



**S.F. 998**

(Betzold, by request)

**H.F. 1754**

(Smith)

### **Executive Summary of Commission Staff Materials**

Affected Pension Plan(s): State Patrol Retirement Plan  
Relevant Provisions of Law: Minnesota Statutes, Section 352B.02, Subdivisions 1a and 1c  
General Nature of Proposal: Increase in Employee and Employer Contribution Rates  
Date of Summary: April 20, 2005

### **Specific Proposed Changes**

- Increases the employee contribution rate in two steps from 8.4% of pay to 9.8% by July 1, 2006.
- Increases the employer contribution rate in two steps from 12.6% of pay to 14.6% by July 1, 2006.

### **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. If the Commission does adopt the assumption changes, the issue is whether there is sufficient information supporting a need for a contribution increase. The information provided by the MSRS actuary indicates that, in the 2002 valuation, a slight sufficiency would remain after adopting the new assumptions, lessening the need for an increase in contributions. The result could be different if the actuary had demonstrated the impact on the most recent valuation. MSRS is requesting increased contributions of 3.4 percent of payroll. The issue is the justification for an increase and why 3.4 percent is a proper increase amount.
3. Phase-In Issues. The issue is whether to use a phase-in period, or to use a different phase-in period. Implementing the full increase in a single step will decrease the necessary contributions marginally while a phase-in period will increase the total cost marginally.
4. Cost/Additional Amortization Aid Issues. The issue is the added employer contributions required under this bill. The additional employer contribution will be \$.6 million in 2005 and \$1.1 million in 2006. Thereafter, the \$1.1 million amount for 2006 will increase over time by the rate of increase in covered payroll. Since most or possibly all of the employer contribution increase will be funded out of state police aid, this will reduce the amount of excess police state aid, which will impact the state General Fund since a considerable portion of excess police state aid cancels to the General Fund, and will impact the additional amortization aid program which is funded out of a portion of the remainder. This in turn will have implications for various former consolidation accounts and for Minneapolis Police, Virginia Fire, the MTRFA, SPTRFA, and numerous communities that receive minimum fire state aid.
5. Position of Employee Groups. The issue is the extent of employee group support for this bill.

### **Potential Amendments**

Amendment LCPR05-127 would implement only the first increase, but not the one that would occur a year later, to be effective on a date to be set.

Amendment LCPR05-128 includes the total increase proposed by the bill, but with no phase-in, effective on a date to be set. Either LCPR05-127 or LCPR05-128 could be further modified by verbal amendment to revise the level of the new contribution rates.

Amendment LCPR05-129 is an alternative to LCPR05-127 or LCPR05-128, keeps the bill's phase-in period and new rates, but delays them one year, with the first increase occurring on July 1, 2006, rather than 2005, and the final increase occurring on July 1, 2007.

Resolution 05-1 is the statement of approval that the Commission would need to adopt to have the proposed assumptions adopted and used in future actuarial valuations.