Background Information on the 1995 Legislative Session Metropolitan Council and the Minnesota Historical Society Early Retirement Incentives

The 1995 early retirement incentive for the Metropolitan Council and the Minnesota Historical Society (Laws 1995, Ch. 262, Art. 1, Sec. 17-25) was based on incentives offered to state, local, and school district employees in 1993. The design of the 1995 incentives was influenced by recommendations from a Legislative Auditor's report which studied the effectiveness of the 1993 incentives to produce budget savings, reduce cost, and minimize layoffs. Like the earlier and more general 1993 program, the incentives in the 1995 legislation were a choice between paid healthcare to age 65 or a higher annuity for life. The annuity option provided an additional pension benefit of .25% of the high-five average salary for each year of service, up to 30 years, if the person had been covered by the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General), or the Minneapolis Employees Retirement Fund (MERF). The additional accrual rate was .1%, rather than .25%, if the employee had been covered by the Teachers Retirement Association (TRA) or a first class city teacher plan. The general eligibility requirements were that the 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 between May 23, 1995 and before January 31, 1996.

Additional requirements must 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.

The Legislative Auditor’s review of the 1993 incentives found that the 1993 incentives probably did not result in cost savings, that windfall gains were provided to many who would have retired without the incentives in place, and incentives were generally not effective in avoiding layoffs. The report recommended that any future incentives be narrowly targeted to situations where cost savings are likely or layoffs are likely to occur. The report also noted that the employer's decision to offer the program was distorted by cost-shifting. Under the 1993 incentives the cost of the additional retirement benefits was borne by the pension system (all contributing employees and employers) rather than the specific employer offering the incentive. To avoid this cost-shifting, the report recommended that the employer offering the incentives bear the full cost of the additional annuity.

In response to some of these concerns, the 1995 incentives legislation required the person’s employer to pay the full additional actuarial value of the increased formula annuities to the respective retirement plan before July 1, 1997, with 8.5% interest. Also, the incentives were to be offered to employees in positions subject to downsizing and restructuring. Other employees were to be excluded. These requirements provided targeting. Since the employer would bear the full direct cost of providing the incentive, presumably the employer would carefully consider the cost and benefit before offering an incentive. Rehiring employees who retire under the incentives was prohibited.