

## **Background Information on Social Security Leveling Options**

Social Security leveling options, also called accelerated annuity options were added to the Minnesota State Retirement System (MSRS), the Public Employees Retirement Association (PERA), the Teachers Retirement Association (TRA), and the first class city teacher plan laws decades ago to address the income gap that can occur when an person retires from a Minnesota public pension plan before the age at which the person will be able to receive Social Security old age insurance benefits. The MSRS provision is Minnesota Statutes, Section 352.116, Subdivision 3. The PERA provision is Section 353.29, Subdivision 6. The TRA provision is Section 354.35. The corresponding first class city teacher plan provision is Section 354A.33.

These provisions were intended to allow retiring members to retire early and make an election which will create monthly annuity benefit checks from the Minnesota public retirement plan during the early years of retirement that are increased (accelerated) above those that would otherwise occur. Later, when Social Security benefits commence, the benefit from the Minnesota public retirement plan is reduced below that which would otherwise occur, so that the monthly Social Security benefit plus the monthly Minnesota plan benefit could be approximately equal to the benefit the person received earlier from the Minnesota plan alone. This can provide a fairly seamless transition. The applicable Minnesota laws further provide that the total lifetime annuity value expected to be paid to an annuitant who elects a Social Security leveling option must be no greater than that of a comparable person who does not elect this provision. Thus, if benefits in the earlier years are increased above what would otherwise occur, the monthly benefits in later years after Social Security benefits commence must be sizably reduced to compensate.

Social Security leveling provisions or accelerated annuity options in the various Minnesota plans are not identical. There are three differences:

- 1) The plans differ regarding the end date for the accelerated phase. The MSRS and PERA provisions permit accelerated benefits only to age 62, which is the age at which persons can begin commencement of a reduced Social Security old age benefit. In contrast, the TRA provision permits acceleration to age 65 or 66, the normal retirement ages for that plan, depending on whether service commence before July 1, 1989, or after. The first class city teacher plan provision permits acceleration until Social Security normal retirement age, which varies between age 65 to 67, depending upon the person's date of birth.
- 2) Not all plans restrict the accelerated option to those who have Social Security coverage. Given the intended purpose of integrating the amount received from the Minnesota plan with the Social Security benefit, it would seem obvious that accelerated annuities ought to be limited to those who have Social Security coverage due to the Minnesota public employment (referred to as Coordinated members), but the PERA provision is not restricted. The PERA provision permits any "member" who is retiring to use the accelerated annuity option. Since it is not explicitly restricted to coordinated members in law, PERA has offered the option to members of the PERA General Employees Retirement Plan (PERA-General) who are basic members, persons who began service many decades ago and who are not covered by Social Security. It is also offered to members of the Public Employees Police and Fire Retirement Plan (PERA-P&F), all of whom do not have Social Security coverage due to the police or fire employment.
- 3) The plans differ regarding the percentage of the required reserves for the pension benefit which can be used to accelerate the annuity. The MSRS and TRA provisions specify that 5% of the reserves for the annuity may be used to accelerate for each year that the annuity is accelerated. For instance, if a TRA-covered teacher retires at age 64 and the benefit is accelerated to age 65, 5% of the reserves may be used to accelerate the benefit. If that person had retired at age 63, 10% of the reserves may be used. In contrast, PERA and first class city teacher plan law places no restriction on the percentage of assets that can be used for acceleration.

Accelerated annuity option provisions are generally permissive; the plan system may offer an accelerated option but is not required to do so. MSRS has chosen not to offer this option for those who retire from MSRS-General. It does, however, offer the option to retirees from the Correctional State Employees Retirement Plan (MSRS-Correctional). MSRS-Correctional is an unusual plan, a hybrid mixing features of a general employees plan with those of a public safety plan. Due to the hazardous nature of the covered employment positions and the need for a vigorous workforce, the MSRS-Correctional normal retirement age is age 55. But the plan members are also covered by Social Security for their correctional employment. For some MSRS-Correctional retirees, there is a need to cover the time between when the person retires from MSRS-Correctional and the commencement of Social Security benefits at age 62 or later. To help bridge that gap, MSRS offers the Social Security leveling option to those employees.