



S.F. 264

(Betzold, by request)

H.F. 1757

(Smith)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): MSRS-General

Relevant Provisions of Law: Minnesota Statutes, Section 352, Subd. 2 and 3; 352D.04 Subd. 2

General Nature of Proposal: Increase MSRS-General Employee and Employer Contribution Rates

Date of Summary: April 20, 2005

Specific Proposed Changes

- Increases the MSRS-General plan employee and employer contribution rates from 4.0 percent to 5.0 percent, phased in over a few years.

Policy Issues Raised by the Proposed Legislation

1. Current Need to Address. The current problem is modest, might be taken care of by improvements in investment markets, and the increase would not begin until 2007; thus no need to address this Session.
2. Cost. Would add \$6 million to employer costs in 2007, \$12.6 million in 2008, \$19.8 million in 2009, and \$27.7 million in 2010, increasing thereafter by the increase in covered payroll.
3. Negative Amortization Issue. The current practice of using negative amortization when plans are overfunded masks underlying problem when plan normal cost plus expenses are more than plan the sum of employee and employer contributions.
4. Phase-In Issues. The Commission could choose to lengthen or shorten the phase-in.
5. Amount of Proposed Increase. The total increase is more than the current contribution deficiency. The Commission may wish to have the MSRS Executive Director justify the requested increase amount.
6. Sharing Burden for Paying Off Unfunded Liability. The employees and employers would share equally in paying off unfunded liability; the question is whether that is an appropriate distribution of that burden.
7. Aid/Appropriation Issues. Any increase in employer contributions is likely to lead to requests for appropriations or increased aid to cover the added amounts. Many University of Minnesota employees are covered by MSRS-General.
8. Position of Employee Groups. The issue is the extent of employee group support for this bill.
9. Uniformity Issue. Currently, the MSRS-General, PERA-General, TRA, and first class city teacher plans coordinated programs provide comparable benefits but members pay different amounts for that same benefit package. This proposal may not lead to more uniformity in contribution rates.

Potential Amendments

Amendment LCPR05-114 revises the amount of the increases, removes the phasing-in period, and changes the date the contribution increases will occur. There would be a single increase in the employee and employer contribution rates, at a level to be specified, rather than a phase-in period. The same rate could be inserted in each blank, or different rates used to have the employer pay a larger share of the unfunded liability. The bill's original effective date could be kept by inserting "2007" (or by striking the applicable line from the amendment), or another date could be used.

Amendment LCPR05-115 is an alternative to LCPR05-114, and could be used if the Commission chose to retain the phase-in period, but feels that the final increase is unnecessary given the expected contribution requirements. If the deficiency stays at the level indicated in the 2004 valuation, that increase might be more than is needed. The amendment removes the final July 1, 2010, contribution increase from the bill.

Amendment LCPR05-116 is an alternative to either of the above two amendments, keeps the phase-in period of the bill, but moves it up by one year, with the first increase occurring on July 1, 2006, rather than 2007, and the final increase occurring on July 1, 2009.

Amendment LCPR05-117 is an alternative to the earlier amendments, is comparable to LCPR05-116, but it also removes the final contribution rate adjustment, so that the final rate is 4.75 percent rather than 5.0 percent.