SF 1986 (Kupec); HF 1779 (Wolgamott): MSRS General Employees Retirement Plan; PERA General Employees Retirement Plan; Providing an unreduced early retirement annuity to probation agency employees

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Introduction

Affected Plans: Minnesota State Retirement System General State Employees Retirement Plan, and Public Employees Retirement Association General Employees Retirement Plan

Laws Amended: Minnesota Statutes, sections 352.01, 352.04, 352.116, 353.01, 353.27, and 353.30

Brief Description: The bill provides an unreduced early retirement annuity to probation agency employees upon retirement at age 60 **or** with 35 years of service and increases employee contributions for probation agency employees.

Attachment: GRS Calculations Unreduced Benefits After 2027 Age 60 or 35 Years of Service

Background

Minnesota's public pension plans are designed to pay a full, unreduced retirement annuity to eligible employees upon reaching "normal retirement age." This means that if the employee waits to retire until reaching an age set in statute, the benefit the employee receives is the amount calculated using the plan's benefit formula. The normal retirement age for the Minnesota State Retirement System (MSRS) General State Employees Retirement Plan (MSRS General Plan) and the Public Employees Retirement Association (PERA) General Employees Retirement Plan (PERA General Plan) members is age 66 for most active employees *(see Minn. Stat. § 352.01, subd. 25, defining the normal retirement age for the MSRS General Plan, and Minn. Stat. § 353.01, subd. 37, defining the normal retirement age for the PERA General Plan)*. If an employee chooses to retire before reaching normal retirement age, the employee's monthly benefit is reduced as provided in statute, because the employee is receiving the annuity for a longer period of time.

Certain early retirement benefits allow eligible employees to receive a full, unreduced annuity before reaching normal retirement age. The first generally applicable unreduced early retirement benefits in Minnesota were established in 1973, which allowed employees covered by the MSRS General Plan, the PERA General Plan, or the Teachers Retirement Association (TRA) to retire at age 62 with 30 years of allowable service. This benefit, often referred to as "62 and 30," is no longer available for employees covered by MSRS, PERA, or TRA *(see Minn. Stat. § 352.116, subds. 1–1a; Minn. Stat. § 353.30, subds. 1a–*

1b, 5; Minn. Stat. § 354.44, subd. 6). However, the 2023 Omnibus Pension Budget Bill added a "62 and 30" benefit for members of the St. Paul Teachers Retirement Fund Association, which was funded by an increase in the rate of employee contributions and state aid.

Another example of an unreduced early retirement benefit is the "Rule of 90," which was first enacted for the PERA General Plan in 1982 and was extended to the MSRS General Plan and TRA in 1989. Under the Rule of 90, if a member's age plus years of allowable service is equal to or exceeds 90, the member is eligible to retire with an unreduced retirement annuity. This benefit is available only to members hired prior to July 1, 1989.

Section- by- Section Summary

Section 1 and 4: Adding a Definition of "Probation Agency Employee"

Section 1 amends section 352.01, which is the definition section for the MSRS General Plan. Section 1 adds a new subdivision, subdivision 28, which defines a "probation agency employee."

Section 4 amends section 353.01, which is the definition section for the PERA General Plan. Section 4 adds a new subdivision, subdivision 51, which defines a "probation agency employee."

Both sections 1 and 4 define a "probation agency employee" as "an employee of a county or state agency who is a probation or supervisory officer, supervisory staff member, or program manager and who provides community supervision services or oversees the delivery of probation services."

Section 2 and 5: Increasing Employee Contributions

Section 2 amends section 352.04, subdivision 2, which sets out the percentage of the employee's salary that must be contributed to fund the MSRS General Plan. Currently, all members are contributing 5.5% of their salary, which will increase to 6% on July 1, 2025.

Section 5 amends section 353.27, subdivision 2, which sets out the percentage of the employee's salary that must be contributed to fund the PERA General Plan. Currently, all coordinated members are contributing 6.5% of their salary.

Sections 2 and 5 each amend the statute noted above to carve out probation agency employees from the paragraph that defines the current rate of employee contributions and add a paragraph that will set the contribution percentage for probation agency employees.

The employee contribution percentage for probation agency employees is blank in both sections because at the time of drafting it was not known what employee contribution increase was necessary to cover the cost of the new unreduced early retirement annuity. However, stakeholders have since provided Commission staff with an analysis of the cost prepared by GRS, MSRS' and PERA's retained actuary. The analysis indicates the following, applying a 15-year amortization of the additional actuarial liability for past service:

- MSRS General Plan—the probation agency employee contributions would increase to 11.4%, an increase of 5.39% from the 6% employee contribution rate that takes effect July 1, 2025.
- PERA General Plan—the probation agency employee contributions would increase to 12%, an increase of 5.5% from the current 6.5% employee contribution rate.

Section 3 and 6: Authorizing Unreduced Early Retirement Annuity

Section 3 amends section 352.116, by adding a new subdivision, subdivision 2a ("Normal retirement annuity for probation agency employees"). The new subdivision provides an unreduced retirement annuity to a probation agency employee who is a member of the MSRS General Plan if, on the day the employee separates from county or state service, the employee is at least age 60 or has at least 35 years of service.

Section 6 amends section 353.30, by adding a new subdivision, subdivision 1d ("Probation agency employees"). The new subdivision provides an unreduced retirement annuity to a probation agency employee who is a member of the PERA General Plan if, on the day the employee terminates public service, the employee is at least age 60 or has at least 35 years of service.

This early retirement benefit is similar to the "62 and 30" benefit described above, but is better described as "60 or 35," as the employee only needs to meet the age requirement <u>or</u> the service requirement to be eligible for the benefit.

Effective Dates

Sections 1, 2, 4, and 5 are effective January 1, 2026.

Sections 3 and 6 are effective January 1, 2028.

The employee contribution rate increase takes effect two years before the benefit increase.

Considerations

Cost

According to the cost analysis by GRS, referred to earlier, the increase to MSRS' actuarial accrued liability plus the present value of future benefits is estimated to be approximately $11.7, or $1.35 million annually. The increase to PERA's actuarial accrued liability plus the present value of future benefits is estimated to be approximately $55.28 million, or $6 million annually. This cost would be covered solely by the increased employee contributions from probation agency employees.

Impact of Unreduced Retirement Annuity for Career Employees vs. Recently Hired Employees

Career employees will benefit more and contribute less under the bill than recently hired employees, because career employees will receive a benefit improvement based on potentially many more years of service than they will have paid in to PERA in increased employee contributions. This will have the result of shifting more of the cost of the benefit improvement to newer employees and future hires.

No Requirement to be a Probation Agency Employee for a Period of Time Before Receiving the Unreduced Retirement Annuity

There is no requirement in the bill regarding how many years the member must be a probation agency employee to receive the unreduced early retirement annuity. For example, if a 59-year old employee was a member in the PERA General Plan for 30 years before starting employment as a “probation agency employee” on January 1, 2027, the employee would have to work only one year, paying the higher employee contribution rate for that one year, and be eligible for a full unreduced normal retirement annuity when the new benefit takes effect on January 1, 2028.