TO:	Members of the Legislative Commission on Pensions and Retirement
FROM:	Susan Lenczewski, Executive Director
RE:	LCPR16-033: PERA; Increase in Thresholds for PERA Coverage
DATE:	March 21, 2016

Summary of LCPR16-033

Bill draft LCPR16-033 amends Minn. Stat. § 353.01, subdivisions 2a and 2b, to increase the salary thresholds for coverage under the Public Employees Retirement Association (PERA). When an employee reaches the salary threshold or is anticipated to reach the salary threshold, PERA coverage begins and employer and employee contributions are required to be paid. The bill changes the thresholds as follows:

- The current annual threshold of $5,100 for calendar year employees is increased to $14,800.
- The current annual threshold of $3,800 for school year employees is increased to $11,100.

In the case of an employee who was not expected to exceed the annual salary threshold, but does exceed the threshold for the calendar or school year, as applicable, PERA coverage will start with the first month in which the employee receives salary exceeding $1,235, an increase from the current $425 per month.

Background

These salary thresholds were set in 1988 and have not been updated to reflect salary increases since then.

Commission staff understands that employers find the low thresholds administratively burdensome to administer because they have to continuously monitor part-time and seasonal employees to ensure that, if the threshold is exceeded, required contributions are made. For example, a part-time employee working 2 hours a day for a 172 day school year will work 344 hours. At $11 per hour, the employee will earn $3,784, just shy of the threshold, leaving very little flexibility in scheduling additional hours. The cost of having to pay the required employer contributions makes employing part-time employees more expensive. In another example, a coach works two sport seasons, such as fall and winter, back to back in the same school year, earning $2,000 for each season. The coach is required to be enrolled in PERA because there is no 30-day break between the seasons and her pay exceeds $3,800.

The proposed new thresholds are based on the increase in minimum wage, which went from $3.35 in 1988, to today's $9.00 (soon to be $9.50 as of August 1, 2016), and the percentage of full-time $5,100 and $3,800 amounted to in 1988. The latter calculation results in a determination that the thresholds in 1988 roughly approximated 30 hours per week employment or 75% of full-time.

This is not the first time this issue has been raised at the Legislature. The issue was discussed in great detail over multiple meetings of the Commission in 2012, leading to a directive to PERA to conduct a study to identify options for revising the membership thresholds and deliver the study to the Pension Commission no later than February 15, 2013. That study and an accompanying report from PERA's actuary, Gabriel Roeder Smith & Company, providing the actuarial cost estimates for two proposed alternatives are attached, for your review. No action was taken by the Commission with respect to the alternatives examined in the PERA report.

More recently, in the 2014 legislative session, annual salary threshold amounts were added, effective January 1, 2015. The annual amounts were determined by annualizing the $425 monthly amount that had been in the statute since 1988, for application to employees who work on a calendar year basis and on a school year basis. It was thought that working with annualized amounts would make the thresholds easier for employers to administer, but that reportedly is not the case, at least for some employers.

Considerations

The proposed increases to the salary thresholds appear to make sense in that virtually every other dollar amount in the statutes governing public pension plans has been adjusted at one time or another for increases in the cost of living, salaries and other factors. Updating the $425 monthly amount, which has not been done since 1988, and which in turn determine the annual amounts currently in the statute, would appear to be long overdue.

PERA staff, however, has not yet had an opportunity to evaluate the proposed changes and assess the cost to the fund. To determine whether these dollar amounts are appropriate or whether a different method should be used for determining PERA coverage, it would be appropriate to delay action on the bill until PERA has had an opportunity to do this evaluation and cost assessment and report back to the Commission.

Resources

The following items are available for review on the Commission website:

- "Membership Eligibility Study" by the Public Employees Retirement Association of Minnesota (2012)
- Letter dated January 11, 2013, from Gabriel Roeder Smith & Company, to Ms. Mary Most Vanek, Executive Director of PERA