Legislative Commission on Pensions and Retirement

55 State Office Building | 100 Rev. Dr. Martin Luther King Jr. Blvd. | St. Paul, MN 55155-1201
Phone: 651-296-2750 | TDD: 651-296-9896; Fax: 651-297-3697 | www.lcpr.leg.mn

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Susan Lenczewski, Executive Director

DATE: March 6, 2018

SUBJECT: LCPR18-012 (Rosen): Change in authorized investments for the Hennepin County Supplemental Retirement Program

ATTACHMENT: LCPR staff document: "Background Information on the Hennepin County Supplemental Retirement Program"

Overview

The Hennepin County Supplemental Retirement Program (SRP) is a defined contribution plan established in 1969 for employees of Hennepin County. The SRP was closed to new members as of April 14, 1982, and currently has about 200 active members. The plan is administered by the Minnesota State Retirement System (MSRS).

The terms of the plan are set forth in Minnesota Statutes, Sections 383B.46 through 383B.52. The plan is also referred to as the 1% Supplemental Retirement Plan because, if an eligible employee elected to participate in the plan, 1% of pay is deducted from the employee's paycheck and deposited under the SRP in an account in the employee's name. The same amount is contributed by Hennepin County to the employee's account.

Currently, under Minnesota Statutes, Sections 383B.47 and 383B.48, SRP participants direct the investment of their accounts in the State Board of Investment's supplemental investment fund. The SRP is restricted to investment only in the supplemental investment fund. The other public defined contribution plans, such as the MSRS Unclassified Plan and the Public Employees Defined Contribution Plan, are invested in the supplemental investment fund, but are also permitted to invest in mutual funds and the other options listed in Minnesota Statutes, Section 356.645.

The proposed legislation *(currently in the form of bill draft LCPR18-012)* will permit SRP accounts to be invested in the same types of investments as are available to the participants in the other public defined contribution plans.

The State Board of Investment (SBI) has identified the statutes that must be amended to permit this change in the investments available to participants in the SRP. The proposed legislation amends Minnesota Statutes, Section 356.645, and Sections 383B.47 through 383B.50.

SBI approved the proposed amendments at its meeting on March 1, 2018. We understand that SBI's executive director and legal counsel will work closely with representatives of Hennepin County and MSRS to provide for a smooth transition, in the event of a change to different investment options, which will be allowed by the proposed legislation, if enacted. The transition process will be administered by MSRS and will include participant notification and education.

Section-by-Section Summary

Section 1: This section amends Minnesota Statutes, Section 356.645, which governs the types of investments that may be made available to participants in directing the investment of their accounts in defined contribution plans for public employees. Currently, this statute applies to the Minnesota Deferred Compensation Plan, the Health Care Savings Plan, and the Unclassified Plan, all of which are administered by MSRS, and the PERA Defined Contribution Plan. The bill adds a reference to the statute that established the SRP so that this plan will have the same investment options as the other defined contribution plans.

Section 2: This section amends Minnesota Statutes, Section 383B.47, which governs the investment of assets in the SRP. The amendment replaces a reference to the Minnesota supplemental investment fund with a reference to the statute amended in Section 1, summarized above, thereby allowing the SRP accounts to be invested in mutual funds and the other investments made available to other public defined contribution plans.

Sections 3-5: These sections amend Minnesota Statutes, Sections 383B.48, 383B.49, and 383B.50 by deleting references to the Minnesota supplemental investment fund and otherwise revising the language of these statutes to reflect the changes made in Sections 1 and 2, summarized above.

Section 6: This section makes the amendments effective immediately following final enactment.

Background Information on the
Hennepin County Supplemental Retirement Program

Supplemental pension programs are retirement programs established to augment the existing pension coverage for a group of public employees, typically with contributions by both employee and employer. The general motivation for creating a supplemental pension program has been to remedy an actual or perceived inadequacy in the pensions then available.

The 1969 Minnesota Legislature (Laws 1969, Ch. 950) authorized Hennepin County to establish a supplemental retirement program. Hennepin County is the only unit of local government offering a supplemental retirement program. The Hennepin County Supplemental Retirement Plan (HCSRP) has some similarity to the Higher Education Supplemental Retirement Program found in Minnesota Statutes, Chapter 354C, for Minnesota State Colleges and Universities System (MnSCU) faculty and unclassified staff. That higher education supplemental plan is a continuation of the former Teachers Retirement Association (TRA)) Supplemental Retirement Program, which was established in 1965. Both the Hennepin County and higher education supplemental programs are supplements to existing public pension programs.

The HCSRP requires all eligible employees and officers (pre-1982 hires) who have at least five years of service to contribute 1% of salary to the HCSRP fund. The county matches the employee contribution. All funds are invested in the Minnesota Supplemental Investment Fund, a family of mutual fund-like investment options administered by the State Board of Investment. The shares gain or lose value as the underlying securities gain or lose value. Upon retirement (originally age 65 but reduced to age 62 by later legislation), up to 20% of the total shares per year can be redeemed and the amount paid to the retiree. The same redemption schedule occurs upon the total and permanent disablement of the participant or upon the death of the participant, in which case the benefit is paid to the surviving spouse. Upon the termination of active employment prior to retirement, one half of the total shares to the former participant's credit can be redeemed and paid as a withdrawal benefit and one half forfeits to the plan to be redistributed to all other participants on a per capita basis.

The HCSRP is a defined contribution plan, meaning that the funding for the pension plan is fixed as a dollar amount or a percentage of payroll. A defined contribution plan is a frequent choice as a supplemental plan to augment defined benefit plan coverage. With a defined contribution plan the eventual benefit amount is uncertain. The plan member bears the inflation and investment risks. If there is poor investment performance, the plan member's pension assets will be depressed. When the person retires, there is risk that high inflation will make the retiree's benefit less adequate in meeting the person's pre-retirement standard of living.

Since 1969 when this plan was created, the Legislature has improved the primary public employee pension and retirement programs. The General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) has been coordinated with the Social Security system, and benefits have been increased in all general employee and public safety plans. In addition, the Legislature has also authorized a deferred compensation program.

Given the improvements in primary plans, the need for supplemental plans supported in whole or part by employer contributions was considerably reduced. In 1971 (Laws 1971, Ch. 222), Minnesota state agencies and political subdivisions were prohibited from creating any new supplemental retirement plans. Existing supplemental plans, like the HCSRP, were grandfathered in. These exceptions are found in

Minnesota Statutes, Section 356.24, Subdivision 1. In recent years the number of exceptions has been increased, largely by adding permission for Minnesota public employers to contribute to labor union pension funds in addition to the primary plan.

The following lists some legislative enactments over the years which impacted the HCSRP or its administration:

- Laws 1975, Chapter 153, amended the HCSRP by lowering the retirement age from age 65 to age 62.
- Laws 1982, Chapter 450, closed the HCSRP to new hires. The followed legislative questioning of the need to continue the program.
- Laws 2005, 1st Special Session, Chapter 8, Article 11, Sections 4 to 8, shifted administration of the HCSRP from the county to the Minnesota State Retirement System (MSRS), and permitted any amounts distributed to a benefit recipient during a given year to be paid monthly rather than in a lump sum.