



H.F. 3925
(Thissen)

S.F. 3598
(Betzold)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): St. Paul Teachers Retirement Fund Association (SPTRFA)
Relevant Provisions of Law: Minnesota Statutes, Chapter 354A
General Nature of Proposal: "Rule of 90" benefit tier extension to post-1989 hires
Date of Summary: March 26, 2008

Specific Proposed Changes

- a. Resets "normal retirement age" at age 65 rather than Social Security full benefit age for post-1989 hires.
- b. Increases member and employer contribution rates by an amount to be specified.
- c. Includes post-1989 hires in "Rule of 90" normal retirement age.

Policy Issues Raised by the Proposed Legislation

1. Consistency of a benefit increase with Commission Pension Policy Principles.
2. Lack of conformity with 1989 benefit increase agreement.
3. Actuarial condition of SPTRFA and actuarial cost of benefit increase.
4. Affordability of contribution increases.
5. Intra-fund equity.
6. Comparability with other teacher plans.
7. Appropriateness of encouraging early retirements in light of current labor force trends and needs.
8. Collateral impacts from encouraging early retirement.

Potential Amendments

No Commission staff-suggested amendments.



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Lawrence A. Martin, Executive Director *LAM*
RE: H.F. 3925 (Thissen); S.F. 3598 (Betzold): SPTRFA; Rule of 90 Benefit Tier Extension to Post-1989 Hires
DATE: March 25, 2008

Summary of H.F. 3925 (Thissen); S.F. 3598 (Betzold)

H.F. 3925 (Thissen); S.F. 3598 (Betzold) amends various portions of Minnesota Statutes, Chapter 354A, the statutory chapter governing the first class city teacher retirement fund associations, to make the following changes with respect to the Coordinated Program of the St. Paul Teachers Retirement Fund Association (SPTRFA).

1. Age 65 Normal Retirement Age. The SPTRFA Coordinated Program normal retirement age, currently set at age 65 for pre-July 1, 1989 hires and currently set at the Social Security full benefit age, not to exceed age 66, for post-June 30, 1989 hires, is set at age 65 for all members irrespective of date of hire (Section 1);
2. Increased Member and Employer Contribution Rates. The current SPTRFA member and employer contribution rates are all increased by a yet-to-be-specified amount, effective July 1, 2009 (Sections 2 and 3); and
3. SPTRFA "Rule of 90" Expansion. The current SPTRFA Coordinated Program "Rule of 90" early normal retirement age provision is extended beyond pre-July 1, 1989 hires to include all SPTRFA Coordinated Program members, along with the age 62 with 30 years of service early normal retirement age provision and subsidized early retirement reduction rate in the "Rule of 90" tier benefit calculator (Section 4).

Background Information

Background information that may be of assistance is attached. Information on the current "Rule of 90" and related provisions is contained in **Attachment A**. Information on the 1989 pension legislation, when aspects of the "Rule of 90" benefit package were merged with aspects of the alternative "level benefit" package for the statewide general employee and the first class city teacher retirement fund associations, is contained in **Attachment B**.

Analysis and Discussion

H.F. 3925 (Thissen); S.F. 3598 (Betzold) raises several pension and related policy issues, as follows:

1. Consistency With Policy Principles. The policy issue is the extent to which the proposed legislation is consistent with the Pension Policy Principles of the Legislative Commission on Pensions and Retirement. The Principles indicate that:
 - the purpose of Minnesota public pension plans, in addition to public employee recruitment and retention assistance, is to assist in the systematic outtransitioning of public employees at the normally expected conclusion of their working careers (II.A.1.);
 - the normal retirement age be set in a reasonable relationship to the employability limits of the average public employee (II.B.4.); and
 - early retirement incentives should be appropriately targeted and should not be subsidized by the public pension plan (II.B.5).

The "Rule of 90," when initially enacted for the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) in 1982 and when extended to the existing (pre-July 1, 1989) memberships of the statewide general employee and first class city teacher retirement plans in 1989, was not accompanied by any studies, research, or other relevant documentation of a decline in the expected limits of Minnesota public employee working careers and clearly promoted early retirement with a subsidy. To be consistent with the Commission Principles, an extension now, to post-July 1, 1980 public sector hires, should be accompanied by some documentary showing of its consistency with general public employee work career limits if it is to conform with the Commission's Pension Policy Principles. If the argument for the extension is not based on public employee employability limits, but is based on presumed salary savings from early retirement, making it an early retirement incentive program, the funding should be provided wholly or primarily from the public employers who would obtain the salary savings to conform with the Commission Policy Principles against public pension plan subsidies of early retirement incentives.

2. Conformity With 1989 Benefit Increase Agreement. The policy issue is the extent to which the extension of the 1989 "Rule of 90" benefit package beyond pre-July 1, 1989 hires violates the legislative understanding under which the 1989 benefit increases were enacted. As **Attachment B** sets forth, the 1989 benefit increase package was a merging of two different approaches to providing a retirement benefit increase and contained certain constraints on the "Rule of 90" in an attempt to gain sufficient support in both the House and the Senate to be enacted. Those constraints were a limit of the "Rule of 90" benefit package to existing public employees in 1989, thereby phasing out the benefit tier over time (Laws 1989, Chapter 319, Article 13, Sections 9, 10, 33, 34, 58, 59, 75, 77, 78, and 94), an increase in the normal retirement age to match the Social Security full benefit age as it increases under the 1986 Social Security Amendments (Laws 1989, Chapter 319, Article 13, Sections 2, 29, 53, 71, and 95), and an automatic elimination of the "Rule of 90" benefit tier for all applicable retirement plans when a period review and report on "Rule of 90" utilization indicates utilization of the benefit tier in excess of 45 percent of those eligible for the tier (Laws 1989, Chapter 319, Article 13, Section 96). The agreed-upon constraints have been relaxed over time, with the affected retirement plans successfully seeking the repeal of the "Rule of 90" quadrennial utilization review and automatic tier repeal upon over-utilization provision, in 1993 (Laws 1993, Chapter 280), when utilization approached the repeal trigger percentage, and with the affected retirement plans successfully seeking a maximum of age 66 on the indexation of the normal retirement age to the federal Social Security full benefit age in 1997 (Laws 1997, Chapter 233, Article 1, Sections 16, 37, and 47, and Article 3, Section 1). The proposed expansion would eliminate the last constraint fashioned in 1989 as part of the 1989 benefit increase legislative deliberations.
3. Actuarial Condition of SPTRFA and Actuarial Cost of the Benefit Increase. The policy issue is the current actuarial condition of the St. Paul Teachers Retirement Fund Association (SPTRFA), the likely actuarial cost of the proposed "Rule of 90" benefit package, and the affect that the benefit improvement will have on the retirement plan. The following summarizes the actuarial condition of SPTRFA in 2006 and 2007:

St. Paul Teachers Retirement Fund Association (SPTRFA)

	2006		2007		Change 2006-2007	
<u>Membership</u>						
Active Members		4,219		3,999		(220)
Service Retirees		2,302		2,413		111
Disabillitants		25		24		(1)
Survivors		280		284		4
Deferred Retirees		1,447		1,693		246
Nonvested Former Members		<u>1,671</u>		<u>1,538</u>		<u>(133)</u>
Total Membership		9,944		9,951		7
<u>Funded Status</u>						
Accrued Liability		\$1,358,619,906		\$1,391,297,918		\$32,678,012
Current Assets		<u>\$938,919,005</u>		<u>\$1,015,722,034</u>		<u>\$76,803,029</u>
Unfunded Accrued Liability		\$419,700,901		\$375,575,884		(\$44,125,017)
Funding Ratio	69.11%		73.01%		3.90%	
<u>Financing Requirements</u>						
Covered Payroll		\$234,213,344		\$233,099,133		(\$1,114,211)
Benefits Payable		\$78,420,222		\$82,809,201		\$4,388,979
Normal Cost	9.21%	\$21,575,645	9.05%	\$21,099,816	(0.16%)	(\$475,829)
Administrative Expenses	<u>0.26%</u>	<u>\$608,955</u>	<u>0.30%</u>	<u>\$699,297</u>	<u>0.04%</u>	<u>\$90,342</u>
Normal Cost & Expense	9.47%	\$22,184,600	9.35%	\$21,799,113	(0.12%)	(\$385,487)
Normal Cost & Expense	9.47%	\$22,184,600	9.35%	\$21,799,113	(0.12%)	(\$385,487)
Amortization	<u>15.55%</u>	<u>\$36,420,175</u>	<u>14.75%</u>	<u>\$34,382,122</u>	<u>(0.80%)</u>	<u>(\$2,038,053)</u>
Total Requirements	25.02%	\$58,604,775	24.10%	\$56,181,235	(0.92%)	(\$2,423,540)
Employee Contributions	5.69%	\$13,319,540	5.64%	\$13,139,595	(0.05%)	(\$179,945)
Employer Contributions	8.59%	\$20,111,296	8.52%	\$19,861,736	(0.07%)	(\$249,560)
Employer Add'l Cont.	0.00%	\$0	0.00%	\$0	0.00%	\$0
Direct State Funding	2.05%	\$4,803,000	1.91%	\$4,451,216	(0.14%)	(\$351,784)
Other Govt. Funding	0.00%	\$0	0.00%	\$0	0.00%	\$0
Administrative Assessment	<u>0.00%</u>	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>
Total Contributions	16.32%	\$38,233,836	16.07%	\$37,452,547	(0.26%)	(\$781,289)
Total Requirements	25.02%	\$58,604,775	24.10%	\$56,181,235	(0.92%)	(\$2,423,540)
Total Contributions	<u>16.32%</u>	<u>\$38,233,836</u>	<u>16.07%</u>	<u>\$37,452,547</u>	<u>(0.26%)</u>	<u>(\$781,289)</u>
Deficiency (Surplus)	8.70%	\$20,370,939	8.03%	\$18,728,688	(0.66%)	(\$1,642,251)
Amortization Target Date	2021		2021			
Actuary	Segal		Segal			

No benefit increase actuarial cost estimate related to the proposed legislation has been supplied to the Commission staff, so the magnitude of the actuarial impact on SPTRFA of the benefit increase is unknown.

4. Affordability of Increased Contributions. The policy issue is the affordability of the contribution increases that would be required to maintain sound actuarial funding after an extension of the “Rule of 90” package to post-June 30, 1989 hires covered by the St. Paul Teachers Retirement Fund Association (SPTRFA). If the SPTRFA is required to address the current contribution deficiency (8.03 percent of covered salary), in conformity with Commission Pension Policy Principle III.A.1., allocated equally between participants and employing units (principally Independent School District No. 625), the member contribution for the average SPTRFA member would increase by \$2,347.37 and the SPTRFA employing unit contribution would increase by \$9.4 million. For each one percent of covered payroll increase in the SPTRFA actuarial cost attributable to the proposed benefit increase, if allocated equally, the average SPTRFA member would be obligated to pay an additional \$293 in member contributions and Independent School District No. 625 would be obligated for an additional \$1.165 million. As drafted, the SPTRFA employer contribution rate increase would not be accompanied by an increase in the general state education aid funding provided to the school district, so the employer contribution increase would be borne entirely from existing school district revenue sources.
5. Equity Within SPTRFA. The policy issue is the impact of the proposed benefit increase on equity concerns within the St. Paul Teachers Retirement Fund Association (SPTRFA). The equity concerns relate to the actual or the perceived lack of equal or comparable treatment between SPTRFA members. Because the funding of the SPTRFA benefit plan occurs on a group basis, all members pay a larger member contribution than they would pay if SPTRFA did not have the “Rule of 90” benefit package proposed to be extended to post-June 30, 1989 hires by this legislation. For the 79 percent of the SPTRFA membership, based on SPTRFA cumulative active service credit earned through June 30, 2007, who were likely hired after June 30, 1989, they complain about bearing the additional funding obligation for a benefit applicable to a minority of plan members and feel that they have been inequitably treated. If the “Rule of 90” benefit package was extended to the entire SPTRFA membership, more plan members would be covered by that part of the overall SPTRFA benefit plan, but because of individual differences in entry age and teaching career duration, not all SPTRFA members can qualify for the “Rule of 90,” the primary component of the “Rule of 90” benefit package, and, because of a variety of individual considerations, only a portion of the SPTRFA members eligible for the “Rule of 90” will actually retire under the “Rule of 90.” Thus, for some portion of the SPTRFA membership, the extension of the “Rule of 90” benefit package to post-June 30, 1989 hires will address some equitable concerns, but will still leave many SPTRFA members to continue to bear a higher member contribution by virtue of the “Rule of 90” benefit package but will never be eligible to use the “Rule of 90” or will be unable to use the “Rule of 90” when eligible. The truth about pension plans, as specialized insurance pools with liability and cost averaging, is that there are endless cross-subsidies where every member or virtually every member could contend that they are treated inequitably.
6. Comparability Between SPTRFA and Other Teacher Retirement Plans. The policy issue is the current lack of comparability between the St. Paul Teachers Retirement Fund Association (SPTRFA) and the other first class city teacher retirement fund association, the Duluth Teachers Retirement Fund Association (DTRFA), if the proposed legislation was enacted. The SPTRFA, with a funding ratio of 73.0 percent and a contribution deficiency of 8.03 percent of covered pay (total actuarial requirement of 24.10 percent of covered pay compared to total support of 16.07 percent of covered pay), is not well positioned actuarially or financially to undertake the benefit increase without significant member and employer contribution rate increases. The DTRFA is not as actuarially challenged as the SPTRFA, but has a very significant contribution deficiency (either 3.24 percent of covered salary as incorrectly calculated by The Segal Company or 6.86 percent of covered salary as recalculated by the Commission staff to reflect a 2020 amortization date), and is not consequently a good candidate for a benefit increase without additional funding support.
7. Appropriateness of Encouraging “Rule of 90” Early Retirement Given Current Labor Force Trends and Needs. The policy issue is the appropriateness of an extension of the “Rule of 90” benefit package as proposed in light of current and likely future labor force trends and needs. Pension coverage, under the Commission’s Pension Policy Principles, is intended to augment the public sector personnel and compensation systems. If the pension benefit plan encourages early retirement at a time when the working lives of employees are lengthening, the benefit plan will do a disservice to the employment system by robbing it of valuable workers and to the workers by prematurely inducing them to reduce their productive years. Specifically, in public education, where shortages are

forecasted for some subject areas, such as mathematics, science, and special education, and replacement teachers are difficult to recruit, especially in rural schools, the pension system by encouraging early retirement may require the personnel system to counter that early retirement encouragement by increased compensation or other inducements in order to retain teachers in specific areas.

8. Collateral Impacts of Encouraging Early Retirement. The policy issue is the appropriateness of encouraging early retirement by extending the "Rule of 90" benefit package in light of the collateral impact that early retirement produces. At a minimum, these collateral impacts are increased pressure on public employers to provide retiree health insurance coverage, increased pressure on the pension benefit program to provide greater and more regular post-retirement adjustments, and increased pressure on the pension system to permit receipt of retirement benefits without terminating employment first or to relax or eliminate reemployed annuitant earnings limitations for retirees returning to employment on a part-time or full-time basis. Recent accounting changes have increased the visibility of post-retirement benefit programs and have increased the pressure on employers to fund them on a systematic basis. Post-retirement health coverage benefits are expensive, especially for retirees who begin drawing benefits well in advance of the earliest age for receipt of Medicare benefits at age 62 as can occur under the "Rule of 90." Pressure on the reemployed annuitant earnings limitations has already prompted the Legislature to eliminate the benefit forfeiture aspect of the prior limits, but that 1989 change has not stemmed continuing pressure to increase the earnings limitation amount significantly. More retirees appear to be arranging a post-retirement employment return with their employers, causing contentious disagreements with retirement plans over the employment termination requirement of current retirement benefit plans. Early retirement provisions that favor or require long service credit periods, such as the "Rule of 90," also have resulted in recent increased requests for prior service credit purchase authorizations.

Attachment A

Background Information on the "Rule of 90"

The "Rule of 90" benefit tier is an early normal retirement age provision that was initially enacted for the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) in 1982 and that was extended in 1989 to all other general employee (non public safety employee) Minnesota public pension plans, for pre-July 1, 1989, hires only.

The historic reason for creating and maintaining pension plans, in the private sector or the public sector, is to augment an employer's personnel and compensation system by assisting in the recruitment of new qualified employees, the retention of existing qualified employees, and the systematic out-transitioning of existing employees at the conclusion of their normally expected working careers. The pension system does this by providing retirement annuities (and frequently other casualty or ancillary benefit coverage) that are deemed adequate in view of both the employer and the employees and that are deemed affordable by the employer. This traditional pension plan purpose apparently underlies the development of public pension plans in Minnesota, although it never has clearly been articulated in law.

The systematic out-transitioning of existing employees at the conclusion of their normally expected working careers is the basis for setting normal retirement ages. The Commission's Principles of Pension Policy indicate that the normal retirement age of Minnesota public pension plans should be set in accord with the employability limits of the average public employee, and indicate that the normal retirement age generally should differentiate between general public employees and set at an earlier age for protective and public safety employees.

Age 65 has come to be the traditional age at which many employees are expected to retire. It is, however, unclear why this age has become the regularly expected retirement age for many public retirement plans. Age 65 does not appear to represent an empirically determined conclusion about when most employees retire from the experience of employees before the creation of Social Security and the significant expansion of employment-based pension coverage in the 1930s. Before the 1930s, retirement for most people appears to have been a function of a physical inability to continue in employment, at whatever age that occurred. Until recent decades, the most impoverished sector of the American population was older people. Since the 1960s, in both larger corporate pension plans and public employee pension plans, the trend has been to institute normal retirement ages earlier than age 65. In the counter direction, based on considerations of lengthening expected lifespan and of the related cost of providing benefits for ever-lengthening retirement periods, Social Security has instituted a later full benefit retirement age, as follows:

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

The following compares the normal retirement ages applicable to the various general employee Minnesota public pension plans:

Retirement Plan	Normal Retirement Age Provisions
1. General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General)	If hired before July 1, 1989: Age 65; Age 62 with 30 years of service; or "Rule of 90" If hired after June 30, 1989; Social Security full benefit age, with a maximum age of age 66
2. General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General)	If hired before July 1, 1989: Age 65; Age 62 with 30 years of service; or "Rule of 90" If hired after June 30, 1989; Social Security full benefit age, with a maximum age of age 66
3. Teachers Retirement Association (TRA)	If hired before July 1, 1989: Age 65; Age 62 with 30 years of service; or "Rule of 90" If hired after June 30, 1989; Social Security full benefit age, with a maximum age of age 66

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|---|---|
| 4. Duluth Teachers Retirement Fund Association (DTRFA) | If hired before July 1, 1989: Age 62 with 30 years of service; or "Rule of 90"
If hired after June 30, 1989; Social Security full benefit age, with a maximum age of age 66 |
| 5. St. Paul Teachers Retirement Fund Association (SPTRFA) | a. Basic Program:
Age 65; Age 60 with 25 years of service; or "Rule of 90"
b. Coordinated Program:
If hired before July 1, 1989: Age 65; Age 62 with 30 years of service; a "Rule of 90"
If hired after June 30, 1989: Social Security full benefit age, with a maximum age of age 66 |
| 6. Minneapolis Employees Retirement Fund (MERF) | Age 65; Age 60 with 10 years of service; or any age with 30 years of service |
| 7. Legislators Retirement Plan | Age 62 |
| 8. Elective State Officers Retirement Plan | Age 62 |
| 9. MSRS Military Affairs Department Retirement Plan | Mandatory federal military retirement age or age 65 |
| 10. Transportation Department Pilots Retirement Plan | Age 62 |
| 11. Judges Retirement Plan | Age 65 |

The age 62 with 30 years of service and the "Rule of 90" provisions are early normal retirement age provisions, where a benefit unreduced for early retirement is provided at an age before the generally applicable normal retirement age. The age 62 with 30 years of service early normal retirement age provision was added to the statewide general employee retirement plans in 1973 as the first generally applicable early normal retirement age provision. The "Rule of 90" early normal retirement age provision was enacted for the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) in 1982 (Laws 1982, Chapter 519, Section 2). In 1989 (Laws 1989, Chapter 319, Article 13), the "Rule of 90" provision was extended to the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the Teachers Retirement Association (TRA), and the coordinated programs of the first class city teachers retirement fund associations, applicable only to pre-July 1, 1989, hires. That restriction was also made applicable to PERA-General in 1989.

The "Rule of 90" tier and the "Level Benefit" tier compare as follows:

	Rule of 90	Level Benefit
<u>Normal Retirement</u>		
Eligibility:	Age 65 and three years of allowable service. Age 62 and 30 years of allowable service. "Rule of 90," where the sum of age and allowable service equals or exceeds 90. Proportionate requirement annuity is available at age 65 and one year of allowable service.	The greater of age 65 or the age eligible for full Social Security retirement benefits (but not to exceed age 66) and three years of allowable service. Proportionate retirement annuity is available at normal retirement age and one year of allowable service.
Retirement Amount:	1.2% of average salary for each of the first 10 years of allowable service and 1.7% of average salary for each subsequent year.	1.7% of average salary for each year of allowable service.
<u>Early Reduced Retirement</u>		
Eligibility:	Age 55 and three years of allowable service. Any age with 30 years of allowable service.	Age 55 with three years of allowable service.

Retirement Amount: The greater of 1.2% of average salary for each of the first 10 years of allowable service and 1.7% of average salary for each subsequent year with reduction of 0.25% for each month the member is under age 65 at time of retirement (age 62 if 30 years of allowable service). No reduction if age plus years of allowable service totals 90; 1.7% of average salary for each year of allowable service assuming augmentation to age eligible for full Social Security retirement benefits at 3% per year and actuarial reduction for each month the member is under the full Social Security benefit retirement age but not to exceed age 66.

OR

1.7% of average salary for each year of allowable service assuming augmentation to age 65 at 3% per year and actuarial reduction for each month the member is under age 65.

Plan members hired before July 1, 1989, have the option to receive the greater of their "Rule of 90" tier benefit or the "Level Benefit" tier benefit. Plan members hired after June 30, 1989, only have the "Level Benefit" tier benefit.

Attachment B

1989 Pension Legislation: "Rule of 90" vs. Level Benefit Increase

In 1989 (Laws 1989, Chapter 319), the Legislature enacted a controversial omnibus retirement bill that included a major benefit increase (see Article 13).

The 1989 benefit increase legislation included the following:

- a. Reduction in Vesting Requirement. The vesting period is reduced from five years to three years. Normal retirement, early retirement, disability, portability, and survivor benefit provisions are changed to three year service eligibility rather than five year.
- b. Increased interest on refunds. Interest on refunds of member contributions taken when an individual leaves employment is increased to six percent from five percent.
- c. Increase in Deferred Annuity Augmentation. Under prior law, individuals who have vested and then leave employment prior to retirement can have a deferred annuity, leaving their contributions in the retirement plan and eventually receiving an annuity at retirement age. Deferred annuities augmented at three percent per year during the deferral period. Under the new law, augmentation increases to five percent on January 1st of the year after the member reaches age 55.
- d. Automatic Bounce-Back, Joint and Survivor Annuity. The new law provides a subsidized, automatic bounce-back annuity for individuals selecting a joint and survivor annuity. If the designated beneficiary of a joint and survivor annuity dies before the annuitant, the ex-employee's annuity automatically bounces back to the single life annuity level.
- e. New Level Benefit Formula, Post-1989 Employees. New employees will receive a level formula of 1.5 percent credit for all years of service, rather than the current one percent for each of the first ten years of service, followed by 1.5 percent thereafter. If the individual retires before the normal retirement age, the benefit is actuarially reduced. The normal retirement age for new employees will be automatically changed to correspond to the Social Security retirement age, as that changes over time. The normal retirement age for existing employees remains at age 65.
- f. Current Benefit Formula with Three Percent Early Retirement Reduction. A benefit accrual of one percent for each of the first ten years, plus 1.5 percent for each year thereafter, with three percent annual reduction for early retirement, or
- g. Level Benefit Formula with Actuarial Reduction. 1.5 percent for all years of service, with actuarial reduction for early retirement, or
- h. Rule of 90 with Current Benefit Formula Rates. If age plus years of service equal at least 90, the benefit accrual is one percent for each of the first ten years of service, followed by 1.5 percent per year thereafter, with no early retirement reduction. Use of the "Rule of 90" must be reviewed periodically. If use exceeds 45 percent of the members eligible to retire under that provision, the provision is voided.
- i. Contribution Rate Increases. The employee contribution rate for members increased.
- j. Interest Assumption Increases. The pre-retirement interest rate assumption is increased to 8.5 percent for the following retirement plans: the Legislators Retirement, MSRS-General, MSRS Military Affairs, MSRS Transportation Department Pilots, MSRS-Correctional, MSRS State Troopers, Elective State Officers, PERA, PERA-P&F, PERA-Local Correctional, TRA, and Judges Retirement. For the Minneapolis, St. Paul, and Duluth teacher funds, the pre- and post- retirement interest assumption is increased to 8.5 percent.
- k. Amortization Date Extended. For all the above mentioned funds, the amortization period is extended to the year 2020.

The 1989 benefit increase legislation was reviewed as a proposal by the Legislative Commission on Pensions and Retirement, but was not recommended by the Commission because of personal disagreements on the Commission that limited its function. The 1989 legislation built on Commission hearings on benefit adequacy, pension fundings, and pension administration issues that occurred during the 1988-1989 Interim. The 1987-1988 and 1989-1990 membership of the Legislative Commission on Pensions and Retirement was as follows:

1987-1988

Senate	House
Donald M. Moe (St. Paul)	Karen Clark (Minneapolis)
Lawrence J. Pogemiller (Minneapolis)	Bob A. Johnson (Bemidji)
Earl W. Renneke (LeSueur)	Gerald Knickerbocker (Hopkins)
Gene Waldorf (St. Paul)	Leo J. Reding (Austin)
Darrel Wegscheid (Apple Valley)	Wayne Simoneau (Fridley), Chair

1989-1990

Senate	House
Donald M. Moe (St. Paul), Chair	Bob A. Johnson (Bemidji)
Steven Morse (Dakota)	Gerald Knickerbocker (Hopkins)
Lawrence J. Pogemiller (Minneapolis)	Rich O'Connor (St. Paul)
Earl W. Renneke (LeSueur)	Leo J. Reding (Austin)
Gene Waldorf (St. Paul)	Wayne Simoneau (Fridley)

The 1989 benefit increase legislation took a somewhat tortured path to enactment. Benefit increase proposals were introduced as S.F. 1329 (Pogemiller); H.F. 1302 (Simoneau) and were heard by the Commission, but the bill was laid over without further action on April 12, 1989. Eventually, S.F. 783 (Solon) became the vehicle bill. S.F. 783 (Solon), a bill introduced to authorize a fifth year incentive plan for teachers in the Duluth public schools, passed the Senate on May 1, 1989, on a 67-0 vote. On the House floor, S.F. 783 (Solon), a non-pension bill, was amended with a "delete-everything" amendment that included the various retirement benefit increase proposals that were assembled by the Pension Subcommittee, chaired by Representative Bob A. Johnson, and by the House Governmental Operations Committee, chaired by Representative Wayne Simoneau, and was returned to the Senate on May 19, 1989, four days before the adjournment deadline for the 1989 Legislative Session. Although the Duluth teacher salary provision was not retained by the House in S.F. 783 (Solon), Senator Sam Solon moved that the Senate concur in the House amendments on May 19, 1989. Senator Lawrence J. Pogemiller made a substitute motion for the Solon concurrence motion that the Senate not concur in the House amendment and that a conference committee be named. The Senate approved the Pogemiller motion to not concur on a vote of 34-33. Current, past, and future Commission members voted as follows:

<u>For Pogemiller Motion</u>	<u>Against Pogemiller Motion</u>
Langseth	Johnson, D.E.
Moe, D.M.	Larson
Morse	Metzen
Pogemiller	
Renneke	
Spear	
Stumpf	
Waldorf	

Subsequently, five Senators were appointed as a conference committee, Senators Solon, Moe, D.M., Moe, R.D., Pogemiller and Renneke. The House failed to appoint conferees and on May 22, 1989, the final day of the legislative session, Senator Gen Olson moved to recall S.F. 783 (Solon) from the House and the Olson motion was approved on a 35-28 vote, with current, past, and future Commission members voting as follows:

<u>For Olson Motion</u>	<u>Against Olson Motion</u>
Johnson, D.E.	Langseth
Larson	Moe, D.M.
Metzen	Morse
Renneke	Pogemiller
	Spear
	Stumpf
	Waldorf

The House returned S.F. 783 (Solon) to the Senate later on May 22, 1989, and Senator Gen Olson then moved that the Senate reconsider the vote on the Pogemiller non-concurrence motion of May 19, 1989. The Olson reconsideration motion prevailed on a voice vote, whereupon Senator Sam Solon moved that the Senate concur in the House amendments. Senator Richard Cohen moved to table the Solon motion, but the Cohen motion failed on a 23-37 vote, with current, past, and future Commission members voting as follows:

<u>For Cohen Motion</u>	<u>Against Cohen Motion</u>
Langseth	Johnson, D.E.
Moe, D.M.	Larson
Morse	Metzen
Renneke	Stumpf
Spear	
Waldorf	

The Senate then approved the Solon concurrence motion on a 37-28 vote, with past, current, and future Commission members voting as follows:

<u>For Solon Motion</u>	<u>Against Solon Motion</u>
Johnson, D.E.	Langseth
Larson	Moe, D.M.
Metzen	Pogemiller
Morse	Renneke
	Spear
	Stumpf
	Waldorf

On final passage on S.F. 783 (Solon), the Senate approved the bill and sent it to the Governor on a 40-26 vote, with the following votes:

Those who voted in the affirmative were:

Anderson	Decker	Knutson	McQuaid	Purfeerst
Beckman	Dicklich	Kroening	Mehrkens	Ramstad
Belanger	Frank	Laidig	Metzen	Samuelson
Benson	Frederick	Lantry	Morse	Schmitz
Bernhagen	Frederickson, D.F.	Larson	Novak	Solon
Bertram	Johnson, D.E.	Lessard	Olson	Storm
Brataas	Johnson, D. J.	Marty	Pariseau	Taylor
Chmielewski	Knaak	McGowan	Piper	Vickerman

Those who voted in the negative were:

Adkins	Davis	Langseth	Peterson, D.C.	Stumpf
Berg	DeCramer	Luther	Peterson, R.W.	Waldorf
Berglin	Diessner	Merriam	Pogemiller	
Brandel	Freeman	Moe, D.M.	Reichgott	
Cohen	Gustafson	Moe, R.D.	Renneke	
Dahl	Hughes	Pehler	Spear	

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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH
SESSION

HOUSE FILE No. 3925

March 10, 2008

Authored by Thissen; Mariani; Murphy, M.; Nelson; Wardlow and others

The bill was read for the first time and referred to the Committee on Governmental Operations, Reform, Technology and Elections

A bill for an act

1.1
1.2 relating to retirement; St. Paul Teachers Retirement Fund Association; extending
1.3 the rule of 90 benefit tier to post-1989 hires; amending Minnesota Statutes 2006,
1.4 sections 354A.011, subdivision 15a; 354A.12, subdivisions 1, 2a; 354A.31,
1.5 subdivisions 1, 4, 6, 7; 354A.35, subdivision 2; Minnesota Statutes 2007
1.6 Supplement, section 356.351, subdivision 2.

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

1.8 Section 1. Minnesota Statutes 2006, section 354A.011, subdivision 15a, is amended to
1.9 read:

1.10 Subd. 15a. **Normal retirement age.** (a) "Normal retirement age" means age 65 for
1.11 ~~a person who first became a member of the coordinated program of the St. Paul Teachers~~
1.12 ~~Retirement Fund Association, irrespective of the person's date of first membership, or for~~
1.13 a person who first became a member of the new law coordinated program of the Duluth
1.14 Teachers Retirement Fund Association or a member of a pension fund listed in section
1.15 356.30, subdivision 3, before July 1, 1989.

1.16 (b) For a person who first became a member of ~~the coordinated program of the St.~~
1.17 ~~Paul Teachers Retirement Fund Association or~~ the new law coordinated program of the
1.18 Duluth Teachers Retirement Fund Association after June 30, 1989, normal retirement age
1.19 means the higher of age 65 or retirement age, as defined in United States Code, title 42,
1.20 section 416(l), as amended, but not to exceed age 66.

1.21 (c) For a person who is a member of the basic program of the St. Paul Teachers
1.22 Retirement Fund Association or the old law coordinated program of the Duluth Teachers
1.23 Retirement Fund Association, normal retirement age means the age at which a teacher
1.24 becomes eligible for a normal retirement annuity computed upon meeting the age and

2.1 service requirements specified in the applicable provisions of the articles of incorporation
2.2 or bylaws of the respective teachers retirement fund association.

2.3 **EFFECTIVE DATE.** This section is effective July 1, 2008.

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

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

Association and Program	Percentage of Total Salary
Duluth Teachers Retirement Association	
old law and new law coordinated programs	5.5 percent
St. Paul Teachers Retirement Association	
basic program	8 percent
coordinated program	
<u>before July 1, 2009</u>	5.5 percent
<u>after June 30, 2009</u>	... percent

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

2.18 **EFFECTIVE DATE.** This section is effective July 1, 2008.

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

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

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

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

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

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

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

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

3.8	Duluth Teachers Retirement Fund Association	1.29 percent
3.9	St. Paul Teachers Retirement Fund Association	
3.10	July 1, 1993 - June 30, 1994	0.50 percent
3.11	July 1, 1994 - June 30, 1995	1.50 percent
3.12	July 1, 1997, and thereafter <u>before July 1, 2009</u>	3.84 percent
3.13	<u>July 1, 2009, and thereafter</u>	<u>... percent</u>

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

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

3.20 **EFFECTIVE DATE.** This section is effective July 1, 2008.

3.21 Sec. 4. Minnesota Statutes 2006, section 354A.31, subdivision 1, is amended to read:

3.22 Subdivision 1. **Age and service requirements.** (a) Any coordinated member or
 3.23 former coordinated member who has ceased to render teaching service for the school
 3.24 district in which the teachers retirement fund association exists and who has either attained
 3.25 the age of at least 55 years with not less than three years of allowable service credit or
 3.26 received credit for not less than 30 years of allowable service regardless of age, shall be
 3.27 entitled upon written application to a retirement annuity.

3.28 (b) Irrespective of the person's date of first membership before July 1, 1989, or
 3.29 after June 30, 1989, a member or former member of the St. Paul Teachers Retirement
 3.30 Fund Association who ceases or has ceased to render teaching service with an employing
 3.31 unit covered by the association who has credit for at least 30 years of allowable service,
 3.32 irrespective of age, is entitled, upon filing a written application, to a retirement annuity
 3.33 under this section.

3.34 **EFFECTIVE DATE.** This section is effective July 1, 2008.

4.1 Sec. 5. Minnesota Statutes 2006, section 354A.31, subdivision 4, is amended to read:

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

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

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

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

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

4.24 Subd. 6. **Reduced retirement annuity.** (a) This subdivision applies only to a
 4.25 person who first became a ~~coordinated~~ member of the Duluth Teachers Retirement Fund
 4.26 Association or a member of a pension fund listed in section 356.30, subdivision 3, before
 4.27 July 1, 1989, and whose annuity is higher when calculated using the retirement annuity
 4.28 formula percentage in ~~subdivision 4, paragraph (e), or~~ subdivision 4a, paragraph (c), in
 4.29 conjunction with this subdivision than when calculated under subdivision 4, paragraph (d),
 4.30 ~~or subdivision 4a, paragraph (d),~~ in conjunction with subdivision 7. This subdivision also
 4.31 applies to a coordinated member of the St. Paul Teachers Retirement Fund Association,
 4.32 irrespective of the person's date of first membership, whose annuity is higher when
 4.33 calculated using the retirement annuity formula percentage in subdivision 4, paragraph (c),
 4.34 in conjunction with this subdivision than when calculated under subdivision 4, paragraph
 4.35 (d), in conjunction with subdivision 7.

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

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

5.14 **EFFECTIVE DATE.** This section is effective July 1, 2008.

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

5.16 Subd. 7. **Actuarial reduction for early retirement.** This subdivision applies to a
 5.17 person who is a member of the Duluth Teachers Retirement Fund Association, who has
 5.18 become at least 55 years old, and first becomes a ~~coordinated~~ member after June 30, 1989,
 5.19 and to any other Duluth Teachers Retirement Fund Association coordinated member who
 5.20 has become at least 55 years old and whose annuity is higher when calculated using the
 5.21 retirement annuity formula percentage in subdivision 4, paragraph (d), ~~and subdivision 4a,~~
 5.22 ~~paragraph (d);~~ in conjunction with this subdivision than when calculated under subdivision
 5.23 4, paragraph (c), ~~or subdivision 4a, paragraph (c);~~ in conjunction with subdivision 6.
 5.24 This subdivision also applies to a person who is a member of the coordinated program
 5.25 of the St. Paul Teachers Retirement Fund Association whose annuity is higher when
 5.26 calculated using the retirement annuity formula percentage in subdivision 4, paragraph (d),
 5.27 in conjunction with this subdivision than when calculated under subdivision 4, paragraph
 5.28 (c), in conjunction with subdivision 6. A coordinated member who retires before the full
 5.29 benefit age shall be paid the retirement annuity calculated using the retirement annuity
 5.30 formula percentage in subdivision 4, paragraph (d); or subdivision 4a, paragraph (d),
 5.31 reduced so that the reduced annuity is the actuarial equivalent of the annuity that would
 5.32 be payable to the member if the member deferred receipt of the annuity and the annuity
 5.33 amount were augmented at an annual rate of three percent compounded annually from
 5.34 the day the annuity begins to accrue until the normal retirement age if the employee
 5.35 became an employee before July 1, 2006, and at 2.5 percent compounded annually from

6.1 the day the annuity begins to accrue until the normal retirement age if the person initially
6.2 becomes a teacher after June 30, 2006.

6.3 **EFFECTIVE DATE.** This section is effective July 1, 2008.

6.4 Sec. 8. Minnesota Statutes 2006, section 354A.35, subdivision 2, is amended to read:

6.5 Subd. 2. **Death while eligible to retire; surviving spouse optional annuity.** (a)

6.6 The surviving spouse of a coordinated member who has credit for at least three years of
6.7 service and dies prior to retirement may elect to receive, instead of a refund with interest
6.8 under subdivision 1, an annuity equal to the 100 percent joint and survivor annuity the
6.9 member could have qualified for had the member terminated service on the date of death.
6.10 The surviving spouse eligible for a surviving spouse benefit under this paragraph may
6.11 apply for the annuity at any time after the date on which the deceased employee would
6.12 have attained the required age for retirement based on the employee's allowable service. A
6.13 surviving spouse eligible for surviving spouse benefits under paragraph (b) or (c) may
6.14 apply for an annuity at any time after the member's death. The member's surviving
6.15 spouse shall be paid a joint and survivor annuity under section 354A.32 and computed
6.16 under section 354A.31.

6.17 (b) If the member was under age 55 and has credit for at least 30 years of allowable
6.18 service on the date of death, the surviving spouse may elect to receive a 100 percent joint
6.19 and survivor annuity based on the age of the member and surviving spouse on the date
6.20 of death. The annuity is payable using the full early retirement reduction under section
6.21 354A.31, subdivision 6, paragraph ~~(a)~~ (b), to age 55 and one-half of the early retirement
6.22 reduction from age 55 to the age payment begins.

6.23 (c) If the member was under age 55 and has credit for at least three years of
6.24 allowable service on the date of death but did not yet qualify for retirement, the surviving
6.25 spouse may elect to receive the 100 percent joint and survivor annuity based on the age
6.26 of the member and the survivor at the time of death. The annuity is payable using the
6.27 full early retirement reduction under section 354A.31, subdivision 6 or 7, to age 55 and
6.28 one-half of the early retirement reduction from age 55 to the date payment begins.

6.29 Sections 354A.37, subdivision 2, and 354A.39 apply to a deferred annuity or
6.30 surviving spouse benefit payable under this section. The benefits are payable for the life
6.31 of the surviving spouse, or upon expiration of the term certain benefit payment under
6.32 subdivision 2b.

6.33 **EFFECTIVE DATE.** This section is effective July 1, 2008.

7.1 Sec. 9. Minnesota Statutes 2007 Supplement, section 356.351, subdivision 2, is
7.2 amended to read:

7.3 Subd. 2. **Incentive.** (a) For an employee eligible under subdivision 1, if approved
7.4 under paragraph (b), the employer may provide an amount up to \$17,000, to an employee
7.5 who terminates service, to be used:

7.6 (1) unless the appointing authority has designated the use under clause (2) or the use
7.7 under clause (3) for the initial retirement incentive applicable to that employing entity
7.8 under Laws 2007, chapter 134, after May 26, 2007, for deposit in the employee's account
7.9 in the health care savings plan established by section 352.98;

7.10 (2) notwithstanding section 352.01, subdivision 11, or 354.05, subdivision 13,
7.11 whichever applies, if the appointing authority has designated the use under this clause
7.12 for the initial retirement incentive applicable to that employing entity under Laws 2007,
7.13 chapter 134, after May 26, 2007, for purchase of service credit for unperformed service
7.14 sufficient to enable the employee to retire under section 352.116, subdivision 1, paragraph
7.15 (b); 353.30; 354.44, subdivision 6, paragraph (b), or 354A.31, subdivision 6, paragraph
7.16 ~~(b)~~ (c), whichever applies; or

7.17 (3) if the appointing authority has designated the use under this clause for the initial
7.18 retirement incentive applicable to the employing entity under Laws 2007, chapter 134,
7.19 after May 26, 2007, for purchase of a lifetime annuity or an annuity for a specific number
7.20 of years from the applicable retirement plan to provide additional benefits, as provided in
7.21 paragraph (d).

7.22 (b) Approval to provide the incentive must be obtained from the commissioner
7.23 of finance if the eligible employee is a state employee and must be obtained from the
7.24 applicable governing board with respect to any other employing entity. An employee is
7.25 eligible for the payment under paragraph (a), clause (2), if the employee uses money from
7.26 a deferred compensation account that, combined with the payment under paragraph (a),
7.27 clause (2), would be sufficient to purchase enough service credit to qualify for retirement
7.28 under section 352.116, subdivision 1, paragraph (b); 353.30, subdivision 1a; 354.44,
7.29 subdivision 6, paragraph (b), or 354A.31, subdivision 6, paragraph ~~(b)~~ (c), whichever
7.30 applies.

7.31 (c) The cost to purchase service credit under paragraph (a), clause (2), must be
7.32 made in accordance with section 356.551.

7.33 (d) The annuity purchase under paragraph (a), clause (3), must be made using
7.34 annuity factors derived from the applicable factors used by the applicable retirement plan
7.35 to transfer amounts to the Minnesota postretirement investment fund and to calculate

8.1 optional annuity forms. The purchased annuity must be the actuarial equivalent of the
8.2 incentive amount.

8.3 **EFFECTIVE DATE.** This section is effective July 1, 2008.