SF xxxx; HF 2237 (O'Driscoll): Minnesota State Retirement System (MSRS); Increasing the multiplier used to calculate the annuity amount; increasing the postretirement adjustment

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Introduction

Affected Plans:	General State Employees Retirement Plan (MSRS General Plan) Legislators Retirement Plan Unclassified State Employees Retirement Program (Unclassified Plan)
Laws Amended:	Minnesota Statutes, Sections 352.115 and 356.415
Brief Description:	Increases the multiplier used to calculate the annuity amount for the MSRS General Plan and increases the postretirement adjustment for the MSRS General, Legislators, and Unclassified plans.
Attachment:	MSRS January 16, 2025, Board of Directors Meeting Presentation

Background

When a member of a public pension plan in Minnesota retires, the member's retirement annuity is calculated using a formula defined in statute. For members of the MSRS General Plan, Section 352.115, subdivision 3, the benefit formula used to calculate a retirement annuity is based on three components:

1. years of allowable service, which is the number of years working in employment covered by the MSRS General Plan;
2. multiplier, sometimes called an accrual rate, which is currently 1.7 percent for the MSRS General Plan; and
3. high-five average salary, which is the average gross salary during a member's five highest-paid consecutive years of credited service.

These three components are multiplied together to equal a member's annual benefit amount, as shown below:

Annual benefit = (Years of service x Multiplier) x High-five average annual salary

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 provide some protection from the decrease in the value of the pension due to inflation. The MSRS General Plan, Legislators Plan, and Unclassified Plan currently pay a COLA of 1.5% to eligible retirees and benefit recipients. This means that the monthly annuity amount is increased by 1.5% on each January 1.

Section- by- Section Summary

Section 1: Increasing the Multiplier

Section 1 amends section 352.115, subdivision 3, by increasing the multiplier used to calculate the annuity amount from 1.7% to 1.9% percent. The multiplier of 1.9% applies to years of service earned after June 30, 2025.

For employees who became members of the MSRS General Plan or another public pension plan before July 1, 1989, service earned prior to the effective date will be multiplied by 1.2% for the first ten years, 1.7% for each later year of allowable service through June 30, 2025, and 1.9% for each year of allowable service after June 30, 2025:

> *Annual retirement annuity = ((10 years of service x 1.2%) + (Years of service earned through June 30, 2025, x 1.7%) + (Years of service earned after June 30, 2025, x 1.9%)) x High-five average annual salary*

For employees who became members of the MSRS General Plan after June 30, 1989, service earned prior to the effective date will be multiplied by 1.7% through June 30, 2025, and 1.9% for each year of allowable service after June 30, 2025:

> *Annual retirement annuity = ((Years of service earned through June 30, 2025, x 1.7%) + (Years of service earned after June 30, 2025, x 1.9%)) x High-five average annual salary.*

Section 2: Increasing the COLA

Section 2 amends Section 356.415, subdivision 1, which provides the COLA for the MSRS General Plan, Legislators Plan, and Unclassified Plan. Section 2 increases the COLA from 1.5% to 1.75%, beginning January 1, 2026. Clauses 1 and 2, which specifies the COLA for years before January 1, 2024, are deleted, as they are obsolete.

Effective Dates

Section 1 is effective July 1, 2025.
Section 2 is effective for postretirement adjustments beginning on or after January 1, 2026.

Public Policy Considerations

Cost

The bill does not include any increase in contributions or any new state aid. Therefore, the cost of this benefit increase will be absorbed by the Plan.

According to MSRS' retained actuary, GRS, the increase to the actuarial accrued liability for the COLA increase of 0.25% is $368 million or $43.5 million annually. Because the multiplier increase is prospective, it does not have an immediate impact on the funded status because it is prospective only and the current rates of employer and employee contributions will cover the future cost of 0.95% of pay annually.

Comparing Multipliers and COLAs

The MSRS General Plan currently uses a multiplier of 1.7%, which is the same multiplier used to calculate retirement annuities for members of the Public Employees Retirement Association (PERA) General Employees Retirement Plan. A multiplier of 1.7% is the lowest multiplier used among Minnesota's public pension plans. Both Teachers Retirement Association (TRA) and St. Paul Teachers Retirement Fund Association (St. Paul Teachers) apply a multiplier of 1.9% to calculate retirement annuities.

The COLA for the MSRS General, Legislators, and Unclassified Plans are among the highest COLA rates across Minnesota's public pension plans. The other pension plans that currently pay a COLA of 1.5% are the MSRS Correctional Employees Retirement Plan (MSRS Correctional) and the Judges Plan. The only plan with a potentially higher COLA is the PERA Local Government Correctional Retirement Plan (PERA Correctional), which uses a formula to determine the COLA. The formula is 100% of the Social Security COLA, but not less than 1% or more than 2.5%. For 2025, the Social Security COLA is 2.5%. *See* Cost-of-Living Adjustment (COLA) Information for 2025, Social Security Administration. Therefore, the current COLA for the PERA Correctional Plan is 2.5%.

The table below compares the current multiplier and COLA for the general employee, teacher, and public safety plans.

	MSRS General	PERA General	TRA	St. Paul Teachers	MSRS State Patrol	PERA Police and Fire	MSRS Correc-tional	PERA Correc-tional
Multiplier	1.7%	1.7%	1.9%	1.9%	3%	3%	2.2%[1]	1.9%[2]
COLA	1.5%	1.25%	1.2%	1%	1%	1%	1.5%	2.5%

As the table shows, while it is common for plans with a similar membership to have the same multiplier and COLA, it is not always the case. The bill would bring the multiplier for the MSRS General Plan into alignment with TRA and St. Paul Teachers, but out of alignment with the PERA General Plan.

Impact of Multiplier Increase on Annuity Amount for Career Employees Based on Hire Date

Younger employees will benefit more from this proposal than older employees, because the younger employees will have earned more years of service under the higher multiplier by the time the employee retires. However, the younger employees will help pay for the benefit improvement over a longer period of time.

[1] The multiplier is 2.4% for members first hired prior to July 1, 2010.
[2] The multiplier increases to 2.2% for years of service on or after July 1, 2025.

The chart below shows the impact of the bill on an estimated annuity amount for three hypothetical employees compared to the current benefit formula. The chart estimates a projected benefit level for a newly hired, mid-career, and late career employee. The chart assumes that each employee was or will be hired at age 26, will elect a single life annuity at retirement, and will work in employment covered by the MSRS General Plan until the employee retires at age 66, the normal retirement age for MSRS General Plan members.

	Hire date	Age in 2025	Years of service pre-2025	Years of service post-2025	High-five average salary[3]	Benefit accrued pre-2025	Benefit accrued post-2025	Total annual benefit
Current Benefit Formula	N/A	N/A	40	0	$70,000	$47,600	$0	$47,600
Newly hired employee	7/1/2025	26	0	40	$70,000	$0	$53,200	$53,200
Mid-Career employee	7/1/2010	41	15	25	$70,000	$17,850	$33,250	$51,100
Late Career employee	7/1/2000	51	25	15	$70,000	$29,750	$19,950	$49,700

Impact of COLA Increase on Annuity Amount for a Retiree Starting to Receive Payments in March 2026

The increased COLA under the bill will increase a member's retirement annuity. The chart below compares the increase to the monthly benefit payment under current law to the increase to the monthly benefit payment under the bill. The chart assumes that a member covered by the MSRS General Plan will retire and start to receive a hypothetical monthly annuity benefit of $1,000 in March 2026.

Period	Current COLA at 1.5%	Monthly Benefit (Current COLA)	New COLA, at 1.75%	Monthly Benefit (1.75% COLA)
March-December 2026	0%	$1,000	0%	$1,000
January-December 2027	0.5%	$1,005	0.58%	$1,005.80
January-December 2028	1.5%	$1,020.08	1.75%	$1,023.40

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[3] The average salary for an active member was $73,921 according to the MSRS General Plan actuarial valuation as of June 30, 2024. The chart uses a lower salary because the high-five salary is the average gross salary during the employee's five highest-paid consecutive years of credited service. It is likely that the average high-five salary for the newly hired and mid-career employee will be higher than $70,000, due to future pay increases. However, the high-five salary is consistent in the chart to demonstrate the impact of the change in multiplier proposed by the bill.