State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

H.F. 2194
(Kahn)

S.F. 2006
(Pappas)

Executive Summary of Commission Staff Materials

Affected Pension Plan: Various Plans
Relevant Provisions of Law: Minnesota Statutes, Chapters 16A, 354A, and 356
General Nature of Proposal: Revision in the manner in which actuarial services are provided
Date of Summary: March 5, 2008

Specific Proposed Changes

The bill:

- Changes the provider of actuarial services;
- Provides for a Commission actuary as an auditing actuary;
- Modifies actuarial report requirements;
- Extends the amortization target date for the St. Paul Teachers Retirement Fund Association (SPTRFA);
- Eliminates provision relating to projection actuarial valuations; and
- Eliminates the reemployed annuitant earnings limitations for the first class city teacher retirement plans.

Policy Issues Raised by the Proposed Legislation

1. Appropriateness of abolishing the use of a joint actuary for "official" actuarial reporting (Sections 2, 3, 9, and 11).
2. Appropriateness of the retention of a Commission auditing actuary (Section 4).
3. Appropriateness of general fund funding of "auditing" actuary function (Section 10).
4. Appropriateness of eliminating the reporting due date for actuarial valuations (Section 7).
5. Appropriateness of the elimination of mandatory filings of benefit increase cost analyses with the Commission (Section 3).
6. Appropriateness of eliminating projection actuarial valuation authority (Sections 1, 6, and 11).
7. Appropriateness of a revised SPTRFA amortization period (Section 8).
8. Financing requirement impact of SPTRFA amortization date change and SPTRFA contribution deficiency.
9. Appropriateness of amortization on a level percentage of covered pay basis (Section 8).
10. Appropriateness of requiring supplemental SPTRFA actuarial results based on market value rather than the actual value of assets (Section 8).
11. Appropriateness of including benefit provision changes with actuarial reporting changes (Section 11).
12. Appropriateness of eliminating the first class city teacher retirement fund association reemployed annuitant earnings limitation (Section 11).

Potential Amendments

H2194-1A allocates portion of auditing actuary's fees to the various retirement plans.

H2194-2A allocates total auditing actuary fees to the various retirement plans.

H2194-3A retains filing date for actuarial valuations.

H2194-4A restricts elimination of actuarial valuation filing deadline to statewide and major local retirement plans.

H2194-5A changes actuarial voluntary filing date to a yet-to-be-specified date.

H2194-6A sets different actuarial valuation filing dates for local plan valuations and for statewide and major local retirement plan valuations.

H2194-7A retains requirement that benefit cost estimate be filed with the Commission.

H2194-8A eliminates amortization target date extensions.

H2194-9A sets 2031 amortization target date for the St. Paul Teachers Retirement Fund Association (SPTRFA).

H2194-10A retains automatic amortization target date revision process for SPTRFA.

H2194-11A increases ISD No. 625 and St. Paul teacher contribution rates, with three-year phase in.

H2194-12A increases ISD No. 625 contribution rates, with five-year phase in.

H2194-13A increases direct state aid for SPTRFA.

H2194-14A adds general market value actuarial reporting provision for all plans.

H2194-15A eliminates benefit increases from actuarial reporting bill.

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

RE: H.F. 2194 (Kahn); S.F. 2006 (Pappas): Various Plans; Reemployed Annuitant Earnings Limits; Actuarial Services; State Aid

DATE: March 5, 2008

Summary of H.F. 2194 (Kahn); S.F. 2006 (Pappas)

H.F. 2194 (Kahn); S.F. 2006 (Pappas), amends or repeals portions of Minnesota Statutes, Chapters 16A, 354A, and 356, relating to the Finance Department, the first class city teacher retirement fund associations, and actuarial report, by making the following changes:

1. Actuarial Services Provider Change. The utilization of a single actuarial consulting firm to produce the official actuarial valuation reports for the 13 statewide and major local retirement plans is replaced by the use of a separate actuarial consultant retained by each of the six retirement plan administrations (Sections 2, 3, 9, and 11).

2. Retention of Pension Commission Auditing Actuary. The Legislative Commission on Pensions and Retirement is authorized to retain a consulting actuary to conduct periodic audits of the actuarial valuations prepared by the actuaries retained by the various retirement administrations and to provide actuarial consultations with the addition of an unspecified appropriation for this purpose (Sections 4 and 10).

3. Actuarial Reporting Changes. Actuarial cost analyses of pending legislation would no longer be required to be filed with the Legislative Commission on Pensions and Retirement, actuarial valuation reports would no longer have any due date, which is currently June 1, and the St. Paul Teachers Retirement Fund Association (SPTRFA) actuarial valuation must include an additional funding ratio for the plan and an additional contribution sufficiency/deficiency determination based on the full market value of assets rather than the actuarial valuation of assets (Sections 3, 7, and 8).

4. Extension of SPTRFA Amortization Target Date. The amortization target date for the St. Paul Teachers Retirement Fund Association (SPTRFA) is extended to 2038 (Section 8).

5. Eliminates Projection Actuarial Valuations. The authority of the Commissioner of Finance to have projection actuarial valuations prepared and the specification of the required contents of projection actuarial valuations are eliminated (Sections 1 and 11).

6. Eliminates the First Class City Teacher Retirement Fund Association Reemployed Annuitant Earnings Limits. The general earnings limitation on reemployed annuitants of the Duluth Teachers Retirement Fund Association (DTRFA) and St. Paul Teachers Retirement Fund Association (SPTRFA) and the special earnings limitation on reemployed Minnesota State Colleges and Universities System (MnSCU) retirees are repealed (Section 11).

Background Information on Applicable Topics

Background information on the following relevant topics is set forth in the designated attachments:

1. Actuarial Reporting and the Provision of Actuarial Services (Attachment A)
2. The Value of Assets for Actuarial Reporting (Attachment B)
3. Reemployed Annuitant Earnings Limitations (Attachment C)

Analysis and Discussion

H.F. 2194 (Kahn); S.F. 2006 (Pappas) returns to the pre-1984 law by granting to the various retirement systems the responsibility for retaining the consulting actuary for the preparation of annual actuarial valuations, eliminates any due date for annual actuarial reporting, adds additional requirements for the St. Paul Teachers Retirement Fund Association (SPTRFA) annual actuarial valuations, and extends the SPTRFA full funding target amortization date to 2038.

The proposed legislation raises several pension and related public policy issues for potential consideration and discussion by the Legislative Commission on Pensions and Retirement, as follows:

1. Appropriateness of Abolishing the Use of a Joint Actuary for "Official" Actuarial Reporting (Sections 2, 3, 9, and 11). The policy issue is the appropriateness of eliminating the current requirement that the six retirement administrations (with respect to 13 retirement plans) utilize a common actuarial consulting firm retained to prepare the "official" actuarial valuation reports and to return to the prior arrangement whereby each retirement system retained its own separate consulting actuary or actuaries. The background materials summarize the pre-1984 experience with separately retained actuaries and the post-1983 experience with a single retained actuary. The various retirement systems objected to the creation of the common actuary requirement when the Legislature enacted it in 1984, at the recommendation of the Department of Finance (Gus Dunhowe, Commissioner), because of policymakers' frustration over irreconcilable actuarial cost estimates from the various separately retained actuaries for temporary and permanent early retirement proposals in 1984. That pension administration objection took various forms after 1984, including a continuation to retain separate additional consulting actuaries, resistance to providing the Legislative Commission on Pensions and Retirement with the work product of those additional actuaries on a comprehensive basis, and the instigation of legislative and other challenges to the Commission's retained consulting actuary during the late 1980s and during the 1990s.

   When, in 2004, the responsibility for retaining the joint consulting actuary was shifted from the Commission to the retirement administrators acting jointly, the seven retirement administrators selected a different consulting actuary from the consulting actuarial firm previously retained by the Commission in a process that only loosely conformed with the various statutory procedural requirements and in a process that demonstrated some considerable personality conflicts between the various system administrators. The goal of the 1984 legislation was to provide the Legislature and other policymakers and interested parties with more professionally produced and more consistent actuarial information than occurred previously. The use of a single consulting actuary to produce the "official" actuarial valuation reports for the state's pension plans has had the additional benefits of providing reports that are more consistently structured and organized between plans and over time and of allowing for the development of a method to recognize the previously unrecognized pension liability for Minnesota's pension portability mechanisms.

   While the Commission appears to have been satisfied with the current single actuary arrangement up to this point, a return to the pre-1984 arrangement will end the consistent organization of actuarial work, will eliminate the potential for further refining the recognition of the Combined Service Annuity and other portability provisions, will introduce numerous idiosyncrasies into the interpretation of actuarial reporting statutes and standards, and may replicate the prior experience of uneven capabilities and inconsistent results from the resulting multiplicity of actuaries. The introduction of an "auditing" actuary to be retained by the Commission, unless sufficiently funded from the State General Fund or from another source to permit extensive and rigorous duplication actuarial work, will not likely achieve or enforce high levels of consistency and professionalism and will return the Commission to the unnecessary and unpleasant role of refereeing between disputing actuaries in an arrangement where the retirement plan has the upper hand, since its consulting actuary produces the valuation recognized by law as the "official" document. The proponents of this change should be provided an opportunity to argue why their personal preference to more completely control the actuarial reporting on their plans and their desire to avoid acting jointly with other retirement administrators should be given more weight than the policy concerns that led the Commission and the Legislature in 1984 to aggregate all Minnesota public pension plan actuarial work into a single consulting actuary retained on behalf of the state at large.

2. Appropriateness of the Retention of a Commission Auditing Actuary (Section 4). The policy issue is the appropriateness of the creation of a potential "auditing" actuary function under the auspices of the Commission. The proposed legislation permits, but does not require, the Legislative Commission on Pensions and Retirement to contract with a consulting actuary to audit or review the actuarial work provided by the actuaries retained by the various retirement systems and to provide advice to the Commission, and provides that the Commission establish a schedule for the consulting actuary to conduct the actuarial work audits. The appropriateness of this change likely depends on how the Commission answers the questions of whether or not it is appropriate for the retirement plans to attempt to regulate the legislative process in general and whether the relationship between the plan actuaries and the Commission actuary is practical, whether the timing of audits of benefit cost estimates and actuarial valuations fits with the legislative session timetable and the state's financial reporting timetable, whether there is any effective enforcement mechanism incorporated into the proposed arrangement in the event of a plan actuary mistake, misinterpretation, or misdeed, and whether the "auditing" actuary function can be performed within a reasonable cost funded from the State's General Fund specifically.

There are reasons to believe that a change in the way that actuarial services to the Legislature and to the public would not serve either the Legislature or the public well. The St. Paul Teachers Retirement Fund Association (SPTRFA) post-retirement adjustment legislation during the 2006 and 2007 Sessions is illustrative of some of the problems that raise questions about the appropriateness of attempting to relegate a Commission actuary to a "reviewing" actuary. In 2006, SPTRFA did not provide the Commission staff with any copy of any actuarial work on a pending change in the post-retirement mechanism until within 24 hours of the House Ways and Means Committee hearing in which the SPTRFA-sponsored amendment was first presented. The actuarial work on the 2006 amendment provided to the Commission staff turned out not to be the first actuarial work on the proposal, which was not provided to the Commission staff until May 2007. The actuarial work for the 2007 SPTRFA proposal only was obtained after the SPTRFA legislation was first heard by the Commission, but only four days before the last Commission hearing for the 2007 Session, was not prepared by an approved actuary under Minnesota Statutes, Section 356.214, was based on an actuarial valuation different from the "official" valuation that was not supplied to the Commission staff, lacked any certification that it was prepared under Minnesota Statutes, Section 356.215, or under the Commission's Standards for Actuarial Work, and was based on an inflation assumption that was selected by the pension plan rather than the actuary based on independently assembled data and which was inconsistent with the current inflation assumption underlying the current interest and salary assumptions. The SPTRFA experience is potentially representative of the quality and timelines of actuarial work when a consulting actuary dependent on maintaining a relationship with a particular retirement plan is utilized to produce "official" actuarial work and the reduced prospects for a timely and non-contentious working relationship between the consulting actuary and the reviewing actuary,

3. Appropriateness of General Fund Funding of "Auditing" Actuary Function (Section 10). The policy issue is the appropriateness of the imposition on the State General Fund of the full cost of the proposed "auditing" actuary contract, without any contribution by the retirement plans. The imposition of the entire cost of the proposed "auditing" actuary on the General Fund reflects a view that the retirement plans have no interest or no enhanced interest in having correct, consistent, and professionally prepared actuarial work and that those concerns are the sole regard and province of the Legislature. Currently, most or all of the retirement systems retain a consulting actuary, at plan expense, in addition to the consulting actuary retained jointly, which the retirement systems argue is necessary to ensure that the jointly retained actuary's work product is correct and was prepared properly. If that concern for accuracy and consistency is deeply felt and is not just an argument to mask other motivations, the retirement plans could demonstrate that deep commitment by bearing some or all of the cost of the proposed "auditing" actuary.

   If the Commission desires to apportion some of the cost of the "auditing" actuary to the retirement plans, **Amendment H2194-1A** would fund a portion to be specified of the "auditing" actuary cost from the General Fund and the balance allocated between the retirement plans with a specified percentage attributable to each plan based on the plan's portion of the total administrative expenses of all applicable retirement plans in 2006.

   If the Commission desires to fund the entire cost of the "auditing" actuary from the retirement plans, **Amendment H2194-2A** would fund the cost by apportioning one-half of the cost between the retirement plans based on their share of total membership and by apportioning one-half of the cost between the retirement plans based on their share of actuarial liabilities.

4. Appropriateness of Eliminating the Reporting Due Date for Actuarial Valuations (Section 7). The policy issue is the appropriateness of the proposed elimination of the due date for filing actuarial valuations with the Commission, with the Legislative Reference Library, and with the Commissioner of Finance. The change would apply both to the 13 statewide and major local retirement plans covered by the other portions of the proposed legislation and to those that do not, such as the Bloomington Fire Department Relief Association, the Fairmont Police Relief Association, the Virginia Fire Department Relief Association, and the University of Minnesota. The current filing deadline date is December 1 for the statewide retirement plans and the major local retirement plans, June 1 for the local police and fire plans (except the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association, where it is May 1 annually under Minnesota Statutes, Sections 423B.15, Subdivision 7, and 423C.07) and December 1 for the University of Minnesota. If the timing of the current deadline does not accommodate other administrative needs or activities, a change in the date would be appropriate, but there does not appear to be any policy basis for totally eliminating any stated deadline.

   If the Commission does not agree with the complete elimination of any actuarial valuation filing deadline, **Amendment H2194-3A** would reinstate the current law provision.

If the Commission wishes to waive the deadline for the statewide and major local retirement plans, but not waive it for the other retirement plans, **Amendment H2194-4A** would limit the filing deadline elimination to the statewide and major local retirement plans.

If the Commission concludes that a general delay in all actuarial valuation filing dates is needed, **Amendment H2194-5A** would reset the filing date to a date to be specified in a verbal addition to the amendment.

If the Commission concludes that different filing deadline dates are needed for the statewide and major local retirement plans and for the other retirement plans, **Amendment H2194-6A** would reset the statewide and major local retirement plan filing deadline to a date to be specified in a verbal addition to the amendment and would retain the current deadline dates for the other retirement plans.

5. Appropriateness of the Elimination of Mandatory Filings of Benefit Increase Cost Analyses with the Commission (Section 3). The policy issue is the appropriateness of discontinuing the current requirement that the actuarial cost analyses of pending or potential pension legislation prepared by the consulting actuary producing the "official" actuarial work be filed automatically and routinely with the Legislative Commission on Pensions and Retirement. The filing requirement covering benefit increase actuarial cost analyses was added in 1984 and provides the Commission with the available actuarial information at an early date. The retirement plans chafe at the requirement because they perceive that it limits their flexibility to assemble benefit increase proposals. There is a significant question whether or not retirement plan governing boards and administrators should ever be involved in developing retirement benefit increase proposals because the selection of benefit increases inherently involves potentially favoring some segment of the plan membership over another and is inconsistent with their fiduciary obligations. If employee groups or other outside parties assemble benefit increase proposals and have those proposals costed out by the applicable consulting actuary, it does not further the development of public policy to withhold the actuarial analysis from the Commission and Commission staff review. **Amendment H2194-7A** reinstates the requirement that proposed or potential benefit cost estimates be forwarded to the Commission when they are otherwise available.

6. Appropriateness of Eliminating Projection Actuarial Valuation Authority (Sections 1, 6, and 11). The policy issue is the appropriateness of the proposed elimination of the authority of the Commissioner of Finance to have prepared, at Finance Department expense, one or more quadrennial projection actuarial valuations. A projection actuarial valuation differs from the regular actuarial valuation because it is an open group (assumes and determines liabilities for future hirees) rather than a closed group calculation and because it is a stochastic process where a probability distribution is assumed for each actuarial assumption and financial status of the plan is calculated for a number of potential scenarios based on that probability distribution. The projection actuarial valuation provisions were added to the actuarial reporting law in 1997, first as a requirement placed on the Commission, and subsequently revised, after the first projection valuation, as authority for the Commissioner of Finance to use. The initial projection valuation provision was recommended by the Department of Finance as part of the 1997 benefit increase proposals (see Laws 1997, Chapter 233, Article 1, Sections 2 and 57). Since the projection valuation requirement was converted to authority to be exercised by the Department of Finance, the Commissioner of Finance has not exercised that authority. The Department of Finance, as the promoter of projection valuations in 1997 and the entity empowered currently to have projection valuations conducted, should be requested to address the issue of the appropriateness and/or necessity for the elimination of this authority.

7. Appropriateness of a Revised SPTRFA Amortization Period (Section 8). The policy issue is the appropriateness of the proposed extension of the St. Paul Teachers Retirement Fund Association (SPTRFA) full funding target date from 2021 to 2038. The issue specifically is the rationale for the specific revised period, the lack of an appropriate triggering event for the proposed amortization period extension, the foreseeable problem of excluding SPTRFA from the automatic amortization period extension process, and the appropriateness of a single plan provision in a generally applicable piece of proposed legislation. The theory underlying good actuarial funding suggests that an unfunded actuarial accrued liability should be amortized over a period that does not exceed the average remaining working lifetime of the active membership. The unfunded actuarial accrued liability basically represents past normal cost contributions that were either not recognized, as would occur if actuarial assumptions are incorrect, or were not made in a timely fashion, as would occur if there is a contribution deficiency. Since normal costs should be funded over the working lifetimes of active members, the amortization of the unfunded actuarial accrued liability derived from unpaid normal costs should similarly be funded over the remaining active working lifetime. The period between the current (2006) average active member age for SPTRFA of 44.6 and an age 65 normal retirement age

is 20.4 years, or about five years longer than the current full funding period length. The reason for the proposed extension, not accompanying the normal trigger events of a benefit increase, an actuarial method change, an actuarial assumption change, or a plan consolidation, is likely to be a desire to make the significant contribution deficiency for the retirement plan appear to disappear. If there are other triggering factors for the proposed amortization period extension than making the financial condition of the retirement plan appear to be better than it currently appears to be, the SPTRFA Executive Director could be requested to identify those factors and to elaborate on the policy rationale arguing for the factor to be a trigger. A specific statutory amortization date exempts SPTRFA from the process of incremental automatic amortization period extensions under Minnesota Statutes, Section 356.215, Subdivision 11, when benefits are increased, actuarial assumptions changed, or actuarial methods changed in the future. The proposed extension follows a practice begun with the Minneapolis Employees Retirement Fund (MERF) in 1991, continued with the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) in 2001, and last occurred with the Teachers Retirement Association (TRA) in 2006, where an amortization full funding target date is specified, without any revisions in the event of future benefit, assumption, or method changes. Generally, if a special accommodation is to be made for one retirement plan, that accommodation is not packaged with or hidden in proposed legislation of a general application, but is usually packaged with other proposed legislation related only to that retirement plan or is brought forth as a solo proposal.

If the Commission is convinced that the proposed amortization period extension is misguided as policy or inappropriate to include in this general legislation, **Amendment H2194-8A** would eliminate the amortization period extension provision.

If the Commission believes that the proposed amortization period is too long compared to the remaining active working lifetime of the current SPTRFA active membership, **Amendment H2194-9A** would reset the period to 2031, or roughly the SPTRFA active member average remaining working lifetime.

If the Commission determines that the SPTRFA should not be exempted from the generally applicable automatic amortization period extension process, **Amendment H2194-10A** would integrate the proposed new SPTRFA full funding target date into the generally applicable amortization period provision.

8. Financing Requirement Impact of SPTRFA Amortization Date Change and SPTRFA Contribution Deficiency. The policy issue is the extent of the financial impact of the proposed amortization period extension on the SPTRFA actuarial funding requirements and how the current or potential contribution deficiency will be addressed. The actuarial impact of the proposed amortization period extension for SPTRFA, based on the July 1, 2006, actuarial valuation results, is as follows:

St. Paul Teachers Retirement Fund Association (SPTRFA)

	2006		Effect of Amortization Change		Resulting Condition of the Plan	
Membership						
Active Members		4,219		4,219		4,219
Service Retirees		2,302		2,302		2,302
Disabilitants		25		25		25
Survivors		280		280		280
Deferred Retirees		1,447		1,447		1,447
Nonvested Former Members		1,671		1,671		1,671
Total Membership		9,944		9,944		9,944
Funded Status						
Accrued Liability		$1,358,619,906		$1,358,619,906		$1,358,619,906
Current Assets		$938,919,005		$938,919,005		$938,919,005
Unfunded Accrued Liability		$419,700,901		$419,700,901		$419,700,901
Funding Ratio	69.11%		69.11%		69.11%	
Financing Requirements						
Covered Payroll		$234,213,344		$234,213,344		$234,213,344
Benefits Payable		$78,420,222		$78,420,222		$78,420,222
Normal Cost	9.21%	$21,575,645	9.21%	$21,575,645	9.21%	$21,575,645
Administrative Expenses	0.26%	$608,955	0.26%	$608,955	0.26%	$608,955
Normal Cost & Expense	9.47%	$22,184,600	9.47%	$22,184,600	9.47%	$22,184,600
Normal Cost & Expense	9.47%	$22,184,600	--	--	9.47%	$22,184,600
Amortization	15.55%	$36,420,175	(5.52%)	($12,934,636)	10.03%	$23,485,539
Total Requirements	25.02%	$58,604,775	(5.52%)	($12,934,636)	19.50%	$45,670,139

	2006		Effect of Amortization Change		Resulting Condition of the Plan	
Employee Contributions	5.69%	$13,319,540	5.69%	$13,319,540	5.69%	$13,319,540
Employer Contributions	8.59%	$20,111,296	8.59%	$20,111,296	8.59%	$20,111,296
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	2.05%	$4,803,000	2.05%	$4,803,000	2.05%	$4,803,000
Other Govt. Funding	0.00%	$0	0.00%	$0	0.00%	$0
Administrative Assessment	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	16.32%	$38,233,836	16.32%	$38,233,836	16.32%	$38,233,836
Total Requirements	25.02%	$58,604,775	(5.52%)	($12,934,636)	19.50%	$45,670,139
Total Contributions	16.32%	$38,233,836	16.32%	$38,233,836	16.32%	$38,233,836
Deficiency (Surplus)	8.70%	$20,370,939	10.80%	$25,299,200	3.18%	$7,436,303

While the amortization change delays the funding of a significant portion of the current contribution deficiency, the remaining deficiency is still significant and deserves to be addressed.

Amendment H2194-11A addresses the contribution deficiency by splitting it equally between the SPTRFA members and the SPTRFA participating employers (Independent School District No. 625, St. Paul, and the Minnesota State Colleges and Universities System), with a three-year phase-in of the increase.

Amendment H2194-12A addresses the contribution deficiency by increasing only the employer contribution, with a five-year phase-in of the increase.

Amendment H2194-13A addresses the contribution deficiency by funding it totally from an immediate increase in direct state aid to SPTRFA.

9. Appropriateness of Amortization on a Level Percentage of Covered Pay Basis (Section 8). The policy issue is the appropriateness of amortizing most Minnesota unfunded actuarial accrued liabilities on a level percentage of an increasing covered payroll basis rather than on a level dollar basis. Since 1984, Minnesota has used a level percentage of covered payroll amortization rather than the prior level dollar amortization requirement. A level dollar amortization requirement is the way that many home mortgages are paid off, with payments based on interest on the principal amount of the debt plus a portion of the principal amount. A level percentage of an increasing covered payroll amortization requirement, combined with the normal cost of the retirement benefit plan, also set as a percentage of covered pay, provides contribution requirement stability over time as a percentage of covered pay. The level percentage of covered pay amortization procedure provides potential contribution rate stability over time when compared to the level dollar amortization period over time, but has the effect of deferring much of the actual payments to reduce the principal amount of the unfunded actuarial accrued liability to the second half of the amortization period, with early period payments less than full interest on the unfunded actuarial accrued liability and with the unfunded actuarial accrued liability actually increasing in amount during the early portion of the amortization period.

   The following sets forth a comparison of the amortization contribution rate calculated as part of the July 1, 2006, actuarial valuations with the 8.5 percent interest rate actuarial assumption amount:

Plan	Amortization Target Date	Unfunded Actuarial Accrued Liability	$ Calculated Amortization Requirement	8.5% Interest on Unfunded Actuarial Accrued Liability	Difference
MSRS-General	2020	332,404,901	29,774,591	28,254,417	1,520,174
MSRS-Correctional	2023	112,123,450	8,853,308	9,530,493	(677,185)
Judges	2020	50,450,784	4,620,923	4,288,317	332,606
State Patrol	2036	22,488,729	1,213,074	1,911,542	(698,468)
PERA-General	2031	4,242,549,610	231,431,639	360,616,717	(129,185,078)
PERA-Correctional	2023	7,529,873	550,224	640,039	(89,815)
PERA-P&F	2020	242,613,301	20,977,965	20,622,131	355,834
TRA	2036	1,643,499,040	86,764,874	139,697,418	(52,932,544)
DTRFA	2032	51,303,478	3,012,098	4,360,796	(1,348,698)
SPTRFA	2021	419,700,901	36,420,175	35,674,577	745,598
MERF*	2020	127,373,249	14,265,726	7,642,395*	6,623,331

**Interest only calculated based on 6.00 percent interest actuarial assumption applicable to this plan*

10. Appropriateness of Requiring Supplemental SPTRFA Actuarial Results Based on Market Value Rather than the Actual Value of Assets (Section 8). The policy issue is the appropriateness of requiring the use of the market value of assets of the St. Paul Teachers Retirement Fund Association (SPTRFA) in addition to the actuarial value of assets to determine the funded condition and actuarial costs of the

retirement plan. In 1998, the actuarial value of assets was redefined to reflect a phased-in reflection of the positive or negative difference between the market value of assets and the expected value of assets calculated based on the pre-retirement interest rate assumption, attempting to smooth out the market value fluctuations resulting from volatility. During the late 1990s, the actuarial value of assets definition delayed the recognition of the significant pre-2001 investment returns and, during the post-2000 period, the actuarial value of assets definition delayed the recognition of the significant market declines. Under the proposed legislation, solely for SPTRFA, actuarial work would be required to calculate the major valuation results based both on the fully recognized market value and the actuarial value of assets. Presumably, this request reflects either a policy disagreement with the manner in which the actuarial value of assets is determined or a less policy-oriented desire to take full advantage of very recent market appreciation in presenting SPTRFA funded results and financial requirements in the most favorable light possible to stave off any suggestion that the retirement plan be consolidated into the Teachers Retirement Association (TRA) , which occurred in 2006 with respect to the former Minneapolis Teachers Retirement Fund Association (MTRFA) because of funding problems.

If the Commission believes that the additional market-value based actuarial calculations are appropriate for more than just a single retirement plan, **Amendment H2194-14A** requires the same additional actuarial calculations for all of the other statewide and major local retirement plans.

11. Appropriateness of Including Benefit Provision Changes With Actuarial Reporting Changes (Section 11). The policy issue is the appropriateness of mixing benefit changes with actuarial reporting changes in proposed legislation where the two sets of changes are not connected or intermingled. The proposed legislation combines a general change in the way actuarial services are provided to the Legislature and the Executive Branch, specific changes with respect to the actuarial work for the St. Paul Teachers Retirement Fund Association (SPTRFA), and a benefit provision change, the elimination of any reemployed annuitant earnings limitations, for the Duluth Teachers Retirement Fund Association (DTRFA) and SPTRFA. As a matter of process and good pension policymaking, benefit changes should be clearly identified for the benefit of plan members, other interested parties, and policymakers. The combination of benefit changes and actuarial reporting changes in this proposed legislation, especially when the benefit change is accomplished by a repealer, provides far less notice and visibility than is generally desired.

    If the Commission concurs in this view that benefit proposals should be presented clearly and argued after provision of notice, **Amendment H2194-15A** would retain the bulk of legislative proposals contained in the bill by eliminating the tag-along benefit change from the bill.

12. Appropriateness of Eliminating the First Class City Teacher Retirement Fund Association Reemployed Annuitant Earnings Limitation (Section 11). The policy issue is the appropriateness of eliminating the reemployed annuitant earnings limitation and restricting that benefit change to only two of the ten retirement plans to which reemployed annuitant earnings limitations apply. In 2000 (Laws 2000, Chapter 461, Article 2), the Commission recommended and the Legislature enacted a change in the manner in which public employees who retire and return to public employment as annuitants are handled. The 2000 change was the elimination of the forfeiture of the annuitant reduction amounts for reemployed annuitants in favor of its deferral to a later date and its deposit in a special interest-bearing account. Earnings limitations are an important tool to retain retirement plans and retirement annuities for actual retirement (period after the conclusion of significant gainful employment) and an important safeguard against the occurrence of double dipping, where a person receives a sizable public pension and a sizable public salary concurrently. If the Commission desires to address the concerns of older public employees who desire to phase into retirement rather than to abruptly shift into a retirement, which is a potentially valid accommodation to changing workforce needs and desires, the Commission should do so after appropriate consideration of the competing policy ends involved and of the alternative mechanisms to craft an effective retirement phase-in program instead of simply repealing all applicable limits. Additionally, the decision should be made on a comprehensive basis and not for one or a few retirement plans only. Thus, retired Duluth teachers should not have reemployment limits eliminated if retired Hermantown, Proctor, or Esko teachers retain reemployment limits. **Amendment H2194-15A** would also eliminate the reemployed annuitant earnings change from this proposed legislation, thereby leaving the issue for broader and more comprehensive future legislative consideration.

Attachment A

Background Information on Minnesota Public Pension Plan Actuarial Reporting Requirements

1. Actuarial Reporting Requirements. With the creation of defined benefit public pension plan liabilities, there arises a need to provide financing to match the liabilities and to create a trust fund for the accumulated assets. The method of financing depends primarily on the nature of the benefit plan as either a defined contribution plan or a defined benefit plan and the liability which is undertaken as a consequence. Since the obligation undertaken with a defined benefit plan is to provide a benefit of a predetermined amount at and after the time of retirement, the financing method will be more complex and will allow more variations. There are a number of possible financing budget estimation methods which have been developed by actuaries which can be utilized.

   The actual or ultimate cost of a pension plan is the total amount of any retirement annuities, disability benefits and survivor benefits plus the total amount of any administrative costs paid. The actual or ultimate cost will result no matter what method of financing is employed to fund pension benefits. The financing or actuarial funding method merely separates out the portion of the actual or ultimate cost that will be paid from investment returns from the portion to be funded from periodic contributions and affects the timing of the financing and the amount of the financing burden which will be borne by the pension plan employer or employers.

   Virtually every public pension plan is required to make annual financial and actuarial reports under Minnesota Statutes, Sections 356.20 and 356.215. The Standards for Actuarial Work, issued by the Commission, specify the detailed contents and format requirements for both the actuarial valuation reports and the experience studies. The public pension plans which are included in this requirement are the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the Correctional State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional), the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General), the Public Employees Police and Fire Retirement Plan (PERA-P&F), the Teachers Retirement Association (TRA), the State Patrol Retirement Plan, the Minneapolis Teachers Retirement Fund Association (MTRFA), the St. Paul Teachers Retirement Fund Association (SPTRFA), the Duluth Teachers Retirement Fund Association (DTRFA), the Minneapolis Employees Retirement Fund (MERF), the University of Minnesota Faculty Retirement Plan and Supplemental Retirement Plan, the Judges Retirement Plan, and the various local police and firefighters relief associations.

   The annual actuarial valuation is required to include the determination of normal cost as a percentage of salary and accrued liability of the fund calculated according to the entry age normal cost method, with a prescribed pre- and post-retirement interest assumption, a prescribed salary assumption, and other assumptions as to mortality, disability, retirement, and withdrawal which are appropriate to the experience of the plan. A statement of administrative cost of the fund as a gross amount and as a percent of payroll is required. The actuary must also present an actuarial balance sheet, setting forth the accrued assets, the accrued liabilities (reserves for active members, deferred annuitants, inactive members without vested rights, and annuitants) and the unfunded actuarial accrued liability. The valuation is also to include a calculation of the additional rate of support required to amortize the unfunded accrued liability by the end of the applicable target full funding year. The actuary is required to provide an analysis of the increase or decrease in the unfunded accrued liability from changes in benefits, changes in actuarial assumptions, gains and losses from actual deviations from actuarial assumptions, amortization contribution, and changes in membership. An exhibit setting forth total active membership, additions and separations from active service during the year, total benefit recipients, additions to and separations from the annuity payroll, and a breakdown of benefit recipients into service annuitants, disabilitants, surviving spouses and children, and deferred annuitants is also required.

   The quadrennial experience study periodically prepared for MSRS-General, PERA-General, and TRA is required to furnish experience data and an actuarial analysis which substantiates the actuarial assumptions upon which the annual valuations are based. The quadrennial experience study is required to contain an actuarial analysis of the experience of the largest retirement plans and a comparison of that plan experience with the actuarial assumptions in force for the most recent annual actuarial experience.

   The purpose of the quadrennial experience studies is to provide the Commission and the retirement plan administrations with a periodic opportunity to review the accuracy of the current actuarial assumptions of the three largest retirement plans, compared to the experience for the most recent period and to revise those actuarial assumptions based on the recommendation of the retained

consulting actuary and on input from plan administrators, their actuarial consultants, and others. The actuarial valuation process, as corrected or refined by the quadrennial experience process, is intended to provide policymakers and others with an accurate picture of the funded condition and financial requirements of a public pension plan and the process is not aided if it relies on incorrect or inadequate assumptions. If a trend line is established in recent experience, that trend line should be reflected in a plan's actuarial assumptions, even if those assumptions make the financing position of the plan appear worse than it would under different assumptions.

Minnesota public pension plan actuarial assumptions are specified in part in statute (the economic assumptions, interest/investment return, individual salary increase, and payroll growth) and are determined in part by other parties, with Commission approval (the balance of all actuarial assumptions, generally, the demographic assumptions). Economic assumptions are required to project the amount of benefits that will be payable. Demographic assumptions are required to project when benefits will be payable. Demographic assumptions are used to project the development of the population covered by the pension plan and hence when the benefits to be provided will be paid. The demographic assumptions project when a member is likely to progress between the various categories of membership (active, deferred, or retired) and how long the person stays in each category. The types of economic assumptions used to measure obligations under a defined benefit pension plan include the following:

(i) inflation;
(ii) investment return (sometimes referred to as the valuation interest rate);
(iii) compensation progression schedule; and
(iv) other economic factors (e.g., Social Security, cost-of-living adjustments, growth of individual account balances, and variable conversion factors).

The types of demographic assumptions used to measure pension obligations include, but are not necessarily limited to, the following:

(i) retirement;
(ii) mortality;
(iii) termination of employment;
(iv) disability and disability recovery;
(v) election of optional forms of benefits; and
(vi) other assumptions, such as administrative expenses; household composition; marriage, divorce, and remarriage; open group assumptions; transfers; hours worked; and assumptions regarding missing or incomplete data.

The actuarial assumption selection process should result in actuarial assumptions that are reasonable in light of the particular characteristics of the defined benefit plan that is the subject of the measurement. A reasonable actuarial assumption is one that is expected to appropriately model the contingency being measured and is not anticipated to produce significant cumulative actuarial gains or losses over the measurement period. For any given measurement, two or more reasonable actuarial assumptions may be identified for the same contingency.

2. Historical Development of Actuarial Reporting Requirements. Since the creation of the Legislative Commission on Pensions and Retirement as an interim commission in 1955, data has been required to be provided to the state by the various public pension plans in the state, as follows:

- Laws 1957, Special Session, Chapter 11. The initial actuarial reporting law enacted by the Minnesota Legislature was Laws 1957, Special Session, Chapter 11. The 1957 actuarial reporting law was an uncoded temporary law that was applicable only to actuarial valuations prepared as of January 1, 1958. No prior generally applicable law required specific actuarial reporting to the Legislature or to any other public office or official. The 1957 actuarial reporting law required census tabulations of active members and benefit recipients, an actuarial balance sheet disclosing assets, liabilities and the actuarial full funding deficit, a statement of actuarial assumptions, an indication of the normal support rate for currently accruing liabilities and an indication of the 1997 target date amortization requirement. The 1957 actuarial reporting law was unspecific on the manner in which the actuarial calculation was to be prepared, leading to disputes when some funds prepared valuations on a basis other than the entry age normal actuarial method. The 1957 actuarial reporting law was broadly applicable to all statewide general and public safety pension plans, all local general employee plans, all local police relief associations and all local salaried firefighters relief associations. Problems with the 1957 actuarial reporting law led the

Commission to refine the actuarial reporting requirements and procedures and to recommend a general ongoing actuarial reporting law in the years between 1958 and 1965.

- Laws 1965, Chapters 359 and 751. Laws 1965, Chapter 359, was the initial codification of the general employee pension plan actuarial reporting law. Laws 1965, Chapter 751, was an uncoded temporary law applicable to local police and paid firefighters relief association actuarial valuations prepared as of December 31, 1964. The general employee pension plan actuarial reporting law required an indication of the level normal cost, an actuarial balance sheet disclosing assets, accrued liabilities and unfunded accrued liability as well as specific required reserve figures and an indication of the 1997 target date amortization requirement. The general employee pension plan actuarial reporting law required that the actuarial valuation normal cost and accrued liabilities to be prepared using the Entry Age Normal Cost (Level Normal Cost) Method, that the actuarial method be used to value all aspects of the benefit plan and known future benefit changes, that the actuarial valuation be prepared on the basis of a three percent interest assumption and other appropriate assumptions and that assets not include any present value of future amortization contributions. The general employee pension plan actuarial reporting law required annual actuarial valuations for the State Employees Retirement Fund, the Public Employees Retirement Fund, and the State Police Officers Retirement Fund. The general employee pension plan actuarial reporting law also required the preparation of an experience study validating the actuarial assumptions used in the valuation. The local police and paid fire actuarial reporting law was based on the 1957 actuarial reporting law with the additional clarification of a three percent interest rate assumption, the requirement of normal cost and accrued liabilities calculated on the basis of the entry age normal cost method and the reporting of the amount for the amortization of the unfunded accrued liability by the 1997 target date. The local police and paid fire actuarial reporting law was applicable to all police and paid firefighters relief associations.

- Laws 1967, Chapter 729. Laws 1967, Chapter 729, was a revision in the 1965 local police and paid fire actuarial reporting law. The 1967 local police and paid fire actuarial reporting law was a coded general statute requiring actuarial valuations as of December 31, 1967, and each four years thereafter. It was also made applicable volunteer firefighters relief associations and very small active membership police and paid firefighters relief associations. A three percent salary rate assumption was added. A 2007 target date amortization requirement replaced the prior 1997 target date amortization requirement for police and paid fire plans, leaving the 1997 requirement for volunteer and smaller active membership police and paid fire relief associations. An addition of a requirement to the calculated normal cost for amortizing net actuarial experience gains or losses was also added.

- Laws 1969, Chapter 289. Laws 1969, Chapter 289, revised the 1965 general employee pension plan actuarial reporting law by making the requirement applicable to the Minneapolis Employees Retirement Fund and to the three first class city teacher retirement fund associations. It also provided for an interest rate assumption to 3.5 percent as well as 3.0 percent for comparison purposes and added a salary assumption of 3.5 percent for funds with a final salary based benefit plan.

- Laws 1973, Chapter 653, Section 45. Laws 1973, Chapter 653, Section 45, modified the general employee pension plan actuarial reporting law by increasing the interest assumptions from 3.5 percent to 5 percent.

- Laws 1975, Chapter 192. Laws 1975, Chapter 192, recodified the general employee pension plan actuarial reporting law, previously coded as Minnesota Statutes 1974, Sections 356.21, 356.211, and 356.212, as Minnesota Statutes, Section 356.215.

- Laws 1978, Chapter 563, Sections 9, 10, 11, and 31. Laws 1978, Chapter 563, Sections 9 to 11 and 31, repealed the separate local police and fire relief association actuarial reporting law, Minnesota Statutes 1976, Sections 69.71 to 69.76, and required the local police and fire relief associations to report under the general employee pension plan actuarial reporting law with specific adaptations, coded as Minnesota Statutes, Section 356.216. It also amended the actuarial reporting law by requiring specific reporting of entry age and retirement age assumptions and the provision of a summary of the benefit plan provisions on which the actuarial valuation is based.

- Laws 1979, Chapter 184. Laws 1979, Chapter 184, modified the actuarial reporting law by replacing the 1997 amortization target date with a 2009 amortization target date and establishing a procedure for extending that target date in the event of substantial unfunded actuarial accrued liabilities resulting from benefit increases, actuarial cost method changes or actuarial assumption changes.

- Laws 1984, Chapter 564, Section 43. Laws 1984, Chapter 564, Sections 43, substantially modified the actuarial reporting law. Actuarial valuations are required to comply with the Standards for Actuarial Work adopted by the Commission. The interest rate assumption was modified, with a post-retirement interest rate of five percent and a pre-retirement interest rate of eight percent for the major, statewide plans. The actuarial balance sheet requirement was also substantially modified, and was expanded to include reporting of current and expected future benefit obligations, current and expected future assets and current and expected future unfunded liabilities. The amortization contribution requirement was also modified, with a change from a level dollar annual amortization procedure to a level percentage of future covered payroll amortization procedure for the major, statewide and local general employee plans other than MERF.

- Laws 1987, Chapter 259, Section 55. Laws 1987, Chapter 259, Section 55, revised the language and style of the actuarial reporting provision, specified the particular interest and salary increase actuarial assumptions for the legislators retirement plan and elected state officers retirement plan, set the amortization target date for the Minneapolis Employees Retirement Fund (MERF) at 2017 and exempted MERF from the process for automatically revising the target date upon benefit increases or assumption changes, and required approval by the Legislative Commission on Pensions and Retirement for any demographic actuarial assumption changes.

- Laws 1989, Chapter 319, Article 13, Sections 90 and 91. Laws 1989, Chapter 319, Article 13, Sections 90 and 91, increased the interest rate actuarial assumption from 8.0 percent to 8.5 percent for all statewide and major local retirement plans other than the Minneapolis Employees Retirement Fund (MERF) and extended the amortization full funding target date from 2009 to 2020 for all statewide and major local retirement plans other than MERF.

- Laws 1991, Chapter 269, Article 3, Sections 3 to 19. Laws 1991, Chapter 269, Article 3, Sections 3 to 19, updated the actuarial valuation reporting requirements to accommodate governmental pension plan generally accepted accounting changes, required actuarial valuations or experience studies prepared by an actuary other than the actuary retained by the Legislative Commission on Pensions and Retirement to submit the document to the Commission, and modified some of the services performed by the Commission-retained actuary to reduce the cost of retirement plan-reimbursed actuarial services compensation.

- Laws 1991, Chapter 345, Article 4, Sections 3 and 4. Laws 1991, Chapter 345, Article 4, Sections 3 and 4, reset the interest and salary actuarial assumptions for the Minneapolis Employees Retirement Fund (MERF) at six percent and four percent respectively and extended the MERF amortization target date from 2017 to 2020.

- Laws 1993, Chapter 336, Article 4, Section 1. Laws 1993, Chapter 336, Article 4, Section 1, defines administrative expenses for purposes of inclusion of administrative expenses as part of actuarial cost calculations.

- Laws 1993, Chapter 352, Section 7. Laws 1993, Chapter 352, Section 7, provided, for the Public Employees Police and Fire Plan (PERA-P&F), for the reverse amortization of the amount of assets in excess of the plan's actuarial accrued liability.

- Laws 1995, Chapter 141, Article 3, Sections 14 and 15. Laws 1995, Chapter 141, Article 3, Sections 14 and 15, implemented an age-related salary increase assumption for the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General), and the Teachers Retirement Association (TRA), and set fund-specific payroll growth actuarial assumption rates for MSRS-General, PERA-General, and TRA.

- Laws 1997, Chapter 233, Article 1, Sections 2 and 57. Laws 1997, Chapter 233, Article 1, Sections 2 and 57, required, two years after the quadrennial experience studies, that the actuary retained by the Legislative Commission on Pensions and Retirement conduct quadrennial projection valuations for MSRS-General, PERA-General, TRA, and for any other plans for which the Commission determines a study of this type would be beneficial. These quadrennial projection valuations were required to be conducted in consultation with the Commission's executive director, the retirement fund directors, the State Economist, the State Demographer, the Commissioner of Finance, and the Commissioner of Employee Relations. The results were required to be reported in the same manner as the quadrennial experience studies. The quadrennial projection valuation cost was required to be paid by retirement

plans, with the costs allocated among all plans for which the actuary retained by the Commission performs annual actuarial valuations.

- Laws 1997, Chapter 241, Article 4, Section 1. Laws 1997, Chapter 241, Article 4, Section 1, revised the salary increase assumption for the State Patrol Retirement Plan, the Correctional Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional), Public Employees Police and Fire Plan (PERA-P&F), and the first class city teacher retirement plans, and added a payroll growth assumption to the MSRS-General, MSRS-Correctional, State Patrol, Legislators, Elected State Officers, and Judges Plans; to PERA-General and PERA-P&F; to TRA; and to the first class city teacher retirement plans.

- Laws 1998, Chapter 390, Article 8, Section 2. Laws 1998, Chapter 390, Article 8, Section 2, changed the requirement for a quadrennial projection valuation from the three major statewide retirement plans to one of the statewide or major local retirement plans.

- Laws 1999, Chapter 222, Article 4, Section 14. Laws 1999, Chapter 222, Article 4, Section 14, set the calculated overfunding credit for the Public Employees Police and Fire Plan (PERA-P&F) if the plan has assets in excess of its actuarial accrued liability at the 30-year level percentage of covered pay amortization requirement applicable if the excess assets were an unfunded liability and reset as a new 30-year period for each valuation year.

- Laws 2000, Chapter 461, Article 1. Laws 2000, Chapter 461, Article 1, again substantially modified the actuarial reporting law. Salary assumptions and post-retirement interest rate assumptions were reset, and the actuarial value of assets also was changed to an approach that approaches, but smoothes, market values.

- First Special Session Laws 2001, Chapter 10, Article 11, Section 18. First Special Session Laws 2001, Chapter 10, Article 11, Section 18, exempted the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) from the automatic amortization target date resetting provisions of Minnesota Statutes, Section 356.215, and sets a 2031 amortization target date for PERA-General.

- Laws 2003, Chapter 392, Articles 9 and 11. Laws 2003, Chapter 392, Articles 9 and 11, the select and ultimate salary increase assumptions (i.e., rates varying based on both age and length of service) for 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 Teachers Retirement Association (TRA), the Duluth Teachers Retirement Fund Association (DTRFA), the Minneapolis Teachers Retirement Fund Association (MTRFA) and the St. Paul Teachers Retirement Fund Association (SPTRFA) were revised based on the 2000 experience studies. The structure of Minnesota Statutes, Section 356.215, also was reorganized and revised as part of a recodification of Minnesota Statutes, Chapter 356.

- Laws 2004, Chapter 223, Section 7. Laws 2004, Chapter 223, Section 7, replaced a single contracting consulting actuary retained by the Legislative Commission on Pensions and Retirement to prepare the annual actuarial valuations of the various statewide and major local retirement plans with a single contracting consulting actuary retained jointly by the administrators of the seven retirement systems with Commission ratification.

- First Special Session Laws 2005, Chapter 8, Article 11, Section 2. First Special Session Laws 2005, Chapter 8, Article 11, Section 2, set the interest and salary actuarial assumptions for the Bloomington Fire Department Relief Association at six percent and four percent respectively.

Attachment B

Background Information on the Current Actuarial Value of Assets Determination Procedure

Since the actuarial valuation of assets determination procedure was initially codified in 1965, with the initial codification of public pension plan financial and actuarial reporting requirements, Minnesota public pension plans have utilized two different ways to establish the value of assets for determining the existence of and the size of unfunded actuarial accrued liabilities.

From 1965 to 1983, Minnesota Statutes, Sections 356.20 and 356.215, required that pension plan assets at book value be used in making a comparison of plan assets with plan liabilities. Book value is the generally initial purchase price of the investment security or other marketable asset. For bonds (debt instruments), the investment value was at amortized cost. For stocks (equity investments), the investment value was at cost. For equipment, the investment was at cost less any accrued depreciation. For real estate, the statute was unclear.

In 1984, at the initiation of the Department of Finance, among various actuarial assumption and actuarial method changes, the actuarial value of assets determination procedure changed. The method, still current, defines the actuarial value of assets as the cost value of investments plus one-third of the difference between the cost value of investments and the market value of investments. The proposal for the actuarial value of assets determination procedure change was generated external to the Commission, and the rationale for the change is not well reflected in Commission staff files for Laws 1984, Chapter 564. The change, however, clearly was an attempt to capture some of the stock and bond market appreciation that had occurred in the late 1970s and early 1980s and to have the actuarial value of assets more closely reflect market value than the prior book value definition of the actuarial value of assets.

The following compares the pre-1984 asset valuation determination procedure, the post-1984/pre-2000 asset valuation determination procedure and the current asset valuation determination procedure for a representative statewide retirement plan, the Teachers Retirement Association (TRA), and a representative local retirement plan, the St. Paul Teachers Retirement Fund Association (SPTRFA), for the fiscal year ending on June 30, 2006:

Teachers Retirement Fund Association (TRA)

	Pre-1984 Method	Post-1984/Pre-2000 Method	Current Method
Summary	Book or cost value of investment securities.	Cost value of investment securities plus one-third of the difference between the cost value and the market value of the investment securities.	Market Value, adjusted for amortization obligations receivable at the end of each fiscal year, less a percentage of the Unrecognized Asset Return determined at the close of each of the four preceding fiscal years. Unrecognized Asset Return is the difference between actual net return on Market Value of Assets at the asset return expected during that fiscal year (based on the assumed interest rate employed in the July 1 Actuarial Valuation of the fiscal year).
Result	$19,649,139,143	$19,694,665,406	$19,035,611,839
Calculation	Book Value $19,649,139,143	Market Value $19,785,671,584 Book Value $19,649,139,143 Difference $136,532,441 Difference $136,532,441 One-Third x 0.3333 Market Adjust. $45,506,263 Book Value $19,649,159,143 Market Adjust $45,506,263 Actuar. Value $19,694,665,406	1. Market value of assets available for benefits $19,785,671,584 (Original Amount / % Not Recognized) 2. Calculation of unrecognized return (a) Year ended 6/30/06 $653,165,303 80% $522,532,242 (b) Year ended 6/30/05 $179,823,045 60% $107,893,827 (c) Year ended 6/30/04 $499,642,191 40% $199,856,876 (d) Year ended 6/30/03 ($401,116,000) 20% ($80,223,200) (e) Year ended 6/30/02 $750,059,745 3. Actuarial value of assets: (1) - (2e) ("Current Assets") $19,035,611,839
Funding Impact	Act. Liab. $20,679,110,879 Assets $19,649,139,143 UAL $1,029,971,736 Funding Ratio 95.02% Normal Cost $349,678,399 Expenses $12,236,072 Amort. $54,374,990 Act. Req. $416,289,461	Act. Liab. $20,679,110,879 Assets $19,694,658,742 UAL $984,452,137 Funding Ratio 95.23% Normal Cost $349,678,399 Expenses $12,236,072 Amort. $51,971,886 Act. Req. $413,886,357	Act. Liab. $20,679,110,879 Assets $19,035,611,839 UAL $1,643,499,040 Funding Ratio 92.05% Normal Cost $349,678,399 Expenses $12,236,072 Amort. $86,764,874 Act. Req. $448,679,345

	Pre-1984 Method		Post-1984/Pre-2000 Method		Current Method	
Summary	Book or cost value of investment securities.		Cost value of investment securities plus one-third of the difference between the cost value and the market value of the investment securities.		Market Value, adjusted for amortization obligations receivable at the end of each fiscal year, less a percentage of the Unrecognized Asset Return determined at the close of each of the four preceding fiscal years. Unrecognized Asset Return is the difference between actual net return on Market Value of Assets at the asset return expected during that fiscal year (based on the assumed interest rate employed in the July 1 Actuarial Valuation of the fiscal year).	
Result	$740,961,588		$829,213,976		$938,919,005	
Calculation	Book Value	$740,961,588	Market Value Book Value Difference Difference One-Third Market Adjust. Book Value Market Adjust Actuar. Value	$1,005,745,229 $740,961,588 $264,783,641 $264,783,641 x 0.3333 $88,252,388 $740,961,588 $88,252,388 $829,213,976	1. Market value of assets available for benefits Original Amount / % Not Recognized 2. Calculation of unrecognized return (a) Year ended 6/30/06 (b) Year ended 6/30/05 (c) Year ended 6/30/04 (d) Year ended 6/30/03 (e) Year ended 6/30/02 3. Actuarial value of assets: (1) - (2e) ("Current Assets")	$1,005,745,229 $36,135,488 $26,860,009 $82,512,072 ($56,015,000)
Funding Impact	Act. Liab. Assets UAL	$1,358,619,906 $740,961,588 $617,658,318	Act. Liab. Assets UAL	$1,358,619,916 $829,252,388 $529,367,528	Act. Liab. Assets UAL	$1,358,619,906 $938,919,005 $419,700,901
	Funding Ratio	54.54%	Funding Ratio	61.04%	Funding Ratio	69.11%
	Normal Cost Expenses Amort. Act. Req.	$21,575,645 $608,955 $53,598,227 $75,782,827	Normal Cost Expenses Amort. Act. Req.	$21,575,645 $608,955 $45,936,661 $68,121,261	Normal Cost Expenses Amort. Act. Req.	$21,575,645 $608,955 $36,420,175 $58,604,775

St. Paul Teachers Retirement Fund Association (SPTRFA)

	Pre-1984 Method		Post-1984/Pre-2000 Method		Current Method	
Summary	Book or cost value of investment securities.		Cost value of investment securities plus one-third of the difference between the cost value and the market value of the investment securities.		Market Value, adjusted for amortization obligations receivable at the end of each fiscal year, less a percentage of the Unrecognized Asset Return determined at the close of each of the four preceding fiscal years. Unrecognized Asset Return is the difference between actual net return on Market Value of Assets at the asset return expected during that fiscal year (based on the assumed interest rate employed in the July 1 Actuarial Valuation of the fiscal year).	
Result	$740,961,588		$829,213,976		$938,919,005	
Calculation	Book Value	$740,961,588	Market Value Book Value Difference Difference One-Third Market Adjust. Book Value Market Adjust Actuar. Value	$1,005,745,229 $740,961,588 $264,783,641 $264,783,641 x 0.3333 $88,252,388 $740,961,588 $88,252,388 $829,213,976	1. Market value of assets available for benefits Original Amount / % Not Recognized 2. Calculation of unrecognized return (a) Year ended 6/30/06 (b) Year ended 6/30/05 (c) Year ended 6/30/04 (d) Year ended 6/30/03 (e) Year ended 6/30/02 3. Actuarial value of assets: (1) - (2e) ("Current Assets")	$1,005,745,229 $36,135,488 $26,860,009 $82,512,072 ($56,015,000)
Funding Impact	Act. Liab. Assets UAL	$1,358,619,906 $740,961,588 $617,658,318	Act. Liab. Assets UAL	$1,358,619,916 $829,252,388 $529,367,528	Act. Liab. Assets UAL	$1,358,619,906 $938,919,005 $419,700,901
	Funding Ratio	54.54%	Funding Ratio	61.04%	Funding Ratio	69.11%
	Normal Cost Expenses Amort. Act. Req.	$21,575,645 $608,955 $53,598,227 $75,782,827	Normal Cost Expenses Amort. Act. Req.	$21,575,645 $608,955 $45,936,661 $68,121,261	Normal Cost Expenses Amort. Act. Req.	$21,575,645 $608,955 $36,420,175 $58,604,775

Using an actuarial value of assets rather than the market value of assets for a pension plan apparently is not uncommon among public pension plans and complies with generally accepted accounting principles under Government Accounting Standards Board pronouncements. Using a smoothing method that shaves off short-term market volatility is particularly advantageous from a policy perspective if the pension plan funding procedures immediately translate actuarial results into modified employer contribution amounts in

the following year, where short-term value changes would produce highly variable contribution levels year to year. In Minnesota, this is a consideration only for Minneapolis Employees Retirement Fund (MERF) and for the five remaining local police and paid firefighter relief associations. The use of a smoothing mechanism may be sensible policy where the smoothing period reflects the actual pattern of market volatility, which tends to be either less than one year or longer than five years based on long-term stock market return data from Ibbotson Associates. Even if the smoothing period matches market cycles, an actuarial value of pension assets definition does nothing more than delay the recognition of actual market changes.

The following compares the actuarial value of assets and the market value of assets for the various statewide and major local retirement plans as of June 30, 2006:

Plan	Actuarial Value of Assets	Market Value of Assets	Actuarial Value as % of Market Value
MSRS-General	$8,486,756,016	$8,767,249,551	96.8%
MSRS-Correctional	535,356,819	549,986,069	97.3
Judges	151,850,386	154,151,618	98.5
State Patrol	618,990,349	633,419,202	97.7
PERA-General	12,495,207,148	12,828,990,072	97.4
PERA-Correctional	125,775,917	131,696,690	95.5
PERA-P&F	5,017,950,719	5,167,417,402	97.1
TRA	19,035,611,839	19,785,671,584	96.2
DTRFA	270,925,689	281,950,173	96.1
SPTRFA	938,919,005	1,005,745,229	93.4
MERF	1,490,280,063	1,494,046,146	99.7
Total	$49,167,623,950	$50,800,323,736	96.8%

The valuation of both pension liabilities and pension assets is problematic because they are estimates of potential real life occurrences in advance of experiencing the occurrences. In valuing pension liabilities, the time separation from the estimation of the magnitude of the liability and the actual discharge of the liability can be considerable and the only "real" or "accurate" determination of a pension plan's ultimate pension liabilities occurs when all of the pension plan's obligations have been paid and the pension plan is terminated. In valuing pension assets, time is not the primary problem, but the primary problem is an assumption that the final market price of an investment sold by someone else on a given date by a market reporting mechanism could also be obtained by the pension plan if the plan sold all of its investments on that same date, even though an increase in the supply of investments for sale by that action likely should have a dampening effect on the available price. The problem of valuing pension plan assets is compounded by the considerable variability in market values from day to day, which makes the comparison of asset values on a predetermined date with the low variability of pension plan liabilities on a given date less reliable.

Attachment C

Background Information on Reemployed Annuitant Earnings Limitations

A. Reemployed Annuitant Earnings Limitations Under Social Security. Since the creation of the Old Age and Survivors Insurance Program (Social Security) in the 1930s, Social Security benefits have been subject to an employment earnings limitation, known as the earnings test. The Social Security Administration (SSA) maximum salary earnings limitations for continued receipt of full benefit amounts under the federal Old Age, Survivors and Disability Insurance Program are used by the SSA to determine whether Social Security benefits must be reduced because the individual has salary or self-employment income in excess of the maximums permitted under federal law for continued full receipt of those benefits.

The following table summarizes the annual maximum earnings permissible by Social Security benefit recipients for each year from 1985 onward, which a benefit recipient may receive without incurring a reduction in Social Security benefits. In the table these maximums are referred to as exempt amounts, since they indicate the highest salary earnings, which are exempt from a penalty--a reduction in the Social Security benefits that otherwise would be received. Under Social Security law, the exempt amount differs with the age of the individual. If an individual is under the Social Security full retirement age, once 65 and now between age 65 and age 67, depending on the person's year of birth, but drawing Social Security Old Age Insurance benefits, the maximums are fairly low. The exempt amount for the year in which the Social Security full retirement age is reached is notably higher. The following table has three columns, which are the applicable year, the maximum (exempt) amount under age 65 (before 2000) or under the full normal retirement age (after 1999), and the maximum amount for age 65-69 (before 2000) or for the full normal retirement age year (after 1999):

Year	Under Age 65	Age 65-69	Year	Under Age 65	Age 65-69
1985	$5,400	$7,320	1996	$8,280	$12,500
1986	$5,760	$7,800	1997	$8,640	$13,500
1987	$6,000	$8,160	1998	$9,120	$14,500
1988	$6,120	$8,400	1999	$9,600	$15,500
1989	$6,480	$8,880	2000	$10,080	$17,000
1990	$6,840	$9,360	2001	$10,680	$25,000
1991	$7,080	$9,720	2002	$11,280	$30,000
1992	$7,440	$10,200	2003	$11,520	$30,720
1993	$7,680	$10,560	2004	$11,640	$31,080
1994	$8,040	$11,160	2005	$12,000	$31,800
1995	$8,160	$11,280	2006	$12,480	$33,240

If the Social Security benefit recipient is under the full retirement age, the reduction is one dollar of Social Security benefits for each two dollars of earnings in excess of the maximum amount earned. For the year in which the full retirement age is attained, the reduction is one dollar for each three dollars of earnings in excess of the maximum amount earned.

B. Reemployed Annuitant Earnings Limitations under the Minnesota Public Pension Plans. Among Minnesota public pension plans, but unlike Social Security, the public employee must terminate from active public employment with the employing unit to initially qualify to receive the public employee retirement annuity. If the individual's public pension plan has a reemployed annuitant earnings limit provision, the individual often (but not always) will be subject to that reemployed earnings limit if the individual returns to public employment with pension coverage in the same public pension system.

These reemployed annuitant provisions in Minnesota public pension plans bear a great similarity to the Social Security System but are far less global in scope. Under Social Security, the benefit reductions would be applied to any Social Security benefit recipient under the full retirement age who exceeded the maximum permissible exempt salary earnings, regardless of the employer, applicable for the individual's age. In contrast, if a Minnesota public pension plan has a reemployed annuitant earnings provision, reductions or suspension of the annuity by the plan will occur for those with salary income in excess of exempt amounts only from employment covered by the same pension plan or system. An annuitant from the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) who becomes reemployed in a position covered by the Minnesota State Retirement System (MSRS), the Teachers Retirement Association (TRA), or any other public pension system, would not be subject to the reemployed annuitant provisions in PERA law. Also, no Minnesota public pension plan benefit

reductions would occur if the annuitant becomes employed by a governmental employer in another state, by the federal government, or in the private sector.

Even within the same public pension system, reemployed annuitant reductions may not apply if the individual becomes employed in a position covered by another plan within the system. Typically, the laws have been constructed or interpreted in a way that applies reemployed annuitant earnings provisions if an annuitant from one plan in a system becomes employed by another plan in that same system providing that both plans were originally created within that system. A Public Employees Police and Fire Retirement Plan (PERA-P&F) annuitant who becomes employed in PERA-General covered employment will be subject to PERA's reemployed annuitant provision because PERA-P&F was spun out of PERA-General in 1959. However, a retiree from the State Patrol Retirement Plan who becomes reemployed in an MSRS-General covered position faces no reemployed annuitant penalties because the State Patrol Plan was originally not administered by MSRS, but was moved into MSRS for administrative purposes in 1969. The State Patrol Retirement Plan has no reemployed annuitant earnings provision in the plan, and the provision in MSRS-General law has been interpreted as not applying to State Patrol annuitants.

Reemployed annuitant earnings limitations in Minnesota law support the requirement that a public employee must terminate the employment relationship in order to receive a retirement benefit. The limitations ensure that politically connected public employees cannot manipulate the personnel system and also maximize their income by drawing a full retirement benefit along with a full salary. In doing this, the reemployed annuitant earnings limitations follow one of the traditional purposes for a retirement plan, which is to assist the personnel system in producing an orderly and systematic out-transitioning of senior employees who have reached the end of their normal working lifetime.

However, when reemployed annuitant earnings limitations do not apply uniformly, when some plans have no limits, when the limitations impact differently when applicable, or when no limitations apply to most reemployed annuitant situations (i.e., a public plan annuitant employed by a private sector employer or by a public sector employer of a different level or branch of government), the basic fairness of the limitations can be questioned.

The following chart provides information on the reemployed annuitant earnings limitation laws in Minnesota's public plans:

Retirement Plan	Applicable Compensation	Limit Threshold	Effect After Threshold Exceeded	Reemployment Period Retirement Coverage	Exceptions
MSRS-General	Salary or wages from state or from employer of MSRS-General members	Social Security maximums ($9,600 annually if under age 65; $15,500 annually if age 66-69 (1999))	Suspension of annuity for the balance of the calendar year or until reemployment termination, with the suspended annuity amounts deposited in a separate account, earning six percent compound annual interest, payable at the later of age 65 or one year after the reemployment ends	No retirement coverage	No application to service as temporary legislative employee. Suspension lifted during any sick leave
MSRS-Correctional	Same as MSRS-General	Same as MSRS-General	Same as MSRS-General	Same as MSRS-General	Same as MSRS-General
State Patrol Plan	No provision	No provision	No provision	No provision	No provision
Legislators Plan*	No provision	No provision	No provision	No provision	No provision
Elective State Officers Plan	No provision	No provision	No provision	No provision	No provision
Judges Plan	No provision	No provision	No provision	No provision	No provision
MSRS-Unclassified	No provision	No provision	No provision	No provision	No provision
PERA	Salary from governmental subdivision employment or public employee labor union employment	Social Security maximums ($9,600 annually if under age 65; $15,500 annually if age 66-69 (1999))	Suspension or reduction, whichever produces higher annual amount. Suspension of amount is for the balance of the calendar year or until reemployment term-	No retirement coverage	No application to service as a local government elected official

Retirement Plan	Applicable Compensation	Limit Threshold	Effect After Threshold Exceeded	Reemployment Period Retirement Coverage	Exceptions
			ination. Reduction is one-half of the excess over the maximum if under the Social Security full retirement age and one-third of the excess over the maximum if at the Social Security full retirement age. The reduction or suspended amount is deposited in a separate account, earning six percent compound annual interest, payable at the later of age 65 or one year after the reemployment ends.		
PERA-P&F	Same as PERA	Same as PERA	Same as PERA	Same as PERA	Same as PERA
TRA	Income from teaching for employing unit covered by TRA, income from consultant or independent contractor teaching services for employing unit covered by TRA, or income received by comparable position if greater than actual income received	Social Security maximums ($9,600 annually if under age 65; $15,500 annually if age 66-69 (1999))	Reduction in following calendar year annuity of one-half of the excess over the maximum, with the annuity reduction amount deposited in a separate account earning six percent compound annual interest, payable at the later of age 65 or one year after the reemployment ends	No retirement coverage	No application to interim superintendents during a lifetime limit of three 90-day exemption periods or to reemployed retired Minnesota State Colleges and Universities faculty working between 33.3 and 66.7 percent of full time with salary under $35,000 or application to higher education salary over $35,000 if total higher education salary is greater than $35,000
1st Class City Teacher Retirement Fund Associations	Same as TRA, except for applicable employers	Same as TRA	Same as TRA, except reduction is one-third of excess over the maximum	Same as TRA	Same as TRA
MERF	No provision	No provision	No provision	No provision	No provision
Local Police or Salaried Firefighter Relief Associations	Typically no provision	Typically no provision	Typically no provision	Typically no provision	Typically no provision

C. Example of Teachers Retirement Association (TRA) Reemployed Annuitant Earnings Limitation Provision. The current TRA limit, Minnesota Statutes, Section 354.44, Subdivision 5, provides for a reduction in the subsequent year's annuity of one dollar for every two dollars earned in excess of the Social Security limitation, which is $12,480 annually ($1,040 monthly on a 12-month basis or $1,387 monthly on a nine-month basis) in 2006 for retirees between age 65 and age 66 (the Social Security full retirement age for retirees with birth years between 1937 and 1955) and is $33,240 for the year of attaining the Social Security full retirement age.

TRA Annuitant Retiring at Age 63

Final Five Years' Salary

Year 1 48,430
Year 2 50,850
Year 3 53,390
Year 4 56,060
Year 5 58,858

Highest Five Successive Years Average Salary$53,517.65
Benefit Accrual Percentage (30 Years x 1.7) x .51
$27,294 ($2,274.50/month)

	Situation 1 TRA Annuitant without any Reemployment		Situation 2 TRA Annuitant with $25,000 Reemployment, Current Law		Situation 3 TRA Annuitant with $25,000 Reemployment, Reemployment Earning Limit of $23,000	
Year 1			Reemployed Earnings	$25,000	Reemployed Earnings	$25,000
	TRA Annuity	$27,294	TRA Annuity	27,294	TRA Annuity	27,294
	Total	$27,294	Total	$52,294	Total	$52,294
Year 2			Reemployed Earnings	$25,000	Reemployed Earnings	$25,000
	TRA Annuity	$27,294	TRA Annuity:		TRA Annuity:	
			Year 1 Earnings	25,000	Year 1 Earnings	25,000
			Earnings Limit	12,480	Earnings Limit	23,000
			Excess Amount	12,520	Excess Amount	2,000
			$1 for $2 Reduction [2]	6,260	$1 for $2 Reduction [2]	1,000
			TRA Base Annuity	27,294	TRA Base Annuity	27,294
			Reduction	6,260	Reduction	1,000
			Remaining Annuity	21,034	Remaining Annuity	26,294
	Total	$27,294	Total	$46,034	Total	51,294

[1] *Year 2 annuity amount assumes no Minnesota Post Retirement Investment Fund (Post Fund) post-retirement adjustments and assumes no increase in the Social Security earnings test amount, although both are likely.*

[2] *Reduction amount is deposited in a separate account, credited with six percent compound interest annually, payable at the later of age 65 or one year after termination of the reemployment.*

1.1 .... moves to amend H.F. No. 2194; S.F. No. 2006, as follows:

1.2 Page 5, after line 6, insert:

1.3 "(c) Of the budget established for the auditing actuary by the Legislative
1.4 Commission on Pensions and Retirement, ... percent is payable from the general fund
1.5 appropriation to the commission and the balance is payable by the various retirement
1.6 plans allocated as follows:

1.7 (1) the Teachers Retirement Association, 41.50 percent;

1.8 (2) the general state employees retirement plan, Minnesota State Retirement System,
1.9 15.37 percent;

1.10 (3) the general employees retirement plan, Public Employees Retirement
1.11 Association, 31.91 percent;

1.12 (4) the correctional state employees retirement plan, Minnesota State Retirement
1.13 System, 1.16 percent;

1.14 (5) the State Patrol retirement plan, 0.35 percent;

1.15 (6) the public employees police and fire retirement plan, Public Employees
1.16 Retirement Association, 2.49 percent;

1.17 (7) the local government correctional retirement plan, Public Employees Retirement
1.18 Association, 0.67 percent;

1.19 (8) the judges retirement plan, 0.21 percent;

1.20 (9) the Duluth Teachers Retirement Fund Association, 1.48 percent;

1.21 (10) the St. Paul Teachers Retirement Fund Association, 2.07 percent; and

1.22 (11) the Minneapolis Employees Retirement Fund, 2.79 percent."

1.1 .... moves to amend H.F. No. 2194; S.F. No. 2006, as follows:

1.2 Page 5, after line 6, insert:

1.3 "(c) The cost of the auditing actuary shall be paid by the retirement plans specified in
1.4 subdivision 1, paragraph (b), clauses (1) through (10) and (13). On June 30, 2007, the
1.5 applicable retirement plans shall pay $....... into a special account maintained by the
1.6 Legislative Coordinating Commission for auditing actuarial services, allocated as provided
1.7 in paragraph (d). On July 1, 2008, and on each subsequent July 1, the applicable retirement
1.8 plans shall pay the amount expended for the auditing actuary during the preceding fiscal
1.9 year, multiplied by the factor of 1.035, and allocated as provided in paragraph (d).

1.10 (d) The cost of the auditing actuary payable by the applicable retirement plans must
1.11 be allocated one-half in proportion to each plan's share of the total active, retired, deferred,
1.12 and inactive membership as indicated in the most recent actuarial valuation and one-half
1.13 in proportion to each plan's share of the total actuarial accrued liability as indicated in the
1.14 most recent actuarial valuation."

1.15 Page 11, delete section 10

1.16 Renumber the sections in sequence and correct the internal references

1.17 Amend the title accordingly

1.1 .... moves to amend H.F. No. 2194; S.F. No. 2006, as follows:

1.2 Page 8, lines 23 and 24, reinstate the stricken language

1.1 .... moves to amend H.F. No. 2194; S.F. No. 2006, as follows:

1.2 Page 8, line 23, reinstate the stricken language and before "not" insert "and for the
1.3 retirement plans referenced in section 356.20, subdivision 2, clauses (8), (9), and (11), the
1.4 completed valuation must be delivered"

1.5 Page 8, line 24, reinstate the stricken language

1.1 .... moves to amend H.F. No. 2194; S.F. No. 2006, as follows:

1.2 Page 8, line 24, before the period insert "on or before .... annually"

1.1 .... moves to amend H.F. No. 2194; S.F. No. 2006, as follows:

1.2 Page 8, line 24, before the period insert "on or before .... for the retirement
1.3 plans referenced in section 356.20, subdivision 2, clauses (1) to (7), (10), (12), (13), and
1.4 (14), on or before December 1 for the retirement plans referenced in section 356.20,
1.5 subdivision 2, clauses (8) and (9), and on or before June 1 for the Bloomington Fire
1.6 Department Relief Association, the Fairmont Police Relief Association, and the Virginia
1.7 Firefighters Relief Association"

1.1 .... moves to amend H.F. No. 2194; S.F. No. 2006, as follows:

1.2 Page 4, line 16, reinstate the stricken comma and delete "and"

1.3 Page 4, line 17, reinstate "~~, and actuarial cost analyses~~"

1.1 .... moves to amend H.F. No. 2194; S.F. No. 2006, as follows:

1.2 Page 11, line 4, delete "2038" and insert "2031"

1.1 .... moves to amend H.F. No. 2194; S.F. No. 2006, as follows:

1.2 Page 9, line 16, delete "and the St. Paul Teachers"

1.3 Page 9, line 17, delete "Retirement Fund Association,"

1.4 Page 11, line 3, delete "the established date for"

1.5 Page 11, line 4, delete "full funding is June 30, 2038."

1.1 .... moves to amend H.F. No. 2194; S.F. No. 2006, as follows:

1.2 Page 9, line 16, delete "and the St. Paul Teachers"

1.3 Page 9, line 17, delete "Retirement Fund Association,"

1.4 Page 9, line 24, after "after" insert "June 1, 2038, for the St. Paul Teachers Retirement
1.5 Fund Association and" and after "2020" insert ", for all other applicable retirement plans"

.... moves to amend H.F. No. 2194; S.F. No. 2006, as follows:

Page 1, after line 21, insert:

"Sec. 2. Minnesota Statutes 2006, section 354A.12, subdivision 1, is amended to read:

Subdivision 1. **Employee contributions.** (a) 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	
before July 1, 2007	8 percent
July 1, 2007 - June 30, 2008	8.53 percent
July 1, 2008 - June 30, 2009	9.06 percent
July 1, 2009, and thereafter	9.59 percent
coordinated program	
before July 1, 2007	5.5 percent
July 1, 2007 - June 30, 2008	6.03 percent
July 1, 2008 - June 30, 2009	6.56 percent
July 1, 2009, and thereafter	7.09 percent

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

Sec. 3. 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:

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

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

2.8	Duluth Teachers Retirement Association	4.50 percent
2.9	St. Paul Teachers Retirement Association	
2.10	before July 1, 2007	4.50 percent
2.11	July 1, 2007 - June 30, 2008	5.03 percent
2.12	July 1, 2008 - June 30, 2009	5.56 percent
2.13	July 1, 2009, and thereafter	6.09 percent

2.14 (3) for any basic member of the St. Paul Teachers Retirement Fund Association, the
2.15 employing unit shall make a regular employer contribution to the respective retirement
2.16 fund in an amount equal to ~~8.00 percent~~ the designated percentage of the salary of the
2.17 basic member~~;~~ as prescribed below:

2.18	before July 1, 2007	8.00 percent
2.19	July 1, 2007 - June 30, 2008	8.53 percent
2.20	July 1, 2008 - June 30, 2009	9.06 percent
2.21	July 1, 2009, and thereafter	9.59 percent

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

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

2.29	Duluth Teachers Retirement	
2.30	Fund Association	1.29 percent
2.31	St. Paul Teachers Retirement	
2.32	Fund Association	
2.33	July 1, 1993 - June 30, 1994	0.50 percent
2.34	July 1, 1994 - June 30, 1995	1.50 percent
2.35	July 1, 1997, and thereafter	3.84 percent

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

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

3.4 Page 12, after line 3, insert:

3.5 "Sec. 14. **EFFECTIVE DATE.**
3.6 (a) Sections 1 and 4 to 12 are effective June 30, 2007.
3.7 (b) Sections 2 and 3 are effective the day following final enactment.
3.8 (c) Section 13 is effective July 1, 2007."

3.9 Renumber the sections in sequence and correct the internal references

3.10 Amend the title accordingly

.... moves to amend H.F. No. 2194; S.F. No. 2006, as follows:

Page 1, after line 21, insert:

"Sec. 2. 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 Association	4.50 percent
St. Paul Teachers Retirement 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~~ the designated percentage of the salary of the basic member;

before July 1, 2007	3.64 percent
July 1, 2007 - June 30, 2008	4.28 percent
July 1, 2008 - June 30, 2009	4.92 percent
July 1, 2009 - June 30, 2010	5.56 percent

2.1 July 1, 2010 - June 30, 2011	6.20 percent
2.2 July 1, 2011, and thereafter	6.82 percent

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

2.7 Duluth Teachers Retirement	
2.8 Fund Association	1.29 percent
2.9 St. Paul Teachers Retirement	
2.10 Fund Association	
2.11 July 1, 1993 - June 30, 1994	0.50 percent
2.12 July 1, 1994 - June 30, 1995	1.50 percent
2.13 July 1, 1997~~, and thereafter~~ - June 30, 2007	3.84 percent
2.14 July 1, 2007 - June 30, 2008	4.48 percent
2.15 July 1, 2008 - June 30, 2009	5.12 percent
2.16 July 1, 2009 - June 30, 2010	5.76 percent
2.17 July 1, 2010 - June 30, 2011	6.40 percent
2.18 July 1, 2011, and thereafter	7.02 percent

2.19 (b) The regular and additional employer contributions must be remitted directly to
2.20 the respective teachers retirement fund association at least once each month. Delinquent
2.21 amounts are payable with interest under the procedure in subdivision 1a.
2.22 (c) Payments of regular and additional employer contributions for school district
2.23 or technical college employees who are paid from normal operating funds must be made
2.24 from the appropriate fund of the district or technical college."

2.25 Page 12, after line 3, insert:

2.26 "Sec. 13. **EFFECTIVE DATE.**
2.27 (a) Sections 1 and 4 to 11 are effective June 30, 2007.
2.28 (b) Sections 2 and 3 are effective the day following final enactment.
2.29 (c) Section 12 is effective July 1, 2007."

2.30 Renumber the sections in sequence and correct the internal references

2.31 Amend the title accordingly

.... moves to amend H.F. No. 2194; S.F. No. 2006, as follows:

Page 1, after line 21, insert:

"Sec. 2. Minnesota Statutes 2006, section 354A.12, subdivision 3a, is amended to read:

Subd. 3a. **Special direct state aid to first class city teachers retirement fund associations.** (a) In each fiscal year ~~1998~~, the state shall pay ~~$4,827,000~~ $10,263,000 to the St. Paul Teachers Retirement Fund Association~~, $17,954,000 to the Minneapolis Teachers Retirement Fund Association,~~ and ~~$486,000 to the Duluth Teachers Retirement Fund Association. In each fiscal year after fiscal year 2006, these payments to the first class city teachers retirement fund associations must be $2,827,000 for St. Paul, $12,954,000~~ $13,300,000 to the Teachers Retirement Association ~~for~~ with respect to the former Minneapolis Teachers Retirement Fund Association~~, and $486,000 for Duluth~~.

(b) The direct state aids under this subdivision are payable October 1 annually. The commissioner of finance shall pay the direct state aid. The amount required under this subdivision is appropriated annually from the general fund to the commissioner of finance."

Page 12, after line 3, insert:

"Sec. 13. **EFFECTIVE DATE.**

(a) Sections 1 and 4 to 11 are effective June 30, 2007.

(b) Sections 2 and 3 are effective the day following final enactment.

(c) Section 12 is effective July 1, 2007."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

1.1 .... moves to amend H.F. No. 2194; S.F. No. 2006, as follows:

1.2 Page 11, line 4, delete everything after the period

1.3 Page 11, delete lines 5 to 7

1.4 Page 11, after line 13, insert:

1.5 "Sec. 9. Minnesota Statutes 2006, section 356.215, is amended by adding a subdivision
1.6 to read:

1.7 Subd. 11a. **Additional actuarial calculations and exhibit.** In addition to other
1.8 requirements of this chapter, the annual actuarial valuation shall contain an exhibit
1.9 indicating the funded ratio and the deficiency or sufficiency in annual contributions when
1.10 comparing liabilities to the market value of the assets of the fund as of the close of the
1.11 most recent fiscal year."

1.12 Renumber the sections in sequence and correct the internal references

1.13 Amend the title accordingly

1.1 .... moves to amend H.F. No. 2194; S.F. No. 2006, as follows:

1.2 Page 12, line 2, delete "354A.31, subdivisions 3 and 3a;"

1.3 Renumber the sections in sequence and correct the internal references

1.4 Amend the title accordingly

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State of Minnesota

HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH SESSION

HOUSE FILE NO. 2194

March 19, 2007
Authored by Kahn
The bill was read for the first time and referred to the Committee on Governmental Operations, Reform, Technology and Elections

1.1 A bill for an act
1.2 relating to retirement; postretirement earnings offsets to pensions for teacher
1.3 retirement fund associations in cities of the first class; modifying provisions
1.4 on the procurement of actuarial services for state and local public retirement
1.5 programs; appropriating money; amending Minnesota Statutes 2006, sections
1.6 16A.055, subdivision 5; 356.214, subdivisions 1, 3, by adding a subdivision;
1.7 356.215, subdivisions 1, 2, 3, 11, 18; repealing Minnesota Statutes 2006, sections
1.8 354A.31, subdivisions 3, 3a; 356.214, subdivision 2; 356.215, subdivision 2a.

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

1.10 Section 1. Minnesota Statutes 2006, section 16A.055, subdivision 5, is amended to
1.11 read:

1.12 Subd. 5. **Retirement fund reporting.** (a) The commissioner may not require a
1.13 public retirement fund to use financial or actuarial reporting practices or procedures
1.14 different from those required by section 356.20 or 356.215.

1.15 (b) The commissioner may contract with the consulting actuary retained under
1.16 section 356.214 for the preparation of quadrennial projection valuations as required under
1.17 section 356.215, ~~subdivisions~~ <u>subdivision</u> 2 ~~and 2a~~. The initial projection valuation under
1.18 this paragraph, if any, is due on May 1, 2003, and subsequent projection valuations are
1.19 due on May 1 each fourth year thereafter. The commissioner of finance shall assess the
1.20 applicable statewide and major local retirement plan or plans the cost of the quadrennial
1.21 projection valuation.

1.22 Sec. 2. Minnesota Statutes 2006, section 356.214, subdivision 1, is amended to read:

1.23 Subdivision 1. **Joint retention.** (a) The ~~chief administrative officers of the~~
1.24 ~~Minnesota State Retirement System, the Public Employees Retirement Association, the~~
1.25 ~~Teachers Retirement Association, the Duluth Teachers Retirement Fund Association, the~~

2.1 ~~Minneapolis Employees Retirement Fund, and the St. Paul Teachers Retirement Fund~~
2.2 ~~Association, jointly, on behalf of the state, its employees, its taxpayers, and its various~~
2.3 ~~public pension plans,~~ governing board or managing or administrative official of each
2.4 public pension plan and retirement fund or plan enumerated in paragraph (b) shall contract
2.5 with an established actuarial consulting firm to conduct annual actuarial valuations and
2.6 related services ~~for the retirement plans named in paragraph (b)~~. The principal from
2.7 the actuarial consulting firm on the contract must be an approved actuary under section
2.8 356.215, subdivision 1, paragraph (c). ~~Prior to becoming effective, the contract under this~~
2.9 ~~section is subject to a review and approval by the Legislative Commission on Pensions~~
2.10 ~~and Retirement.~~

2.11 (b) The contract for actuarial services must include the preparation of actuarial
2.12 valuations and related actuarial work for the following retirement plans:

2.13 (1) the teachers retirement plan, Teachers Retirement Association;

2.14 (2) the general state employees retirement plan, Minnesota State Retirement System;

2.15 (3) the correctional employees retirement plan, Minnesota State Retirement System;

2.16 (4) the State Patrol retirement plan, Minnesota State Retirement System;

2.17 (5) the judges retirement plan, Minnesota State Retirement System;

2.18 (6) the Minneapolis employees retirement plan, Minneapolis Employees Retirement
2.19 Fund;

2.20 (7) the public employees retirement plan, Public Employees Retirement Association;

2.21 (8) the public employees police and fire plan, Public Employees Retirement
2.22 Association;

2.23 (9) the Duluth teachers retirement plan, Duluth Teachers Retirement Fund
2.24 Association;

2.25 (10) the St. Paul teachers retirement plan, St. Paul Teachers Retirement Fund
2.26 Association;

2.27 (11) the legislators retirement plan, Minnesota State Retirement System;

2.28 (12) the elective state officers retirement plan, Minnesota State Retirement System;
2.29 and

2.30 (13) local government correctional service retirement plan, Public Employees
2.31 Retirement Association.

2.32 (c) The contract must require completion of the annual actuarial valuation
2.33 calculations on a fiscal year basis, with the contents of the actuarial valuation calculations
2.34 as specified in section 356.215, and in conformity with the standards for actuarial work
2.35 adopted by the Legislative Commission on Pensions and Retirement.

3.1 The contract must require completion of annual experience data collection and
3.2 processing and a quadrennial published experience study for the plans listed in paragraph
3.3 (b), clauses (1), (2), and (7), as provided for in the standards for actuarial work adopted by
3.4 the commission. The experience data collection, processing, and analysis must evaluate
3.5 the following:

3.6 (1) individual salary progression;

3.7 (2) the rate of return on investments based on the current asset value;

3.8 (3) payroll growth;

3.9 (4) mortality;

3.10 (5) retirement age;

3.11 (6) withdrawal; and

3.12 (7) disablement.

3.13 ~~The contract must include provisions for the preparation of cost analyses by the~~
3.14 ~~jointly retained actuary for proposed legislation that include changes in benefit provisions~~
3.15 ~~or funding policies prior to their consideration by the Legislative Commission on Pensions~~
3.16 ~~and Retirement.~~

3.17 (d) The actuary ~~retained by the joint retirement systems~~ shall annually prepare a
3.18 report to the governing or managing board or administrative official and the legislature,
3.19 including a commentary on the actuarial valuation calculations for the plans named in
3.20 paragraph (b) and summarizing the results of the actuarial valuation calculations. The
3.21 actuary shall include with the report the actuary's recommendations to the governing
3.22 or managing board or administrative official and the legislature concerning the
3.23 appropriateness of the support rates to achieve proper funding of the retirement plans
3.24 by the required funding dates. The actuary shall, as part of the quadrennial experience
3.25 study, include recommendations to the governing or managing board or administrative
3.26 official and the legislature on the appropriateness of the actuarial valuation assumptions
3.27 required for evaluation in the study.

3.28 (e) If the actuarial gain and loss analysis in the actuarial valuation calculations
3.29 indicates a persistent pattern of sizable gains or losses, ~~as directed by the joint retirement~~
3.30 ~~systems or as requested by the chair of the Legislative Commission on Pensions and~~
3.31 ~~Retirement,~~ the governing or managing board or administrative official shall direct the
3.32 actuary ~~shall~~ to prepare a special experience study for a plan listed in paragraph (b),
3.33 clause (3), (4), (5), (6), (8), (9), (10), (11), (12), or (13), in the manner provided for in the
3.34 standards for actuarial work adopted by the commission.

3.35 ~~(f) The term of the contract between the joint retirement systems and the actuary~~
3.36 ~~retained may not exceed five years. The joint retirement system administrative officers~~

4.1 ~~shall establish procedures for the consideration and selection of contract bidders and~~
4.2 ~~the requirements for the contents of an actuarial services contract under this section.~~
4.3 ~~The procedures and requirements must be submitted to the Legislative Commission on~~
4.4 ~~Pensions and Retirement for review and comment prior to final approval by the joint~~
4.5 ~~administrators. The contract is subject to the procurement procedures under chapter 16C.~~
4.6 ~~The consideration of bids and the selection of a consulting actuarial firm by the chief~~
4.7 ~~administrative officers must occur at a meeting that is open to the public and reasonable~~
4.8 ~~timely public notice of the date and the time of the meeting and its subject matter must~~
4.9 ~~be given.~~
4.10 ~~(g) The actuarial services contract may not limit the ability of the Minnesota~~
4.11 ~~legislature and its standing committees and commissions to rely on the actuarial results~~
4.12 ~~of the work prepared under the contract.~~
4.13 ~~(h) The joint retirement systems shall designate one of the retirement system~~
4.14 ~~executive directors as the actuarial services contract manager.~~

4.15 Sec. 3. Minnesota Statutes 2006, section 356.214, subdivision 3, is amended to read:
4.16 Subd. 3. **Reporting to commission.** A copy of the actuarial valuations~~,~~ and
4.17 experience studies~~, and actuarial cost analyses~~ prepared by the actuary retained ~~by the~~
4.18 ~~joint retirement systems~~ under the contract provided for in this section must be filed with
4.19 the executive director of the Legislative Commission on Pensions and Retirement~~ at the~~
4.20 ~~same time that the document is transmitted to the actuarial services contract manager or~~
4.21 ~~to any other document recipient~~.

4.22 Sec. 4. Minnesota Statutes 2006, section 356.214, is amended by adding a subdivision
4.23 to read:
4.24 Subd. 4. **Commission to contract with auditing actuary.** (a) The Legislative
4.25 Commission on Pensions and Retirement may contract with an established actuarial
4.26 consulting firm to audit or review the actuarial valuations, experience studies, and actuarial
4.27 cost analyses prepared by the actuary retained by the governing or managing boards, or
4.28 administrative officials of each of the plans or funds listed in paragraph (b). The principal
4.29 representative from the actuarial consulting firm so engaged must be an approved actuary
4.30 under section 356.215, subdivision 1, paragraph (c).
4.31 (b) Any actuarial consulting firm retained under paragraph (a) will, according to a
4.32 schedule determined under the agreement with the Legislative Commission on Pensions
4.33 and Retirement, audit the valuation reports submitted by the actuary retained by each
4.34 governing or managing board or administrative official, and provide an assessment of the

5.1 reasonableness, reliability, and areas of concern or potential improvement in the specific
5.2 reports reviewed, the procedures utilized by any particular reporting actuary, or general
5.3 modifications to standards, procedures, or assumptions that the commission may wish to
5.4 consider. Actuarial firms retained by the retirement funds must cooperate fully and make
5.5 available any data or other materials necessary for the commission-retained actuary to
5.6 conduct an adequate review and to render advice to the commission.

5.7 Sec. 5. Minnesota Statutes 2006, section 356.215, subdivision 1, is amended to read:
5.8 Subdivision 1. **Definitions.** (a) For the purposes of sections 3.85 and 356.20 to
5.9 356.23, each of the terms in the following paragraphs has the meaning given.
5.10 (b) "Actuarial valuation" means a set of calculations prepared by ~~the~~ an actuary
5.11 retained under section 356.214 if so required under section 3.85, or otherwise, by an
5.12 approved actuary, to determine the normal cost and the accrued actuarial liabilities of
5.13 a benefit plan, according to the entry age actuarial cost method and based upon stated
5.14 assumptions including, but not limited to rates of interest, mortality, salary increase,
5.15 disability, withdrawal, and retirement and to determine the payment necessary to amortize
5.16 over a stated period any unfunded accrued actuarial liability disclosed as a result of the
5.17 actuarial valuation of the benefit plan.
5.18 (c) "Approved actuary" means a person who is regularly engaged in the business
5.19 of providing actuarial services and who has at least 15 years of service to major public
5.20 employee pension or retirement funds or who is a fellow in the Society of Actuaries.
5.21 (d) "Entry age actuarial cost method" means an actuarial cost method under which
5.22 the actuarial present value of the projected benefits of each individual currently covered
5.23 by the benefit plan and included in the actuarial valuation is allocated on a level basis over
5.24 the service of the individual, if the benefit plan is governed by section 69.773, or over the
5.25 earnings of the individual, if the benefit plan is governed by any other law, between the
5.26 entry age and the assumed exit age, with the portion of the actuarial present value which is
5.27 allocated to the valuation year to be the normal cost and the portion of the actuarial present
5.28 value not provided for at the valuation date by the actuarial present value of future normal
5.29 costs to be the actuarial accrued liability, with aggregation in the calculation process to be
5.30 the sum of the calculated result for each covered individual and with recognition given to
5.31 any different benefit formulas which may apply to various periods of service.
5.32 (e) "Experience study" means a report providing experience data and an actuarial
5.33 analysis of the adequacy of the actuarial assumptions on which actuarial valuations are
5.34 based.
5.35 (f) "Current assets" means:

6.1 ~~(1) for the July 1, 2001, actuarial valuation, the market value of all assets as of~~
6.2 ~~June 30, 2001, reduced by:~~
6.3 ~~(i) 30 percent of the difference between the market value of all assets as of June 30,~~
6.4 ~~1999, and the actuarial value of assets used in the July 1, 1999, actuarial valuation;~~
6.5 ~~(ii) 60 percent of the difference between the actual net change in the market value of~~
6.6 ~~assets between June 30, 1999, and June 30, 2000, and the computed increase in the market~~
6.7 ~~value of assets between June 30, 1999, and June 30, 2000, if the assets had increased at~~
6.8 ~~the percentage preretirement interest rate assumption used in the July 1, 1999, actuarial~~
6.9 ~~valuation; and~~
6.10 ~~(iii) 80 percent of the difference between the actual net change in the market value~~
6.11 ~~of assets between June 30, 2000, and June 30, 2001, and the computed increase in~~
6.12 ~~the market value of assets between June 30, 2000, and June 30, 2001, if the assets had~~
6.13 ~~increased at the percentage preretirement interest rate assumption used in the July 1,~~
6.14 ~~2000, actuarial valuation;~~
6.15 ~~(2) for the July 1, 2002, actuarial valuation, the market value of all assets as of~~
6.16 ~~June 30, 2002, reduced by:~~
6.17 ~~(i) ten percent of the difference between the market value of all assets as of June 30,~~
6.18 ~~1999, and the actuarial value of assets used in the July 1, 1999, actuarial valuation;~~
6.19 ~~(ii) 40 percent of the difference between the actual net change in the market value of~~
6.20 ~~assets between June 30, 1999, and June 30, 2000, and the computed increase in the market~~
6.21 ~~value of assets between June 30, 1999, and June 30, 2000, if the assets had increased at~~
6.22 ~~the percentage preretirement interest rate assumption used in the July 1, 1999, actuarial~~
6.23 ~~valuation;~~
6.24 ~~(iii) 60 percent of the difference between the actual net change in the market value~~
6.25 ~~of assets between June 30, 2000, and June 30, 2001, and the computed increase in~~
6.26 ~~the market value of assets between June 30, 2000, and June 30, 2001, if the assets had~~
6.27 ~~increased at the percentage preretirement interest rate assumption used in the July 1, 2000,~~
6.28 ~~actuarial valuation; and~~
6.29 ~~(iv) 80 percent of the difference between the actual net change in the market value of~~
6.30 ~~assets between June 30, 2001, and June 30, 2002, and the computed increase in the market~~
6.31 ~~value of assets between June 30, 2001, and June 30, 2002, if the assets had increased at~~
6.32 ~~the percentage preretirement interest rate assumption used in the July 1, 2001, actuarial~~
6.33 ~~valuation; or~~
6.34 ~~(3) for any actuarial valuation after July 1, 2002,~~ the market value of all assets
6.35 as of the preceding June 30, reduced by:

7.1 ~~(i)~~ (1) 20 percent of the difference between the actual net change in the market value
7.2 of assets between the June 30 that occurred three years earlier and the June 30 that occurred
7.3 four years earlier and the computed increase in the market value of assets over that
7.4 fiscal year period if the assets had increased at the percentage preretirement interest rate
7.5 assumption used in the actuarial valuation for the July 1 that occurred four years earlier;

7.6 ~~(ii)~~ (2) 40 percent of the difference between the actual net change in the market value
7.7 of assets between the June 30 that occurred two years earlier and the June 30 that occurred
7.8 three years earlier and the computed increase in the market value of assets over that
7.9 fiscal year period if the assets had increased at the percentage preretirement interest rate
7.10 assumption used in the actuarial valuation for the July 1 that occurred three years earlier;

7.11 ~~(iii)~~ (3) 60 percent of the difference between the actual net change in the market
7.12 value of assets between the June 30 that occurred one year earlier and the June 30 that
7.13 occurred two years earlier and the computed increase in the market value of assets over
7.14 that fiscal year period if the assets had increased at the percentage preretirement interest
7.15 rate assumption used in the actuarial valuation for the July 1 that occurred two years
7.16 earlier; and

7.17 ~~(iv)~~ (4) 80 percent of the difference between the actual net change in the market
7.18 value of assets between the immediately prior June 30 and the June 30 that occurred one
7.19 year earlier and the computed increase in the market value of assets over that fiscal year
7.20 period if the assets had increased at the percentage preretirement interest rate assumption
7.21 used in the actuarial valuation for the July 1 that occurred one year earlier.

7.22 (g) "Unfunded actuarial accrued liability" means the total current and expected
7.23 future benefit obligations, reduced by the sum of current assets and the present value of
7.24 future normal costs.

7.25 (h) "Pension benefit obligation" means the actuarial present value of credited
7.26 projected benefits, determined as the actuarial present value of benefits estimated to be
7.27 payable in the future as a result of employee service attributing an equal benefit amount,
7.28 including the effect of projected salary increases and any step rate benefit accrual rate
7.29 differences, to each year of credited and expected future employee service.

7.30 Sec. 6. Minnesota Statutes 2006, section 356.215, subdivision 2, is amended to read:

7.31 Subd. 2. **Requirements.** (a) It is the policy of the legislature that it is necessary
7.32 and appropriate to determine annually the financial status of tax supported retirement and
7.33 pension plans for public employees. To achieve this goal~~:~~,

7.34 ~~(1)~~ the actuary retained under section 356.214 shall prepare annual actuarial
7.35 valuations of the retirement plans enumerated in section 356.214, subdivision 1, paragraph

8.1 (b), and quadrennial experience studies of the retirement plans enumerated in section
8.2 356.214, subdivision 1, paragraph (b), clauses (1), (2), and (7)~~; and~~.
8.3 ~~(2) the commissioner of finance may have prepared by the actuary retained by the~~
8.4 ~~commission, two years after each set of quadrennial experience studies, quadrennial~~
8.5 ~~projection valuations of at least one of the retirement plans enumerated in section 6,~~
8.6 ~~subdivision 1, paragraph (b), for which the commissioner determines that the analysis~~
8.7 ~~may be beneficial.~~
8.8 (b) The governing or managing board or administrative officials of each public
8.9 pension and retirement fund or plan enumerated in section 356.20, subdivision 2, clauses
8.10 (9), (10), and (12), shall have prepared by an approved actuary annual actuarial valuations
8.11 of their respective funds as provided in this section. This requirement also applies to
8.12 any fund or plan that is the successor to any organization enumerated in section 356.20,
8.13 subdivision 2, or to the governing or managing board or administrative officials of
8.14 any newly formed retirement fund, plan, or association operating under the control or
8.15 supervision of any public employee group, governmental unit, or institution receiving a
8.16 portion of its support through legislative appropriations, and any local police or fire fund
8.17 to which section 356.216 applies.

8.18 Sec. 7. Minnesota Statutes 2006, section 356.215, subdivision 3, is amended to read:
8.19 Subd. 3. **Reports.** (a) The actuarial valuations required annually must be made as of
8.20 the beginning of each fiscal year.
8.21 (b) Two copies of the completed valuation must be delivered to the executive
8.22 director of the Legislative Commission on Pensions and Retirement, to the commissioner
8.23 of finance, and to the Legislative Reference Library~~, not later than the first day of the sixth~~
8.24 ~~month occurring after the end of the previous fiscal year~~.
8.25 (c) Two copies of a quadrennial experience study must be filed with the
8.26 executive director of the Legislative Commission on Pensions and Retirement, with the
8.27 commissioner of finance, and with the Legislative Reference Library, not later than the
8.28 first day of the 11th month occurring after the end of the last fiscal year of the four-year
8.29 period which the experience study covers.
8.30 (d) For actuarial valuations and experience studies prepared at the direction of the
8.31 Legislative Commission on Pensions and Retirement, two copies of the document must be
8.32 delivered to the governing or managing board or administrative officials of the applicable
8.33 public pension and retirement fund or plan.

8.34 Sec. 8. Minnesota Statutes 2006, section 356.215, subdivision 11, is amended to read:

9.1 Subd. 11. **Amortization contributions.** (a) In addition to the exhibit indicating the
9.2 level normal cost, the actuarial valuation must contain an exhibit indicating the additional
9.3 annual contribution sufficient to amortize the unfunded actuarial accrued liability. For
9.4 funds governed by chapters 3A, 352, 352B, 352C, 353, 354, 354A, and 490, the additional
9.5 contribution must be calculated on a level percentage of covered payroll basis by the
9.6 established date for full funding in effect when the valuation is prepared. For funds
9.7 governed by chapter 3A, sections 352.90 through 352.951, chapters 352B, 352C, sections
9.8 353.63 through 353.68, and chapters 353C, 354A, and 490, the level percent additional
9.9 contribution must be calculated assuming annual payroll growth of 6.5 percent. For funds
9.10 governed by sections 352.01 through 352.86 and chapter 354, the level percent additional
9.11 contribution must be calculated assuming an annual payroll growth of five percent. For the
9.12 fund governed by sections 353.01 through 353.46, the level percent additional contribution
9.13 must be calculated assuming an annual payroll growth of six percent. For all other funds,
9.14 the additional annual contribution must be calculated on a level annual dollar amount basis.

9.15 (b) For any fund other than the Minneapolis Employees Retirement Fund ~~and~~,
9.16 the Public Employees Retirement Association general plan, and the St. Paul Teachers
9.17 Retirement Fund Association, if there has not been a change in the actuarial assumptions
9.18 used for calculating the actuarial accrued liability of the fund, a change in the benefit
9.19 plan governing annuities and benefits payable from the fund, a change in the actuarial
9.20 cost method used in calculating the actuarial accrued liability of all or a portion of the
9.21 fund, or a combination of the three, which change or changes by itself or by themselves
9.22 without inclusion of any other items of increase or decrease produce a net increase in the
9.23 unfunded actuarial accrued liability of the fund, the established date for full funding is the
9.24 first actuarial valuation date occurring after June 1, 2020.

9.25 (c) For any fund or plan other than the Minneapolis Employees Retirement Fund and
9.26 the Public Employees Retirement Association general plan, if there has been a change in
9.27 any or all of the actuarial assumptions used for calculating the actuarial accrued liability
9.28 of the fund, a change in the benefit plan governing annuities and benefits payable from
9.29 the fund, a change in the actuarial cost method used in calculating the actuarial accrued
9.30 liability of all or a portion of the fund, or a combination of the three, and the change or
9.31 changes, by itself or by themselves and without inclusion of any other items of increase or
9.32 decrease, produce a net increase in the unfunded actuarial accrued liability in the fund, the
9.33 established date for full funding must be determined using the following procedure:

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

10.1 (ii) the level annual dollar contribution or level percentage, whichever is applicable,
10.2 needed to amortize the unfunded actuarial accrued liability amount determined under item
10.3 (i) by the established date for full funding in effect before the change must be calculated
10.4 using the interest assumption specified in subdivision 8 in effect before the change;
10.5 (iii) the unfunded actuarial accrued liability of the fund must be determined in
10.6 accordance with any new plan provisions governing annuities and benefits payable from
10.7 the fund and any new actuarial assumptions and the remaining plan provisions governing
10.8 annuities and benefits payable from the fund and actuarial assumptions in effect before
10.9 the change;
10.10 (iv) the level annual dollar contribution or level percentage, whichever is applicable,
10.11 needed to amortize the difference between the unfunded actuarial accrued liability amount
10.12 calculated under item (i) and the unfunded actuarial accrued liability amount calculated
10.13 under item (iii) over a period of 30 years from the end of the plan year in which the
10.14 applicable change is effective must be calculated using the applicable interest assumption
10.15 specified in subdivision 8 in effect after any applicable change;
10.16 (v) the level annual dollar or level percentage amortization contribution under item
10.17 (iv) must be added to the level annual dollar amortization contribution or level percentage
10.18 calculated under item (ii);
10.19 (vi) the period in which the unfunded actuarial accrued liability amount determined
10.20 in item (iii) is amortized by the total level annual dollar or level percentage amortization
10.21 contribution computed under item (v) must be calculated using the interest assumption
10.22 specified in subdivision 8 in effect after any applicable change, rounded to the nearest
10.23 integral number of years, but not to exceed 30 years from the end of the plan year in
10.24 which the determination of the established date for full funding using the procedure set
10.25 forth in this clause is made and not to be less than the period of years beginning in the
10.26 plan year in which the determination of the established date for full funding using the
10.27 procedure set forth in this clause is made and ending by the date for full funding in effect
10.28 before the change; and
10.29 (vii) the period determined under item (vi) must be added to the date as of which
10.30 the actuarial valuation was prepared and the date obtained is the new established date
10.31 for full funding.
10.32 (d) For the Minneapolis Employees Retirement Fund, the established date for full
10.33 funding is June 30, 2020.
10.34 (e) For the general employees retirement plan of the Public Employees Retirement
10.35 Association, the established date for full funding is June 30, 2031.

(f) For the Teachers Retirement Association, the established date for full funding is June 30, 2037.

(g) For the St. Paul Teachers Retirement Fund Association, the established date for full funding is June 30, 2038. In addition to other requirements of this chapter, the annual actuarial valuation shall contain an exhibit indicating the funded ratio and the deficiency or sufficiency in annual contributions when comparing liabilities to the market value of the assets of the fund as of the close of the most recent fiscal year.

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

Sec. 9. Minnesota Statutes 2006, section 356.215, subdivision 18, is amended to read:

Subd. 18. **Establishment of actuarial assumptions.** (a) The actuarial assumptions used for the preparation of actuarial valuations under this section that are other than those set forth in this section may be changed only with the approval of the Legislative Commission on Pensions and Retirement.

(b) A change in the applicable actuarial assumptions may be proposed by the governing board of the applicable pension fund or relief association, by the actuary retained by the ~~joint~~ retirement systems under section 356.214, ~~by the actuarial advisor to a pension fund governed by chapter 352, 353, 354, or 354A,~~ or by the actuary retained by a local police or firefighters relief association governed by sections 69.77 or 69.771 to 69.776, if one is retained.

Sec. 10. **APPROPRIATION; LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT.**

$....... is appropriated from the general fund to the Legislative Commission on Pensions and Retirement in fiscal year 2009 in order to cover the costs of any contract authorized under Minnesota Statutes, section 356.214, subdivision 4. The commissioner of finance must include these funds in the base level funding for the commission when preparing forecasts of general fund spending and revenue and initial budget estimates each biennium, as long as an actuary remains under contract to the commission under Minnesota Statutes, section 356.214, subdivision 4.

12.1 Sec. 11. **REPEALER.**

12.2 Minnesota Statutes 2006, sections 354A.31, subdivisions 3 and 3a; 356.214,
12.3 subdivision 2; and 356.215, subdivision 2a, are repealed.