

## SF2620 / HF3053

- ◆ Bill has bipartisan and stakeholder support as long as funding remains intact.
- ◆ For every dollar contributed by the state, there are about \$3 in cost savings and contributions by retirees and employees.
- ◆ Each year of delay results in more costly solutions.
- ◆ Credit rating agencies are likely to look favorably on passage of a bill and state would avoid potential downgrade to credit rating.

# Minnesota's Pension Funds PERA ■ MSRS ■ TRA ST. PAUL TEACHERS

### EMPLOYER / STATE COST VS. MEMBER CONTRIBUTIONS / BENEFIT REFORMS

FOR ABOUT **\$2.1 BILLION** OF EMPLOYER CONTRIBUTIONS AND DIRECT STATE FUNDING OVER THE NEXT 30 YEARS, THE **2018 OMNIBUS PENSION BILL** INCLUDES ABOUT **\$6.1 BILLION** IN ADDITIONAL EMPLOYEE CONTRIBUTIONS AND COST SAVINGS.

- ◆ Total present value of **savings** from member contribution increases/benefit reforms:

**\$6.1 billion**

- ◆ Total present value of costs attributable to employer contribution increases and state funding:

**\$2.1 billion**

- ◆ Ratio of **employee to employer** share of solution:

**3 to 1**

- ◆ Savings recognized immediately:

**~ \$3.4 billion**



# 2018 Omnibus Pension Bill - SF2620 / HF3053

## Provisions Related to TRA

### Cost of living adjustment (COLA) for retirees

- currently set at 2.0% each January 1
- Next five years: 1/1/2019 – 1/1/2023 = 1.0%
- 1/1/2024 = 1.1%
- 1/1/2025 = 1.2%
- 1/1/2026 = 1.3%
- 1/1/2027 = 1.4%
- 1/1/2028 and thereafter = 1.5%

COLA Eligibility - beginning 7/1/2024, eligibility for receipt of first COLA would be changed to normal retirement age (age 65-66, depending on date of birth). Exempt: members who retire under rule of 90, and members who retire at least age 62 with at least 30 years of service credit.

COLA Trigger: the COLA trigger in current law would be eliminated. The trigger would increase the COLA to 2.5% if the pension fund is at least 100% funded for two consecutive years.

### Contribution rates

- current contribution rate
- beginning 7/1/2018
- beginning 7/1/2019
- beginning 7/1/2020
- beginning 7/1/2021
- beginning 7/1/2022
- beginning 7/1/2023 and after

### Employer

- 7.50%
- 7.71%
- 7.92%
- 8.13%
- 8.34%
- 8.55%
- 8.75%

### Employee

- 7.50%
- 7.75%

The bill provides state funding for the higher employer contribution through a pension adjustment in the school aid formula.

### Early retirement penalties

Higher penalties for early retirement would be phased in over a five-year period beginning 7/1/2019. This is accomplished by phasing out the augmentation in the current factors by 6/30/2024. Exempt: members who retire at least age 62 with at least 30 years of service credit.

**Deferred benefits** – Augmentation on deferred benefits will be reduced to 0% beginning 6/30/2019.

**Interest payable to members on refunds** – will be reduced from 4% to 3% effective 6/30/2018

**Interest due from members, employers on payments & purchases** – reduced from 8.5% to 7.5% effective 6/30/2018

### Plan provisions

Investment return assumption – lowered from 8.5% to 7.5%

Amortization period – amortization date for the unfunded liability is currently set at 6/30/2039 and would be re-set to 6/30/2048.

Contribution stabilizer – The mechanism currently in place that provides some authority for the TRA board to set contribution rates will be eliminated.

### Financial & Actuarial Impact

The changes affecting TRA will immediately **reduce liabilities by \$2.0 billion, increase the funded ratio to 75%** (from 70%), and put the plan on a **trajectory to be 92% funded** in 30 years.