



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Rachel Barth, Deputy Director
RE: LCPR16-035 (Metsa): MnSCU-IRAP, TRA; Providing a Second Chance Election
DATE: March 28, 2016

Summary of LCPR16-035 (Metsa)

Bill draft LCPR16-035 (Metsa) provides Mary Kay Riendeau and Dawn Olson a second chance to elect Teacher Retirement Association (TRA) retirement coverage instead of their current retirement coverage under the Minnesota State Colleges and Universities Systems (MnSCU) Individual Retirement Account Plan (IRAP) due to MnSCU's failure to provide both individuals the retirement option election when they reached tenure.

1. Allows both individuals to elect TRA coverage and requires that this election be made before January 1, 2017;
2. Requires both individuals to pay any difference between the IRAP member contributions made since 2000 and the TRA member contributions that would have been made, plus interest, had they been TRA members;
3. Transfers the entire IRAP account to TRA; and
4. Requires MnSCU to pay TRA any remainder of the service credit purchase payment amount calculated under Minn. Stat. § 356.551 within 60 days of TRA receiving the IRAP transfer and individuals' portion of the required payment.

Public Pension Problem of Mary Kay Riendeau and Dawn Olson

Ms. Riendeau and Ms. Olson are both currently employed at Mesabi Range College, which is part of MnSCU. Ms. Riendeau began her employment at the college in September 2000 and Ms. Olson began her employment at the college in July 2000. Both individuals are currently covered by the MnSCU defined contribution Individual Retirement Account Plan. On August 21, 2012, both individuals became unlimited full-time employees and became eligible for a second chance election to elect retroactive and prospective TRA retirement coverage, rather than IRAP coverage, under MN. Stat. § 354B.21, subd. 2, para. (f). Under the statute, individuals become eligible for a second chance election once they achieve tenure, or its equivalent, in their employment at a MnSCU institution and have one year to make the election. Ms. Riendeau and Ms. Olson should have been provided the second chance election option on August 21, 2012, and given until August 21, 2013, to elect to switch from IRAP to TRA coverage. However, MnSCU did not notify either individual that they were eligible for a second chance election nor did MnSCU provide the individuals with the necessary information to make the election within the one year time frame. Ms. Riendeau and Ms. Olson would now like legislation that authorizes them to elect retroactive and prospective TRA coverage over their current IRAP coverage.

Policy Considerations

Bill draft LCPR16-035 (Metsa) raises the following pension and public policy issues:

1. Evidence of Error and Precedent. The Legislative Commission on Pensions and Retirement has approved past bills allowing an individual to retroactively elect to switch from IRAP to TRA coverage. Those cases presented evidence of an employer error, specifically that the employer never informed the individual about the election option or failed to provide the individual with the required information. Such cases also required MnSCU to pay the remaining amount of the full actuarial value purchase amount. In Ms. Riendeau and Ms. Olson's case, there is evidence of an employer error. Ms. Riendeau and Ms. Olson state that they never received the option to elect TRA coverage once they achieved tenure in August 2012. MnSCU failed to inform both individuals of their eligibility to elect TRA coverage. Therefore, the equities appear to run with Ms. Riendeau and Ms. Olson and the proposed legislation will fix an employer error. Ms. Riendeau and Ms. Olson's case is similar to past cases and the proposed legislation is therefore supported by precedent.
2. Cost. Ms. Riendeau and Ms. Olson will be required to pay a portion of the actuarial value of her calculated benefit to cover the liability TRA will be assuming if they elect TRA coverage. TRA estimates, pursuant to Minn. Stat. § 356.551, that the total amount that must be paid to cover the liability of Ms. Riendeau receiving retroactive and prospective TRA coverage is \$113,739 and \$198,940 for Ms. Olson. Ms. Riendeau and Ms. Olson must pay the portion that is based on the member contributions, plus interest, which they would have paid had they been contributing TRA members beginning September 2000 and July 2000, respectively. After Ms. Riendeau and Ms. Olson pay their required portions, MnSCU will be required to pay any remaining amount of the actuarial value of the TRA benefit.