

S.F. xxx

(Author)

H.F. 2025

(Hoppe)

S.F. xxx

(Author)

H.F. 2026

(Hoppe)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): PERA-P&F
Relevant Provisions of Law: Uncoded
General Nature of Proposal: Service Credit Purchase (Alternative Payment Amounts)
Date of Summary: January 23, 2006

Specific Proposed Changes

S.F. xxx; H.F. 2025 (Hoppe) permits 1.5 years of service purchase for union business agent service at equivalent member and employer contribution amounts

S.F. xxx; H.F. 2026 (Hoppe) permits 1.5 years of service purchase for union business agent service at full actuarial value payment

Policy Issues Raised by the Proposed Legislation

1. Conformance with the Historic Policy Considerations about Service Credit Purchases
2. Equitable Considerations Connected with the Proposed Service Credit Purchase
3. Appropriate Prior Service Credit Purchase Payment Amount
4. Appropriate Retirement Plan to Cover the Union Business Agent
5. Need to Expand Minnesota Statutes, Section 353.017, to PERA-P&F Members

Potential Amendments

For S.F. xxx; H.F. 2025 (Hoppe):

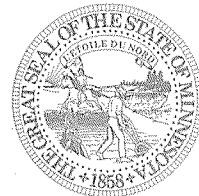
- LCPR-H2025-A1 authorizes purchase in PERA-General rather than PERA-P&F

For S.F. xxx; H.F. 2026 (Hoppe):


- LCPR-H2026-A1 authorizes purchase in PERA-General rather than PERA-P&F

General Amendments:

- LCPR06-BA001 ends future PERA-P&F coverage for Minnesota Sheriff's Association employees
- LCPR06-BA002 ends PERA-P&F coverage for Minnesota Sheriff's Association employees immediately



TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director 

RE: S.F. xxx; H.F. 2025 (Hoppe): PERA-P&F; Service Credit Purchase for Leave of Absence as Employee Organization Business Agent - Contributions Plus Interest Payment

S.F. xxx; H.F. 2026 (Hoppe): PERA-P&F; Service Credit Purchase for Leave of Absence as Employee Organization Business Agent – Full Actuarial Value Payment

DATE: January 23, 2006

Summary of Proposed Legislation

S.F. xxx; H.F. 2025 (Hoppe) permits Timothy S. Mulcrone, not named in compliance with the Minnesota Constitution, but described intentionally as the sole member of a designated class of individuals, to purchase 18 months of PERA-P&F allowable service credit with the payment of the total contributions (7.6 percent member contribution and 11.4 percent employer contribution) that the person would have paid if the person had continued in PERA-P&F covered employment, plus 8.5 percent compound interest on the total contribution amount. The City of Minnetonka, at its option, could pay the portion of the payment amount that represents the employer equivalent contribution amount, plus interest. The purchase authorization would expire on July 1, 2007.

S.F. xxx; H.F. 2026 (Hoppe) permits Timothy S. Mulcrone, not named, but described intentionally as the sole member of a designated class of individuals, to purchase 18 months of PERA-P&F allowable service credit with the payment of the full actuarial value of the additional retirement annuity obtained by the service credit purchase determined under Minnesota Statutes, Section 356.551. The City of Minnetonka, at its option, could pay all or a portion of the payment amount that is in excess of the equivalent member contribution amount, plus interest, under Minnesota Statutes, Section 356.551, Subdivision 2. The purchase authorization would expire on July 1, 2007.

Public Pension Problem of Timothy S. Mulcrone

Timothy S. Mulcrone of Chanhassen, Minnesota, is a sergeant with the Minnetonka Police Department and a member of the Public Employees Police and Fire Retirement Plan (PERA-P&F), who took a leave of absence from the Minnetonka Police Department in 1995 in order to serve as a business agent with his union, but returned to employment with the Minnetonka Police Department after 18 months, in 1997, when his wife was diagnosed with cancer. Mr. Mulcrone indicates that he could have obtained allowable service credit from PERA-P&F for the leave of absence upon its conclusion, but he did not in order to maintain financial flexibility in the face of his wife's eventually fatal illness.

Mr. Mulcrone now desires to obtain allowable service credit for his 18-month leave of absence and seeks special legislation to permit the acquisition at this time.

Background Information on Service Credit Purchases in Minnesota Public Pension Plans

Background information on service credit purchases from Minnesota defined benefit public pension plans and the policy considerations of the Legislative Commission on Pensions and Retirement in processing service credit purchase requests is attached as Appendix A.

Discussion and Analysis

The proposed legislation raises several pension and related public policy issues that may merit consideration and discussion by the Legislative Commission on Pensions and Retirement, as follows:

1. Conformance with the Historic Policy Considerations about Service Credit Purchases. The policy issue is the extent of conformity of either bill with the historic policy considerations used by the Legislative Commission on Pensions and Retirement to evaluate service credit purchases. With the exception of the payment amount with respect to S.F. xxx; H.F. 2025 (Hoppe) and potential equitable considerations for both bills, the bills conform with the historic policy consideration elements, meaning that the legislation applies on an individual basis, involves employment with a public

connection, has a Minnesota connection, involves a current active retirement plan member, and involves a defined benefit plan.

2. Equitable Considerations Connected with the Proposed Service Credit Purchase. The policy issue is whether or not there any equitable considerations adverse to Mr. Timothy S. Mulcrone and his request for a special service credit purchase authorization. The potential adverse equitable considerations would be the length of prior service credit to be purchased, which is in excess of the one year of authorized leave of absence service credit provision otherwise applicable under Minnesota Statutes, Section 353.01, Subdivision 16, the failure of Mr. Mulcrone to utilize this leave of absence service credit acquisition provision when it was available, and the length of the delay that occurred since the leave of absence period, eight years, before the service credit purchase authorization request was forwarded. Offsetting the last two of these adverse considerations were the complications of Mr. Mulcrone's late wife's illness and the financial strain that her condition may have caused for the Mulcrone family. There is a difference between the available amount of allowable service credit when he returned from his leave of absence in 1997 under Minnesota Statutes, Section 353.01, Subdivision 16, Paragraph (a), Clause (4), which was one year, and the length of the service credit purchase requested, which is 1.5 years. A strong policy argument can be made that Mr. Mulcrone should not be permitted to purchase more service credit than the one year of allowable service credit that he could have obtained under the existing PERA law years ago upon his return from the leave of absence.
3. Appropriate Prior Service Credit Purchase Payment Amount. The policy issues are the appropriateness of a prior service credit purchase payment amount based on equivalent contribution amounts plus interest at the actuarial interest rate assumption for S.F. xxx; H.F. 2025 (Hoppe) and the appropriateness of a very expensive full actuarial value prior service credit purchase payment under S.F. xxx; H.F. 2026 (Hoppe). The prior service credit payment amount for S.F. xxx; H.F. 2025 (Hoppe), as calculated by the Public Employees Retirement Association (PERA), would be a member contribution amount, with interest, of \$3,741 and an employer contribution amount, with interest, of \$5,612, for a total payment requirement of \$9,353. The prior service credit payment amount for S.F. xxx; H.F. 2026 (Hoppe), for one year of service credit in PERA-P&F, is \$26,310 (\$23,084 for PERA-P&F and \$3,226 for PERA-General), because Mr. Mulcrone has some PERA-General service credit and the purchase would qualify him for a "Rule of 90" early normal retirement annuity using the Combined Service Annuity. With respect to S.F. xxx; H.F. 2025 (Hoppe), the payment of equivalent contributions, plus interest, is problematic, since prior service credit purchases really represent the equivalent of the purchase of fire insurance after the house has caught on fire and the risk is a dead certainty and where the normal risk pool averaging premium determination no longer applies. Historically, the Legislative Commission on Pensions and Retirement has not recommended service credit purchases without requiring some appropriate full actuarial value payment in order to avoid having the pension plans subsidize the service credit purchases. With respect to S.F. xxx; H.F. 2026 (Hoppe), the full actuarial value payment amount is likely to be very sizable and will be an amount greater than the "full actuarial value-light" payment determination procedure in place from 1998 until May 2004 under Minnesota Statutes 2002, Section 356.55. While the Minnesota Statutes, Section 356.55, procedure charged purchasers less than the Minnesota Statutes, Section 356.551, procedure does, it clearly appeared to undercharge late career purchases and to overcharge earlier career purchases and was allowed to expire on that basis. Although Minnesota Statutes 2002, Section 356.551, constituted a "full actuarial value-light payment requirement," the Minnesota Statutes, Section 356.551, procedure could constitute a "full actuarial value-heavy payment requirement" and it may merit from additional study and review by the Commission and other interested parties.
4. Appropriate Retirement Plan to Cover the Union Business Agent. The policy issue is whether or not the Public Employees Police and Fire Retirement Plan (PERA-P&F) is the appropriate retirement plan to provide retirement coverage for Mr. Mulcrone's period of employment as a union business agent. Because union business agent employment does not involve the hazards related to public safety employment and is of a different nature than his prior employment as a police officer, coverage for the business agent service would be more appropriate in the Coordinated Program of the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) than PERA-P&F, even though Mr. Mulcrone was a business agent for a police union. This conclusion, based on the nature of the employment rather than its connection to the individual's prior employment, however, differs from an analogous situation in providing PERA-P&F coverage for former PERA-P&F members employed by the Minnesota Sheriff's Association. In 1989 (Laws 1989, Chapter 319, Article 11, Section 1), the PERA-P&F membership election option for certain Minnesota Sheriff's Association employees was added to PERA's law with PERA support, despite the fact that Sheriff's Association employment does not involve regular recurring public safety employment hazards. If the Commission decides to permit this purchase, but concludes that PERA-General is the appropriate plan

in which the service credit should be purchased, the equivalent contribution approach of S.F. xxx; H.F. 2025 (Hoppe) according to PERA would produce a cost of \$4,288, inclusive of interest (\$2,082 member amount; \$2,206 employer amount) and the full actuarial value approach of S.F. xxx; H.F. 2026 (Hoppe) would produce a payment equivalent of \$3,226. **Amendment LCPR-H2025-A1** would permit the purchase under the contribution equivalent approach in PERA-General rather than PERA-P&F. **Amendment LCPR-H2026-A1** would permit the purchase under the full actuarial value approach in PERA-General rather than PERA-P&F. **Amendment LCPR06-BA001** would eliminate the special Minnesota Sheriff's Association/PERA-P&F membership provision for all future hires by the Sheriff's Association. **Amendment LCPR06-BA002** would repeal the special Minnesota Sheriff's Association/PERA-P&F membership provision outright.

5. Need to Expand Minnesota Statutes, Section 353.017, to PERA-P&F Members. The policy issue is the question of whether or not Minnesota Statutes, Section 353.017, the PERA-General Employee Retirement Plan Coordinated Program labor organization employee membership provision, should be expanded to provide a comparable coverage option for public safety employees who function as labor organization employees. It is unclear how many current or former public safety employees have shifted to labor organization employment, as Mr. Mulcrone did. If there is some minimum threshold number who have or would do so, it may be appropriate to address the issue. In any proposal addressing the issue, however, the question arises whether or not public safety pension plan coverage is appropriate for former public safety officers who function as labor organization business agents rather than performing their police or fire function. Public safety plans are designed to address the hazardous nature of public safety employment and the earlier date generally for concluding a public safety employment period, but union business agents and related employees are not subject to the same risks or career expectations as police officers or firefighters. Any expansion of Minnesota Statutes, Section 353.017, to include public safety employee organization representatives probably should provide PERA-General Coordinated Program coverage rather than PERA-P&F coverage for the duration of the union employment. Had Mr. Mulcrone been able to utilize Minnesota Statutes, Section 353.017, with PERA-General Coordinated Program coverage for his union employment, he would have suffered a much smaller loss of retirement coverage value than he actually did bear. **Amendment LCPR06-BA003** extends PERA-General Coordinated Program coverage for former PERA-P&F members who become public employee union business agents.

Appendix A

Background Information on Retirement Plan Service Credit and Service Credit Purchases

- a. Defined Benefit Plans. Most Minnesota public pension plans are defined benefit plans. In defined benefit plans, the pension benefit amount that is ultimately payable is pre-determinable or fixed using a formula or comparable arrangement. The fixed element of the benefit amount leaves a variable element, which is the funding required to provide that benefit. The formula utilizes allowable service credit and salary credit in the calculation, averaging the salary amounts for the five successive years' average salary period that produces the highest amount for use as the base to which is applied a total percentage amount determined by assigning a percentage amount to each year of allowable service credit.
- b. Historical Shift in Plan Types and to Salary-Based Plans. Minnesota's statewide retirement plans were not originally salary-related pension plans, with the predecessor to TRA established in 1915 as a money purchase (defined contribution) plan, with MSRS-General established in 1929 as a set dollar amount (\$200 per month) plan, and with PERA-General established in 1931 also as a set dollar amount (\$200 per month) plan. Conversion to salary-related pension plans occurred for MSRS-General and PERA-General in 1957, which was a recommendation of the initial interim predecessor to the Legislative Commission on Pensions and Retirement, and for TRA in 1969, which was a recommendation of the initial permanent predecessor to the Pension Commission. The first class city teacher retirement fund associations and Minneapolis Employees Retirement Fund (MERF) generally shifted to salary-related pension plans in the 1950s (the Duluth Teachers Retirement Fund Association (DTRFA) shifted in 1971).
- c. Definition of Minnesota Defined Benefit Public Pension Plan Service Credit. Allowable service credit in Minnesota's statewide and major local defined benefit retirement plans generally includes many different service periods, which are:
 1. Covered Current Service. Employment is a covered position with a covered employer for which member contributions have been deducted and transmitted to the retirement plan;
 2. Historic Credit in Plan Records. Service credit as reflected in the records of the retirement plan that predates the plan's establishment or reformulation;
 3. Military Service Leave. Periods of service in the U.S. Armed Forces during a leave of absence;
 4. Temporary Disability Periods. Periods of leaves caused by a temporary disability;
 5. Credit Reinstated by a Refund Repayment. Periods of service covered by a prior refund of member contributions which have been repaid subsequently;
 6. Part-Time Employment. Periods where full service credit is granted for part-time employment;
 7. Sabbatical Leaves and Other Leaves of Absence with Pay. Periods of an authorized leave of absence during which the member is paid a whole or a partial salary;
 8. Extended Leaves of Absence Without Pay. Periods of an authorized leave of absence without pay;
 9. Labor Union Employment or Elective Service. Periods of employment as an exclusive collective bargaining representative or as a elected official;
 10. Parental or Family Leaves of Absence. Periods of leaves or breaks in service for parental or family reasons;
 11. Strike Periods. Periods of a labor union strike; and
 12. Out-of-State Teaching or Other Outside Service. Periods of teaching service, Peace Corps service, or VISTA service.
- d. Purpose of Service Credit. Service credit in a Minnesota defined benefit retirement plan exists for three reasons, determining vesting rights, determining eligibility for an early normal retirement annuity, and determining the amount of a retirement annuity.

Vesting is the circumstance of possessing a non-forfeitable right to an eventual retirement annuity, even if covered employment is terminated before reaching retirement age. In virtually all Minnesota defined benefit retirement plans, the vesting period is three years of service credit, which need not be consecutive periods of service and which may include service covered by more than one Minnesota defined benefit retirement plan.

Early normal retirement annuity eligibility in Minnesota defined benefit retirement plans generally means qualification for the “Rule of 85,” where a member can retire with an unreduced retirement annuity when the sum of the person’s age and service credit total at least 85, or for the Minneapolis Employees Retirement Fund (MERF) or the Basic Program of the Minneapolis Teachers Retirement Fund Association (MTRFA-Basic), means qualification for the “30 and out” unreduced retirement annuity payable when a person has credit for at least 30 years of service credit.

Retirement annuity determination is the calculation of a member’s defined benefit retirement annuity, using the plan’s benefit accrual rate percentage (frequently 1.7 percent per year of service credit), multiplied by the member’s service credit, and the total applied to the member’s final average salary figure (highest five years average salary).

Defined benefit retirement plans exist to provide a retirement annuity at the conclusion of an employee’s normal working lifetime. Service credit allows for the retirement plan to bear its proportional share of the burden of the ultimate total retirement annuity amount.

- e. Special Legislation Service Credit Purchase Authorization. In Minnesota, until 1999, there were few general law service credit purchase authorizations, and service credit purchase authorizations were generally special law provisions.

The primary general law service credit purchase authorization was Minnesota Statutes 2004, section 354.51, enacted in 1931, when the Teachers Retirement Association (TRA) was a defined contribution retirement plan, which allows TRA members with 15 years of service who have pre-1953 out-of-state teaching service to purchase that service by making equivalent member contributions, plus interest at the rate of 8.5 percent per annum.

During the period 1957-2003, the Legislature has enacted 241 special laws authorizing one person or a small group of individuals to purchase prior service credit, distributed as follows:

Year	Number	Year	Number	Year	Number	Year	Number	Year	Number	Year	Number
1957	1	1971	2	1979	7	1986	6	1993	7	2000	8
1959	4	1973	4	1980	4	1987	3	1994	8	2001	10
1961	5	1974	5	1981	14	1988	7	1995	7	2002	2
1963	6	1975	10	1982	16	1989	12	1996	6	2003	6
1965	5	1976	4	1983	2	1990	10	1997	3	2004	1
1967	1	1977	9	1984	3	1991	6	1998	9	2005	1
1969	2	1978	9	1985	2	1992	6	1999	8		

A majority of special prior service credit purchase laws relate to the three major general employees retirement plans, with 33 special laws relating to the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), with 75 special laws relating to the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General), and with 43 special laws relating to the Teachers Retirement Association (TRA).

In considering special law service credit purchase requests, the Legislative Commission on Pensions and Retirement has generally followed its Principles of Pension Policy, which require:

1. Individual Review. The Commission considers each service credit purchase request separately, whether the request is proposed legislation for a single person or is proposed legislation relating to a group of similarly situated individuals.
2. Public Employment. The period requested for purchase should be a period of public employment or service that is substantially akin to public employment. This is consistent with the notion that public pension plans should be providing coverage for public employees for periods of time when they were serving the public through public employment or through quasi-public employment. Coverage for a period when an individual provided private sector employment is not consistent with this statement.
3. Minnesota Connection. The employment period to be purchased should have a significant Minnesota connection. This is consistent with the notion that Minnesota taxpayers support these public pension plans and bear the investment risk in amassing plan assets. Given the support that taxpayers provide, it is appropriate that the service have a Minnesota connection, reflecting services provided to the people in the state.

4. Presumption of Active Member Status at the Time of Purchase. The principle states that contributions should be made by the member or in combination by the member and by the employer. It is presumed that the individual covered by the service purchase request is an active employee, because retirees generally are not considered to be “members” of a plan and these individuals no longer have a public employer. If there are unresolved issues of whether an individual should have service credit for a given period, those issues should be resolved before the individual terminates from public service, and certainly before the individual retires. The act of retiring undermines a claim that there is sufficient need for the Legislature to consider the coverage issue. If there were considerable hardship caused by the lack of service credit, presumably the individual would not have retired. Entering retirement suggests that the associated pension benefit is adequate without any further increase in the benefit level due to a purchase. Only on rare occasions have the Commission and the Legislature authorized service credit purchases by retirees.
5. Presumption of Purchase in a Defined Benefit Plan. The prior service credit purchase contributions in total should match the associated actuarial liability. The specific procedures in Minnesota Statutes and law for computing service credit purchase amounts, Minnesota Statutes, Sections 356.55 and 356.551, presume that the purchase is in a defined benefit plan with a benefit based on the individual’s high-five average salary. There is no process in law specifying a procedure for computing a “full actuarial value” purchase in a defined contribution plan, or even defining what that concept means in the context of a service purchase or service credit purchase in a defined contribution plan.
6. Full Actuarial Value Purchase. Within the context of a defined benefit plan, the pension fund should receive a payment from the employee, or from the employee and employer in combination, which equals the additional liability placed on the fund due to the purchase. This amount is referred to as the full actuarial value of the service credit purchase. The procedure used to compute this full actuarial value should be a methodology that accurately estimates the proper amounts. When clear evidence indicates that the employing unit committed an error that caused the individual to not receive pension plan coverage, the Commission has permitted the employee to make the employee contribution for the relevant time period, plus 8.5 percent interest, and the employer has been mandated to cover the remainder of the computed full actuarial value payment. If the employer does not directly make the payment following notification that the employee has made his or her portion of the full payment, the Commission has required that a sufficient amount to cover the remainder of the full actuarial value be deducted from any state aids that would otherwise be transmitted to the employer. The Commission has purposely departed from the full actuarial value requirement when there is evidence that the pension plan administration created the lack of service credit coverage due to pension plan administration error. In situations of pension plan error, the employee may be required to pay the contributions that would have been required for the relevant time period, plus 8.5 percent interest to adjust for the time value of money, leaving any difference between that payment and the full actuarial value to be absorbed by the pension fund.
7. No Violation of Equitable Considerations. Purchases of service credit should not violate equitable considerations. Equity is a resort to general principles of fairness and justice whenever the existing law is inadequate. In general, any issue or factor associated with a service credit purchase request which can be viewed as lacking fairness or being less than impartial can be a basis for rejecting a request. Requests by existing retirees to purchase additional service credit and have their annuities recomputed could be viewed as being a situation that violated equity considerations. New requests on behalf of individuals who were covered by purchase of service credit authorizations passed by earlier Legislatures but who are dissatisfied with the purchase of service credit terms that were provided can be considered as violating equity considerations. Individuals requesting service credit purchases for periods specifically excluded from plan coverage under the applicable law could be considered as violating equity considerations, among other policy concerns relating to those considerations. Requests to purchase service credit for periods covered by another pension plan may raise equity concerns. Generally, a service credit purchase is intended to fill a gap in coverage, not to create double coverage. Long delays in seeking remedial action can also be considered a violation of equity considerations. Individuals tend to wait until late in their career before seeking any remedial action for lost service credit. Prompt action, closer to the time period when the service credit problem occurred, would often result in a solution at a lower cost and would avoid efforts by the Commission to try to determine the factual situation many years, or even decades, after the event occurred.

- f. 1999-2004 General Service Credit Purchase Provisions. The recently expired full actuarial value service credit purchase provisions and the years in which they were enacted are as follows:

1999

- Military service (TRA and first class city teacher plans)
- Out-of-state teaching service (TRA and first class city teacher plans)
- Maternity leave or absence or maternity break-in-service (TRA and first class city teacher plans)
- Parochial or private school teaching service (TRA and first class city teacher plans)
- Peace Corps and VISTA service (TRA and first class city teacher plans)
- Charter school teaching (TRA and first class city teacher plans)
- Previously uncredited part-time teaching service (first class city teacher plans)

2000

- Military service (various MSRS plans, PERA plans)
- Teaching service credit for various nonprofit Community Based Corporation service (TRA and first class city teacher plans)

2001

- Out-of- country and tribal teaching service credit (TRA and first class city teacher plans)
- Developmental Achievement Center teaching service (TRA and first class city teacher plans)
- Uncovered teaching service at University of Minnesota (TRA and first class city teacher plans)
- Parental leave/break-in-service (teacher plans, various MSRS and PERA plans, various other plans)

In 1999, the Commission was persuaded to support several proposed generalized service credit purchase provisions applicable to the Teachers Retirement Association and the first class city teacher retirement fund associations (the Duluth Teachers Retirement Fund Association, the Minneapolis Teachers Retirement Fund Association, and the St. Paul Teachers Retirement Fund Association). Under these provisions, classes of individuals (those with prior military service, out-of-state teaching service in a K-12 situation, individuals who taught in parochial schools, provided Peace Corp service and various other groups), were permitted to purchase service credit in the applicable Minnesota plan for the specified service. These provisions, which were strongly supported by teacher groups, conflicted with the Commission's policy statement in several ways. All lacked any requirement of an individual review of the circumstance. Others were not related to public service or had no Minnesota connection.

In 2000, more service credit purchase provisions were added to law, this time for non-teacher plans, providing a full actuarial value service credit provision for individuals who had military service prior to becoming a public employee, or who failed to pay contribution requirements in a timely manner under other military leave service credit purchase provisions. These provisions enacted in 2000 were comparable to the military service credit provisions added to teacher plan law a year earlier. In 2000, teacher plan law was also revised to permit full actuarial value service credit purchases for non-profit community-based teaching service.

In 2001, several other service credit purchase provisions were enacted. An out-of-country teaching service credit purchase provision was created in teacher plan law, and also one for Development Achievement Center teaching. These new provisions included sections of law permitting purchase of service credit, not to exceed ten years, in the teacher plans for service while teaching at the University of Minnesota which was not covered by a pension plan at the university. These provisions stemmed from a legislative request for the executive director of the Minneapolis Employees Retirement Fund, who many years earlier taught some accounting courses at the University while employed in a position that was excluded from pension plan coverage. The final generalized service credit provision enacted was a family leave provision permitting individuals who may be covered by a teacher plan, or any of several other general employee and public safety plans, to purchase service credit for the past family leaves or family-related breaks-in-service.

There are several reasons why the Commission and Legislature may have supported the above provisions. First, the provisions were intended to be temporary. Each was set to expire a few years after enactment. The departure from policy may have been viewed as a short-term departure from established policy to address short-term market conditions for teachers. Second, the Legislature had been given assurances that the provisions created no financial harm to the pension funds because the purchases would be at full actuarial value. The methodology to compute full actuarial value purchase prices had been revised in 1998, and the teacher unions and the administrators of the teacher pension

funds were confident that the procedures would produce accurate price estimates, thereby shielding other fund contributors from subsidizing these purchases. When the revised methodology was enacted in 1998 as Minnesota Statutes, Section 356.55, the section included a provision requiring data to be retained and analyzed on every service credit purchase made using the procedure, and the section included an expiration date. If legislative review of these purchases suggested that the procedure was not accurate and was causing subsidies to occur, the section would be permitted to expire. If it expired, a previous procedure used to estimate full actuarial value, coded as Minnesota Statutes, Section 356.551, would again become effective. That prior procedure in Minnesota Statutes, Section 356.551 tended to produce higher cost estimates than the revised procedure. Teacher unions and other constituent groups favor continuing the revised procedure in Minnesota Statutes, Section 356.55, because it tends to produce lower prices. From a policy standpoint, the Minnesota Statutes, Section 356.55 procedure is better if it is more accurate than the prior procedure. If the lower prices are resulting in subsidies, its use harms the pension funds.

As the repeal date for the revised full actuarial methodology and each of these temporary generalized service credit provisions approached, the repeal dates were extended by the Legislature due to strong support for these provisions from the teacher unions and other constituent groups. Most of the provisions have now been extended more than once, but generally expired in July 2004.

- 1.1 moves to amend S.F. No.; H.F. No. 2025, as follows:
- 1.2 Page 1, line 11, delete "public" and insert "general"
- 1.3 Page 1, line 12, delete "police and fire" and after "plan" insert "of the Public
- 1.4 Employees Retirement Association"
- 1.5 Page 2, line 2, delete "19" and insert "8.71"
- 1.6 Page 2, line 7, delete "60" and insert "51.45"
- 1.7 Amend the title accordingly

- 1.1 moves to amend S.F. No.; H.F. No. 2026, as follows:
- 1.2 Page 1, line 11, delete "public" and insert "general"
- 1.3 Page 1, line 12, delete "police and fire" and after "plan" insert "of the Public
- 1.4 Employees Retirement Association"
- 1.5 Amend the title accordingly

1.1 moves to amend S.F. No.; H.F. No., as follows:

1.2 Page ..., after line ..., insert:

1.3 "Sec. Minnesota Statutes 2004, section 353.64, subdivision 9, is amended to read:

1.4 Subd. 9. **Pension coverage for certain sheriffs' association employees.** A former
1.5 member of the association who ~~is~~was an employee of the Minnesota Sheriffs' Association
1.6 on January 15, 2006, may elect to be a~~remains a member of the police and fire fund~~
1.7 ~~member with respect to service with the sheriffs' association, if written election to be~~
1.8 ~~covered is delivered to the board within 60 days after July 1, 1989, or within 60 days after~~
1.9 ~~commencement of employment, whichever is later.~~

1.10 ~~Employee and employer contributions for past service are the obligation of~~
1.11 ~~the employee, except that the Minnesota sheriffs' association may pay the employer~~
1.12 ~~contributions.~~ The employer shall, in any event, deduct necessary future contributions
1.13 from the employee's salary and remit all contributions to the association as required
1.14 by this chapter.

1.15 Persons who become association members under this section ~~shall~~are not be eligible
1.16 for election to the board of trustees.

1.17 "

1.18 Renumber the sections in sequence and correct the internal references

1.19 Amend the title accordingly

- 1.1 moves to amend S.F. No.; H.F. No., as follows:
- 1.2 Page ..., after line ..., insert
- 1.3 "Sec. **REPEALER.**
- 1.4 Minnesota Statutes 2004, section 353.64, subdivision 9, is repealed."
- 1.5 Renumber the sections in sequence and correct the internal references
- 1.6 Amend the title accordingly

1.1 moves to amend S.F. No.; H.F. No., as follows:

1.2 Page ..., after line ..., insert

1.3 "Sec. Minnesota Statutes 2004, section 353.017, subdivision 1, is amended to
1.4 read:

1.5 Subdivision 1. **Qualifications.** Unless specifically exempt under section 353.01,
1.6 subdivision 2b, a coordinated member of the association or a member of the police and
1.7 fire retirement plan who is on an authorized leave of absence, and who is an employee
1.8 of a labor organization that represents public employees who are association members
1.9 may elect, under subdivision 2, to continue to be or to become, whichever applies, a
1.10 coordinated member with respect to employment by the labor organization subject to the
1.11 limitations set forth in subdivisions 4 and 7.

1.12 "

1.13 Renumber the sections in sequence and correct the internal references

1.14 Amend the title accordingly

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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-FOURTH
SESSION

HOUSE FILE No. **2025**

March 22, 2005

Authored by Hoppe

The bill was read for the first time and referred to the Committee on Governmental Operations and Veterans Affairs

1 A bill for an act

2 relating to retirement; public employees police and
3 fire retirement plan; authorizing the purchase of
4 prior service credit for a leave of absence as an
5 employee organization business agent.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

7 Section 1. [PUBLIC EMPLOYEES POLICE AND FIRE PLAN;
8 EMPLOYEE ORGANIZATION BUSINESS AGENT LEAVE OF ABSENCE SERVICE
9 CREDIT PURCHASE.]

10 (a) An eligible person described in paragraph (b) is
11 entitled to purchase allowable service credit in the public
12 employees police and fire retirement plan for the period
13 described in paragraph (c) by making the payment required under
14 paragraph (d).

15 (b) An eligible person is a person who:

16 (1) was born on January 3, 1959;

17 (2) was employed by the Minnetonka Police Department before
18 1995;

19 (3) was granted a leave of absence from employment by the
20 Minnetonka Police Department in 1995 to serve as the business
21 agent for an employee labor organization; and

22 (4) returned to employment with the Minnetonka Police
23 Department from the leave of absence in 1997.

24 (c) The period of service credit available for purchase
25 under this section is one and one-half years.

1 (d) The prior service credit purchase payment amount is an
2 amount equal to 19 percent of the average salary of the eligible
3 person during the six months preceding the leave, plus annual
4 compound interest on the total equivalent contribution amount at
5 the rate of 8.5 percent from the midpoint of the leave of
6 absence until the date on which the payment is made. If the
7 city of Minnetonka so elects, the city may pay up to 60 percent
8 of the total equivalent contribution amount and interest.

9 Sec. 2. [EFFECTIVE DATE.]

10 (a) Section 1 is effective the day following final
11 enactment.

12 (b) Section 1 expires July 1, 2007.

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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-FOURTH
SESSION

HOUSE FILE No. 2026

March 22, 2005

Authored by Hoppe

The bill was read for the first time and referred to the Committee on Governmental Operations and Veterans Affairs

1 A bill for an act

2 relating to retirement; public employees police and
3 fire retirement plan; authorizing the purchase of
4 prior service credit for a leave of absence as an
5 employee organization business agent.

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21 agent for an employee labor organization; and

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23 Department from the leave of absence in 1997.

24 (c) The period of service credit available for purchase
25 under this section is one and one-half years.

1 (d) The prior service credit purchase payment must be
2 calculated under Minnesota Statutes, section 356.551.

3 Sec. 2. [EFFECTIVE DATE.]

4 (a) Section 1 is effective the day following final
5 enactment.

6 (b) Section 1 expires July 1, 2007.