**S.F. 997**

(Betzold, by request)

H.F. 1753

(Wardlow)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): MSRS-Correctional
Relevant Provisions of Law: Minnesota Statutes, Section 352.92, Subdivisions 1 and 2
General Nature of Proposal: Employee and Employer Contribution Rate Increases
Date of Summary: January 17, 2006

Specific Proposed Changes

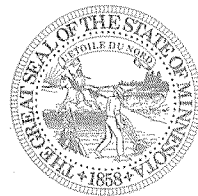
- Increases the employee contribution rate in several steps from 5.69% of pay to 8.6% by July 1, 2008.
- Increases the employer contribution rate in several steps from 7.98% of pay to 12.1% by July 1, 2008.

Policy Issues Raised by the Proposed Legislation

1. Contribution Increase/Increase Amount. The information provided by the MSRS actuary indicates that, based on the 2002 actuarial valuation, the plan would go from having negative amortization to having positive amortization, and the result would be a 5.2 percent contribution deficiency in 2002. MSRS is asking for a much larger increase, 7.03 percent of payroll. It is not clear what information supports that higher increase request.
2. Current Need to Address/ Sufficient Resources. The issue is whether there is sufficient need and sufficient resources to address the MSRS-Correctional contribution deficiency at this time.
3. Added State Employing Unit Cost.
4. Negative Amortization Issues. As part of long-term solutions to the MSRS-General, MSRS-Correctional, State Patrol Plan, PERA-General, and PERA-P&F funding issues, the Commission may wish to revisit the use of negative amortization. Use of negative amortization masks the problem of contribution rates that are not sufficient to cover normal costs and expenses.
5. Phase-In Issues. The issue is the phase-in of increases over a multi-year period. Contribution needs can not be predicted with certainty in the future. Thus, the requested increases in future years may not match the plan needs.
6. Position of Employee Groups. The issue is the extent of employee group support for this bill.

Potential Amendments

- Amendment LCPR-S997-A1 would eliminate all but the first increase, bringing the total contributions to 15.5 percent of pay, somewhat in excess of the normal cost plus expenses, which were 15.16 percent in July 2004 and would change the start of the contribution rate increase from July 1, 2005, to a date to be set.
- Amendment LCPR-S997-A2 an alternative to LCPR05-121, this amendment would include the first two increases (scheduled for 2005 and 2006 under the bill language) resetting the start dates for the increases to dates to be determined, and eliminate the 2007 and 2008 increases. The two increases would create total contributions of 17.1 percent of salary.
- Amendment LCPR-S997-A3 an alternative to the first two amendments, this amendment retains all the increases but pushes the dates back one year, because the first adjustment date was to be July 1, 2005 but the bill can not pass until 2006.
- Amendment LCPR-S997-A4 could be used with any of the earlier amendments or independently. LCPR05-124 states that if, following the implementation of any increase, the next actuarial valuation indicates that the total requirements determined by the actuary show no contribution deficiency, then any later contribution increases specified in the bill shall not be implemented.
- Amendment LCPR-S997-A4 revises general law to specify that if a plan is more than fully funded (and thus negative amortization is applied) and a later valuation indicates unfunded liabilities, the full funding date will be reset at the average remaining working lifetime of the active employees, determined by subtracting the average age of the active employees from the normal retirement age.



TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Ed Burek, Deputy Director *EB*

RE: S.F. 997 (Betzold, by request); H.F. 1753 (Wardlow): MSRS-Correctional;
Employee and Employer Contribution Rate Increases

DATE: January 13, 2006

Summary of S.F. 997 (Betzold, by request); H.F. 1753 (Wardlow)

S.F. 997 (Betzold, by request); H.F. 1753 (Wardlow) revises the Minnesota State Retirement System Correctional Plan (MSRS-Correctional) employee and employer contributions. The employee contribution is revised:

- from 5.69 percent to 6.4 percent of pay on July 1, 2005; to
- 7.0 percent of pay on July 1, 2006; to
- 7.7 percent of pay on July 1, 2007; and to
- 8.6 percent of pay on July 1, 2008.

The employer contribution is revised:

- from 7.98 percent to 9.1 percent of pay on July 1, 2005; to
- 10.1 percent of pay on July 1, 2006; to
- 11.1 percent of pay on July 1, 2007; and to
- 12.1 percent of pay on July 1, 2008.

The total increases over the 2005 through 2008 period is 2.91 percent of pay for the employees and 4.12 percent of pay for the employer, for a combined increase of 7.03 percent of payroll.

Background Information on MSRS-Correctional

The Correctional State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional) was established in 1973 as a result of collective bargaining by the State of Minnesota with the American Federation of State, County and Municipal Employees (AFSCME), Council 6, and the resulting implementing legislation. Up to that point, correctional guards and most other correctional system employees were covered by General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General). Some correctional system employees were covered by the Teachers Retirement Association (TRA). MSRS-Correctional was created as a separate plan, with the membership in 1973 largely limited to correctional guards and correctional counselors in adult correctional facilities. In subsequent years, the coverage group was expanded to include additional correctional positions in both adult and juvenile correctional facilities. Large increases occurred in the mid-1990s, with an increase of more than 400 state employees due to inclusion of 33 additional employment classifications who were certified by the Department of Corrections or the Department of Human Services as having at least 75 percent inmate or patient contact, and an additional 31 positions at correctional facilities or at the state security hospital. In 1999, the MSRS-Correctional Plan membership was increased by an estimated 115 state employees employed in nine employment positions with the Minnesota Extended Treatment Option (METO) on-campus program at the Cambridge Regional Human Services Center. In 2000, various other positions were added, providing that the individual was certified as having at least 75 percent inmate contact. A partial list of positions included the director and assistant group supervisor of the former Phoenix/Pomiga treatment/behavioral change program at the Minnesota Correctional facility at St. Cloud, and the following positions at certain correctional facilities: registered nurse practitioners, behavioral analyst 2, psychologist 2, dental hygienist, dental assistant registered. In 2004, three positions at the Minnesota Correctional Facility-Rush City, were added, which are the correctional discipline unit supervisor, dental hygienist, and psychologist 2.

About 85 percent of MSRS-Correctional Plan members are Department of Corrections employees and about 15 percent are Department of Human Services employees. The correctional facilities with the largest numbers of MSRS-Correctional Plan members are MCF-Stillwater, MCF-Lino Lakes, MCF-St. Cloud, and MCF-Faribault. The plan currently has 3,326 members covering approximately 100 employment classifications. Correctional officers comprise the largest single occupational group covered by the plan.

One of the attractions of MSRS-Correctional for groups seeking this coverage is that the plan pays higher benefits than a general employee plan and has an earlier normal retirement age. While this coverage is advantageous to the employee, it is more expensive for the employer because of the higher benefits and earlier retirement age in the Correctional Plan compared to the General Plan. The Correctional Plan offers a hybrid of general employee plan and public safety plan features. MSRS-Correctional members are coordinated members, like members of MSRS-General and unlike members of the Public Employees Retirement Association Police and Fire Plan (PERA-P&F). Like a public safety plan, members can retire without a reduction for early retirement at age 55 or with a reduction at age 50. This annuity is computed using a 2.4 percent per-year-of-service benefit accrual factor. (For each year of covered service, the individual will receive 2.4 percent of the high-five average salary, which is the five years of covered salary which produces the highest average.) Duty-related disability benefits are generous, typical of a public safety plan. The duty-related disability receives 50 percent of high-five average salary, plus 2.4 percent of high-five average salary for each year in excess of 20 years of allowable service. Also like a public safety plan, MSRS-Correctional uses an occupational definition of disability rather than the total impairment disability definition used by MSRS-General.

Another attraction of MSRS-Correctional coverage is that post-retirement health care coverage may be provided by the employer. MSRS administrators indicate that eligibility may depend upon the specific union to which the member belongs.

The public safety-type features of this plan make the plan considerably more expensive than a general employee plan. In 1993, the actuary computed the total contribution requirements of this plan to be 15.83 percent of pay, while the MSRS-General total requirement was 9.43 percent of pay, a difference of 6.4 percent of pay.

Besides the level of cost, another difference between public safety plans and general employee plans is the way cost is shared between the employees and employer. In general employee plans the norm is to share cost equally, at least the normal cost plus expenses. In contrast, in public safety plans the norm is to have the employees pay approximately 40 percent of these costs while the employer pays about 60 percent.

The premise for MSRS-Correctional coverage is that certain employment positions in correctional or analogous security hospital or psychopathic personality treatment center service place individuals in a high degree of physical danger, and there is sufficient need for a particularly vigorous workforce in these specific positions to warrant a separate plan with larger retirement benefits payable at an earlier normal retirement age.

Background Information on the MSRS-Correctional Contribution Deficiency

S.F. 997 (Betzold, by request); H.F. 1753 (Wardlow) is an effort to address the contribution deficiency of MSRS-Correctional. The deficiencies in this fund as indicated in the actuarial reports have occurred only recently, beginning in 2000.

1. Overview of Recent MSRS-Correctional Plan Contribution Sufficiencies/Deficiencies. Attached to this memo is a chart summarizing the MSRS-Correctional actuarial reports from 1991 through 2004. Prior to 1999, the total contributions were approximately equal to the total requirements. In any actuarial work, there is always some year-to-year variation, which in some years resulted in modest contribution deficiencies and in other years modest contribution sufficiencies, with no obvious pattern. The funding ratio has been high from the early 1990s to the current date, but has dropped in the last few years, reflecting in part the strong investment markets throughout much of the period followed by recent weak periods. The fund was 94.43 percent funded in 1991 reached 100 percent or more funded in 1993. In the last couple of years, 2003 and 2004, the fund has dropped below full funding.
2. Actions Taken in 1997. To understand some of the funding changes that have occurred in the last several years, it is helpful to begin with 1997. Several changes occurred in 1997, due to actions by the Legislature, which began to impact the plan's funding. The first was that a significant benefit improvement/benefit revision bill was enacted, and part of that bill revised the MSRS-Correctional Plan and increased the plan contribution rates. The most significant benefit change was a revision in the retirement benefit. A 2.4 percent accrual rate level benefit was created, providing individuals with a level benefit of 2.4 percent of their high-five average salary per year of service, rather than a prior system of using a 2.5 percent accrual rate until the retiree reaches age 62 (the minimum age to begin receiving Social Security benefits) and then providing a recomputed benefit of 1.5 percent of the high-five salary per year of service. The second significant change was that reverse amortization was enacted for this plan, which previously had been used only for the PERA-P&F plan.

These impacts are evident in the July 1, 1997, actuarial valuation. The plan normal cost increased from 11.05 percent a year earlier to 14.34 percent, raising the total contribution requirements significantly. This was covered by a combination of the new employee contribution rate of 5.50 percent and the new employer contribution rate of 7.70 percent, and negative amortization. The plan was more than fully funded, and part of the assets above 100 percent funding were used through that negative amortization process to lower the contribution requirement below what it otherwise would have been. The end result was that the 1997 actuarial valuation showed a contribution surplus of 0.71 percent of pay. However, the apparent health of the fund was now dependent upon the surplus assets. The total contributions made to the fund by the employees and employers were less than the plan normal cost and expenses, which was 14.52 percent of payroll. Over the course of the next several years the surplus assets disappeared, some of it used up by the negative amortization, and much of it disappearing when the investment markets went bad.

3. Revisions in 2000. Numerous changes in actuarial assumptions and actuarial procedures occurred in 2000. Revisions were adopted in the male and female pre-retirement and post-retirement mortality tables, the male and female post-disability mortality table, retirement age, separation (termination) assumptions, and disability assumptions. Statutory revisions included a revision in age-related salary increase factors, and a revision in negative amortization procedures. Rather than using 2020 as the amortization date if negative amortization is occurring, the plan will use rolling 30-year negative amortization, pushing the amortization date for this plan from 2020 to 2030. The Legislature also revised the way the actuarial value of assets is computed, moving to a system based on market value and weighted past deviations between the expected value of assets assuming 8.5 percent investment returns, and the actual value of assets given the investment return that actually occurred (Laws 2000, Chapter 461, Article 1, Section 3).

The impact of all of these changes is reflected in the 2000 actuarial valuation. There was little impact on plan normal cost; it actually decreased slightly compared to a year earlier. The plan, however, did move into a slight deficiency situation, 0.05 percent of payroll.

4. Impacts on Later Valuations. Over the next few actuarial valuations, the plan normal cost drifted upwards by 0.3 to 0.4 percent of payroll, and the impact of bad investment markets in the early 2000s began to show. The funding ratio fell after 2001, and there was less negative amortization to offset the total contribution requirements. By the 2003 actuarial valuation, the surplus assets had disappeared as the funding ratio fell to 97.06 percent. Rather than negative amortization to decrease the apparent total requirements, there was a need to amortize some unfunded liability. Since the employee and employer contributions are not sufficient to cover the normal cost and expenses, a not insignificant contribution deficiency occurred.
5. Current Situation. All surplus assets have dissipated due to the investment markets and the use of previous surplus assets to cover the difference between the total employee and employer contributions and the total requirements. If all actuarial assumptions were to hold in the future, including the assumed annual 8.5 percent investment return, the contribution deficiencies will begin to create more unfunded liability, adding to the amortization requirement and worsening the deficiency. Without an increase in the contribution rate to cover the portion of normal cost plus expenses that is now uncovered, and a further increase to cover the amortization requirement, the funding ratio will fall further, and the total contribution requirement will grow due to further increases in the amortization requirement.

Issue: Transition from Negative Amortization to Positive Amortization

The actuarial work for the plan indicates that in 2002 the plan had some assets in excess of its liabilities, since its funding ratio was 102 percent. Because there were surplus assets, some negative amortization occurred. By 2003, the surplus assets had disappeared as the plan fell to a 97 percent funding ratio in 2003 and to 93 percent in 2004. As the plan shifted from having surplus assets in 2002 to an unfunded liability in 2003, the full funding date should have dropped from 2032 to 2020 in the 2003 valuation, but it did not. That seems to reflect an error in the actuarial work for the plan. In 2004, the new actuary jointly retained by the pension funds dropped the full funding date to 2020, a change which probably should have occurred a year earlier. Shortening the amortization period gives less time to pay off unfunded liabilities, raising the amortization factor above what would occur if the amortization date remained at 2032. If the amortization date were left at 2032, the amortization requirement would be about 1.5 percent of pay rather than 2.31 percent of salary, and the contribution deficiency would be 3.0 percent of salary, rather than 3.81 percent of salary.

Shortening the amortization period does seem a correct interpretation of existing law, but the Legislative Commission on Pensions and Retirement may wish to review the policy and may choose to revise the law.

The applicable law is Minnesota Statutes, Section 356.215, Subdivision 11. Paragraph (f) governs the amortization date in the 2002 and earlier valuations. That provision states that if a plan has assets in excess of its liabilities, negative amortization will be used over a rolling 30-year period beginning anew with each actuarial valuation. That resulted in a 2032 amortization date in the 2002 valuation. When the plan dipped below full funding in 2003, procedures governing full funding dates for plans with unfunded liabilities should have been used. Those provisions are stated in paragraphs (b) and (c) of the subdivision. If there were no actuarial assumption changes, benefit changes, or changes in the actuarial cost method, paragraph (c) governs, which indicates a full funding date of 2020.

While this appears to be the proper interpretation of law, the result may not reflect the best pension policy. The Commission may choose to amend Section 356.215, Subdivision 11. A reasonable approach which the Commission may wish to consider, for plans that were using negative amortization and suddenly find themselves with unfunded liabilities, is to revise the full funding date to coincide with the average remaining working lifetime of the covered membership, rather than reverting to 2020. Using 2020 is problematic now, and will be more problematic as the 2020 date draws nearer.

Recent Experience Study Results

Mercer Human Resources Consulting, the Minnesota State Retirement System (MSRS) actuary, completed an MSRS-Correctional Plan experience study in 2004 covering the period 1998-2003. The results of that experience study lead to recommendations for revising demographic actuarial assumptions which would considerably increase plan costs and the required contributions. The Commission recently approved the use of these revised actuarial assumptions, but the change is likely to be too late to be used in the official July 1, 2005 actuarial valuation. Assumptions were changed to assume fewer terminations, more early retirements, longer life-expectancies, and more disabilitants that previously predicted. Details on the changes that were adopted appear in an attachment.

Impact on Plan

Table 1 below is information provided by Mercer and Minnesota State Retirement System (MSRS) demonstrating the impact of each of the proposed changes on the July 1, 2002, actuarial results. The turnover (withdrawal) change has the largest impact, adding 2.1 percent of pay to the contribution requirements. The revised mortality assumption changes would add 1.8 percent of pay, while disability assumption changes add 0.8 percent of pay. The retirement assumption changes decrease costs slightly. The total impact from all of the assumption changes combined is 4.2 percent of pay, which would have increased the total required contributions in 2002 from 14.7 percent of pay to 18.9 percent of pay.

**Table 1
Impact of Assumption Changes as of July 1, 2002
MSRS-Correctional Plan**

| | Before Assumption Changes | Mortality | Disability* | Retirement | Withdrawal | Total | After Assumption Changes |
|-----------------------------|---------------------------|-----------|-------------|------------|------------|-------|--------------------------|
| Normal Cost | 15.0% | 0.7% | 0.6% | -0.3% | 2.0% | 3.0% | 18.0% |
| Supplemental Contribution | -0.5% | 1.1% | 0.2% | -0.2% | 0.1% | 1.2% | 0.7% |
| Expense Allowance | 0.2% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.2% |
| Total Required Contribution | 14.7% | 1.8% | 0.8% | -0.5% | 2.1% | 4.2% | 18.9% |
| Statutory Contributions | 13.7% | | | | | | 13.7% |
| Sufficiency/(Deficiency) | -1.0% | | | | | | -5.2% |

* Disability rates and disability mortality

The impact of these changes on the 2002 valuation as displayed in a presentation comparable to that used in the attachment is shown in Table 2.

**Table 2
Impact of Actuarial Changes on 2002 MSRS-Correctional Valuation**

| Membership | 2002 | Difference Between 2002 and Impact of Changes | Impact of Changes on 2002 Valuation |
|--------------------------|-------|---|-------------------------------------|
| Active Members | 3,249 | | 3,249 |
| Service Retirees | 754 | | 754 |
| Disabilitants | 115 | | 115 |
| Survivors | 69 | | 69 |
| Deferred Retirees | 550 | | 550 |
| Nonvested Former Members | 268 | | 268 |
| Total Membership | 5,005 | | 5,005 |

| | 2002 | | Difference Between 2002 and Impact of Changes | | Impact of Changes on 2002 Valuation | |
|-------------------------------|----------------|----------------------|--|--------------------|--|----------------------|
| Funded Status | | | | | | |
| Accrued Liability | | \$446,426,000 | | \$28,052,255 | | \$474,478,255 |
| Current Assets | | <u>\$457,416,000</u> | | | | <u>\$457,416,000</u> |
| Unfunded Accrued Liability | | (\$10,990,000) | | \$28,052,255 | | \$17,062,255 |
| Funding Ratio | 102.46% | | (6.06%) | | 96.40% | |
| Financing Requirements | | | | | | |
| Covered Payroll | | \$131,232,000 | | | | \$131,232,000 |
| Benefits Payable | | \$17,105,000 | | | | \$17,105,000 |
| Normal Cost | 14.97% | \$19,646,000 | 3.03% | \$3,975,760 | 18.00% | \$23,621,760 |
| Administrative Expenses | <u>0.21%</u> | <u>\$276,000</u> | | | <u>0.21%</u> | <u>\$276,000</u> |
| Normal Cost & Expense | 15.18% | \$19,922,000 | 3.03% | \$3,975,760 | 18.21% | \$23,897,760 |
| Normal Cost & Expense | 15.18% | \$19,922,000 | 3.03% | \$3,975,760 | 18.21% | \$23,897,760 |
| Amortization | <u>(0.45%)</u> | <u>(\$591,000)</u> | 1.15% | <u>\$1,509,624</u> | <u>0.70%</u> | <u>\$918,624</u> |
| Total Requirements | 14.73% | \$19,331,000 | 4.18% | \$5,485,384 | 18.91% | \$24,816,384 |
| Employee Contributions | 5.69% | \$7,467,000 | | | 5.69% | \$7,467,000 |
| Employer Contributions | 7.98% | \$10,472,000 | | | 7.98% | \$10,472,000 |
| Employer Add'l Cont. | 0.00% | \$0 | | | 0.00% | \$0 |
| Direct State Funding | 0.00% | \$0 | | | 0.00% | \$0 |
| Other Govt. Funding | 0.00% | \$0 | | | 0.00% | \$0 |
| Administrative Assessment | <u>0.00%</u> | <u>\$0</u> | | | <u>0.00%</u> | <u>\$0</u> |
| Total Contributions | 13.67% | \$17,939,000 | | | 13.67% | \$17,939,000 |
| Total Requirements | 14.73% | \$19,331,000 | 4.18% | \$5,485,384 | 18.91% | \$24,816,384 |
| Total Contributions | <u>13.67%</u> | <u>\$17,939,000</u> | | | <u>13.67%</u> | <u>\$17,939,000</u> |
| Deficiency (Surplus) | 1.06% | \$1,392,000 | 4.18% | \$5,485,384 | 5.24% | \$6,877,384 |

A problem for the Commission is that the actuary demonstrated the impact on the 2002 actuarial valuation results, which seems odd given that the experience study included experience through 2003. The results may not hold exactly if applied against the 2004 or 2005 valuation. A second problem is that the actuary did not indicate in the information displayed in Table 1 or 2 whether the actuary's computations were based on a revised full funding date. The results provided by the actuary indicate that the plan will go, as a result of the revised actuarial assumptions, from an over-funded condition with negative amortization and a 2032 full funding date, to an under-funded condition requiring positive amortization and a full funding date which is unclear, but presumably is shorter than 2032. It is not known how the actuary interpreted Section 356.215, Subdivision 11, for purposes of making the computations. Different full funding dates will lead to different amortization requirements.

Discussion and Analysis

S.F. 997 (Betzold, by request); H.F. 1753 (Wardlow) revises the MSRS-Correctional employee and employer contributions in several annual steps, beginning on July 1, 2005. The employee contribution, currently 5.67 percent of pay, will increase to 8.6 percent of pay by July 1, 2008. The employer contribution rises from the current 7.98 percent of pay to 12.1 percent of pay on July 1, 2008. The total increases over the 2005 through 2008 period is 2.91 percent of pay for the employees and 4.12 percent of pay for the employer, for a combined increase of 7.03 percent of payroll.

The bill raises various pension and related public policy issues, as follows:

1. Contribution Increase/Increase Amount. If the Commission does adopt the assumption changes, the issue is whether there is sufficient information supporting the requested contribution increase. The information provided by the MSRS actuary, which was presented in Tables 1 and 2 above, indicates that if the cost impact of the assumption changes is integrated into the 2002 valuation, the plan goes from having negative amortization to having positive amortization. The actuary did not indicate whether a revised full funding date was applied, or how that date might be determined. State law (Section 356.215, Subdivision 11) indicates that a revised full funding date should be used if a plan goes from a surplus asset position to an unfunded liability, but it is unclear in law how that new target date should be set. This particular scenario was not foreseen when the law was last revised. In any event, the actuary is indicating that the plan would have had a 5.2 percent contribution deficiency in 2002, while MSRS is asking for a much larger increase, 7.03 percent of payroll. It is not clear what information supports that increase request. The Commission may wish to have MSRS demonstrate why it believes an increase is justified, and why 7.03 percent is a proper increase amount.
2. Current Need to Address/Sufficient Resources. The issue is whether there is sufficient need and sufficient resources to address the MSRS-Correctional contribution deficiency at this time. The Commission may conclude that other matters, such as the funding problem of the Minneapolis Teachers Retirement Fund Association (MTRFA) and the St. Paul Teachers Retirement Fund Association (SPTRFA) are more urgent. The Commission may also wish to be aware that several other pension funds have bills requesting increased contributions, including the State Patrol Retirement Plan, and MSRS-General.

3. Need to Revise Bill Due to Passage of Time. The bill as drafted proposed to begin increases as of July 1, 2005, a date which is now passed. An amendment will likely be needed to revise dates and possibly the contribution amounts.
4. Cost. The issue is the added cost on the state employing units. The employer contribution increase will increase employer cost by \$1.56 million in the year beginning July 1, 2005, by \$3.11 million the next year, by \$4.82 million the following year, and by \$6.7 million in beginning on July 1, 2008. Thereafter, the \$6.7 million amount for 2008 will increase over time by the rate of increase in covered payroll. Any further shift of employees into the MSRS-Correctional Plan will add to these totals.
5. Negative Amortization Issues. As part of long-term solutions to the MSRS-General, MSRS-Correctional, the State Patrol Retirement Plan, PERA-General, and PERA-P&F funding issues, the Commission may wish to revisit the use of negative amortization. Use of negative amortization masks the problem of contribution rates that are not sufficient to cover normal costs and expenses. In reality, the surplus assets are not slowly worked off over very long time periods, as assumed in the law and in the negative amortization calculation, but rather in a very brief period of time when there is a severe turn in the investment markets. Suddenly, the plan can find itself in a situation where there are no surplus assets, the plan is less than fully funded, and the contributions are noticeably deficient.

With MSRS-Correctional, negative amortization was added to its governing law in 1997, the year in which a significant benefit improvement was added to the plan. Those plan changes caused a significant increase in normal cost to 14.34 percent of payroll, and the total contributions to the plan, 13.2 percent of pay, were insufficient to cover the ongoing cost (normal cost plus expenses), which was 14.52 percent of pay. That benefit increase caused an imbalance, hidden by the negative amortization. By 2003, all surplus assets were gone, even without considering the impact of the experience study assumption changes, and the imbalance is adding to the deficiency.

6. Phase-In Issues. The issue is the phase-in of increases over a multi-year period, with the last to occur on July 1, 2008. The Commission may wish to shorten or lengthen that phase-in period. The phase-in period may help the state to budget for the change, but a phase-in period will delay fully addressing the problem (assuming a problem remains) and results in additional unfunded liability, which increases the total cost of eliminating the deficiency. A shorter phase-in period will lower the total cost; a longer phase-in period will increase the total cost.

A related issue is that it is impossible to predict with accuracy what future contribution requirements will be. Thus, it is unclear whether the phase-in increases that will occur some years in the future will match the plan's needs.

7. Position of Employee Groups. The Commission may wish to have testimony by state public employee unions or other groups impacted by this legislation to hear their concerns and to determine the level of their support for this bill.

Potential Amendments for Commission Consideration

Amendment LCPR-S997-A1 would eliminate all but the first increase and would change the start of the contribution rate increase from July 1, 2005, to a date to be set. That first increase would bring the total contributions to 15.5 percent of pay, which is somewhat in excess of the normal cost plus expenses, which were 15.16 percent of pay according to the 2004 actuarial valuation, the most recent one available.

Amendment LCPR-S997-A2 is an alternative to LCPR-S997-A1 and would include the first two increases while eliminating the last two (the increases scheduled for 2007 and 2008 under the bill language), and would change the start dates for those first two increases from July 1, 2005 and 2006 to dates to be determined. The two increases would create total contributions of 17.1 percent of salary.

Amendment LCPR-S997-A3 is an alternative to either of the first two amendments. It keeps all the contribution increases specified in the bill, but it moves each one back one year, in recognition that the bill did not pass in 2005 but will be considered by the 2006 Legislature.

Amendment LCPR-S997-A4 could be used with amendment or LCPR-S997-A2, LCPR-S997-A3, or independently. LCPR-S997-A4 states that if, following the implementation of any increase specified in the bill, the next actuarial valuation indicates that the total requirements determined by the actuary show no contribution deficiency, then any later contribution increases specified in the bill shall not be implemented.

Amendment LCPR-S997-A5 would revise general law to specify that if a plan is more than fully funded (and thus negative amortization is applied) and then a later valuation indicates unfunded liabilities, the full funding date will be reset at the average remaining working lifetime of the active employees, determined by subtracting the average age of the active employees from the normal retirement age.

Actuarial Valuation Data

Correctional State Employees Retirement Fund

(MSRS-C)

| | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 |
|------------------------------------|---------------|---------------|----------------|----------------|----------------------|----------------------|----------------------|
| Membership | | | | | | | |
| Active Members | 3,326 | 3,262 | 3,249 | 3,182 | 3,098 | 2,882 | 2,817 |
| Service Retirees | 943 | 843 | 754 | 655 | 616 | 542 | 503 |
| Disability | 154 | 135 | 115 | 92 | 75 | 60 | 49 |
| Survivors | 91 | 82 | 69 | 61 | 56 | 50 | 39 |
| Deferred Retirees | 678 | 601 | 550 | 483 | 419 | 337 | 291 |
| Nonvested Former Members | 339 | 340 | 268 | 220 | 163 | 135 | 114 |
| Total Membership | 5,531 | 5,263 | 5,005 | 4,693 | 4,427 | 4,006 | 3,813 |
| Funded Status | | | | | | | |
| Accrued Liability | \$524,215,028 | \$484,974,000 | \$446,426,000 | \$398,633,000 | \$359,885,000 | \$307,408,000 | \$261,869,000 |
| Current Assets | \$486,617,032 | \$470,716,000 | \$457,416,000 | \$431,134,000 | \$386,964,000 | \$335,408,000 | \$295,291,000 |
| Unfunded Accrued Liability | \$37,597,996 | \$14,258,000 | (\$10,990,000) | (\$32,501,000) | (\$27,079,000) | (\$28,000,000) | (\$33,422,000) |
| Funding Ratio | 92.83% | 97.06% | 102.46% | 108.15% | 107.52% | 109.11% | 112.76% |
| Financing Requirements | | | | | | | |
| Covered Payroll | \$134,117,624 | \$138,518,000 | \$131,232,000 | \$127,835,000 | \$127,557,000 | \$112,202,000 | \$106,178,000 |
| Benefits Payable | \$17,265,693 | \$17,276,000 | \$17,105,000 | \$14,911,000 | \$12,414,000 | \$10,190,000 | \$8,226,000 |
| Normal Cost | \$20,066,740 | \$20,657,000 | \$19,646,000 | \$19,161,000 | \$18,670,000 | \$16,664,000 | \$15,789,000 |
| Administrative Expenses | \$268,235 | \$305,000 | \$276,000 | \$243,000 | \$281,000 | \$168,000 | \$181,000 |
| Normal Cost & Expense | \$20,334,975 | \$21,162,000 | \$19,922,000 | \$19,404,000 | \$18,951,000 | \$16,832,000 | \$15,970,000 |
| Normal Cost & Expense Amortization | \$20,334,975 | \$21,162,000 | \$19,922,000 | \$19,404,000 | \$18,951,000 | \$16,832,000 | \$15,970,000 |
| Total Requirements | \$23,433,092 | \$21,952,000 | \$19,331,000 | \$17,653,000 | \$17,497,000 | \$14,936,000 | \$13,783,000 |
| Employee Contributions | \$7,631,293 | \$7,882,000 | \$7,467,000 | \$7,274,000 | \$7,258,000 | \$6,384,000 | \$5,840,000 |
| Employer Contributions | \$10,702,586 | \$11,054,000 | \$10,472,000 | \$10,201,000 | \$10,179,000 | \$8,954,000 | \$8,176,000 |
| Employer Add'l Cont. | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Direct State Funding | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Other Govt. Funding | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Administrative Assessment | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Contributions | \$18,333,879 | \$18,936,000 | \$17,939,000 | \$17,475,000 | \$17,437,000 | \$15,338,000 | \$14,016,000 |
| Total Requirements | \$23,433,092 | \$21,952,000 | \$19,331,000 | \$17,653,000 | \$17,497,000 | \$14,936,000 | \$13,783,000 |
| Total Contributions | \$18,333,879 | \$18,936,000 | \$17,939,000 | \$17,475,000 | \$17,437,000 | \$15,338,000 | \$14,016,000 |
| Deficiency (Surplus) | \$5,099,213 | \$3,016,000 | \$1,392,000 | \$178,000 | \$60,000 | (\$402,000) | (\$233,000) |
| Amortization Target Date | 2020 | 2032 | 2032 | 2031 | 2030 | 2020 | 2020 |
| Actuary | Segal | Milliman USA | Milliman USA | Milliman USA | Milliman & Robertson | Milliman & Robertson | Milliman & Robertson |

Attachment I: Recently Approved Actuarial Assumptions

**Table A
Turnover (Separation) Assumptions – Prior and Current Rates
MSRS-Correctional Plan**

| Age | Prior Assumption Per 10,000 Occurrences | | Prior Assumption Percentages | | Current Assumption* Per 10,000 Occurrences | | Current Assumption Percentages | |
|-----|--|--------|---------------------------------|--------|---|--------|-----------------------------------|--------|
| | Male | Female | Male | Female | Male | Female | Male | Female |
| 20 | 2,400 | 1,600 | 24.0% | 16.0% | 1,200 | 800 | 12.0% | 8.00% |
| 21 | 2,200 | 1,560 | 22.0% | 15.6% | 1,100 | 780 | 11.0% | 7.80% |
| 22 | 2,000 | 1,520 | 20.0% | 15.2% | 1,000 | 760 | 10.0% | 7.60% |
| 23 | 1,810 | 1,480 | 18.1% | 14.8% | 905 | 740 | 9.05% | 7.40% |
| 24 | 1,630 | 1,450 | 16.3% | 14.5% | 815 | 725 | 8.15% | 7.25% |
| 25 | 1,470 | 1,420 | 14.7% | 14.2% | 735 | 710 | 7.35% | 7.10% |
| 26 | 1,330 | 1,400 | 13.3% | 14.0% | 665 | 700 | 6.65% | 7.00% |
| 27 | 1,210 | 1,380 | 12.1% | 13.8% | 605 | 690 | 6.05% | 6.90% |
| 28 | 1,100 | 1,370 | 11.0% | 13.7% | 550 | 685 | 5.50% | 6.85% |
| 29 | 1,000 | 1,360 | 10.0% | 13.6% | 500 | 680 | 5.00% | 6.80% |
| 30 | 910 | 1,350 | 9.1% | 13.5% | 455 | 675 | 4.55% | 6.75% |
| 31 | 830 | 1,340 | 8.3% | 13.4% | 415 | 670 | 4.15% | 6.70% |
| 32 | 760 | 1,330 | 7.6% | 13.3% | 380 | 665 | 3.80% | 6.65% |
| 33 | 700 | 1,320 | 7.0% | 13.2% | 350 | 660 | 3.50% | 6.60% |
| 34 | 650 | 1,310 | 6.5% | 13.1% | 325 | 655 | 3.25% | 6.55% |
| 35 | 600 | 1,290 | 6.0% | 12.7% | 300 | 645 | 3.00% | 6.45% |
| 36 | 560 | 1,260 | 5.6% | 12.6% | 280 | 630 | 2.80% | 6.30% |
| 37 | 520 | 1,220 | 5.2% | 12.2% | 260 | 610 | 2.60% | 6.10% |
| 38 | 490 | 1,170 | 4.9% | 11.7% | 245 | 585 | 2.45% | 5.85% |
| 39 | 460 | 1,110 | 4.6% | 11.1% | 230 | 555 | 2.30% | 5.55% |
| 40 | 440 | 1,040 | 4.4% | 10.4% | 220 | 520 | 2.20% | 5.20% |
| 41 | 420 | 960 | 4.2% | 9.6% | 210 | 480 | 2.10% | 4.80% |
| 42 | 400 | 870 | 4.0% | 8.7% | 200 | 435 | 2.0% | 4.35% |
| 43 | 380 | 780 | 3.8% | 7.8% | 190 | 390 | 1.9% | 3.90% |
| 44 | 360 | 700 | 3.6% | 7.0% | 180 | 350 | 1.8% | 3.50% |
| 45 | 340 | 640 | 3.4% | 6.4% | 170 | 320 | 1.7% | 3.20% |
| 46 | 320 | 590 | 3.2% | 5.9% | 160 | 295 | 1.6% | 2.95% |
| 47 | 300 | 560 | 3.0% | 5.6% | 150 | 280 | 1.5% | 2.80% |
| 48 | 280 | 530 | 2.8% | 5.3% | 140 | 265 | 1.4% | 2.65% |
| 49 | 260 | 500 | 2.6% | 5.0% | 130 | 250 | 1.3% | 2.50% |
| 50 | 240 | 470 | 2.4% | 4.7% | 120 | 235 | 1.2% | 2.35% |
| 51 | 220 | 440 | 2.2% | 4.4% | 110 | 220 | 1.1% | 2.20% |
| 52 | 200 | 410 | 2.0% | 4.1% | 100 | 205 | 1.0% | 2.05% |
| 53 | 180 | 390 | 1.8% | 3.9% | 90 | 195 | .90% | 1.95% |
| 54 | 160 | 360 | 1.6% | 3.6% | 80 | 180 | .80% | 1.80% |
| 55 | 140 | 330 | 1.4% | 3.3% | 70 | 165 | .70% | 1.65% |
| 56 | 120 | 290 | 1.2% | 2.9% | 60 | 145 | .60% | 1.45% |
| 57 | 100 | 230 | 1.0% | 2.3% | 50 | 115 | .50% | 1.15% |
| 58 | 70 | 170 | .7% | 1.7% | 35 | 85 | .35% | .85% |
| 59 | 40 | 90 | .4% | .9% | 20 | 45 | .20% | .45% |
| 60 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 61 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 62 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 63 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 64 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 65 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 66 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 67 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 68 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 69 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

* Age-related rates apply after the three-year select period. During the first three years of employment, the rate is 1,000 per 10,000 occurrences or ten percent.

Attachment I: Recently Approved Actuarial Assumptions

**Table B
Retirement Age Assumptions – Prior and Current Rates
MSRS-Correctional Plan**

| Age | Prior Assumption Per 10,000 Occurrences | | Prior Assumption Percentages | | Current Assumption Per 10,000 Occurrences | | Current Assumption Percentages | |
|-----|---|--------|---------------------------------|--------|---|--------|-----------------------------------|--------|
| | Male | Female | Male | Female | Male | Female | Male | Female |
| 50 | 200 | 200 | 2.0% | 2.0% | 500 | 500 | 5.0% | 5.0% |
| 51 | 200 | 200 | 2.0% | 2.0% | 500 | 500 | 5.0% | 5.0% |
| 52 | 200 | 200 | 2.0% | 2.0% | 500 | 500 | 5.0% | 5.0% |
| 53 | 200 | 200 | 2.0% | 2.0% | 500 | 500 | 5.0% | 5.0% |
| 54 | 2,000 | 2,000 | 20.0% | 20.0% | 500 | 500 | 5.0% | 5.0% |
| 55 | 6,000 | 6,000 | 60.0% | 60.0% | 6,000 | 6,000 | 60.0% | 60.0% |
| 56 | 2,000 | 2,000 | 20.0% | 20.0% | 1,000 | 1,000 | 10.0% | 10.0% |
| 57 | 2,000 | 2,000 | 20.0% | 20.0% | 1,000 | 1,000 | 10.0% | 10.0% |
| 58 | 2,000 | 2,000 | 20.0% | 20.0% | 1,000 | 1,000 | 10.0% | 10.0% |
| 59 | 2,000 | 2,000 | 20.0% | 20.0% | 1,000 | 1,000 | 10.0% | 10.0% |
| 60 | 2,000 | 2,000 | 20.0% | 20.0% | 1,000 | 1,000 | 10.0% | 10.0% |
| 61 | 2,000 | 2,000 | 20.0% | 20.0% | 1,000 | 1,000 | 10.0% | 10.0% |
| 62 | 5,000 | 5,000 | 50.0% | 50.0% | 2,500 | 2,500 | 25.0% | 25.0% |
| 63 | 5,000 | 5,000 | 50.0% | 50.0% | 2,500 | 2,500 | 25.0% | 25.0% |
| 64 | 5,000 | 5,000 | 50.0% | 50.0% | 2,500 | 2,500 | 25.0% | 25.0% |
| 65 | 10,000 | 10,000 | 100.0% | 100.0% | 10,000 | 10,000 | 100.0% | 100.0% |
| 66 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 67 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 68 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 69 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

**Table C
Mortality Assumptions – Prior and Current Tables
MSRS-Correctional Plan**

| | Prior Assumption | Current Assumption |
|-----------------|--|--|
| Pre-Retirement | Male: 1983 Group Annuity Mortality set back 1 year Female: 1983 Group Annuity Mortality | Male: 1983 Group Annuity Mortality set back 5 years Female: 1983 Group Annuity Mortality set back 2 years |
| Post-Retirement | Male: 1983 Group Annuity Mortality set forward 2 years Female: 1983 Group Annuity Mortality set forward 2 years | Male: 1983 Group Annuity Mortality set back 2 years Female: 1983 Group Annuity Mortality set back 1 year |
| Post-Disability | Combined Annuity Mortality | Combined Annuity Mortality up to age 40, grading to healthy mortality for ages 60 and up |

Attachment I: Recently Approved Actuarial Assumptions

**Table D
Disability Assumptions – Prior and Current Rates
MSRS-Correctional Plan**

| Age | Prior Assumption Per 10,000 Occurrences | | Prior Assumption Percentages | | Current Assumption Per 10,000 Occurrences | | Current Assumption Percentages | |
|-----|--|--------|---------------------------------|--------|--|--------|-----------------------------------|--------|
| | Male | Female | Male | Female | Male | Female | Male | Female |
| 20 | 4 | 4 | .04% | .04% | 5 | 8 | .05% | .08% |
| 21 | 4 | 4 | .04% | .04% | 5 | 8 | .05% | .08% |
| 22 | 5 | 5 | .05% | .05% | 7 | 10 | .07% | .10% |
| 23 | 5 | 5 | .05% | .05% | 7 | 10 | .07% | .10% |
| 24 | 6 | 6 | .06% | .06% | 8 | 12 | .08% | .12% |
| 25 | 6 | 6 | .06% | .06% | 8 | 12 | .08% | .12% |
| 26 | 6 | 6 | .06% | .06% | 8 | 12 | .08% | .12% |
| 27 | 7 | 7 | .07% | .07% | 9 | 14 | .09% | .14% |
| 28 | 7 | 7 | .07% | .07% | 9 | 14 | .09% | .14% |
| 29 | 8 | 8 | .08% | .08% | 11 | 16 | .11% | .16% |
| 30 | 8 | 8 | .08% | .08% | 11 | 16 | .11% | .16% |
| 31 | 9 | 9 | .09% | .09% | 12 | 18 | .12% | .18% |
| 32 | 9 | 9 | .09% | .09% | 12 | 18 | .12% | .18% |
| 33 | 10 | 10 | .10% | .10% | 13 | 20 | .13% | .20% |
| 34 | 10 | 10 | .10% | .10% | 13 | 20 | .13% | .20% |
| 35 | 11 | 11 | .11% | .11% | 15 | 22 | .15% | .22% |
| 36 | 12 | 12 | .12% | .12% | 16 | 24 | .16% | .24% |
| 37 | 13 | 13 | .13% | .13% | 17 | 26 | .17% | .26% |
| 38 | 15 | 15 | .15% | .15% | 20 | 30 | .20% | .30% |
| 39 | 16 | 16 | .16% | .16% | 21 | 32 | .21% | .32% |
| 40 | 18 | 18 | .18% | .18% | 24 | 36 | .24% | .36% |
| 41 | 20 | 20 | .20% | .20% | 27 | 40 | .27% | .40% |
| 42 | 22 | 22 | .22% | .22% | 29 | 44 | .29% | .44% |
| 43 | 24 | 24 | .24% | .24% | 32 | 48 | .32% | .48% |
| 44 | 26 | 26 | .26% | .26% | 35 | 52 | .35% | .52% |
| 45 | 29 | 29 | .29% | .29% | 39 | 58 | .39% | .58% |
| 46 | 32 | 32 | .32% | .32% | 43 | 64 | .43% | .64% |
| 47 | 36 | 36 | .36% | .36% | 48 | 72 | .48% | .72% |
| 48 | 41 | 41 | .41% | .41% | 55 | 82 | .55% | .82% |
| 49 | 46 | 46 | .46% | .46% | 61 | 92 | .61% | .92% |
| 50 | 50 | 50 | .50% | .50% | 67 | 100 | .67% | 1.00% |
| 51 | 57 | 57 | .57% | .57% | 76 | 114 | .76% | 1.14% |
| 52 | 64 | 64 | .64% | .64% | 85 | 128 | .85% | 1.28% |
| 53 | 72 | 72 | .72% | .72% | 96 | 144 | .96% | 1.44% |
| 54 | 80 | 80 | .80% | .80% | 107 | 160 | 1.07% | 1.60% |
| 55 | 88 | 88 | .88% | .88% | 117 | 176 | 1.17% | 1.76% |
| 56 | 98 | 98 | .98% | .98% | 131 | 196 | 1.31% | 1.96% |
| 57 | 108 | 108 | 1.08% | 1.08% | 144 | 216 | 1.44% | 2.16% |
| 58 | 118 | 118 | 1.18% | 1.18% | 157 | 236 | 1.57% | 2.36% |
| 59 | 129 | 129 | 1.29% | 1.29% | 172 | 258 | 1.72% | 2.58% |
| 60 | 141 | 141 | 1.41% | 1.41% | 188 | 282 | 1.88% | 2.82% |
| 61 | 154 | 154 | 1.54% | 1.54% | 205 | 308 | 2.05% | 3.08% |
| 62 | 167 | 167 | 1.67% | 1.67% | 223 | 334 | 2.23% | 3.34% |
| 63 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 64 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 65 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 66 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 67 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 68 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 69 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 70 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

- 1.1 moves to amend S.F. No. 997; H.F. No., as follows:
- 1.2 Page 1, line 10, delete "a" and insert "6.4" and delete everything after the period
- 1.3 Page 1, delete lines 11 to 17
- 1.4 Page 1, line 22, delete "a" and insert "9.1" and delete everything after the period
- 1.5 Page 1, delete lines 23 to 25
- 1.6 Page 2, delete lines 1 to 4
- 1.7 Page 2, line 6, delete "2005" and insert "...."

- 1.1 moves to amend S.F. No. 997; H.F. No., as follows:
- 1.2 Page 1, line 10, delete "a" and insert "6.4" and delete everything after the period
- 1.3 Page 1, delete line 11
- 1.4 Page 1, line 12, delete everything before "Beginning" and delete "2006, through"
- 1.5 and insert "...."
- 1.6 Page 1, line 13, delete "June 30, 2007,"
- 1.7 Page 1, line 14, delete everything after the underscored period
- 1.8 Page 1, delete lines 15 to 17
- 1.9 Page 1, line 22, delete "a" and insert "9.1" and delete everything after the period
- 1.10 Page 1, delete line 23
- 1.11 Page 1, line 24, delete "of salary." and delete "2006, through June 30, 2007" and
- 1.12 insert "...."
- 1.13 Page 2, delete lines 1 to 4
- 1.14 Page 2, line 6, delete "2005" and insert "...."

- 1.1 moves to amend S.F. No. 997; H.F. No., as follows:
- 1.2 Page 1, line 10, delete "a" and insert "6.4" and delete everything after the period
- 1.3 Page 1, delete line 11
- 1.4 Page 1, line 12, delete everything after "Beginning" and delete "2006" and insert "
- 1.5 2007"
- 1.6 Page 1, line 13, delete "2007" and insert "2008"
- 1.7 Page 1, line 14, delete "2007" and insert "2008"
- 1.8 Page 1, line 15, delete "2008" and insert "2009"
- 1.9 Page 1, line 16, delete "2008" and insert "2009"
- 1.10 Page 1, line 22, delete "a" and insert "9.1" and delete everything after the period
- 1.11 Page 1, delete line 23
- 1.12 Page 1, line 24, delete "of salary." and delete "2006" and insert "2007" and delete "
- 1.13 2007" and insert "2008"
- 1.14 Page 2, line 1, delete "2007" and insert "2008" and delete "2008" and insert "2009"
- 1.15 Page 2, line 3, delete "2008" and insert "2009"
- 1.16 Page 2, line 6, delete "2005" and insert "2006"

1.1 moves to amend S.F. No. 997; H.F. No., as follows:

1.2 Page 2, line 6, before "Sections" insert "(a)"

1.3 Page 2, after line 6, insert:

1.4 "(b) If, following the effective date of sections 1 and 2, the actuarial valuation for the
1.5 Minnesota State Retirement system correctional plan provided by the actuary retained
1.6 under Minnesota Statutes, section 356.214, indicates no contribution deficiency or a
1.7 contribution sufficiency, any additional contribution rate increases specified in sections 1
1.8 and 2 shall not be implemented."

1.1 moves to amend S.F. No. 997; H.F. No., as follows:

1.2 Page 2, after line 4, insert:

1.3 "Sec. 3. Minnesota Statutes 2004, section 356.215, subdivision 11, is amended to
1.4 read:

1.5 Subd. 11. **Amortization contributions.** (a) In addition to the exhibit indicating the
1.6 level normal cost, the actuarial valuation must contain an exhibit indicating the additional
1.7 annual contribution sufficient to amortize the unfunded actuarial accrued liability. For
1.8 funds governed by chapters 3A, 352, 352B, 352C, 353, 354, 354A, and 490, the additional
1.9 contribution must be calculated on a level percentage of covered payroll basis by the
1.10 established date for full funding in effect when the valuation is prepared. For funds
1.11 governed by chapter 3A, sections 352.90 through 352.951, chapters 352B, 352C, sections
1.12 353.63 through 353.68, and chapters 353C, 354A, and 490, the level percent additional
1.13 contribution must be calculated assuming annual payroll growth of 6.5 percent. For funds
1.14 governed by sections 352.01 through 352.86 and chapter 354, the level percent additional
1.15 contribution must be calculated assuming an annual payroll growth of five percent. For the
1.16 fund governed by sections 353.01 through 353.46, the level percent additional contribution
1.17 must be calculated assuming an annual payroll growth of six percent. For all other funds,
1.18 the additional annual contribution must be calculated on a level annual dollar amount basis.

1.19 (b) For any fund other than the Minneapolis Employees Retirement Fund and the
1.20 Public Employees Retirement Association general plan, if there has not been a change in
1.21 the actuarial assumptions used for calculating the actuarial accrued liability of the fund, a
1.22 change in the benefit plan governing annuities and benefits payable from the fund, a
1.23 change in the actuarial cost method used in calculating the actuarial accrued liability of all
1.24 or a portion of the fund, or a combination of the three, which change or changes by itself
1.25 or by themselves without inclusion of any other items of increase or decrease produce a
1.26 net increase in the unfunded actuarial accrued liability of the fund, the established date for
1.27 full funding is the first actuarial valuation date occurring after June 1, 2020.

2.1 (c) For any fund or plan other than the Minneapolis Employees Retirement Fund and
2.2 the Public Employees Retirement Association general plan, if there has been a change in
2.3 any or all of the actuarial assumptions used for calculating the actuarial accrued liability
2.4 of the fund, a change in the benefit plan governing annuities and benefits payable from
2.5 the fund, a change in the actuarial cost method used in calculating the actuarial accrued
2.6 liability of all or a portion of the fund, or a combination of the three, and the change or
2.7 changes, by itself or by themselves and without inclusion of any other items of increase or
2.8 decrease, produce a net increase in the unfunded actuarial accrued liability in the fund, the
2.9 established date for full funding must be determined using the following procedure:

2.10 (i) the unfunded actuarial accrued liability of the fund must be determined in
2.11 accordance with the plan provisions governing annuities and retirement benefits and the
2.12 actuarial assumptions in effect before an applicable change;

2.13 (ii) the level annual dollar contribution or level percentage, whichever is applicable,
2.14 needed to amortize the unfunded actuarial accrued liability amount determined under item
2.15 (i) by the established date for full funding in effect before the change must be calculated
2.16 using the interest assumption specified in subdivision 8 in effect before the change;

2.17 (iii) the unfunded actuarial accrued liability of the fund must be determined in
2.18 accordance with any new plan provisions governing annuities and benefits payable from
2.19 the fund and any new actuarial assumptions and the remaining plan provisions governing
2.20 annuities and benefits payable from the fund and actuarial assumptions in effect before
2.21 the change;

2.22 (iv) the level annual dollar contribution or level percentage, whichever is applicable,
2.23 needed to amortize the difference between the unfunded actuarial accrued liability amount
2.24 calculated under item (i) and the unfunded actuarial accrued liability amount calculated
2.25 under item (iii) over a period of 30 years from the end of the plan year in which the
2.26 applicable change is effective must be calculated using the applicable interest assumption
2.27 specified in subdivision 8 in effect after any applicable change;

2.28 (v) the level annual dollar or level percentage amortization contribution under item
2.29 (iv) must be added to the level annual dollar amortization contribution or level percentage
2.30 calculated under item (ii);

2.31 (vi) the period in which the unfunded actuarial accrued liability amount determined
2.32 in item (iii) is amortized by the total level annual dollar or level percentage amortization
2.33 contribution computed under item (v) must be calculated using the interest assumption
2.34 specified in subdivision 8 in effect after any applicable change, rounded to the nearest
2.35 integral number of years, but not to exceed 30 years from the end of the plan year in
2.36 which the determination of the established date for full funding using the procedure set

3.1 forth in this clause is made and not to be less than the period of years beginning in the
3.2 plan year in which the determination of the established date for full funding using the
3.3 procedure set forth in this clause is made and ending by the date for full funding in effect
3.4 before the change; and

3.5 (vii) the period determined under item (vi) must be added to the date as of which
3.6 the actuarial valuation was prepared and the date obtained is the new established date
3.7 for full funding.

3.8 (d) For the Minneapolis Employees Retirement Fund, the established date for full
3.9 funding is June 30, 2020.

3.10 (e) For the general employees retirement plan of the Public Employees Retirement
3.11 Association, the established date for full funding is June 30, 2031.

3.12 (f) For the retirement plans for which the annual actuarial valuation indicates
3.13 an excess of valuation assets over the actuarial accrued liability, the valuation assets in
3.14 excess of the actuarial accrued liability must be recognized as a reduction in the current
3.15 contribution requirements by an amount equal to the amortization of the excess expressed
3.16 as a level percentage of pay over a 30-year period beginning anew with each annual
3.17 actuarial valuation of the plan.

3.18 (g) If a full funding date was set under paragraph (f) and the next actuarial valuation
3.19 indicates valuation assets which are less than the actuarial accrued liability, the full
3.20 funding date shall be the greater of the date of the first actuarial valuation occurring after
3.21 June 30, 2020, or the date determined by subtracting the average age of the plan's active
3.22 membership from the plan's normal retirement age, not to exceed age 65, and adding
3.23 the result to the date as of which the actuarial valuation was prepared. In subsequent
3.24 valuations, this paragraph or paragraph (c) or (f) applies, whichever is applicable.

3.25 "

3.26 Page 2, line 6, delete "and 2" and insert "to 3"

3.27 Renumber the sections in sequence

3.28 Amend the title accordingly

Senator Betzold, by request, introduced--**S.F. No. 997:** Referred to the Committee on State and Local Government Operations.

1 A bill for an act

2 relating to retirement; increasing contribution rates
3 for certain correctional employees; amending Minnesota
4 Statutes 2004, section 352.92, subdivisions 1, 2.

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

6 Section 1. Minnesota Statutes 2004, section 352.92,
7 subdivision 1, is amended to read:

8 Subdivision 1. [EMPLOYEE CONTRIBUTIONS.] Employee
9 contributions of covered correctional employees must be in an
10 amount equal to ~~5-69~~ a percent of salary. Beginning July 1,
11 2005, through June 30, 2006, the employee contribution must be
12 equal to 6.4 percent of salary. Beginning July 1, 2006, through
13 June 30, 2007, the employee contribution must be equal to 7.0
14 percent of salary. Beginning July 1, 2007, through June 30,
15 2008, the employee contribution must be equal to 7.7 percent of
16 salary. Beginning July 1, 2008, the ongoing employee
17 contribution must be equal to 8.6 percent of salary.

18 Sec. 2. Minnesota Statutes 2004, section 352.92,
19 subdivision 2, is amended to read:

20 Subd. 2. [EMPLOYER CONTRIBUTIONS.] The employer shall
21 contribute for covered correctional employees an amount equal to
22 ~~7-98~~ a percent of salary. Beginning July 1, 2005, through June
23 30, 2006, the employer contribution must be equal to 9.1 percent
24 of salary. Beginning July 1, 2006, through June 30, 2007, the
25 employer contribution must be equal to 10.1 percent of salary.

1 Beginning July 1, 2007, through June 30, 2008, the employer
2 contribution must be equal to 11.1 percent of salary. Beginning
3 July 1, 2008, the ongoing employer contribution must be equal to
4 12.1 percent of salary.

5 Sec. 3. [EFFECTIVE DATE.]

6 Sections 1 and 2 are effective July 1, 2005.