2023 Pension Budget Omnibus Bill: HF 3100 (Her/Frentz), Second Engrossment

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Introduction

HF 3100 (Her/Frentz), the second engrossment, is the 2023 Senate Pension Budget Omnibus Bill. The bill was recommended for passage by the Legislative Commission on Pensions and Retirement on April 3, considered and approved by the necessary House and Senate committees, passed by the House of Representatives on April 21, amended and passed by the Senate on May 12, and repassed as amended by the House on May 12.

Article- by- Article Summary

Article 1: Reduction in the Actuarial Assumption for Investment Rate of Return and Interest Rates

Section 1 amends Section 356.415 by replacing the current actuarial assumption for investment return of 7.5% with 7% for each of the pension plans. This change is effective June 30, 2023, so the plans will use the new assumption in their actuarial valuations as of July 1, 2023.

Section 2 amends Section 356.59 to require that the interest charged by each of the pension funds will be 7%, to remain consistent with the investment rate of return assumption. Interest is charged by the pension funds on the repayment of a refund by a member who returns to public employment, a member's purchase of past service credit, and on a late transmittal of contributions by an employer.

Article 2: Postretirement Adjustments (COLAs)

Sections 1 and 2 of Article 2 amend Section 356.415, subdivisions 1 and 1b, to delete a provision that takes effect on January 1, 2024. The provision delays the commencement of annual COLAs until the member reaches normal retirement age, which is age 66 for post-1989 public employees. This would have meant that members who elect early retirement would not receive a COLA until they reach normal retirement age. The change applies to the following plans:

- Minnesota State Retirement System (MSRS) General Plan
- Legislators Retirement Plan
- MSRS Unclassified Plan
- Public Employees Retirement Association (PERA) General Plan

Section 3 amends Section 356.415, subdivision 1g, which governs COLAs for members of the PERA Local Government Correctional Plan. Under current law, the COLA is 1% unless the Social Security COLA is greater than 1%, in which case the COLA is the same as the Social Security COLA, but not to exceed the "applicable maximum percentage." The applicable maximum percentage is 2.5% until either of the following occurs:

(1) the funded ratio, using market value of assets, is equal to or less than 85% for the previous two consecutive years; OR
(2) the funded ratio is equal to or less than 80% for the previous one year.

If either occurs, the applicable maximum percentage drops to 1.5% and remains there indefinitely. The amendment permits the applicable maximum percentage to go back up to 2.5% if neither (1) nor (2) is true.

Sections 4 and 5 are session laws that pay a one-time COLA to all members of the statewide pension plans and St. Paul Teachers Retirement Fund Association in a lump sum no later than March 31, 2024. To be eligible for the one-time payment, a member must have received at least 12 months of pension payments as of June 30, 2023.

The COLA is equal to the difference between the rate in effect in current law on January 1, 2024, and (1) 2.5% for coordinated members and members of the Legislators Plan or (2) 4% for basic members. All members of the MSRS State Patrol Plan and PERA Police and Fire Plan are basic members, and a subset of the members of the PERA General Plan, Teachers Retirement Association (TRA), and St. Paul Teachers are basic members.

The COLA in effect on January 1, 2024, for all members is 1% except for the following:

- MSRS General, Unclassified, Legislators, Correctional, and Judges plans will be at 1.5%;
- PERA General Plan will be at 1.5%;
- PERA Local Government Correctional Plan will be at 2.5%; and
- Teachers Retirement Association will be at 1.1%.

Article 3: MSRS Changes

Section 1 of Article 3 reduces the employee contributions to the MSRS General Plan and Unclassified Plan from 6% of pay to 5.5% of pay for two years, from July 1, 2023, to June 30, 2025.

Section 2 reduces the number of years of service required for full vesting from 5 years to 3 years for members of the MSRS General Plan employed on or after July 1, 2023.

Sections 3 through 5 amends the expiration date for supplemental employer contributions to the MSRS Correctional Plan and the State Patrol Plan and for annual state aids to the Judges Plan. The expiration date in each case was defined with reference to the funded status of the plan for the most recent year. The one year look back is replaced with a three year look back, so the contributions or state aid will not end until the plan has met the 100% funded threshold for the prior three years.

Article 4: PERA Changes

Section 1, the only section of Article 4, reduces the number of years of service required for full vesting from five years to three years for all members of the PERA General Plan.

Article 5: St. Paul Teachers Retirement Fund Association Changes

Section 1 of Article 5 increases the employee contribution rate, beginning on July 1, 2025, by 1% of pay. This means that coordinated members will contribute 8.75% of pay, an increase from 7.75% of pay, beginning July 1, 2025.

Section 2 adds a new benefit effective for all members retiring on or after July 1, 2023. A member who retires when the member is at least age 62 and has at least 30 years of service will receive an unreduced retirement annuity. This is similar to the Rule of 90 but requires a member to meet both an age threshold and a service threshold.

Section 3 makes conforming changes to the early retirement statute, Section 354A.31, as necessary to take into account the new early retirement benefit added by Section 2.

Article 6: Appropriations

Section 1 appropriates a total of $485,900,000 as one-time state aids, allocated roughly on the basis of accrued liabilities, among each of the pension plans in fiscal year 2024, as follows:

Plan	Amount
MSRS General State Employees Retirement Plan	$76,439,615
MSRS Correctional State Employees Retirement Plan	$10,446,018
State Patrol Retirement Plan	$11,970,568
Legislators Retirement Plan	$90,714
Judges Retirement Plan	$293,032
PERA General Employees Retirement Plan	$170,093,422
PERA Police and Fire Retirement Plan	$19,397,371
PERA Local Government Correctional Retirement Plan	$5,255,535
Teachers Retirement Association	$176,166,838
St. Paul Teachers Retirement Fund Association	$15,746,887

Section 2, subdivision 4, transfers $5 million from the general fund to a new statewide volunteer firefighter incentive account to be used to incentivize volunteer firefighter relief associations to join the PERA Statewide Volunteer Firefighter Plan.

Subdivision 1 provides definitions for the section, including for the "incentive program," which is defined as the program established by this section that will deposit a monetary incentive amount into the account of each fire department that joins the Statewide Plan, to fund retirement benefits for the department's volunteer firefighters.

Subdivision 2 requires the executive director of PERA to provide to the Commission by January 5, 2024, an outline of the program and proposed legislation that adds a defined contribution component to the Statewide Plan and makes other changes as appropriate to encourage fire departments and their affiliated relief associations to join the Statewide Plan. The incentive program must benefit fire departments that join the Statewide Plan on or after July 1, 2023, and the first payments must be made by December 31, 2024. The executive director of PERA is also required to file annual reports on the program with the Commission.

Subdivision 3 creates the incentive account within the special revenue fund and requires the commissioner of management and budget to make deposits from that account into fire department accounts in the Statewide Plan at the direction of the executive director of PERA.

Section 3 appropriates $100,000 to be used by the Commission for actuarial cost assessments to assist the Commission with decision-making on pension policy and legislation. During the 2023 session, bills that would have enacted pension benefit improvements and alternatives proposed by the Chair and members of the Commission for expending the $600 million target could not be given serious consideration because of the need to know the actuarial cost of proposed changes. The Commission's limited budget for actuarial fees would not have covered this need. The pension fund directors have been willing to provide cost assessments, but only to the extent they, as fiduciaries of their pension plans, believe the expense is reasonably paid using pension plan assets.

Effective Dates

Because the bill includes appropriations, the default effective date for all sections is July 1, 2023, unless otherwise noted. Accordingly, each section takes effect July 1, 2023, except Article 1, which changes the actuarial assumption for investment rate of return and the interest rates charged by the pension funds. Article 1 is effective June 30, 2023.

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