

To: Members of the Legislative Commission on Pensions and Retirement

From: Chad Burkitt, Analyst

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Analysis of Costs and Funding in the Pension Benefits and Funding Bill - S3541-DE3

The executive directors of each of the statewide pension systems and St. Paul Teachers Retirement Fund Association (SPTRFA) provided estimates of the costs to implement the changes in delete-everything amendment S3541-DE3 ("DE3"). This memo shows the estimated costs and associated funding for each plan affected under the DE3.

The DE3 reduces the employee contribution rate for members of the Teachers Retirement Association (TRA) and SPTRFA by 0.25% in FY2023 and by 0.5% in FY2024. This reduction is offset by an increase in the employer contribution rate and a corresponding increase in the pension adjustment revenue formula of 0.25% in FY2023 and 0.5% in FY2024. The employee contribution decreases for TRA and SPTRFA are funded through adjustments to the pension adjustment revenue formula (highlighted). All of the other funding shown in the column labeled "Funding in DE3" is in the form of an annual direct aid payment to the pension plan in the dollar amount shown.

The cost to each pension plan is shown in dollars and percent of pay. "Percent of pay" is the cost relative to the size of the total payroll of the members covered by the plan. "Dollars" is the dollar amount that the plan must receive annually to cover the cost of the change.

	Cost to Pension Plan		Funding in DE3 (FY23)
	Dollars	% of Pay	
PERA Police & Fire Plan			
Reducing the vesting period from 20 to 10 years	\$ 3,000,000	0.27%	\$ 3,000,000
Allowing reemployment of retirees	\$ -	0.00%	\$ -
Reducing employee contributions by 2.4% of pay	\$ 26,000,000	2.40%	\$ 26,000,000
Reducing the investment rate of return assumption from 7.5% to 7%	\$ 67,075,384	6.12%	\$ -
Increasing the COLA from 1% to 1.5%	\$ 46,000,000	4.20%	\$ 46,000,000
PERA P&F Total	\$142,075,384	14.45%	\$ 75,000,000
MSRS State Patrol Plan			
Reducing employee contributions by 4.9% of pay	\$ 4,500,000	4.90%	\$ 4,500,000
Reducing the investment rate of return assumption from 7.5% to 7%	\$ 5,500,000	6.14%	\$ 5,500,000
Increasing the COLA from 1% to 1.5%	\$ 4,431,000	4.91%	\$ 4,500,000
MSRS State Patrol Total	\$ 14,431,000	15.95%	\$ 14,500,000

	Cost to Pension Plan		Funding
	Dollars	% of Pay	in DE3 (FY23)
TRA			
Reducing employee contributions from 7.75% to 7.25%* of pay	\$ 12,102,000	0.50%	\$ 12,102,000
Increasing the COLA from 1% to 1.5% †	\$ 6,800,000	0.12%	\$ 7,000,000
Reducing the investment rate of return assumption from 7.5% to 7%	\$ 179,000,000	1.89%	\$ -
TRA Total	\$ 197,902,000	2.51%	\$ 19,102,000
St. Paul Teachers			
Reducing employee contributions from 7.75% to 7.25%** of pay	\$ 672,000	0.50%	\$ 672,000
Increasing the COLA from 1% to 1.5%	\$ 6,221,774	2.12%	\$ 5,700,000
Reducing the investment rate of return assumption from 7.5% to 7%	\$ 6,350,000	2.20%	\$ 6,300,000
St. Paul Teachers Total	\$ 13,246,774	4.82%	\$ 12,672,000
MSRS General Plan			
Reducing employee contributions by 0.25% of pay	\$ 8,000,000	0.25%	\$ 8,000,000
Reducing the investment rate of return assumption from 7.5% to 7%	\$ 82,672,000	2.40%	\$ -
Increasing the COLA from 1% to 1.5% on Jan 1, 2023 (1 yr. earlier)	\$ 3,100,000	0.09%	\$ -
MSRS General Total	\$ 93,772,000	2.65%	\$ 8,000,000
MSRS Correctional Plan			
Reducing employee contributions by 2.1% of pay	\$ 6,000,000	2.10%	\$ 6,000,000
Reducing the investment rate of return assumption from 7.5% to 7%	\$ 11,044,000	3.81%	\$ -
MSRS Correctional Total	\$ 17,044,000	5.91%	\$ 6,000,000
PERA General Plan			
Reducing employee contributions by 0.25% of pay	\$ 17,000,000	0.25%	\$ 17,000,000
Reducing the investment rate of return assumption from 7.5% to 7%	\$ 146,398,911	2.11%	\$ -
PERA General Total	\$ 163,398,911	2.63%	\$ 17,000,000
Grand Total for All Plans	\$ 641,870,068	3.60%	\$ 152,274,000[‡]

* TRA's current employee contribution rate is 7.5% and is scheduled to increase to 7.75% in FY 2024. The amount (\$12,102,000) shown here is Senate fiscal staff's estimate of the cost of increasing the pension adjustment revenue by 0.5% of covered payroll in FY 2023. The amount increases to \$25,996,000 in FY 2024 and is funded in the DE3.

† Under current law, TRA's COLA is scheduled to increase from 1% to 1.5% in .1% increments annually beginning in 2024 until the COLA reaches 1.5% in 2028.

** St. Paul Teacher's current employee rate is 7.5% and is scheduled to increase to 7.75 in FY 2024. The amount (\$672,000) shown here is Senate fiscal staff's estimate of the cost of increasing the pension adjustment revenue by 0.5% of covered payroll in FY 2023. The amount increases to \$1,427,000 in FY2024 and is funded in the DE3.

‡ Does not include the cost of increasing the COLA for the Legislator's plan and an appropriation for the LCPR.