July 1, 2009. In 2010, these rates were again revised, increased from 10.4% to 12.4% of salary for the employee and to 18.6% of salary for the employer.

In addition to increasing contribution rates, the 2010 Legislature took other actions which should help reduce plan liabilities. These revisions along with the 2010 contribution increases just described were part of the Financial Sustainability Provisions, enacted as Laws 2010, Chapter 359, Article 1. That package of revisions, proposed by the administrators of the various plans and enacted into law, was in response to the serious harm done to the pension funds by the Great Recession of 2008 and 2009. For the State Patrol Plan, these changes included the contribution rate increases, an increase the vesting requirement from three years to five years for new hires, a reduction in deferred annuity augmentation, and reduced post-retirement adjustments of 1.5% per year rather than 2.5%. The reduced post-retirement increases will apply until the plan becomes at least 90% funded based on market value.

State Patrol Plan Disability

State Patrol Plan disability has not been significant compared to other public safety or correctional plans. State Patrol Plan disability assumptions were unchanged for decades, possibly since the plan was created. A State Patrol Plan experience study in 2004 did not lead to any recommendations to revise that plan's disability rate assumptions. However, based on an experience study covering 2006 to 2011, the MSRS actuary, Mercer Consulting, recommended a reduction in disability rates at each age to 80% of the prior assumption. These changes were approved by the Commission at its July 30, 2012, meeting.