

## HF4293-Nelson, M., Third Engrossment As Passed by the House of Representatives Pension Provisions – Articles 7, 8, 9, and 10

### General Summary

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Date: *April 28, 2022*

Attachment: *Appendix A - "Funded Ratios and Contribution Sufficiency at 7.5% and 7% Investment Rate of Return Assumption"*

### Introduction

On Tuesday, April 26, 2022, the House passed HF4293-Nelson, M., the House Omnibus Pensions, State Government, Transportation, Veterans and Military Affairs Supplemental Finance and Policy bill. This document summarizes only the pension articles in the omnibus bill.

### Summary of Pension Provisions

#### Article 7: Temporary Postretirement Adjustments, Payments of 2.5% on January 31, 2023 and 2024

Article 7 is a session law that requires each public pension plan, except the Legislators Plan, to pay a lump sum on January 31, 2023, and a second lump sum on January 31, 2024, equal to 2.5% of the annual amount paid to each member and beneficiary receiving an annuity for the immediately preceding calendar year. The amounts that will be paid by each plan, as estimated by LCPR staff, are as follows:

	<u>January 31, 2023</u>	<u>January 31, 2024</u>
<b>Minnesota State Retirement System (MSRS) Plans</b>		
General Plan (includes Unclassified)	\$24,585,106	\$25,635,873
State Patrol Plan	\$1,624,901	\$1,657,342
State Correctional Plan	\$2,240,208	\$2,379,311
Judges Plan	\$705,800	\$726,378
<b>Public Employees Retirement Association (PERA) Plans</b>		
General Plan	\$44,067,903	\$45,750,090
Police and Fire Plan	\$15,837,594	\$16,553,922
Local Government Correctional Plan	\$615,368	\$703,598

	<u>January 31, 2023</u>	<u>January 31, 2024</u>
<b>Teacher Plans</b>		
Teachers Retirement Association	\$49,723,898	\$50,634,580
St. Paul Teachers Retirement Fund Association	\$3,018,377	\$3,053,345
Total	<u>\$142,419,155</u>	<u>\$147,094,439</u>

### **Article 8: Actuarial Assumption for Investment Rate of Return Reduced to 7%**

Article 8 amends Section 356.215, subdivision 8, by changing the actuarial assumption for investment rate of return from 7.5% to 7% for all the statewide plans (except the Legislators Plan) and the St. Paul Teachers Retirement Fund Association. This impacts the funded status and contribution sufficiency of the plans as set forth in the attached Appendix A.

### **Article 9 – Direct State Aid to Certain Plans Increased and Extended**

Article 9 amends Sections 353.65, 354A.12, and 490.123 to increase the amount of state aid by 50%, effective on June 30, 2022, as follows:

- PERA Police and Fire Plan: increased by \$4.5 million from \$9 million to \$13.5 million;
- St. Paul Teachers Plan: increased by \$2.5 million from \$5 million to \$7.5 million;
- MSRS Judges Plan: increased by \$3 million from \$6 million to \$9 million.

The expiration date for each state aid is extended by 20 years to 2068.

### **Article 10 – One- Time Appropriation of \$390 Million to the Pension Plans**

Article 10 appropriates \$390 million from the general fund to the eight statewide pension plans and St. Paul Teachers Retirement Fund Association. The appropriation is to be allocated among the plans based on market value of assets for each plan as a percentage of the total market value of assets for all plans, as of the most recent June 30.

As of June 30, 2021, according to the actuarial valuations for each of the pension plans, market value of assets totaled approximately \$90 billion. For every \$1 billion of assets in a pension plan, the plan would receive approximately \$4.3 million of the \$390 million appropriated. While these asset values will likely change as of June 30, 2022, the value for each plan as compared to the total value will remain roughly the same.

The allocation based on asset values, which will likely change slightly by the time the appropriation is paid, is shown in the table on the next page.

	<b>Market Value as of June 30, 2021 (billions)</b>	<b>Percentage of Total</b>
<b>Minnesota State Retirement System (MSRS) Plans</b>		
General Plan	\$17.4	19.1
State Patrol Plan	\$1.0	1.1
State Correctional Plan	\$1.6	1.8
Judges Plan	\$0.3	0.3
<b>Public Employees Retirement Association (PERA) Plans</b>		
General Plan	\$28.6	31.4
Police and Fire Plan	\$11.4	12.5
Local Government Correctional Plan	\$1.0	1.1
<b>Teacher Plans</b>		
Teachers Retirement Association	\$28.4	31.2
St. Paul Teachers Retirement Fund Association	\$1.3	1.4
Total	<u>\$91.0</u> <sup>1</sup>	<u>100.0</u>

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<sup>1</sup> This number is affected by rounding.

## Funded Ratios and Contribution Sufficiency at 7.5% and 7% Investment Rate of Return Assumption

### Actuarial Value of Assets

As of June 30, 2021 (FY21)

“Funded ratio” is the ratio of actuarial accrued liabilities (e.g., benefits) compared to actuarial value of plan assets. Actuarial value reflects the spreading of actual investment returns that are greater or less than the assumed returns over a five-year period to smooth the effect of market fluctuations and amounted to a 12.8% rate of return for fiscal year 2021.

“Contribution Sufficiency” is a percentage of payroll equal to actual annual amounts contributed or paid to each plan (as a % of payroll) minus the amount required annually, as determined by the actuary, to fund liabilities by the end of the amortization period, June 30, 2048 (as a % of payroll).

	Funded ratio at 7.5% (%)	Contribution Sufficiency at 7.5% (% of Payroll)	Funded ratio at 7% (%)	Contribution Sufficiency or (Deficiency) at 7% (% of Payroll)
<b><u>MSRS</u></b>				
General	97.1	3.12	91.9	0.72
State Patrol	84.2	11.99	79.6	5.85
Correctional	78	3.7	73	(0.11)
Judges	61.6	4.84	58.8	1.89
<b><u>PERA</u></b>				
General	85.3	2.8	80.5	0.69
Police and Fire	92	6.4	86.7	0.52
Correctional	103.9	2.82	96.1	(0.46)
<b><u>TRA</u></b>	80.2*	0.98*	75.5*	(1.98)*
<b><u>St. Paul Teachers</u></b>	67.1	4.62	63.3	1.54

\* This incorporates the impact of future employee and employer contribution increases (in FY 23 and FY 24), scheduled to take effect under current law, as amended in the 2018 pension bill.

Compiled by LCPR staff; data provided by the executive directors of the pension funds, via email or in board materials.

## Funded Ratios and Contribution Sufficiency at 7.5% and 7% Investment Rate of Return Assumption

### Market Value of Assets

As of June 30, 2021 (FY21)

“Funded ratio” is the ratio of actuarial accrued liabilities (e.g., benefits) compared to the actual market value of plan assets. Market value of assets reflects the price of the investment as of the close of business on June 30, 2021. The rate of return for fiscal year 2021 was 30.3%.

“Contribution Sufficiency” is a percentage of payroll equal to actual annual amounts contributed or paid to each plan (as a % of payroll) minus the amount required annually, as determined by the actuary, to fund liabilities by the end of the amortization period, June 30, 2048 (as a % of payroll).

	Funded ratio at 7.5% (%)	Contribution Sufficiency at 7.5% (% of Payroll)	Funded ratio at 7% (%)	Contribution Sufficiency at 7% (% of Payroll)
<b><u>MSRS</u></b>				
General	111.5%	7.08%	105.4%	4.56%
State Patrol	96.6%	20.62%	91.3%	14.05%
Correctional	89.3%	8.09%	83.6%	4.07%
Judges	70.7%	9.23%	67.6%	6.07%
<b><u>PERA</u></b>				
General	97.9%	6.16%	92.4%	3.89%
Police and Fire	105.6%	14.72%	99.6%	8.60%
Correctional	119.0%	6.18%	110.1%	2.77%
<b><u>TRA</u></b>	92.0%*	5.05%*	86.6%*	1.89%*
<b><u>St. Paul Teachers</u></b>	74.9%	7.47%	70.9%	5.13%

\* This incorporates the impact of future employee and employer contribution increases (in FY 23 and FY 24), scheduled to take effect under current law, as amended in the 2018 pension bill.

Compiled by LCPR staff; data provided by the executive directors of the pension funds.