

MSCF Minute



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Changes to IRAP Contributions

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At last year's delegate assembly, at the end of my Legislative Steering Committee report, a faculty member asked, "Given that TRA will see an increase in the employer contribution next year and that the employer contributions to IRAP have been the same since the beginning, is MSCF at all interested in pursuing an increase to employer contribution for IRAP participants next session?" As it had happened, I had already spoken to a Senator on the pension commission about this very thing. So at the start of this session, myself and a representative from IFO scheduled a meeting with MinnState to pick up where we had left off and talk about increasing the employer contribution to IRAP participants.

During this meeting, MinnState informed us of a potential IRS compliance issue on the Employee contribution side. In a recent article by Susan Lenczewski, the executive director of the legislative commission on pensions and retirement for the state of Minnesota, she argued the existence of the second election opportunity at the 3 year mark for MSCF makes the difference in Employee contribution between TRA (7.5%) and IRAP (4.5%) an IRS compliance issue.

Attorneys at EM and IFO reviewed the article and came to the conclusion the compliance issue does exist and

MinnState will need to address it in order to be back in compliance. Through further discussions, the following options emerged:

1. Remove the second election. If there is no option to revisit the choice at year 3, the compliance issue goes away
2. Increase the Employee contribution from 4.5% to 7.5% for all IRAP participants. Bringing the IRAP Employee contribution in line with the TRA Employee contribution brings MinnState back into compliance.
3. It was speculated that since it is the second election option that brings MinnState out of compliance, technically, only those faculty who have the opportunity to exercise that second election are creating the compliance issue - so increasing only their Employee contribution from 4.5% to 7.5% would bring MinnState back into compliance. As of the writing of this article, we are still awaiting confirmation that this would fully satisfy the compliance issue.

Members of leadership along our MSCF representatives on the DCR committee met to discuss the options and forward a recommendation to the executive committee prior to their meeting on Saturday Feb 16th.

During that discussion a few observations emerged and ultimately informed the final recommendation. One, we worked to get the second election and although a minority of faculty exercise that option, eliminating returns us to the "one time/irrevocable" scenario – and that was not desirable. Two, if we work to limit the scope of those affected as in option 3, we would effectively create a two tiered IRAP system in which some faculty are contributing 7.5% of their pretax money to retirement while others are contributing 4.5%. And three, whatever option we recommended, it serve to also support the original goal of increasing the Employer contribution to IRAP participants. In the end, the exec committee adopted the recommendation that MSCF's position be an increase in the Employee contribution from 4.5% to 7.5% for all IRAP participants.

We are still working with the other stakeholders like IFO, MAPE, ASF and MMA to resolve this issue with MinnState. I will follow up when we make progress on a resolution. Please feel free to contact me with questions – mark.grant@edmn.org