Subject: Brief Summary of H4306 DE3 (Murphy)

Date: April 19, 2022

Prepared by: Susan Lenczewski and Chad Burkitt

Attachment: Appendix A: "*Funded Ratios and Contribution Sufficiency at 7.5% and 7% Investment Rate of Return Assumption*"

Article 1 – COLA Payments of 2.5% on January 31, 2023, and 2024

Article 1 is a session law that requires each public pension plan, except the Legislators Plan, to pay a lump sum on January 31, 2023, and a second lump sum on January 31, 2024, equal to 2.5% of the annual amount paid to each member and beneficiary receiving an annuity for the immediately preceding calendar year. The cost of these payments to each plan, as estimated by LCPR staff, is as follows:

	January 31, 2023	January 31, 2024
MSRS General Plan (includes Unclassified)	$24,585,106	$25,635,873
MSRS State Patrol Plan	$1,624,901	$1,657,342
MSRS State Correctional Plan	$2,240,208	$2,379,311
MSRS Judges Plan	$705,800	$726,378
PERA General Plan	$44,067,903	$45,750,090
PERA Police and Fire Plan	$15,837,594	$16,553,922
PERA Local Government Correctional Plan	$615,368	$703,598
Teachers Retirement Association	$49,723,898	$50,634,580
St. Paul Teachers Retirement Fund Ass'n	$3,018,377	$3,053,345
Total	$142,419,155	$147,094,439

Article 2 – Investment Rate of Return Assumption Reduced to 7%

Article 2 amends Section 356.215, subdivision 8, by changing the actuarial assumption for investment rate of return from 7.5% to 7%. This changes the funded status and contribution sufficiency of the plans as set forth in the attached Appendix A.

Article 3 – Direct State Aid to Certain Plans Increased and Extended

Article 3 amends Sections 353.65, 354A.12, and 490.123 to increase the amount of state aid by 50%, effective on June 30, 2022, as follows:

- PERA Police and Fire Plan: increased by $4.5 million from $9 million to $13.5 million;
- St. Paul Teachers Plan: increased by $2.5 million from $5 million to $7.5 million;
- MSRS Judges Plan: increased by $3 million from $6 million to $9 million.

The expiration date for each state aid is extended by 20 years to 2068.

Article 4 – One-Time Appropriation of $370 Million

Article 4 appropriates $370 million from the general fund to the 8 statewide pension plans (MSRS General, Correctional, State Patrol, Judges Plans; PERA General, Police and Fire, Local Correctional Plans; TRA) and St. Paul Teachers. The appropriation is to be allocated among the plans based on market value of assets for each plan as a percentage of the total market value of assets for all plans, as of the most recent June 30.

As of June 30, 2021, the State Board of Investment reported assets for the combined funds (MSRS, PERA, and TRA) of $89.5 billion and St. Paul Teachers reported assets of $1.3 billion. Based on these asset values, for every $1 billion of assets in a pension plan, the plan would receive approximately $4 million of the $370 million appropriated. While these asset values will change as of June 30, 2022, the value for each plan as compared to the total value will remain roughly the same.

Funded Ratios and Contribution Sufficiency at 7.5% and 7% Investment Rate of Return Assumption

Actuarial Value of Assets

As of June 30, 2021 (FY21)

“Funded ratio” is the ratio of actuarial accrued liabilities (e.g., benefits) compared to actuarial value of plan assets. Actuarial value reflects the spreading of actual investment returns that are greater or less than the assumed returns over a five-year period to smooth the effect of market fluctuations and amounted to a 12.8% rate of return for fiscal year 2021.

“Contribution Sufficiency” is a percentage of payroll equal to actual annual amounts contributed or paid to each plan (as a % of payroll) minus the amount required annually, as determined by the actuary, to fund liabilities by the end of the amortization period, June 30, 2048 (as a % of payroll).

	Funded ratio at 7.5% (%)	Contribution Sufficiency at 7.5% (% of Payroll)	Funded ratio at 7% (%)	Contribution Sufficiency or (Deficiency) at 7% (% of Payroll)
MSRS				
General	97.1	3.12	91.9	0.72
State Patrol	84.2	11.99	79.6	5.85
Correctional	78	3.7	73	(0.11)
Judges	61.6	4.84	58.8	1.89
PERA				
General	85.3	2.8	80.5	0.69
Police and Fire	92	6.4	86.7	0.52
Correctional	103.9	2.82	96.1	(0.46)
TRA	80.2*	0.98*	75.5*	(1.98)*
St. Paul Teachers	67.1	4.62	63.3	1.54

** This incorporates the impact of future employee and employer contribution increases (in FY 23 and FY 24), scheduled to take effect under current law, as amended in the 2018 pension bill.*

Compiled by LCPR staff; data provided by the executive directors of the pension funds, via email or in board materials.

Funded Ratios and Contribution Sufficiency at 7.5% and 7% Investment Rate of Return Assumption

Market Value of Assets

As of June 30, 2021 (FY21)

"Funded ratio" is the ratio of actuarial accrued liabilities (e.g., benefits) compared to the actual market value of plan assets. Market value of assets reflects the price of the investment as of the close of business on June 30, 2021. The rate of return for fiscal year 2021 was 30.3%.

"Contribution Sufficiency" is a percentage of payroll equal to actual annual amounts contributed or paid to each plan (as a % of payroll) minus the amount required annually, as determined by the actuary, to fund liabilities by the end of the amortization period, June 30, 2048 (as a % of payroll).

	Funded ratio at 7.5% (%)	Contribution Sufficiency at 7.5% (% of Payroll)	Funded ratio at 7% (%)	Contribution Sufficiency at 7% (% of Payroll)
MSRS				
General	111.5%	7.08%	105.4%	4.56%
State Patrol	96.6%	20.62%	91.3%	14.05%
Correctional	89.3%	8.09%	83.6%	4.07%
Judges	70.7%	9.23%	67.6%	6.07%
PERA				
General	97.9%	6.16%	92.4%	3.89%
Police and Fire	105.6%	14.72%	99.6%	8.60%
Correctional	119.0%	6.18%	110.1%	2.77%
TRA	92.0%*	5.05%*	86.6%*	1.89%*
St. Paul Teachers	74.9%	7.47%	70.9%	5.13%

* *This incorporates the impact of future employee and employer contribution increases (in FY 23 and FY 24), scheduled to take effect under current law, as amended in the 2018 pension bill.*

Compiled by LCPR staff; data provided by the executive directors of the pension funds.