



H.F. 2361
(Murphy, M., by request)

S.F. 1978
(Betzold)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): Various Retirement Plans; Accounting and Actuarial Reporting
Relevant Provisions of Law: Minnesota Statutes, Sections 356.20 and 356.215
General Nature of Proposal: Implements Recommended Reporting Changes to Accommodate Generally Accepted Accounting Principles
Date of Summary: April 23, 2007

Specific Proposed Changes

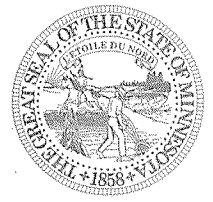
- Makes language clarifications and corrections in accounting and actuarial reporting.
- Eliminates outdated asset value and unfunded actuarial accrued liability reporting requirements.
- Revises actuarial value of assets.
- Provides vehicle for making various economic actuarial assumption changes.

Policy Issues Raised by the Proposed Legislation

1. Appropriateness of language clarifications and corrections.
2. Appropriateness of the elimination of outdated asset value and unfunded actuarial accrued liability reporting requirements.
3. Necessity of revising the manner in which Minnesota Post Retirement Investment Fund assets are valued.
4. Unclear whether the proposed pension plan asset value definition revision actually accomplishes the intended result.
5. Proposed pension plan asset value definition revision may not appropriately apply when the Minnesota Post Retirement Investment Fund does not have a deficit.
6. Proposed asset valuation definition does not account for Minnesota Post Retirement Investment Fund deficit funding mechanism.
7. Appropriateness of the proposed asset valuation definition revision functioning to prejudice future Commission post-retirement adjustment reform options.
8. Continued appropriateness of using an actuarial value of assets rather than the market value of assets.
9. Appropriateness of an explicit change to 8.5 percent post-retirement interest rate assumption for the statewide retirement plans.

Potential Amendments

- H2361-1A (substantive) adds accounting change references to the Minnesota Post Retirement Investment Fund financial reporting provision; clarifies that market-related asset valuation procedure applies to the Minnesota Post Retirement Investment Fund.
- H2361-2A (substantive) clarifies generally accepted accounting principle conformance, but retains current actuarial reporting procedure as supplemental information for setting program contribution rates.
- H2361-3A (substantive) shifts from actuarial value of assets to full market value of pension assets.
- H2361-4A (substantive) resets post-retirement interest rate actuarial assumption to conform with "de facto" assumptions.
- H2361-5A (technical) clarifies reference to Commission-retained actuary.
- H2361-6A (substantive) implements MSRS-General, PERA-General, and TRA economic actuarial assumption changes from 2000-2004 experience studies.
- H2361-7A (substantive) implements economic actuarial assumption changes for PERA-P&F and PERA-Correctional.
- H2361-8A (substantive) implements economic actuarial assumptions changes for the State Patrol Retirement Plan and MSRS-Correctional.



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Lawrence A. Martin, Executive Director *JAM*
RE: H.F. 2361 (Murphy, M., by request); S.F. 1978 (Betzold): Various Plans; Implementation of Various Generally Accepted Accounting Principles
DATE: April 23, 2007

General Summary of H.F. 2361 (Murphy, M., by request); S.F. 1978 (Betzold)

H.F. 2361 (Murphy, M., by request); S.F. 1978 (Betzold) amends Minnesota Statutes, Sections 356.20 and 356.215, the public pension financial and actuarial reporting laws, by making the following changes:

1. Language Clarification and Corrections. The term "chief administrative official" is replaced by "chief administrative officer" and the term "public pension fund" is replaced by "public pension plan." Cross citations are corrected and language style and usage improvements are made (Sections 1, 2, and 3);
2. Outdated Asset Value and Unfunded Actuarial Liability Reporting Requirements Are Eliminated. The current annual financial reporting requirements with respect to the value of pension plan assets and to the unfunded actuarial liability under various liability measures that related to generally accepted accounting principles in force in 1984 and subsequently revised are eliminated (Section 1); and
3. Revised Actuarial Value of Assets. The actuarial value of assets is redefined as the market value of assets as of June 30, 2007, for the July 1, 2007, valuations, and the current actuarial value of assets definition, which is the market value of assets reduced by portions of the difference between the expected value of assets using the interest rate actuarial assumption, for up to four prior years, apparently including the assets of the Minnesota Post Retirement Investment Fund, and renames the term "current assets" as the "actuarial value of assets" (Section 2).

Background Information

Background information on relevant topics attached is attached:

- **Attachment A** contains background information on the actuarial reporting requirements of Minnesota public pension plans;
- **Attachment B** contains background information on the manner in which pension plan assets are valued for actuarial reporting purposes;
- **Attachment C** contains background information on the statewide retirement plan common post-retirement adjustment mechanism;
- **Attachment D** contains background information on the current difference between the market value of assets and the actuarial value of assets of the Minnesota Post Retirement Investment Fund;
- **Attachment E** contains background information on the discussion of the disclosure of Minnesota Post Retirement Investment Fund liabilities and assets in recent reports by the Minnesota Taxpayers Association and by the Program Evaluation Division of the Office of the Legislative Auditor; and
- **Attachment F** contains background information on the results of the 2000-2004 quadrennial experience studies for the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General), and the Teachers Retirement Association (TRA) and the subsequent recommendations for assumption changes.

Discussion and Analysis

H.F. 2361 (Murphy, M., by request); S.F. 1978 (Betzold) modifies the public pension plan financial and actuarial reporting laws, Minnesota Statutes, Sections 356.20 and 356.215, by eliminating pension liability and funding ratio reporting requirements that are no longer mandated by public pension plan generally

accepted accounting principles and by revising and updating the actuarial value of assets definition in the statutory actuarial valuation requirements.

The proposed legislation raises several pension and related public policy issues for potential Commission consideration and discussion, as follows:

1. Appropriateness of Language Clarifications and Corrections. The policy issue is the appropriateness of the proposed language clarifications and corrections contained in the proposed legislation. The replacement of the reference to “fund” with a reference to “plan” and of the reference to “chief administrative official” with a reference to “chief administrative officer” are more consistent with current drafting conventions and appear to be appropriate because they do not appear to have any substantive change in the provisions while making the provision more readable.
2. Appropriateness of the Elimination of Outdated Asset Value and Unfunded Actuarial Accrued Liability Reporting Requirements. The policy issue is the appropriateness of the proposed elimination of Minnesota Statutes, Section 356.20, Subdivision 4, Paragraphs (b) and (c), which represent generally accepted accounting principle requirements that were in force in 1984 and have been subsequently supplanted as the governing accounting principles. Minnesota Statutes, Section 356.20, governs the annual financial reporting requirements applicable to public pension plans in Minnesota. The financial reporting requirement has been in statute since 1965, when there were few or no public pension plan-specific financial reporting requirements in force. Since the development of the Financial Accounting Standards Board (FASB), primarily applicable to the non-governmental sector, and the development of its governmental sector counterpart, the Governmental Accounting Standards Board (GASB), the general practice in Minnesota has been to reflect the regulation that has been determined to be “generally accepted accounting principles.” While the retention of outdated reporting requirements does not cause any harm, unless the requirements function to supplant more recent reporting requirements, the retention decision should be made based on its merits rather than on inertia. It would appear that the continued existence of Minnesota Statutes, Section 356.20, Subdivision 4, Paragraphs (b) and (c), is a result of inaction by any interested public pension plan party, chiefly the accounting sections of the various retirement plans, the State Auditor’s Office, and the Legislative Auditor’s Office. It is unclear that the reporting items proposed for elimination have provided any additional valued information to public pension plan personnel, the Legislature, the Department of Finance, or any outside consumer of public pension information, which argues for the elimination of the items. The Commission should provide any interested party an opportunity to discuss the analytical value of the reporting information proposed for elimination.
3. Necessity of Revising the Manner in Which Minnesota Post Retirement Investment Fund Assets Are Valued. The policy issue is the extent that the proposed revision in the actuarial value of assets definition of Minnesota Statutes, Section 356.215, Subdivision 1, Paragraph (f), is necessary. The revision reflects the resolution assembled by David DeJonge, Assistant Director for Finance and Information Systems of the Public Employees Retirement Association (PERA), and by John Wicklund, Assistant Director for Administration of the Teachers Retirement Association (TRA), to address a problem of illegal noncompliance in the annual financial reporting of the statewide retirement plans with Governmental Accounting Standards Board (GASB) Statement No. 25 because the assets of the Minnesota Post Retirement Investment Fund are valued on a liability basis rather than on a market value-related basis. Since the predecessor to the predecessor of the current Minnesota Post Retirement Investment Fund was established in 1969, the value of the assets in the post-retirement adjustment mechanism and investment fund has been equated to the required reserves of the retirement benefits payable from the mechanism. Generally accepted accounting principles for public pension plans, to the extent that it existed at all in 1969, as reflect in Minnesota Statutes 1969, Section 356.20, carried pension plan assets at their book value. If the actuarial work of the various statewide retirement plans does not conform with GASB Statement No. 25, the consequence is that the audits by the Office of the Legislative Auditor will have a qualified opinion by the auditor indicating the nature of the noncompliance to put third party users of the information on notice of the deviation. That qualified audit opinion on the annual financial reporting of the retirement plans, which apparently does not carry into the financial reporting of the state as an employer and pension plan sponsor, could cause municipal board rating agencies to downgrade the state’s credit rating and could cause reduced demand for state bonds.
4. Unclear Whether the Proposed Pension Plan Asset Value Definition Revision Actually Accomplishes the Intended Result. The policy issue is whether or not the proposed revision in the pension plan asset valuation definition accomplishes the intended result. The current definition of the actuarial value of assets, Minnesota Statutes 2006, Section 356.215, Subdivision 1, Paragraph (f), does not apply to the equity in the Minnesota Post Retirement Investment Fund, which is valued as equal to the required

