

PERA POLICE AND FIRE FUND 2013 LEGISLATIVE CHANGES TO PRESERVE SOLVENCY

Presentation to Police Officers'
Federation of Minneapolis
May and June, 2013

The Problem

- ▣ Plan assets only covered 77.6% of plan obligations
- ▣ Plan contributions were 8.2% lower than necessary to meet plan obligations
- ▣ GASB changes looming – could cut funding ration in half.
- ▣ Legislature still full of Tea Partiers
- ▣ Public support is lacking
- ▣ Bankruptcy threats

The Problem

PERA Police and Fire Fund Plan Funding Projection



Other Ideas To “Solve” Problem

- ▣ Eliminate plan or close plan and create a defined contribution plan for new hires
- ▣ New tier of benefits for new hires
- ▣ Increase retirement age (58 for full, 55 for early)
- ▣ Eliminate early retirement benefit
- ▣ Lower service credit to 2.75%
- ▣ High 5 on base pay only (no overtime)
- ▣ Limit benefit to 25 years (75% of high 5)
- ▣ Eliminate post-retirement adjustments

Goals of Work Group

- ▣ Plan to return to solvency by eliminating contribution deficiency (8.2%)
- ▣ Shared sacrifice by:
 - Active employees and future hires
 - Retirees
 - Employers
- ▣ Avoid Having Legislature Craft a Solution

Changes for Active Employees

- ▣ **Contributions to Increase by 3%**
 - 2014
 - Employee from 9.6% to 10.2%
 - Employer from 14.4% to 15.3%
 - 2015
 - Employee to 10.8%
 - Employer to 16.2%
- ▣ What does that mean?
 - 2013 – on \$65,000 annual: = \$6240/yr \$240/pp
 - 2014 – on \$65,000 annual: = \$6630/yr \$255/pp
 - 2015 – on \$65,000 annual: = \$7020/yr \$270/pp

Changes for Active Employees

Historical Perspective

- Prior to 1980 – Mpls Police Relief Association. Fixed benefit based on 42% of the average salary of a 25-yr patrol officer. Same benefit regardless of rank.

- 1980 – Minneapolis Police entered PERA P & F Fund
 - Service Credit – 2.5%
 - Early Retirement Reduction – No pre-55 benefit

- 1989
 - Service Credit – 2.5%
 - **Early Retirement Reduction – actuarial value of benefit**

- 1993
 - **Service Credit – 2.65%**
 - Early Retirement Reduction – actuarial value of benefit

Changes for Active Employees

Historical Perspective

- 1995
 - Service Credit – 2.65%
 - Early Retirement Reduction – 2.4% per year.
- 1997
 - Service Credit – 3.0%
 - Early Retirement Reduction – 2.4% per year.
- 1999
 - Service Credit – 3.0%
 - Early Retirement Reduction – 1.2% per year.

Changes for Active Employees

Historical Perspective

- 2007
 - Service Credit – 3.0%
 - Early Retirement Reduction – 1.2% per year if hired prior to 7/1/2007; 2.4% if hired on or after 7/1/2007.

Changes for Active Employees

- ▣ **Reduce Subsidy for Early Retirement**
- ▣ Current actuarial cost 8% reduction per year
- ▣ Current reduction 1.2%
- ▣ Effective July 1, 2014, monthly phase in to 5%:

	Old Rate/ %	New Rate/ %	Reduction
6/30/14	1.2% - 100%	5% - 0%	1.20%
6/30/15	1.2% - 80%	5% - 20%	1.96%
6/30/16	1.2% - 60%	5% - 40%	2.72%
6/30/17	1.2% - 40%	5% - 60%	3.48
6/30/18	1.2% - 20%	5% - 80%	4.24%
6/30/19	1.2% - 0%	5% - 100%	5.00%

Changes for New Hires

Effective for employees hired after July 1, 2014:

- ▣ **Vesting Schedule Change**
 - 10 years 50% plus 5% per year
 - 20 Years to be 100% vested
- ▣ **Pension capped at 33 years of service (99%)**

Changes for Benefit Recipients

Effective July 1, 2014:

- ▣ **Annual adjustment limited to 1% until 90% funded**
 - After plan is 90% funded, adjustment based on costing of living up to 2.5%
- ▣ **Delay first adjustment by two years**
 - Third year after retirement (presently eligible for first adjustment on first check of fiscal year after 12 months at initial rate)

State Assistance

- ▣ In addition to pension reform bill, POFM instrumental in getting separate bill passed that adds \$9 Million from State General Fund to plan.
- ▣ First time Legislature has approved aid from General Fund.
- ▣ Will help protect plan against future economic downturns and will help reach 90% funding level sooner.

Summary

- | | |
|--|------|
| ▣ Active employees
(Contribution/Early Ret) | 2.3% |
| ▣ New hires
(Vesting/Service Cap) | 0.1% |
| ▣ Benefit Recipients
(COLA Cut/COLA Delay) | 4.1% |
| ▣ Employers
(Contribution) | 1.8% |
| ▣ TOTAL | 8.3% |
-
- ▣ State funds to protect Plan against future contingencies