



S.F. 1630
(Hayden)

H.F. 1800
(Kahn)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): PERA-P&F
Relevant Provisions of Law: Minnesota Statutes, Section 353A.08, New Subdivision 9
General Nature of Proposal: Benefit enhancement for consolidated local relief association retirees, disabilitants, and survivors
Date of Summary: March 14, 2014

Specific Proposed Changes

- Increases service annuities and disability benefits to \$38,000 or by 20%, whichever is less.
- Increases survivor benefits to \$30,000 or by 20%, whichever is less.

Policy Issues Raised by the Proposed Legislation

1. Unspecified nature of the problem to be addressed; question of proper definition of the eligible group.
2. Plan swapping, precedent concerns.
3. Appropriateness of overturning irrevocable elections.
4. Windfall problem.
5. Cost; whether PERA-P&F should be asked to absorb the additional liabilities.
6. Whether the proposed adjustments are excessive.
7. Problematic nature of proposed future post-retirement increases.
8. Actuarial condition of PERA-P&F; PERA board position on the bill.

Delete-All Amendment

S1630-1A is a delete-all amendment needed to update the bill, which was introduced in 2013, to be drawn to the current version of Minnesota Statutes.

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TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Ed Burek, Deputy Director **EB**
RE: S.F. 1630 (Hayden); H.F. 1800 (Kahn): PERA-P&F: Increasing Benefits for Certain Former Members of Consolidated Local Police and Fire Relief Associations
DATE: March 14, 2014

General Summary of S.F. 1630 (Hayden); H.F. 1800 (Kahn)

S.F. 1630 (Hayden); H.F. 1800 (Kahn) would increase benefits to all service, disability, and surviving spouse benefit recipients who retained benefits computed under local police or firefighters relief association laws and who were covered by local police or paid fire relief associations which consolidated, under Minnesota Statutes, Chapters 353A, into the Public Employees Police and Fire Retirement Plan (PERA-P&F). For service or disability benefit recipients in this group, the benefit would be increased to \$38,000 or increased by 20%, whichever is less. Those receiving surviving spouse benefits would have the benefit increased to \$30,000 or by 20%, whichever is less.

Delete-All Amendment S1630-1A

The bill was introduced in 2013 and is drawn to a section of statutes that was repealed as part of the 2013 Omnibus Pension Bill. If the Commission is to consider this bill for passage, staff suggests considering it in the form of delete-all amendment S1630-1A, which characterizes the bill as a new section to be added to PERA-P&F provisions and revises the applicable dates due to the passage of time since introduction.

Background Information on Relevant Topics

The following attachments provide background information on topics relevant to the proposed legislation:

- **Attachment A:** Background information on the 1987 local public safety pension plan consolidation law and the 1999 PERA-P&F consolidation account merger law.
- **Attachment B:** Background information on the benefit practices of local police and paid fire pension plans.

Discussion and Analysis

S.F. 1630 (Hayden); H.F. 1800 (Kahn) is an effort to increase benefits for certain retirees, disabilitants, and surviving spouses receiving benefits computed under local relief association benefit laws. Unfortunately, the bill's drafting makes it difficult to clearly identify the problem the bill seeks to address, the group to be included for relief under this bill, and the proposed relief may cause further problems.

Under the applicable consolidation laws (Minn. Stat. Ch. 353A), active members of the local relief association at the time of consolidation were given a choice between the local benefit plan in its entirety (local plan retirement/disability/survivor provisions plus local plan post-retirement adjustments), or the PERA-P&F plan in its entirety (PERA-P&F retirement/disability/survivor provisions plus PERA-P&F post-retirement adjustments). Individuals who, at the time of consolidation had already terminated from the employment for which they were covered by the local relief association were limited to benefits under local relief association laws, except that they could choose post-retirement adjustments under the local plan provisions or those of PERA-P&F. Thus, regardless of whether the retirement, disability, or survivor benefit was computed under local law or PERA-P&F provisions, the individual had a choice between local plan and PERA-P&F post-retirement adjustments. Local plan post-retirement adjustment adjustments typically are tied to changes in active duty salary. While procedures differed between local plans, generally the retirees were to receive the same percentage increase in benefits as the percentage increase in the local salaries being paid to top grade patrol officers or firefighters. The PERA-P&F adjustments, for much of this period, was a percent increase matching inflation, plus additional amounts related to investment results in excess of the plan's investment return assumption. Through portions of the 1980s, post-retirement adjustments may have been higher when computed under the local plan laws. During the 1990s, the adjustments under the PERA-P&F provisions were very generous, because of exceptional returns to the stock market, providing increases likely to have exceeded those provided by local plan provisions. More recently, particularly since 2010, PERA-P&F adjustments have been very low, and we are again in a period

where adjustments are very likely to be higher under local plan provisions. For the indefinite future, the PERA-P&F plan is expected to provide only a 1% annual post-retirement adjustment.

In trying to obtain a better understanding of what the bill was intended to do, Commission staff contacted Brian Rice, who at one time represented various local relief association groups. Mr. Rice's understanding is that the bill is intended to address a problem created by the differences between the post-retirement adjustments under PERA-P&F and under local plan post-retirement adjustment provisions. If that is the case, the bill represents a request to relieve individuals from the outcome of a choice they freely made. The individual chose, through an election, to have post-retirement adjustments computed under local plan provisions or PERA-P&F provisions. Presumably, the eligible group is to be given an adjustment which, in some very rough fashion, approximates what would have occurred if PERA-P&F adjustments had applied instead. The Commission may wish to consider that this bears similarity to other election situations. Many individuals freely chose the defined contribution Higher Education Individual Retirement Account Plan (IRAP) rather than the Teachers Retirement Association (TRA) and now wish they had TRA coverage instead; but permitting those elections to be reversed on any large scale would destroy TRA's financing through adverse selection. Perhaps at least some of the individuals covered by the current bill may contend there were not sufficiently counseled regarding the post-retirement adjustment choice they made, but there is no hint of that in the bill's drafting, and no evidence is required under the bill to support any such claim. In any event, such claims would be better handled by separate bills presented on behalf of individuals claiming the Public Employees Retirement Association (PERA) or some other body created harm, permitting the Commission to consider each case on its merit.

The Commission may also wish to consider whether the post-retirement adjusts provided under local plan provisions can legitimately be considered unfair or insufficient. Generally, these post-retirement adjustments were tied to increases in active duty salary. The most common procedure used by local plans for computing post-retirement adjustments was to provide the same percentage adjustment as was provided to a top grade patrol officer or firefighter. While the adequacy of local public employing unit salaries is not a pension issue, if the treatment of the retiree is to be deemed inadequate, then the salary treatment of active duty employees was also inadequate. Also, for local plans which provided an increase that was only a portion of the increase in active duty salary, or even less, no local plan retiree or disabilitant was bound to accept those terms. He could use his election under the consolidation to instead have the post-retirement adjustment computed under PERA-P&F procedures.

PERA's interpretation of the bill differs from that of Mr. Rice. Mary Vanek, PERA executive director, interprets the bill as not strictly a post-retirement adjustment issue. Rather it is the entirety of the benefit package, the retirement/disability/survivor benefit plus the local plan post-retirement adjustment, compared to the outcome if all of these individuals had instead been covered by PERA-P&F for computing the retirement, disability, or survivor benefit, plus having the PERA-P&F post-retirement adjustments. Ms. Vanek's interpretation does seem more consistent with the bill as drafted. But that raises further serious issues. The bill does appear to give individuals an outcome more similar to what would occur if they had instead been covered by a different public safety plan, PERA-P&F, rather than a local plan.

Under PERA's interpretation of the bill, it is, in effect, an effort to swap pension plans. This would create a serious precedent issue. The Commission may wish to consider that this might eventually lead to, for example, a request by Minnesota State Retirement System or PERA General Employees Retirement Plan (PERA-General) retirees arguing that their benefits should be recomputed and increased to be comparable to those provided by TRA. (Leading into 2006, all general employee plans used a 1.7% per year of service accrual rate (benefit multiplier). In 2006, TRA was granted a benefit increase, an increase to a 1.9% multiplier for service provided after June 30, 2006. The Commission should also expect that individuals who retire from the Higher Education Individual Retirement Account Plan (IRAP), or who are about to retire, and whose benefit will be less under IRAP than they could have received if they had TRA coverage, will demand a TRA-equivalent benefit.

It is somewhat unclear how PERA defined the eligible group under the bill (which would need to be clarified through testimony), but Commission staff was informed that PERA expects 342 retirees and disabilitants to receive some benefit adjustment under the bill, plus 432 survivors. The total annual benefit for the retiree and disabilitant group is now \$10.7 million. The new benefit level for that group under PERA's interpretation of the bill would be about \$1.3 million higher, totaling \$12 million. There are also 432 survivors currently receiving \$8.9 million in benefits. The adjusted survivor benefits would be \$10.4 million, creating a \$1.6 million increase for the survivors.

The proposed legislation raises a number of pension and related public policy issues for consideration by and possible discussion by the Commission, as follows:

1. Unclear Nature of the Problem. It is not clear from the drafting what problem the legislation is trying to address.

2. Plan Swapping; Precedent. The issue is the precedent or precedents created by the bill. One plausible interpretation of the bill as drafted is that it amounts to a request to swap plans. Some group of retirees is not satisfied with the benefits currently provided to them and they are requesting, in an indirect way, to instead be provided with benefits levels more comparable to that which they would have at the current time if they were instead covered by the PERA-P&F plan in its entirety. As noted earlier, this could lead to requests from members of IRAP, MSRS-General, and PERA-General that they receive benefits comparable those that would be provided by TRA rather than the outcome of their own plans. This would create considerable additional liabilities and destroy any ability to actuarially fund these plans, because it would become nearly impossible to make reasonable predictions of plan liabilities.
3. Reversing Irrevocable Elections. The issue is the overriding of irrevocable elections which were freely made by the applicable individuals. Commission members may wish to consider that the situation that this bill is intended to address, whatever it is, is the result of choices freely made by the members, and the Commission may choose to decide that PERA-P&F and the taxpayers are under no obligation to relieve these individuals from the consequences of their actions.
4. Possible PERA Harm Due to Deficient Counseling. The issue is the possibility that PERA staff may have created some harm due to inadequate counseling prior to elections, and, if that occurred, whether the bill is a reasonable approach to correct that problem. If the argument is that PERA staff somehow failed to provide proper counseling before benefit elections were made, then that problem is not well identified or addressed by this bill. The Commission may wish to consider that a problem of that nature is better addressed by special legislation on behalf of individuals with some clear claim of harm and where the Commission could give specific attention to the arguments and equity issues in each case.
5. Windfall Problem. The Commission may wish to consider that within the group presumably covered by this bill are individuals who were active members at the time of consolidation and who specifically chose local plan benefits because they provided the individual with a specific advantage - the local plan provided the individual with a higher benefit. The local plans typically permitted individuals to retire with full benefits as early as age 50, which would not be permitted under PERA-P&F, and local plans often would provide benefits to a surviving spouse at no direct cost to the retiree. In contrast, under PERA-P&F the individual would have had to take a monthly benefit reduction to provide that coverage. If an individual specifically chose local plan benefits for reasons such as this, and is now to receive a further increase in benefits under this bill, that adjustment may be considered as a windfall.
6. Need for Adjustment; Appropriate Size of Adjustment. If some form of adjustment is deemed appropriate, the policy issue is the appropriate size of that adjustment. Attached to this memo are a few pages from the July 1, 2012, PERA-P&F actuarial valuation, the most recent valuation available at the time the bill was introduced. Particularly regarding survivor benefits, individuals covered by the bill may currently have benefits exceeding the average survivor benefits being paid under the PERA-P&F plan. According to that valuation data, the average PERA-P&F survivor benefit was \$27,986. Some individuals, who are already receiving a survivor benefit which exceeds \$27,986, would be eligible for further increases under this bill. Others may be receiving a survivor benefit which is now less than \$27,986, but would be bumped up to an above average benefit. Survivors under the bill, however defined, could have their the survivor benefits increased to \$30,000, which would appear to be greatly in excess of the average PERA-P&F survivor benefit. The size of this request does not appear to be based on any claim of fairness relative to PERA-P&F survivor benefits, or financial harm. If the proposed legislation passes with this specified benefit level, it may lead to a request to further enhance PERA-P&F survivor benefits by PERA-P&F survivors not covered by the current bill and that could, in turn, trigger a similar request from State Patrol Plan survivors. Commission members may also wish to review the proposed adjustments for retirees and disabilitants, and compare that to the comparable PERA-P&F groups.
7. Post-Retirement Adjustment Issues. If the bill is intended to address a perceived problem due to differences over time in local plan post-retirement adjustments compared to PERA-P&F post-retirement adjustments, Commission members may wish to consider that many local plans provided adjustments matching the percentage increase in active duty police officer or firefighter salaries. Over the long term, those increases are likely to have at least kept pace with, and probably exceeded, inflation, which should have provided excellent protection for retirees. For retirees with that protection, there is little basis for a claim of harm. In any event, anyone receiving post-retirement adjustments based on local plan provisions is receiving those adjustments because the active member, retiree, or disabilitant freely elected those adjustments rather than those of PERA-P&F.
8. Problematic Nature of Proposed Solution; Future Post-Retirement Adjustments. The policy issue is the problematic nature of the proposed post-retirement adjustments following passage of the bill. After the upward adjustment in benefits, lines 1.20 to 1.22 appear to require that those revised benefits

are to be adjusted over time using the PERA-P&F post-retirement adjustment procedure. Doing so overturns the supposedly irrevocable election of local plan post-retirement adjustments which each retiree and disabilitant covered by the bill freely made. In addition to reversing that election, the bill saddles that individual or his or her survivor with post-retirement adjustments, going forward, which are likely to be inferior to those provided under the local law provisions. PERA-P&F adjustments, because of recent law changes, are likely to be only 1% per year for an indefinite period. If enacted, the group is likely to request additional legislation in the future, claiming that this bill harmed them going forward.

9. Affected Individuals; Cost - Information from PERA. PERA may have additional information on what it believes is the group intended to be covered by this bill, and the cost of a solution.
10. Support by PERA Board. The issue is whether PERA’s board supports the proposed legislation.
11. Question of Who Should Cover the Cost. The issue is who should cover the cost imposed upon PERA-P&F by the bill. As drafted, there is no appropriation to cover this cost and local employing units are not being asked to make any additional payments to cover the cost of the proposal. Therefore, the cost is to be absorbed by PERA-P&F. Under the police and paid fire local plan/PERA-P&F consolidation legislation which had been contained in Minnesota Statutes, Chapter 353A, and in related later legislation, local units of government were required to make payments to PERA and to the PERA-P&F fund deemed sufficient to cover the costs being imposed upon PERA-P&F. The current bill has the effect of creating new liabilities due to paying higher benefits to some subgroup from local plans which consolidated into PERA-P&F. Perhaps local units of government should be required to make new additional payments to cover the costs, whatever they are, of the additional liabilities imposed upon PERA-P&F by this bill. There is no bill language to do so. Alternatively, the Legislature could cover the liabilities by an appropriation to PERA-P&F, but again there is no language to do so. Relieving PERA-P&F of any burden from the bill would be more consistent with proposed legislation recommended to pass by the Commission for the St. Paul Teachers Retirement Fund Association and for the Duluth Teachers Retirement Fund Association/TRA consolidation.
12. PERA-P&F Actuarial Condition. The issue is PERA-P&F’s actuarial condition and the fund’s ability to absorb any more unfunded liabilities as imposed by the bill. As indicated in the following actuarial summary, PERA-P&F has an 81% funding ratio and has contributions to the plan which are 2.64% of salary below that indicated by the actuary as necessary to properly fund the plan.

	<u>PERA-P&F FY2013</u>		<u>PERA-P&F FY2013</u>	
<u>Membership</u>				
Active Members	10,940	Normal Cost	18.90%	\$155,358,000
Service Retirees	6,583	Administrative Expenses	0.09%	\$740,000
Disabilitants	1,131	Amortization	<u>10.90%</u>	<u>\$89,598,000</u>
Survivors	1,865	Total Requirements	29.89%	\$245,696,000
Deferred Retirees	1,388			
Nonvested Former Members	<u>988</u>	Employee Contributions	9.90%	\$81,378,000
Total Membership	22,895	Employer Contributions	14.85%	\$122,067,000
		Employer Add'l Cont.	1.41%	\$11,559,000
<u>Funded Status</u>		Direct State Funding	1.09%	\$9,000,000
Accrued Liability	\$7,304,032,000	Other Govt. Funding	0.00%	\$0
Current Assets	<u>\$5,932,945,000</u>	Administrative Assessment	<u>0.00%</u>	<u>\$0</u>
Unfunded Accrued Liability	\$1,371,087,000	Total Contributions	27.25%	\$224,004,000
Funding Ratio	81.23%			
		Total Requirements	29.89%	\$245,696,000
<u>Financing Requirements</u>		Total Contributions	<u>27.25%</u>	<u>\$224,004,000</u>
Covered Payroll	\$822,003,000	Deficiency (Surplus)	2.64%	\$21,692,000
Benefits Payable	\$431,726,000			

Potential Amendments for Commission Consideration

S1630-1A is the delete-all amendment described previously, needed because the bill as introduced in 2013 is drafted to a provision of statutes which has since been repealed.

The Commission may conclude that the delete-all amendment, which is identical to the original bill language except for necessary updates due to 2013 legislation and the passage of time since introduction, provides insufficient clarity to permit PERA to successfully implement the bill if enacted or to adequately target specific subgroups deemed worthy of relief. If the Commission wishes to pursue the substance of this bill further, Commission staff requests that the Commission provides specific direction regarding the group to be covered, the adjustment to be made to benefits, and the post-retirement treatment to be provided going forward.

**Background Information on the
1987 Local Public Safety Pension Plan Consolidation Law and the
1999 PERA-P&F Consolidation Account Merger Law**

1. Local Public Safety Pension Plan Consolidation with PERA-P&F.

- a. In General. Minnesota Statutes, Chapter 353A, enacted in 1987, authorizes local police or paid fire relief associations to undertake an administrative consolidation of the relief association with the Public Employees Police and Fire Retirement Plan (PERA-P&F) and authorizes the active members of a consolidated local relief association to elect between the local relief association benefit plan coverage and that of PERA-P&F. Individuals who were deferred members or benefit recipients as of the date of consolidation have a more limited option. The PERA-P&F provision available to individuals who were retired, deferred, or disabled on the effective date of the consolidation is limited to an option to have the post-retirement adjustment determined under the PERA-P&F procedure rather than those applicable to the local plan. Except for that limited option, the benefit provisions of the local plan apply.

A local relief association consolidation with PERA-P&F is a voluntary action on the part of the relief association membership and the applicable municipality. The consolidation action is initiated by a petition signed by a minimum proportion of the relief association membership (either 10% or 30% of the relief association, depending on support or opposition of the relief association to the 1987 consolidation legislation). If the petition is sufficient in the number of signatures and verified, the consolidation question is subject to a membership referendum subject to a majority vote (either a majority of those voting or a majority of all members voting or not voting).

If the referendum prevails, the governing body of the applicable city must act upon the proposed action. If the governing body grants preliminary approval, an actuarial assessment of the possible liability impact of the benefit plan coverage option is prepared. The governing body then considers final approval after receipt of the consolidation actuarial work to effect the consolidation. If the consolidation is approved on final municipal approval, the local relief association ceases to exist as a pension fund and all administrative duties relating to the local plan shift to the Public Employees Retirement Association (PERA), and the State Board of Investment invests the assets of the prior relief association.

Following the consolidation, members can retain their current benefit coverage or elect all or portions of the PERA-P&F benefit plan, as applicable given the status of the individual at the time of the consolidation. Individuals who are active members at the time of the consolidation are authorized under law to retain all rights under the local plan or to elect the PERA-P&F plan in its entirety. For individuals who at the time of the consolidation are disabilitants, deferred retirees, retirees, or survivors, the election is limited to the manner in which prospective post-retirement adjustments are calculated. For these deferred members or benefit recipients, the benefit continues as it was specified in the local plan, including any post-retirement increases paid to date. From the date of consolidation forward, the individual elects whether to continue adjustments under the provisions of the local plan or to have adjustments computed from that date forward under the system applicable to PERA-P&F. The retirees, deferred retirees, disabilitants, and survivors were given a period of time following the consolidation to make an election. If no election was made, the individual automatically retained all local plan benefits. The period of time for making this election presumably was a period of a few months. The statute authorizes PERA’s board to set the length of the period following the consolidation, sufficient in length to provide adequate time to counsel the members.

- b. Consolidation Account List. As of the end of 1998, 45 local relief associations that had used the process in Minnesota Statutes, Chapter 353A, to consolidate with PERA-P&F. These various relief associations with completed consolidations were as follows:

Consolidated Police Relief Associations				Consolidated Fire Relief Associations		
Albert Lea	Columbia Heights	Mankato	St. Louis Park	Albert Lea	Hibbing	St. Louis Park
Anoka	Crookston	New Ulm	St. Paul	Austin	Mankato	St. Paul
Austin	Crystal	Red Wing	Virginia	Chisholm	Red Wing	South St. Paul
Bloomington	Duluth	Richfield	West St. Paul	Columbia Heights	Richfield	West St. Paul
Brainerd	Faribault	Rochester	Winona	Crookston	Rochester	Winona
Buhl	Fridley	South St. Paul		Duluth	South St. Paul	
Chisholm	Hibbing	St. Cloud		Faribault	St. Cloud	

- c. Use of Segregated Accounts. Under Minnesota Statutes, Chapter 353A, a consolidation account's assets and liabilities were kept separate from the PERA-P&F fund as a whole. A separate account was created by PERA for each local relief that consolidated, containing the assets of the prior relief association and charged with its liabilities. In addition to receiving the transferred relief association assets, the account was credited with all member contributions made by the account's active members following consolidation, ongoing regular municipal contributions, additional municipal contributions sufficient to amortize any unfunded liability in the account by December 31, 2010, and the account's investment earnings. All benefits payable to consolidation account disabilitants, survivors, and retirees were to be paid from the account, as well as administrative expenses.

However, in 1999 this changed when legislation was enacted to eliminate the existing consolidation accounts and formally merge account assets and liabilities into PERA-P&F.

2. 1999 Merger of Local Police and Paid Fire Consolidation Accounts into PERA-P&F.

- a. In General. Minnesota Statutes, Section 353.665 (enacted as Laws 1999, Ch. 222, Art. 3, Sec. 10) provided for a merger of the various local police or paid firefighter consolidation accounts into the Public Employees Police and Fire Retirement Plan (PERA-P&F). Additional provisions of Laws 1999, Chapter 222, Article 4, made conforming changes to the police state aid program, excess police state aid, and the PERA-P&F benefit plan.
- b. Consolidation Account Merger into PERA-P&F. All PERA-P&F consolidation accounts in existence as of March 1, 1999, were merged into the PERA-P&F fund on July 1, 1999. Municipalities were permitted to elect to be excluded from the merger by filing a resolution before June 15, 1999. If a municipality had more than one consolidation account, a resolution to decline merger applied to both accounts. Upon merger, consolidation account liabilities transferred to PERA-P&F and consolidation account assets (except for amounts to be distributed back to the municipality) transferred to PERA-P&F or the Minnesota Post-Retirement Investment Fund (Post Fund), as applicable. For accounts where additional municipal contributions were necessary to cover existing liabilities (accounts with a positive amortizable base) the amortizable base amount is added to PERA-P&F assets as a receivable. Active members of consolidation accounts were permitted to elect PERA-P&F coverage in an election before September 1, 1999. If no election was made, the individual retained the right to elect that coverage, in lieu of local plan benefit provisions, within 90 days of termination of service. Despite any prior municipal action to not extend previously enacted PERA-P&F benefit improvements to the municipality's consolidation account members, any active member electing PERA-P&F benefits received full PERA-P&F benefits as specified in the 1998 version of PERA-P&F law. Consolidation account service pensioners, disabilitants, and survivors who previously had chosen to retain local plan post-retirement adjustments were permitted to rescind that irrevocable election and to elect PERA-P&F post-retirement adjustments. Deferred consolidation account members were permitted to elect PERA-P&F post-retirement adjustments in an election before September 1, 1999. The joint actuary computed the final funded status of each consolidation account that merged into the PERA-P&F fund. If an account was more than fully funded, half of the assets reflecting amounts above full funding up to the June 30, 1999, PERA-P&F funding ratio and all assets reflecting amounts in excess of that PERA-P&F funding ratio were remitted to the municipality with interest, to be used by the municipality for fire- or police-related expenditures based on a municipal plan for the expenditure of these assets. If a municipality has more than one consolidation account and one is over-funded while the other has unfunded liabilities, 75% of the amounts that would otherwise be refunded to the municipality were credited to the consolidation account which has unfunded actuarial accrued liabilities. As of July 1, 1999, the employee and regular employer contribution rates for the merging consolidation accounts were the ratio applicable to PERA-P&F. If the account had unfunded liabilities at the time of merger, the amounts were required to be amortized on a level-dollar basis ending December 31, 2009, with annual payments due by December 31. Unless a consolidation account member revised their benefit election as provided in this section, any prior election remained in effect. Upon the transfer of liabilities and assets, the merging consolidation accounts were terminated.
- c. Disposition of Remaining Police or Paid Fire Relief Associations. As of the end of 1998, there were four police or paid fire relief associations that remained freestanding. They had not used the consolidation procedure in Minnesota Statutes, Chapter 353A. These associations were the Fairmont Police Relief Association, the Minneapolis Firefighters Retirement Association, the Minneapolis Police Retirement Association, and the Virginia Fire Department Relief Association.

However, there are no longer any freestanding local police or paid fire relief associations. Each of these four relief associations has since consolidated with PERA-P&F.

- Minneapolis Fire and Police Merger. Rather than using the consolidation procedure in Chapter 353A, the two Minneapolis relief associations consolidated with PERA-P&F under terms and procedures specified by Laws 2011, First Special Session, Chapter 8, Articles 6 and 7. The Minneapolis relief association consolidation legislation included a benefit increase, a trade-off in exchange for no longer having a 13th check, and other excess asset distribution provisions in prior law specific to those two plans.
- Virginia Fire Consolidation. In 2011, the Virginia Fire Department Relief Association chose to use the procedure in Chapter 353A and consolidated with PERA.
- Fairmont Police and Virginia Fire Merger. In 2012 (Laws 2012, Ch. 286, Art. 11, Sec. 5, 9), in a process based on the 1999 legislation that had merged earlier consolidation accounts into PERA-P&F, the Virginia Fire Consolidation Account was formally merged into PERA-P&F. The Fairmont Police Relief Association merged into PERA-P&F under Laws 2012, Chapter 286, Article 11, Sections 4 and 8. The Fairmont Police Relief Association consolidation legislation was somewhat similar to the 2011 Minneapolis relief association consolidation legislation, including a benefit increase in exchange for losing a 13th check provision in its prior governing law.

At the time of consolidation, the Fairmont Police Relief Association and Virginia Fire Department Relief Association had no active members, and the Minneapolis fire and police relief associations had only a few dozen active members.

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Background Information on the Benefit Practices of Local Police and Paid Fire Pension Plans

Minnesota has a relatively large number of local pension plans, chiefly local police and fire pension plans. At their peak, there were more than 50 local police or paid firefighters relief associations and approximately 700 local volunteer firefighter relief associations. The creation of the local police and paid firefighter relief associations reflected the lack of a statewide local government public safety employee pension plan before 1959 (when the Public Employees Police and Fire Plan (PERA-P&F) was created), and the need to provide public pension coverage to the public safety employees of larger Minnesota cities.

The local police and paid firefighters relief associations tended to differ in their benefit practices from other Minnesota public pension plans. The thrust or trend of some of those benefit practice differences can be summarized, as follows:

<u>Local Police or Paid Firefighter Relief Associations</u>	<u>Statewide Public Safety Employee Pension Plans</u>
1. Long vesting period, emphasizing the retention of existing employees	1. Shorter vesting periods
2. Age 50 normal retirement age, emphasizing earlier out-transitioning of employees	2. Age 55 normal retirement age
3. Service pension based on the pay of a single existing employment position, minimizing the benefits of mid or late career promotions	3. Retirement annuity based on pension's over actual final average salary
4. Service pension with limited reflection of long service, emphasizing early age retirements	4. Retirement annuity reflects long service
5. Service pension post-retirement increases occur based on the pay of the single employment position increases, maintaining the purchasing power of retirees to the same extent as active members	5. Retirement annuity post-retirement increases based on a combination of changes in the cost of living and investment performance
6. Pre-retirement and post-retirement survivor benefit coverage for pre-retirement marriages, reflecting a presumption of a single wage earner family	6. Survivor benefit coverage limited to pre-retirement period
7. No refund or limited refund amount for terminating members. No refund for decedents estates	7. Refund of member contributions and interest for terminating members. Guaranteed refund if member contributions and interest not recouped in benefit payments.

Since 1980, local police and paid firefighter relief associations were closed to new members, who were included in PERA-P&F coverage. Since 1987, the consolidation of local police and paid firefighter relief associations into PERA-P&F has been authorized, including the choice of PERA-P&F benefit plan coverage by active members. As of this date, 36 local police and paid firefighter relief associations have consolidated into PERA-P&F and three additional consolidations are pending.

In 1987, the Commission recommended legislation that allows local police and paid firefighters relief associations to reduce their minimum service credit requirement for entitlement to a service pension from 20 years of service to five years of service, by bylaw amendment approved by the municipal governing body and filed with the State Auditor, the Secretary of State, and the Commission.

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Membership Data

Distribution of Disability Retirements

Age	Years Disabled as of June 30, 2012							Total
	<1	1 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25+	
< 45	11	32	36	5	2			86
Avg. Benefit	35,788	31,358	30,926	29,755	25,820			31,522
45 - 49	10	20	29	19	5			83
Avg. Benefit	40,094	38,806	37,061	32,678	33,588			36,635
50 - 54	3	28	46	43	8	4		132
Avg. Benefit	36,484	35,877	39,325	36,210	40,163	36,884		37,491
55 - 59	4	34	80	61	15			194
Avg. Benefit	44,601	47,133	46,133	41,235	44,851			44,637
60 - 64	2	7	83	125	27	1		245
Avg. Benefit	27,105	40,972	47,664	51,499	47,522	38,709		49,209
65 - 69	4	2	27	120	47			200
Avg. Benefit	54,029	30,907	41,860	49,083	53,567			49,079
70 - 74		2	4	25	58	1	1	91
Avg. Benefit		47,880	59,280	44,319	48,254	34,826	47,674	47,496
75+			1	6	11	31	15	64
Avg. Benefit			28,228	46,573	43,791	44,309	45,903	44,555
Total	34	125	306	404	173	37	16	1,095
Avg. Benefit	39,788	38,648	42,612	45,932	47,947	43,099	46,014	44,206

In each cell, the top number is the count of disabled participants for the age/years disabled combination and the bottom number is the average annual benefit amount.

Membership Data

Distribution of Survivors*

Age	Years Since Death as of June 30, 2012							Total
	<1	1 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25+	
<45	20	53	49	10	4			136
Avg. Benefit	19,517	15,292	16,993	18,320	23,290			16,984
45 - 49	2	8	7	3	3	2		25
Avg. Benefit	40,154	36,198	27,744	33,192	43,562	23,573		33,660
50 - 54	3	15	9	3	3	4	1	38
Avg. Benefit	54,044	36,422	34,038	25,474	28,220	39,468	18,846	35,595
55 - 59	8	22	27	10	7	4	5	83
Avg. Benefit	30,282	34,415	31,861	29,999	40,720	46,656	27,391	33,352
60 - 64	10	30	32	18	14	13	7	124
Avg. Benefit	37,208	29,120	26,923	30,471	45,835	31,122	31,502	31,633
65 - 69	14	50	38	38	30	15	16	201
Avg. Benefit	27,519	28,005	30,841	30,118	33,423	27,484	29,060	29,760
70 - 74	17	44	32	47	24	16	13	193
Avg. Benefit	35,373	30,380	30,895	33,044	32,316	30,627	30,947	31,854
75 - 79	10	48	59	35	37	23	22	234
Avg. Benefit	27,834	25,800	33,074	26,355	30,298	30,677	31,299	29,512
80 - 84	26	52	63	51	77	30	32	331
Avg. Benefit	26,537	29,157	31,199	26,809	27,903	29,573	22,563	28,086
85 - 89	10	45	44	45	74	28	35	281
Avg. Benefit	26,345	27,814	23,576	25,205	26,712	25,356	24,133	25,687
90+	1	21	27	41	50	25	37	202
Avg. Benefit	19,644	24,033	22,283	24,916	27,259	23,323	23,793	24,623
Total	121	388	387	301	323	160	168	1,848
Avg. Benefit	28,803	27,126	27,833	27,743	29,792	28,652	26,067	27,986

In each cell, the top number is the count of survivors for the age/years since death combination and the bottom number is the average annual benefit amount.

*Dates of death were not available for four members of the former Fairmont Police plan; they are included in the <1 years since death column.

Membership Data

Distribution of Service Retirements*

Age	Years Retired as of June 30, 2012							Total
	<1	1 - 4	5 - 9	10 - 14	15 - 19	20 - 24	25+	
<50								
Avg. Benefit								
50 - 54	123	249	1					373
Avg. Benefit	48,821	47,139	50,000					47,701
55 - 59	144	481	434					1,059
Avg. Benefit	53,386	54,535	46,211					50,967
60 - 64	36	228	611	490	6	6	1	1,378
Avg. Benefit	46,437	48,550	50,755	45,894	45,645	43,478	43,953	48,490
65 - 69	21	89	192	749	193	18	2	1,264
Avg. Benefit	44,654	37,864	43,399	51,109	45,948	45,089	50,000	48,022
70 - 74	4	7	58	300	492	66	10	937
Avg. Benefit	44,846	24,876	33,885	50,935	57,517	45,717	45,561	52,690
75 - 79	1	2	6	102	270	210	47	638
Avg. Benefit	64,000	23,432	44,044	42,258	56,488	48,670	48,719	50,859
80 - 84			3	13	164	166	98	444
Avg. Benefit			19,229	43,157	50,519	50,027	54,022	50,681
85 - 89	1			5	81	73	108	268
Avg. Benefit	53,333			33,712	57,283	44,922	47,212	49,403
90+				1	33	14	54	102
Avg. Benefit				37,806	53,513	42,223	37,617	43,394
Total	330	1,056	1,305	1,660	1,239	553	320	6,463
Avg. Benefit	50,299	49,838	47,308	48,871	54,385	47,894	47,855	49,710

In each cell, the top number is the count of retired participants for the age/years retired combination and the bottom number is the average annual benefit amount.

*Retirement dates were not available for nine members of the former Fairmont Police plan; they are included in the <1 year since retirement column.

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DATE: March 6, 2014
TO: PERA Board of Trustees
FROM: Mary Most Vanek
PHONE: (651) 296-8358
SUBJECT: Local Plan Benefit Recipient Adjustments Requested

PERA
Public Employees Retirement Association
Office Memorandum
State of Minnesota

The attached letter and proposed legislation explains what is being requested of us. I would like to clarify that while the letter from Representative Kahn is dated January 9, I did not receive it until it came to me through an e-mail on February 28. As I understand the circumstances, it was initially sent to me via our former e-mail addresses. I don't know if it was sent via postal service, but if so, I did not receive it.

The following is some history to help you understand what may be the basis for the request, but this only my speculation. I will also attempted to explain the difference between the Pre-73 adjustments that were authorized over the years compared to this situation.

When the laws were negotiated to allow local police and fire relief associations (defined benefit plans administered at the municipal level) to consolidate under PERA's administration, the benefit choices to be extended to the consolidating groups – choices allowed on an individual participant basis – were thoroughly thought through and enacted into legislation after much discussion with the affected parties. The choices that were extended to individuals once a group consolidated were as follows:

- Benefit Recipients (retirees, disability benefit recipients and survivors) and deferred members were given only one choice – from which plan's provisions did they wish to receive future benefit adjustments – PERA's Post Retirement Fund or the local plan's escalator that was tied to the wage increases negotiated for active police officers or fire fighters of a defined rank or title (defined in the plan's bylaws)
 - The future surviving spouses of those who were retired or receiving disability benefits at the time of consolidation are tied to the "post retirement adjustment" choice made by the retiree or disability benefit recipients when consolidation occurred. The law requires that at the time the member (retiree/disability recipient) passes away, PERA must use the bylaws of the relief association to calculate the survivor benefit and

adjust that benefit by the choice made earlier.

- Active Members had three time frames in which to choose between PERA benefits and keeping their local plan benefits.
 - Within six months of the date of consolidation
 - Between the date the person attained age 49.5 and age 50
 - On the date the person terminated active employment to receive a pension or disability benefit, or within 90 days of the date a person terminated and deferred receipt of the pension

The choice active members had to make at one of those points in time was either to receive benefits calculated using:

- PERA's benefit formulas, including reductions for retirement before age 55; reductions in the benefit payable to the member to provide a joint and survivor annuity optional payment; and the Post Fund retirement benefit adjustments; or
- The local plan provisions which used a "base pay" or stated salary that was defined in the plan's bylaws to calculate a benefit; provided for automatic survivor benefits so the person did not have to take a reduction in his or her benefit to provide a future benefit to the spouse; and to receive future increases tied to the raises negotiated for active police officers or fire fighters. Typically, benefits paid to individuals under the local plans were the same to all retirees and to all survivors. There was a floor benefit usually based on 20 years of service, with some variations, but the expectation of these folks is that they all receive the same amount of benefit throughout their retirement.

Individuals could not pick and choose from specific elements of the plan, for example, a person could not take unreduced retirement at age 50 under the local plan provisions and PERA Post Fund adjustments.

The designers of the laws governing the consolidation of local plans under PERA's administration and the choices made available to individual participants set forth the requirements. Individuals received written communication, presentations, individual counseling, any form of communication PERA staff could provide to ensure they understood their choices.

The individuals affected by this legislation made their choices based on information provided to them. The results of the choices they made have left some of them behind their peers in their former local plans, but the results are based on the individual choices they made.

What this bill proposes to do is to increase the benefits of individuals who chose to stay with local benefits.

We are not certain that the bill is intended to apply to all the survivors. Many of these benefit recipients are those surviving spouses of individuals who were retired at the date of consolidation who took Post Fund adjustments, but because the law requires us to go back to the local plan bylaws to calculate the survivor benefit when the retiree dies, the benefit does not represent any meaningful relationship to what the couple was receiving while the retiree was still alive. *For example: a local police plan retiree recently died; he had chosen the Post Fund (PERA) adjustments; his pension at the time of his death was over \$5,000; his surviving spouse's benefit (based on local plan provisions, plus Post increases) is about \$1,800 a month.*

We will need to seek clarification on what is intended, but looking through our data files, we find potentially 773 accounts of consolidated local plan benefit recipients whose benefits are below the benefit values suggested as a floor benefit in this proposed legislation. The benefit values described in the bill are \$38,000 annually or 20 percent, whichever is less, for retirees and disability benefit recipients and \$30,000 annually or 20 percent, whichever is less, for survivors. If all of these accounts are what is intended to be included in this adjustment, we have determined the following:

Retirees and disability benefit recipients (341)

- ◇ Current total benefits paid = \$10,735,134
- ◇ Adjusted total benefits that would be paid = \$12,060,919
- Additional annual cost before future 1% adjustments = \$1,315,785

Survivors (432)

- ◇ Current total benefits paid = \$8,869,0588
- ◇ Adjusted total benefits that would be paid = \$10,432,433
- Additional annual cost before future 1% adjustments = \$1,563,375

We have not asked the actuary to do any work on this, pending direction from the Board of Trustees. This will be a data intensive project to ensure we are targeting the correct group. The cost to do actuarial analysis is estimated to be \$4,000 to \$6,000. Our internal calculations find that this proposed legislation could add an additional \$2.88 million in benefit costs for just the first year.

The bill directs that we must adjust these payments; it does not provide for any funding source, so this additional cost would come directly out of the Police and Fire Fund.

How this situation differs from Pre-1973 retirees adjustments

Prior to 1973, the statewide retirement benefit provisions directed that a

person's average salary over his or her career was to be used to calculate the benefit payable.

In 1973, the retirement provisions were modified to direct that effective July 1, 1973, the average salary to be used to calculate benefits was to be the highest five consecutive years' average salary. The benefits paid based on this change in the average salary to the high five years were more than double the values using a career average salary.

Note: it is important to note that the change in the definition of average salary for calculating benefits (and other changes at the time) was accompanied by an increase in contributions of 2 percent of pay each for employees and employers contributing to the Basic Plan; 1 percent of pay each for employees and employers contributing to the Coordinated Plan; 1 percent for employees contributing to the Police and Fire Plan – employers were not asked to up their contributions to the Police and Fire Plan at the time.

Background on the additional benefits provided to individuals who retired under the career average salary calculation requires some research to provide a complete history of the adjustments provided to this group of public employee benefit recipients. That additional information will be forwarded to the Board before the meeting.

Phyllis Kahn
State Representative

District 59B
Hennepin County



Minnesota House of Representatives

January 9, 2014

Mary Vanek
PERA Director
60 Empire Drive, Suite 200
St. Paul, MN 55103-2088

RE: HF 1800

Dear Ms. Vanek:

I have introduced HF 1800 that sets a basic level of benefit for certain members of the PERA Police and Fire Fund who were former members of local Police and Fire Relief Associations who did not choose coverage by the PERA P&F plan.

The bill would provide a floor level of benefits of \$38,000 per year or a 20% increase whichever is less for retirees with 20 years of service who maintained the local Relief Association benefits and \$30,000 per year or a 20% increase whichever is less for surviving spouses of those members.

I would like PERA to provide actuarial cost analysis of the bill and provide me with the number of retirees and surviving spouses and their benefit levels. I would also like your analysis of other alternatives to a benefit increase for these individuals.

I see this as an issue similar to the pre-1973 retirees who because of extant benefit formulas did not see their pensions rise commensurate with the cost of living or other factors.

I plan to pursue this legislation this year and would appreciate PERA's cooperation in providing the LCPR with relevant cost data.

Sincerely,

A handwritten signature in black ink that reads "Phyllis Kahn".

Phyllis Kahn
State Representative

cc: Senator Sandy Pappas
Representative Mary Murphy
Larry Martin



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1.1 moves to amend S.F. No. 1630; H.F. No. 1800, as follows:

1.2 Delete everything after the enacting clause and insert:

1.3 "Section 1. **[353.6692] BENEFIT ADJUSTMENTS; CERTAIN**
1.4 **CONSOLIDATIONS.**

1.5 (a) The executive director of the Public Employees Retirement Association shall
1.6 adjust the service, disability, and surviving spouse pensions or benefits for any person who
1.7 was a former member of a local salaried police or firefighters relief association governed
1.8 by chapter 423A that consolidated with the public employees police and fire retirement
1.9 plan under chapters 353A and 353B who retained the benefits under the local police or
1.10 firefighters relief association laws. Benefits must be adjusted according to paragraph (b).

1.11 (b) Effective July 1, 2014, the pension, disability, and survivor benefits of persons
1.12 described in paragraph (a) must be adjusted as follows: all persons receiving a service or
1.13 disability pension must have their benefits increased to \$38,000 annually or by 20 percent,
1.14 whichever amount is less. All surviving spouses who receive a benefit must have their
1.15 benefits increased to \$30,000 annually or by 20 percent, whichever amount is less.

1.16 (c) Benefits as adjusted by paragraph (b) must continue to be adjusted beginning
1.17 on January 1, 2015, according to postretirement adjustments by the public employees
1.18 police and fire retirement plan.

1.19 **EFFECTIVE DATE.** This section is effective the day following final enactment."

1.20 Amend the title accordingly

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SENATE
STATE OF MINNESOTA
EIGHTY-EIGHTH LEGISLATURE

S.F. No. 1630

(SENATE AUTHORS: HAYDEN)

DATE	D-PG	OFFICIAL STATUS
04/25/2013	3021	Introduction and first reading Referred to State and Local Government

1.1 A bill for an act
 1.2 relating to pensions; adjusting benefits for certain former members of a local
 1.3 salaried police and fire relief association; amending Minnesota Statutes 2012,
 1.4 section 353A.08, by adding a subdivision.

1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.6 Section 1. Minnesota Statutes 2012, section 353A.08, is amended by adding a
 1.7 subdivision to read:

1.8 Subd. 9. **Police and fire adjustment.** (a) The executive director of the Public
 1.9 Employees Retirement Association shall adjust the service, disability, and surviving
 1.10 spouse pensions or benefits for any person who was a former member of a local salaried
 1.11 police or firefighters relief association governed by chapter 423A that consolidated with
 1.12 the Public Employees Retirement Association Police and Fire Fund under chapters 353A
 1.13 and 353B who retained the benefits under the local police or firefighters relief association
 1.14 laws. Benefits must be adjusted according to paragraph (b).

1.15 (b) Effective July 1, 2013, the pension, disability, and survivor benefits of persons
 1.16 described in paragraph (a) must be adjusted as follows: all persons receiving a service or
 1.17 disability pension must have their benefits increased to \$38,000 annually or by 20 percent,
 1.18 whichever amount is less. All surviving spouses who receive a benefit must have their
 1.19 benefits increased to \$30,000 annually or by 20 percent, whichever amount is less.

1.20 (c) Benefits as adjusted by paragraph (b) must continue to be adjusted on January
 1.21 1, 2014, according to postretirement adjustments by the Public Employees Retirement
 1.22 Association Police and Fire Fund.

1.23 **EFFECTIVE DATE.** This section is effective the day following final enactment.