**S.F. 2378**

(Pogemiller)

H.F. xxx**Executive Summary of Commission Staff Materials**

Affected Pension Plan(s): PERA
Relevant Provisions of Law: Minnesota Statutes, Chapter 353F
General Nature of Proposal: Reducing Augmentation Rates for New Privatizations
Date of Summary: February 10, 2006

Specific Proposed Changes

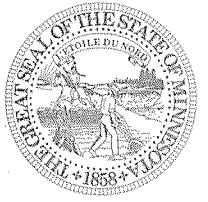
- Reduces the augmentation rate in the Public Employees Retirement Association (PERA) privatized employee provision, Minnesota Statutes, Section 353F.04.

Policy Issues Raised by the Proposed Legislation

1. Policy for PERA deferred annuitants under privatizations.
2. PERA current actuarial condition.
3. Interaction with other bills.
4. Cost savings provided by proposal.
5. Scope/issue of consistency between comparable plans.
6. Amount of the proposed change in privatization augmentation rates.

Potential Amendments

- S2378-A1 makes the augmentation rates offered under the MSRS privatization chapter equal to those for PERA privatizations as revised in S.F. 2378 (Pogemiller); H.F. xxx.
- S2378-A2 would provide augmentation rates other than as proposed, by filling in new rates as set by the Commission.



TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Ed Burek, Deputy Director *EB*

RE: S.F. 2378 (Pogemiller); H.F. xxx: Public Employees Retirement Association Privatizations; Reducing Augmentation Rates for New Privatizations

DATE: February 10, 2006

Summary of S.F. 2378 (Pogemiller); H.F. xxx

S.F. 2378 (Pogemiller); H.F. xxx reduces the augmentation rate in the Public Employees Retirement Association (PERA) privatized employee provision, Minnesota Statutes, Section 353F.04. The augmentation rate to compute the deferred annuity would be 4.0 percent (rather than 5.5 percent) compounded annually until January 1 following the year in which the person attains age 55, and 6.0 percent (rather than 7.5 percent) from that date forward. The revised rates would apply to any privatization where the legislation adding the organization to the PERA privatization chapter was enacted in the 2006 Legislative Session or later.

Background Information on the Definition of Deferred Annuities Augmentation: Non-Privatization Case

Deferred annuity augmentation refers to increasing the amount of a deferred retirement annuity by a percentage or dollar amount over time prior to receipt. This replaces all or part of any lost purchasing power in the unpaid retirement annuity due to inflation. Under current law for the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) and the Public Employees Police and Fire Plan (PERA-P&F), for members who terminate from PERA coverage after 1989 and who have a right to a deferred annuity due to their covered service, the deferred annuity increases (augments) by three percent annually until the first of the year after the individual turns age 55, and by five percent per year thereafter. Deferred annuity augmentation was added in 1971 to PERA plans, Minnesota State Retirement System (MSRS) plans, and the Teachers Retirement Association (TRA), and was also added to first class city teacher plans in 1989, and is also found in Minneapolis Employees Retirement Fund (MERF) law.

Minnesota public pension plans are relatively unique among public and private defined benefit plans in providing deferred annuities augmentation. To the best knowledge of the Commission staff, only the Oregon statewide public employee defined benefit plans also provide deferred annuity augmentation.

The Minnesota and Oregon plans that have deferred annuities augmentation are defined benefit plans. Defined benefit plans utilize a fixed formula to determine pension benefit amounts (typically years of service multiplied by a percentage benefit accrual rate amount and applied to a final salary or final average salary base). Since the benefit is fixed or specified in law from the individual's salary and service, the variable element is the contributions needed to fund those benefits. Defined benefit plans are distinguished from defined contribution plans, such as the Higher Education Individual Retirement Account Plan (IRAP), Individual Retirement Accounts (IRAs), or Section 401(k) plans, where the fixed element is the level of contributions funding the plan, and the variable element is the benefit to be derived, which is dependent on the investment earnings over time on the stream of contributions and the age of the individual at retirement. When an individual covered by a defined contribution plan changes employment and thus is no longer eligible for the employer's plan, the value of the account will continue to increase over time due to investment earnings on the account. Thus, the eventual retirement annuity that can be supported by the account's value will increase. Deferred annuity augmentation in a defined benefit plan provides a somewhat comparable effect. The individual's deferred retirement annuity is not locked in amount at the time the individual leaves covered service. It continues to grow over time by the percentages specified in law.

Having deferred annuity augmentation in a defined benefit plan does add to plan cost. Because of the augmentation, the deferred annuitants receive higher benefits at the time of retirement than would be the case if the benefit were fixed at the time of termination of the covered employment.

Background Information on Plans with Deferred Annuity Augmentation Provisions

Many Minnesota public employee plans have deferred annuity augmentation provisions covering their terminated membership, although there are a few differences in augmentation rates between plans. Plans with augmentation provisions include the Legislators Retirement Plan, the Elective State Officers

Retirement Plan, MSRS-General, the MSRS Correctional State Employees Retirement Plan (MSRS-Correctional), the State Patrol Retirement Plan, PERA-General, the PERA Local Government Correctional Employees Retirement Plan (PERA-Correctional), PERA-P&F, TRA, the first class city teacher retirement plans, and MERF.

Background Information on Deferred Annuities Augmentation Provisions, Non-Privatization Situations, as Amended Over Time

The 1971 Legislature created deferred annuities augmentation. The 1971 legislation specified that deferred annuities will augment at the same rate as the investment earnings assumption used by the plan. The level of deferred annuities augmentation therefore changed as the investment return assumption was revised. That assumption was 3.5 percent in 1971, but was revised in 1973 (Laws 1973, Chapter 653, Section 45) to five percent. Deferred annuity augmentation provisions were revised again by the 1978 Legislature, which amended the deferred annuity augmentation provisions by removing the tying of the augmentation rate to the investment return assumption, and instead set the augmentation rate at three percent per year after January 1, 1981. By using a January 1, 1981, effective date on the deferred annuities augmentation provision, the 1978 Legislature provided a few years of lead time on the benefit reduction. The 1989 Legislature again revised the provisions, this time enhancing the deferred augmentation provisions by increasing augmentation after age 55. As revised in 1989, the provisions provided three percent per year augmentation until the first of the year after the individual turns age 55, and five percent annually thereafter. The 1989 revisions were part of a major benefit increase bill which in part increased the accrual rates in many plans, created subsidized joint and survivor annuities, and enhanced the deferred annuity augmentation provisions.

Background Information on Deferred Annuities Augmentation under Privatizations; Treatment Under Chapter 353F, PERA Privatized Hospital

In 1996, the Fairview and University Hospitals merged and employees at University Hospital who had been MSRS-General covered members were not permitted to continue as active members of that public plan because the new employer was not a public entity. Special treatment was proposed and enacted for these former public employees (coded as Chapter 352F, University Hospital Employee Retirement), including deferred annuity augmentation rates in excess of that offered to other terminated employees. The Fairview/University Hospital model for treating privatizations was later used in 1999 when some similar situations arose for PERA-General privatized employees. Enacted in 1999, Minnesota Statutes, Chapter 353F, has been used in recent years to deal with PERA-covered public employer privatizations, either through a sale or lease to a private sector company or nonprofit corporation, or due to reorganization that changes a public employer into a 501(c)(3) nonprofit corporation. To date, the PERA privatization chapter has been used for the following privatizations:

- Bridges Medical Services
- Fair Oaks Lodge in Wadena
- the Glencoe Area Health Center
- Hutchinson Area Health Care
- Kanabec Hospital
- Luverne Public Hospital
- Northfield Hospital
- RenVilla Nursing Home
- Renville County Hospital in Olivia
- St. Peter Community Healthcare Center
- Waconia-Ridgeview Medical Center, Metro II (a joint power organization formed under Section 4761.59)
- Metro II
- St. Paul Civic Center authority

When a privatization occurs, the privatized employees are no longer eligible for continued PERA or MSRS coverage as active employees, because the employees are no longer public employees. For purposes of the pension plan, they are considered to be terminated employees although many of them may continue in the same employment, but with a new privatized employer.

Privatized employees who are included under Chapters 352F or 353F are extended certain benefits that other terminated employees do not receive, as follows:

1. Vested Benefit with Any Service Length. The normal three-year vesting period is waived, so a privatized employee with less than three years of MSRS- or PERA-covered service would be entitled to eventually receive a retirement annuity, notwithstanding general law regarding vesting requirements.
2. Increased Deferred Annuity Augmentation Rate. For the period between the date of privatization and the date of eventual retirement, the privatized employee's deferred PERA retirement annuity will

increase at the rate of 5.5 percent rather than three percent until January 1 of the year in which the individual turns age 55 and at the rate of 7.5 percent rather than five percent thereafter.

3. “Rule of 90” Eligibility with Post-Privatization Service. For privatized employees with actual or potential long service who could have retired early with an unreduced retirement annuity from MSRS or PERA under the “Rule of 90” (combination of age and total service credit totals 90), the employee will be able to count future privatized service with the privatized entity for eligibility purposes, but not for benefit computation purposes.

Situation that Led to the Creation of Privatization Chapters

At the time of the Fairview/University Hospital merger, the public employee groups and unions were concerned that they would suffer harm under the merger. The employees clearly faced uncertainty. Some may have feared that they would not remain employed following the merger. For those who remained employed, they could not continue coverage as active members in their public pension plan. Pension coverage provided by the new privatized employer might not be as attractive as public plan coverage, and in any case, it would be different. While they faced a less certain future, they were also made aware that the pension plan from which they would be terminated was likely to receive a gain due to the terminations, as liabilities are less than would be expected if the individuals remained in the plan.

The legislation that created the MSRS privatization chapter, Chapter 353F, was a political compromise between the interests of the pension plan and the desires of the privatized employees. They were not allowed to continue as active members of the public plan, but they were given enhanced benefits under the MSRS privatization chapter (waiver of vesting requirements, use of post-privatization service to qualify for the “Rule of 90,” and enhanced augmentation rates) that would capture for the privatized employees a good portion of the gain that would otherwise go to the pension fund. The actuary reviewed several sets of possible enhance augmentation rates in an effort to find the highest augmentation rates that could be provide an adequate margin for the pension fund to ensure that the fund would not actually suffer a loss due to the proposed privatization benefit package. With that particular privatization, the actuary determined that providing augmentation at a 5.5 percent annual rate to age 55, and 7.5 percent annually thereafter was not likely to harm the fund. Those are the rates that were placed in the MSRS privatization chapter.

When privatization situations later arose within the PERA-General membership, comparable privatization provisions were created for PERA and coded as Minnesota Statutes, Chapter 353F. There had been pressure on PERA to support comparable terms, and the Commission generally follows a policy of trying to provide comparable benefit provisions in comparable plans. The benefit terms provided under the MSRS privatization chapter, and which were also used in the applicable PERA chapter, happened to work for MSRS at that the time of the Fairview/University Hospital privatization, given the broad set of benefit provisions provided by the plan, the demographic group covered by the plan, the funding of the plan, and the set of demographic and economic actuarial assumptions in use. There is no guarantee that PERA would not be harmed when the same benefit terms are offered to a PERA privatized group, because the privatization is occurring at a different point in time, with a different demographic group under coverage, and with a plan that is very similar but not identical to MSRS-General. The Commission therefore developed procedures which required a review by the actuary before any given group can be added to PERA’s privatization chapter. If the actuary predicts that the legislation would create a net loss to PERA rather than a gain, the legislation is not effective.

Arguments For and Against Privatization Treatment

The arguments for the existing treatment as provided by the PERA privatization chapter are that privatized employees deserve some form of benefit enhancement as compensation for being privatized. Due to the privatization they are not permitted to remain as active members of the public plan. That change in status is not due to free choice by the employee. Rather, it is imposed on them due to a change in the nature of the employing unit from a public entity to a private one. Although they are likely to continue to be employed, for that continued employment they will have different pension coverage, which might be inferior to that which they would have if they were allowed to continue active membership in the public plan. Furthermore, privatized employee groups may argue that the pension plan should not receive a windfall gain because some covered employees get privatized. Most of the money that would otherwise go as a gain to the fund should be used to enhance benefits for those departing members.

The first argument that can be made against the existing policy is that these privatized employees may be treated far better than terminated employees who are not part of a privatization. If a public employee is terminated due to budget cuts, that employee loses his or her job, is terminated from further active public plan coverage, and receives the augmentation rates provided under the PERA or MSRS general plan law,

which is less than the augmentation provided under privatization law. (The augmentation rates for a PERA or MSRS member who terminates in other than a privatization situation is three percent per year to January 1 following the year in which the individual turns age 55, and five percent per year thereafter.) In contrast, the privatized employee is likely to have continued employment, is likely to have some form of pension coverage for service with the new employer, and has special enhanced benefits with the public plan that previously provided coverage. Tempering this comparison of privatization versus budget cut terminations, though, is that the Legislature has at times created provisions to assist those displaced due to budget cuts, either some form of continuing healthcare coverage rights, additional pension benefits, or training. Second, giving away gains places upward pressure on plan cost. The actuarial funding requirements of a pension plan are based on predictions about mortality, ages at retirement, turnover, and various other factors. In some cases, a retiree may die sooner than predicted by the life table in use, creating a gain to the fund. In other cases, individuals may live longer than predicted, resulting in losses. If the gains balance the losses the fund is not harmed. If a fund absorbs losses and gives away gains, the fund is harmed. One can contend that allowing gains that would otherwise be retained by the fund to flow to privatized employees is like providing a special payout to an estate of a retiree who dies several years sooner than predicted. The payout to the estate may be a nice gesture, but the public pension purpose of that action can be questioned, and that additional payout tends to nudge up contributions requirements. Similarly, allowing gains from a privatization to flow to the privatized employees may result in these employees being treated better than other terminated employees and places upward pressure on plan cost.

Motivation for Proposing to Reduce Privatization Deferred Annuity Augmentation

The proposed legislation would reduce the deferred annuity augmentation rates applicable to privatizations where the privatization is added to PERA's privatization chapter, Chapter 353F, due to action by the 2006 legislature or a later legislature. It would have no impact on any group already included under Chapter 353F if local approval is or was provided.

The probable reasons for the proposal are that PERA seeks to reduce PERA-General costs (although the impact would be quite small), and PERA may have reservations about the treatment of privatized employees compared to other terminated members. This bill, however, is likely to have a minimal impact on plan costs, and that PERA has already taken a sizable action to address its contribution needs last year, when bills were introduced to increase PERA-General and PERA-P&F employee and employer contribution rates (S.F. 286 (Betzold, by request); H.F. 1755 (Smith); and S.F. 621 (Betzold, by request); H.F. 1756 (Smith)). Those bills were included in the omnibus pension bill and were enacted. The revised contribution rates and procedures for setting future revised contribution rate for PERA-General are:

1. PERA-General Contribution Rate Increases. Coordinated employee and matching employer contribution rates are increased over several years as follows:
 - The coordinated member contribution rate and matching employer contribution is increased from 5.1 percent to 5.5 percent on January 1, 2006, to 5.75 percent on January 1, 2007, and to 6.0 percent on January 1, 2008.
 - The employer additional contribution rate is increased from .43 percent of pay to 0.5 percent of pay on January 1, 2006, to 0.75 percent on January 1, 2009, and to 1.0 percent of pay on January 1, 2010. If the July 1, 2008, or 2009 actuarial valuations indicate that the 2009 and or 2010 proposed increase in the employer additional contribution rate is not needed to cover the plan's actuarially determined required contributions, those increases would not be implemented. *Laws 2005, First Special Session, Chapter 8, Article 5, Sections 2 and 3. Source: S.F. 286 (Betzold-by request); H.F. 1755 (Smith)*
2. PERA-General Provision to Automatically Adjust Contribution Rates. After July 1, 2010, if there are two consecutive years with a contribution sufficiency or deficiency of at least half of one percent, the PERA Executive Director must determine an appropriate increase or decrease in contribution rates, whichever is applicable, not to exceed a one-quarter percent in either the employee or employer rate. These proposed increases or decreases must be reported to the Legislative Commission on Pensions and Retirement by February 1. If the Commission does not recommend modification or elimination of the proposed change, the rate changes go into effect the next July 1. *Laws 2005, First Special Session, Chapter 8, Article 5, Section 4. Source: S.F. 286 (Betzold-by request); H.F. 1755 (Smith)*

Privatizations add marginally to PERA-General contribution requirements, but the actions taken last year are likely to be more than sufficient to address the plan contribution requirements. Last year Commission staff raised the issue that the size of the requested contribution rate increase might be excessive. If investment markets improve, that may take pressure off contribution rate requirements by helping to cover

unfunded liability. Last year, the July 1, 2004, actuarial valuation indicated a 1.6 percent contribution deficiency, following several years of low investment returns during the early 2000s. Commission staff estimated that PERA’s contribution requirements would be about one percent less if investment returns had been average during that period. Rather than having a July 1, 2004, contribution deficiency of 1.6 percent of payroll, the deficiency would be about 0.6 percent. This is of some importance, because it indicates that if future investment returns improve and there are a few years with above average returns, the investment markets may take care of a good part of PERA’s current contribution deficiency.

Even without above average markets, the contribution increases enacted last year should be more than sufficient. The contribution deficiency according to the most recent actuarial report (July 1, 2005) is 1.67 percent of pay. That estimate included one-half year of the higher contributions that began on January 1, 2006. The other half of that increase will show up in next year’s results, and as just indicated, further increases in the employee and employer contribution rates are scheduled in 2007 and 2008 and the employer additional contribution rate will also be increased. In addition, PERA is given authority starting in 2010 to increase rates further if there is a demonstrated need.

The actions taken by the 2005 Legislature lessens any possible argument that this new proposed change in privatization augmentation rates is needed to help plug the dike. However, this does not lessen the need consider whether the existing privatization policies are justified, given that they do have some cost, given that the cost is borne by the employees who remain in the plan and public employers, and given inconsistencies between the way that privatized employees are treated compared to other terminated employees.

Policy Issues

S.F. 2378 (Pogemiller); H.F. xxx raises several pension and related public policy issues, as follows:

- 1. Policy for PERA Deferred Annuitants Under Privatizations. The issue is whether deferred annuities augmentation for privatized employees should be reduced to be more in line with the treatment of other employees who terminate from PERA plan coverage. The current policy provides considerably more generous augmentation for privatized employees that for other terminating employees. Under existing law, the augmentation rate for those who are age 55 or under is 5.5 percent per year for a privatized employee and 3.0 percent for any other terminated employee. For those over age 55, the annual rate is 7.5 percent for privatized employees and 5.0 percent for all others. The proposal is to scale the rates for the employees under any new privatization to 4.0 percent for the age 55 and under group and 6.0 percent for the over age 55 group.

The differential between the privatized and non-privatized terminated employee treatment in existing law stems from the 1996 Fairview/University hospital privatization. The 1996 Legislature decided that it was appropriate to give to the privatized employees much of the gain that would otherwise go to the plan, and the augmentation rates in law are those that produced that result. Issues about the degree to which a privatization harmed the applicable employees, and the degree to which it is appropriate to provide treatment different from that granted to other terminated employees may not have received extensive consideration.

PERA Current Actuarial Condition. The issue is the current actuarial condition of PERA-General. There is a contribution deficiency of 1.67 percent of payroll but contribution increases enacted last year and scheduled to phase in over the next several years should be more than adequate to address PERA’s contribution needs. The following table presents the PERA-General July 1, 2005, actuarial valuation results:

PERA-General 2005	
Membership	
Active Members	142,303
Service Retirees	48,147
Disabilitants	1,853
Survivors	6,650
Deferred Retirees	35,768
Nonvested Former Members	100,369
Total Membership	335,090
Funded Status	
Accrued Liability	\$15,892,554,615
Current Assets	\$11,843,935,692
Unfunded Accrued Liability	\$4,048,618,923
Funding Ratio	74.53%

PERA-General 2005		
<u>Financing Requirements</u>		
Covered Payroll		\$4,530,882,628
Benefits Payable		\$715,043,179
Normal Cost	7.79%	\$352,964,350
Administrative Expenses	0.22%	\$9,967,942
Normal Cost & Expense	8.01%	\$362,932,292
Normal Cost & Expense	8.01%	\$362,932,292
Amortization	4.73%	\$214,310,748
Total Requirements	12.74%	\$577,243,040
Employee Contributions	5.30%	\$240,262,784
Employer Contributions	5.77%	\$261,631,214
Employer Add'l Cont.	0.00%	\$0
Direct State Funding	0.00%	\$0
Other Govt. Funding	0.00%	\$0
Administrative Assessment	0.00%	\$0
Total Contributions	11.07%	\$501,893,998
Total Requirements	12.74%	\$577,243,040
Total Contributions	11.07%	\$501,893,998
Deficiency (Surplus)	1.67%	\$75,349,042

2. Interaction with Other Bills. The Commission should be aware that bills have been introduced during the 2006 Legislative Session to add more privatizations to the PERA privatization chapter. Under the bill currently under consideration those privatization bills, if enacted, would be subject to the reduced augmentation rates proposed in S.F. 2378 (Pogemiller); H.F. xxx. PERA has indicated that when it is contacted by groups seeking a bill for inclusion in the PERA privatization chapter, PERA has made them aware that they would have lower augmentation rates than is prescribed in current statutes if S.F. 2378 (Pogemiller); H.F. xxx were to pass.
3. Cost Savings Provided by Proposal. The issue is the cost savings expected from the proposal. As of this writing, the Commission staff is not aware of a cost savings estimate or estimate of the corresponding impact on contribution rate requirements. Hopefully, PERA can provide that some information. What is evident, though, is that the impact will be small, a few tenths of a percent of pay at most. The reason is that the change is prospective only, the number of privatized employees is very small compared to PERA's full membership, and the proposal is to slightly downsize the augmentation rather than to eliminate all augmentation differences between privatization employees and other terminated employees. The real impact on contribution requirements in the future depends on how many privatizations will occur and are included in the privatization chapter. If none occur, the bill will have no cost impact because the bill would apply to no one. The cost savings impact is higher the more future privatization that occur and which are included in the privatization chapters.
4. Scope/Issue of Consistency Between Comparable Plans. The issue is whether the bill should be amended to include comparable changes to the MSRS privatization chapter. Any time in the past when any benefit-related changes was made to either the PERA or MSRS privatization chapter, the Commission has always chosen to make comparable changes in the corresponding privatization chapter, to retain uniform treatment between MSRS and PERA privatized employees.
5. Amount of the Proposed Change in Privatization Augment Rates. The issue is the size of the proposed change in privatization augmentation rates. The Commission may choose to select rates other than those proposed.

Potential Amendments for Commission Consideration

Amendment S2378-A1 makes the augmentation rates offered under the MSRS privatization chapter equal to those for PERA privatizations as revised in S.F. 2378 (Pogemiller); H.F. xxx. If the Commission adopts this amendment in addition to S2378-A2, below, and desires to maintain consistent treatment between the MSRS and PERA privatization chapters, the Commission could revise S2378-A1 on page 1, line 14, by deleting "four" and inserting the same number used for the age 55 and under group in S2378-A2, and on page 1, line 16, by deleting "six" and inserting the number used for the over age 55 group in S2378-A2.

Amendment S2378-A2 would provide augmentation rates other than as proposed, by filling in new rates as set by the Commission.

..... moves to amend S.F. No. 2378; H.F. No., as follows:

Page 1, before line 6, insert:

"Section 1. Minnesota Statutes 2004, section 352F.04, is amended to read:

**352F.04 AUGMENTATION INTEREST ~~RATES~~ RATES FOR TERMINATED
UNIVERSITY HOSPITAL ~~PRIVATIZED~~ EMPLOYEES.**

Subdivision 1. **Enhanced augmentation rates.** (a) The deferred annuity of a terminated hospital employee who attained that status prior to the effective date of this section is subject to augmentation ~~in accordance with~~ under Minnesota Statutes 1994, section 352.72, subdivision 2, except that the rate of ~~interest for this purpose~~ augmentation is 5.5 percent compounded annually until January 1 following the year in which ~~such~~ the person attains age 55. From that date to the effective date of retirement, the augmentation rate is 7.5 percent compounded annually. ~~These~~

(b) If a terminated hospital employee attained that status on or after the effective date of this section, the augmentation rate is four percent compounded annually until January 1, following the year in which the person attains age 55. From that date to the effective date of retirement, the augmentation rate is six percent compounded annually.

Subd. 2. **Exceptions.** ~~The increased augmentation rates are no longer applicable for any time after~~ specified in subdivision 1 do not apply if the terminated hospital employee or Academic Health Center employee;

(1) becomes covered again by a retirement fund plan enumerated in section 356.30, subdivision 3. ~~These increased deferred annuity augmentation rates do not apply to a terminated transferred hospital employee or Academic Health Center employee who; or~~

(2) begins receipt of a retirement annuity while employed by Fairview the employer which assumed operations of the medical facility or other public employing unit or purchased the medical facility or other public employing unit. "

- 2.1 Page 2, line 13, after "effective" insert "the day following final enactment. Section
- 2.2 2 is effective"
- 2.3 Renumber the sections in sequence and correct the internal references
- 2.4 Amend the title accordingly

- 1.1 moves to amend S.F. No. 2378; H.F. No., as follows:
- 1.2 Page 1, line 22, delete "four" and insert "...."
- 1.3 Page 2, line 1, delete "six" and insert "...."

A bill for an act
relating to retirement; Public Employees Retirement Association privatizations;
revising augmentation rates provided to privatized employees for privatizations
enacted after July 25, 2005; amending Minnesota Statutes 2004, section 353F.04.

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

Section 1. Minnesota Statutes 2004, section 353F.04, is amended to read:

**353F.04 AUGMENTATION INTEREST ~~RATE~~ RATES FOR TERMINATED
MEDICAL OR OTHER PUBLIC EMPLOYING UNIT FACILITY EMPLOYEES.**

Subdivision 1. Enhanced augmentation rates. (a) The deferred annuity of
a terminated medical facility or other public employing unit employee is subject to
augmentation ~~in accordance with~~ under section 353.71, subdivision 2, of the edition of
Minnesota Statutes published in the year in which the privatization occurred, except that
the rate of ~~interest for this purpose~~ augmentation is as specified in paragraph (b) or (c),
whichever is applicable.

(b) This paragraph applies if the legislation adding the medical facility or other
employing unit to section 353F.02, subdivision 4 or 5, as applicable, was enacted before
July 26, 2005, and became effective before January 1, 2007. For a terminated medical
facility or other public employing unit employee, the augmentation rate is 5.5 percent
compounded annually until January 1 following the year in which ~~such~~ the person attains
age 55. From that date to the effective date of retirement, the augmentation rate is 7.5
percent compounded annually. ~~These~~

(c) If paragraph (b) is not applicable, the augmentation rate is four percent
compounded annually until January 1, following the year in which the person attains age

55. From that date to the effective date of retirement, the augmentation rate is six percent compounded annually.

Subd. 2. Exceptions. ~~The increased augmentation rates are no longer applicable for any time after specified in subdivision 1 do not apply if the terminated medical facility or other public employing unit employee;~~

~~(1) becomes covered again by a retirement fund plan enumerated in section 356.30, subdivision 3. These increased deferred annuity augmentation rates do not apply to a terminated transferred medical facility or other public employing unit employee who; or~~

~~(2) begins receipt of a retirement annuity while employed by the employer which assumed operations of the medical facility or other public employing unit or purchased the medical facility or other public employing unit.~~

Sec. 2. **EFFECTIVE DATE.**

Section 1 is effective retroactively from July 25, 2005.