

**H.F. xxxx****S.F. 2923**
(Betzold)**Executive Summary of Commission Staff Materials**

<i>Affected Pension Plan(s):</i>	Various retirement plans
<i>Relevant Provisions of Law:</i>	Minnesota Statutes, Chapters 3, 352, 352B, 353, 354, 354A, 356, 422A, and 490
<i>General Nature of Proposal:</i>	Return to the Legislative Commission on Pensions and Retirement of the Authority to retain the actuary providing actuarial services
<i>Date of Summary:</i>	March 3, 2008

Specific Proposed Changes

The proposed legislation provides that:

1. The Legislative Commission on Pensions and Retirement will retain the actuary preparing actuarial valuations and experience studies in the future;
2. The actuary retained by the Commission would be funded by retirement plan allocations deposited in a revolving account established for that purpose;
3. Benefit increase cost estimates would be required to be filed with the Commission, and
4. Makes updates in the various actuarial function provisions.

Policy Issues Raised by the Proposed Legislation

1. Appropriateness of the reacquisition of the actuarial services retention authority by the Legislative Commission on Pensions and Retirement.
2. Appropriateness of providing for the option of the retention of a Commission staff actuary.
3. Appropriateness of the establishment of a Commission revolving account.
4. Appropriateness of the allocation of the actuarial services compensation to the retirement plans.
5. Appropriateness of the substitution of the Legislative Commission on Pensions and Retirement for the existing actuarial services contract.
6. Appropriateness of extending the filing requirement for retirement plan benefit increase cost estimates.
7. Appropriateness of the actuarial function update provisions.

Potential Amendments

S2923-1A eliminates the specific option for the Legislative Commission on Pensions and Retirement to retain a staff actuary rather than a consulting actuarial firm.



TO: Members of the Legislative Commission on Pensions and Retirement

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

RE: H.F. xxxx; S.F. 2923 (Betzold): Various Retirement Plans; Requiring the Legislative Commission on Pensions and Retirement to Retain the Actuary for Regular Actuarial Work

DATE: March 3, 2008

Summary of H.F. xxxx; S.F. 2923 (Betzold)

H.F. xxxx; S.F. 2923 (Betzold) amends various provisions in Minnesota Statutes, Chapters 3, 352, 352B, 353, 354, 354A, 356, 422A, and 490, the governing laws for the various statewide and major local retirement plans, by making the following changes:

1. Legislative Commission on Pensions and Retirement Retention of Joint Public Pension Plan Actuary. The Legislative Commission on Pensions and Retirement is required to retain the actuary responsible for preparing the regular actuarial valuations and other duties relating to the statewide and major local retirement plans (Article 1, Section 1 and Section 2, Subdivision 1);
2. Creation of Commission Actuarial Revolving Account. A revolving account is created within the Legislative Commission on Pensions and Retirement for the payment of actuarial compensation, with an initial start-up allocation on the statewide and major local retirement plans of 210 percent of their Fiscal Year 2008 allocation and increasing allocations thereafter (Article 1, Section 2, Subdivision 2);
3. Continuation of Current Actuarial Services Contract. Unless the actuarial consulting firm exercises a contractual opt-out provision, the Legislative Commission on Pensions and Retirement substitutes for the joint retirement plans on the current actuarial consulting contract (Article 1, Section 3);
4. Requires Filing of Outside Actuarial Benefit Increase Cost Estimates with the Legislative Commission on Pensions and Retirement. In addition to the current obligation for retirement plans to file any supplemental actuarial valuations and experience studies with the Legislative Commission on Pensions and Retirement, retirement plans would be required to file any benefit increase cost estimates with the Commission (Article 2, Sections 1, 10, 18, 24, 35, and 41); and
5. Updating of Statutory Provisions Applicable to the Jointly Retained and Retirement Plan Actuaries. The various provisions relating to the function of the actuary retained under Minnesota Statutes, Section 356.214, and the retirement plan actuaries are updated, chiefly to specify the function of the actuary as certifying the accuracy of various actuarial tables and options rather than approving them (Article 2).

Background Information

Background information on the development of Minnesota public pension plan actuarial reporting requirements that is relevant to this proposed legislation can be found in Attachment A for H.F. 3041 (Murphy, M.); S.F. 2715 (Betzold).

Discussion and Analysis

H.F. xxxx; S.F. 2923 (Betzold) modifies the manner in which actuarial services are provided to the state, the legislature, the various statewide and major local retirement plans, and local government units by requiring the Legislative Commission on Pensions and Retirement to retain the actuary providing actuarial services, by funding the actuarial services compensation through the creating of a revolving account with annual assessments on the statewide and major local retirement plans, by allowing the Legislative Commission on Pensions and Retirement to substitute for the joint retirement plans on the existing actuarial services contract, by requiring the filing with the Legislative Commission on Pensions and Retirement of benefit increase cost estimates prepared by the retirement plan actuaries, and by updating the various actuarial provisions of Minnesota Statutes.

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

1. Appropriateness of the Reacquisition of the Actuarial Services Retention Authority by the Legislative Commission on Pensions and Retirement (Article 1). The policy issue is the appropriateness of the Legislative Commission on Pensions and Retirement reacquiring the authority to retain the actuary with the responsibility for preparing the regular actuarial reporting for the various statewide and major local retirement plans and for performing the other related actuarial functions.

From 1984 until 2004, the Legislative Commission on Pensions and Retirement had the responsibility to retain the actuary performing the valuation and other Functions. In 2004, that responsibility was transferred to the statewide and major local retirement plan administrators acting jointly. The 2004 change occurred for Commission budgetary reasons rather than for policy reasons, because the retirement plan assessments for actuarial valuation and related costs were State General Fund reimbursements and successive state budget reductions had left insufficient resources for the Commission to provide the front-end funding of the actuarial services contract. The six statewide and major local retirement plans do not appear to have functioned optimally in their joint retention of The Segal Company, the subsequent actuarial valuation and experience study work has failed to fully conform with the requirements of Minnesota Statutes, Section 356.215, and the Commission's Standards for Actuarial Work, and some legislators reportedly concerned about the adequacy of the current actuarial services arrangement. Returning the responsibility to retain the actuary would potentially resolve some of all of those concerns, based on the experience of the Commission 1984-2004, if the budgetary issues are resolved.

The principal adverse consideration from the 1984-2004 Commission experience is that the Commission is not optimally situated to conduct the contract bidding process, especially when third-party reliance and third party liability limit reservations or exceptions are demanded by potential bidders and when the bidding process must be conducted during the course of a busy legislative session.

2. Appropriateness of Providing for the Option of the Retention of a Commission Staff Actuary (Article 1, Sections 1 and 2). The policy issue is the appropriateness of expanding the authorization in Minnesota Statutes, Section 356.214, for the Commission to either retain an actuary or to contract with a consulting actuarial firm to provide the various actuarial services. Although the Commission reported considered the retention of a Commission staff actuary during the 1984 Session, Minnesota Statutes 1984, Section 3.85, Subdivision 11, required the contracting with a consulting actuarial firm for the provision of actuarial services and that requirement continued through 2004, when the contracting responsibility was shifted from the Commission to the retirement plan administrators acting jointly. Other states, notably New York and the state of Washington, have utilized staff actuaries for the preparation of annual actuarial valuation work. The provision would give the Commission the option to utilize the services of an actuary on a full-time basis rather than contracting periodically with a consultant, which is an option that government generally accords itself with other professionals, such as lawyers, architects, and engineers.

If the Commission would rather continue the practice of only retaining actuarial consulting firms. Amendment S2923-1A would eliminate the option for retaining a staff actuary.

3. Appropriateness of the Establishment of a Commission Revolving Account (Article 1, Section 2). The policy issue is the appropriateness of establishing a revolving account within the Legislative Commission on Pensions and Retirement for the payment of actuarial compensation. The Legislature has been reluctant to establish revolving accounts, which dedicate a funding source and remove a disbursement process from regular legislative oversight and control. The issue should be of concern to the Commission, but a revolving account is the cleanest means to insure continuing actuarial services despite the potential for variable State General Fund resources, and the policy issue of its appropriateness is best resolved by the House State Government Finance Division and the Senate State Government Budget Division. There is some precedent for a revolving account within the legislative branch, where the Revisor of Statutes has used that mechanism for the publication of state statute books over time.
4. Appropriateness of the Allocation of the Actuarial Services Compensation to the Retirement Plans (Article 1, Section 2). The policy issue is the appropriateness of the allocation of the cost of the actuarial services compensation between the statewide and major local retirement plans. The proposed legislation provides for an initial allocation of 210 percent of the cost of the jointly retained

actuary preparing the actuarial work for the retirement plan for the preceding year and provides for subsequent allocations of 110 percent of the preceding year's cost. The allocation is front-loaded to provide a sufficient initial carry-forward balance in the revolving account and has a significant built-in allocation escalator to insure some residual balance carried forward to fund actuarial services compensation in years with significant demand. The overall budget for actuarial services compensation would be set either by the periodic contract for the actuarial firm or by the compensation contract and expenses of a staff actuary.

5. Appropriateness of the Substitution of the Legislative Commission on Pensions and Retirement for the Existing Actuarial Services Contract (Article 1, Section 3). The policy issue is the appropriateness of making the Legislative Commission on Pensions and Retirement the successor to a contract for actuarial services that has been negotiated outside the legislative branch and that maintain provisions not wholly consistent with legislative branch views and preferences. While the Commission was provided with a copy of the 2004 actuarial services contract, the contract currently may be in the process of being rebid or renegotiated by the retirement plans and may be less acceptable as a consequence.
6. Appropriateness of Extending the Filing Requirement for Retirement Plan Benefit Increase Cost Estimates (Article 2, Sections 1, 10, 18, 24, 35, and 41). The policy issue is the appropriateness of requiring the various retirement plans to file with the Legislative Commission on Pensions and Retirement any benefit increase cost estimates that are prepared by their separately retained consulting actuaries. Currently, the retirement plans have the requirement that they file supplemental actuarial valuations and experience studies prepared by their retained actuaries, although few of the retirement plans have complied with that requirement, either ignoring it or having their consulting actuaries only prepare some document with actuarial calculations and results that is not labeled a "valuation report" or an "experience report." Extending the requirement to include benefit increase estimates will not insure any greater compliance than the current requirement, but would indicate a Commission and legislative insistence on pension policy-making with full and complete disclosure of relevant information.
7. Appropriateness of the Actuarial Function Update Provisions (Article 2). The policy issue is the appropriateness of the various updates in the statutory provisions relating to the function of the actuary preparing the regular actuarial work or the function of the actuary preparing supplemental actuarial work. The updates are principally substituting "certification of accuracy" for current "approval" or "recommendation" references. The changes address delegation of function and authority issues, where delegations to an unelected non-governmental individual or entity should be narrow and carefully drawn and where delegations should either have expressed standards for implementation or have implied clearly understood implementation standards. Actuaries under contract are well within their function to determine whether optional annuity forms accurately translate the applicable approved mortality and interest actuarial assumptions, but go beyond their appropriate function if they are called upon or allowed to substitute their policy or other judgment with respect to various benefit practices. The Commission may wish to take testimony from interested parties who may have identified unintended impacts of the proposed updates or who quarrel with the view that delegations must be limited and must contain appropriate standards.

1.1 moves to amend H.F. No.; S.F. No. 2923, as follows:

1.2 Page 1, line 29, delete "an actuary" and insert "a consulting actuarial firm"

1.3 Page 2, line 9, delete "retain an"

1.4 Page 2, line 10, delete "actuary or shall"

1.5 Page 2, line 12, delete "retained actuary or the"

1.6 Page 2, line 16, delete "provided by the retained actuary or"

1.7 Page 3, lines 9 and 22, delete "retained actuary or"

1.8 Page 4, line 5, delete "If an actuarial firm is retained, "

Senator Betzold introduced-

S.F. No. 2923: Referred to the Committee on State and Local Government Operations and Oversight.

A bill for an act

relating to retirement; providing for actuarial services to the legislature and the state; mandating the retention of the consulting actuary for various retirement-related reports by the Legislative Commission on Pensions and Retirement; allocating the costs of actuarial services among retirement plans; creating a revolving fund for actuarial services; appropriating money; making various conforming changes; amending Minnesota Statutes 2006, sections 3.85, by adding a subdivision; 352.03, subdivision 6; 352.116, subdivision 4; 352.119, subdivision 2; 352.72, subdivision 2; 352.931, subdivision 2; 352B.08, subdivision 3; 352B.26, subdivision 3; 352B.30, subdivision 2; 353.01, subdivision 14; 353.271, subdivision 2; 353.29, subdivision 6; 353.30, subdivisions 3, 5; 353.71, subdivision 2; 353.88; 353A.08, subdivision 2; 354.06, subdivision 2a; 354.07, subdivision 1; 354.45, subdivision 1; 354.55, subdivision 11; 354A.011, subdivision 3a; 354A.021, subdivision 7; 354A.31, subdivision 7; 354A.32, subdivision 1; 354A.33; 354A.37, subdivision 2; 356.20, subdivisions 3, 4; 356.214; 356.215, subdivisions 1, 2, 2a, 17, 18; 356.551, subdivision 2; 422A.01, subdivision 7; 422A.04, subdivisions 2, 3; 422A.06, subdivision 2; 422A.101, subdivisions 1, 1a, 2, 2a; 422A.15, subdivisions 2, 3; 422A.16, subdivision 2; 422A.17; 422A.23, subdivision 12; 422A.231; 490.121, subdivision 2a; 490.124, subdivision 11; Minnesota Statutes 2007 Supplement, sections 353.03, subdivision 3a; 354.35, subdivision 2; 354A.12, subdivision 3c; 422A.06, subdivision 8; 422A.101, subdivision 3.

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

ARTICLE 1

ACTUARY RETAINED BY THE LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

Section 1. Minnesota Statutes 2006, section 3.85, is amended by adding a subdivision to read:

Subd. 13. Retention of actuary. The commission shall retain an actuary as provided under section 356.214.

2.1 Sec. 2. Minnesota Statutes 2006, section 356.214, is amended to read:

2.2 **356.214 ACTUARIAL VALUATION PREPARATION; ~~JOINT~~ RETENTION**
2.3 **OF CONSULTING ACTUARY.**

2.4 Subdivision 1. **Joint retention.** (a) ~~The chief administrative officers of the~~
2.5 ~~Minnesota State Retirement System, the Public Employees Retirement Association, the~~
2.6 ~~Teachers Retirement Association, the Duluth Teachers Retirement Fund Association, the~~
2.7 ~~Minneapolis Employees Retirement Fund, and the St. Paul Teachers Retirement Fund~~
2.8 ~~Association, jointly~~ Legislative Commission on Pensions and Retirement, on behalf of
2.9 the state, its employees, its taxpayers, and its various public pension plans, shall retain an
2.10 actuary or shall contract with an established actuarial consulting firm to conduct annual
2.11 actuarial valuations and related services for the retirement plans named in paragraph (b).
2.12 The retained actuary or the principal from the actuarial consulting firm on the contract
2.13 must be an approved actuary under section 356.215, subdivision 1, paragraph (c). ~~Prior to~~
2.14 ~~becoming effective, the contract under this section is subject to a review and approval by~~
2.15 ~~the Legislative Commission on Pensions and Retirement.~~

2.16 (b) ~~The contract for~~ actuarial services provided by the retained actuary or provided
2.17 under contract under this section must include the preparation of actuarial valuations and
2.18 related actuarial work for the following retirement plans:

- 2.19 (1) the teachers retirement plan, Teachers Retirement Association;
- 2.20 (2) the general state employees retirement plan, Minnesota State Retirement System;
- 2.21 (3) the correctional employees retirement plan, Minnesota State Retirement System;
- 2.22 (4) the State Patrol retirement plan, Minnesota State Retirement System;
- 2.23 (5) the judges retirement plan, Minnesota State Retirement System;
- 2.24 (6) the Minneapolis employees retirement plan, Minneapolis Employees Retirement
- 2.25 Fund;
- 2.26 (7) the public employees retirement plan, Public Employees Retirement Association;
- 2.27 (8) the public employees police and fire plan, Public Employees Retirement
- 2.28 Association;
- 2.29 (9) the Duluth teachers retirement plan, Duluth Teachers Retirement Fund
- 2.30 Association;
- 2.31 (10) the St. Paul teachers retirement plan, St. Paul Teachers Retirement Fund
- 2.32 Association;
- 2.33 (11) the legislators retirement plan, Minnesota State Retirement System;
- 2.34 (12) the elective state officers retirement plan, Minnesota State Retirement System;
- 2.35 and

3.1 (13) local government correctional service retirement plan, Public Employees
3.2 Retirement Association.

3.3 (c) ~~The contract must require completion of the~~ annual actuarial valuation
3.4 calculations must be completed on a fiscal year basis, with the contents of the actuarial
3.5 valuation calculations as specified in section 356.215, and in conformity with the
3.6 commission's standards for actuarial work adopted by the Legislative Commission on
3.7 Pensions and Retirement.

3.8 ~~The contract must require completion of~~ Annual experience data collection must be
3.9 collected and processing processed by the retained actuary or consulting actuarial firm
3.10 and a quadrennial published experience study for the plans listed in paragraph (b), clauses
3.11 (1), (2), and (7), must be completed as provided for in the standards for actuarial work
3.12 adopted by the commission. The experience data collection, processing, and analysis
3.13 must evaluate the following:

- 3.14 (1) individual salary progression;
3.15 (2) the rate of return on investments based on the current asset value;
3.16 (3) payroll growth;
3.17 (4) mortality;
3.18 (5) retirement age;
3.19 (6) withdrawal; and
3.20 (7) disablement.

3.21 ~~The contract must include provisions for the preparation of cost analyses by the~~
3.22 ~~jointly retained actuary for~~ retained actuary or the consulting actuarial firm shall prepare
3.23 proposed legislation ~~that include,~~ including changes in benefit provisions or funding
3.24 policies prior to their consideration by the Legislative Commission on Pensions and
3.25 Retirement.

3.26 (d) The actuary ~~retained by the joint retirement systems~~ shall annually prepare a
3.27 report to the legislature, including a commentary on the actuarial valuation calculations
3.28 for the plans named in paragraph (b) and summarizing the results of the actuarial valuation
3.29 calculations. The actuary shall include with the report the actuary's recommendations
3.30 to the legislature concerning the appropriateness of the support rates to achieve proper
3.31 funding of the retirement plans by the required funding dates. The actuary shall, as part
3.32 of the quadrennial experience study, include recommendations to the legislature on the
3.33 appropriateness of the actuarial valuation assumptions required for evaluation in the study.

3.34 (e) If the actuarial gain and loss analysis in the actuarial valuation calculations
3.35 indicates a persistent pattern of sizable gains or losses, as directed by the ~~joint retirement~~
3.36 ~~systems~~ executive director of the commission or as requested by the chair of the

4.1 ~~Legislative commission on Pensions and Retirement~~, the actuary shall prepare a special
 4.2 experience study for a plan listed in paragraph (b), clause (3), (4), (5), (6), (8), (9), (10),
 4.3 (11), (12), or (13), in the manner provided for in the standards for actuarial work adopted
 4.4 by the commission.

4.5 (f) If an actuarial firm is retained, the term of the contract between the ~~joint~~
 4.6 ~~retirement systems commission~~ and the ~~actuary~~ actuarial firm retained may not exceed
 4.7 five years. The ~~joint retirement system administrative officers commission~~ shall establish
 4.8 procedures for the consideration and selection of contract bidders and the requirements
 4.9 for the contents of an actuarial services contract under this section. ~~The procedures~~
 4.10 ~~and requirements must be submitted to the Legislative Commission on Pensions and~~
 4.11 ~~Retirement for review and comment prior to final approval by the joint administrators. The~~
 4.12 ~~contract is subject to the procurement procedures under chapter 16C. The consideration of~~
 4.13 bids and the selection of a consulting actuarial firm ~~by the chief administrative officers~~
 4.14 must occur at a meeting that is open to the public and reasonable timely public notice of
 4.15 the date and the time of the meeting and its subject matter must be given.

4.16 (g) ~~The~~ An actuarial services contract under this section may not limit the ability
 4.17 of the Minnesota legislature and its standing committees and commissions to rely on the
 4.18 actuarial results of the work prepared under the contract.

4.19 (h) ~~The joint retirement systems shall designate one of the retirement system~~
 4.20 ~~executive directors as the actuarial services contract manager.~~

4.21 Subd. 2. **Actuarial revolving account; allocation of actuarial costs;**
 4.22 **appropriation.** (a) There is established within the state treasury a Legislative Commission
 4.23 on Pensions and Retirement revolving account. Actuarial cost assessments under this
 4.24 subdivision must be credited to the revolving account. The revolving account must be
 4.25 credited with interest on the balance at the rate earned by the Department of Finance
 4.26 excess treasury cash account. Amounts in the revolving account are appropriated to the
 4.27 Legislative Commission on Pensions and Retirement. The revolving account must be
 4.28 administered and managed by the executive director of the Legislative Commission on
 4.29 Pensions and Retirement.

4.30 (b) ~~The actuarial services contract manager~~ executive director of the Legislative
 4.31 Commission on Pensions and Retirement shall assess each retirement plan specified in
 4.32 subdivision 1, paragraph (b), its appropriate portion of the total compensation paid to the
 4.33 actuary retained by the joint retirement systems for the actuarial valuation calculations
 4.34 and quadrennial experience studies. The total assessment is ~~100~~ 210 percent for fiscal
 4.35 year 2009 and 110 percent for each subsequent fiscal year of the amount of contract
 4.36 compensation for the actuarial consulting firm for the preceding year for actuarial

5.1 valuation calculations, including any public employees police and fire plan consolidation
 5.2 accounts of the Public Employees Retirement Association established after March 1, 1999,
 5.3 annual experience data collection and processing, and quadrennial experience studies.

5.4 The portion of the total assessment payable by each retirement system or pension
 5.5 plan must be determined based on each plan's proportion of the actuarial services
 5.6 required, as determined by the ~~retained~~ actuary, to complete the preceding year's actuarial
 5.7 valuation calculations, annual experience data collection and processing, and quadrennial
 5.8- experience studies for all plans.

5.9 The assessment must be made within 30 days following the end of the fiscal year
 5.10 and must be reported to the chief administrative officers of the applicable retirement plans.
 5.11 The amount of the assessment is appropriated from the retirement fund applicable to
 5.12 the retirement plan.

5.13 ~~(b)~~ (c) The ~~actuarial services contract manager~~ executive director shall assess each
 5.14 retirement plan or each interest group which requested the preparation of a cost analysis
 5.15 for proposed legislation the cost of the actuary retained by the joint retirement systems
 5.16 incurred in the cost analysis preparation. With respect to interest groups, the ~~actuarial~~
 5.17 ~~services contract manager~~ executive director shall obtain a written commitment for the
 5.18 payment of the assessment in advance of the cost analysis preparation and may require
 5.19 an advance deposit or advance payment before authorizing the cost analysis preparation.
 5.20 The retirement plan or the interest group shall pay the assessment within 30 days of the
 5.21 date on which the assessment is billed. The amount of the assessment is appropriated
 5.22 from the retirement fund applicable to the retirement plan for cost analyses requested
 5.23 by a retirement plan or system.

5.24 ~~(c)~~ The ~~actuarial services contract manager~~ shall assess to the Legislative
 5.25 ~~Commission on Pensions and Retirement~~ the cost of the ~~actuarial cost analysis preparation~~
 5.26 ~~for the proposed legislation requested by the chair of the Legislative Commission on~~
 5.27 ~~Pensions and Retirement or by the commission executive director. The commission shall~~
 5.28 ~~pay the assessment within 30 days of the date on which the assessment is billed.~~

5.29 Subd. 3. **Reporting to commission retirement plans.** A copy of the actuarial
 5.30 valuations, experience studies, and actuarial cost analyses prepared by the actuary
 5.31 ~~retained by the joint retirement systems under the contract provided for in this section~~
 5.32 ~~must be filed with the executive director of the Legislative Commission on Pensions~~
 5.33 ~~and Retirement~~ chief administrative officer of the applicable retirement plan at the same
 5.34 time that the document is transmitted to ~~the actuarial services contract manager or to any~~
 5.35 ~~other~~ document recipient.

6.1 Sec. 3. TEMPORARY PROVISION; CONTINUATION OF EXISTING
 6.2 CONTRACT.

6.3 Unless the consulting actuarial firm exercises an option to terminate the contract
 6.4 under Minnesota Statutes 2006, section 356.214, in force on the date of enactment under
 6.5 the terms of that document, the Legislative Commission on Pensions and Retirement is
 6.6 the successor to the joint retirement plans as the contracting party on behalf of the state
 6.7 of Minnesota as of July 1, 2008.

6.8 Sec. 4. EFFECTIVE DATE.

6.9 Sections 1 to 3 are effective July 1, 2008.

6.10 **ARTICLE 2**
 6.11 **CONFORMING CHANGES**

6.12 Section 1. Minnesota Statutes 2006, section 352.03, subdivision 6, is amended to read:

6.13 Subd. 6. **Duties and powers of executive director.** (a) The management of the
 6.14 system is vested in the director, who is the executive and administrative head of the
 6.15 system. The director shall be ~~advisor~~ an adviser to the board on matters pertaining to the
 6.16 system and shall also act as the secretary of the board. The director shall:

6.17 (1) attend meetings of the board;

6.18 (2) prepare and recommend to the board appropriate rules to carry out this chapter;

6.19 (3) establish and maintain an adequate system of records and accounts following
 6.20 recognized accounting principles and controls;

6.21 (4) designate an assistant director with the approval of the board;

6.22 (5) appoint any employees, both permanent and temporary, that are necessary to
 6.23 carry out the provisions of this chapter;

6.24 (6) organize the work of the system as the director deems necessary to fulfill the
 6.25 functions of the system, and define the duties of its employees and delegate to them any
 6.26 powers or duties, subject to the control of the director and under conditions the director
 6.27 may prescribe. Appointments to exercise delegated power must be by written order and
 6.28 shall be filed with the secretary of state;

6.29 (7) with the advice and consent of the board, contract for the services of an approved
 6.30 actuary, professional management services, and any other consulting services as necessary
 6.31 and fix the compensation for those services; ~~The contracts are not subject to competitive~~
 6.32 ~~bidding under chapter 16C. Any approved actuary retained by the executive director~~
 6.33 ~~shall function as the actuarial advisor of the board and the executive director, and may~~
 6.34 ~~perform actuarial valuations and experience studies to supplement those performed by~~

7.1 ~~the actuary retained under section 356.214. Any supplemental actuarial valuations or~~
7.2 ~~experience studies shall be filed with the executive director of the Legislative Commission~~
7.3 ~~on Pensions and Retirement. Professional management services may not be contracted for~~
7.4 ~~more often than once in six years. Copies of professional management survey reports must~~
7.5 ~~be transmitted to the secretary of the senate, the chief clerk of the house of representatives,~~
7.6 ~~and the Legislative Reference Library as provided by section 3.195, and to the executive~~
7.7 ~~director of the commission at the time as reports are furnished to the board. Only~~
7.8 ~~management firms experienced in conducting management surveys of federal, state, or~~
7.9 ~~local public retirement systems are qualified to contract with the director;~~

7.10 (8) with the advice and consent of the board, provide in-service training for the
7.11 employees of the system;

7.12 (9) make refunds of accumulated contributions to former state employees and to the
7.13 designated beneficiary, surviving spouse, legal representative, or next of kin of deceased
7.14 state employees or deceased former state employees, as provided in this chapter;

7.15 (10) determine the amount of the annuities and disability benefits of employees
7.16 covered by the system and authorize payment of the annuities and benefits beginning as
7.17 of the dates on which the annuities and benefits begin to accrue, in accordance with the
7.18 provisions of this chapter;

7.19 (11) pay annuities, refunds, survivor benefits, salaries, and necessary operating
7.20 expenses of the system;

7.21 (12) certify funds available for investment to the State Board of Investment;

7.22 (13) with the advice and approval of the board request the State Board of Investment
7.23 to sell securities when the director determines that funds are needed for the system;

7.24 (14) prepare and submit to the board and the legislature an annual financial report
7.25 covering the operation of the system, as required by section 356.20;

7.26 (15) prepare and submit biennial and annual budgets to the board and with the
7.27 approval of the board submit the budgets to the Department of Finance; and

7.28 (16) with the approval of the board, perform other duties required to administer the
7.29 retirement and other provisions of this chapter and to do its business.

7.30 (b) Contracts under paragraph (a), clause (7), are not subject to competitive bidding
7.31 under chapter 16C.

7.32 (c) An approved actuary retained by the executive director shall function as the
7.33 actuarial adviser of the board and the executive director. The approved actuary may
7.34 perform benefit increase cost estimates, actuarial valuations, and experience studies to
7.35 supplement those performed by the actuary retained under section 356.214. Supplemental

8.1 benefit increase cost estimates, actuarial valuations, and experience studies must be filed
 8.2 with the executive director of the Legislative Commission on Pensions and Retirement.

8.3 (d) Professional management services may not be contracted for more often than
 8.4 once in six years. The executive director shall transmit copies of professional management
 8.5 survey reports to the secretary of the senate, the chief clerk of the house of representatives,
 8.6 and the Legislative Reference Library, as provided by section 3.195, and to the executive
 8.7 director of the commission at the same time as reports are furnished to the board. Only
 8.8 management firms experienced in conducting management surveys of federal, state, or
 8.9 local public retirement systems are qualified to contract with the director.

8.10 Sec. 2. Minnesota Statutes 2006, section 352.116, subdivision 4, is amended to read:

8.11 Subd. 4. **Determining actuarial equivalency.** In establishing the procedure for
 8.12 determining the actuarial equivalency of early retirement annuities as required under
 8.13 subdivision 1a or in establishing actuarial equivalent optional retirement annuity forms
 8.14 as required under subdivision 3, the board shall obtain the written ~~recommendation~~
 8.15 certification of the accuracy of the applicable calculation tables from the actuary retained
 8.16 under section 356.214. The recommendations ~~shall~~ must be made a part of the permanent
 8.17 records of the board.

8.18 Sec. 3. Minnesota Statutes 2006, section 352.119, subdivision 2, is amended to read:

8.19 Subd. 2. **Valuation of assets; adjustment of benefits.** (a) The required reserves for
 8.20 retirement annuities or disability benefits under this chapter as determined in accordance
 8.21 with the appropriate mortality table adopted by the board of directors based on experience
 8.22 of the fund as recommended as accurate by the actuary retained under section 356.214 and
 8.23 using the postretirement interest rate assumption specified in section 356.215, subdivision
 8.24 8, must be transferred to the Minnesota postretirement investment fund as of the last
 8.25 business day of the month in which the retirement annuity or disability benefit begins.

8.26 (b) Annuity and benefit payments must be adjusted ~~in accordance with~~ as provided
 8.27 in section 11A.18.

8.28 Sec. 4. Minnesota Statutes 2006, section 352.72, subdivision 2, is amended to read:

8.29 Subd. 2. **Computation of deferred annuity.** (a) The deferred annuity, if any,
 8.30 accruing under subdivision 1, or section 352.22, subdivision 3, must be computed as
 8.31 provided in section 352.22, subdivision 3, on the basis of allowable service before
 8.32 termination of state service and augmented as provided herein. The required reserves
 8.33 applicable to a deferred annuity or to an annuity for which a former employee was eligible

9.1 but had not applied or to any deferred segment of an annuity must be determined as of the
9.2 date the benefit begins to accrue and augmented by interest compounded annually from
9.3 the first day of the month following the month in which the employee ceased to be a state
9.4 employee, or July 1, 1971, whichever is later, to the first day of the month in which the
9.5 annuity begins to accrue. The rates of interest used for this purpose must be five percent
9.6 compounded annually until January 1, 1981, and three percent compounded annually
9.7 thereafter until January 1 of the year following the year in which the former employee
9.8 attains age 55, and from that date to the effective date of retirement, the rate is five percent
9.9 compounded annually if the employee became an employee before July 1, 2006, and at
9.10 2.5 percent compounded annually if the employee becomes an employee after June 30,
9.11 2006. If a person has more than one period of uninterrupted service, the required reserves
9.12 related to each period must be augmented by interest under this subdivision. The sum
9.13 of the augmented required reserves so determined is the present value of the annuity.
9.14 "Uninterrupted service" for the purpose of this subdivision means periods of covered
9.15 employment during which the employee has not been separated from state service for more
9.16 than two years. If a person repays a refund, the service restored by the repayment must be
9.17 considered continuous with the next period of service for which the employee has credit
9.18 with this system. The formula percentages used for each period of uninterrupted service
9.19 must be those applicable to a new employee. The mortality table and interest assumption
9.20 used to compute the annuity must be those in effect when the employee files application
9.21 for annuity. This section does not reduce the annuity otherwise payable under this chapter.

9.22 (b) The retirement annuity or disability benefit of, or the survivor benefit payable on
9.23 behalf of, a former state employee who terminated service before July 1, 1997, which is
9.24 not first payable until after June 30, 1997, must be increased on an actuarial equivalent
9.25 basis to reflect the change in the postretirement interest rate actuarial assumption under
9.26 section 356.215, subdivision 8, from five percent to six percent under a calculation
9.27 procedure and the tables adopted by the board and ~~approved~~ certified as accurate by the
9.28 actuary retained under section 356.214.

9.29 Sec. 5. Minnesota Statutes 2006, section 352.931, subdivision 2, is amended to read:

9.30 Subd. 2. **Surviving spouse coverage; term certain.** In lieu of the 100 percent
9.31 optional annuity under subdivision 1, the surviving spouse of a deceased employee may
9.32 elect to receive survivor coverage in a term certain of ten, 15, or 20 years. The monthly
9.33 term certain annuity must be actuarially equivalent to the 100 percent optional annuity
9.34 under subdivision 1 and must be ~~approved~~ certified as accurate by the actuary retained
9.35 under section 356.214. The optional annuity ceases upon the expiration of the term certain

10.1 period. If a survivor elects a term certain annuity and dies before the expiration of the
 10.2 specified term certain period, the commuted value of the remaining annuity payments
 10.3 must be paid in a lump sum to the survivor's estate.

10.4 Sec. 6. Minnesota Statutes 2006, section 352B.08, subdivision 3, is amended to read:

10.5 Subd. 3. **Optional annuity forms.** (a) In lieu of the single life annuity provided in
 10.6 subdivision 2, the member or former member may elect an optional annuity form.

10.7 (b) The board of the Minnesota state retirement system shall establish a joint and
 10.8 survivor annuity, payable to a designated beneficiary for life, adjusted to the actuarial
 10.9 equivalent value of the single life annuity. The board shall also establish an additional
 10.10 optional annuity with an actuarial equivalent value of the single life annuity in the form of
 10.11 a joint and survivor annuity which provides that the elected annuity be reinstated to the
 10.12 single life annuity provided in subdivision 2, if after commencing the elected joint and
 10.13 survivor annuity, the designated beneficiary dies before the member, which reinstatement
 10.14 is not retroactive but takes effect for the first full month occurring after the death of the
 10.15 designated beneficiary. The board may also establish other actuarial equivalent value
 10.16 optional annuity forms.

10.17 (c) In establishing actuarial equivalent value optional annuity forms, each optional
 10.18 annuity form ~~shall~~ must have the same present value as a regular single life annuity
 10.19 using the mortality table adopted by the board and the interest assumption specified in
 10.20 section 356.215, subdivision 8, and the board shall obtain the written ~~recommendation~~
 10.21 certification of the accuracy of the applicable calculation tables from the actuary retained
 10.22 ~~under section 356.214. These recommendations certificates shall be a part of the~~
 10.23 permanent records of the board.

10.24 Sec. 7. Minnesota Statutes 2006, section 352B.26, subdivision 3, is amended to read:

10.25 Subd. 3. **Valuation of assets; adjustment of benefits.** (a) For former members
 10.26 beginning receipt of annuities and qualified recipients of joint and survivor annuities and
 10.27 surviving spouse benefits, the required reserves must be determined in accordance with
 10.28 the appropriate mortality table adopted by the board of directors of the Minnesota State
 10.29 Retirement System based on the experience of the fund as recommended as accurate
 10.30 by the actuary retained under section 356.214 and using the postretirement interest
 10.31 rate assumption specified in section 356.215, subdivision 8. Assets representing the
 10.32 required reserves for these annuities must be transferred to the Minnesota postretirement
 10.33 investment fund as of the last business day of the month in which the retirement annuity
 10.34 begins as specified in section 11A.18.

11.1 (b) Annuity payments must be adjusted in accordance with section 11A.18.

11.2 (c) An increase in annuity payments under this section must be made automatically
11.3 unless written notice is filed by the annuitant with the executive director of the Minnesota
11.4 State Retirement System requesting that the increase not be made.

11.5 Sec. 8. Minnesota Statutes 2006, section 352B.30, subdivision 2, is amended to read:

11.6 Subd. 2. **Computation of deferred annuity.** Deferred annuities must be computed
11.7 according to this chapter on the basis of allowable service before termination of service
11.8 and augmented as provided in this chapter. The required reserves applicable to a deferred
11.9 annuity must be augmented by interest compounded annually from the first day of the
11.10 month following the month in which the member terminated service, or July 1, 1971,
11.11 whichever is later, to the first day of the month in which the annuity begins to accrue. The
11.12 rates of interest used for this purpose shall be five percent per year compounded annually
11.13 until January 1, 1981, and after that date three percent per year compounded annually if
11.14 the employee became an employee before July 1, 2006, and at 2.5 percent compounded
11.15 annually if the employee becomes an employee after June 30, 2006. The mortality table
11.16 and interest assumption used to compute the annuity ~~shall~~ must be those in effect when
11.17 the member files application for annuity.

11.18 Sec. 9. Minnesota Statutes 2006, section 353.01, subdivision 14, is amended to read:

11.19 Subd. 14. **Actuarial equivalent.** "Actuarial equivalent" means the condition of one
11.20 annuity or benefit having an equal actuarial present value as another annuity or benefit,
11.21 determined as of a given date with each actuarial present value based on the appropriate
11.22 mortality table adopted by the board of trustees based on the experience of the fund as
11.23 ~~recommended~~ certified by the actuary retained under section 356.214, and approved under
11.24 section 356.215, subdivision 18, and using the applicable preretirement or postretirement
11.25 interest rate assumption specified in section 356.215, subdivision 8.

11.26 Sec. 10. Minnesota Statutes 2007 Supplement, section 353.03, subdivision 3a, is
11.27 amended to read:

11.28 Subd. 3a. **Executive director.** (a) **Appointment.** The board shall appoint an
11.29 executive director on the basis of education, experience in the retirement field, and
11.30 leadership ability. The executive director must have had at least five years' experience in
11.31 an executive level management position, which has included responsibility for pensions,
11.32 deferred compensation, or employee benefits. The executive director serves at the pleasure
11.33 of the board. The salary of the executive director is as provided by section 15A.0815.

12.1 (b) **Duties.** The management of the association is vested in the executive director
 12.2 who shall be the executive and administrative head of the association. The executive
 12.3 director shall act as an adviser to the board on all matters pertaining to the association and
 12.4 shall also act as the secretary of the board. The executive director shall:

12.5 (1) attend all meetings of the board;

12.6 (2) prepare and recommend to the board appropriate rules to carry out the provisions
 12.7 of this chapter;

12.8 (3) establish and maintain an adequate system of records and accounts following
 12.9 recognized accounting principles and controls;

12.10 (4) designate, with the approval of the board, up to two persons who may serve in
 12.11 the unclassified service and whose salaries are set in accordance with section 43A.18,
 12.12 subdivision 3, appoint a confidential secretary in the unclassified service, and appoint
 12.13 employees to carry out this chapter, who are subject to chapters 43A and 179A in the same
 12.14 manner as are executive branch employees;

12.15 (5) organize the work of the association as the director deems necessary to fulfill
 12.16 the functions of the association, and define the duties of its employees and delegate to
 12.17 them any powers or duties, subject to the control of, and under such conditions as, the
 12.18 executive director may prescribe;

12.19 (6) with the approval of the board, contract for the services of an approved actuary,
 12.20 professional management services, and any other consulting services as necessary
 12.21 to fulfill the purposes of this chapter; ~~All contracts are subject to chapter 16C. The~~
 12.22 ~~commissioner of administration shall not approve, and the association shall not enter~~
 12.23 ~~into, any contract to provide lobbying services or legislative advocacy of any kind.~~
 12.24 ~~Any approved actuary retained by the executive director shall function as the actuarial~~
 12.25 ~~advisor of the board and the executive director and may perform actuarial valuations and~~
 12.26 ~~experience studies to supplement those performed by the actuary retained under section~~
 12.27 ~~356.214. Any supplemental actuarial valuations or experience studies shall be filed with~~
 12.28 ~~the executive director of the Legislative Commission on Pensions and Retirement. Copies~~
 12.29 ~~of professional management survey reports shall be transmitted to the secretary of the~~
 12.30 ~~senate, the chief clerk of the house of representatives, and the Legislative Reference~~
 12.31 ~~Library as provided by section 3.195, and to the executive director of the commission at~~
 12.32 ~~the same time as reports are furnished to the board. Only management firms experienced~~
 12.33 ~~in conducting management surveys of federal, state, or local public retirement systems~~
 12.34 ~~shall be qualified to contract with the director hereunder;~~

12.35 (7) with the approval of the board provide in-service training for the employees
 12.36 of the association;

