



# **An Overview:**

## **The Legislative Commission on Pensions and Retirement (LCPR)**

**Presentation to the  
State Government Finance and Elections  
Committee of the House of Representatives  
January 21, 2021**

**Presenters:**  
**Susan Lenczewski, LCPR Executive Director**  
**Chad Burkitt, LCPR Analyst**

# Legislative Commission on Pensions & Retirement

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- Established in the 1960s to have bi-partisan, bi-cameral review of pension and retirement topics and legislation and oversight of the State's public pension plans (Minnesota Statutes, Section 3.85)
- Commission consists of 14 legislators appointed at the start of each biennium:
  - 7 Representatives (limited to 5 from the majority)
  - 7 Senators (limited to 5 from the majority)
- Executive Committee:
  - Chair
  - Vice-Chair
  - Secretary

# Legislative Commission on Pensions & Retirement





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- **Staff: full-time non-partisan:**
  - Executive Director
  - Analyst
  - Commission Assistant
- **Staff works with the Chair of the Commission on meeting agendas and materials; for the Commission and legislators, generally, drafts legislation and background, policy, and legal analyses of bills and topics.**
- **Commission actuary: Van Iwaarden Associates was retained in December 2019, for a three-year term.**
- **Commission office: Room 55 State Office Building**
- **Commission website: [www.lcpr.leg.mn](http://www.lcpr.leg.mn)**


# LCPR Website–Homepage (www.lcpr.leg.mn)

## Legislative Commission on Pensions and Retirement

Home Meetings ▾ Pension Legislation ▾ Actuarial & Financial Reporting ▾ Plans & Other Links ▾ Information & Documents ▾



### Legislative Commission on Pensions and Retirement

 **Notice!** LCPR staff are currently working remotely. Please contact them via email using the addresses available at: [www.lcpr.leg.mn/staff.html](http://www.lcpr.leg.mn/staff.html). **\*\*ALL MEETINGS CANCELLED UNTIL FURTHER NOTICE\*\*.**

#### LCPR News and Developments

##### 2021-2022 Pension Commission Members.

**NEW** We have [Senate Members!](#)

We are awaiting the appointment of House members for the 2021-2022 Legislative Session. Because the Commission chair alternates between the House and Senate each biennium, the chair will be a Senator for the next two years.

##### COLA Study to be Completed for the 2021 Legislative Session.

**NEW** [COLA Study Report](#). The report will be presented to the Commission at an upcoming meeting (we are awaiting the appointment of House members) for review and adoption of the report.

- COLA Study Public Comment Forum: December 8, 2020, at 10:30 a.m. - [Agenda](#) [Video](#) [Audio only](#)
- [Addendum to the first draft](#)
- [First draft of the COLA study report](#)
- COLA Study Presentation: [Overview](#), [Timelines](#), [Feedback](#)

Commission staff is continuing to work during the interim between legislative sessions to produce a report on cost-of-living adjustments (COLAs), called "postretirement adjustments" in the statutes, for the statewide pension plans and St. Paul Teachers. The Commission is required to conduct a study of COLAs and report on its conclusions during the 2021 legislative session (see [Laws 2018, Ch. 211, Art. 5, Sec. 14](#)). For more information about COLAs in public pension plans, see the recently published [Issue Brief on COLAs](#) from the National Association of State Retirement Administrators (NASRA).

##### 2020 Actuarial Valuations.

The annual actuarial valuation reports for the MCPB and DERA plans, TPA, and St. Paul Teachers are now available and are posted on

#### Legislative Meetings

January 2021						
Sun	Mon	Tue	Wed	Thu	Fri	Sat
27	28	29	30	31	1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31	1	2	3	4	5	6

#### Upcoming LCPR meetings

No meetings scheduled

#### Quick Links

[MN Public Pension Plan Basic Info](#)

[Of Interest to Firefighters](#)

**Who we are**

[What is the LCPR?](#)

[2021-2022 Members](#)

[Contact us](#)

# Commission Agenda

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- **The Commission typically meets weekly during the session to consider proposed legislation.**
- **The Chair sets the agenda and decides which bills to hear.**
- **Types of bills considered by the Commission:**
  - Changes to benefits provided by the pension plans
  - Administrative or technical changes proposed by the pension funds
  - Changes to employer and employee contribution rates
  - Appropriations to public employers to fund contribution rate increases
  - Changes to statutes governing volunteer firefighter relief associations
- **The Commission also approves actuarial assumption changes and studies retirement topics, such as cost of living adjustments (COLAs).**

# LCPR and the Legislative Process

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- Pension-related bills are referred, after introduction, to the House or Senate state government committee, which sends the bill to the LCPR for consideration, testimony, and a recommendation.
- The LCPR is not a committee and the “referral” to the LCPR from a committee is not official, but based on past practice and tradition.
- Typically, bills heard and approved by the LCPR are compiled into an omnibus bill, which moves back to the committee of record upon final approval by the LCPR.
- Approval by the LCPR = recommendation for action by the committee.

# LCPR Oversight: Statewide Public Pension Systems\*

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- **Minnesota State Retirement System (“MSRS”)**
  - Covers 136,481 state employees in defined benefit pension plans
  - Administers 5 pension plans and 2 defined contribution plans
- **Public Employees Retirement Association (“PERA”)**
  - Covers 454,270 county and municipal employees in defined benefit pension plans
  - Administers 4 pension plans, including the statewide volunteer firefighter plan, and 1 defined contribution plan
- **Teachers Retirement Association (“TRA”)**
  - K-12 teachers and administrators
  - MN State faculty
  - Total membership of 204,683
- **MSRS, PERA, and TRA defined benefit plans have a combined total of:**
  - \$71,186,842,000 in assets (market value)
  - \$88,303,926,000 in actuarial accrued liabilities

*\* Data as of June 30, 2020*

# LCPR Oversight: Other Public Retirement Plans\*

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- **St. Paul Teacher's Retirement Fund Association**

- Covers 12,872 K-12 teachers and administrators in the St. Paul School District
- SPTRFA has:
  - \$1,041,188,000 in assets (market value)
  - \$1,691,236,000 in actuarial accrued liability

- **Volunteer Firefighter Relief Associations**

- 563 independent relief associations providing retirement benefits to non-career firefighters, covering 18,097 firefighters and benefit recipients
- The independent relief associations have a combined total of:
  - \$553,559,564 in assets (market value)
  - \$508,985,206 in actuarial accrued liabilities

*\* Data as of June 30, 2020, for SPTRFA*

*Data as of December 31, 2018, for the volunteer firefighter relief associations, the most recent available*



# About Minnesota Pensions

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- Both employees and employers contribute to the pension funds; contributions are mandatory.
- Most pension benefits are paid out as monthly lifetime annuities.
- Pension eligibility, benefits, vesting, and contribution rates are defined in statute.
- Each retirement system (MSRS, PERA, TRA, St. Paul Teachers) has its own governing board and executive director.
  - Board members and executive directors are fiduciaries.
- Pension assets cannot be intermingled with other state funds and are held in trust for the exclusive benefit of the plan members.

# Investment of Assets: State Board of Investment

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- **Assets are invested by the State Board of Investment (SBI).**
  - SBI members and executive director are fiduciaries
- **SBI consists of the Governor, State Auditor, Secretary of State, and Attorney General.**
- **The SBI is advised by the Investment Advisory Council, which consists of ten public members, the executive directors of MSRS, PERA, and TRA, the Minnesota Management and Budget (MMB) commissioner, and one employee representative.**
- **As of June 30, 2020, the market value of all SBI-invested assets was \$102 billion, of which 70% are public pension fund assets.**

# Topics addressed by the LCPR during the 2019-2020 biennium: 2019 Session

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## HF 10 (Murphy), SF 6 (Rosen); Laws 2019, 1<sup>st</sup> Special Session, Chapter 8

- **The bill included the following:**

- Expanded the ability to purchase service credit in the PERA plans for military service.
- Reduced the maximum vesting schedule that can be imposed by volunteer firefighter relief associations from 20 years to 10 years.
- Increased the employee contribution rate from 4.5% to 7.5% in the Minnesota State individual account plan to equal TRA's rate and comply with federal law.
- Administrative changes to the statutes governing MSRS, PERA, and firefighter plans.

# Topics addressed by the LCPR during the 2019-2020 biennium: 2020 Session

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## SF 3808 (Rosen), HF 3903 (Murphy); Laws 2020, Chapter 108

- **The bill included the following:**

- Permitted contributions to multiemployer plans by the St. Paul city and school district for building and construction trades employees also covered by PERA
- Ended enhanced augmentation for deferred members of PERA who are employed by formerly public medical facilities that privatized
- Made many changes to the laws governing volunteer firefighter relief association, including increasing the maximum per year benefit from \$10,000 to \$15,000, new laws for sharing fire state aid and converting from a defined benefit to a defined contribution plan, and re-writing the laws on dissolution of relief associations
- Extended the grandfather provision permitting use of more generous factors for converting an account to an annuity in the MSRS Unclassified Plan
- Administrative changes to the statutes governing MSRS, PERA, TRA, and firefighter plans

# COLA Study and Report

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- **The 2018 omnibus bill included a mandate directing the LCPR to study postretirement adjustments (COLAs); Laws 2018, Ch. 211, Art. 5, Sec. 14.**
- **For Minnesota's public pension plans, the postretirement adjustment has, for many years, been a fixed annual percentage increase in retirees' pensions.**
  - E.g., retiree's pension increased by 2% every January
- **The Commission addressed postretirement adjustments in the 2018 bill:**
  - For many public pension plans, by temporarily reducing or suspending postretirement adjustments
  - For two of the PERA plans, by changing the method for determining the postretirement adjustment from a fixed rate to a variable rate that is tied to inflation
  - By directing the LCPR to study postretirement adjustments and report on the study during the 2021 legislative session

# 2018 Omnibus Pension and Retirement Bill

- **The 2018 omnibus bill made changes to postretirement adjustments (COLAs) for most statewide pensions plans.**
  - For MSRS General, PERA General, TRA, and St. Paul Teachers (SPTRFA), effective after 2023, members retiring early will not begin to receive COLAs until normal retirement age (65 or 66 depending on date of hire or covered employment)

Plan	Changed From	Changed To
MSRS General Plan	2% subject to funding triggers*	1% for 5 years (through 2023); 1.5% thereafter
MSRS Correctional Plan	2% subject to funding triggers*	1.5%
PERA General Plan	1% subject to funding triggers*	½ SSA COLA, but not less than 1% or more than 1.5%
PERA Correctional Plan	2.5% subject to funding triggers*	SSA COLA but not less than 1% or more than 2.5%
TRA	2% subject to funding triggers*	1% for 5 years (through 2023) 2024 - 1.1%; 2025 - 1.2%; 2026 - 1.3%; 2027 - 1.4%; 2028 and thereafter - 1.5%
SPTRFA	1% subject to funding triggers*	0% through 2020; 1% thereafter

*\* Funding trigger: COLA rate increases or decreases automatically when specified funding thresholds are met  
Funding triggers eliminated for all plans except the Judges Plan*

# Legislative Mandate

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- **The study must:**
  - “take into account the purpose of postretirement adjustments and whether governing statutes are consistent with the purpose of postretirement adjustments”;
  - “consider alternative methodologies for determining postretirement adjustments”; and
  - evaluate PERA’s new method for determining the postretirement adjustment rate.
- **The LCPR must “report its conclusions based on the study during the 2021 legislative session.”**
  - Laws 2018, Ch. 211, Art. 5, Sec. 14

# Scope of the Report

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- **Provide background information, including history and actuarial cost, of Minnesota's postretirement adjustment.**
- **Summarize research conducted by the group on COLAs, including:**
  - Common types, structures, and features
  - Case studies of other states' approaches, including information from interviews of representatives of the pension systems in Colorado, South Dakota, and Wisconsin
  - Retiree spending patterns and health care costs
  - Measuring inflation
- **Consider the purpose of Minnesota's COLAs.**
- **Analyze whether Minnesota's COLAs satisfy the purpose.**
  - Compare to inflation, under PERA's variable rate method and the fixed rate method
  - Compare the various Minnesota approaches
- **Consider alternatives for changing Minnesota's COLA policy.**



# Study Process

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- **Led by LCPR staff, the work group included the executive directors and legislative staff from MSRS, PERA, TRA, and SPTRFA.**
  - Work group began its work in 2019 and continued through 2020
- **Group members conducted research and analysis and prepared summaries that were compiled for a first draft shared with the public in November 2020.**
- **Members of the public provided comments on the report.**
- **First draft revised to incorporate work group and public comments.**
- **Final draft of the report completed on January 11.**
  - Written public comments appended to the report
- **Report to be considered and adopted, with or without amendments, by the LCPR during the 2021 legislative session.**


# Study Conclusions (subject to approval by LCPR)

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- **Purpose of Minnesota's COLA provisions is to mitigate the loss of purchasing power due to inflation.**
  - The fixed rate method and the PERA General Plan variable rate method can be expected to mitigate the effects of inflation but are not likely to fully offset inflation. Plan members can expect to experience some erosion of the purchasing power of their benefit over time.
  - The PERA Correctional Plan variable rate method is likely to substantially or completely offset future inflation, if the plan's inflation assumption is not exceeded.
  - Members of the PERA Police and Fire Plan and the MSRS State Patrol Plan are most vulnerable to loss of purchasing power because they will not receive Social Security benefits.
- **PERA's variable rate COLA method may provide a moderate improvement in intergenerational equity as compared to fixed rate COLAs.**
- **None of the alternative methods for providing COLAs are clearly superior to Minnesota's.**

# LCPR Staff Contact Information

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