

PERA Board approves proposed changes to Police and Fire Plan disability provisions

After reviewing the suggested changes to the Police and Fire Plan (P&FP) disability provisions at both the September and October meetings, the PERA Board of Trustees directed staff to draft a bill for the 2007 session to make some additional changes to the Plan's disability benefit provisions.

A group consisting of representatives from the Minnesota Police and Peace Officers Association (MPPOA), the Minnesota Professional Fire Fighters (MPFF) and the League of Minnesota Cities (LMC) worked with PERA's executive director for over a year to determine what, if any, modifications could be made to help control the rising costs of the Plan's benefits. They specifically targeted the disability benefit program knowing that a large share of the increased cost of the P&FP has come from that segment.

The proposal to be advanced in 2007 will include:

- Defining what constitutes a duty disability, aligning the definition with the original purpose statement of the Plan which states that the benefits are intended to protect those engaged in activities that present "inherent dangers specific to these professions".
- Defining a "regular disability", which will be granted to those who suffer a disabling condition from job-related activities that are not specific to public safety positions and from events that occur while not working.
- Limiting the benefit paid as a disability benefit to 60 percent of final average salary for "duty" benefits and 45 percent for "regular" disability benefits.
- Converting the benefit paid to retirement at normal retirement age, at which time if the actual years of service multiplied by the Plan's 3 percent formula is greater than the minimum benefit payable under disability, the payment will be adjusted.
- Requiring a disability benefit recipient to select a joint and survivor annuity at the time the disability benefit becomes payable, but if a single life payment is selected at that time, the individual can have a second chance selection at retirement age.

By applying this to all members in the plan who are not already receiving disability benefits on the effective date (proposed to be July 1, 2007),

these changes are estimated to save the plan about \$5 million a year, which equates to .8 percent of pay in terms of contribution rates. With contribution rates scheduled to climb to 9.4 percent (of pay) for members and 14.1 percent for employers by January 1, 2009, this saving could be significant.

In addition to the proposed changes to the disability provisions, the group has recommended increasing the early retirement reduction factor for members enrolled in the plan after June 30, 2007. Currently the benefit payable to a member who retires between age 50 and 55 is reduced by one-tenth of one percent for each month retiring early. That equates to 1.2 percent per year. The proposal is to bring that back to the pre-1999 reduction of two tenths of one percent or 2.4 percent per year. The early retirement factor was lowered in 1999 at a time when the P&FP was over 125 percent funded. As of July 1, 2005, the Plan is 97 percent funded.

Other Changes Already in Place:

These proposed modifications follow changes made in the administration of the disability application process in 2004 and an additional change in 2006. The 2006 change returned the Plan's disability benefit program to the pre-1993 provisions, which limit disability benefits to those who are under normal retirement age or who have not accrued enough service credit to equal the minimum benefit paid under the "duty" or "non-duty" benefit provisions of 60 or 45 percent of final average pay, respectively.

These changes have been recommended to try to return the P&FP to a cost close to its original design, which required a member contribution of no more than 8 percent of pay and an employer contribution of no more than 12 percent. They are also being recommended to return the intent of the disability benefit program to provide payments to those who are unable to work until normal retirement, which was the original intent and design of the program.

The leadership of the MPPOA and MPFF will be sharing their perspectives on the need for the changes with their members over the next several months.