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: TRA Provisions

Cost of living adjustment (COLA) for retirees

- currently set at 2.0% each Jan. 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%

<u>COLA eligibility</u>: Beginning 7/1/2024, eligibility for receipt of <u>first</u> COLA will 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.

<u>COLA trigger</u>: The trigger that would have increased the COLA to 2.5% if the pension fund is at least 90% funded for two consecutive years is eliminated.

Contribution rates

Contribution rates	Employer	Employee
• beginning 7/1/2018	7.71%	7.50%
• beginning 7/1/2019	7.92%	7.50%
• beginning 7/1/2020	8.13%	7.50%
• beginning 7/1/2021	8.34%	7.50%
• beginning 7/1/2022	8.55%	7.50%
• beginning 7/1/2023 and after	8.75%	7.75%

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

Early retirement benefits

Augmentation in early retirement reduction factors will be phased out over a five-year period beginning 7/1/2019. (This reduces early retirement benefits.) Exempt: members who retire at least age 62 with at least 30 years of service.

Deferred benefits

Augmentation on deferred benefits will be reduced to 0% beginning 7/1/2019. (This reduces deferred benefits.)

Interest payable on refunds to members

Rate will be reduced from 4% to 3% effective 7/1/2018.

Interest due on payments and purchases from members, employers

Reduced from 8.5% to 7.5%, effective 7/1/2018.

Other plan provisions

<u>Investment return assumption</u>: Lowered from 8.5% to 7.5%. (No effect on benefits)

<u>Amortization period</u>: Amortization date for the unfunded liability is currently set at 6/30/2039 and would be re-set to 6/30/2048. (No effect on benefits.)

<u>Contribution stabilizer</u>: The mechanism that provided some authority for the TRA board to set contribution rates is eliminated.

Financial and actuarial impact

The changes pertaining to TRA immediately:

- **reduce liabilities by $2.0 billion,**
- **increase the funded ratio to 75%** (from 70%),
- and put the plan on track to be **92% funded** in 30 years.