State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

S.F. 997 (Betzold, by request) — H.F. 1753 (Wardlow)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): MSRS-Correctional

Relevant Provisions of Law: Minnesota Statutes, Section 352.92, Subdivisions 1 and 2

General Nature of Proposal: Employee and Employer Contribution Rate Increases

Date of Summary: April 20, 2005

Specific Proposed Changes

- Increases the employee contribution rate in several steps from 5.69% of pay to 8.6% by July 1, 2008.
- Increases the employer contribution rate in several steps from 7.98% of pay to 12.1% by July 1, 2008.

Policy Issues Raised by the Proposed Legislation

1. Adoption of Actuarial Assumption Changes. The Commission may wish to decide whether to adopt the assumption changes proposed by the MSRS actuary, as revised after comments from Milliman USA, the actuarial firm the Commission retained until 2004. If the Commission chooses not to adopt these assumptions, there is little reason to further consider this bill, which presumably revises contribution rates to reflect the proposed actuarial assumptions.
2. Contribution Increase/Increase Amount. The information provided by the MSRS actuary indicates that, based on the 2002 actuarial valuation, the plan would go from having negative amortization to having positive amortization, and the result would be a 5.2 percent contribution deficiency in 2002. MSRS is asking for a much larger increase, 7.03 percent of payroll. It is not clear what information supports that higher increase request.
3. Current Need to Address/ Sufficient Resources. The issue is whether there is sufficient need and sufficient resources to address the MSRS-Correctional contribution deficiency at this time.
4. Added State Employing Unit Cost. The employer contribution increase will increase employer cost by $1.56 million beginning July 1, 2005, by $3.11 million in 2006, by $4.82 million in 2007, and by $6.7 million in 2008. Thereafter, the $6.7 million amount for 2008 will increase over time by the rate of increase in covered payroll. Any further shift of employees into MSRS-Correctional will add to these totals.
5. Negative Amortization Issues. As part of long-term solutions to the MSRS-General, MSRS-Correctional, State Patrol Plan, PERA-General, and PERA-P&F funding issues, the Commission may wish to revisit the use of negative amortization. Use of negative amortization masks the problem of contribution rates that are not sufficient to cover normal costs and expenses.
6. Phase-In Issues. The issue is the phase-in of increases over a multi-year period. The phase-in period may help the state to budget for the change, but a phase-in period will delay fully addressing the problem (assuming a problem remains) and results in additional unfunded liability, which increases the total cost of eliminating the deficiency. A shorter phase-in period will lower the total cost; a longer phase-in period will increase the total cost.
7. Position of Employee Groups. The issue is the extent of employee group support for this bill.

Potential Amendments

Amendment LCPR05-120	would eliminate all but the first increase, bringing the total contributions to 15.5 percent of pay, somewhat in excess of the normal cost plus expenses, which were 15.16 percent in July 2004.
Amendment LCPR05-121	is comparable to LCPR05-120, but it also would change the start of the contribution rate increase from July 1, 2005, to a date to be set.
Amendment LCPR05-122	is an alternative to either LCPR05-120 or LCPR05-121, would include the first two increases (2005 and 2006) and eliminate the 2007 and 2008 increases. The 2005 and 2006 increases would create total contributions of 17.1 percent of salary.
Amendment LCPR05-123	is identical to LCPR05-122 but resets the start dates for the increases at dates to be determined.
Amendment LCPR05-124	could be used with amendment LCPR05-122 or LCPR05-123, or independently. LCPR05-124 states that if, following the implementation of any increase, the next actuarial valuation indicates that the total requirements determined by the actuary show no contribution deficiency, then any later contribution increases specified in the bill shall not be implemented.
Amendment LCPR05-146	revises general law to specify that if a plan is more than fully funded (and thus negative amortization is applied) and a later valuation indicates unfunded liabilities, the full funding date will be reset at the average remaining working lifetime of the active employees, determined by subtracting the average age of the active employees from the normal retirement age.
Resolution 05-2	is the statement of approval that the Commission would need to adopt to have the proposed assumptions adopted and used in future actuarial valuations.