



SF 1122 (Frentz); HF 139 (O’Driscoll): PERA Police & Fire Retirement Plan; MSRS State Patrol Retirement Plan; Increasing COLAs; Reducing the waiting period for a PERA P&F Plan COLA

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Introduction

Affected Plans: Public Employees Retirement Association, Public Employees Police and Fire Plan
Minnesota State Retirement System, State Patrol Retirement Plan

Laws Amended: Minnesota Statutes, [section 356.415](#), subdivisions 1c and 1e

General Summary

[SF1122/HF0139](#) makes the following changes to current statutes:

- The bill changes the method for calculating postretirement adjustments (COLAs) for retirees under the Public Employees Retirement Association (PERA) Police and Fire Retirement Plan (P&F Plan) from a fixed rate increase of 1% to a variable rate increase that is linked to the COLA for Social Security benefits, with a minimum of 1% and a maximum of 1.5%. The bill also decreases the waiting period to begin receiving a COLA from 36 months to 12 months.
- The bill increases the COLA for retirees under the Minnesota State Retirement System (MSRS) State Patrol Retirement Plan (State Patrol Plan) from a fixed rate of 1% to a fixed rate of 1.5%.

Background

Minnesota’s public pension plans provide annual postretirement adjustments, often referred to as cost-of-living adjustments or COLAs, to retirees, which are intended to protect a retiree’s pension benefit from the decline in purchasing power due to inflation. The P&F Plan and the State Patrol Plan currently pay a COLA of 1% to eligible retirees and benefit recipients, which are tied with St. Paul Teachers Retirement Fund Association for the lowest COLAs among Minnesota’s public pension plans.

The P&F Plan and the State Patrol Plan are referred to as “basic” plans, which means the members and employers do not pay into Social Security through a member’s covered employment. As a result, the member’s covered employment is not counted when determining any Social Security benefit to which the member may be entitled due to other employment. The members and employers of “coordinated plans,” such as the PERA General Plan or the MSRS General Plan, contribute to Social Security and the members earn credit toward a Social Security benefit.

According to a report prepared by Commission staff and delivered to the Commission in December 2020 on a study of COLAs, members of basic plans are more likely to be vulnerable to inflation, because the members do not participate in Social Security through the member's covered employment. See [Report on the LCPR Study of Postretirement Adjustments \(COLAs\)](#), LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT, 33 (Dec. 2020) (hereinafter referred to as "LCPR COLA Study"). Coordinated members, on the other hand, receive a COLA on the member's Social Security benefit, which is tied to an inflation measure (or index) known as the Consumer Price Index for Urban Wage Earners and Clerical Workers. According to the LCPR COLA Study, "basic members receive smaller increases over time than coordinated members because of the COLAs on their Social Security benefit" ([LCPR COLA Study](#), page 35).

How long a member expects to receive retirement benefits may impact how vulnerable a member's benefit is to inflation. Minnesota's public safety plans, including the P&F Plan and the State Patrol Plan, have a normal retirement age of 55, which is earlier than the normal retirement age for Minnesota's general plans. For example, the PERA General Plan has a normal retirement age of 66 for most active members. A member of the P&F Plan or the State Patrol Plan may be more vulnerable to inflation than a member of the PERA General Plan and the MSRS General Plan because a member of the P&F Plan or the State Patrol Plan is expected to collect a benefit as many as 11 more years than a member of the PERA General Plan and the MSRS General Plan. The bill as written is likely to provide more inflation protection to the P&F Plan and the State Patrol Plan retirees and benefit recipients than what is provided under current law.

Section- by- Section Summary

Section 1: Increasing the COLA and Decreasing the Waiting Period for the P&F Plan

Section 1 amends section 356.415, subdivision 1c, which provides the COLA for the P&F Plan. SF1122/HF139 makes two changes:

The first change is to replace the 1% fixed COLA with a new method for determining the COLA for the P&F Plan. Under current law, retirees of the P&F Plan are eligible for an annual 1% fixed COLA after a waiting period. Under the bill, the COLA for the P&F Plan is 1% unless the Social Security COLA is greater than 2%, in which case the COLA is 50% of the Social Security COLA, not to exceed 1.5%. This change to a variable COLA fluctuating between 1% and 1.5% aligns how the postretirement adjustment for the P&F Plan is calculated with how the postretirement adjustment for the PERA General Employees Retirement Plan (PERA General Plan) is calculated.

The second change reduces the COLA waiting period. Under current law, a retiree is first eligible for a partial COLA on January 1 if the retiree had been receiving at least 25 months of annuity payments as of the preceding June 30. A retiree is eligible for the full COLA on January 1 if after the retiree had been receiving at least 36 months of annuity payments as of the preceding June 30. The partial COLA is 1/12 of 1% for each month the member was receiving an annuity payment during the year the benefit was effective, as of June 30.

For example, under current law, if a P&F Plan member retires in February 2026 and begins receiving annuity payments on March 1, 2026, the member will be eligible for a partial COLA effective January 1, 2029. The partial COLA will be 4/12ths of the full COLA or 33%, because the member received 4 monthly payments as of June 30, 2026. The member will be eligible for the full, 1% COLA effective January 1, 2030, and every January 1 thereafter. Individuals receiving disability or survivor benefits are also eligible for a COLA, subject to the same waiting period.

Under the bill, the waiting period for a retiree or benefit recipient to receive a full COLA is reduced from 36 months to 12 months as of the June 30 preceding the January 1 COLA effective date. In addition, the waiting period for a partial COLA is reduced from 25 months to 1 month as of the preceding June 30. The partial COLA is determined by the following formula:

*Partial COLA = COLA * (the number of payments received in the preceding calendar year, as of June 30 divided by 12).*

Under the new shorter waiting period, if a P&F Plan member retires and begins to receive annuity payments on March 1, 2026, the member will be eligible for a partial COLA effective January 1, 2027. Since the member received payments for 4 months, as of June 30, 2026, the member will be eligible for one third (1/3) of the COLA amount for that year. The member will be eligible for the full COLA effective January 1, 2028, and every January 1 thereafter.

Section 2: Increasing the COLA for the State Patrol Plan

Section 2 amends section 356.415, subdivision 1e, which provides the COLA for the State Patrol Plan. Under current law, retirees of the State Patrol Plan are eligible for an annual 1% fixed COLA. Section 2 increases the COLA from 1% to 1.5%, beginning January 1, 2026. This change to 1.5% aligns the postretirement adjustment for the State Patrol Plan with the postretirement adjustment for the MSRS General State Employees Retirement Plan (MSRS General Plan).

Effective Dates

Sections 1 and 2 are effective for postretirement adjustments beginning on or after January 1, 2026.

Considerations

Cost

According to PERA, the estimated cost to increase the COLA to the PERA General Plan is \$403 million if paid in a single payment. Alternatively, the annualized cost is \$30 million per year if paid until 2048 or \$38 million per year paid over a 15-year period (both increasing 3% per year). The cost to remove the 2-year COLA delay is \$166 million if paid in a single payment. Alternatively, the annualized cost is \$14 million per year if paid until 2048 or \$16 million per year paid over a 15-year period (both increasing 3% per year).

According to MSRS, the estimated cost to increase the COLA to the MSRS General Plan is \$60 million if paid in a single payment. Alternatively, the annualized cost is \$ 7.3 million per year if paid over a 15-year period (increasing 3% per year).

The bill does not include an increase in contributions or state aid so the cost of the COLA changes will be absorbed by the plans.

Comparing COLAs

The COLAs for the P&F Plan and the State Patrol Plan are among the lowest COLA rates across Minnesota’s public pension plans. The other pension plan that currently pays a COLA of 1% is the St. Paul Teachers’ Retirement Fund Association. The PERA General Plan and the PERA Correctional Plan each use a formula that is linked to the Social Security COLA to determine the COLA; therefore, the COLAs for those plans may fluctuate from year to year. There are no public pension plans with a COLA less than 1%. The table below compares the current COLA for the general employee, teacher, and public safety plans. As the table shows, while it is common for plans with a similar membership to have the same COLA, it is not always the case.

	MSRS General	PERA General	TRA	St. Paul Teachers	MSRS State Patrol	PERA Police and Fire	MSRS Correctional	PERA Correctional
COLA as of 1/1/2025	1.5%	1.25%	1.2%	1%	1%	1%	1.5%	2.5%

Impact on Annuity Amount for a P&F Plan Retiree Starting to Receive Payments on March 1, 2026

The increased COLA and the decreased waiting period, under the bill, will increase a P&F Plan member’s annuity benefit. The chart below compares the annual benefit increases under the current COLA and the minimum and maximum COLA under the bill. The chart reflects the reduced waiting period and assumes that a member covered by the P&F Plan will retire and start to receive a hypothetical monthly annuity benefit of \$1,000 on March 1, 2026. While the chart illustrates the minimum and maximum COLA under the bill, the COLA is likely to fluctuate from year to year.

Period	Current COLA	Monthly Benefit (Current COLA)	New COLA, if 1%	Monthly Benefit (1% COLA)	New COLA, if 1.5%	Monthly Benefit (1.5% COLA)
March-December 2026	0%	\$1,000	0%	\$1,000	0%	\$1,000
January-December 2027	0%	\$1,000	0.33%	\$1,003.33	0.5%	\$1,005.00
January-December 2028	0%	\$1,000	1%	\$1,013.37	1.5%	\$1,020.08
January-December 2029	0.33%	\$1,003.33	1%	\$1,023.50	1.5%	\$1,035.38
January-December 2030	1%	\$1,013.37	1%	\$1,033.74	1.5%	\$1,050.91

Impact on Annuity Amount for a State Patrol Plan Retiree Starting to Receive Payments on March 1, 2026

The increased COLA under the bill will increase a State Patrol Plan member's annuity benefit. The chart below compares the annual benefit increases under the current COLA and the COLA under the bill. The chart assumes that a member covered by the State Patrol Plan will retire and start to receive a hypothetical monthly annuity benefit of \$1,000 on March 1, 2026.

Period	Current COLA at 1%	Monthly Benefit (Current COLA)	New COLA, at 1.5%	Monthly Benefit (1.5% COLA)
March-December 2026	0%	\$1,000	0%	\$1,000
January-December 2027	0.33%	\$1,003.33	0.5%	\$1,005.00
January-December 2028	1%	\$1,013.37	1.5%	\$1,020.08

Fixed vs. Variable COLA

The 2018 Omnibus Pension Bill modified the provisions for COLAs for the PERA General Plan and the PERA Correctional Plan to move away from a fixed rate adjustment to a variable rate adjustment that is tied to the COLA for Social Security benefits. The COLA for the PERA General Plan changed from a fixed rate adjustment of 1% to a variable rate adjustment with a minimum of 1% and a maximum of 1.5%. The COLA for the PERA Correctional Plan changed from a fixed rate adjustment of 2.5% to a variable rate adjustment with a minimum of 1.5% and a maximum of 2.5%.

The 2018 Omnibus Pension Bill also modified the provisions for COLAs for the MSRS General Plan and the MSRS Correctional Plan to reduce the COLA increases. The COLA for the MSRS General Plan changed from a fixed rate adjustment of 2% to a fixed rate adjustment of 1% for five years, then 1.5% starting January 1, 2024, and thereafter. The COLA for the MSRS Correctional Plan changed from a fixed rate adjustment of 2% to a fixed rate adjustment of 1.5%, starting January 1, 2019, and thereafter.

The [LCPR COLA Study](#) evaluated the effect of the 2018 COLA changes on the PERA General Plan, PERA Correctional Plan, MSRS General Plan, and MSRS Correctional Plan. According to the study, the variable COLA model provides slightly better inflation protection for the PERA General Plan and slightly worse inflation protection for the PERA Correctional Plan. However, the change in percentages for each plan has a larger impact on the amount of inflation protection than the differences between fixed rates and variable rates. The [LCPR COLA Study](#) states on page 37:

Ultimately, the absolute amount of the postretirement increase has a much larger effect on the degree of inflation protection than whether or not the calculation method for calculating the increase is linked to inflation, particularly when caps are used to limit the total amount that can be paid.

It is likely that the method for determining COLAs under the bill will provide more inflation protection to the P&F Plan retirees and benefit recipients than the current fixed rate adjustment of 1%.

Year	PERA General COLA	Social Security (CPI-W) COLA
2019	1.4%	2.8%
2020	1%	1.6%
2021	1%	1.3%
2022	1.5%	5.9%
2023	1.5%	8.7%
2024	1.5%	3.2%
2025	1.25%	2.5%

Under the bill, the variable COLA for the P&F Plan is likely to fluctuate from year to year because the COLA is linked to the COLA for Social Security benefits. To demonstrate this likely fluctuation, the chart to the right compares the PERA General Plan COLA to the Social Security COLA since 2019.