S.F. 1057, 3rd Engrossment, Article 2

(Pogemiller)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s):	Teachers Retirement Association (TRA); Minneapolis Teachers Retirement Fund Association (MTRFA); other plans
Relevant Provisions of Law:	Minnesota Statutes, Chapters 354 and 354A, primarily
General Nature of Proposal:	Consolidation of MTRFA into TRA
Date of Summary:	January 17, 2006

Specific Proposed Changes

1. Allows Minneapolis School Board to bond for MTRFA unfunded actuarial accrued liability.
2. Mandates MTRFA consolidation into TRA.
3. Increases TRA benefit accrual rate for prospective service.
4. Increases TRA member and employer contribution rates.
5. Extends TRA amortization target date.
6. Requires additional special funding from S.S.D. No. 1, City of Minneapolis, and State.
7. Dedicates MTRFA State aids to TRA.
8. Provides employment protection to MTRFA employees.

Policy Issues Raised by the Proposed Legislation

1. Appropriateness of granting pension obligation bonding authority to Special School District No. 1.
2. Appropriateness of a state mandated involuntary consolidation.
3. Appropriateness of proposed member and employer contribution increases.
4. Need for additional TRA funding; appropriate bearer of the burden.
5. Perception of MTRFA/TRA consolidation as Minneapolis bailout at TRA expense.
6. Appropriateness of proposed benefit accrual rate increase.
7. Appropriateness of amortization period extension to 30 years.
8. Applicability and appropriateness of rededicating a portion of the MERF State Aid.
9. Appropriateness of making voluntary Minneapolis City and Minneapolis School District/State aid-matched additional contributions mandatory.
10. Appropriateness of the repeal of the MTRFA post-retirement adjustment mechanism.
11. Appropriateness of MTRFA administrative staff employee protections.

Potential Amendments

Amendment LCPR S1057-3-A1:	Update of dates from 2006 to 2006 (technical).
Amendment LCPR S1057-3-A2:	Requires additional direct TRA aid by the State for projected TRA support deficiency following consolidation.
Amendment LCPR S1057-3-A3:	Requires additional funding of TRA by Minneapolis teachers and Minneapolis school district for projected post-consolidation TRA support deficiency.
Amendment LCPR S1057-3-A4:	Requires additional funding of TRA by TRA members and employers for projected post-consolidation TRA support deficiency.
Amendment LCPR S1057-3-A4:	Increases State, Minneapolis School District, and City of Minneapolis additional contributions to cover post-consolidation TRA support deficiency.

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director

RE: Article 2 of S.F. 1057 (Pogemiller), Third Engrossment: TRA/MTRFA; Consolidation, Prospective Service Benefit Accrual Increase, and Contribution Increase

DATE: January 13, 2006

Summary of Article 2 of S.F. 1057 (Pogemiller); Third Engrossment

Article 2 of S.F. 1057 (Pogemiller), Third Engrossment, amends various provisions of Minnesota Statutes, Chapters 128D, relating to Special School District No. 1, Minneapolis; 354, relating to the Teachers Retirement Association (TRA); 354A, relating to the first class city teacher retirement plans, generally; and 423A, relating to the allocation of additional amortization state aid, by making the following changes:

1. Pension Obligation Bonding Authorized for MTRFA. Special School District No. 1, Minneapolis, is authorized to issue pension obligation bonds in an amount not to exceed the Minneapolis Teachers Retirement Fund Association (MTRFA) unfunded actuarial accrued liability and to be deposited in the Teachers Retirement Association (TRA) to offset the MTRFA unfunded actuarial accrued liability owed by the school district, with the current State aids payable to MTRFA rededicated to pay the debt service on the bonds. (Section 1)

2. MTRFA Members Transferred to TRA; MTRFA Consolidation into TRA. New teachers hired by Special School District No. 1 and all members of MTRFA are made members of TRA, past service credit by active MTRFA members is made TRA service credit, and the liabilities, assets, and records of the MTRFA are transferred to TRA. (Sections 3, 4, 8, 10-35, 37, 38, 42, and 45, especially Section 8)

3. TRA Member and Employer Contribution Increase. The member contribution rate for TRA members who are not Minneapolis teachers is increased by one-half of one percent, to 5.5 percent of covered pay, the member cont4ribution rate of Minneapolis teachers is also set at 5.5 percent of covered pay, the employer contribution by TRA-covered employing units other than Special School District No. 1 is increased by one-half of one percent, to 5.5 percent, and the Special School District No. 1 regular employer contribution is retained at the current rates. An additional contribution, allocated equally between the City of Minneapolis, Special School District No. 1, and the State of Minnesota, of 0.26 percent of the TRA covered payroll is also added. The current special State aids to MTRFA are made payable to TRA, including any unused State aid otherwise payable to the Minneapolis Employees Retirement Fund (MERF). (Sections 2, 5, 6, 9, and 39)

4. Prospective Service TRA Benefit Accrual Rate Increase. The benefit accrual rate for the TRA defined benefit retirement annuity is increased by 0.3 percent of the final average salary for each year of service credit rendered after the enactment of the legislation. (Sections 7 and 36)

5. Extension of TRA Amortization Date. The target date used for calculating the amortization requirement for TRA would be extended to a 30-year period. (Section 40)

6. Job Preferences for MTRFA Employees. Current employees of the MTRFA are given an employment preference for subsequent employment by the TRA, the Minnesota State Retirement System (MSRS), or the Public Employees Retirement Association (PERA), equivalent to a veteran's preference. (Section 41)

7. Additional State Funding. $2.5 million each for Fiscal Year 2006 and Fiscal Year 2007 is appropriated, half from the State General Fund and half from the education reserve account, to TRA to cover the additional contribution summarized under Item #3. Additionally, the amount to offset the TRA regular employer contribution increase summarized under Item #3 is appropriated from the State General Fund. (Sections 43 and 44)

Background Information on MTRFA and MTRFA Funding Problem

Background information relating to the history and operation of the Minneapolis Teachers Retirement Fund Association (MTRFA) and to the MTRFA funding problem is included as part of the Commission staff issue memorandum on S.F. 1519 (Pogemiller); H.F. 1615 (Smith), attached.

Comparison of 2004 and 2005 MTRFA and TRA Actuarial Valuation Results

a. MTRFA 2004 and 2005 Actuarial Valuation Results Comparison

	2004		2005		Difference	
Membership						
Active Members		5,074		4,756		-318
Service Retirees		3,449		3,537		88
Disabilitants		24		25		1
Survivors		291		277		-14
Deferred Retirees		1,243		1,377		134
Nonvested Former Members		3,384		3,604		220
Total Membership		13,465		13,576		111
Funded Status						
Accrued Liability		$1,729,551,327		$1,755,912,975		$26,361,648
Current Assets		$877,763,977		$783,354,138		-$94,409,839
Unfunded Accrued Liability		$851,787,350		$972,558,837		$120,771,487
Funding Ratio	50.75%		44.61%		-6.14%	
Financing Requirements						
Covered Payroll		$249,069,999		$231,208,456		-$17,861,543
Benefits Payable		$118,352,032		$123,031,355		$4,679,323
Normal Cost	9.59%	$23,889,438	9.51%	$21,981,273	-0.08%	-$1,908,165
Administrative Expenses	0.28%	$697,396	0.29%	$670,505	0.01%	-$26,891
Normal Cost & Expense	9.87%	$24,586,834	9.80%	$22,651,778	-0.07%	-$1,935,056
Normal Cost & Expense	9.87%	$24,586,834	9.80%	$22,651,778	-0.07%	-$1,935,056
Amortization	28.24%	$70,337,368	36.50%	$84,391,086	8.26%	$14,053,718
Total Requirements	38.11%	$94,924,202	46.29%	$107,042,864	8.18%	$12,118,662
Employee Contributions	5.78%	$14,405,402	5.74%	$13,266,140	-0.05%	-$1,139,262
Employer Contributions	8.52%	$21,216,367	8.46%	$19,553,269	-0.06%	-$1,663,098
Employer Add'l Cont.	--	--	--	--	--	--
Direct State Funding	7.56%	$18,829,000	7.70%	$17,814,000	0.15%	-$1,015,000
Other Govt. Funding	1.00%	$2,500,000	1.08%	$2,500,000	0.08%	$0
Administrative Assessment	0.00%	$0	0.00%	$0	--	--
Total Contributions	22.87%	$56,950,769	22.99%	$53,133,409	0.12%	-$3,817,360
Total Requirements	38.11%	$94,924,202	46.29%	$107,042,864	8.18%	$12,118,662
Total Contributions	22.87%	$56,950,769	22.99%	$53,133,409	0.12%	-$3,817,360
Deficiency/(Surplus)	15.24%	$37,973,433	23.30%	$53,909,455	8.06%	$15,936,022

b. TRA 2004 and 2005 Actuarial Valuation Results Comparison

	2004		2005		Difference	
Membership						
Active Members		72,008		74,552		2,544
Service Retirees		34,581		35,779		1,198
Disabilitants		589		581		-8
Survivors		2,479		2,597		118
Deferred Retirees		10,767		9,880		-887
Nonvested Former Members		18,223		19,151		928
Total Membership		138,647		142,540		3,893
Funded Status						
Accrued Liability		$17,518,783,700		$18,021,410,061		$502,626,361
Current Assets		$17,519,909,350		$17,752,917,313		$233,007,963
Unfunded Accrued Liability		($1,125,650)		$268,492,748		$269,618,398
Funding Ratio	100.01%		98.51%		-1.50%	
Financing Requirements						
Covered Payroll		$3,206,759,440		$3,389,066,754		$182,307,314
Benefits Payable		$1,008,410,471		$1,048,440,524		$40,030,053
Normal Cost	8.07%	$258,898,450	8.02%	$271,801,325	-0.05%	$12,902,875
Administrative Expenses	0.39%	$12,506,362	0.34%	$11,522,827	-0.05%	-$983,535
Normal Cost & Expense	8.46%	$271,404,812	8.36%	$283,324,152	-0.10%	$11,919,340
Normal Cost & Expense	8.46%	$271,404,812	8.36%	$283,324,152	-0.10%	$11,919,340
Amortization	0.00%	$0	0.69%	$23,384,561	0.69%	$23,384,561
Total Requirements	8.46%	$271,404,812	9.05%	$306,708,713	0.59%	$35,303,901
Employee Contributions	5.00%	$160,337,972	5.00%	$169,453,338	0.00%	$9,115,366
Employer Contributions	5.00%	$160,337,972	5.00%	$169,453,338	0.00%	$9,115,366
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	0.00%	$0	0.00%	$0	0.00%	$0
Other Govt. Funding	0.00%	$0	0.00%	$0	0.00%	$0
Administrative Assessment	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	10.00%	$320,675,944	10.00%	$338,906,676	0.00%	$18,230,732
Total Requirements	8.46%	$271,404,812	9.05%	$306,708,713	0.59%	$35,303,901
Total Contributions	10.00%	$320,675,944	10.00%	$338,906,676	0.00%	$18,230,732
Deficiency/(Surplus)	(1.54%)	($49,271,132)	(0.95%)	($32,197,963)	0.59%	$17,073,169

Actuarial Impact of Article 2 of S.F. 1057 (Pogemiller), Third Engrossment: MTRFA/TRA Consolidation

Summary of S.F. 1057 (Pogemiller), Third Engrossment, Article 2

Special School District No. 1, Minneapolis, is authorized to issue pension obligation bonds for fund some of the Minneapolis Teachers Retirement Fund Association (MTRFA) unfunded actuarial accrued liability, the MTRFA is consolidated into the Teachers Retirement Association (TRA), with a continuation of the current and employer funding and the imposition of an additional $8.6 million supplementary contribution to TRA related to the former MTRFA split equally by Special School District No. 1, the City of Minneapolis, and the State of Minnesota, increases TRA member and employer contribution rates by 0.5 percent of covered salary, and provides a prospective (post-2005) TRA benefit accrual rate increase of 0.3 percent of final average salary.

Summary of Actuarial Impact Based on 2004 MTRFA/TRA Valuations and 2005 Session Segal Company Actuarial Estimate

The following summarizes the actuarial estimates by The Segal Company of the impact of the merger of the Minneapolis Teachers Retirement Fund Association (MTRFA) into the Teachers Retirement Association (TRA) and a prospective TRA benefit increase based on the 2004 MTRFA and TRA actuarial valuations:

	7/1/2004 TRA Actuarial Valuation		Impact of MTRFA Consolidation		Impact of TRA Benefit and Contribution Increases		Resulting Condition of TRA	
Membership								
Active Members		72,008		5,074		--		77,082
Service Retirees		34,581		3,449		--		38,030
Disabilitants		589		24		--		613
Survivors		2,479		291		--		2,770
Deferred Retirees		10,767		1,243		--		12,010
Nonvested Former Members		18,223		3,384		--		21,607
Total Membership		138,647		13,465		--		152,112
Funded Status								
Accrued Liability		$17,518,783,700		$1,843,006,960		$101,017,373		$19,462,808,033
Current Assets		$17,519,909,350		$763,089,276		--		$18,282,998,626
Unfunded Accrued Liability		($1,125,650)		$1,079,917,684		$101,017,373		$1,179,809,407
Funding Ratio	100.01%		41.40%		0.00%		93.94%	
Financing Requirements								
Covered Payroll		$3,206,759,440		$249,069,999		--		$3,455,829,439
Benefits Payable		$1,008,410,471		$118,352,032		--		$1,126,762,503
Normal Cost	8.07%	$258,898,450	10.77%	$26,824,839	1.75%	$56,118,290	9.89%	$341,781,532
Administrative Expenses	0.39%	$12,506,362	0.39%	$971,373	--	--	0.39%	$13,477,735
Normal Cost & Expense	8.46%	$271,404,812	11.16%	$27,796,212	1.75%	$56,118,290	10.28%	$355,259,267
Normal Cost & Expense	8.46%	$271,404,812	11.16%	$27,796,212	1.75%	$56,118,290	10.28%	$355,259,267
Amortization	0.00%	$0	35.82%	$89,221,103	0.17%	$5,451,491	1.87%	$64,624,011
Total Requirements	8.46%	$271,404,812	46.98%	$117,017,315	1.92%	$61,569,781	12.15%	$419,883,278
Employee Contributions	5.00%	$160,337,972	5.78%	$14,396,246	0.50%	$16,033,797	5.52%	$190,768,015
Employer Contributions	5.00%	$160,337,972	9.02%	$22,466,114	0.50%	$16,033,797	5.75%	$198,831,883
Employer Add'l Cont.	--	--	--	--	--	--	--	--
Direct State Funding	--	--	8.80%	$21,929,000	--	--	0.63%	$21,929,000
Other Govt. Funding	--	--	3.49%	$8,700,000	--	--	0.25%	$8,700,000
Administrative Assessment	--	--	0.00%	$0	--	--	--	--
Total Contributions	10.00%	$320,675,944	27.09%	$67,491,360	1.00%	$32,067,594	12.16%	$420,228,898
Total Requirements	8.46%	$271,404,812	46.98%	$117,017,315	1.92%	$61,569,781	12.15%	$419,883,278
Total Contributions	10.00%	$320,675,944	27.09%	$67,491,360	1.00%	$32,067,594	12.16%	$420,228,898
Deficiency/(Surplus)	(1.54%)	($49,271,132)	19.89%	$49,525,955	0.92%	$29,502,187	(0.01%)	$254,823

Summary of Likely Actuarial Impact Based on 2005 MTRFA/TRA Valuations, Adapting the 2005 Session Segal Company Actuarial Estimate

The Commission staff has been told by Teachers Retirement Association (TRA) representatives that it has requested the preparation of a new actuarial impact estimate of a potential Minneapolis Teachers Retirement Fund Association (MTRFA)/Teachers Retirement Association (TRA) consolidation and a potential TRA benefit increase as proposed in S.F. 1057 (Pogemiller), Third Engrossment, but that new actuarial impact estimate has not yet been forwarded to the Commission staff. In the absence of a new actuarial impact estimate, the best available indication of the proposal's impact would be an adaptation of the prior document. The following summarizes the 2005 actuarial valuations of TRA and MTRFA and adapts the 2005 Session actuarial estimate of the impact of the TRA benefit increase, contribution increase, and amortization period change prepared by The Segal Company in proportion to its actuarial accrued liability and normal cost increases:

	7/1/05 TRA Actuarial Valuation Results		Impact of MTRFA Consolidation		Impact of TRA Benefit & Contribution Increases		Resulting Condition of TRA	
Membership								
Active Members		74,552		4,756		--		79,308
Service Retirees		35,779		3,537		--		39,316
Disabilitants		581		25		--		606
Survivors		2,597		277		--		2,874
Deferred Retirees		9,880		1,377		--		11,257
Nonvested Former Members		19,151		3,604		--		22,755
Total Membership		142,540		13,576		--		156,116
Funded Status								
Accrued Liability		$18,021,410,061		$1,755,912,975		$103,915,776		$19,881,238,812
Current Assets		$17,752,917,313		$745,214,858		--		$18,498,132,171
Unfunded Accr. Liab.		$268,492,748		$1,010,698,117		$103,915,776		$1,383,106,641
Funding Ratio	98.51%		42.44%		--		93.04%	
Financing Requirements								
Covered Payroll		$3,389,066,754		$231,208,456		--		$3,620,275,210
Benefits Payable		$1,048,440,524		$123,031,355		--		$1,128,930,640
Normal Cost	8.02%	$271,801,325	9.51%	$21,981,273	1.74%	$58,969,762	9.74%	$352,752,360
Administrative Exp.	0.34%	$11,522,827	0.29%	$670,505	--	--	0.34%	$12,308,936
Normal Cost & Exp.	8.36%	$283,324,152	9.80%	$22,651,778	1.74%	$58,969,762	10.08%	$365,061,296
Normal Cost & Exp.	8.36%	$283,324,152	9.80%	$22,651,778	1.74%	$58,969,762	10.08%	$365,061,296
Amortization	0.69%	$23,384,561	37.93%	$87,700,516	--	--	2.10%	$75,759,611
Total Requirements	9.05%	$306,708,713	47.73%	$110,352,294	1.90%	$64,661,744	12.18%	$440,820,917
Employee Contrib.	5.00%	$169,453,338	5.74%	$13,266,140	0.50%	$16,945,334	5.52%	$199,664,812
Employer Contrib.	5.00%	$169,453,338	8.46%	$19,553,269	0.50%	$16,945,334	5.69%	$205,951,941
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.26%	$8,700,000	0.24%	$8,700,000
Direct State Funding	0.00%	$0	7.70%	$17,814,000	--	--	0.49%	$17,814,000
Other Govt. Funding	0.00%	$0	1.08%	$2,500,000	--	--	0.07%	$2,500,000
Admin. Assessment	0.00%	$0	0.00%	$0	--	--	0.00%	$0
Total Contributions	10.00%	$338,906,676	22.99%	$53,133,409	1.26%	$42,590,668	12.01%	$434,630,753
Total Requirements	9.05%	$306,708,713	47.73%	$110,352,294	1.90%	$64,661,744	12.18%	$440,820,917
Total Contributions	10.00%	$338,906,676	22.99%	$53,133,409	1.26%	$42,590,668	12.01%	$434,630,753
Deficiency/(Surplus)	(0.95%)	($32,197,963)	24.74%	$57,218,885	0.64	$22,071,076	0.17%	$6,190,164

Discussion and Analysis

S.F. 1057 (Pogemiller), Third Engrossment, Article 2, would consolidate the Minneapolis Teachers Retirement Fund Association (MTRFA) into the Teachers Retirement Association (TRA), would increase contributions for most active TRA members, would provide most active TRA members with a benefit increase for prospective (post-enactment) years of service, and would provide TRA with additional contribution support split three ways between the City of Minneapolis, Special School District No. 1, and the State of Minnesota.

The proposed legislation raises several pension and related policy issues that may merit Commission consideration and discussion, as follows:

1. Appropriateness of Granting Pension Obligation Bonding Authority to Special School District No. 1. The policy issue is the appropriateness of allowing Special School District No. 1, Minneapolis, to issue pension obligation bonds to pay some or all of the unfunded actuarial accrued liability of the Minneapolis Teachers Retirement Fund Association (MTRFA). Local governments in Minnesota are permitted to issue pension obligation bonds under Minnesota Statutes, Section 475.52, Subdivision 6, but only two local governments are reported to have issued this type of bond, the City of Minneapolis for the Minneapolis Employees Retirement Fund (MERF), the Minneapolis Firefighters Relief Association, and the Minneapolis Police Relief Association, and the City of Luverne for the Luverne Volunteer Firefighter Relief Association, and in those cases, no additional legislation was required. The practice of bonding for unfunded pension liabilities may have a role to play as a possible pension funding mechanism, but has potential complications, such as a compounding of fiscal problems for the employer if there is poor future investment performance on the proceeds of the bonds, leading to smaller reductions in unfunded actuarial accrued liability than initially expected. For this proposal, there are also the issues of the extent of bond issuance costs for Special School District No. 1, Minneapolis, that reduce the amount of the MTRFA unfunded actuarial accrued liability to be paid off and of the adequacy of the match between the current State aid to MTRFA and the potential bond debt service.

2. Appropriateness of a State Mandated Involuntary Consolidation. The policy issue is the appropriateness of consolidating the Minneapolis Teachers Retirement Fund Association (MTRFA) into the Teachers Retirement Association (TRA). The Legislature has the authority to order the

consolidation of a Minnesota public pension plan, although the issue does not appear to have been litigated in Minnesota. As a nonprofit corporation, the vehicle used in Minnesota for all but one local public pension plan, MTRFA is a creation of state law and is subject to state law changes. Minnesota Statutes, Section 317A.161, Subdivision 1, provides that a nonprofit corporation has various powers, but that those powers are subject to the applicable federal or state laws. Minnesota Statutes, Section 317A.161, Subdivision 27, provides that a nonprofit corporation may merge and consolidate with another nonprofit corporation for related purposes. As a "government plan" under the federal Employee Retirement Income Security Act of 1974, as amended, and the federal Internal Revenue Code of 1986, as amended, MTRFA is clearly in the public sector and functions broadly as an instrumentality of political subdivisions (initially the City of Minneapolis and since Special School District No. 1). Although TRA is not a nonprofit corporation, it is either a state agency or has the status of an instrumentality of the State, has the power to sue and be sued as if it were a corporation under Minnesota Statutes, Section 354.07, Subdivision 3, and functions for the same general purpose as MTRFA, making the consolidation consistent with the policies and requirements underlying Minnesota Statutes, Sections 317A.601 to 317A.671. If the legislative goal of public pension coverage is to retain autonomy by existing public pension plans, an MTRFA-TRA consolidation will not achieve that goal, but if the legislative goal is to ensure that there is no actual or potential interruption in the payment of benefits to retired Minneapolis teachers, the consolidation is the most expedient way to achieve that result and arguably is the most cost effective manner to attain that result. There are precedents for Minnesota public pension plan consolidations, including for the purpose of bolstering the funding of plans with financial difficulties. These consolidations include:

- the consolidation of the Game Wardens Retirement Plan and the State Police Retirement Plan into the State Patrol Retirement Plan in 1969;
- the consolidation of the Attorney General Retirement Plan and the State Auditor Retirement Plan into the Elective State Officers Retirement Plan in 1967;
- the consolidation of the Supreme Court Judges Retirement Plan, the District Court Judges Retirement Plan, the Probate and County Court Judges Retirement Plan, the Supreme Court and District Court Judges Survivors Retirement Plan, and the Probate and County Court Judges Survivors Retirement Plans into the Uniform Judicial Retirement Plan in 1973;
- the consolidation of the Metropolitan Transit Commission—Transit Operating Division Retirement Plan into the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) in 1978;
- the consolidation of the University of Minnesota Police Retirement Plan into the Public Employees Police and Fire Plan (PERA-P&F) in 1978;
- the replacement of the Teachers Insurance and Retirement Plan by the Teachers Retirement Association (TRA) in 1931;
- the consolidation of the St. Paul Bureau of Health Relief Association into the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) in 1973; and
- the consolidation of 53 local police or paid firefighter relief associations into PERA-P&F during the period 1973-1998, including 44 local relief association consolidations under Minnesota Statutes, Chapter 353A, and nine local relief associations under special laws.

3. <u>Appropriateness of Proposed Member and Employer Contribution Increases</u>. The policy issue is the appropriateness of contribution increases as part of the proposed legislation. The proposed legislation would increase the member contribution of teachers outside of Minneapolis to 5.50 percent of covered pay, would increase the member contribution of Basic Program teachers in Minneapolis to 9.00 percent of covered pay, would increase the TRA employer contribution other than Special School District No. 1, Minneapolis, to 5.50 percent of covered pay, and would impose a special additional contribution to TRA by Special School District No. 1, the City of Minneapolis, and the State of Minnesota equal to 0.26 percent of total TRA covered pay, allocated equally between the three. The increase in the non-Minneapolis teacher contribution rate is intended to offset the appropriate portion of the proposed TRA benefit accrual rate increase. The increase in the Basic Program Minneapolis teacher contribution rate is intended to equalize member contribution rates between Minneapolis and non-Minneapolis teachers without Social Security coverage. The increase in the non-Minneapolis TRA employer contribution rate is intended to offset the appropriate portion of the TRA benefit accrual rate increase. The three-part Special School District No. 1, City of Minneapolis, and State of Minnesota special additional contribution is intended to offset the contribution deficiency from the MTRFA consolidation and benefit accrual rate increase as

determined in a Spring 2005 cost estimate for the proposed legislation prepared by The Segal Company. Thus, the costs of the MTRFA consolidation and the TRA benefit increase are intended to be met by a combination of the current TRA contribution sufficiency of 1.54 percent of covered pay, a redirection of the current special State aids for MTRFA to TRA, general TRA member and employer contribution rates, and additional State, Minneapolis City, and Minneapolis School District contributions. Together, the additional contributions, combined with the change in the amortization target date, matched the Segal Company actuarial cost estimate of the benefit increases and the MTRFA consolidation based on the 2004 actuarial valuations, but are 0.17 percent of covered pay ($6.2 million) different from the likely cost estimate based on the 2005 actuarial valuations. After the MTRFA consolidation and TRA benefit increase, TRA members would pay 55 percent of the plan's normal cost and expenses, compared to 59 percent currently, close to the Commission's broad policy of splitting a general employee plan's normal cost and expenses equally, but much of the change is due primarily to the higher normal cost of Minneapolis teachers, based almost entirely on demographic factors. The TRA employer contribution increase, in Article 2, Section 44, Paragraph (b), is made payable from the State through increased State aid from the General Fund for the remainder of the biennium. The funding of the additional TRA employer contribution requirement of TRA employers after June 30, 2007, is not addressed.

4. Need for Additional TRA Funding; Appropriate Bearer of the Burden. The policy issue is the need for the provision of additional funding for the Teachers Retirement Association (TRA) and the appropriate entity or entities that should bear that additional cost. The policy issue is related to Issue #3, since the passage of one year has changed the actuarial condition of a consolidated MTRFA/TRA plan after a prospective benefit increase. The deficiency estimated by the Commission staff, after adapting the Spring 2005 Segal Company actuarial estimate for the results of the 2005 TRA and MTRFA actuarial valuations. is 0.17 percent of the post-consolidation TRA, or $6.2 million currently. To ensure the long-term financial health of the post-consolidation TRA, additional funding will be needed. That additional funding can be provided by the State of Minnesota (see potential amendment LCPR S1057-3-A2), by Minneapolis Coordinated Program teachers and Special School District No. 1, Minneapolis (see potential amendment LCPR S1057-3-A3), by TRA members and employers at large (see potential amendment LCPR S1057-3-A4), or by the State of Minnesota, Special School District No. 1, and the City of Minneapolis jointly (see potential amendment LCPR S1057-3-A5). The impact of an additional year of experience reflected by the new actuarial valuations is not the clear or direct responsibility of any particular group or entity, so a decision on the appropriate bearer of the additional financial burden probably should be based either on the ability to bear the financial burden or on the perception of responsibility for the broad circumstances that gave rise to the consolidation and the benefit increase.

5. Perception of MTRFA/TRA Consolidation as Minneapolis Bailout at TRA Expense. The policy issue is the accuracy of the potential or actual perception by Teachers Retirement Association (TRA) members and others that the consolidation of the Minneapolis Teachers Retirement Fund Association (MTRFA) into TRA is an inappropriate bailout for the Minneapolis school district that is accomplished at the expense of a benefit increase that the advantageous financial condition of TRA since 1997 has entitled TRA members to receive. The MTRFA consolidation is funded to some extent from the current TRA contribution sufficiency, but is also funded by an extension of the TRA amortization target date, by the retention of Special School District No. 1 employer contribution rates at their current rates which are higher than TRA employer contribution rates, by the dedication to TRA of the special State funding currently provided to MTRFA, and by additional contributions by Minneapolis teachers in the Basic Program by Special School District No. 1, by the City of Minneapolis, and by the State. TRA members also receive a benefit increase that is also funded in part from the current TRA contribution sufficiency, but is also funded by an extension of the TRA amortization target date and by additional TRA member and employer contributions. The consolidation of MTRFA into TRA does involve TRA assets in covering a potential near- or middle-term benefit default, which is both bad policy and bad politics and for which there are few other potential remedies. The most probable alternatives to a MTRFA/TRA consolidation as a solution to a potential MTRFA benefit default would be to do nothing, which would produce a benefit default by MTRFA that would force the bankruptcy of Special School District No. 1, resulting in a State receivership for the Minneapolis Public Schools, since the State is obligated to provide a system of education to children under Article XIII, Section 1, of the Minnesota Constitution, which would consume State resources and administrative capabilities, or would be a significant increase in direct State funding of MTRFA, which currently would require a $53.9 million additional amount of funding to return to the path to full funding by 2020, displacing considerable funding for other programs of legislative interest.

6. Appropriateness of Proposed Benefit Accrual Rate Increase. The policy issue is the appropriateness of the proposed increase in the Teachers Retirement Association (TRA) benefit accrual rate. The proposed benefit increase would be limited to TRA, making the TRA-Consolidated Program benefit different from those of the other two statewide general employee retirement plans, the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) and the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) and different from the two remaining first class city teacher retirement fund associations, the Duluth Teachers Retirement Fund Association (DTRFA) and the St. Paul Teachers Retirement Fund Association (SPTRFA). The proposed benefit increase would be prospective only, applicable only to TRA-covered service rendered after the year of enactment, making the benefit increase most valuable to current TRA members with the least TRA service and the greatest expected remaining working lifetime over which to obtain additional TRA service credit. In 1997, a set of benefit increases assembled and proposed by TRA, MSRS-General, and PERA-General, which plans argued the need for benefit uniformity, and were enacted by the Legislature under that uniformity rubric. This proposed benefit increase flies in the face of the current extent of uniformity. The propose benefit increase, in being prospective only in its application, follows the policy enunciated in Minnesota Statutes, Section 356.315, Subdivision 9, enacted in 1997, but differs from the past practice in benefit increases granted by the Legislature and does little to reward the more senior in service length TRA members, during whose career the current TRA contribution sufficiency was obtained. Those members may have concerns about this benefit increase that the Commission may wish to entertain.

7. Appropriateness of Amortization Period Extension to 30 Years. The policy issue is the appropriateness of extending the amortization period for TRA after the consolidation of MTRFA into it to 30 years. In Minnesota, public pension plan amortization periods have been extended upon some benefit increases, and upon actuarial assumption changes and actuarial method changes. Amortization period changes do not usually accompany consolidations. However, since the default of the predecessor of TRA in 1931 and the defaults of the Supreme Court Justice Retirement Plan and the District Court Judges Retirement Plan, current disbursement funded plans, in 1975, following the decision in Sylvestre v. State, 214 NW2d 658 (1973), no Minnesota public pension plan has been in the same financial difficulty that the MTRFA is in. The magnitude of the MTRFA unfunded actuarial accrued liability and the impact of absorbing that unfunded actuarial accrued liability into TRA is so great that funding the combined unfunded actuarial accrued liability over 30 years rather than 15 years, the current MTRFA and TRA amortization periods, may be appropriate. The impact of the amortization period is so great because Minnesota public pension plans, since 1984, have amortized unfunded actuarial accrued liabilities on a level percentage of an increasing covered payroll contribution basis rather than a level dollar contribution basis. The level percentage amortization process results in contributions that are less than full interest on the unfunded actuarial accrued liability in the early portion of the amortization period and considerable balloon payments at the end of the period compared to a static level dollar amortization payment stream typically used in paying house mortgages. Under the level dollar amortization process, full interest plus a portion of the principal is not required until the 15th year. With a 30-year amortization period, the initial payment is only 65 percent of the full interest amount, and no principal.

8. Applicability and Appropriateness of Rededicating a Portion of the MERF State Aid. The policy issue is the applicability and appropriateness of dedicating to the Minneapolis Teachers Retirement Fund Association (MTRFA) the amount by which State aid to the Minneapolis Employees Retirement Fund (MERF) under Minnesota Statutes, Section 422A.101, Subdivision 3, actually paid is less than $8.065 million annually. The $8.065 million figure is the Fiscal Year 2006 and Fiscal Year 2007 appropriation amounts, so nothing is likely payable at least until after Fiscal Year 2007. If proposed legislation pursued by the City of Minneapolis, contained in H.F. 853 (Kelliher), and initially included by the Commission in the 2005 Omnibus Retirement Bill (removed by an author's floor amendment to First Special Session Laws 2005, Chapter 8 (H.F. 44 (Smith)) and the City of Minneapolis no longer is required to meet the cash flow shortage between the MERF Deposit Accumulation Fund and the MERF Retirement Benefit Fund by virtue of new internal inter-fund loan authority, there is unlikely to be any significant amount of unused MERF State aid through 2020 because of the impact of the deferred funding obligation represented in the internal promissory notes allowed under the MERF potential legislation.

9. Appropriateness of Making Voluntary Minneapolis City and Minneapolis School District/State Aid-Matched Additional Contributions Mandatory. The policy issue is the appropriateness of converting certain City of Minneapolis or Minneapolis Public School District contributions, which are matched by state aid, from voluntary contributions to mandatory contributions. The contributions involved are a result of 1993 legislation, where the state matches additional contributions from the City of

Minneapolis and the Minneapolis School District dollar-for-dollar, up to $2.5 million annually. The choice of the 1993 Legislature was to have the additional contributions be voluntary. Although the Minneapolis School District did not reach the $1.25 million additional contribution level until 1995 and the City of Minneapolis did not reach the $1.25 million additional contribution level until 1998, both local governmental units appear now to make the full voluntary contribution and, unless the city or the school district have a change of heart in the future, a provision making the contributions mandatory appears to be unnecessary. Both governmental entities have current financial problems that may result in changes of heart, however.

10. Appropriateness of the Repeal of the MTRFA Post-Retirement Adjustment Mechanism. The policy issue is the appropriateness of the proposed repeal of the current Minneapolis Teachers Retirement Fund Association (MTRFA) post-retirement adjustment mechanism. The repeal of the current mechanism could constitute or could be characterized as a potential benefit take-away. The replacement of the current MTRFA post-retirement adjustment (an annual two percent increase plus a percentage increase equal to about 85 percent of the percentage amount by which the five-year average MTRFA time weighted total rate of return investment performance result exceeds 8.5 percent) by the Minnesota Post Retirement Investment Fund post-retirement adjustment (CPI increase up to 2.5 percent plus a percentage increase equal to the amount that a blended five-year investment performance result exceeds 8.5 percent) in the context of the current relative investment performance of MTRFA compared to the State Board of Investment and in the context of the likely near-term default of MTRFA, the change is not necessarily a benefit diminution, even though sizable increases from the Minnesota Post Retirement Investment Fund are currently delayed because of the continuing investment impact of the 2000 and 2001 market declines and the haphazard nature of the subsequent economic recovery. The MTRFA post-retirement adjustment mechanism, that creates a greater benefit payout and a greater actuarial liability than the excess investment income giving rise to the post-retirement adjustment, will cause an earlier default of the plan and an earlier prorating of benefits under Minnesota Statutes, Section 354A.09, and its replacement will strengthen the funding of teacher benefits and avoid the imposition of benefit prorating.

11. Appropriateness of MTRFA Administrative Staff Employee Protections. The policy issue is the appropriateness of providing special employment protections to the administrative staff of the Minneapolis Teachers Retirement Fund Association (MTRFA). The current MTRFA administrative staff consists of eight employees, for a retirement plan covering 13,465 (37.68 percent active members, 27.95 percent benefit recipients, 9.23 percent deferred members, and 25.13 percent non-vested inactive members). A number of these staff members are, or historically have been, involved in the MTRFA investment program rather than in direct retirement plan administration, would no longer have a similar function within TRA or another statewide retirement plan, and should have significant employment options in the private sector investment community. The proposed legislation would provide an employment preference for subsequent employment by the State Board of Investment or one of the statewide retirement plans equivalent to a veteran's preference employment preference, irrespective of the length of prior MTRFA employment. The preference also would be in addition to a veteran's preference, meaning that a former MTRFA employee who is also a veteran would have a significant advantage over other employment candidates in seeking subsequent statewide retirement plan employment. In no prior consolidation of Minnesota public pension plans has there been any employment preference akin to the proposed preference. The preference is less than the employment protections that have been sought by the MTRFA staff in prior proposed legislation, which were continued employment compensation and benefits for several years after a consolidation. The proposed employment preferences do not include preferences for employment by Special School District No. 1 or by the Duluth Teachers Retirement Fund Association (DTRFA) or the St. Paul Teachers Retirement Fund Association (SPTRFA).

.... moves to amend S.F. No. 1057, the third engrossment, S1057-3, as follows:

Page 2, line 8, strike "4.0" and insert "the following"

Page 2, line 9, strike the period and delete the new language and insert ":

before July 1, 2007	4.0
from July 1, 2007, to June 30, 2008	4.25
from July 1, 2008, to June 30, 2009	4.50
from July 1, 2009, to June 30, 2010	4.75
from July 1, 2010, and thereafter	5.00.

"

Page 2, delete lines 10 to 14

Page 2, line 15, delete the new language

Page 2, line 20, strike "4.0" and insert "the following"

Page 2, line 21, strike the period and delete the new language and insert ":

before July 1, 2007	4.00
from July 1, 2007, to June 30, 2008	4.25
from July 1, 2008, to June 30, 2009	4.50
from July 1, 2009, to June 30, 2010	4.75
from July 1, 2010, and thereafter	5.00.

"

Page 2, delete lines 22 to 27

Page 2, line 32, delete "a" and insert "the following" and strike the period and delete the new language and insert ":

before July 1, 2007	5.69
from July 1, 2007, to June 30, 2008	6.40
from July 1, 2008, to June 30, 2009	7.00

from July 1, 2009, to June 30, 2010	7.70
from July 1, 2010, and thereafter	8.60.

These contributions must be made by deduction from salary as provided in section 352.04, subdivision 4."

Page 2, deletes lines 33 to 36

Page 3, delete lines 1 to 3

Page 3, line 8, delete "a" and insert "the following" and strike the period and delete the new language and insert ":

before July 1, 2007	7.98
from July 1, 2007, to June 30, 2008	9.10
from July 1, 2008, to June 30, 2009	10.10
from July 1, 2009, to June 30, 2010	11.10
from July 1, 2010, and thereafter	12.10.

"

Page 3, delete lines 9 to 15

Page 3, line 19, delete "a" and insert "the following"

Page 3, line 20, strike the period and delete the new language and insert ":

before July 1, 2007	8.40
from July 1, 2007, to June 30, 2008	9.10
from July 1, 2008, and thereafter	9.80.

These contributions must be made by deduction from salary as provided in section 352.04, subdivision 4."

Page 3, delete lines 21 to 24

Page 3, line 28, delete "a" and insert "the following"

Page 3, line 30, strike the period and insert ":

before July 1, 2007	12.60
from July 1, 2007, to June 30, 2008	13.60
from July 1, 2008, and thereafter	14.60.

"

Page 3, delete lines 31 to 33

Page 3, line 34, delete the new language

Pages 4 to 9, delete sections 8 to 14

Page 9, delete line 35

Page 10, after line 2, insert:

"Section 1. Minnesota Statutes 2004, section 128D.10, is amended to read:

128D.10 CONTINUITY ON TENURE, PENSIONS, AND RETIREMENT.

(a) The tenure, pension, and retirement provisions of any law applicable to employees of the special school district of Minneapolis~~, including employees belonging to the municipal employees retirement fund and those belonging to the Minneapolis Teachers' Retirement Fund Association~~ before April 24, 1959, shall continue to be applicable in the same manner and to the same extent to employees of the special independent school district after April 24, 1959, except as otherwise provided in law.

(b) The provisions of any general law or laws which are applicable only to independent school districts wholly or partially within cities of the first class shall not be applicable to the special independent school district of Minneapolis.

~~(c) The powers, duties, and corporate structure of the Minneapolis Teachers' Retirement Fund Association, and the laws applicable thereto, shall be and remain the same in the special independent school district of Minneapolis as at the time of enactment of the within law, until changed in accordance with law.~~"

Page 10, line 28, delete "shall" and insert "must"

Page 10, lines 30 and 36, delete "pursuant to" and insert "under"

Page 10, line 33, delete "shall be" and insert "is"

Page 11, line 8, delete "shall apply" and insert "applies"

Page 11, line 25, delete "shall not" and insert "are not to"

Page 11, line 35, delete "pursuant to" and insert "under"

Page 12, line 6, delete "2" and insert "1"

Page 15, lines 11, 20, and 28, delete "2005" and insert "2006"

Page 16, line 19, delete "2035" and insert "2036"

Page 16, line 27, after the underscored period insert "The state payment amount under this paragraph is annually appropriated from the General Fund."

Page 17, line 18, delete "prior to" and insert "before" and delete "2005" and insert " 2006"

Page 17, line 30, delete "2005" and insert "2006"

Page 19, line 9, delete "prior to" and insert "before"

Page 19, line 10, delete "2005" and insert "2006"

Page 19, line 12, delete "2005, shall determine" and insert "2006, determines"

Page 22, lines 6, 8, and 10, delete "2005" and insert "2006"

Page 22, lines 13 and 16, delete "2006" and insert "2007"

Page 23, line 10, delete "2005" and insert "2006"

Page 23, lines 11 and 14, delete "2006" and insert "2007"

Page 56, line 3, delete "2035" and insert "2036"

Page 56, lines 22 and 28, delete "2005" and insert "2006"

Page 57, line 1, delete "$2,500,000" and insert "$1,250,000"

Page 57, line 4, delete everything after "6"

Page 57, line 5, delete "2006, and $1,250,000 is"

Page 57, line 6, delete "$2,500,000" and insert "$1,250,000"

Page 57, line 8, delete everything after "6"

Page 57, line 9, delete everything before "is"

Page 57, line 11, delete "years 2006 and" and insert "year"

Page 58, lines 33, 34, and 36, delete "2005" and insert "2006"

Page 59, line 10, delete "2005" and insert "2006"

Page 59, line 20, delete everything before "the"

Page 59, line 23, delete "2005" and insert "2006"

Page 63, line 33, delete "2006" and insert "2007"

Page 66, lines 12 and 21, delete "2005" and insert "2006"

Page 67, lines 17 and 34, delete "2005" and insert "2006"

Page 68, lines 10, 29, and 32, delete "2005" and insert "2006"

Page 69, lines 10 and 33, delete "2005" and insert "2006"

Page 70, line 20, delete "2005" and insert "2006"

Page 73, lines 3 and 31, delete "2005" and insert "2006"

Page 74, line 26, delete "2005" and insert "2006"

Page 75, line 35, delete "2005" and insert "2006"

Page 76, line 18, delete "2005" and insert "2006"

Page 77, lines 17 and 33, delete "2005" and insert "2006"

Page 79, line 36, delete "2005" and insert "2006"

Pages 88 and 89, delete section 7

Page 90, lines 17, 22, and 26, delete "2005" and insert "2006"

Page 92, line 28, delete "2007" and insert "2008"

Page 93, line 26, delete "2007" and insert "2008"

Page 93, line 30, delete "2005" and insert "2006" and delete "2007" and insert "2008"

Page 95, line 26, delete "2005" and insert "2006"

Page 96, lines 9 and 21, delete "2006" and insert "2007"

Renumber the sections in sequence

Amend the title accordingly

.... moves to amend S.F. No. 1057, the third engrossment, S1057-3, as follows:

Page 16, after line 27, insert

"(d) As an additional payment toward the cost of the Teachers Retirement Association as a result of this act, the state shall make a supplemental contribution of 0.17 percent of the covered payroll of the Teachers Retirement Association through June 30, 2036. On or before October 1, annually, the executive director of the Teachers Retirement Association shall calculate the expected total dollar amount of the additional supplemental contribution for the calendar year and shall certify the amount payable. The amount is payable in full on or before the following June 1. The amount payable by the state under paragraph (c) and this paragraph is annually appropriated form the general fund."

.... moves to amend S.F. No. 1057, the third engrossment, S1057-3, as follows:

Page 15, line 29, delete "5.5 and insert ""6.95"

Page 16, line 7, delete "8.64" and insert "10.09"

.... moves to amend S.F. No. 1057, the third engrossment, S1057-3, as follows:

Page 15, line 29, delete "5.5 and insert ""5.59"

Page 15, line 30, delete "9.0" and insert "9.09"

Page 15, line 32, delete "5.5" and insert "5.59"

Page 16, line 7, delete "8.64" and insert "8.73"

Page 16, line 8, delete "12.64" and insert "12.73"

Page 16, line 11, delete "5.5" and insert "5.59"

Page 16, line 12, strike "9.0" and insert "9.09"

.... moves to amend S.F. No. 1057, the third engrossment, S1057-3, as follows:

Page 16, line 17, delete "0.26" and insert "0.43"

Page 16, line 27, after the underscored period insert "The amount payable by the state is annually appropriated from the general fund."