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

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.

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

**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%

**COLA eligibility:** Beginning 7/1/2024, eligibility for receipt of first 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.

**COLA trigger:** 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.

<table>
<thead>
<tr>
<th>Contribution rates</th>
<th>Employer</th>
<th>Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>beginning 7/1/2018</td>
<td>7.71%</td>
<td>7.50%</td>
</tr>
<tr>
<td>beginning 7/1/2019</td>
<td>7.92%</td>
<td>7.50%</td>
</tr>
<tr>
<td>beginning 7/1/2020</td>
<td>8.13%</td>
<td>7.50%</td>
</tr>
<tr>
<td>beginning 7/1/2021</td>
<td>8.34%</td>
<td>7.50%</td>
</tr>
<tr>
<td>beginning 7/1/2022</td>
<td>8.55%</td>
<td>7.50%</td>
</tr>
<tr>
<td>beginning 7/1/2023 and after</td>
<td>8.75%</td>
<td>7.75%</td>
</tr>
</tbody>
</table>

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**
- **Investment return assumption:** Lowered from 8.5% to 7.5%. (No effect on benefits)
- **Amortization period:** 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.)
- **Contribution stabilizer:** 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.