Background Information on Early Retirement Incentives

1. Retirement Plans and Retirement Ages in General. Retirement plans are arrangements arising out of the employment context for the savings of or the provision of resources for a formerly employed individual to draw upon to meet financial needs after retirement, when most or all gainful employment has terminated.

   The specification of a retirement age, which is the age at which a retirement benefit is payable either in full or in part, assists employers in recruiting, structuring, training, advancing and replacing their workforces. In defined contribution plans, where the employee bears the full risk of both investment losses and longevity burdens, the retirement age can be set with fewer considerations than in defined benefit plans, where the younger the retirement age is set, the greater is the potential funding burden on the retirement plan.

2. Normal Retirement Ages. For defined benefit retirement plans, there is a distinction between a normal retirement age and an early reduced benefit retirement age. The normal retirement age establishes the measure of the greatest liability of the defined benefit retirement plan, since it sets the earliest age at which a full retirement benefit is payable and liability is measured by the retirement benefit amount and its duration.

   Age 65 has come to be the traditional age at which many employees are expected to retire. It is, however, unclear why this age has become the regularly expected retirement age for Social Security and for many public retirement plans. Age 65 does not appear to represent an empirically determined conclusion about when most employees retire from the experience of employees before the creation of Social Security and the significant expansion of employment-based pension coverage in the 1930s. Before the 1930s, retirement for most people appears to have been a function of a physical inability to continue in employment, at whatever age that occurred. Until recent decades, the most impoverished sector of the population was older folks. The age 65 normal retirement age is frequently ascribed to Chancellor Otto Von Bismark of Germany, who is reported to have set age 65 as the normal retirement age for the retirement coverage provided to the Prussian army.

   Since the 1960s, in both larger corporate pension plans and public employee pension plans, the trend has been to institute normal retirement ages earlier than age 65. In the counter direction, based on considerations of lengthening expected life span and of the related cost of providing benefits for ever-lengthening retirement periods, Social Security has instituted a later full benefit retirement age.

3. Permanent Early Normal Retirement Ages. In Minnesota, some defined benefit retirement plans specify more than one normal retirement age, with the additional normal retirement age generally a function in whole or in part of the plan member's length of service. The any age with 30 years of allowable service early normal retirement age provisions of the former Minneapolis Teachers Retirement Fund Association (MTRFA), and the MERF Division of the Public Employees Retirement Association are examples of service-only provisions.

   The age 62 with 30 years of service and the Rule of 90 provisions are early normal retirement age Minnesota public pension plan provisions, where a benefit unreduced for early retirement is provided at an age before the generally applicable normal retirement age. The age 62 with 30 years of service early normal retirement age provision was added to the statewide general employee retirement plans in 1973 as the first generally applicable early normal retirement age provision. The Rule of 90 early normal retirement age provision, where a person becomes eligible for an unreduced retirement benefit when the person's age and years of credited service equal or exceed the sum of 90, was enacted for the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) in 1982 (Laws 1982, Ch. 519, Sec. 2). In 1989 (Laws 1989, Ch. 319, Art. 13), the Rule of 90 provision was extended to the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the Teachers Retirement Association (TRA), and the coordinated programs of the first class city teachers retirement fund associations, applicable to only pre-July 1, 1989, hires. That restriction was also made applicable to PERA-General.

4. Purposes for Temporary Early Retirement Incentives. Temporary early retirement incentives, historically, have been utilized by policymakers for one or a combination of four reasons:

   a. Modification of Workforce Composition. When a workforce of an employing unit is not stratified in a manner that would allow for the predictable replacement of essential personnel, the distribution of the employee group by age and service categorization can be returned to better balance by inducing selected individuals to retire at a time earlier than they might otherwise choose. This workforce composition change need was the policy rationale for the 1977 enactment (Laws 1977, Ch. 447, Art. 9, Sec. 3-4) of the extended leaves of absence program and the qualified part-time teachers' membership in the retirement association program for the Teachers Retirement Association (TRA), when there were concerns about some school districts having over concentrations of senior teaching personnel.

b. Reduction of Ongoing Pensions Costs. When the employer cost of pension coverage for active members becomes higher than is affordable and the employer establishes a revised, reduced benefit, benefit plan for newly employed individuals, the employer may seek to accelerate the recognition of the cost differential by inducing the early retirement of existing employees and their replacement by newly hired individuals. While argued as advantageous (such as early retirement proposals for members of the Basic Program of the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) in the late 1970s to early 1980s and testimony from the consulting actuary retained by PERA, Davis Roenisch, the practice is dubious if the unfunded actuarial accrued liability attributable to the early retirement incentive carries an amortization contribution that is greater than the "savings" differential in normal cost rates.

c. Means to Address Budget Problems. Te most frequent argument for early retirement incentives and the most frequent occurrence of enacted early retirement incentives is an attempt to address employing unit budget problems by salary savings from the non-replacement of induced early retirees or by the replacement of individual early retirees by less well compensated employees. Salary savings that offset budget problems can occur, if the early retirement incentive savings accrue to the same funding entity that bears any early retirement incentive costs, and if correct assessments are made about future personnel and workforce needs in constructing the early retirement incentive. Although not a Minnesota example of the consequences of a bad early retirement incentive design, an early 1980s New York State school district early retirement incentive program of crediting early retirees with ten years of additional service credit was problematic when it was utilized heavily by school district boiler engineers, who eventually had to be rehired at higher salaries in order to actually operate school buildings.

d. Provision to Managers of an Alternative to Layoffs or Hiring Freezes. Early retirement incentives can be attractive during periods of appropriation reductions, downsizings, or reorganizations because they provide alternatives to layoffs, demotions, salary reductions, or hiring freezes. Permitting employees to self-select their employment termination rather than engaging in face-to-face confrontations and undergoing considerable evaluation processes to implement terminations, demotions, or salary reductions could make employee management less unpleasant, although the self-selection process may mean that the most talented and most diligent employees pursue retirement, leaving a less capable and less creative residual workforce.

5. Previously Enacted Early Retirement Incentive Programs. Minnesota has utilized numerous early retirement incentives in connection with its public employee workforce over the past several years. Prior to 1982, there was little systematic legislative experience with early retirement incentives for Minnesota public employees other than the teacher mobility provisions of the mid-1970s. Since 1982, the following early retirement incentives have been enacted to apply to Minnesota public employees:

Year	Citation	Coverage Group(s)	Retirement Plan Based Early Retirement Incentive	Other Employment Benefit Early Retirement Incentive
1982	Laws 1982, Ch. 522, Sec. 1-2	State employees and University of Minnesota employees	None.	Pre-age 65 state-paid health insurance coverage.
1984-1987	M.S. Sec. 356.70	Members of MSRS-General, PERA-General, TRA, 1st class teachers	Full accrued benefit without reduction when Rule of 85 reached.	N/A
1990	Laws 1990, Ch. 591, Art. 2, Sec. 6	MSRS-General, MSRS-Correctional, State Patrol	N/A	Pre-age 65 state-paid health insurance coverage.
1991	Laws 1991, Ch. 345, Art. 1, Sec. 112	Various state and retirement plan employees	N/A	Pre-age 65 state-paid health insurance coverage.
1992	Laws 1992, Ch. 499, Art. 7, Sec. 12-13	Teachers	N/A	Pre-age 65 employer paid health insurance coverage.
1992	Laws 1992, Ch. 513, Art. 4, Sec. 58-59	Various state, retirement plan and public employees, teachers	N/A	Pre-age 65 employer paid health insurance coverage
1993	Laws 1993, Ch. 192, Sec. 108	Members of MSRS-General, PERA-General, or MERF	Additional benefit of 0.25% of final average salary for each year of service up to 30 years.	Alternative benefit of pre-age 65 employer-paid health insurance coverage.
1993	Laws 1993, Ch. 224, Art. 8, Sec. 17-18	Members of TRA or 1st class city teachers	Additional benefit of 0.10% of final average salary for each year of service up to 30 years.	Additional benefit of pre-age 65 employer paid health insurance coverage.

Year	Citation	Coverage Group(s)	Retirement Plan Based Early Retirement Incentive	Other Employment Benefit Early Retirement Incentive
1994	M.S. Sec. 122.23, Subd. 20	Teachers in consolidating school districts	Purchase of up to five additional years of service credit.	Pre-age 65 employer-paid health insurance coverage, extended leaves of absence, or severance payment.
1994	Laws 1994, Ch. 518	Various local government employees	Same as Laws 1993, Ch. 192, Sec. 108.	Same as Laws 1993, Ch. 192, Sec. 108
1994	Laws 1994, Ch. 572, Sec. 3	Displaced higher education employees	Purchase of up to two additional years of service credit.	Pre-age 65 employer-paid health insurance coverage.
1995	Laws 1995, Ch. 262, Art. 1, Sec. 17-25	Metropolitan Council employees; Minnesota Historical Society employees	Additional benefit of 0.25% of final average salary for each year of service up to 30 years for MSRS-General, PERA-General, or MERF members and additional benefit of 0.10% of final average salary for each year of service up to 30 years for TRA or 1st class city teacher retirement fund association members.	Alternative benefit of pre-age 65 employer-paid health insurance coverage.
1999	Laws 1999, Ch. 222, Art. 7	Employees of the Metropolitan Council	Additional benefit of 0.25% of final average salary for each year of service up to 30 years.	None.
2002	Laws 2002, Ch. 392, Art. 14, Sec. 1	State employees	N/A	Permits voluntary leaves up to 320 hours of leave without losing seniority rights, insurance, and pension and other benefits for the period ending June 30, 2003.
2003	Laws 2003, 1st SS, Ch. 1, Art. 2, Sec. 130	State employees	N/A	State government appointing authorities may allow employees to take leaves without pay for up to 1040 hours prior to June 30, 2005. Vacation, sick leave, seniority, and health care benefits continue to accrue during the leave period in the applicable pension plan; employee and employer contributions must be made to the applicable plan. An appointing authority may, at its discretion, pay the employee contributions on behalf of the employee.
2003	Laws 2003, 1st SS, Ch. 12, Art. 1	PERA-General, PERA-P&F, PERA-Correctional	N/A	Public employees who previously worked at least half time may enter into an agreement with the employer to reduce work hour to less than half time. Contributions may be made to the applicable PERA plan as though the individual had not reduced hours. Thus, the employment reduction does not harm the individual's eventual retirement annuity. The second program involves voluntary leaves. If the individual makes the employee contribution to the applicable retirement plan during the leave, the employer must make the applicable employer contribution. Under both programs, all other benefits including health care coverage as provided under the collective bargaining agreement are retained. The programs apply to the period ending June 30, 2005. Inclusion in either program requires an agreement between the employee and employer, and the employer is authorized to designate job classifications or positions that qualify for each option.
2003	Laws 2003, 1st SS, Ch. 12, Art. 3	TRA; 1st class city teacher retirement fund associations	For TRA-covered districts only, the employer may enter into agreements with the exclusive bargaining representative of the teachers in the district to cover, for specific individual teachers, all or a portion of the employee contribution to the retirement plan while the teacher is on an extended leave of absence.	School districts may enter into agreements with the exclusive bargaining representative of the teachers in the district to cover, for specific individual teachers, all or a portion of health care coverage premiums while the teacher is on an extended leave of absence.
2005	Laws 2005, Ch. 156, Art. 3, Sec. 3	State employees	N/A	State employees who previously worked at least half time may enter into an agreement with the employer to reduce work hours to less than half time. Contributions may be made to the applicable MSRS plan as though the individual had not reduced hours. Thus, the employment reduction does not harm the individual's eventual retirement annuity. Expires June 30, 2007.
2005	Laws 2005, Ch. 156, Art. 3, Sec. 4	State government appointing authorities	N/A	State government appointing authorities may allow employees to take leaves without pay for up to 1040 hours prior to June 30, 2005. Vacation, sick leave, seniority, and health care benefits continue to accrue during the leave period in the applicable pension plan; employee and employer contributions must be made to the applicable plan. An appointing authority may, at its discretion, pay the employee contributions on behalf of the employee. Expires June 30, 2007.

Year	Citation	Coverage Group(s)	Retirement Plan Based Early Retirement Incentive	Other Employment Benefit Early Retirement Incentive
2005	Laws 2005, Ch. 156, Art. 3, Sec. 2	Employees of the executive branch of state government; MSRS staff, Legislative Auditor staff, Metropolitan Council	N/A	An eligible employee who retires with at least five years of covered employment from a half-time or greater position, and who is eligible for an unreduced retirement annuity can accept a post-retirement employment, not to exceed half-time and representing at least a 25% reduction from previous work hours. The arrangement can be renewed annually up to five years. Post-retirement annuity reduction provisions are waived while in the position. Payments are made toward health care coverage, not to exceed 75% of employee-only full time employment coverage.
2005	Laws 2005, 1st SS, Ch. 1, Art. 4, Sec. 98	IRRRB	N/A	IRRRB employees age 60 or more or any age with 30 years of service can be eligible for paid health care to age 65 or cash incentives. Expires June 30, 2006.
2006	Laws 2006, Ch. 271, Art. 3, Sec. 43	Executive branch or legislative branch of state government; Board of Public Defense; Minnesota Historical Society; Minnesota State Colleges and Universities System; school districts.	$17,000 payment, which could be used to purchase additional service credit to qualify for a Rule of 90 retirement or to purchase an additional annuity from MSRS-Unclassified.	$17,000 payment alternatively could be deposited in the Minnesota Health Care Savings Plan.
2007	Laws 2007, Ch. 134, Art. 11, Sec. 11	Any Minnesota governmental employing unit with one or more employees covered by a plan listed in M.S. Sec. 356.30.	$17,000 payment, which could be used to purchase additional service credit to qualify for a Rule of 90 retirement or to purchase an additional annuity from the respective retirement plan.	$17,000 payment alternatively could be deposited in the Minnesota Health Care Savings Plan.
2009	Laws 2009, Ch. 169, Art. 6, Sec. 1	MnSCU employees	N/A	Up to one year's base salary, unlimited amount of employer-paid medical insurance coverage, or a combination of the two.
2010	Laws 2010, Ch. 337, Sec. 1	Any executive, legislative or judicial state government branch unit, PERA, MSRS, TRA, or MnSCU.	N/A	Up to 24 months of employer-paid health and dental insurance for an employee with at least 15 years of retirement plan covered service; plus dependent coverage of there was dependent coverage at separation.
--	Collective Bargaining Agreement	Patrol, BCA, Conservation Officers	N/A	Employer-paid health and dental insurance premiums.
--	Collective Bargaining Agreement	State University Faculty	N/A	Severance payment; employer-paid health insurance premium for one year.
--	Collective Bargaining Agreement	State University Administrative Personnel	N/A	Severance payment; employer-paid health insurance premium for one year.
--	Collective Bargaining Agreement	Community College Faculty	N/A	Severance payment; employer-paid health insurance premium for one year.
--	Personnel Policy	Displaced Higher Ed Board Excluded Administrators	N/A	Severance payment.
--	Personnel Policy	Community College Unrepresented Administrators	N/A	Severance payment; employer-paid health insurance premium for one year.

The various early retirement incentives have been enacted or implemented for a variety of reasons. Most of the early retirement incentives were apparently implemented to assist in resolving state budget difficulties by encouraging retirements instead of layoffs or other involuntary terminations. Those early retirement incentives were enacted not primarily to benefit public employees, but to use a potentially advantageous benefit to induce higher-paid, longer-service employees to terminate active public employment at an earlier age than they otherwise would retire. The savings that potentially will accrue to the public employer in this circumstance are dependent on the particular characteristics of the employees taking advantage of the incentive and the liability associated with the incentive and on the employer not filling the employment position with another employee or on the employer filling the employment position with another employee at a much smaller salary.

When a public pension plan provides an early retirement incentive, the public pension plan is fulfilling its prescribed function within the overall personnel compensation and benefit system. Public employee pension plans exist primarily to assist the public employer's personnel system by aiding in the recruitment of new public employees, the retention of existing trained and productive public employees, and the predictable systematic out-transitioning of public employees who have reached the end of their regularly expected productive working career. This is done by adopting a retirement plan that provides a sufficient post-retirement income (adequate based on pre-retirement earnings) and that is competitive with other potential employers. In providing an early retirement incentive, the public employee pension plan is emphasizing the out-transition function and is attempting to speed up its timing. Other employment benefit coverage, such as severance pay or employer-paid early retirement health insurance premiums, can also assist in this out-transitioning function.

6. Analysis of Specific Early Retirement Incentives

a. 1984-1986 Temporary Rule of 85. The Rule of 85 (Laws 1984, Ch. 564, Sec. 44) was a temporary early retirement benefit provision that allowed a plan member to retire earlier than normal without taking a reduction in benefit due to age. If the member was at least 55 years of age and the member's age plus years of service total at least 85, the member could retire with a retirement annuity that was not reduced for age.

Members of the three statewide plans and the three first class city teacher funds were eligible for the Rule of 85. The funds were:

- Teachers Retirement Association Basic Program
- Teachers Retirement Association Coordinated Program
- Minnesota State Retirement System General State Employees Retirement Plan
- Public Employees Retirement Association General Employees Retirement Plan Basic Program
- Public Employees Retirement Association General Employees Retirement Plan Coordinated Program
- Duluth Teachers Retirement Fund Association
- St. Paul Teachers Retirement Fund Association
- Minneapolis Teachers Retirement Fund Association

The temporary Rule of 85 early retirement incentive was in effect during the period April 27, 1984, through December 31, 1986. Any member whose age and years of service totaled at least 85 by December 31, 1986, was eligible to use the Rule of 85. A member who qualified for the Rule of 85 by the end of 1986 was permitted to continue to work through June 30, 1987 and still retire under the Rule of 85.

Annual reports about the usage of the temporary Rule of 85 early retirement incentive were required from the applicable retirement plans. From those reports, certain conclusions were derived by the Legislative Commission on Pensions and Retirement staff about the incentive program, as summarized below:

(1) During the 32-month period, 3,518 individuals retired under the temporary Rule of 85 early retirement incentive at a total cost to the retirement plans of $109.5 million.

(2) The cost per individual using the incentive was $31,236.

(3) The "average" individual using the incentive was 59.8 years old and had 29.0 years of service.

Summary Data on Rule of 85 Retirees, Total Time Period

Retirement Plan	Number Retired	Cost of Rule of 85 Total Add'l Reserves	Average Cost Per Participant	Average Retirement Age	Average Years of Service	Average High-Five Salary	Average Salary at Retirement
MSRS	670	$12,541,230	$18,718	60.8	29.8	$24,202	$27,346
PERA Basic	855	$19,130,885	$22,375	60.1	26.6	$20,558	$22,682
PERA Coordinated	150	$1,674,549	$11,164	61.3	24.6	$23,219	$25,190
TRA Basic	711	$41,417,815	$58,253	58.4	31.1	$28,588	$33,558
TRA Coordinated	1,012	$30,632,879	$30,270	59.7	29.6	$29,989	$34,131
Duluth Teachers	51	$1,360,513	$26,677	58.4	28.9	$29,743	$33,244
Mpls. Teachers	5	$358,993	$152,692	58.4	28.3	$32,833	$37,988
St. Paul Teachers	64	$2,367,174	$36,987	58.2	30.9	$31,878	$35,311
Total	3,518	$109,484,038	$31,236	59.8	29.0	$26,058	$29,573

Age and Salary by Fund

Retirement Plan	Average Retirement Age	Average High-Five Salary
St. Paul Teachers	58.2	$31,878
TRA Basic	58.4	$28,588
Duluth Teachers	58.4	$29,743
Mpls. Teachers	58.4	$32,833
TRA Coordinated	59.7	$29,989
PERA Basic	60.1	$20,558
MSRS	60.8	$24,202
PERA Coordinated	61.3	$23,219
All	59.8	$26,058

(4) Teachers, on average, retired younger than other general employees and retired with more years of service than other general employees.

(5) Teachers, on average, retired with significantly higher salaries than other general employees and retired with more years of service than other general employees did.

(6) The cost per retiree for the teacher groups was higher than other general employees, apparently due to the higher salaries and, to a lesser extent, the greater years of service.

Teacher Plans, Total Time Period

Retirement Plan	Number Retired	Cost of Rule of 85 Total Add'l Reserves	Average Cost Per Participant	Average Retirement Age	Average Years of Service	Average High-Five Salary	Average Salary at Retirement
Teachers Basic Programs							
St. Paul Teachers	64	$2,367,174	$36,987	58.2	30.9	$31,878	$35,311
TRA Basic Program	711	$41,417,815	$58,253	58.4	31.1	$28,588	$33,558
Total/Average	775	$43,784,989	$56,497	58.4	31.1	$28,860	$33,703
Teachers Coordinated Programs							
Duluth Teachers	51	$1,360,513	$26,677	58.4	28.9	$29,743	$33,244
TRA Coord. Program	1,012	$30,632,879	$30,270	59.7	29.6	$29,989	$34,131
Total/Average	1,063	$31,993,392	$30,098	59.6	29.6	$29,977	$34,088

General Employee Plans, Total Time Period

Retirement Plan	Number Retired	Cost of Rule of 85 Total Add'l Reserves	Average Cost Per Participant	Average Retirement Age	Average Years of Service	Average High-Five Salary	Average Salary at Retirement
General Employees Basic Programs							
PERA Basic	855	$19,130,885	$22,375	60.1	26.6	$20,558	$22,682
General Employees Coordinated Programs							
PERA Coordinated	150	$1,674,549	$11,164	61.3	24.6	$23,219	$25,190
MSRS	670	$12,541,230	$18,718	60.8	29.8	$24,202	$27,346
Total/Average	820	$14,215,779	$17,336	60.9	28.8	$24,055	$26,952

(7) The cost of the benefit for basic program members was higher than was the cost for coordinated program members, $38,947 compared to $24,540.

(8) Basic program members on average retired at a younger age than coordinated program members did, at the average age of 59.3 years compared to 60.2 years.

(9) Higher-paid basic program members retired at a younger age than lower-paid basic program members and higher-paid coordinated program members retired at a younger age than lower-paid coordinated program members.

(10) The cost per retiree in PERA was generally lower due to lower salaries and lower early retirement reduction factors, which were waived under the temporary Rule of 85 early retirement incentive.

Comparison of Basic and Coordinated Programs, Total Time Period

Retirement Plan	Number Retired	Cost of Rule of 85 Total Add'l Reserves	Average Cost Per Participant	Average Retirement Age	Average Years of Service	Average High-Five Salary	Average Salary at Retirement
Basic Programs							
St. Paul Teachers	64	$2,367,174	$36,987	58.2	30.9	$31,878	$35,311
Minneapolis Teachers	5	$358,993	$152,692	58.4	28.3	$32,833	$37,988
TRA Basic	711	$41,417,815	$58,253	58.4	31.1	$28,588	$33,558
PERA Basic	855	$19,130,885	$22,375	60.1	26.6	$20,558	$22,682
Total/Average	1,635	$63,274,867	$38,947	59.3	28.7	$24,531	$27,953
Coordinated Programs							
Duluth Teachers	51	$1,360,513	$26,677	58.4	28.9	$29,743	$33,244
TRA Coord. Program	1,012	$30,632,879	$30,270	59.7	29.6	$29,989	$34,131
PERA Coordinated	150	$1,674,549	$11,164	61.3	24.6	$23,219	$25,190
MSRS	670	$12,541,230	$18,718	60.8	29.8	$24,202	$27,346
Total/Average	1,883	$46,209,171	$24,540	60.2	29.3	$27,384	$30,981

(11) Basic members were more likely to retire under the Rule of 85 than were coordinated members, with 52% of eligible basic members retired under the benefit while 39% of eligible coordinated members retired under the benefit. The estimates of number eligible were provided by the funds. Large differences in number eligible between TRA and PERA were likely the result of two factors:

- TRA moved to a coordinated plan eight years earlier than PERA, so TRA had more older, long-service coordinated members; and
- PERA had a Rule of 90 in 1984-1986, while the other plans did not, so some of its coordinated members did not need the Rule of 85 to retire early.

MSRS had a lower participating rate perhaps because no state employees receive paid health insurance from the state while in retirement. Some school districts and local units of government provide the benefit to their retirees.

Rule of 85 Percent of Eligible Using Benefit
Total Period Estimate

Retirement Plan	Number Retired	Number Eligible	Percent Participating
Basic Programs			
TRA	711	1,292	55%
PERA	855	1,740	49%
Total/Average	1,566	3,032	52%
Coordinated Programs			
TRA	1,012	2,417	42%
PERA	150	396	38%
MSRS	670	1,938	35%
Total/Average	1,832	4,751	39%

(12) With the exception of Duluth teachers, females retired at an older age and with fewer years of service than males.

(13) The average cost of the benefit for females was less than the average cost of the benefit for males apparently due to lower salaries and fewer years of service for females.

Plan Data by Gender

Retirement Plan	Number Retired	Cost of Rule of 85 Total Add'l Reserves	Average Cost Per Participant	Average Retirement Age	Average Years of Service	Average High-Five Salary	Average Salary at Retirement
Duluth Teachers							
Female	16	$499,590	$31,224	57.5	29.4	$28,582	$32,246
Male	35	$860,923	$24,598	58.9	28.5	$30,274	$33,700
St. Paul Teachers							
Female	19	$697,418	$36,706	58.8	29.7	$29,026	$32,715
Male	45	$1,669,757	$37,106	58.0	31.4	$33,082	$36,407
MSRS							
Female	202	$3,222,806	$15,954	61.2	27.7	$20,125	$23,697
Male	468	$9,318,136	$19,911	60.4	30.6	$25,953	$28,917
PERA							
Female-Basic	242	$3,368,887	$13,921	61.2	25.3	$15,427	$16,974
Female-Coordinated	42	$411,192	$9,790	61.4	23.3	$18,233	$19,753
Male-Basic	629	$16,138,750	$25,658	59.7	27.1	$22,635	$24,891
Male-Coordinated	117	$1,397,288	$11,943	61.2	24.7	$24,981	$27,140

Basic/Coordinated Programs by Gender

Retirement Plan	Number Retired	Cost of Rule of 85 Total Add'l Reserves	Average Cost Per Participant	Average Retirement Age	Average Years of Service	Average High-Five Salary	Average Salary at Retirement
Basic Plans							
Female	261	$4,066,305	$15,580	61.0	25.6	$16,417	$18,120
Male	674	$17,808,507	$26,422	59.6	27.4	$23,333	$25,660
Coordinated Plans							
Female	260	$4,133,588	$15,898	61.0	27.1	20,340	23,586
Male	620	$11,576,347	$18,672	60.5	29.4	$26,014	$28,852
Total Female	521	$8,199,893	$15,739	61.0	26.4	$18,375	$20,848
Total Male	1,294	$29,384,854	$22,709	60.0	28.3	$24,617	$27,189

(14) With the exception of all TRA Basic Program retirees and of TRA Coordinated Program male retirees, retirements under the Rule of 85 during the period May 1, 1984, to July 1, 1987, were fewer in number than those who retired without the benefit of the temporary Rule of 85 early retirement incentive. With the exception of TRA Basic Program female retirees, the average benefit payable under the Rule of 85 was significantly higher than the average benefit payable without the Rule of 85.

	MSRS		PERA				TRA			
			Basic Program		Coordinated Program		Basic Program		Coordinated Program	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
1. Active Membership as of 6/30/84	21,226	22,932	4,803	3,027	26,679	49,193	1,282*	873*	22,717*	33,318*
2. Retirements During Rule of 85 Period										
a. Rule of 85	685	293	816	322	147	68	598	343	919	448
b. Non-Rule of 85	1,482	2,153	1,496	1,391	1,953	2,725	169	202	606	914
c. Total	2,167	2,446	2,312	1,713	2,100	2,793	767	545	1,525	1,362
3. Rule of 85 Retiree Characteristics										
a. Avg. age at retirement	60	61	59	61	61	61	57	58	58	60
b. Avg. service at retirement	30	28	26	24	25	23	29	28	30	27
c. Avg. high-five average annual salary	$27,528	$21,096	$23,527	$16,339	$26,237	$19,519	$28,280*	$25,620*	$30,420*	$27,320*
d. Avg. final annual salary at retirement	$30,264	$24,576	$24,014	$15,765	$27,615	$18,576	$31,950*	$28,940	$34,370*	$30,870*
e. Avg. monthly pension under Rule of 85	$976.00	$668.00	$1,176.60	$723.97	$759.36	$555.05	$1,590.66	$1,387.57	$1,014.01	$808.42
f. Avg. monthly pension payable w/o Rule of 85	$827.12	$563.12	$1,002.42	$640.59	$668.69	$493.80	$1,241.87	$1,079.98	$812.95	$641.45
4. Non-Rule of 85 Retiree Characteristics										
a. Avg. age at retirement	64	64	64	63	64	63	61	62	61	61
b. Avg. service at retirement	21	18	23	20	16	15	24	27	24	19
c. Avg. high-five average annual salary	$22,668	$16,284	$14,146	$8,739	$14,643	$8,329	$24,240*	$21,370*	$27,430*	$21,390*
d. Avg. final annual salary at retirement	$26,328	$19,884	$18,451	$12,154	$17,685	$10,410	$27,390*	$24,140*	$30,990*	$24,170*
e. Avg. monthly pension payable (non-Rule of 85)	$530.00	$310.00	$837.91	$483.46	$295.05	$160.54	$1,111.10	$1,112.77	$708.61	$418.92

** Estimated figure*

In 1986, the Department of Finance evaluated the temporary Rule of 85, early retirement incentive while it was in effect. The department observed that although there appeared to be a net salary savings of $3.25 million, a minority of cases created this result. The department concluded that, in two-thirds of the cases, the direct cost exceeded the salary savings. The report also noted the results of a questionnaire completed by Rule of 85 participants in which 64% of respondents indicated that the Rule of 85 did not influence the timing of their retirement. This indicates that many received a windfall retirement benefit gain since the additional retirement benefits paid under the Rule of 85 did not influence their retirement decisions. This result further suggests that it may not have been appropriate to attribute the net salary gains to the program, since a considerable portion of the savings from termination of some highly paid individuals would have occurred without the program.

The Department of Finance concluded that any early retirement incentive should be tightly targeted. The department recommended that the option should be selectively offered in cases where the employing unit or agency can demonstrate that substantial salary savings or greater productivity will be a result of the retirement, or where staffing numbers must be reduced due to budget constraints. The department further suggested that the additional pension cost should be borne by the employer and not borne by the pension system. If the employer avoids these costs in whole or in part, employer decisions to offer early retirement incentives would be made based on an inflated view of actual potential savings.

b. <u>1990-1993 Early Retirement Incentives</u>. In response to a request from the Legislative Audit Commission, the Program Evaluation Division of the Office of the Legislative Auditor evaluated two types of early retirement incentives, employer-paid health insurance coverage until age 65 (Laws 1990, Ch. 591, Art. 2, Sec. 6; Laws 1991, Ch. 345. Art. 1, Sec. 112; and Laws 1992, Ch. 513, Art. 4, Sec. 58-59) and higher retirement annuity payments than generally available otherwise (Laws 1993, Ch. 192, Sec. 108, and Laws 1993, Ch. 224, Art. 8, Sec 17-18).

The report *Early Retirement Incentives*, March 1995, concentrated on the targeting, public benefits, and public costs of the 1993 early retirement incentive legislation. The recommendations mirror those of the earlier Department of Finance report on the Rule of 85.

The 1990 through 1992 incentives offered paid health care. The 1993 incentive combined features. Members of MSRS-General, PERA-General, or MERF who met program eligibility requirements were offered an additional benefit of .25% of final average salary for each year of service up to 30 years. Unlike the earlier Rule of 85 legislation, which waived the otherwise applicable early retirement reductions, the 1993 annuity incentive increased the accrual rate, counteracting the effect of whatever reductions would be applicable under general law. As an alternative option, the 1993 incentives authorized employer-paid health care to age 65. Permitting access to the health care option was mandatory for state employers, and optional for local employers. Members of TRA or of a first class city teacher plan received both benefits rather than choosing between the two, but the additional pension benefit was to be computed at 0.1% of final average salary rather than 0.25%.

The annuity eligibility requirements for non-teacher plan employees were that the retiring member must:

- Have at least 25 years of covered service in one or more covered plans, or be at least age 65 with one year of service;
- Be at least age 55 and immediately eligible for an annuity; and
- Retire after May 16, 1993 and before January 31, 1994.

Additional requirements were required to be met for eligibility for the health care benefit. The individual must:

- Be currently eligible for employer-paid insurance;
- Be less than age 65; and
- Have at least as many months of service with the current employer as the number of months the individual is younger than age 65 at the time of retirement.

Increased annuity and health care eligibility requirements for teacher plan members were the same, except that the window of eligibility was shorter, May 16, 1993, through August 1, 1993.

In an effort to ensure salary savings, any state position vacated under the early retirement incentive could not be filled except by position-specific written directives issued by the governor. An exception was made for positions providing direct patient care in state institutions and correctional guards. For county, school district or local retirees, refilling the position required action by the appropriate governing body.

The Legislative Auditor found that roughly half of the employees who participated in the incentive program would have retired in the same year had the incentive not been offered and that the incentive probably induced participants to retire an average of 0.5 years to 1.7 years earlier than would be the case without the incentive.

Many of the participants received windfall gains without having any noticeable effect on the employer's budget and salary objectives.

Regarding the net cost of the program, the researchers concluded that the average cost was between $25,500 and $33,500 per retiree, creating a total cost between $101 and $132 million and that the overall public cost of the 1993 incentives probably exceeded any salary savings, although savings may be greater than costs in situations where public employers needed to make significant staff reductions.

The report suggested that the restrictions on filling vacated positions did not have the desire impact on budgets.

Regarding an objective of avoiding layoffs, the Legislative Auditor's researchers found that most employers indicated that the program had no impact on layoffs.

Specific recommendations were that future early retirement incentives should be targeted so that the benefits to public employers will be high in relation to costs and that early retirement incentives should be financed by employers at the time of early retirement.

The report noted that in a single employer plan, the failure to pay the full cost of the early retirement at the time of the retirement causes the cost to be added to the plan's unfunded actuarial accrued liability, resulting in amortization of that cost. If early retirement incentives are a tool to deal with a short-term budget shortfall, it may not be appropriate to pay for the solution for several decades to follow. Problems are compounded in multiple employer plans like TRA and PERA. Much of the cost is time shifted and is also shifted to other employing units that contribute to the plan. In contrast to the pension enhancement, the cost of paid health care for the retiree would be borne directly by the employing unit. Many county and local government units chose not to offer that option. The inability to shift those costs undoubtedly had a role in the decision not to offer that benefit.

c. 1995 Metropolitan Council and Minnesota Historical Society Limited Early Retirement Incentives. The 1995 Legislature enacted a limited early retirement incentive package for the Metropolitan Council and the Minnesota Historical Society. The incentives offered were a choice between the accrual rate increase or the health care coverage provided in the more encompassing 1993 early retirement incentive legislation. The same length of service and age requirements were required to be met. To take part in this new program, individuals were required to retire between May 23, 1995, and before January 31, 1996. Individuals using the early retirement incentives were not permitted to be rehired.

Other restrictions were added reflecting the recommendations in the 1995 Legislative Auditor's report. The Metropolitan Council and the Minnesota Historical Society was authorized, but not mandated, to offer the incentives, based on their review of the cost and budget implications. If offered, the program was limited to otherwise eligible individuals only in positions subject to downsizing and restructuring within these two agencies. To avoid distorting the employer's decisions, the employer was required to pay the full additional value of the enhanced annuity, if that option was chosen, before July 1, 1997, with 8.5% interest.

d. 2006-2009 Temporary Targeted Early Retirement Incentive. A temporary targeted early retirement incentive was enacted in Laws 2006, Chapter 271, Article 3, Section 42, with subsequent amendments in 2007 (Laws 2007, Ch. 134, Art. 11, Sec. 11) and 2009 (Laws 2009, Ch. 169, Art. 1, Sec. 72).

The 2006 legislation provided an early retirement incentive to certain employees covered by the executive or legislative branch, any school district, MnSCU, the Board of Public Defense, or the Minnesota Historical Society, if their employer was facing budget shortfalls. The employee was required to have at least 15 years of service in defined benefit plans or the Unclassified Program, or have at least 5 years of MnSCU-IRAP coverage, and to be immediately eligible for an annuity. The incentive was an employer-paid amount, not to exceed $17,000. This incentive was available to be deposited in a health care account if the individual terminated from service on or before July 15, 2006. If the individual terminated service after July 15, 2006, and before September 1, 2006, the incentive payment was available to be used to purchase service credit toward the “Rule of 90,” or to be used to create an annuity amount under MSRS-Unclassified. The money could have been used to purchase service credit toward a “Rule of 90” benefit only if the employee also contributes toward that purchase from a deferred compensation account. Service credit purchases were required to be made at full actuarial value. The employer was required to be experiencing layoffs due to budget shortfalls or reorganization. The applicable employer was required to designate job classifications or positions eligible for this treatment and was required to document that the incentive payment is less than the cost of a layoff. The provision was made inoperative after September 1, 2006.

The 2007 legislation codified the 2006 legislation as Minnesota Statutes, Section 356.351, and extended the incentive to 2009, with certain eligibility and other provision changes. Rather than being limited to executive and legislative branch state employees, MnSCU and school districts, the program was expanded to include employers with employees (other than elected officials) covered by any plan included in the combined service annuity provision (the MSRS-Unclassified Program, plus all Minnesota public defined benefit plans that base benefits on the high-five average salary). An eligible employing unit was specified as one that was experiencing layoffs or reorganization. Approval to provide an incentive, which was an amount not to exceed $17,000, was required to be obtained from the Department of Finance or applicable governing board. If offered, the incentive amounts were required to be used in a manner authorized by the employer, which may include making a deposit in the MSRS Health Care Savings Plan account or purchasing service credit in the plan that provides coverage for the eligible individual. Individuals who accepted an incentive and retired under this program were prohibited from being rehired as an employee or consultant for three years, although service as a substitute teacher was exempted. The Commissioner of Employee Relations, the Commissioner of Education, and the Chancellor of MnSCU were required to report by August 1, 2008, and annually thereafter, to the Legislative Commission on Pensions and Retirement and various legislative committees on program utilization and salary savings.

The 2009 legislation revised the service credit purchase provision of the early retirement incentives to replace a reference to the Minnesota Post Retirement Investment Fund reserve transfer factors with appropriate alternative language following the dissolution of the Minnesota Post Retirement Investment Fund.

The reports about the utilization of the early retirement incentive provided by the Minnesota Management and Budget Department and by the Minnesota State Colleges and Universities System (MnSCU) indicates the following:

	Employees	Age	Salary Savings	Length of Service	Incentive Amount Paid	Amount of Other Financial Impact
2008	#1	N/R	$0	29.5 yrs	$7,100	Savings of $14,117.31 layoff costs
2009	#1	65	Approx. $47,000	28+ yrs	$12,628.50	None
	#2	61	Approx. $41,700	28 yrs, 9 mo	$2,698.78	None
	#3	67	$36,300	19 yrs	$16,580.41	None
	Avg.	64.3	$39,900	25.25 yrs	$10,635.90	None
2010	#1	50	$78,570	28 yrs, 11 mo	$13,350	None
	#2	59	$63,224	41 yrs	$10,750	None
	#3	60	$36,665	33 yrs, 11 mo	$7,850	None
	#4	62	$93,478	37 yrs, 10 mo	$16,550	None
	#5	64	$84,022	25 yrs, 4 mo	$14,900	None
	#6	61	$35,200	28 yrs, 9 mo	$6,300	None
	#7	64	$41,338	33 yrs, 5 mo	$7,300	None
	#8	66	$36,000	38 yrs, 7 mo	$17,000	None
	#9	58	$41,906	34 yrs, 5 mo	$7,900	None
	#10	57	$41,338	19 yrs, 8 mo	$7,300	None
	Avg.	60.1	$55,174	32.18 yrs	$10,920.00	None

e. 2010 Early Retirement Incentive. A temporary early retirement incentive was enacted in Laws 2010, Chapter 337, Section 1. The early retirement incentive was an employer payment toward health care applicable to all MSRS plans, the Higher Education IRAP, PERA defined benefit plans, TRA, the first class city teacher plans, and MERF.

An early retirement incentive, in the form of a payment toward health care, was authorized to be provided by an eligible appointing authority to a terminating employee who was immediately eligible for an annuity, had at least 15 years of covered service in the Higher Education IRAP or one or more of the combined service annuity plans, accepted the incentive no later than December 31, 2010, retired no later than June 30, 2011, and was not already receiving an annuity from one of the included plans.

An eligible appointing authority was PERA, MSRS, TRA, or MnSCU, or any appointing authority in the executive, legislative, or judicial branch of state government. Appointing authorities were permitted, but not required, to offer the early retirement incentive. The incentive was an amount, not to exceed 24 months of the employer contribution, as specified in the collective bargaining agreement or compensation plan, for health and dental insurance. If the employee had dependent coverage at the time of separation, the amount was to include dependent coverage. Appointing authorities in the executive branch were required to apply for approval from the Commissioner of Management and Budget before providing an early retirement incentive. Unilateral implementation of the incentive was not an unfair labor practice. Acceptance of an incentive was required to be in writing. Anyone accepting an incentive was prohibited from being rehired or providing consulting services for three years to any entity that participates in the State Employee Group Insurance Program. The Commissioner of Management and Budget was required to report to the Legislature by April 2, 2011, regarding the incentive program for 2010, with a recommendation regarding whether the program should be renewed.

On April 2, 2011, the Minnesota Management and Budget Department issued a report to the Legislature on the 2010 early retirement incentive under Laws 2010, Chapter 337.

The report indicated the following:

Number of Employees in Executive, Judicial and Legislative Branches Accepting the Early Retirement Incentive

Executive Branch	1008
Judicial Branch	0
Legislative Branch	
Senate	11
LCC	8
House	declined to report
Total	19
Other State Government	
TRA	3
PERA	0
MSRS	0
Total	3
Grand Total	1030

Number and Average Service Length of Employees Accepting the Early Retirement Incentive by Executive Branch Agency

Agency	Number of Early Retirees	Average Length of Service of Early Retirees
Administration	6	32.3
Administrative Hearings	4	29.5
Agriculture	24	29.2
Animal Health Board	1	26.0
Commerce	5	29.2
Corrections	49	32.6
Education	21	23.6
Economic Development	128	32.2
Health	19	35.5
Housing Finance Agency	12	22.8
Human Services	104	29.4
Labor and Industry	22	29.3
Bureau Mediation Services	2	16.0
MN Management & Budget	2	34.0
Minnesota State Academies	15	31.5
Natural Resources	120	31.4
Office of Ent. Technology	11	28.8
Optometry Board	1	23.0
Pollution Control Agency	21	32.6
Public Safety	17	30.5
Transportation	415	31.4
Veterans Affairs	4	23.0
Zoological Board	5	31.6
Total/Overall Average	1008	28.9

Number of Executive Branch Retirements under the Early Retirement Incentive by Bargaining Unit

Professional Employees (MAPE)	274
Supervisors (MMA)	141
Craft, Maint., Labor (AFSCME)	123
Service (AFSCME)	20
Health Care Non-Prof (AFSCME)	27
Clerical (AFSCME)	112
Technical (AFSCME)	137
Nurses (MNA)	9
Engineers (MGEC)	66
Health Care Professional	1
Teachers (SRSEA)	4
Confidential	32
Severed	4
Managerial	56
Others	2
TOTAL	1008

Number of Executive Branch Retirements under the Early Retirement Incentive by Month and Year

July 2010	2
August 2010	20
September 2010	45
October 2010	66
November 2010	60
December 2010	183
January 2011	83
February 2011	42
March 2011	50
April 2011	58
May 2011	46
June 2011	383
TOTAL	1008

Status of Positions Vacated by Individuals
Utilizing the Early Retirement Incentive

	Positions Refilled	Permanent Reduction	Total Retirements
Executive Branch	594	414	1008
Legislative Branch			
Senate	7	4	11
LCC	7	1	8
House	declined to report		
Other State Government			
TRA	2	1	3
Total	610	420	1030

Estimated Executive Branch Cost Savings from the
Early Retirement Incentive 7/1/10 through 6/30/2013

	Number of Employees	Cost Savings
Estimated refilled positions salary reductions	594	$40,608,000
Estimated non-refilled positions salary reduction	414	$29,652,000
		$70,260,000
Cost of 24 months of insurance		-$23,545,000
Anticipated Total Savings – All Funds		$46,715,000

Recommendations Forwarded by the Minnesota Management and Budget Department about Early Retirement Incentives

(1) Under the 2010 early retirement incentive, the value of 24-months worth of insurance coverage is being placed in the employee's Health Care Savings Plan. For employees with single health insurance coverage, that amount is approximately $11,000. For employees with family coverage, that amount is approximately $30,000. In addition to this large disparity in the incentive amount, basing an incentive amount on the future cost of SEGIP health insurance premiums when those future costs are unknown is not advisable.

(2) Placing the early retirement incentive amount in the Health Care Savings Plan is beneficial to the employee because the amount is received tax free. This arrangement is also beneficial to the state because no federal employer taxes need to be paid.

(3) It is not advisable to place a total restriction on refilling the positions that have been vacated due to the early retirement incentive. Agencies need the ability to refill critical positions and the flexibility to restructure how the work will be done in the future. Significant cost savings can still be accomplished through a mix of not refilling positions immediately, refilling positions at a lower salary, and making strategic permanent reductions.

(4) Determining the time frame for offering and accepting the incentive must be at the agency's discretion. The 2010 early retirement incentive required agencies to offer and employees to accept an incentive by December 31, 2010. This deadline motivated employees to make a decision and allowed agencies the certainty necessary to manage the costs of the early retirement incentive in the current biennium.