



Legislative Commission on Pensions and Retirement
Tuesday, March 10, 2020

HF4298/SF4203: PERA Police & Fire; Amending Disability Provisions



Public Employees Retirement Association of Minnesota

PERA Police & Fire Plan Duty Disability Taxability Examples (Single Member)

	Example #1 Mid Career Duty Disability Average Age (40), Service (12yrs), and Pay (\$90,000)			Example #2 Late Career Service Retirement or Duty Disability Age (55), Service (30 years), and Pay (\$110,000)		
	A	B	C	D	E	F
	Active Status Pre-Disability	Post-Disability without Tax Relief	Post-Disability with Tax Relief	Active Status Pre-Disability	Regular Retirement (no tax relief)	Duty Disability Benefit (with tax relief)
Salary	\$ 90,000	\$ 90,000	\$ 90,000	\$ 110,000	\$ 110,000	\$ 110,000
Applicable Percentage	N/A	60%	60%	N/A	90%	90%
Salary or Pension Benefit	\$ 90,000	\$ 54,000	\$ 54,000	\$ 110,000	\$ 99,000	\$ 99,000
PERA Contribution (11.80%)	(10,620)	-	-	(12,980)	-	-
Standard Deduction	(12,400)	(12,400)	(12,400)	(12,400)	(12,400)	(12,400)
Health Insurance (EE Cost)	(600)	(600)	(600)	(600)	(9,000)	(600)
Worker's Comp Exemption	-	-	(54,000)	-	-	(66,000)
Taxable Income	\$ 66,380	\$ 41,000	\$ -	\$ 84,020	\$ 77,600	\$ 20,000
Salary or Pension Benefit	\$ 90,000	\$ 54,000	\$ 54,000	\$ 110,000	\$ 99,000	\$ 99,000
PERA Contribution (11.80%)	(10,620)	-	-	(12,980)	-	-
Health Insurance	(600)	(600)	(600)	(600)	(9,000)	(600)
Federal Tax	(10,394)	(4,810)	-	(14,274)	(12,862)	(2,203)
State Tax	(4,123)	(2,397)	-	(5,322)	(4,886)	(1,070)
Take Home Pay	\$ 64,263	\$ 46,193	\$ 53,400	\$ 76,823	\$ 72,252	\$ 95,128
Replacement Ratio	100%	72%	83%	100%	94%	124%

Duty disability tax relief helps protect a member's standard of living during the period from disability to normal retirement age (age 55).

Duty disability tax relief does not appear to be necessary to protect a member's standard of living near or at retirement age.

	From	To	Rate
2020 Federal Tax Rates	\$ -	\$ 9,875	10.00%
	\$ 9,875	\$ 40,125	12.00%
	\$ 40,125	\$ 85,525	22.00%
	\$ 85,525	No Limit	32.00%
2020 MN State Tax Rates	\$ -	\$ 26,960	5.35%
	\$ 26,960	\$ 88,550	6.80%
	\$ 88,550	\$ 164,400	7.85%
	\$ 164,400	No Limit	9.85%

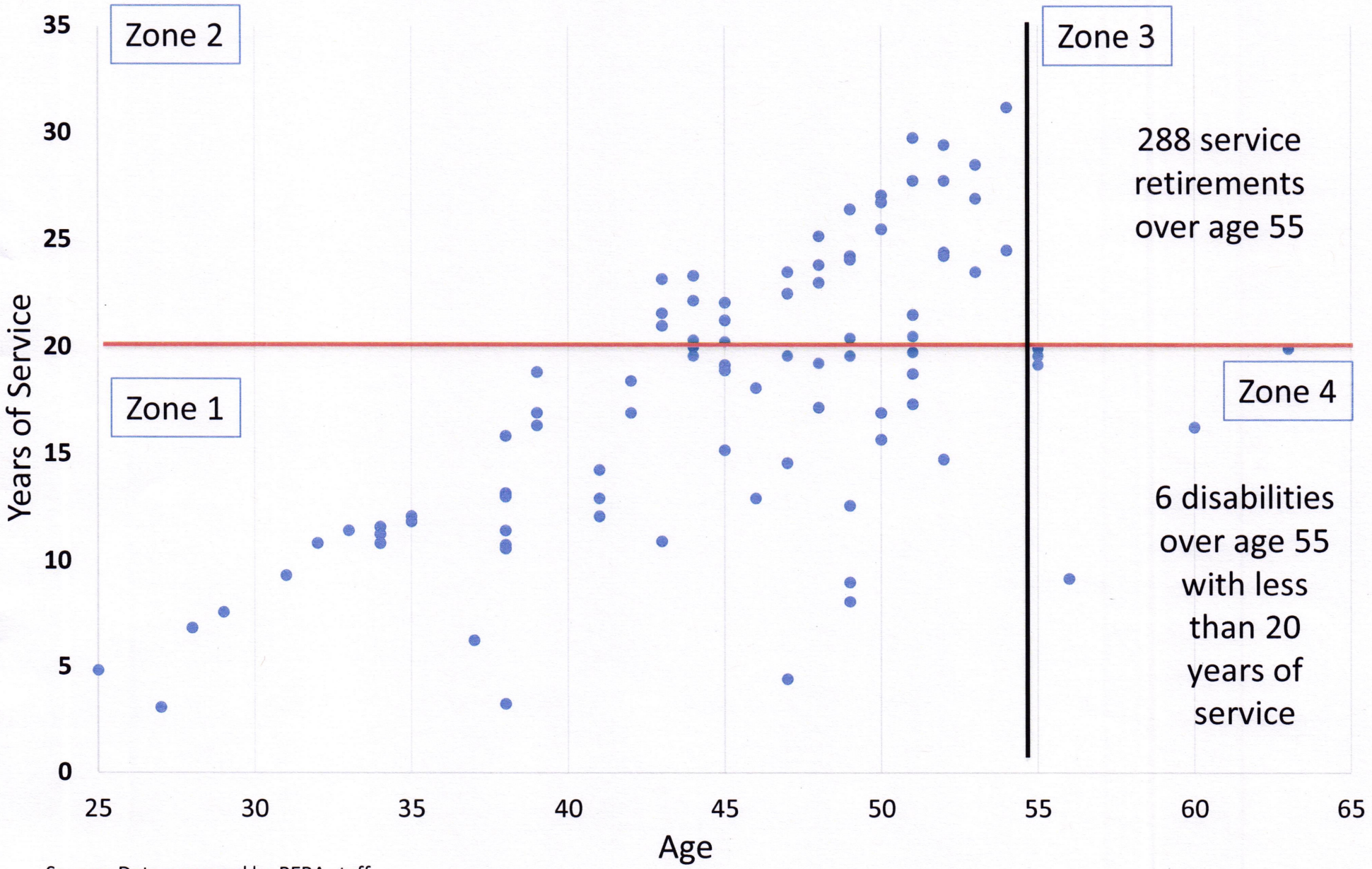
Notes:

- 1) Final Average Salary (FAS) is assumed to equal final Salary
- 2) Minimum Duty Disability Benefit amount is 60% of FAS
- 3) Employee only health insurance cost is assumed to be \$50/mo. (\$600/yr)
- 4) Total health insurance cost is assumed to be \$750/mo. (\$9,000/yr)
- 5) Worker's Compensation exemption is capped at 60% of FAS
- 6) Medicare or postretirement insurance costs after NRA are not included
- 7) The standard deduction is assumed applicable in all situations

The examples above are meant to be sufficient to demonstrate the main impact of tax relief. The calculations do not reflect all the nuances of both Federal and State tax code or unique member situations.



PERA Police & Fire Plan Disability Approvals in FY19 by Age and Service



Source: Data prepared by PERA staff