H.F. 627
(Kranz)

S.F. 648
(Betzold)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s):	Teachers Retirement Association
Relevant Provisions of Law:	Minnesota Statutes, Chapter 354
General Nature of Proposal:	Age 65 Normal Retirement Age and "Rule of 90" Benefit Tier Extension to Post-1989 Members
Date of Summary:	April 3, 2008

Specific Proposed Changes

- The proposed legislation extends the "Rule of 90" benefit tier to plan members hired after 1989

Policy Issues Raised by the Proposed Legislation

1. Appropriateness of continuing early normal retirement ages.
2. Appropriateness of reversing the 1989 agreement on phasing out the "Rule of 90" provision.
3. 2007 actuarial cost estimate.
4. Appropriate TRA member and employer contribution increases.
5. Affordability of the various benefit increases.
6. Desirability of gubernatorial input.
7. Lack of uniformity in the various benefit increase proposals.
8. Potential extensions of specific benefit increases.
9. Appropriateness of the implicit change in pension plan purpose.
10. Appropriateness of an early retirement subsidy in light of a broader alternative.
11. Alternative of a supplemental defined contribution plan creation instead of defined benefit plan increase.

Potential Amendments

H0627-1A allocates the actuarial cost of the benefit increase only equally between members and employers.

H0627-2A allocates the actuarial cost of the benefit increase only, with member portion up to 45.5 percent of the total funding requirement and the employer portion of the balance.

H0627-3A allocates the total of the actuarial cost of the benefit increase and the 2006 TRA contribution deficiency equally between members and employers.

H0627-4A allocates the total of the actuarial cost of the benefit increase and the 2006 TRA contribution deficiency, with member portion up to 45.5 percent of the total funding requirement of the plan and with the employer portion of the balance.

H0627-5A makes the same "Rule of 90" benefit tier extension to post-1989 hires to all other applicable Minnesota retirement plans.

State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director LAM

RE: H.F. 627 (Kranz); S.F. 648 (Betzold): TRA; Age 65 Normal Retirement Age and "Rule of 90" Benefit Tier Extension to Post-1989 Members

DATE: April 3, 2008

Summary of H.F. 627 (Kranz); S.F. 648 (Betzold)

H.F. 627 (Kranz); S.F. 648 (Betzold) amends various portions of the Teachers Retirement Association (TRA) law, Minnesota Statutes, Chapter 354, by extending most of the pre-1989 benefit plan provisions to the post-1989 new entrants, making the following changes:

1. Redefines the TRA Normal Retirement Age as Age 65. for person who first became TRA members after June 30, 1989, the normal retirement age for retirement coverage is set at age 65 rather than as the federal full Social Security benefit receipt age, with a maximum of age 66 (Section 1);

2. Extends TRA "Rule of 90" Coverage. Persons who first became TRA members after June 30, 1989, are extended benefit coverage by the "Rule of 90" benefit tier (Section 4); and

3. Increases TRA Member and Employer Contribution Rates. The TRA member contribution and employer contribution rates are increased by unspecified amounts (Sections 2 and 3).

Background Information

Background information is attached for the following applicable topics:

a. 1989 "Rule of 90" Tier Benefit Increase Legislation (Attachment A)
b. Setting Normal Retirement Ages for a Defined Benefit Plan (Attachment B)
c. Benefit Increase Funding (Attachment C)
d. Allocation of Pension Costs between Plan Members and Employing Units (Attachment D)

Analysis and Discussion

H.F. 627 (Kranz); S.F. 648 (Betzold) reverses the 1989 legislative decision to limit the application of the "Rule of 90" early normal retirement age provision and the "Rule of 90" benefit tier to pre-July 1, 1989, hires of the Teachers Retirement Association (TRA) and extends the program to post-June 30, 1989, hires, with an unspecified increases in TRA member and employer contribution rates.

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

1. Appropriateness of Continuing To Emphasize Early Normal Retirement Ages. The policy issue is the appropriateness of the Legislature in emphasizing early normal retirement ages at a time when the age for the receipt of full Social Security benefits is increasing, when the life expectancy of Minnesota retirees is unmatched (except maybe by Hawaii retirees), and when Minnesota is reportedly facing an upcoming teacher shortage. The proposed legislation does this by including additional plan members in the "Rule of 90" early normal retirement benefit tier teachers employed after June 30, 1989. The Commission's Policy Principles, Principle II.C.4, indicate that

> II.C.4. Appropriate Normal Retirement Ages
>
> The normal retirement age should be set in a reasonable relationship to the employability limits of the average public employee and should differentiate between regular public employees and protective and public safety employees.

It is not clear that teachers in Minnesota have reached their expected employability limits five, seven or ten years earlier than teachers who retired two decades ago or three decades ago. With Social Security paying full benefits at later ages and not paying any benefits until age 62, allowing teachers to continue to retire earlier and earlier as this proposed legislation does would appear to work at cross purposes. The trend to earlier retirement for Minnesota teachers with Social Security coverage and its later full benefit receipt ages will likely lead to these teachers demanding greater Minnesota public pension plan benefits in the future to counteract that gap in the receipt of early or full Social Security benefits and to cover the cost of post-retirement health insurance.

2. Appropriateness of Reversing 1989 Agreement on Phasing-Out the "Rule of 90" Provision. The policy issue is the appropriateness of reversing the "Rule of 90" early normal retirement age phase-out that the proponents of the creation of the "Rule of 90" tier committed to in 1989. While the Commission was only indirectly involved in the formulation of the final proposed legislation enacted in 1989, because the Commission never recommended the benefit increases enacted in 1989, the retirement plan administrators did commit, in testimony before the Commission on the proposed 1989 benefit increases, that the early retirement benefit tier would be phased out eventually by limiting its coverage to pre-July 1, 1989, hires and would be eliminated if over-utilized, which was defined as utilization by more than 45 percent of eligible retirees. This commitment has already been broken with the 1993 enactment of a repeal of the "Rule of 90" utilization and termination provision. The 1989 commitment would be totally eliminated if this benefit increase proposal were enacted.

3. Actuarial Cost. The policy issue is the actuarial cost of the proposed legislation. The consulting actuary retained by the Teachers Retirement Association (TRA), has prepared an actuarial cost estimate for this benefit increase (attached), which is summarized as follows:

	TRA 2006		Actuarial Impact of Proposed Legislation		Resulting Actuarial Condition of TRA	
Membership						
Active Members		79,200		--		79,200
Service Retirees		40,973		--		40,973
Disabilitants		630		--		630
Survivors		3,044		--		3,044
Deferred Retirees		11,773		--		11,773
Nonvested Former Members		21,956		--		21,956
Total Membership		157,576		--		157,576
Funded Status						
Accrued Liability		$20,679,110,879		$267,425,000		$20,946,535,879
Current Assets		$19,035,611,839		$0		$19,035,611,839
Unfunded Accrued Liability		$1,643,499,040		$267,425,000		$1,910,924,040
Funding Ratio	92.05%		(1.17%)		90.88%	
Financing Requirements						
Covered Payroll		$3,707,900,584		--		$3,707,900,584
Benefits Payable		$1,224,212,024		--		$1,224,212,024
Normal Cost	9.43%	$349,678,399	0.68%	$25,213,724	10.11%	$374,892,123
Administrative Expenses	0.33%	$12,236,072			0.33%	$12,239,072
Normal Cost & Expense	9.76%	$361,914,471	0.68%	$25,213,724	10.44%	$387,131,195
Normal Cost & Expense	9.76%	$361,914,471	0.68%	$25,213,724	10.44%	$387,131,195
Amortization	2.34%	$86,764,874	0.38%	14,090,022	2.72%	$100,854,896
Total Requirements	12.11%	$448,679,345	1.06%	$39,303,746	13.16%	$487,986,091
Employee Contributions	5.51%	$204,456,479				
Employer Contributions	5.23%	$193,832,020				
Employer Add'l Cont.	0.00%	$0				
Direct State Funding	0.51%	$18,819,110				
Other Govt. Funding	0.07%	$2,500,000				
Administrative Assessment	0.00%	$0				
Total Contributions	11.31%	$419,607,609				
Total Requirements	12.11%	$448,679,345				
Total Contributions	11.31%	$419,607,609				
Deficiency (Surplus)	0.80%	$29,071,736				

The actuarial cost impact estimate was prepared by an actuary employed by Buck Consultants who does not appear to be an approved actuary under Minnesota Statutes, Section 356.215, Subdivision 1, Paragraph (c). TRA apparently did not request an actuarial cost estimate from The Segal Company, the consulting actuary retained jointly by the retirement systems under Minnesota Statutes, Section 356.244.

4. Appropriate TRA Member and Employer Contribution Increases. The policy issue is the appropriate amount of the Teachers Retirement Association (TRA) member and employer contribution rate increases to accompany the proposed benefit increase. A contribution deficiency of 0.80 percent of covered pay currently exists within TRA and the proposed benefit increase would increase that deficiency to 1.86 if no contribution rate increase accompanies the proposed benefit increase. If the Commission desires to increase the TRA contribution rates, the following amendments provide a variety of potential increases:

   Benefit Increase Cost Only

   - Equal Allocation of Impact — Amendment H0627-1A
   - Member Allocation Up to 45.5 percent* of Total Contributions, with Employer Rate Increased Based on Balance — Amendment H0627-2A

   Benefit Increase Cost and Current Deficiency

   - Equal Allocation of Total — Amendment H0627-3A
   - Member Allocation Up to 45.5 percent * of Total Cost, with Employer Rate Increased Based on Balance — Amendment H0627-4A

   **In July 1, 2006, TRA actuarial valuation, members contribute 45.5 percent of TRA current full actuarial cost*

5. Affordability of Various Benefit Increases. The policy issue is the affordability of the various proposed benefit increases. The policy issue is a corollary to the issue of the actuarial cost of the proposed benefit increases. The benefit increase depends on employer contribution increases by for their future financing to some degree and employer budgets may be unable to absorb any contribution increases. The proposed legislation does not propose any increase in state education aid to school districts, so for most Teachers Retirement Association (TRA) employers, the cost will be borne from existing sources.

6. Desirability of Gubernatorial Input. The policy issue is the potential desirability of receiving input from the Governor, the Department of Finance, and other relevant Executive Branch sources on the proposed benefit increase. While in Minnesota, historically, public pension policy has largely become the purview of the Legislative Branch by default or design, most public policy issues reflect a considerable interplay between the Executive Branch and the Legislative Branch. When considering public pension policy proposals as significant as some of the proposed benefit increase, it may be advisable to provide the Governor and the Executive Branch with an opportunity to weigh in on these proposals and to consider any input provided.

7. Lack of Uniformity in the Various Benefit Increase Proposals. The policy issue is the impact of the various benefit increase proposal on the uniformity of the benefit coverage between various types of Minnesota public pension plans. In 1997, the package of benefit increases was argued by its proponents as being necessary to achieve uniformity among the various Minnesota public retirement plans. Benefit uniformity became the stated goal of the 1997 legislation to such an extent that it functioned as the shorthand title for the legislation as it progressed. The proposed benefit increase further strays from uniformity between the various retirement plans and makes the 2006 TRA benefit accrual rate increase departure from uniformity worse.

8. Potential Extensions of Specific Benefit Increases. The policy issue is the appropriateness of pursuing a specific pension benefit increase proposal without considering likely or probable demands for their extension to other plans. Currently, the "Rule of 90" benefit tier is limited to pre-1989 hires for the Teachers Retirement Association (TRA) and four other retirement plans, the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General), the Duluth Teachers Retirement Fund Association (DTRFA), and the St. Paul Teachers Retirement Fund Association (SPTRFA). If the "Rule of 90" tier is extended to post-1989 hires of TRA, uniformity concerns or plan membership demands may lead to the same extension for the remaining plans. If the Commission desires to make the extension to all applicable plans, Amendment H0627-5A provides for that extension.

9. Appropriateness of the Implicit Change in Pension Plan Purpose. The policy issue is the appropriateness of the implicit change brought on by the proposed legislation in the purposes for which a public pension plan exists. The emphasis on earlier and earlier normal or subsidized retirements at a time when there are lengthening lifetimes, improved retiree health, and a growing labor shortage means implicitly that pension plans are being viewed by participants as the economic

underwriters of second or third careers. The Commission, in its policy principles, reflects a traditional view of pension plan purposes, indicating in Principle II.A.1. that:

> II. A.1. Purpose of Minnesota Public Pension Plans
>
> Minnesota public pension plans exist to augment the Minnesota public employer's personnel and compensation system by assisting in the recruitment of new qualified public employees, the retention of existing qualified public employees, and the systematic outtransitioning of existing public employees at the normally expected conclusion of their working careers by providing, in combination with federal Social Security coverage, personal savings and other relevant financial sources, retirement income that is adequate and affordable.

If this second or third career subsidization is an appropriate goal for Minnesota public pension plans, it should be reflected in the Commission's policy principles and, perhaps, it should be better targeted and designed.

10. Appropriateness of Early Retirement Subsidy In Light of Broader Alternative. The policy issue is the appropriateness of giving that portion of the membership of the four teacher retirement plans who want to retire early greater benefits while providing no benefit increase to the remainder. Early retirees could be provided with larger dollar amount benefits by an increase in the "Level Benefit" benefit tier benefit accrual retirement formula rate, applicable to all plan members, and that alternative should be considered.

11. Alternative Supplemental Defined Contribution Plan Creation/Increase Instead of Defined Benefit Plan Increase. The policy issue is the advisability of the Commission establishing an alternative practice to further defined benefit plan increases by creating or augmenting a supplemental defined contribution plan. At some moment in time, the combination of Social Security coverage and the applicable defined benefit retirement plan coverage will provide a sufficient retirement base for a majority of public employees and the provision of supplemental defined contribution coverage will provide an enhancement and a flexibility to those public employees that is impossible in the blunt policy instrument that is the State's current defined benefit plans. Additionally, redirecting benefit increase demands into defined contribution retirement coverage avoids the uncertain future actuarial accrued liabilities always present in defined benefit plan benefit increases.

Attachment A

Background Information on the 1989 "Rule of 90" Tier Benefit Increase Legislation

a. Distinction Between Defined Benefit Plans and Defined Contribution Plans. Most Minnesota public pension plans are defined benefit plans rather than defined contribution plans. Defined benefit plans establish a mechanism or formula by which the eventual retirement annuity amount would be determined, generally as a service related percentage of a final average salary base, and leave the pension funding obligation variable. The annual actuarial valuations required of defined benefit Minnesota public pension plans are needed to determine that variable funding obligation. Defined contribution plans set the pension funding obligation as a fixed amount, percentage, or mechanism, and leave the ultimate retirement annuity amounts to be determined based on the amount of amassed contributions and accrued investment earnings and actuarial assumptions as to post retirement interest and mortality.

b. Normal Retirement Age in Defined Benefit Plans. In a defined benefit plan, the normal retirement age provision or provisions establish the point or points during a pension plan participant's lifetime where a retirement annuity has the maximum actuarial liability for the pension plan and greatest actuarial value for the participant becomes payable. Historically, the normal retirement age is intended to mark the end of a plan participant's generally expected working career and the beginning of the person's years outside of the regular full time workforce. Pension plans have usually been viewed as an adjunct to the personnel and compensation system of an employer to encourage the recruitment of new employees, the retention of existing productive personnel, and the systematic predictable out-transitioning of senior employees at the logical conclusion of their working careers by providing an adequate level of pension coverage.

   At the normal retirement age or ages, a Minnesota public pension plan typically pays a single life annuity that is equal to the full amount of the retirement annuity calculated using the defined benefit plan formula. Typically, a Minnesota public pension plan will pay a retirement annuity at an earlier age, frequently referred to as the early retirement age or early reduced retirement age, with the single life annuity amount reduced to account in whole or in part for the actuarial impact of providing a retirement annuity before the normal retirement age or ages. If the reduction is equal to the whole actuarial impact of the earlier age for benefit payment, the reduction is referred to as an actuarially equivalent reduction. If the reduction is less than the whole actuarial impact of the likely extension in the person's retired lifetime, the early retirement annuity is considered to have been subsidized.

c. "Rule of 90" Normal Retirement Age. Historically, it has been Commission policy to set an age 65 normal retirement age for general (non-public safety) employees and an age 55 normal retirement age for public safety employees. While age 65 or age 55 normal retirement ages remain a common requirement, different normal retirement ages have been established over time. For the oldest programs of the first class city plans and local police and salaried firefighter relief associations, younger normal retirement ages have long existed before 1989, as follows:

Plan	Age or Ages
Duluth Teachers Retirement Fund Association (DTRFA) Old Law Program	Age 60
Minneapolis Teachers Retirement Fund Association (MTRFA) Basic Program	Age 60 or any age with 30 years of service
St. Paul Teachers Retirement Fund Association (SPTRFA) Basic Program	Age 60 with 25 years of service
Minneapolis Employees Retirement Fund (MERF)	Age 60 or any age with 30 years of service
Most local police or salaried firefighter relief associations	Age 50

   In 1973, the Commission and the Legislature initially recognized long service as a qualification for an earlier normal retirement age for the statewide general employee pension plans, with the enactment of the age 62 with 30 years of service normal retirement age provision.

   In 1982, after several sessions of considering proposed legislation to create earlier normal retirement ages, the Legislature enacted the "Rule of 90" for the Public Employees Retirement Association (PERA), in lieu of the PERA age 62 with 30 years of service provision. The "Rule of 90" provision allows a person to retire with an unreduced retirement annuity when the person's combined age and service total at least 90.

In 1989 (Laws 1989, Chapter 319, Article 13), the Legislature extended this "Rule of 90" early normal retirement provision to the Minnesota State Retirement System (MSRS), Teachers Retirement Association (TRA), and the three first class city teacher plans as part of a major benefit improvement. That benefit increase was added as a House of Representatives floor amendment to proposed legislation relating to teachers' salaries in Independent School District No. 709 (Duluth), without a favorable recommendation by the Legislative Commission on Pensions and Retirement. The "Rule of 90" provision is part of the Tier I benefit package, which consists of an earlier retirement age, a lower benefit accrual rate for the initial ten years of service (1.0 percent rather than 1.5 percent for Tier II Coordinated Programs, and 2.0 percent rather than 2.5 percent for Tier II Basic Programs), and a subsidized early retirement reduction amount.

During the 1989 Session, several Senate members of the Legislative Commission on Pensions and Retirement supported a general benefit accrual rate increase at age 65 while several House of Representatives members of the Commission supported the "Rule of 90" early normal retirement age provision. The 1989 benefit increase legislation, an amendment derived from 1989 Session S.F. 1329 (Pogemiller); H.F. 1302 (Simoneau), ultimately was enacted.

Specifically, the 1989 benefit increases related to the "Rule of 90" and "Level Benefit" benefit tiers are as follows:

1. Level Benefit Tier. All plan members are eligible to receive a retirement annuity using a level benefit accrual formula rate of 1.5 percent credit for all years of service, rather than the current one percent of each of the first ten years of service, followed by 1.5 percent thereafter. If the individual retires before the normal retirement age, the benefit is actuarially reduced. The normal retirement age for new employees will be automatically changed to correspond to the Social Security retirement age, as that age changes over time. The normal retirement age is age 65.

2. "Rule of 90" Benefit Tier. Plan members first hired before July 1, 1989, if their age plus years of service total the sum of 90, are eligible to receive a benefit accrual formula rate of one percent for each of the first ten years of service, followed by 1.5 percent per year thereafter, with no early retirement reduction. If the member does not meet the "Rule of 90" eligibility requirement, with a benefit accrual rate of one percent for each of the first ten years and 1.5 percent thereafter, the early retirement reduction rate is three percent per year.

The 1989 benefit accrual rates were increased in 1997 (see Laws 1997, Chapter 233, Article 1).

The argument made by the proponents for the "Rule of 90" benefit tier was that the benefit program would be restricted to then current plan members (pre-July 1, 1989 hires) and that the Legislature reserved the right to eliminate the provision if its utilization exceeded 45 percent of eligible retirees. The "Rule of 90" report requirement and elimination provision was repealed in 1993 (see Laws 1993, Chapter 280), at the request of the various major general employee retirement plan administrators when the Teachers Retirement Association (TRA) utilization approached the triggering level.

Attachment B

Background Information on Setting Normal Retirement Ages for Defined Benefit Plans

1. Definition. The "normal retirement age" is the earliest age under a retirement plan at which a retirement annuity is payable without any reduction for an early retirement.

2. Commission Principles of Pension Policy Provision. Principle II.C.4. of the Principles of Pension Policy of the Legislative Commission on Pensions and Retirement indicates that the normal (unreduced for early retirement) retirement ages should be set based on the employability limits of average public employees and will be different for public safety employees when compared with general employees.

   Specifically, the applicable principle states:

   > II.C.4. Appropriate Normal Retirement Ages
   >
   > The normal retirement age should be set in a reasonable relationship to the employability limits of the average public employee and should differentiate between regular public employees and protective and public safety employees.

   The current set of principles, last revisited by the Commission in 1996-1996, in this particular principle, largely continued the earliest statement of the principle in 1980, emphasizing normal retirement ages at usual employability limits, but without any of the 1980 age specificity.

3. Policy Considerations Concerning Normal Retirement Ages. Age 65 has come to be the traditional age at which many employees are expected to retire. It is, however, unclear why this age has be-come the regularly expected retirement age for Social Security and for many public retirement plans. Age 65 does not appear to represent an empirically determined conclusion about when most employees retire that was drawn from the experience of employees before the creation of Social Security and the significant expansion of employment-based pension coverage in the 1930s. Before the 1930s, retirement for most people appears to have been a function of a physical inability to continue in employment, at whatever age that occurred. Early employee retirement plans were frequently referred to as superannuation plans and some plans substitute the term "superannuitation age" for what is referred to as the "normal retirement age" in other plans. Until recent decades, the most impoverished sector of the population was older folks and the improvement of their situation was one of the goals of President Franklin Roosevelt in proposing the Social Security System in 1934. The age 65 normal retirement age is frequently ascribed to Chancellor Otto Von Bismarck of Germany, who is reported to have set age 65 as the normal retirement age for the retirement coverage provided to the Prussian army.

   Since the 1960s, in both larger corporate defined benefit pension plans and public employee pension plans, the trend clearly appears to have been to institute normal retirement ages earlier than age 65. In the opposite direction, based on considerations of lengthening expected life spans and of the related cost of providing benefits for ever lengthening retirement periods, as part of 1986 Congressional amendments, Social Security has instituted a later full benefit retirement age, as follows:

   Social Security

Year of Birth	Normal Retirement Age
Before 1938	Age 65
1938	Age 65, 2 months
1939	Age 65, 4 months
1940	Age 65, 6 months
1941	Age 65, 8 months
1942	Age 65, 10 months
1943-1954	Age 66
1955	Age 66, 2 months
1956	Age 66, 4 months
1957	Age 66, 6 months
1958	Age 66, 8 months
1959	Age 66, 10 months
1960 and later	Age 67

   Minnesota public pension plans currently reflect some uniformity in normal retirement ages. The following compares the normal retirement ages applicable to the various Minnesota public pension plans:

Minnesota Retirement Plan Normal Retirement Age Provisions

a. General Employee Plans

1. General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General)
   - Hired before July 1, 1989: Age 65; or age 62 with 30 years of service; or "Rule of 90"
   - Hired after June 30, 1989: Social Security full benefit age, but not to exceed age 66
2. Public Employees Retirement Association (PERA)
   - Hired before July 1, 1989: Age 65; or age 62 with 30 years of service; or "Rule of 90"
   - Hired after June 30, 1989: Social Security full benefit age, but not to exceed age 66
3. Teachers Retirement Association (TRA)
   - Hired before July 1, 1989: Age 65; or age 62 with 30 years of service; or "Rule of 90"
   - Hired after June 30, 1989: Social Security full benefit age, but not to exceed age 66
4. Duluth Teachers Retirement Fund Association (DTRFA)
   a. Old Law Plan
      - Age 60
   b. New Law Plan
      - Hired before July 1, 1989: Age 65; or age 62 with 30 years of service; or "Rule of 90"
      - Hired after June 30, 1989: Social Security full benefit age, but not to exceed age 66
5. St. Paul Teachers Retirement Fund Association (SPTRFA)
   a. Basic Program
      - Age 65; or age 60 with 25 years of service; or "Rule of 90"
   b. Coordinated Program
      - Hired before July 1, 1989: Age 65; or age 62 with 30 years of service; or "Rule of 90"
      - Hired after June 30, 1989: Social Security full benefit age, but not to exceed age 66
6. Minneapolis Employees Retirement Fund (MERF)
   - Age 65; or age 60 with 10 years of service; or any age with 30 years of service
7. Legislators Retirement Plan
   - Age 62
8. Elective State Officers Retirement Plan
   - Age 62
9. MSRS Military Affairs Department Retirement Plan
   - Mandatory federal military retirement age or age 65.
10. Transportation Department Pilots Retirement Plan
    - Age 62
11. MSRS State Fire Marshal Division Employees Retirement Plan
    - Age 55
12. Judges Retirement Plan
    - Age 65

b. Public Safety Plans

1. State Patrol Retirement Plan
   - Age 55
2. MSRS Correctional Employees Retirement Plan (MSRS-Correctional)
   - Age 55
3. Public Employees Police and Fire Fund (PERA-P&F)
   - Age 55
4. PERA Local Government Correctional Retirement Plan
   - Age 55
5. Minneapolis Police Relief Association
   - Age 50
6. Local Paid Firefighters Relief Associations (Minneapolis and Bloomington)
   - Age 50
7. Volunteer Firefighters Relief Association
   - Generally Age 50

The 1986 resetting of the Social Security full retirement benefit receipt age appears to have been motivated largely by financial concerns and by a need to reduce future benefit outlays in order to delay the date of a benefit default than by any clearly delineated empirical evidence that American workers were actually continuing working to later ages. Indeed, the literature on the topic suggests that the last 20 years have seen continuing reductions in the retirement age of many workers compared to prior generations of workers. The life expectancy of American workers, however, has been increasing throughout the 20th century, meaning that workers could delay the start of their retirement period compared to prior generations without causing any actual reduction in the duration of benefit receipt compared to earlier generations. Although the potential employability limits of general employees appear to be lengthening, it is not clear that the same phenomenon is true to some extent for public safety employees.

Attachment C

Background Information on Benefit Increase Funding

The 1980 Principles of Pension Policy of the Legislative Commission on Pensions and Retirement indicate that no proposed increase in pension benefits for any pension plan should be seriously considered or recommended by the Commission unless the proposal includes adequate additional financing to meet the additional actuarial funding requirement that is estimated to result from adopting the proposed benefit increase.

The principle reflects the Commission's longstanding concern for the maintenance of adequate public pension plan funding. It requires that no funding problems be created by the enactment of unfunded or underfunded benefit increases.

In recent years, Commission experience has varied with respect to gaining sufficient new funding to cover the actuarial cost of benefit increases.

The 1989 benefit increases for the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) and the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General), the 1990 benefit increase for the Judges Retirement Plan, the 1994 benefit increase for the Teachers Retirement Association (TRA) the recent benefit increases for the Public Employees Police and Fire Retirement Plan (PERA-P&F), the 1995 benefit increase for the State Patrol Retirement Plan, the 1995 benefit increase for the Duluth Teachers Retirement Fund Association (DTRFA), and the 1997 benefit increases for MSRS-General, PERA-General, TRA, the Minneapolis Teachers Retirement Fund Association (MTRFA), and the St. Paul Teachers Retirement Fund Association (SPTRFA) all had sufficient additional funding for the increased actuarial cost resulting from the benefit increase.

However, the 1989 benefit increases for the MTRFA and the SPTRFA were not sufficiently funded, the 1993 Coordinated Program survivor benefit increases for MSRS-General, PERA-General, TRA, and the first class city teacher retirement fund associations lacked any additional funding, and the 2006 TRA benefit increase was not sufficiently funded.

Attachment D

Background Information on the Allocation of Retirement Plan Funding Burden Between Members and Employers

a. Principle II.D.3. Principle II.D.3. of the Commission's Principles of Pension Policy indicates that retirement benefits should be financed on a shared basis between members and employers, with the member and employer share for normal cost and administrative expenses and some portion of the amortization requirement shared on a matching basis for general employee plans, with the member and employer share of total cost on a 40 percent/60 percent basis for statewide public safety plans, and with the member and employer share of pension cost to be determined on a "case-by-case" basis for local public safety plans.

Specifically, the principle states:

II.D.3. Allocation of Funding Burden Between Members and Employers

a. Retirement benefits should be financed on a shared basis between the public employee and the public employer.

b. For general public employees, the employee and employer should make matching contributions to meet the normal cost and the administrative expenses of the defined benefit pension plan and both the employee and the employer may be required to share some financial responsibility for funding the amortization requirement of the defined benefit pension plan.

c. For protective and public safety employees covered by a statewide public pension plan, the employee should pay forty percent of the total actuarial costs of the defined benefit pension plan and the employer should pay sixty percent of the total actuarial costs of the defined benefit pension plan.

d. For protective and public safety employees covered by a local relief association, employee and employer contributions should be considered in light of the special circumstances and history unique to that association. Employees should pay an appropriate portion of the normal cost and administrative expenses of the relief association.

b. Current Allocation Situation. Numerous times during the period 1997-2006, pension plan contributions were established or revised. It is unclear that the contribution setting/resetting process has fully accorded with the principle. The following compares the current member contribution rate with the most recent (July 1, 2006) normal cost and expenses of the retirement plan and with the total actuarial requirements of the retirement plan:

Retirement Plan	Member Contribution	Employer Contribution	Employer Add'l Contribution	Total Support	Normal Cost and Expenses	Total Actuarial Requirements	Members Contrib. as Percentage of Normal Cost & Exp.	Member Contrib. as Percentage of Total Act. Req.
General Employee Plans	%	%	%	%	%	%	%	%
MSRS-General	4.00	4.00	--	8.00	8.73	10.11	45.82	39.56
PERA-General *	5.63	6.13	0.57	11.31	9.76	12.11	56.45	45.50
TRA*	5.51	5.23	0.57	11.31	9.76	12.11	56.45	45.50
DTRFA	5.50	5.79	--	11.29	9.95	15.19	55.27	36.21
SPTRFA *	5.69	8.59	2.05	16.32	9.47	25.02	60.08	22.74
MERF	9.75	37.63	47.94	95.33	22.28	95.32	43.76	10.23
MSRS-Military Affairs	5.60	5.60	--	11.20	11.52	12.90	48.61	43.41
MSRS-Transportation Pilots	5.60	5.60	--	11.20	10.62	12.00	52.73	46.67
Specialty Plans								
Legislators	9.00	--	--	9.00	18.64	111.24	48.28	8.09
Elected State Officers								
Judges	7.59	20.50		28.09	18.08	30.73	41.98	24.70
Public Safety Employee Plans								
MSRS-Correctional	5.69	7.98		13.67	17.90	23.34	31.79	24.68
State Patrol	8.40	12.60		21.00	24.59	26.69	34.16	31.47
PERA-P&F	7.40	11.10		18.50	22.43	25.57	32.99	28.92
PERA-Correctional	5.83	8.75		14.58	12.28	12.68	47.47	45.98
MSRS-Arson Investigators	6.78	8.20		14.98	12.35	13.73	54.89	49.38

* *Note: Blended Basic Program and Coordinated Program rates.*

c. Policy Analysis and Discussion. Pension plans are classified as being "contributory" or "noncontributory." Contributory pension plans are pension plans where the plan members are required to make a member contribution, while noncontributory pension plans are pension plans where the plan members are not so required. Among defined benefit pension plans, most public sector pension plans are contributory plans and most private sector pension plans are noncontributory plans. Most defined contribution pension plans, public sector or private sector, are contributory plans.

For contributory pension plans, the funding burden must be allocated between the employers and the plan members. The member contributions represent mandatory savings and the employer contributions represent a cost of conducting business and operations.

Minnesota public pension plans, with the exceptions of the pre-1973 judicial retirement plan and most of the current volunteer firefighter relief associations, have required member contributions. When the Minnesota public pension plan was not subject to any regular actuarial reporting, typically before 1957, member contributions were set without any real basis for comparison and without any discernible policy for the allocation of the relevant cost or value between members and employers. During that pre-1957 period of absent or minimal actuarial reporting, employer contributions were also minimal or nonexistent, leading the 1957-1959 predecessor to the Legislative Commission on Pensions and Retirement to make the various employers responsible for amortizing the amassed unfunded actuarial accrued liabilities at that time.

Employer responsibility for amortizing existing unfunded actuarial accrued liabilities was Commission policy until the mid-1970s, after the major benefit increases that were enacted in 1973, when the Commission concluded that the employer contribution levels then in existence were sufficient to meet the employer's responsibility for past unfunded actuarial accrued liabilities. At that time, in 1977, the Commission's Principles of Pension Policy provided that members and employers in general employee plans should allocate the amortization contribution requirement for unfunded actuarial accrued liabilities created after January 1, 1977.

Although Commission policy changed the manner for allocating amortization contributions in 1977, Minnesota Statutes, Section 356.215, was not amended to require an actuarial separation of pre-1977 and post-1976 unfunded actuarial accrued liabilities and no clear implementation of the policy occurred. The unfunded actuarial accrued liabilities attributable to the major benefit increases in 1984, 1989, and 1997 tended to roll to employers and, consequently, the taxpayers. Benefit increases granted to the Teachers Retirement Association (TRA), to the State Patrol Retirement Plan, and to the Duluth Teachers Retirement Fund Association (DTRFA) in 1994 and 1995, respectively, were required to be amortized wholly by the members, but the 1997 benefit increase legislation reset the funding requirements of all three plans, essentially washing out that member funded amortization requirement.

With the various post-1995-1996 benefit increases and contribution changes, resulting in the varied pattern of the level of funding burden allocation set forth in the chart above, the actual underlying policy on the allocation of a pension plan's funding burden between members and employers is unclear.

Bill Summary and Related Information Supporting 1989 Session SF 1329 (Pogemiller); HF 1302 (Simoneau) Circulated by the presidents of the Minnesota AFL-CIO, the Minnesota Teamsters Union, the Minnesota Federation of Teachers, and the Minnesota Education Association

WHAT DOES S.F. 1329/H.F 1302 DO TO IMPROVE PENSION BENEFITS?

As introduced and amended, the bill would:

* Provide all current teachers, state employees and county/local public employees with a monthly retirement benefit equal to the higher of the monthly benefit amount calculated using:

  1. The present Basic or Coordinated Fund benefit formula under which the employee was covered, but, if the employee is retiring before age 65, applying the present PERA early retirement rules (Rule of 90 if the employee is eligible for the Rule of 90; otherwise, a 3 percent per year early retirement reduction for each year the new retiree is under age 65)*; or

  2. A level formula (2 1/2 percent per year for Basic Fund covered employees; 1 1/2 percent per year for Coordinated Fund covered employees), but applying a fairly severe benefit reduction or "penalty" if the employee is retiring before age 65.

* Grant vested rights to benefits after only three years of service (as opposed to the current requirement of five years of service);

* Increase to 6 percent (from the current 5 percent) the interest rate on refunds paid to terminating employees;

* Provide, at no cost to a retiree, automatic "bounce back" protection so that a retiree who selected survivor benefit protection and took a reduced annuity for that purpose would see, if the designated survivor died first, the monthly benefit amount "bounce back" up to what it would have been had survivor protection not been chosen in the first place;

* Provide permanent, annual lump-sum payments to pre-July 1, 1973 retirees and their survivors to supplement their relatively low benefit amounts; and

* Give partial post-retirement adjustments to new retirees who have been receiving benefits for less than 12 months as of the end of any fiscal year.

HOW DOES S.F. 1329/H.F. 1302 OFFSET THE COST OF THE BENEFIT IMPROVEMENTS TO HOLD DOWN THE AMOUNT OF "NEW MONEY" REQUIRED?

To help offset the benefit improvement cost, the bill would:

* Extend for ten years (until 2020) the time period for paying off the pension funds' unfunded liability; and

* Increase from 8 percent to 8 1/2 percent the interest rate assumed for actuarial purposes for the investment earnings of the assets of the funds covering active employees.

HOW MUCH "NEW MONEY" WOULD BE REQUIRED?

As estimated by the actuaries for the pension funds, the net cost or "new money" requirement in the first year for the proposal would be $12.4 million, half of which would come from increased employee contributions. The "new money" requirement from the State General Fund for state employees is estimated at $5.4 million for the period FY'90 and FY'91.

*Under S.F. 1329/H.F. 1302, the PERA early retirement rules would not apply to teachers, state employees and county/local public employees first hired after June 30, 1989.

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A C S

February 23, 2007

Ms. Laurie Hacking
Executive Director
State of Minnesota
Teachers Retirement Association
60 Empire Drive, Suite 400
St. Paul, MN 55103

Re: HF 627 – Tier 1 Retirement Benefits For Tier 2 Members

Dear Ms. Hacking:

As requested, we have estimated the cost impact of granting Tier 1 retirement benefits to active Tier 2 members of the Minnesota Teachers Retirement Association (TRA) as proposed under HF 627. We have assumed these benefit changes would not impact the benefits of members who are currently inactive or retired. We have also separately estimated the cost impact of each retirement benefit component under this proposal.

The results of our calculations are contained in the attached exhibit. Our calculations are based on the results of the January 1, 2006 actuarial valuation ("baseline"), which reflects the plan changes that were adopted and effective for 2006 including the merger of the Minneapolis Teachers Retirement Fund Association into the TRA. The estimated cost of HF 627 is shown in the column labeled Study B. The costs for each benefit component are in the columns labeled Study B1, B2, B3 and B4, which are described below.

As you will see, this proposal would increase the TRA actuarial accrued liability by $267 million and it would increase the annual required contribution rate, including the amortization of the increase in liability over 31 years to July 1, 2037, by 1.06% of payroll, or about $40 million in the first year.

Study B

Currently, Tier 2 members have their retirement benefits calculated based on the 1.9% Flat Formula (1.7% for service prior to July 1, 2006) reduced actuarially from their social security normal retirement age (but never greater than age 66) to their age at commencement.

HF 627 ("Study B") would provide Tier 2 members with the same retirement benefits as Tier 1 members, including the greater of 1) the Flat Formula benefit reduced actuarially from age 65 instead of from the social security normal retirement age and 2) the 1.4%/1.9% Step Formula (1.2%/1.7% for service prior to July 1, 2006) reduced as follows for early retirement:

- 3% per year from age 65, or age 62 if more than 30 years of service at retirement, or
- unreduced if age plus service at retirement is 90 or more ("Rule of 90").

For purposes of this analysis we assumed that there are no other changes in the benefit structure for Tier 2 members. We maintained all actuarial assumptions and census information used for the July 1, 2006 TRA actuarial valuation except that we applied the higher "Rule of 90" retirement assumption for those Tier 2 members who become eligible for the "Rule of 90" benefit.

One North Dearborn Street, Suite 1400 • Chicago IL 60602-4336
312 846 3000 • 312 846 3999 (fax)

Studies B1, B2, B3 and B4

As requested, we have estimated the cost of each component benefit under HF 627 if each was adopted by itself.

- Study B1 – Rule of 90 – Tier 2 members who meet the "Rule of 90" would receive the Step Formula benefit unreduced for early commencement, or their Tier 2 benefit if greater.

- Study B2 – 3% from age 65, or age 62 if 30 years – Tier 2 members would receive the Step Formula benefit reduced for early commencement by 3% per year from age 65 or from age 62 if the member has 30 years of service, or their Tier 2 benefit if greater.

- Study B3 – 3% from age 62 if 30 years – Tier 2 members who have at least 30 years of service at retirement would receive the Step Formula benefit reduced for early commencement by 3% per year from age 62, or their Tier 2 benefit if greater.

- Study B4 – NRA 65 – The normal retirement age for Tier 2 members would be reduced to age 65. Benefits would still be computed using only the Flat Formula, but the actuarial reduction for early commencement would be from age 65 instead of from the social security normal retirement age (not greater than age 66). This change in the actuarial reduction would increase the typical Tier 2 member's retirement benefit dollar amount by about 6%.

For purposes of this analysis we assumed that there are no other changes in the benefit structure for Tier 2 members. We maintained all actuarial assumptions and census information used for the July 1, 2006 TRA actuarial valuation except that for Study B1 we applied the higher "Rule of 90" retirement assumption for those Tier 2 members who become eligible for the "Rule of 90" benefit. Similarly, for Studies B2 and B3 we applied higher retirement assumptions (retirement rates of 35% for ages 60-61 and 50% for ages 62-64) for those Tier 2 members who become eligible to retire with 30 years of service.

Observations

Each benefit component rewards members in different ways, and there is some overlap of benefits. The "Rule of 90" and 30-year retirement provisions reward longer service employees, enabling eligible members to retire earlier than normal with larger benefits. On the other hand, changing the normal retirement age (and actuarial reduction) to 65 or providing a 3% early retirement reduction from age 65 on the Step Formula are benefit enhancements that provide greater benefits to potentially all Tier 2 members, regardless of service. An example of overlap would be for a member age 62 with 30 years of service who would be eligible for an unreduced benefit under both the "Rule of 90" and the 30-year retirement provisions. The overlap explains why the sum of the costs for the individual benefit components under Studies B1, B2, B3 and B4 exceeds the cost of the combined components under Study B.

A word of caution about the costs of these benefit changes, especially the costs for the "Rule of 90" and 30-year retirement benefits. The profile of current Tier 2 members shows that on average they are hired in their early 30s, meaning that on average they will not be entitled to the "Rule of 90" or 30-year retirement benefits until their early 60s. By comparison, the current Tier 1 members on average were hired in their late 20s, making them eligible for these special benefits in their late 50s. If the profile of Tier 2 members changes in the future, especially if the average hire age drops and more Tier 2 members become eligible for special retirement benefits at earlier ages, the cost of the "Rule of 90" and 30-year retirement benefits could increase over time.

Please call me (312-836-3560) if you have any questions on our analysis.

Sincerely,

Paul R. Wilkinson

Paul R. Wilkinson, A.S.A.
Director, Consulting Actuary

PRW:pl

Enclosure
12874/C5307RET01-HF627 doc

cc: John Wicklund

Teachers Retirement Association
HF 627 Study
($ in Thousands)

Actuarial Accrued Liability	Baseline (7/1/2006 Valuation)	Study B (All Tier 1)	Change from Baseline	Study B1 (Rule of 90)	Change from Baseline	Study B2 (3% from 65 or 62 if 30yrs)	Change from Baseline	Study B3 (3% from 62 if 30yrs)	Change from Baseline	Study B4 (NRA 65)	Change from Baseline
Active	$ 7,708,064	$ 7,975,489	$ 267,425	$ 7,881,656	$ 173,592	$ 7,824,762	$ 116,698	$ 7,795,277	$ 87,213	$ 7,810,682	$ 102,618
Inactive	12,852,619	12,852,619	-	12,852,619	-	12,852,619	-	12,852,619	-	12,852,619	-
Total AAL	$ 20,560,683	$ 20,828,108	$ 267,425	$ 20,734,275	$ 173,592	$ 20,677,381	$ 116,698	$ 20,647,896	$ 87,213	$ 20,663,301	$ 102,618
Actuarial Assets	19,037,046	19,037,046	-	19,037,046	-	19,037,046	-	19,037,046	-	19,037,046	-
Unfunded AAL	$ 1,523,637	$ 1,791,062	$ 267,425	$ 1,697,229	$ 173,592	$ 1,640,335	$ 116,698	$ 1,610,850	$ 87,213	$ 1,626,255	$ 102,618
Funded Percentage	92.6%	91.4%	(1.2%)	91.8%	(0.8%)	92.1%	(0.5%)	92.2%	(0.4%)	92.1%	(0.5%)
Total Normal Cost	$ 361,359	$ 386,771	$ 25,412	$ 377,221	$ 15,862	$ 372,118	$ 10,759	$ 369,333	$ 7,974	$ 371,614	$ 10,255
Required Contribution											
Normal Cost	9.65%	10.33%	0.68%	10.08%	0.43%	9.94%	0.29%	9.87%	0.22%	9.93%	0.28%
Amortization of UAAL (31 yrs)	2.15%	2.53%	0.38%	2.40%	0.25%	2.31%	0.16%	2.27%	0.12%	2.30%	0.15%
Expense Assumption	0.32%	0.32%	-	0.32%	-	0.32%	-	0.32%	-	0.32%	-
Total	12.12%	13.18%	1.06%	12.80%	0.68%	12.57%	0.45%	12.46%	0.34%	12.55%	0.43%
Statutory Contribution	11.30%	11.30%	-	11.30%	-	11.30%	-	11.30%	-	11.30%	-
Sufficiency (Deficiency)	(0.82%)	(1.88%)	(1.06%)	(1.50%)	(0.68%)	(1.27%)	(0.45%)	(1.16%)	(0.34%)	(1.25%)	(0.43%)
Sufficiency (Deficiency) Adjusted for 0.50% Increase in Statutory Employer Rate July 1, 2007	(0.32%)	(1.38%)	(1.06%)	(1.00%)	(0.68%)	(0.77%)	(0.45%)	(0.66%)	(0.34%)	(0.75%)	(0.43%)

Notes

Baseline - July 1, 2006 TRA valuation, contribution rates based on projected 2007 payroll of $3,742,969,885 and 5% annual payroll growth rate

Study B - Changes the normal retirement age to 65 and provides eligibility for all Tier 1 retirement benefits for all Tier 2 members

Study B1 - Provides eligibility for the Tier 1 "Rule of 90" step formula benefit for all Tier 2 members

Study B2 - Provides eligibility for the Tier 1 step formula benefit with 3% early retirement reduction per year from age 65 (or age 62 if the member retires with 30 years of service) for all Tier 2 members

Study B3 - Provides eligibility for the Tier 1 step formula benefit with 3% early retirement reduction per year from age 62 if the member retires with 30 years of service for all Tier 2 members

Study B4 - Changes the normal retirement age to age 65 and the actuarial early retirement reduction from age 65 for the Tier 2 flat formula benefit for all Tier 2 members

[HF627 Study Results xls]Exhibit I

February 23, 2007

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.... moves to amend H.F. No. 627; S.F. No. 648, as follows:

Page 1, line 17, delete "..." and insert "6.03"

Page 1, line 19, delete "..." and insert "6.03"

Page 2, line 4, delete "..." and insert "5.53"

Page 2, line 7, delete "..." and insert "6.03"

Page 2, line 11, delete "..." and insert "3.64"

Page 2, line 13, delete "..." and insert "5.53"

Page 2, line 14, delete "..." and insert "6.03"

.... moves to amend H.F. No. 627; S.F. No. 648, as follows:

Page 1, line 17, delete "..." and insert "5.63"

Page 1, line 19, delete "..." and insert "5.63"

Page 2, line 4, delete "..." and insert "6.46"

Page 2, line 7, delete "..." and insert "6.96"

Page 2, line 11, delete "..." and insert "3.64"

Page 2, line 13, delete "..." and insert "6.46"

Page 2, line 14, delete "..." and insert "6.96"

.... moves to amend H.F. No. 627; S.F. No. 648, as follows:

Page 1, line 17, delete "..." and insert "6.43"

Page 1, line 19, delete "..." and insert "6.43"

Page 2, line 4, delete "..." and insert "5.93"

Page 2, line 7, delete "..." and insert "6.43"

Page 2, line 11, delete "..." and insert "3.64"

Page 2, line 13, delete "..." and insert "5.93"

Page 2, line 14, delete "..." and insert "6.43"

.... moves to amend H.F. No. 627; S.F. No. 648, as follows:

Page 1, line 17, delete "..." and insert "5.99"

Page 1, line 19, delete "..." and insert "5.99"

Page 2, line 4, delete "..." and insert "6.67"

Page 2, line 7, delete "..." and insert "7.17"

Page 2, line 11, delete "..." and insert "3.64"

Page 2, line 13, delete "..." and insert "6.67"

Page 2, line 14, delete "..." and insert "7.17"

.... moves to amend H.F. No. 627; S.F. No. 648, as follows:

Page 1, after line 5, insert:

"Section 1. Minnesota Statutes 2006, section 352.01, subdivision 25, is amended to read:

Subd. 25. **Normal retirement age.** "Normal retirement age" means age 65 ~~for a person who first became a covered employee or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989. For a person who first becomes a covered employee after June 30, 1989, normal retirement age means the higher of age 65 or "retirement age," as defined in United States Code, title 42, section 416(l), as amended, but not to exceed age 66~~.

Sec. 2. Minnesota Statutes 2006, section 352.04, subdivision 2, is amended to read:

Subd. 2. **Employee contributions.** (a) The employee contribution to the fund must be equal to the following percent of salary:

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

(b) These contributions must be made by deduction from salary as provided in subdivision 4.

Sec. 3. Minnesota Statutes 2006, section 352.04, subdivision 3, is amended to read:

Subd. 3. **Employer contributions.** The employer contribution to the fund must be equal to the following percent of salary:

before July 1, 2007	4.00
from July 1, 2007, to June 30, 2008	~~4.25~~ ...
from July 1, 2008, to June 30, 2009	~~4.50~~ ...

from July 1, 2009, to June 30, 2010	~~4.75~~ ...
from July 1, 2010, and thereafter	~~5.00~~ ....

Sec. 4. Minnesota Statutes 2006, section 352.116, subdivision 1, is amended to read:

Subdivision 1. **Reduced annuity before normal retirement age.** This subdivision applies only to a person ~~who first became a covered employee or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989, and~~ whose annuity is higher when calculated under section 352.115, subdivision 3, paragraph (a), in conjunction with this subdivision than when calculated under section 352.115, subdivision 3, paragraph (b), in conjunction with subdivision 1a.

(a) Any employee who is eligible for a retirement annuity under section 352.115, subdivision 1, and who retires before normal retirement age with credit for at least three but less than 30 years of allowable service shall be paid the normal retirement annuity provided in section 352.115, subdivisions 2 and 3, paragraph (a), reduced by one-quarter of one percent for each month that the employee is under normal retirement age at the time of retirement. An employee who is eligible for a retirement annuity under section 352.115, subdivision 1, and who retires prior to age 62 with credit for at least 30 years of allowable service shall be paid the normal retirement annuity provided in section 352.115, subdivisions 2 and 3, paragraph (a), reduced by one-quarter of one percent for each month that the employee is under age 62 at the time of retirement.

(b) Any person whose attained age plus credited allowable service totals 90 years is entitled, upon application, to a retirement annuity in an amount equal to the normal annuity provided in section 352.115, subdivisions 2 and 3, paragraph (a), without any reduction by reason of early retirement.

Sec. 5. Minnesota Statutes 2006, section 352.116, subdivision 1a, is amended to read:

Subd. 1a. **Actuarial reduction for early retirement.** This subdivision applies to a ~~person who has become at least 55 years old and first became a~~ covered employee after June 30, 1989, and to any other covered employee who has become at least 55 years old and whose annuity is higher when calculated under section 352.115, subdivision 3, paragraph (b), in conjunction with this subdivision than when calculated under section 352.115, subdivision 3, paragraph (a), in conjunction with subdivision 1. A covered employee who retires before the normal retirement age shall be paid the normal retirement annuity provided in section 352.115, subdivisions 2 and 3, paragraph (b), reduced so that the reduced annuity is the actuarial equivalent of the annuity that would be payable to the employee if the employee deferred receipt of the annuity and the annuity amount were augmented at an annual rate of three percent compounded annually from the day the annuity begins to accrue until the normal retirement age if the employee became an employee before July 1, 2006, and at an annual rate of 2.5 percent compounded annually from the day the annuity begins to accrue until the normal retirement age if the employee initially becomes an employee after June 30, 2006.

Sec. 6. Minnesota Statutes 2006, section 353.01, subdivision 37, is amended to read:

Subd. 37. **Normal retirement age.** "Normal retirement age" means age 65~~ for a person who first became a public employee or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989. For a person who first becomes a public employee after June 30, 1989, "normal retirement age" means the higher of age 65 or "retirement age," as defined in United States Code, title 42, section 416(l), as amended, but not to exceed age 66~~.

Sec. 7. Minnesota Statutes 2006, section 353.27, subdivision 2, is amended to read:

Subd. 2. **Employee contribution.** (a) The employee contribution is the following applicable percentage of the total salary amount for a "basic member" and for a "coordinated member":

	Basic Program	Coordinated Program
Effective before January 1, 2006	9.10	5.10
Effective January 1, 2006	9.10	5.50
Effective January 1, 2007	9.10	5.75
Effective January 1, 2008	9.10	~~6.00~~ ... plus any contribution rate adjustment under subdivision 3b

(b) These contributions must be made by deduction from salary as defined in section 353.01, subdivision 10, in the manner provided in subdivision 4. If any portion of a member's salary is paid from other than public funds, the member's employee contribution must be based on the total salary received by the member from all sources.

Sec. 8. Minnesota Statutes 2006, section 353.27, subdivision 3, is amended to read:

Subd. 3. **Employer contribution.** (a) The employer contribution is the following applicable percentage of the total salary amount for "basic members" and for "coordinated members":

	Basic Program	Coordinated Program
Effective before January 1, 2006	9.10	5.10
Effective January 1, 2006	9.10	5.50
Effective January 1, 2007	9.10	5.75
Effective January 1, 2008	9.10	~~6.00~~ ... plus any contribution rate adjustment under subdivision 3b

(b) This contribution must be made from funds available to the employing subdivision by the means and in the manner provided in section 353.28.

Sec. 9. Minnesota Statutes 2006, section 353.29, subdivision 3, is amended to read:

Subd. 3. **Retirement annuity formula.** (a) This paragraph, in conjunction with section 353.30, subdivisions 1, 1a, 1b, and 1c, applies to any member ~~who first became a public employee or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989~~, unless paragraph (b), in conjunction with section 353.30, subdivision 5, produces a higher annuity amount, in which case paragraph (b) will apply. The average salary as defined in section 353.01, subdivision 17a, multiplied by the percent specified in section 356.315, subdivision 3, for each year of allowable service for the first ten years and thereafter by the percent specified in section 356.315, subdivision 4, per year of allowable service and completed months less than a full year for the "basic member," and the percent specified in section 356.315, subdivision 1, for each year of allowable service for the first ten years and thereafter by the percent specified in section 356.315, subdivision 2, per year of allowable service and completed months less than a full year for the "coordinated member," shall determine the amount of the "normal" retirement annuity.

(b) This paragraph applies to a member who has become at least 55 years old and first became a public employee after June 30, 1989, and to any other member whose annuity amount, when calculated under this paragraph and in conjunction with section 353.30, subdivision 5, is higher than it is when calculated under paragraph (a), in conjunction with section 353.30, subdivisions 1, 1a, 1b, and 1c. The average salary, as defined in section 353.01, subdivision 17a, multiplied by the percent specified in section 356.315, subdivision 4, for each year of allowable service and completed months less than a full year for a basic member and the percent specified in section 356.315, subdivision 2, per year of allowable service and completed months less than a full year for a coordinated member, shall determine the amount of the normal retirement annuity.

Sec. 10. Minnesota Statutes 2006, section 353.30, subdivision 1, is amended to read:

Subdivision 1. **~~Pre-July 1, 1989 members:~~ 20 years of service.** Upon separation from public service, any person who ~~first became a public employee or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989, and who~~ has become at least 58 years old but not more than normal retirement age and who received credit for not less than 20 years of allowable service is entitled upon application to a retirement annuity in an amount equal to the normal annuity provided in section 353.29, subdivisions 2 and 3, paragraph (a), reduced by one-quarter of one percent for each month that the member is under normal retirement age at the time of retirement.

Sec. 11. Minnesota Statutes 2006, section 353.30, subdivision 1a, is amended to read:

Subd. 1a. ~~**Pre-July 1, 1989 members:**~~ **Rule of 90.** Any person ~~who first became a public employee or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989, and~~ whose attained age plus credited allowable service totals 90 years is entitled upon application to a retirement annuity in an amount equal to the normal annuity provided in section 353.29, subdivisions 2 and 3, paragraph (a), without any reduction in annuity by reason of such early retirement.

Sec. 12. Minnesota Statutes 2006, section 353.30, subdivision 1b, is amended to read:

Subd. 1b. ~~**Pre-July 1, 1989 members:**~~ **30 years of service.** Any person ~~who first became a public employee or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989,~~ with 30 years or more of allowable service credit, who elects early retirement under subdivision 1, shall receive an annuity in an amount equal to the normal annuity provided under section 353.29, subdivisions 2 and 3, paragraph (a), reduced by one-quarter of one percent for each month that the member is under age 62 at the time of retirement.

Sec. 13. Minnesota Statutes 2006, section 353.30, subdivision 1c, is amended to read:

Subd. 1c. ~~**Pre-July 1, 1989 members:**~~ **Early retirement.** Any person who ~~first became a public employee or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989, and who~~ has received credit for at least 30 years of allowable service or who has become at least 55 years old but not normal retirement age, and has received credit for at least three years of allowable service is entitled upon application to a retirement annuity in an amount equal to the normal annuity provided in section 353.29, subdivisions 2 and 3, paragraph (a), reduced by one-quarter of one percent for each month that the member is under normal retirement age at the time of retirement, except that for any member who has 30 or more years of allowable service the reduction shall be applied only for each month that the member is under age 62 at the time of retirement."

Page 4, after line 28, insert:

"Sec. 18. Minnesota Statutes 2006, section 354A.011, subdivision 15a, is amended to read:

Subd. 15a. **Normal retirement age.** "Normal retirement age" means age 65 for a person who ~~first~~ became a member of the coordinated program of the St. Paul Teachers Retirement Fund Association or the new law coordinated program of the Duluth Teachers Retirement Fund Association ~~or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989. For a person who first became a member of the~~

~~coordinated program of the St. Paul Teachers Retirement Fund Association or the new law coordinated program of the Duluth Teachers Retirement Fund Association after June 30, 1989, normal retirement age means the higher of age 65 or retirement age, as defined in United States Code, title 42, section 416(l), as amended, but not to exceed age 66~~. For a person who is a member of the basic program of the St. Paul Teachers Retirement Fund Association or the old law coordinated program of the Duluth Teachers Retirement Fund Association, normal retirement age means the age at which a teacher becomes eligible for a normal retirement annuity computed upon meeting the age and service requirements specified in the applicable provisions of the articles of incorporation or bylaws of the respective teachers retirement fund association.

Sec. 19. Minnesota Statutes 2006, section 354A.12, subdivision 1, is amended to read:

Subdivision 1. **Employee contributions.** The contribution required to be paid by each member of a teachers retirement fund association shall not be less than the percentage of total salary specified below for the applicable association and program:

Association and Program	Percentage of Total Salary
Duluth Teachers Retirement Association	
old law and new law coordinated programs	~~5.5~~ ... percent
St. Paul Teachers Retirement Association	
basic program	~~8~~ ... percent
coordinated program	~~5.5~~ ... percent

Contributions shall be made by deduction from salary and must be remitted directly to the respective teachers retirement fund association at least once each month.

Sec. 20. Minnesota Statutes 2006, section 354A.12, subdivision 2a, is amended to read:

Subd. 2a. **Employer regular and additional contribution rates.** (a) The employing units shall make the following employer contributions to teachers retirement fund associations:

(1) for any coordinated member of a teachers retirement fund association in a city of the first class, the employing unit shall pay the employer Social Security taxes in accordance with section 355.46, subdivision 3, clause (b);

(2) for any coordinated member of one of the following teachers retirement fund associations in a city of the first class, the employing unit shall make a regular employer contribution to the respective retirement fund association in an amount equal to the designated percentage of the salary of the coordinated member as provided below:

Duluth Teachers Retirement Fund Association	~~4.50~~ ... percent
St. Paul Teachers Retirement Fund Association	~~4.50~~ ... percent

(3) for any basic member of the St. Paul Teachers Retirement Fund Association, the employing unit shall make a regular employer contribution to the respective retirement fund in an amount equal to 8.00 percent of the salary of the basic member;

(4) for a basic member of the St. Paul Teachers Retirement Fund Association, the employing unit shall make an additional employer contribution to the respective fund in an amount equal to 3.64 percent of the salary of the basic member;

(5) for a coordinated member of a teachers retirement fund association in a city of the first class, the employing unit shall make an additional employer contribution to the respective fund in an amount equal to the applicable percentage of the coordinated member's salary, as provided below:

Duluth Teachers Retirement Fund Association	1.29 percent
St. Paul Teachers Retirement Fund Association	
July 1, 1993 - June 30, 1994	0.50 percent
July 1, 1994 - June 30, 1995	1.50 percent
July 1, 1997, and thereafter	3.84 percent

(b) The regular and additional employer contributions must be remitted directly to the respective teachers retirement fund association at least once each month. Delinquent amounts are payable with interest under the procedure in subdivision 1a.

(c) Payments of regular and additional employer contributions for school district or technical college employees who are paid from normal operating funds must be made from the appropriate fund of the district or technical college.

Sec. 21. Minnesota Statutes 2006, section 354A.31, subdivision 4, is amended to read:

Subd. 4. **Computation of normal coordinated retirement annuity; St. Paul fund.** (a) This subdivision applies to the coordinated program of the St. Paul Teachers Retirement Fund Association.

(b) The normal coordinated retirement annuity is an amount equal to a retiring coordinated member's average salary under section 354A.011, subdivision 7a, multiplied by the retirement annuity formula percentage.

(c) This paragraph, in conjunction with subdivision 6, applies to a person ~~who first became a member or a member in a pension fund listed in section 356.30, subdivision 3, before July 1, 1989~~, unless paragraph (d), in conjunction with subdivision 7, produces a higher annuity amount, in which case paragraph (d) will apply. The retirement annuity formula percentage for purposes of this paragraph is the percent specified in section 356.315, subdivision 1, per year for each year of coordinated service for the first ten years and the percent specified in section 356.315, subdivision 2, for each year of coordinated service thereafter.

(d) This paragraph applies to a person who has become at least 55 years old and who first becomes a member after June 30, 1989, and to any other member who has become at least 55 years old and whose annuity amount, when calculated under this paragraph and in conjunction with subdivision 7 is higher than it is when calculated under paragraph (c), in conjunction with the provisions of subdivision 6. The retirement annuity formula percentage for purposes of this paragraph is the percent specified in section 356.315, subdivision 2, for each year of coordinated service.

Sec. 22. Minnesota Statutes 2006, section 354A.31, subdivision 4a, is amended to read:

Subd. 4a. **Computation of the normal coordinated retirement annuity; Duluth fund.** (a) This subdivision applies to the new law coordinated program of the Duluth Teachers Retirement Fund Association.

(b) The normal coordinated retirement annuity is an amount equal to a retiring coordinated member's average salary under section 354A.011, subdivision 7a, multiplied by the retirement annuity formula percentage.

(c) This paragraph, in conjunction with subdivision 6, applies to a person ~~who first became a member or a member in a pension fund listed in section 356.30, subdivision 3, before July 1, 1989~~, unless paragraph (d), in conjunction with subdivision 7, produces a higher annuity amount, in which case paragraph (d) applies. The retirement annuity formula percentage for purposes of this paragraph is the percent specified in section 356.315, subdivision 1, per year for each year of coordinated service for the first ten years and the percent specified in section 356.315, subdivision 2, for each subsequent year of coordinated service.

(d) This paragraph applies to a person who is at least 55 years old ~~and who first becomes a member after June 30, 1989, and to any other member who is at least 55 years old and~~ whose annuity amount, when calculated under this paragraph and in conjunction with subdivision 7, is higher than it is when calculated under paragraph (c) in conjunction with subdivision 6. The retirement annuity formula percentage for purposes of this paragraph is the percent specified in section 356.315, subdivision 2, for each year of coordinated service.

Sec. 23. Minnesota Statutes 2006, section 354A.31, subdivision 6, is amended to read:

Subd. 6. **Reduced retirement annuity.** This subdivision applies only to a person ~~who first became a coordinated member or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989, and~~ whose annuity is higher when calculated using the retirement annuity formula percentage in subdivision 4, paragraph (c), or subdivision 4a, paragraph (c), in conjunction with this subdivision than when calculated under subdivision 4, paragraph (d), or subdivision 4a, paragraph (d), in conjunction with subdivision 7.

(a) Upon retirement at an age before normal retirement age with three years of service credit or prior to age 62 with at least 30 years of service credit, a coordinated member shall be entitled to a retirement annuity in an amount equal to the normal retirement annuity calculated using the retirement annuity formula percentage in subdivision 4, paragraph (c), or subdivision 4a, paragraph (c), reduced by one-quarter of one percent for each month that the coordinated member is under normal retirement age if the coordinated member has less than 30 years of service credit or is under the age of 62 if the coordinated member has at least 30 years of service credit.

(b) Any coordinated member whose attained age plus credited allowable service totals 90 years is entitled, upon application, to a retirement annuity in an amount equal to the normal retirement annuity calculated using the retirement annuity formula percentage in subdivision 4, paragraph (c), or subdivision 4a, paragraph (c), without any reduction by reason of early retirement.

Sec. 24. Minnesota Statutes 2006, section 354A.31, subdivision 7, is amended to read:

Subd. 7. **Actuarial reduction for early retirement.** This subdivision applies to a person ~~who has become at least 55 years old and first becomes a coordinated member after June 30, 1989, and to any other coordinated member who has become at least 55 years old and~~ whose annuity is higher when calculated using the retirement annuity formula percentage in subdivision 4, paragraph (d), and subdivision 4a, paragraph (d), in conjunction with this subdivision than when calculated under subdivision 4, paragraph (c), or subdivision 4a, paragraph (c), in conjunction with subdivision 6. A coordinated member who retires before the full benefit age shall be paid the retirement annuity calculated using the retirement annuity formula percentage in subdivision 4, paragraph (d), or subdivision 4a, paragraph (d), reduced so that the reduced annuity is the actuarial equivalent of the annuity that would be payable to the member if the member deferred receipt of the annuity and the annuity amount were augmented at an annual rate of three percent compounded annually from the day the annuity begins to accrue until the normal retirement age if the employee became an employee before July 1, 2006, and at 2.5

percent compounded annually from the day the annuity begins to accrue until the normal retirement age if the person initially becomes a teacher after June 30, 2006."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

State of Minnesota

HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH SESSION

HOUSE FILE NO. 627

February 5, 2007
Authored by Kranz, Solberg, Ward and Wardlow
The bill was read for the first time and referred to the Committee on Governmental Operations, Reform, Technology and Elections

A bill for an act

relating to retirement; extending certain benefits to certain members of the Teachers Retirement Association; amending Minnesota Statutes 2006, sections 354.05, subdivision 38; 354.42, subdivisions 2, 3; 354.44, subdivision 6.

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

Section 1. Minnesota Statutes 2006, section 354.05, subdivision 38, is amended to read:

Subd. 38. **Normal retirement age.** "Normal retirement age" means age 65 ~~for a person who first became a member of the association or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989. For a person who first becomes a member of the association after June 30, 1989, normal retirement age means the higher of age 65 or "retirement age," as defined in United States Code, title 42, section 416(l), as amended, but not to exceed age 66~~.

Sec. 2. Minnesota Statutes 2006, section 354.42, subdivision 2, is amended to read:

Subd. 2. **Employee.** (a) The employee contribution to the fund is an amount equal to the following percentage of the salary of a member:

(1) after July 1, 2006, for a teacher employed by Special School District No. 1, Minneapolis, ~~5.5~~ ... percent if the teacher is a coordinated member, and 9.0 percent if the teacher is a basic member;

(2) for every other teacher, after July 1, 2006, ~~5.5~~ ... percent if the teacher is a coordinated member and 9.0 percent if the teacher is a basic member.

(b) This contribution must be made by deduction from salary. Where any portion of a member's salary is paid from other than public funds, the member's employee contribution must be based on the entire salary received.

Sec. 3. Minnesota Statutes 2006, section 354.42, subdivision 3, is amended to read:

Subd. 3. **Employer.** (a) The regular employer contribution to the fund by Special School District No. 1, Minneapolis, after July 1, 2006, and before July 1, 2007, is an amount equal to ~~5.0~~ ... percent of the salary of each of its teachers who is a coordinated member and 9.0 percent of the salary of each of its teachers who is a basic member. After July 1, 2007, the regular employer contribution to the fund by Special School District No. 1, Minneapolis, is an amount equal to ~~5.5~~ ... percent of salary of each coordinated member and 9.5 percent of salary of each basic member. The additional employer contribution to the fund by Special School District No. 1, Minneapolis, after July 1, 2006, is an amount equal to 3.64 percent of the salary of each teacher who is ~~a coordinated member or is~~ a basic member, and ... percent of the salary of each teacher who is a coordinated member.

(b) The employer contribution to the fund for every other employer is an amount equal to ~~5.0~~ ... percent of the salary of each coordinated member and 9.0 percent of the salary of each basic member before July 1, 2007, and ~~5.5~~ ... percent of the salary of each coordinated member and 9.5 percent of the salary of each basic member after June 30, 2007.

Sec. 4. Minnesota Statutes 2006, section 354.44, subdivision 6, is amended to read:

Subd. 6. **Computation of formula program retirement annuity.** (a) The formula retirement annuity must be computed in accordance with the applicable provisions of the formulas stated in paragraph (b) or (d) on the basis of each member's average salary under section 354.05, subdivision 13a, for the period of the member's formula service credit.

(b) This paragraph, in conjunction with paragraph (c), applies to a person who ~~first became~~ is a member of the association ~~or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989,~~ unless paragraph (d), in conjunction with paragraph (e), produces a higher annuity amount, in which case paragraph (d) applies. The average salary as defined in section 354.05, subdivision 13a, multiplied by the following percentages per year of formula service credit shall determine the amount of the annuity to which the member qualifying therefor is entitled for service rendered before July 1, 2006:

	Coordinated Member	Basic Member
Each year of service during first ten	the percent specified in section 356.315, subdivision 1, per year	the percent specified in section 356.315, subdivision 3, per year

Each year of service thereafter	the percent specified in section 356.315, subdivision 2, per year	the percent specified in section 356.315, subdivision 4, per year

For service rendered on or after July 1, 2006, the average salary as defined in section 354.05, subdivision 13a, multiplied by the following percentages per year of service credit, determines the amount the annuity to which the member qualifying therefor is:

	Coordinated Member	Basic Member
Each year of service during first ten	the percent specified in section 356.315, subdivision 1a, per year	the percent specified in section 356.315, subdivision 3, per year
Each year of service after ten years of service	the percent specified in section 356.315, subdivision 2b, per year	the percent specified in section 356.315, subdivision 4, per year

(c)(i) This paragraph applies ~~only to a person who first became~~ to a member of the association or a member of a pension fund listed in section 356.30, subdivision 3, ~~before July 1, 1989, and~~ whose annuity is higher when calculated under paragraph (b), in conjunction with this paragraph than when calculated under paragraph (d), in conjunction with paragraph (e).

(ii) Where any member retires prior to normal retirement age under a formula annuity, the member shall be paid a retirement annuity in an amount equal to the normal annuity provided in paragraph (b) reduced by one-quarter of one percent for each month that the member is under normal retirement age at the time of retirement except that for any member who has 30 or more years of allowable service credit, the reduction shall be applied only for each month that the member is under age 62.

(iii) Any member whose attained age plus credited allowable service totals 90 years is entitled, upon application, to a retirement annuity in an amount equal to the normal annuity provided in paragraph (b), without any reduction by reason of early retirement.

(d) This paragraph applies to a member ~~who has become at least 55 years old and first became a member of the association after June 30, 1989, and to any other member~~ who has become at least 55 years old and whose annuity amount when calculated under this paragraph and in conjunction with paragraph (e), is higher than it is when calculated under paragraph (b), in conjunction with paragraph (c). For a basic member, the average salary, as defined in section 354.05, subdivision 13a, multiplied by the percent specified by section 356.315, subdivision 4, for each year of service for a basic member shall determine the amount of the retirement annuity to which the basic member is entitled. The annuity of a basic member who was a member of the former Minneapolis Teachers Retirement Fund Association as of June 30, 2006, must be determined according to the annuity formula under the articles of incorporation of the former Minneapolis Teachers Retirement Fund Association in effect as of that date. For a coordinated member, the average salary, as defined in section 354.05, subdivision 13a, multiplied by the percent specified in section 356.315, subdivision 2, for each year of service rendered before July 1, 2006, and by the percent specified in section 356.315, subdivision 2b, for each year of service rendered on or after July 1, 2006, determines the amount of the retirement annuity to which the coordinated member is entitled.

(e) This paragraph applies to a person who has become at least 55 years old ~~and first becomes a member of the association after June 30, 1989, and to any other member who has become at least 55 years old and~~ whose annuity is higher when calculated under paragraph (d) in conjunction with this paragraph than when calculated under paragraph (b), in conjunction with paragraph (c). An employee who retires under the formula annuity before the normal retirement age shall be paid the normal annuity provided in paragraph (d) reduced so that the reduced annuity is the actuarial equivalent of the annuity that would be payable to the employee if the employee deferred receipt of the annuity and the annuity amount were augmented at an annual rate of three percent compounded annually from the day the annuity begins to accrue until the normal retirement age if the employee became an employee before July 1, 2006, and at 2.5 percent compounded annually if the employee becomes an employee after June 30, 2006.

(f) No retirement annuity is payable to a former employee with a salary that exceeds 95 percent of the governor's salary unless and until the salary figures used in computing the highest five successive years average salary under paragraph (a) have been audited by the Teachers Retirement Association and determined by the executive director to comply with the requirements and limitations of section 354.05, subdivisions 35 and 35a.