PUBLIC EMPLOYEES
RETIREMENT ASSOCIATION

Date:	March 14, 2024
To:	PERA Board of Trustees
From:	Doug Anderson, Executive Director Amy Strenge, Policy Coordinator
Subject:	2024 Stakeholder Initiative: PERA Correctional Plan Multiplier and Contribution Increase

Background

Established in 1999, the Correctional Plan is comprised of correctional officers serving in county and regional adult and juvenile correctional facilities. The Correctional Plan has 3,786 active members and 1,506 retirees. The Correctional Plan has had the same multiplier of 1.9 percent since the Plan was established.[1] Contributions are split 60/40 between the employer and employee. The Correctional Plan's current contribution rates are 8.75 percent for the employer and 5.83 percent for the employee. Correctional Plan members are coordinated with Social Security. The Correctional Plan has a cost-of-living adjustment connected to inflation with a minimum of 1.0 percent and a maximum of 2.5 percent.

The MSRS Correctional Plan has 4,426 active members and 4,089 retirees.[2] The multiplier for MSRS Correctional is 2.2 percent. The employer contributes 14.4 percent of pay and the employee contributes 9.6 percent of pay. The employer contributes a supplemental contribution of 4.45 percent. The MSRS Correctional Plan is also coordinated with Social Security. The cost-of-living adjustment is a fixed 1.5 percent.

Stakeholder Initiative

Representative Stephenson and Senator Gustafson introduced HF 4081/SF 4092, which increases the PERA Correctional multiplier to 2.2 percent for future service as of July 1, 2024. The bill follows the 60/40 employer and employee split by increasing the employer contribution by 1.5 percent to 10.25 percent and the employee by 1.0 percent to 6.83 percent.

Stakeholders have noted that this proposal serves a recruitment and retainment tool.

In a letter MPPOA stated support for the increased multiplier.[3]

[1] The PERA Correctional Plan has 237 disability retirements, 4,379 deferred retirements and 2,604 non-vested terminations eligible for only a refund.
[2] The MSRS Correctional Plan has 2,853 deferred/inactive members.
[3] See MPPOA letter of support

The Minnesota Police and Peace Officers Association (MPPOA) is the largest association representing police and peace officers in the State of Minnesota. We represent Minnesota's 10,000+ public safety officials who hold active law enforcement licenses.

The MPPOA supports HF4081, legislation which would increase contribution rates for employees and employers for the correctional officers' retirement plan.

The bill would incentivize individuals to become correctional officers at a time when Minnesota faces a critical shortage of officers. This will enhance the recruitment and retention of correctional officers in the profession by increasing the amount of pay at retirement.

The MPPOA wholeheartedly supports HF4081.

<u>**Employer Stakeholder Feedback**</u>

In a letter, the Association of Minnesota Counties (AMC) and the Minnesota Inter-County Association (MICA) provided feedback regarding the stakeholder initiative.[4]

County governments understand our workforce is our greatest asset when it comes to administering critical public services to our community and on behalf of the state. To compete effectively with often higher paying private sector opportunities, county governments offer competitive pension benefits.

While an important tool for attracting and retaining workforce, pension benefits are not the only tool, and may not be the most important tool for recruitment and retention. In recent years, county employers have invested in our employees and recognize their dedicated service such as: achieving historic collective bargaining agreements; increasing a variety of hourly and overtime rates; and implementing creative approaches to performance, recruitment, and retention bonuses. Counties are spending significant taxpayer resources to invest in their workforce—to this point, and employee salary increases ranked as the top overall impact to levies for 2024 budget year.

Within that context, and the reality of limited local resources, we urge that these and other pension benefits consider the following principles:

1) Any plan enhancements should not compromise the funding status of the existing plan. Since 2010, county employers been paying a 1% higher contribution rate to reduce unfunded liability for PERA-General. That objective has not yet been met, and employers (taxpayers) are still paying the 1% higher rate.

2) Increases to employee-requested retirement benefits should be equitable across all generations of employees and pension members.

3) There is employer and employee consensus on significant pension changes with a fair allocation of contributions between employee and employer. For example, just because

[4] See included AMC/MICA Letter

> *there are statutory funding ratios for plans does not limit the Legislature from also adopting different standards for employee-requested supplemental retirement benefits, or that the Legislature should pay for the costs of such benefit enhancements."*

Lastly, we cannot help but notice an increased trend of employee groups requesting additional pension benefits and/or earlier retirement. As the PERA Board and Legislature continue to evaluate these requests, we urge a broader policy discussion of the role of pensions in overall compensation, the policy considerations for granting differential pension benefits across different classes of employees, and the long-term fiscal sustainability for pension funds and local budgets.

AMC and MICA concludes that their position is

> *At this time, our organizations are not supportive of the proposed plan enhancements without further dialogue on how these proposed changes reflect those three considerations as well as a more robust analysis on potential impacts to taxpayer-funded budgets.*

Staff Review

PERA staff requested GRS to complete a cost study to determine the appropriate contribution increase. The cost for the existing members varies depending on the amortization period used to spread the unfunded liability. Under the cost methodology required to be used to determine contribution requirements (the Entry Age Normal Cost Method), there is a component of cost determined as a past service liability even though the multiplier is effective for future service. Staff recommends that the amortization period for payment of the unfunded liability be set at 10 years, which is approximately the average expected remaining working lifetime for the initial transfer group.

Based on this approach, the total cost estimate of an increase in multiplier to 2.2 percent is 2.5 percent of pay. The amounts identified as contributions in the bill, 1.0 percent employee and 1.5 percent employer, are sufficient to fund the multiplier increase.

The Correctional Plan meets, or nearly meets, all of the desired metrics as presented to the Board previously in the PERA Scorecard.[5] The assumptions to determine the metrics are reasonable, the employee and employer contributions are aligned with the cost of benefit accruals, the plan is close to 100 percent funded, and the plan has the best inflation protection for retirees of all statewide plans.

Focusing on improving the benefit multiplier as a plan priority is reasonable as long as those responsible (both the employees and the employers) to fully fund the cost. The employer groups are currently not supportive of an increase in their contribution rate.

The Correctional Plan is an important recruitment and retainment tool. The Plan provides a form of compensation from the employer to the employee for their services. Ideally, the employee and employer will agree on the importance of the plan and the appropriate plan provisions. When there

[5] See PERA Scorecard

is not clear agreement, it is not PERA’s role to advocate for one side over another. When employees and employers do agree, PERA should help to facilitate that agreement into action.

Staff Recommendation

PERA staff recommends the Board oppose the bill because the employees and employers are not at this time in agreement on financially supporting the change.

MINNESOTA POLICE AND PEACE OFFICERS ASSOCIATION

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March 8, 2024

TO: Public Employees Retirement Association (PERA) Board

RE: Support for HF4081 (Stephenson); Correctional Officer Retirement Plan Increased Contribution Rates

The Minnesota Police and Peace Officers Association (MPPOA) is the largest association representing police and peace officers in the State of Minnesota. We represent Minnesota's 10,000+ public safety officials who hold active law enforcement licenses.

The MPPOA supports HF4081, legislation which would increase contribution rates for employees and employers for the correctional officers' retirement plan.

The bill would incentivize individuals to become correctional officers at a time when Minnesota faces a critical shortage of officers. This will enhance the recruitment and retention of correctional officers in the profession by increasing the amount of pay at retirement.

The MPPOA wholeheartedly supports HF4081.

Sincerely,

Brian Peters
Executive Director
Minnesota Police and Peace Officers Association

Association of Minnesota Counties

MICA

March 7, 2024

Members of the PERA Board.

On behalf of the Association of Minnesota Counties and Minnesota Inter-County Association, we write to provide feedback on two proposals being considered at the Legislature: one to increase the PERA correctional annuity multiplier (via increasing employer/employee contribution amounts) and another to create a new early retirement benefit for dispatchers/911 telecommunicators.

County governments understand our workforce is our greatest asset when it comes to administering critical public services to our community and on behalf of the state. To compete effectively with often higher paying private sector opportunities, county governments offer competitive pension benefits.

The pension benefit structure is one component of total compensation. While an important tool for attracting and retaining workforce, pension benefits are not the only tool, and may not be the most important tool for recruitment and retention. In recent years, county employers have invested in our employees and recognize their dedicated service such as: achieving historic collective bargaining agreements; increasing a variety of hourly and overtime rates; and implementing creative approaches to performance, recruitment, and retention bonuses. Counties are spending significant taxpayer resources to invest in their workforce—to this point, and employee salary increases ranked as the top overall impact to levies for 2024 budget year. Moreover these benefit enhancements come on top of new state-mandated programs that will also create additional employee benefits.

The compensation and benefit package steps counties have taken and are planning to take to recruit and retain workers is essential context when evaluating proposals for expanded pension benefits. Within that context, and the reality of limited local resources, we urge that these and other pension benefits consider the following principles:

1) Any plan enhancements should not compromise the funding status of the existing plan. Since 2010, county employers been paying a 1% higher contribution rate to reduce unfunded liability for PERA-General. That objective has not yet been met, and employers (taxpayers) are still paying the 1% higher rate.

2) Increases to employee-requested retirement benefits should be equitable across all generations of employees and pension members.

3) There is employer and employee consensus on significant pension changes with a fair allocation of contributions between employee and employer. For example, just because there are statutory funding ratios for plans does not limit the Legislature from also adopting different standards for employee-requested supplemental retirement benefits, or that the Legislature should pay for the costs of such benefit enhancements.

At this time, our organizations are not supportive of the proposed plan enhancements without further dialogue on how these proposed changes reflect those three considerations as well as a more robust analysis on potential impacts to taxpayer-funded budgets.

Lastly, we cannot help but notice an increased trend of employee groups requesting additional pension benefits and/or earlier retirement. As the PERA Board and Legislature continue to evaluate these requests, we urge a broader policy discussion of the role of pensions in overall compensation, the policy considerations for granting differential pension benefits across different classes of employees, and the long-term fiscal sustainability for pension funds and local budgets.

Sincerely,

Matt Hilgart
Association of Minnesota Counties

Matthew Massman
Minnesota Inter-County Association