



H.F. 2363

(Murphy, M., by request)

S.F. 2020

(Prettner Solon)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): MSRS-Correctional Retirement Plan
Relevant Provisions of Law: Uncoded special law provision
General Nature of Proposal: Transfer of service credit for pre-2006 Correctional employment
Date of Summary: March 27, 2007

Specific Proposed Changes

- Authorizes Department of Human Services employee at the Minnesota Sex Offender Program (MSOP) who was included in the MSRS-Correctional Plan in 2006 to transfer past MSOP service credit from MSRS-General to MSRS-Correctional.

Policy Issues Raised by the Proposed Legislation

1. Appropriateness of special legislation case-by-case or general legislation.
2. Appropriateness of adding direct obligation for employer to pay the employer contribution differential.
3. Appropriateness of adding employing unit employer amortization contribution.

Potential Amendments

- H2363-1A Drops employer contribution differential funding requirement (substantive).
- H2363-2A Changes amortization period for additional amortization contribution requirement (substantive).
- H2363-3A Drops additional employer amortization funding requirement (substantive).



TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director *LAM*

RE: H.F. 2363 (Murphy, M., by request); S.F. 2020 (Prettner Solon): MSRS-Correctional; Transfer of MSRS-General Service Credit of Moose Lake-MSOP Psychologist I

DATE: March 26, 2007

Summary of H.F. 2363 (Murphy, M., by request); S.F. 2020 (Prettner Solon)

H.F. 2363 (Murphy, M., by request); S.F. 2020 (Prettner Solon) is an uncoded provision that transfers past service credit in the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) to the Correctional Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional) for a psychologist 1 in the Department of Human Services' Minnesota Sex Offender Program at Moose Lake, Minnesota, who had retirement coverage transferred to MSRS-Correctional in 2006, with a transfer of assets attributable to the affected employees and the payment by the employee of the differential between the member contributions in the two plans, plus interest, the payment by the Department of Human Services of the differential between the employer contributions in the two plans, and an employer-paid additional five-year amortization payment for any unfunded amount not otherwise paid.

Public Pension Problem of Dale A. Clauson

Dale A. Clauson is a Duluth resident who is a psychologist 1 employed by the Department of Human Services at the Minnesota Sex Offender Program (MSOP) at Moose Lake, was initially a member of the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) since first becoming employed by the State of Minnesota in 2002, and was transferred to retirement coverage by the Correctional Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional) for prospective service after July 1, 2006. Mr. Clauson wants MSRS-Correctional coverage for the entirety of his employment in the MSOP psychologist position, including the 3.75 years currently covered by MSRS-General.

Background Information on the MSRS-Correctional Retirement Plan

Background information on the Correctional Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional) is set forth in Attachment A.

Discussion and Analysis

H.F. 2363 (Murphy, M., by request); S.F. 2020 (Prettner Solon) provides for a transfer of service credit for pre-July 1, 2006, State correctional employment to the Correctional Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional) for an employee of the Department of Human Services who works in the Minnesota Sex Offender Program at the Moose Lake facility and who was transferred to MSRS-Correctional coverage for post-June 30, 2006, employment. The uncoded provision requires the payment by the affected employee of the differential in employee contributions, with interest, and funds the balance of the actuarial liability for the transfer from a transfer of accumulated assets on behalf of the applicable employee from the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) and from additional contributions by the Department of Human Services.

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

1. Appropriateness of Special Legislation for Mr. Clauson Rather Than General Legislation. The policy issue is whether the transfer of service credit from the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) to the Correctional Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional) for Dale A. Clauson and any similarly situated employees is best handled as individually drawn special legislation or whether it is best handled as general legislation. Prior to the 2006 expansion of the MSRS-Correctional Plan, virtually all legislation expanding the coverage of the plan generally provided a mechanism to transfer

past State service credit for qualifying pre-inclusion correctional employment. Neither the Department of Corrections nor the Department of Human Services, in the 2006 inclusion legislation that they requested, sought a mechanism for transferring past MSRS-General coverage for qualifying pre-inclusion correctional employment for 2006 transferees. Mr. Clauson was transferred to MSRS-Correctional coverage in 2006. This session, in its MSRS-Correctional coverage expansion request, H.F. 1911 (Murphy, M.); S.F. 937 (Betzold), the Department of Corrections is proposing a transfer of prior MSRS-General service credit for qualifying employment, including 2006 transfers. The Department of Human Services did not include any service credit transfer mechanism in its 2007 coverage expansion request, H.F. 1912 (Murphy, M.); S.F. 423 (Betzold), and the Commission staff has ascertained that it is the department's position that past service credit transfers should be handled by the affected employees through special legislation (March 13, 2007, email from Martha J. Watson, Human Resources Director, Department of Human Services, to Bob Haag, Minnesota Association of Professional Employees). The Commission is likely to consider the department requests for additional MSRS-Correctional coverage inclusions during this legislative session and the issue will again be raised at large if the Commission does hear H.F. 1911 (Murphy, M.); S.F. 937 (Betzold), and H.F. 1912 (Murphy, M.); S.F. 423 (Betzold).

2. Appropriateness of Requiring Employer Payment of the Employer Contribution Differential. The policy issue is the appropriateness of the proposed special legislation in requiring the Department of Human Services to pay in a lump sum, akin to the affected member, the differential in contribution amounts between the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) and the Correctional Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional). In the prior service credit transfer mechanisms related to MSRS-Correctional in the past, only the affected employee was required to make the contribution differential payment and the employer obligation was not addressed because the MSRS-Correctional Plan had a considerable contribution sufficiency before 2001. The MSRS-Correctional Plan no longer has a significant contribution sufficiency now or will not have a contribution sufficiency after the scheduled contribution increases under the 2006 Omnibus Retirement bill phase in. The financial condition of MSRS-Correctional now and after the 2006 contribution increases fully phase in is as follows:

MSRS-Correctional				
	2006		After Contribution Phase In	
<u>Membership</u>				
Active Members		3,910		3,910
Service Retirees		1,101		1,101
Disabilitants		168		168
Survivors		106		106
Deferred Retirees		817		817
Nonvested Former Members		388		388
Total Membership		6,490		6,490
<u>Funded Status</u>				
Accrued Liability		\$647,480,269		\$647,480,269
Current Assets		<u>\$535,356,819</u>		<u>\$535,356,819</u>
Unfunded Accrued Liability		\$112,123,450		\$112,123,450
Funding Ratio	82.68%		82.68%	
<u>Financing Requirements</u>				
Covered Payroll		\$162,744,640		\$162,744,640
Benefits Payable		\$26,506,726		\$26,506,726
Normal Cost	17.69%	\$28,786,714	17.69%	\$28,786,714
Administrative Expenses	<u>0.21%</u>	<u>\$341,764</u>	<u>0.21%</u>	<u>\$341,764</u>
Normal Cost & Expense	17.90%	\$29,128,478	17.90%	\$29,128,478
Normal Cost & Expense	17.90%	\$29,128,478	17.90%	\$29,128,478
Amortization	<u>5.44%</u>	<u>\$8,853,309</u>	<u>5.44%</u>	<u>\$8,853,309</u>
Total Requirements	23.34%	\$37,981,787	23.34%	\$37,981,787
Employee Contributions	5.69%	\$9,260,170	8.60%	\$13,996,039
Employer Contributions	7.98%	\$12,987,022	12.10%	\$19,692,101
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%	\$22,247,192	20.70%	\$33,688,140
Total Requirements	23.34%	\$37,981,787	23.34%	\$37,981,787
Total Contributions	<u>13.67%</u>	<u>\$22,247,192</u>	<u>20.70%</u>	<u>\$33,688,140</u>
Deficiency (Surplus)	9.67%	\$15,734,595	2.64%	\$4,293,647

If the Commission is unwilling to require the Department of Human Services to bear an immediate cost impact from the decision to transfer past service credit to the MSRS-Correctional Plan, **Amendment H2363-1A** would eliminate this employer contribution differential funding requirement.

3. Appropriateness of Requiring an Additional Employer Amortization Contribution in Connection with Prior Service Credit Transfers. The policy issue is similar to the policy issue raised above and is the appropriateness of requiring the amortization of any unfunded actuarial accrued liability attributable to a service credit transfer to the MSRS-Correctional Plan by the Department of Human Services over a five-year period. As indicated in the second policy issue, the inclusion of additional MSRS-Correctional Plan members and the transfer of past service credit to the MSRS-Correctional Plan in the past did not trigger a concern about additional employing unit funding because the plan was historically well funded and had an historic contribution sufficiency. Now that the plan is no longer well funded and no longer has a contribution sufficiency, it seems prudent to require that the plan be funded on a more current basis and that the respective employing units should bear a fair share of the cost of membership expansions and past service credit transfers. If the Commission does not believe that the five-year amortization period for this special unfunded actuarial accrued liability is the correct period over which to retire this additional obligation, **Amendment H2363-2A** would change the period to a length of years to be specified. If the Commission does not desire to impose an additional funding requirement on the Department of Human Services with respect to this service credit transfer, **Amendment H2363-3A** eliminates the requirement.

