

HF4306 - 3A - Retirement Fund Modifications

Chief Author: **Mary Murphy**
 Committee: **Ways And Means**
 Date Completed: **5/2/2022 5:19:15 PM**
 Lead Agency: **Minn State Retirement System**
 Other Agencies:
 Investment Board Minn Management and Budget
 Public Employees Retirement Assoc Teachers Retirement Assoc

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology	X	
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025
Minn Management and Budget						
General Fund	-	-	377,000	7,000	7,000	
Minn State Retirement System						
General Fund	-	-	3,000	3,000	3,000	
Correctional Employees Retirement	-	-	(4,310)	2,142		-
Highway Patrol Retirement	-	-	(2,293)	1,612		-
Judicial Retirement	-	-	(3,437)	(2,304)		(3,000)
State Employees Retirement	-	-	(47,171)	24,005		-
Public Employees Retirement Assoc						
Public Employees Retirement Fund	-	-	(74,062)	42,912		-
Police And Fire	-	-	(35,934)	10,615		(4,500)
PERA Correctional Plan	-	-	(3,689)	528		-
Teachers Retirement Assoc						
Teachers Retirement Fund	-	-	(66,393)	49,359		-
State Total						
General Fund	-	-	380,000	10,000	10,000	
Correctional Employees Retirement	-	-	(4,310)	2,142		-
Highway Patrol Retirement	-	-	(2,293)	1,612		-
Judicial Retirement	-	-	(3,437)	(2,304)		(3,000)
State Employees Retirement	-	-	(47,171)	24,005		-
Public Employees Retirement Fund	-	-	(74,062)	42,912		-
Police And Fire	-	-	(35,934)	10,615		(4,500)
PERA Correctional Plan	-	-	(3,689)	528		-
Teachers Retirement Fund	-	-	(66,393)	49,359		-
	Total	-	-	142,711	138,869	2,500
	Biennial Total			142,711		141,369

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
Minn Management and Budget					
General Fund	-	-	-	-	-
Minn State Retirement System					
General Fund	-	-	-	-	-
Correctional Employees Retirement	-	-	-	-	-
Highway Patrol Retirement	-	-	-	-	-
Judicial Retirement	-	-	-	-	-
State Employees Retirement	-	-	-	-	-
Public Employees Retirement Assoc					
Public Employees Retirement Fund	-	-	-	-	-
Police And Fire	-	-	-	-	-
PERA Correctional Plan	-	-	-	-	-
Teachers Retirement Assoc					
Teachers Retirement Fund	-	-	-	-	-
Total	-	-	-	-	-

Lead LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Joel Enders **Date:** 5/2/2022 5:19:15 PM
Phone: 651-284-6542 **Email:** joel.enders@lbo.mn.gov

State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2 Dollars in Thousands	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
Minn Management and Budget					
General Fund	-	-	377,000	7,000	7,000
Minn State Retirement System					
General Fund	-	-	3,000	3,000	3,000
Correctional Employees Retirement	-	-	(4,310)	2,142	-
Highway Patrol Retirement	-	-	(2,293)	1,612	-
Judicial Retirement	-	-	(3,437)	(2,304)	(3,000)
State Employees Retirement	-	-	(47,171)	24,005	-
Public Employees Retirement Assoc					
Public Employees Retirement Fund	-	-	(74,062)	42,912	-
Police And Fire	-	-	(35,934)	10,615	(4,500)
PERA Correctional Plan	-	-	(3,689)	528	-
Teachers Retirement Assoc					
Teachers Retirement Fund	-	-	(66,393)	49,359	-
Total	-	-	142,711	138,869	2,500
			Biennial Total		141,369

1 - Expenditures, Absorbed Costs*, Transfers Out*

Minn Management and Budget					
General Fund					
Expenditures	-	-	7,778	2,500	2,500
Transfers Out	-	-	369,222	4,500	4,500
Minn State Retirement System					
General Fund					
Expenditures	-	-	-	-	-
Transfers Out	-	-	3,000	3,000	3,000
Correctional Employees Retirement	-	-	2,110	2,142	-
Highway Patrol Retirement	-	-	1,596	1,612	-
Judicial Retirement	-	-	686	696	-
State Employees Retirement	-	-	23,679	24,005	-
Public Employees Retirement Assoc					
Public Employees Retirement Fund	-	-	42,292	42,912	-
Police And Fire	-	-	14,980	15,115	-
PERA Correctional Plan	-	-	530	528	-
Teachers Retirement Assoc					
Teachers Retirement Fund	-	-	49,060	49,359	-
Total	-	-	514,933	146,369	10,000
			Biennial Total		156,369

2 - Revenues, Transfers In*

Minn Management and Budget					
General Fund					
	-	-	-	-	-
Minn State Retirement System					
General Fund					
	-	-	-	-	-

State Cost (Savings) = 1-2	Biennium			Biennium	
	Dollars in Thousands	FY2021	FY2022	FY2023	FY2024
Correctional Employees Retirement	-	-	6,420	-	-
Highway Patrol Retirement	-	-	3,889	-	-
Judicial Retirement	-	-	4,123	3,000	3,000
State Employees Retirement	-	-	70,850	-	-
Public Employees Retirement Assoc					
Public Employees Retirement Fund	-	-	116,354	-	-
Police And Fire	-	-	50,914	4,500	4,500
PERA Correctional Plan	-	-	4,219	-	-
Teachers Retirement Assoc					
Teachers Retirement Fund	-	-	115,453	-	-
Total	-	-	372,222	7,500	7,500
Biennial Total			372,222		15,000

HF4306 - 3A - Retirement Fund Modifications

Chief Author: **Mary Murphy**
 Committee: **Ways And Means**
 Date Completed: **5/2/2022 5:19:15 PM**
 Agency: **Minn State Retirement System**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology	X	
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings) Dollars in Thousands	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	3,000	3,000	3,000
Correctional Employees Retirement	-	-	(4,310)	2,142	-
Highway Patrol Retirement	-	-	(2,293)	1,612	-
Judicial Retirement	-	-	(3,437)	(2,304)	(3,000)
State Employees Retirement	-	-	(47,171)	24,005	-
Total	-	-	(54,211)	28,455	-
Biennial Total			(54,211)		28,455

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	-	-	-
Correctional Employees Retirement	-	-	-	-	-
Highway Patrol Retirement	-	-	-	-	-
Judicial Retirement	-	-	-	-	-
State Employees Retirement	-	-	-	-	-
Total	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Joel Enders **Date:** 5/2/2022 4:41:41 PM
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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands		FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	3,000	3,000	3,000	-
Correctional Employees Retirement	-	-	(4,310)	2,142	-	-
Highway Patrol Retirement	-	-	(2,293)	1,612	-	-
Judicial Retirement	-	-	(3,437)	(2,304)	(3,000)	-
State Employees Retirement	-	-	(47,171)	24,005	-	-
Total	-	-	(54,211)	28,455	-	-
	Biennial Total		(54,211)		28,455	
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund						
Expenditures	-	-	-	-	-	-
Transfers Out	-	-	3,000	3,000	3,000	-
Correctional Employees Retirement	-	-	2,110	2,142	-	-
Highway Patrol Retirement	-	-	1,596	1,612	-	-
Judicial Retirement	-	-	686	696	-	-
State Employees Retirement	-	-	23,679	24,005	-	-
Total	-	-	31,071	31,455	3,000	3,000
	Biennial Total		31,071		34,455	
2 - Revenues, Transfers In*						
General Fund						
Correctional Employees Retirement	-	-	6,420	-	-	-
Highway Patrol Retirement	-	-	3,889	-	-	-
Judicial Retirement	-	-	4,123	3,000	3,000	-
State Employees Retirement	-	-	70,850	-	-	-
Total	-	-	85,282	3,000	3,000	3,000
	Biennial Total		85,282		6,000	

Bill Description

We suggest clarifying in the bill language whether the 1/31/2023 and 1/31/2024 payments are to be paid in addition to statutory postretirement increases.

A 1/31 payment date may be administratively complex and expensive. We suggest that the payment dates be at least 2 weeks off of the regular annuity-payment schedule (which works off the 1st of the month) to lessen the technology programming requirements and smooth the process.

Assumptions

The 1/31/2023 payment would be paid to all retiree annuitants, beneficiaries, and disability annuitants who are alive as of 1/31/2023.

The 1/31/2024 payment would be paid to all retiree annuitants, beneficiaries, and disability annuitants who are alive as of 1/31/2024.

The 1/31/2023 payment is not added to the calendar-year 2023 base benefits when calculating the 1/31/2024 payment.

The benefits paid in calendar year 2022, upon which the 1/31/2023 payment is calculated, are the product of the actual benefit payments paid by each fund on 1/1/2022, multiplied by the applicable statutory postretirement increase as found in Minn. Stat. 356.415, subdivision 1(f) and multiplied by 12.

The benefits paid in calendar year 2023, upon which the 1/31/2024 payment is calculated, are equal to the 2022 total benefits paid, multiplied by the applicable statutory postretirement increase as found in Minn. Stat. Minn. Stat. 356.415, subdivision 1(f).

The calculations do not include any other assumptions such as an increase or decrease to the population receiving the payments.

Expenditure and/or Revenue Formula

	1/31/2023 Payment	1/31/2024 Payment	Total of 2023 and 2024 Payments
MSRS General*	\$23,650,000	\$24,005,000	\$47,655,000
State Patrol	\$1,596,000	\$1,612,000	\$3,208,000
Correctional	\$2,110,000	\$2,142,000	\$4,251,000
Judges	\$686,000	\$696,000	\$1,382,000
Total	\$28,042,000	\$28,454,000	\$56,496,000

Numbers rounded to the nearest 1,000

* MSRS General includes the MSRS Unclassified Plan

	Market Value of Assets (6/30/2021)	Ratio of Assets	Estimated Allocation**
MSRS General*	\$17,384,876,000	19.15%	\$70,850,000
State Patrol	\$954,239,000	1.05%	\$3,889,000
Correctional	\$1,575,365,000	1.74%	\$6,420,000
Judges	\$275,581,000	0.30%	\$1,123,000

* MSRS General Includes the MSRS Unclassified Plan

**The amounts above were rounded to the nearest \$1,000

We estimate that 450 hours of staff time at an average cost of \$65.50 per hour (including fringe benefits) will be needed to program our systems for the 1/31 payments. This \$29,475 (rounded to \$29,000) is included in the FY2023 expenditures from Fund 7260.

Long-Term Fiscal Considerations

While this proposal includes a one-time allocation to MSRS in FY2023 that would offset the estimated cost of the two lump sum payments in FY2023 and FY2024, it also includes an investment return assumption change from 7.5 percent to 7.0 percent This change would increase MSRS's actuarial accrued liabilities.

Funded Status Actuarial Value of Assets at 7.5% and 7% as of June 30, 2021

	Funded Ratio at 7.5%	Contribution sufficiency at 7.5% of Payroll	Funded ratio at 7%	Contribution sufficiency or (deficiency) at 7%
General	97.1%	3.12%	91.9%	0.72%
State Patrol	84.2%	11.99%	79.6%	5.85%
Correctional	78.0%	3.7%	73%	(0.11%)
Judges	61.6%	4.84%	58.8%	1.89%

Impact of 7% Rate of Return Assumption on AAL as of June 30, 2021

	Cost as % of Payroll	Annual Cost	Impact on Actuarially Accrued Liability
General	2.40%	\$82,672,000	\$839,590,000
State Patrol	6.14%	\$ 5,500,000	\$ 57,171,000
Correctional	3.81%	\$11,044,000	\$119,454,000
Judges	2.95%	Not calculated	\$ 18,200,000

Funded Status Market Value of Assets at 7.5% and 7% As of June 30, 2021

	Funded Ratio at 7.5%	Contribution sufficiency at 7.5% of Payroll	Funded ratio at 7%	Contribution sufficiency or (deficiency) at 7%
General	111.5%	7.08%	105.4%	4.56%
State Patrol	96.6%	20.65%	91.3%	14.05%
Correctional	89.3%	8.09%	83.6%	4.07%
Judges	70.7%	9.23%	67.6%	6.07%

Under this legislation, the Judges Retirement Fund would receive an additional \$3,000,000 annual appropriation, which we anticipate receiving beyond the scope of this fiscal note's listed bienniums.

Local Fiscal Impact

References/Sources

Minnesota State Retirement System Actuarial Update, presented January 20, 2022 by GRS

Agency Contact:

Agency Fiscal Note Coordinator Signature: Tim Rekow

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HF4306 - 3A - Retirement Fund Modifications

Chief Author: **Mary Murphy**
 Committee: **Ways And Means**
 Date Completed: **5/2/2022 5:19:15 PM**
 Agency: **Investment Board**

State Fiscal Impact	Yes	No
Expenditures		X
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025
Total	-	-	-	-	-	-
Biennial Total			-			-

Full Time Equivalent Positions (FTE)	Biennium			Biennium		
		FY2021	FY2022	FY2023	FY2024	FY2025
Total	-	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Joel Enders **Date:** 4/26/2022 1:31:04 PM
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State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands		FY2021	FY2022	FY2023	FY2024	FY2025
	Total	-	-	-	-	-
	Biennial Total			-		-
1 - Expenditures, Absorbed Costs*, Transfers Out*						
	Total	-	-	-	-	-
	Biennial Total			-		-
2 - Revenues, Transfers In*						
	Total	-	-	-	-	-
	Biennial Total			-		-

Bill Description

The bill makes changes to cost of living adjustments and actuarial assumptions, and provides direct state aid to various public employee retirement plans.

Article 1 of the bill provides a temporary post-retirement adjustment to individuals as a lump sum payment of 2.5% of the individual's annual benefit amount. The payment must be made on January 31 of 2023 and 2024.

Article 2 of the bill reduces the actuarially assumed rate of return to 7% for the statewide pension plans and several local plans.

Article 3 increases the amount of state aid to the Public Employees Police and Fire Retirement Plan, St. Paul Teachers Retirement Fund Association, and Judges' Retirement Fund.

Article 4 provides a lump sum appropriation of state aid for proportional distribution to several public pension plans.

Assumptions

The changes in this bill do not impact the SBI's budget. The SBI periodically reviews its asset allocation policy and takes return assumptions into consideration during those studies.

Expenditure and/or Revenue Formula

Long-Term Fiscal Considerations

Local Fiscal Impact

References/Sources

Agency Contact:

Agency Fiscal Note Coordinator Signature: Paul Anderson

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HF4306 - 3A - Retirement Fund Modifications

Chief Author: **Mary Murphy**
 Committee: **Ways And Means**
 Date Completed: **5/2/2022 5:19:15 PM**
 Agency: **Minn Management and Budget**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	377,000	7,000	7,000	
Total	-	-	377,000	7,000	7,000	
Biennial Total			377,000			14,000

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	-	-	-
Total	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Joel Enders **Date:** 5/2/2022 5:17:27 PM
Phone: 651-284-6542 **Email:** joel.enders@lbo.mn.gov

State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025	
General Fund	-	-	377,000	7,000	7,000	
Total	-	-	377,000	7,000	7,000	
Biennial Total			377,000			14,000
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund						
Expenditures	-	-	7,778	2,500	2,500	
Transfers Out	-	-	369,222	4,500	4,500	
Total	-	-	377,000	7,000	7,000	
Biennial Total			377,000			14,000
2 - Revenues, Transfers In*						
General Fund						
Total	-	-	-	-	-	-
Biennial Total			-			-

Bill Description

Article 1 provides temporary post retirement adjustments to pension plan annuitants covered by M.S. 356.32, subdivision 2, the judges retirement plan and the unclassified employee plan. The adjustment shall be paid in a lump sum payment equal to 2.5% of the annual amount received by an individual in a prior year. The payments shall be made on January 31, 2023, (FY 2023) and January 31, 2024, (FY 2024).

Article 2 reduces the assumed rate of investment return for state pension plans in the combined funds and the St. Paul Teachers Retirement Plan from 7.5% to 7.0% on June 30, 2022.

Article 3 increases the direct state aids paid to the Public Employee Retirement Association (PERA) police and fire plan by \$4.5 million annually, the aid paid to the St. Paul Teachers Retirement Fund Association (SPTRFA) by \$2.5 million annually, and the aid paid to the Minnesota State Retirement System (MSRS) Judges Fund by \$3 million annually, and extends the continuation of these aids to the earlier of the first day of the fiscal year following the fiscal year in which the actuarial value of assets of the fund equals or exceeds 100 percent of the actuarial accrued liabilities or July 1, 2068 (additional 20 years). These increases are effective in FY 2023.

Article 4 appropriates \$370 million in FY 2023 from the general fund to the commissioner of management and budget (MMB) to distribute among the pension plans in the same ratio that the market value of assets as of the most recent June 30 has to the sum of all market value of assets of the plans as of the most recent June 30. The plans receiving a distribution include: MSRS general, correctional, state patrol, and judges; PERA general, police and fire, and correctional; TRA; and SPTRFA. MMB is required to calculate the amounts to be distributed to each plan. MMB must report the amounts to be distributed to each plan to the chairs and ranking minority members of the house of representatives Ways and Means committee and senate Finance committee by August 15, 2022.

Assumptions

It is assumed, based on the A2 amendment adopted in ways and means for this bill, that the appropriation in FY 2023 for distribution to the plans in Article 4 is in FY 2023 only. It is also assumed that this appropriation will eventually be increased to \$390 million per the A2 amendment, in which case the estimated distribution to the plans would be increased. For the purposes of this fiscal note the distribution is based on the \$370 million appropriated before the amendment.

It is assumed that language in Article 4 will be adjusted to clarify that the funds are appropriated to the commissioner of

management and budget for transfer to the appropriate pension plans and are subsequently appropriated to each of the plans. Technically, this clarification is required to distribute the funds.

It is assumed that based on the timing of notifying the legislature by August 15, 2022, of the amounts to be distributed to the plans, that the calculations may be based on unaudited data. It is assumed the data quantifying June 30th market value plan assets will be provided by the State Board of Investment and SPTRFA.

It is assumed that the requirements of MMB to calculate, transfer, and pay the funds in this bill fall within the agency's normal course of business and can be accommodated with existing resources. MMB assumes no administrative costs associated with paying/transferring the aids appropriated in the bill and completing the report to the legislature required in the bill.

Expenditure and/or Revenue Formula

Below are the estimated transfers out to the various pension plans. The estimated distribution of the \$370 million appropriated in Article 4 is based on the most recent June 30, which is for the fiscal year ending in 2021. These amounts would be updated for fiscal year 2022 based on the effective date of this bill. All funds listed below will be transferred out from the general fund to the various plans, except that the funds for SPTRFA will be an expenditure as SPTRFA is not part of the state's accounting system. The MSRS Judges plan aid increase is direct appropriated to MSRS and not included below.

Plan	Market Value of Assets as of June 30, 2021 (thousands)	% Total MVA	Estimated Allocation in FY 2023 only (thousands)
MSRS General	\$17,384,900	19.15%	\$70,850
MSRS Correctional	\$1,575,400	1.74%	\$6,420
MSRS State Patrol	\$ 954,200	1.05%	\$3,889
MSRS Judges	\$275,600	0.30%	\$1,123
PERA General	\$28,550,600	31.45%	\$116,354
PERA Police and Fire	\$11,389,000	12.54%	\$46,414
PERA Correctional	\$1,035,300	1.14%	\$4,219
TRA	\$ 28,329,400	31.20%	\$115,453
SPTRFA	\$1,295,000	1.43%	\$5,278
Total	\$90,789,400		\$370,000

Plan_Direct Aid Increases per year starting in FY 2023 (thousands)	
PERA Police and Fire	\$4,500
SPTRFA	\$2,500

Long-Term Fiscal Considerations

Once PERA police and fire, SPTRFA, and the MSRS Judges plan reach full funding or fiscal year 2069, whichever is

sooner, the aids in article 3 will end. This may have an impact on the funded status of these plans at this point. Additionally, if the aids appropriated in Article 4 are not sufficient to cover the cost of the lump sum payments in Article 1 the funded status of the pension plans may be reduced. The adjustment to the discount rate in Article 2 will reduce the funded status of the plans.

Local Fiscal Impact

PERA, TRA and SPTRFA plan aids/benefit increases impact local governments, local government employees and local government annuitants.

References/Sources

Agency Contact:

Agency Fiscal Note Coordinator Signature: Paul Moore

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HF4306 - 3A - Retirement Fund Modifications

Chief Author: **Mary Murphy**
 Committee: **Ways And Means**
 Date Completed: **5/2/2022 5:19:15 PM**
 Agency: **Public Employees Retirement Assoc**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology	X	
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings) Dollars in Thousands	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
Public Employees Retirement Fund	-	-	(74,062)	42,912	-
Police And Fire	-	-	(35,934)	10,615	(4,500)
PERA Correctional Plan	-	-	(3,689)	528	-
Total	-	-	(113,685)	54,055	(4,500)
Biennial Total			(113,685)		49,555

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
Public Employees Retirement Fund	-	-	-	-	-
Police And Fire	-	-	-	-	-
PERA Correctional Plan	-	-	-	-	-
Total	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Joel Enders **Date:** 4/25/2022 6:32:21 PM
Phone: 651-284-6542 **Email:** joel.enders@lbo.mn.gov

State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2 Dollars in Thousands	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
Public Employees Retirement Fund	-	-	(74,062)	42,912	-
Police And Fire	-	-	(35,934)	10,615	(4,500)
PERA Correctional Plan	-	-	(3,689)	528	-
Total	-	-	(113,685)	54,055	(4,500)
Biennial Total			(113,685)		49,555
1 - Expenditures, Absorbed Costs*, Transfers Out*					
Public Employees Retirement Fund	-	-	42,292	42,912	-
Police And Fire	-	-	14,980	15,115	-
PERA Correctional Plan	-	-	530	528	-
Total	-	-	57,802	58,555	-
Biennial Total			57,802		58,555
2 - Revenues, Transfers In*					
Public Employees Retirement Fund	-	-	116,354	-	-
Police And Fire	-	-	50,914	4,500	4,500
PERA Correctional Plan	-	-	4,219	-	-
Total	-	-	171,487	4,500	4,500
Biennial Total			171,487		9,000

Bill Description

Article 1 grants two lump sum supplemental payments, which are 2.5% of previous calendar year gross earnings, to all retiree annuitants, beneficiaries, and disability for PERA General, PERA Police and Fire, and PERA Correctional on January 31, 2023 and January 31, 2024. The supplemental payments are in addition to the statutory postretirement adjustments for each Plan pursuant to Minnesota Statutes, section 356.415, subdivision 1b, Minnesota Statutes, section 356.415, subdivision 1c, Minnesota Statutes, section 356.415.

Article 2 lowers PERA General, PERA Police and Fire, and PERA Correctional’s statutory investment return assumption from 7.5 percent to 7 percent.

Article 3 increases the current direct aid of \$9 million to \$13.5 million for the PERA Police and Fire Plan. The sunset provision is adjusted from July 1, 2048 to July 1, 2068.

Article 4 grants a one-time appropriation of \$370,000,000 in FY2023 that is divided between TRA and the Minnesota State Retirement System, Public Employees Retirement Association and St. Paul Teachers Retirement Fund Association in the same ratio that the market value of assets as of the most recent June 30 for each plan bears to the sum of the market value of assets for specified plans as of the most recent June 30. The appropriation will be based on the market value of assets as of June 30, 2022.

Assumptions

The first supplemental payment would be paid to all retiree annuitants, beneficiaries, and disability annuitants who were benefit recipients in calendar year 2022 and are alive as of 1/31/2023.

The second supplemental payment would be paid to all retiree annuitants, beneficiaries, and disability annuitants who were benefit recipients in calendar year 2023 and are alive as of 1/31/2024.

The first supplemental payment is not added to the calendar-year 2023 base benefits when calculating the 1/31/2024

payment. PERA recommends clarification that the two additional lump sum payments are paid in addition to the statutory postretirement increases.

The second supplemental payment is not included in subsequent base benefit calculations.

The benefits paid in calendar year 2022, upon which the 1/31/2023 payment is calculated, are the actual benefit payments paid by each fund on 1/1/2022, increased by the applicable statutory postretirement increase as found in Minn. Stat. 356.415 and multiplied by 12.

The benefits paid in calendar year 2023, upon which the 1/31/2024 payment is calculated, are equal to the 2022 total benefits paid, increased by the applicable statutory postretirement increases as found in Minn. Stat. 356.415.

The calculations do not include any other assumptions such as membership growth or reduction (new benefit recipients/deaths/survivor payments), changes in payments due to offsets (disability, retiree earnings) or inflation adjustments.

All supplemental payments will be subject to taxation based upon withholding on file at the time of the payment.

The proposal will impact PERA's information technology systems. PERA estimates a total of \$45,000 split between each Plan to account for staff time necessary to implement the proposal. PERA recommends including the supplemental payments in the February monthly benefit to lessen the technology programming requirements.

The estimate of the impact of the proposed reduction of the investment return assumption from 7.5 percent to 7.0 percent was based on participant data, plan provisions, statutorily mandated valuation requirements, and assumptions (except the investment return assumption) as used for the July 1, 2021 actuarial valuations.

Expenditure and/or Revenue Formula

To assess the estimated cost of the two lump sum payments on January 31, 2023 and January 31, 2024, PERA increased the estimated pension benefits paid for calendar years 2022 and 2023 by the statutory postretirement increase percentage then multiplied by 2.5%.

	Statutory Increases 2022	Statutory Increases 2023	Calendar Year 2022 Total Benefits	1/31/2023 payments	Calendar Year 2023 Total Benefits	1/31/2024 payments
PERA General	1.5%	1.5%	1,691,094,545	42,277,363	1,716,460,963	42,911,525
PERA Police and Fire	1.0%	1.0%	598,613,870	14,965,346	604,600,008	15,115,000
PERA Correctional	2.5%	2.5%	20,590,200	514,755	21,104,955	527,623

To assess the estimated revenue derived from the one-time \$370,000,000 appropriation in FY2023, the retirement funds referenced the allocation of total investable assets for each fund managed by Minnesota State Board of Investments (SBI) as of June 30, 2021 from the SBI 2021 annual report, and the total investable assets held by the St Paul Teachers Retirement Fund Association (SPTRFA) from the SPTRFA 2021 annual report. As detailed in the following table, PERA estimates that its proportional allocation of the one-time appropriation in FY2023 for PERA General is \$116,354,000; PERA Police and Fire is \$46,414,000; and PERA Correction is \$4,219,000.

	Market Value of Assets (6/30/2021)	Ratio of Assets	Estimated Allocation
General state of employees retirement plan of MRS	\$17,384,876,000	19.15%	\$70,850,000
State Patrol retirement plan of MSRS	\$954,239,000	1.05%	\$3,889,000
Correctional state employees retirement plan of MSRS	\$1,575,365,000	1.74%	\$6,420,000
Judges retirement plan of MSRS	\$275,581,000	0.30%	\$1,123,000
General employees retirement plan of PERA	\$28,550,612,000	31.45%	\$116,354,000
Public employees police and fire plan of PERA	\$11,389,001,000	12.54%	\$46,414,000
Local government correctional service retirement plan of PERA	\$1,035,263,000	1.14%	\$4,219,000

TRA	\$28,329,437,000	31.20%	\$115,453,000
SPTRFA	\$1,295,064,000	1.43%	\$5,278,000
Total	\$90,789,438,000	100%	\$370,000,000

The funded ratio is a ratio of a fund's assets compared to its actuarial accrued liabilities. This ratio can be determined using either the market value of assets, or the actuarial value of assets. The market value of assets method assumes PERA's market value of assets as of the last fiscal year (June 30, 2021). The actuarial value of assets method assumes that PERA's investment returns and losses are smoothed and recognized over a five year period, as described in Minnesota Statutes, section 356.215, subdivision 1(f).

As the rate of return for FY2021 was 30.3 percent, the market value of assets method fully reflects that return, while the actuarial value of assets method will recognize that return incrementally over the next five years.#_msocom_1

Below is a comparison of the impact of the investment return assumption change from 7.5 percent to 7.0 percent, assuming market value of assets:

PERA General	7.5 Percent Investment Return Rate (Current)	7.0 Percent Investment Return Rate (Proposed)	Change
Market Value of Assets	\$28.6B	\$28.6B	-
Actuarial Accrued Liability	\$29.2B	\$31.0B	+\$1.8B
Funded Ratio	97.9%	92.4%	-5.5%
Contribution Sufficiency/(Deficiency)	6.16%	3.89%	-2.27%
PERA Police and Fire	7.5 Percent Investment Return Rate (Current)	7.0 Percent Investment Return Rate (Proposed)	Change
Market Value of Assets	\$11.4B	\$11.4B	-
Actuarial Accrued Liability	\$10.8B	\$11.5B	+\$0.7B
Funded Ratio	105.6%	99.6%	-6.0%
Contribution Sufficiency/(Deficiency)	14.72%	8.60%	-6.12%
PERA Correctional	7.5 Percent Investment Return Rate (Current)	7.0 Percent Investment Return Rate (Proposed)	Change
Market Value of Assets	\$1.036B	\$1.036B	
Actuarial Accrued Liability	\$0.871B	\$0.941B	+\$0.070B
Funded Ratio	119.0%	110.1%	-8.9%
Contribution Sufficiency/(Deficiency)	6.18%	2.77%	-3.41%

Below is a comparison of the impact of the investment return assumption change from 7.5 percent to 7.0 percent, assuming actuarial value of assets:

PERA General	7.5 Percent Investment Return Rate (Current)	7.0 Percent Investment Return Rate (Proposed)	Change
Actuarial Value of Assets	\$24.9B	\$24.9B	-
Actuarial Accrued Liability	\$29.2B	\$31.0B	+\$1.8
Funded Ratio	85.3%	80.5%	-4.8%
Contribution Sufficiency/(Deficiency)	2.8%	.069%	-2.11%
PERA Police and Fire	7.5 Percent Investment Return Rate (Current)	7.0 Percent Investment Return Rate (Proposed)	Change
Actuarial Value of Assets	\$9.9B	\$9.9B	-
Actuarial Accrued Liability	\$10.8B	\$11.5B	+\$0.7B
Funded Ratio	92.0%	86.7%	-5.3%
Contribution Sufficiency/(Deficiency)	6.4%	.52%	-5.9%
PERA Correctional	7.5 Percent Investment Return Rate (Current)	7.0 Percent Investment Return Rate (Proposed)	Change
Market Value of Assets	\$.904B	\$.904B	-

Actuarial Accrued Liability	\$0.871B	\$0.941B	+\$0.070B
Funded Ratio	103.9%%	96.1%	-7.8%
Contribution Sufficiency/(Deficiency)	2.82%	-0.46%	-3.28%

Long-Term Fiscal Considerations

The change in the investment return assumption does not materially change the expected benefit payments or the statutorily required contributions to be paid to the plan. Nor does the change impact the actual investment allocation or actual returns. The change only increases the liability estimate and the date that the plans are expected to reach full funding (the date when the market value of assets equals the actuarial accrued liability).

Local Fiscal Impact

The Governmental Accounting Standards Board (GASB) Statement No. 68 requires local employer units to include a portion of PERA's unfunded liability on the face of their government-wide financial statements. As a result, the increased net pension liabilities would be reflected on local employer unit, i.e. local government's financial statements.

References/Sources

July 1, 2021 Actuarial Valuation reports for PERA General, PERA Police and Fire, and PERA Correctional prepared by GRS consulting

Agency Contact: Doug Anderson, 651-201-2690

Agency Fiscal Note Coordinator Signature: Doug Anderson

Phone: 651-201-2690

Date: 4/25/2022 6:07:53 PM

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HF4306 - 3A - Retirement Fund Modifications

Chief Author: **Mary Murphy**
 Committee: **Ways And Means**
 Date Completed: **5/2/2022 5:19:15 PM**
 Agency: **Teachers Retirement Assoc**

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology	X	
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)	Biennium			Biennium		
	Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025
Teachers Retirement Fund	-	-	(66,393)	49,359	-	-
Total	-	-	(66,393)	49,359	-	-
Biennial Total			(66,393)		49,359	

Full Time Equivalent Positions (FTE)	Biennium			Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
Teachers Retirement Fund	-	-	-	-	-
Total	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Joel Enders **Date:** 4/25/2022 10:25:24 AM
Phone: 651-284-6542 **Email:** joel.enders@lbo.mn.gov

State Cost (Savings) Calculation Details

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.

*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium			Biennium	
Dollars in Thousands		FY2021	FY2022	FY2023	FY2024	FY2025
Teachers Retirement Fund	-	-	(66,393)	49,359	-	-
Total	-	-	(66,393)	49,359	-	-
Biennial Total			(66,393)			49,359
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Teachers Retirement Fund	-	-	49,060	49,359	-	-
Total	-	-	49,060	49,359	-	-
Biennial Total			49,060			49,359
2 - Revenues, Transfers In*						
Teachers Retirement Fund	-	-	115,453	-	-	-
Total	-	-	115,453	-	-	-
Biennial Total			115,453			-

Bill Description

TRA's portion of this fiscal note addresses the fiscal impact to TRA related to the proposed changes outlined in Article 1 of the proposal, Article 2 to amend Minnesota Statutes 2020, section 356.215, subdivision 8, and Article 4 of the proposal. TRA's portion of the fiscal note does not consider the fiscal impact to the Minnesota State Retirement System, Public Employees Retirement Association, or St. Paul Teachers Retirement Fund Association.

The proposal in this bill requires lump sum payments on January 31, 2023 and January 31, 2024 for TRA annuitants equal to 2.5 percent of the annual benefit amount received by each annuitant in the previous calendar year. The lump sum payments under this proposal would be in addition to the 1.0 percent annual postretirement adjustment effective on January 1, 2023, and the 1.1 percent annual postretirement adjustment effective on January 1, 2024, pursuant to Minnesota Statutes, section 356.415, subdivision 1d.

The proposal in this bill makes a one-time appropriation of \$370,000,000 in FY2023 that is divided between TRA and the Minnesota State Retirement System, Public Employees Retirement Association and St. Paul Teachers Retirement Fund Association in the same ratio that the market value of assets as of the most recent June 30 for each plan bears to the sum of the market value of assets for specified plans as of the most recent June 30. The appropriation will be based on the market value of assets as of June 30, 2022.

The proposal in this bill also lowers TRA's statutory investment return assumption that must be used for actuarial valuations from 7.5 percent to 7.0 percent.

Assumptions

To estimate the cost of the two lump sum payments, TRA used \$1,954,814,600, total pension benefits projected to be paid for calendar year 2022, as the base amount to determine the estimated cost for the 2.5 percent lump sum payment for calendar year 2023. TRA assumed a growth rate for calendar year 2023 of 1.0 percent, equal to the annual postretirement adjustment that will be paid in addition to the lump sum payment, for the base amount to determine the estimated cost for the 2.5 percent lump sum payment for calendar year 2024.

To estimate the impact of the proposed reduction of the investment return assumption from 7.5 percent to 7.0 percent, TRA assumed:

- All actuarial assumptions are met in the future, including the 7.0 percent investment return assumption.

- TRA's assumed statutory contribution (employee and employer contributions) is unchanged (i.e. no additional funding).
- TRA's statutory amortization date, which is the date the fund is projected to reach full funding, remains June 30, 2048.

Expenditure and/or Revenue Formula

To assess the estimated cost of the two lump sum payments on January 31, 2023 and January 31, 2024, TRA multiplied the estimated pension benefits paid for calendar years 2022 and 2023 by 2.5 percent to derive an estimated cost for each of the two years:

			Estimated Pension Benefits Paid (Previous Calendar Year)		Estimated Cost (Rounded)
FY2023			\$1,954,814,600 (2022)	2.5 percent	\$48,870,000
FY2024	\$1,954,814,600	1.0 percent growth	\$1,974,362,746 (2023)	2.5 percent	\$49,359,000
				Total:	\$98,229,000

To assess the estimated revenue derived from the one-time \$370,000,000 appropriation in FY2023, the retirement funds referenced the allocation of total investable assets for each fund managed by Minnesota State Board of Investments (SBI) as of June 30, 2021 from the SBI 2021 annual report, and the market value of assets available for benefits with the St Paul Teachers Retirement Fund Association (SPTRFA) from the SPTRFA 2021 annual report. As detailed in the following table, TRA estimates that its proportional allocation of the one-time appropriation in FY2023 is \$115,453,000.

	Market Value of Assets (6/30/2021)	Ratio of Assets	Estimated Allocation (Rounded)
General state employees retirement plan of MSRS	\$17,384,876,000	19.15%	\$70,850,000
State Patrol retirement plan of MSRS	\$954,239,000	1.05%	\$3,889,000
Correctional state employees retirement plan of MSRS	\$1,575,365,000	1.74%	\$6,420,000
Judges retirement plan of MSRS	\$275,581,000	0.30%	\$1,123,000
General employees retirement plan of PERA	\$28,550,612,000	31.45%	\$116,354,000
Public employees police and fire plan of PERA	\$11,389,001,000	12.54%	\$46,414,000
Local government correctional service retirement plan of PERA	\$1,035,263,000	1.14%	\$4,219,000
TRA	\$28,329,437,000	31.20 %	\$115,453,000
SPTRFA	\$1,295,064,000	1.43%	\$5,278,000
Total:	\$90,789,438,000	100.00%	\$370,000,000

TRA funds future benefits payable each year through a calculated normal cost, which is the annual cost attributed to the current year of service based on the current provisions in statute. If plan assumptions change, as in the case with this proposal, TRA must account for the unplanned additional liabilities required to fund the existing benefit provisions. Amending TRA's investment return assumption that must be used for actuarial valuations from 7.5 percent to 7.0 percent means that TRA must assume a lower investment return for funding, which will lower the funded status and increase the required contribution rate needed to fund the benefit provisions. Assuming benefit provisions are unchanged and no additional funding, this will impact the existing contribution sufficiency.

Actuarial costs are not reflected in the fiscal note Cost (Savings) tables pursuant to the Legislative Budget Office (LBO) Fiscal Note User Guide, page 19. However, TRA anticipates this proposal would incur actuarial costs.

The funded ratio is a ratio of a fund's assets compared to its actuarial accrued liabilities. This ratio can be determined using either the market value of assets, or the actuarial value of assets. The market value of assets method assumes TRA's market value of assets as of the last fiscal year (June 30, 2021). The actuarial value of assets method assumes that TRA's investment returns and losses are smoothed and recognized over a five year period, as described in Minnesota Statutes, section 356.215, subdivision 1(f).

As the rate of return for FY2021 was 30.3 percent, the market value of assets method fully reflects that return, while the actuarial value of assets method will recognize that return incrementally over the next five years.

Below is a comparison of the impact of the investment return assumption change from 7.5 percent to 7.0 percent, assuming market value of assets:

	7.5 Percent Investment Return Rate (Current)	7.0 Percent Investment Return Rate (Proposed)	Change
Market Value of Assets	\$28.4B	\$28.4B	-
Actuarial Accrued Liability	\$30.8B	\$32.7B	+\$1.9B
Funded Ratio	92.03%	86.63%	-5.40%
Contribution Sufficiency/(Deficiency)	5.05%	1.89%	-3.16%

Below is a comparison of the impact of the investment return assumption change from 7.5 percent to 7.0 percent, assuming actuarial value of assets:

	7.5 Percent Investment Return Rate (Current)	7.0 Percent Investment Return Rate (Proposed)	Change
Actuarial Value of Assets	\$24.7B	\$24.7B	-
Actuarial Accrued Liability	\$30.8B	\$32.7B	+\$1.9B
Funded Ratio	80.25%	75.54%	-4.71%
Contribution Sufficiency/(Deficiency)	0.98%	(1.98%)	-2.96%

The proposal in this bill will impact TRA's information technology systems. TRA estimates that it will require 3,796 hours of existing in-house staff time at a total cost of \$190,230 to update TRA's systems to accommodate two additional lump sum payments and update all of the areas impacted by an investment return assumption change. The biggest impact is that the proposal requires TRA to pay the lump sum payments on January 31, which is not during TRA's normal benefit payment cycle. This effort includes TRA's business analysts developing and revising internal business rules, developers updating

the corresponding programming language, and quality assurance staff analyzing the resulting system changes to ensure TRA's calculations and information is accurate.

If the proposal were amended to allow the lump sum payments to be paid during the normal benefit payment cycle on February 1 instead, the IT costs would significantly decrease. Staff would not have to expend the time or costs to develop a separate payment cycle and would be able to utilize the established cycle to make the additional payment.

Long-Term Fiscal Considerations

While this proposal includes a one-time allocation for TRA in FY2023 that would offset the estimated cost of the two lump sum payments in FY2023 and FY2024 and the costs required to update TRA's information technology systems, it also includes an investment return assumption change from 7.5 percent to 7.0 percent, which would result in a \$1.9B increase in TRA's actuarial accrued liability.

In addition, the Governmental Accounting Standards Board (GASB) Statement No. 68 requires local employer units to include a portion of TRA's unfunded liability on the face of their government-wide financial statements. As a result, the increased net pension liabilities would be reflected on TRA's and local employer unit (i.e. public schools) financial statements.

Local Fiscal Impact

The Governmental Accounting Standards Board (GASB) Statement No. 68 requires local employer units to include a portion of TRA's unfunded liability on the face of their government-wide financial statements. As a result, the increased net pension liabilities would be reflected on local employer unit, i.e. public schools, financial statements.

References/Sources

Plan changes were estimated by TRA's actuary, Cavanaugh Macdonald.

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