House passes 2018 pension bill

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Moments before the 2018 legislative session was gaveled to a close, the House unanimously approved the Omnibus Retirement Bill after a brief introduction by co-author and pension commission member Rep. Tim O'Driscoll. The bill now goes to Gov. Mark Dayton.

The bill includes sustainability measures for all four of Minnesota's public employee pension systems: the Teachers Retirement Association (TRA), the Public Employees Retirement Association (PERA), the Minnesota State Retirement System (MSRS), and the St. Paul Teachers Retirement Fund Association (SPTRFA).

For TRA, the law calls for a 1 percent retiree cost of living adjustment for five years (2019-2023), then increasing by 0.1 percent per year in each of the following five years (2024-2028) to 1.5 percent. The law also includes a provision to delay COLA payments to age 66 (effective July 1, 2024). This provision exempts those who retire under Rule of 90, age 62 with 30 years of service, disability benefits or survivor benefits.

The 2018 law includes a 0.25 percent employee contribution increase beginning July 1, 2023 (from 7.5 percent to 7.75 percent) and an employer contribution increase of 1.25 percent, from 7.5 percent to 8.75 percent, phased in over six years (fiscal years 2019-2024). The law also changes reduction calculations for early retirement over a five-year phase-in period (fiscal years 2020-2024). Age 62 with 30 years of service are exempt. These measures reduce liabilities by $2.0 billion for TRA alone.

Upon passage in the Senate in March, pension bill co-author and chair of the Legislative Commission on Pensions and Retirement (LCPR) Sen. Julie Rosen praised the engagement of those who have worked for three years on a pension sustainability package with "significant benefit reforms" as well as contribution rate increases for employers and employees. Rosen said the effort reflects “true shared sacrifice.”

The bill reduces liabilities by about $3.4 million (all four systems) immediately, lowers the rate of return on investments to 7.5 percent, puts the plans on the path to full funding, provides funding to schools to offset increased pension contributions, ensures that unfunded liabilities won’t weigh down bond ratings, and safeguards the retirement security of public employees for the future.

Minnesota Management and Budget Commissioner Myron Frans earlier this year described the effort as a “very important sustainability package” that would improve the financial health of the pension funds and the state.

“We couldn’t have done it without the support of all stakeholder groups,” said TRA Executive Director Jay Stoffel. “This is a great step forward for the retirement security of the members, for the health of the pension fund and for the state of Minnesota.”

Passage of a pension sustainability package comes after failed attempts in 2016 and 2017 to address funding issues resulting from changes in public employee longevity and lower anticipated investment returns.

The TRA Board of Trustees endorsed the sustainability measures with the stipulation that contribution increases be funded, and that legislation reflect the board’s guiding principles: shared commitment, long-term financial stability, intergenerational equity and maintaining the recruitment and retention value of the TRA pension.

Among the administrative provisions affecting TRA are updates to actuarial assumptions used to assess the plan’s financial health. The most significant of these is a lowering of the assumed rate of return on investments from the current 8.5 percent to 7.5 percent. The assumed rate of return is a powerful mechanism; lowering it increases TRA’s liabilities and lowers the plan’s funded ratio.