

A Special Legislative Update from SPTRFA's Executive Director

2018 Omnibus Pension Bill Is Making Its Way Through the Legislature

Bipartisan Bill Would Provide Critical Funding, Stability, and Balanced Reform to Minnesota's Public Pension Plans

Thanks to each of you who have dedicated your professional lives to the bold and noble goal of educating the future citizen-leaders of St. Paul. Your mission has never been more important, and we are honored to play a role in protecting your financial security.

Our mission at SPTRFA is the same as it has been since 1909 – to ensure that we provide retirement security for every single SPTRFA member. In our view, the best way to deliver on that promise is to protect core retirement benefits for every generation of active and retired St. Paul teachers. **The 2018 Omnibus Pension Bill (S.F. 2620 or the Bill) is essential for safeguarding that promise.**

As we look across the national retirement landscape, there are far too many examples of employees losing valuable pension benefits – including the elimination of countless corporate pension plans, multi-employer pension plans facing significant core benefit cuts (including Teamsters in MN), and the growing number of states that are eliminating guaranteed lifetime retirement benefits in favor of 'hybrid plans' such as Rhode Island, Michigan, Pennsylvania, Oklahoma, and Kentucky, to name a few. **This is not a time for complacency. We need a balanced approach to both state funding and benefit reforms. Good fiscal stewardship, with shared responsibility for solutions, is the best path forward to preserving affordable lifetime core retirement benefits. This Bill achieves these objectives and must become law this Session.**

Given the significance of the pending Bill, we want to explain its background, status, and importance to the health of your pension fund.

Unprecedented Support. Governor Mark Dayton and the Minnesota Management and Budget Commissioner, Myron Frans, have expressed their support for the Bill and have included funding for it in the Governor's 2018-19 Supplemental Budget. SPTRFA and your Board of Trustees fully support this Bill, as do over 30 MN employee groups, including the St. Paul Federation of Teachers, the St. Paul Teachers' Pension PAC, Education Minnesota, REAM, the Mpls. Committee of 13 PAC, the MN Prof. Firefighters Assoc., the MN AFL-CIO, the MN Nurses Assoc., the MN Police Fraternal Assoc., and the MN State Troopers Assoc., to name a few.

And, as rare as it may be to find all of the impacted employee groups fully supporting a single Bill, all of the relevant employer and supervisory groups support the Bill as well, including SPPS, the Assoc. of Metropolitan School Districts, the MN Assoc. of School Administrators, the MN School Boards Assoc., the League of MN Cities, and the Assoc. of MN Counties, among others.

Why is this Bill Necessary? Historic underfunding, members living longer (which means increased payment obligations for your pension fund), and the adoption of more conservative assumptions (which promote long-term stability but also increase unfunded liabilities) compel us to act. Without action, the combined impact of

these factors would leave your retirement fund in gradually declining health. Instead of steadily moving to a fully funded status over the amortization period, we would slowly decline to a 55% funded ratio – leaving your retirement benefits potentially at risk - an unacceptable outcome. Instead, ***with the passage of this Bill, your fund would be on track to reach a 100% funded ratio.*** Our teaching colleagues at the State pension plan, TRA, face a similar challenge – without this Bill, their funded ratio would decline to 52% v. 92% with the Bill's passage.

Significance: This Bill is important to all of Minnesota's public pension plans and the 500,000 plus members we collectively serve. This Bill is particularly meaningful to SPTRFA, because it 1) provides additional direct state funding; 2) increases employer contributions; 3) promotes intergenerational equity; 4) prevents active teacher contribution rates from increasing to unsustainable levels; and 5) provides necessary, balanced reforms to ensure that a secure retirement remains available for multiple generations of St. Paul Teachers.

In terms of funding, this Bill immediately provides SPTRFA with \$5 million dollars of additional direct state annual payments and a 2.5% employer contribution increase (phased in over 6 years). Of critical importance to our District, 100% of the employer contribution increase will be funded through a State pension adjustment formula – it will not come out of the SPPS operating budget.

How will this Bill Impact SPTRFA Members? First and foremost, your retirement security would be immediately improved. As well, this Bill will help ensure that a lifetime pension benefit remains available and affordable for our active teachers. However, we also want to be transparent about the fact that an investment from our members is required. While the Bill provides significant additional State funding, that alone will not achieve stability, nor would it be consistent with the MN tradition of shared responsibility for pension security. We believe that these reforms are necessary and balanced in terms of their scope and implementation. A few of the most important changes are highlighted below.

Early Retirement Factors. In keeping with best practices for pension fund sustainability, all major MN pension plans will adopt changes that remove much of the current subsidies from early retirement benefits. Why is this important and fair? Because subsidizing early retirement benefits for a few active members means others, who work to full retirement, must pay more to support their colleagues' early retirement choice. As well, in the last decade, the actual age of retirement for all pension plans has steadily increased – for SPTRFA, the average retirement age is now approaching 64. Finally, the implementation of this change is designed to be gradual and protective of those who have worked a full career. Changes to the early retirement factors will be phased-in slowly, over a 5-year period, beginning July 1, 2019, to avoid impacting retirement timing decisions. **And, importantly, those who qualify for the Rule of 90 or have served 30 years and reached the age of 62 will not experience any change to the existing early retirement factors.**

Contribution Increase in FY 2023. The Bill will not require any employee contribution increases over the next 4 years, until FY 2023, when active members' contributions will increase by 0.25%. This increase was a necessary compromise given the significant 2.5% employer contribution increase.

Cost of Living Adjustments. There are two meaningful COLA changes under the Bill. First, similar to the reasons for the early retirement factor adjustment discussed above, active members choosing to retire prior to their normal retirement age will not receive a cost of living adjustment until they reach normal retirement age. To allow for adequate planning, a delayed effective date is provided – July 2024. **And, importantly, those who qualify for the Rule of 90 or have served 30 years and reached the age of 62 will not experience any change to current rules – they will be eligible to receive a COLA in early retirement.** Second, under the Bill, all major MN pension plans receiving state funding are required to temporarily reduce their COLAs by 1%, in most cases,

for 5 years. In our case, we will be required to reduce our COLA by 1% for 2 years, which will result in no COLA increases on 1/1/2019 and 1/1/2020. Why is this necessary? First, this cost savings is necessary to reach full funding and improve retirement security for all our members. Second, this is the only economic change in the Bill that is borne directly by our retired members – most of all other burdens are borne by either our active members or the taxpayers. Without this important contribution by our retired members, an even greater burden would have shifted onto our active members – either in the form of immediate and meaningful contribution increases or the potential modification or elimination of their defined benefit plan. Additionally, without this sacrifice, your Fund would not have been allocated the much-needed State funding and employer contribution increases that the Bill provides. We spoke with many of you about this and, while hard, every retired member we spoke with on this question was willing to make a temporary sacrifice to improve retirement security for the overall membership and ensure that their active teaching colleagues could preserve an affordable and secure lifetime pension benefit. We agree and truly appreciated the feedback. The Bill also provides for a required study of all MN Pension Plan COLA provisions over the next several years. During that time, we will advocate for a COLA system that is grounded in a relationship to inflation and provides parity with other MN pension plans.

Current Status and Background. The 2018 Omnibus Pension Bill is arguably one of the most important pension bills in recent history and it must become law this legislative session.

On Monday, March 26, the Bill passed the Senate by a rare unanimous vote. This remarkable achievement was led by Senator Julie Rosen, who serves as Chair of both the LCPR and the Senate Finance Committee. This would not have been possible without the support of Senate Majority Leader, Paul Gazelka, and others in the Senate, most notably St. Paul's own, Senator Sandy Pappas. This followed an impressive unanimous vote at the Legislative Commission on Pensions and Retirement (the LCPR), the bipartisan/bicameral commission that has jurisdiction over pension matters.

The Bill must now work its way through the House. Under the leadership of Chair Representative Tim O'Driscoll, who was also instrumental in the Bill's passage at the LCPR, the Bill passed unanimously through the House Gov. Ops. Committee on May 7, the first of several House committees that must consider it before a final vote on the House Floor. With only limited days remaining before the May 21, 2018 adjournment date, we will remain vigilant. Once it passes through both the House and Senate, the Bill must be signed into law by the Governor. We'll keep you updated on the Bill's status through our website and Twitter feed (details on how to connect with us are on the back of this letter).

Thank you for your continued trust and support. I stand ready to answer any questions you may have and can be reached by email at jschurtz@sptrfa.org, phone at 651.642.2550, or mail at SPTRFA, 1619 Dayton Ave., Room 309, St. Paul, MN 55104.

Sincerely,



Jill E. Schurtz
Executive Director, SPTRFA

St. Paul Teachers' Retirement Fund Association

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Serving the retirement needs of St. Paul teachers since 1909.

To help serve you better, we encourage you to make an appointment at our St. Paul office. You may also call **651-642-2550** to speak with a retirement counselor.

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SPTRFA News is published by the St. Paul Teachers' Retirement Fund Association (SPTRFA).

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