H.F. xxxx **S.F. 2923**
(Betzold)

Executive Summary of Commission Staff Materials

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

State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director

RE: H.F. 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.

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

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

Page 2, line 9, delete "retain an"

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

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

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

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

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) individual salary progression;

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

(3) payroll growth;

(4) mortality;

(5) retirement age;

(6) withdrawal; and

(7) disablement.

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

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

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

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

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

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

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

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

(b) The ~~actuarial services contract manager~~ executive director of the Legislative Commission on Pensions and Retirement shall assess each retirement plan specified in subdivision 1, paragraph (b), its appropriate portion of the total compensation paid to the actuary retained by the joint retirement systems for the actuarial valuation calculations and quadrennial experience studies. The total assessment is ~~100~~ 210 percent for fiscal year 2009 and 110 percent for each subsequent fiscal year of the amount of contract compensation for the actuarial consulting firm for the preceding year for actuarial valuation calculations, including any public employees police and fire plan consolidation accounts of the Public Employees Retirement Association established after March 1, 1999, annual experience data collection and processing, and quadrennial experience studies.

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

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

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

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

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

Sec. 3. **TEMPORARY PROVISION; CONTINUATION OF EXISTING CONTRACT.**

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

Sec. 4. **EFFECTIVE DATE.**

Sections 1 to 3 are effective July 1, 2008.

ARTICLE 2

CONFORMING CHANGES

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

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

(1) attend meetings of the board;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) An approved actuary retained by the executive director shall function as the actuarial adviser of the board and the executive director. The approved actuary may perform benefit increase cost estimates, actuarial valuations, and experience studies to supplement those performed by the actuary retained under section 356.214. Supplemental benefit increase cost estimates, actuarial valuations, and experience studies must be filed with the executive director of the Legislative Commission on Pensions and Retirement.

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

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

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

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

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

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

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

Subd. 2. **Computation of deferred annuity.** (a) The deferred annuity, if any, accruing under subdivision 1, or section 352.22, subdivision 3, must be computed as provided in section 352.22, subdivision 3, on the basis of allowable service before termination of state service and augmented as provided herein. The required reserves applicable to a deferred annuity or to an annuity for which a former employee was eligible but had not applied or to any deferred segment of an annuity must be determined as of the date the benefit begins to accrue and augmented by interest compounded annually from the first day of the month following the month in which the employee ceased to be a state employee, or July 1, 1971, whichever is later, to the first day of the month in which the annuity begins to accrue. The rates of interest used for this purpose must be five percent compounded annually until January 1, 1981, and three percent compounded annually thereafter until January 1 of the year following the year in which the former employee attains age 55, and from that date to the effective date of retirement, the rate is five percent compounded annually if the employee became an employee before July 1, 2006, and at 2.5 percent compounded annually if the employee becomes an employee after June 30, 2006. If a person has more than one period of uninterrupted service, the required reserves related to each period must be augmented by interest under this subdivision. The sum of the augmented required reserves so determined is the present value of the annuity. "Uninterrupted service" for the purpose of this subdivision means periods of covered employment during which the employee has not been separated from state service for more than two years. If a person repays a refund, the service restored by the repayment must be considered continuous with the next period of service for which the employee has credit with this system. The formula percentages used for each period of uninterrupted service must be those applicable to a new employee. The mortality table and interest assumption used to compute the annuity must be those in effect when the employee files application for annuity. This section does not reduce the annuity otherwise payable under this chapter.

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

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

Subd. 2. **Surviving spouse coverage; term certain.** In lieu of the 100 percent optional annuity under subdivision 1, the surviving spouse of a deceased employee may elect to receive survivor coverage in a term certain of ten, 15, or 20 years. The monthly term certain annuity must be actuarially equivalent to the 100 percent optional annuity under subdivision 1 and must be ~~approved~~ certified as accurate by the actuary retained under section 356.214. The optional annuity ceases upon the expiration of the term certain period. If a survivor elects a term certain annuity and dies before the expiration of the specified term certain period, the commuted value of the remaining annuity payments must be paid in a lump sum to the survivor's estate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(1) attend all meetings of the board;

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

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

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

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

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

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

(8) make refunds of accumulated contributions to former members and to the designated beneficiary, surviving spouse, legal representative or next of kin of deceased members or deceased former members, as provided in this chapter;

(9) determine the amount of the annuities and disability benefits of members covered by the association and authorize payment of the annuities and benefits beginning as of the dates on which the annuities and benefits begin to accrue, in accordance with the provisions of this chapter;

(10) pay annuities, refunds, survivor benefits, salaries, and necessary operating expenses of the association;

(11) prepare and submit to the board and the legislature an annual financial report covering the operation of the association, as required by section 356.20;

(12) prepare and submit biennial and annual budgets to the board for its approval and submit the approved budgets to the Department of Finance for approval by the commissioner;

(13) reduce all or part of the accrued interest payable under section 353.27, subdivisions 12, 12a, and 12b, or 353.28, subdivision 5, upon receipt of proof by the association of an unreasonable processing delay or other extenuating circumstances of the employing unit. The executive director shall prescribe and submit for approval by the board the conditions under which such interest may be reduced; and

(14) with the approval of the board, perform such other duties as may be required for the administration of the association and the other provisions of this chapter and for the transaction of its business.

(c) **Contract limitations.** Contracts under paragraph (b), clause (6), are subject to chapter 16C. The commissioner of administration shall not approve, and the association may not enter into, any contract to provide lobbying services or legislative advocacy of any kind. The approved actuary retained by the executive director shall function as the actuarial adviser of the board and of the executive director and may perform benefit increase cost estimates, actuarial valuations, and experience studies to supplement those performed by the actuary retained under section 356.214. Supplemental benefit increase cost estimates, actuarial valuations, and experience studies must be filed with the executive director of the Legislative Commission on Pensions and Retirement. Copies of provisional management survey reports must be transmitted to the secretary of the senate, the chief clerk of the house of representatives, and the Legislative Reference Library, as provided by section 3.195, and to the executive director of the commission at the same time as reports are furnished to the board. Only management firms experienced in conducting management surveys of federal, state, or local public retirement systems are qualified to contract with the director.

Sec. 11. Minnesota Statutes 2006, section 353.271, subdivision 2, is amended to read:

Subd. 2. **Valuation of assets; adjustment of benefits.** (a) The required reserves for retirement annuities payable as provided in this chapter other than those payable from the various local relief association consolidation accounts, as determined in accordance with the appropriate mortality table adopted by the board of trustees based on the experience of the fund as recommended as accurate by the actuary retained under section 356.214, and approved under section 356.215, subdivision 18, and using the postretirement interest rate assumption specified in section 356.215, subdivision 8, must be transferred to the Minnesota postretirement investment fund as of the last business day of the month in which the retirement annuity begins.

(b) Annuity payments must be adjusted ~~in accordance with the provisions of~~ as provided in section 11A.18.

(c) Increases in payments under this section must be made automatically unless the intended recipient files written notice with the executive director of the Public Employees Retirement Association requesting that the increase not be made.

Sec. 12. Minnesota Statutes 2006, section 353.29, subdivision 6, is amended to read:

Subd. 6. **Retirement before eligibility for Social Security benefits.** A member or former member who retires before becoming eligible for Social Security retirement benefits may elect to receive an optional retirement annuity from the association that provides for different annuity amounts over different periods of retirement. The election of this optional retirement annuity must be exercised by making a written application to the ~~board of trustees~~ executive director. The optional annuity must take the form of an annuity payable for the period before the annuitant becomes eligible for Social Security old age retirement benefits in a greater amount than the amount of the annuity calculated under subdivisions 2 and 3 on the basis of the age of the annuitant at retirement. The optional annuity must be the actuarial equivalent of the normal retirement annuity computed on the basis of age at retirement. This greater amount must be paid until the annuitant reaches age 62, at which time the payment from the association must be reduced. The board of trustees shall establish the method of computing the optional retirement annuity under this subdivision. In establishing the method of computing the optional retirement annuity, the board of trustees shall obtain the written ~~approval~~ recommendation of the actuary retained under section 356.214 as to the accuracy of the computation method. The recommendations must be a part of the permanent records of the board of trustees.

Sec. 13. Minnesota Statutes 2006, section 353.30, subdivision 3, is amended to read:

Subd. 3. **Optional retirement annuity forms.** (a) The board of trustees shall establish optional annuities which ~~shall~~ must take the form of a joint and survivor annuity. Except as provided in subdivision 3a, the optional annuity forms ~~shall~~ must be actuarially equivalent to the forms provided in section 353.29 and subdivisions 1, 1a, 1b, 1c, and 5.

(b) In establishing those optional forms, the board shall obtain the written ~~recommendation~~ certification of the actuary retained under section 356.214. The ~~recommendations shall~~ certification must be a part of the permanent records of the board. A member or former member may select an optional form of annuity in lieu of accepting any other form of annuity which might otherwise be available.

Sec. 14. Minnesota Statutes 2006, section 353.30, subdivision 5, is amended to read:

Subd. 5. **Actuarial reduction for early retirement.** (a) This subdivision applies to a member who has become at least 55 years old and first became a public employee after June 30, 1989, and to any other member who has become at least 55 years old and whose annuity is higher when calculated under section 353.29, subdivision 3, paragraph (b), in conjunction with this subdivision than when calculated under section 353.29, subdivision 3, paragraph (a), in conjunction with subdivision 1, 1a, 1b, or 1c.

(b) An employee who retires before normal retirement age shall be paid the retirement annuity provided in section 353.29, subdivision 3, paragraph (b), reduced so that the reduced annuity is the actuarial equivalent of the annuity that would be payable to the employee if the employee deferred receipt of the annuity and the annuity amount were augmented at an annual rate of three percent compounded annually from the day the annuity begins to accrue until the normal retirement age if the employee became an employee before July 1, 2006, and at 2.5 percent compounded annually from the day the annuity begins to accrue until the normal retirement age if the employee initially becomes an employee after June 30, 2006.

(c) The board shall establish the procedure for determining actuarial equivalency after obtaining a certification that the procedure was accurate from the actuary retained under section 356.214.

Sec. 15. Minnesota Statutes 2006, section 353.71, subdivision 2, is amended to read:

Subd. 2. **Deferred annuity computation; augmentation.** (a) The deferred annuity accruing under subdivision 1, or under sections 353.34, subdivision 3, and 353.68, subdivision 4, must be computed on the basis of allowable service prior to the termination of public service and augmented as provided in this paragraph. The required reserves applicable to a deferred annuity, or to any deferred segment of an annuity must be determined as of the first day of the month following the month in which the former member ceased to be a public employee, or July 1, 1971, whichever is later. These required reserves must be augmented at the rate of five percent annually compounded annually until January 1, 1981, and at the rate of three percent thereafter until January 1 of the year following the year in which the former member attains age 55 and from that date to the effective date of retirement, the rate is five percent compounded annually if the employee became an employee before July 1, 2006, and at 2.5 percent compounded annually if the employee becomes an employee after June 30, 2006. If a person has more than one period of uninterrupted service, the required reserves related to each period must be augmented as specified in this paragraph. The sum of the augmented required reserves is the present value of the annuity. Uninterrupted service for the purpose of this subdivision means periods of covered employment during which the employee has not been separated from public service for more than two years. If a person repays a refund, the restored service must be considered as continuous with the next period of service for which the employee has credit with this association. This section must not reduce the annuity otherwise payable under this chapter. This paragraph applies to individuals who become deferred annuitants on or after July 1, 1971. For a member who became a deferred annuitant before July 1, 1971, the paragraph applies from July 1, 1971, if the former active member applies for an annuity after July 1, 1973.

(b) The retirement annuity or disability benefit of, or the survivor benefit payable on behalf of, a former member who terminated service before July 1, 1997, or the survivor benefit payable on behalf of a basic or police and fire member who was receiving disability benefits before July 1, 1997, which is first payable after June 30, 1997, must be increased on an actuarial equivalent basis to reflect the change in the postretirement interest rate actuarial assumption under section 356.215, subdivision 8, from five percent to six percent under a calculation procedure and tables adopted by the board and ~~approved~~ certified as accurate by the actuary retained under section 356.214.

Sec. 16. Minnesota Statutes 2006, section 353.88, is amended to read:

353.88 PENALTY FOR MEMBERSHIP MISCERTIFICATIONS AND CERTIFICATION FAILURES.

(a) If the board of trustees of the Public Employees Retirement Association, upon the recommendation of the executive director, determines that a governmental subdivision has certified a public employee for membership in the public employees police and fire retirement plan when the public employee was not eligible for that retirement plan coverage, the public employee must be covered by the correct retirement plan for subsequent service, the public employee retains the coverage for the period of the misclassification, and the governmental subdivision shall pay in a lump sum the difference in the actuarial present value of the retirement annuities to which the public employee would have been entitled if the public employee was properly classified as calculated by the actuary retained under section 356.214. The governmental subdivision payment is payable within 30 days of the board's determination. If unpaid, it must be collected under section 353.28. The lump sum payment must be deposited in the public employees retirement fund.

(b) If the executive director of the Public Employees Retirement Association determines that a governmental subdivision has failed to certify a person for retirement plan membership and coverage under this chapter, in addition to the procedures under section 353.27, subdivision 4, 9, 10, 11, 12, 12a, or 12b, the director shall charge a fine of $25 for each membership certification failure.

Sec. 17. Minnesota Statutes 2006, section 353A.08, subdivision 2, is amended to read:

Subd. 2. **Election of coverage by current deferred retirees.** (a) Any person who has terminated active employment as a police officer or firefighter, whichever applies, with the municipality, has sufficient credit for service to entitle the person to an eventual service pension and has not taken a refund of accumulated member contributions, if applicable, ~~shall have~~ has the option to elect to have benefit coverage provided under the relevant provisions of the public employees police and fire fund benefit plan or to retain benefit coverage provided by the relief association benefit plan in effect on the effective date of consolidation. The relevant provisions of the public employees police and fire fund benefit plan for the person electing that benefit coverage ~~shall be~~ are the provisions specified in subdivision 1.

The election ~~shall~~ must be made when the person files an application for receipt of the deferred service pension and shall accompany that application.

(b) The retirement annuity for a deferred member of a consolidated local relief association which consolidated before July 1, 1997, who elected the relevant provisions of the public employees police and fire fund benefit plan under subdivision 1 must be increased on an actuarial equivalent basis to reflect the change in the postretirement interest rate actuarial assumption under section 356.215, subdivision 8, from five percent to six percent under a calculation procedure and tables adopted by the board of trustees of the Public Employees Retirement Association and ~~approved~~ certified as accurate by the actuary retained under section 356.214.

Sec. 18. Minnesota Statutes 2006, section 354.06, subdivision 2a, is amended to read:

Subd. 2a. **Duties of executive director.** (a) The management of the association is vested in the executive director who ~~shall be~~ is the executive and administrative head of the association. The executive director shall act as ~~advisor~~ an adviser to the board on all matters pertaining to the association and shall also act as the secretary of the board. The executive director shall:

(1) attend all meetings of the board;

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

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

(4) designate an assistant executive director in the unclassified service and two assistant executive directors in the classified service with the approval of the board, and appoint such employees, both permanent and temporary, as are necessary to carry out the provisions of this chapter;

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

(6) with the approval of the board, contract and set the compensation for the services of an approved actuary, professional management services, and any other consulting services;~~. These contracts are not subject to the competitive bidding procedure prescribed by chapter 16C. An approved actuary retained by the executive director shall function as the actuarial advisor of the board and the executive director and may perform actuarial valuations and experience studies to supplement those performed by the actuary retained under section 356.214. Any supplemental actuarial valuations or experience studies shall be filed with the executive director of the Legislative Commission on Pensions and Retirement. Copies of professional management survey reports must be transmitted to the secretary of the senate, the chief clerk of the house of representatives, and the Legislative Reference Library as provided by section 3.195, and to the executive director of the commission at the same time as reports are furnished to the board. Only management~~

~~firms experienced in conducting management surveys of federal, state, or local public retirement systems are qualified to contract with the executive director;~~

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

(8) make refunds of accumulated contributions to former members and to the designated beneficiary, surviving spouse, legal representative, or next of kin of deceased members or deceased former members, under this chapter;

(9) determine the amount of the annuities and disability benefits of members covered by the association and authorize payment of the annuities and benefits beginning as of the dates on which the annuities and benefits begin to accrue, under this chapter;

(10) pay annuities, refunds, survivor benefits, salaries, and necessary operating expenses of the association;

(11) prepare and submit to the board and the legislature an annual financial report covering the operation of the association, as required by section 356.20;

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

(13) with the advice and approval of the board, request the State Board of Investment to sell securities on determining that funds are needed for the purposes of the association;

(14) prepare and submit biennial and annual budgets to the board and with the approval of the board submit those budgets to the Department of Finance; and

(15) with the approval of the board, perform such other duties as may be required for the administration of the association and the other provisions of this chapter and for the transaction of its business.

<u>(b)</u> The executive director may:

~~(i)~~ <u>(1)</u> reduce all or part of the accrued interest and fines payable by an employing unit for reporting requirements under section 354.52, based on an evaluation of any extenuating circumstances of the employing unit;

~~(ii)~~ <u>(2)</u> assign association employees to conduct field audits of an employing unit to ensure compliance with the provisions of this chapter; and

~~(iii)~~ <u>(3)</u> recover overpayments, if not repaid to the association, by suspending or reducing the payment of a retirement annuity, refund, disability benefit, survivor benefit, or optional annuity under this chapter until the overpayment, plus interest, has been recovered.

<u>(c) Contracts under paragraph (a), clause (6), are not subject to the competitive bidding procedure prescribed by chapter 16C.</u>

<u>(d) An approved actuary retained by the executive director shall function as the actuarial adviser of the board and the executive director and may perform benefit increase</u>

cost estimates, actuarial valuations, and experience studies to supplement those performed by the actuary retained under section 356.214. Supplemental benefit increase cost estimates, actuarial valuations, and experience studies must be filed with the executive director of the Legislative Commission on Pensions and Retirement.

(e) The executive director shall transmit copies of professional management survey reports to the secretary of the senate, the chief clerk of the house of representatives, and the Legislative Reference Library, as provided by section 3.195, and to the executive director of the commission at the same time as reports are furnished to the board. Only management firms experienced in conducting management surveys of federal, state, or local public retirement systems are qualified to contract with the executive director.

Sec. 19. Minnesota Statutes 2006, section 354.07, subdivision 1, is amended to read:

Subdivision 1. **General powers of board.** The board has the power to frame bylaws for its own government and for the management of the association not inconsistent with the laws of the state and to modify them at its pleasure; to adopt, alter, and enforce reasonable rules not inconsistent with the laws of the state for the administration and management of the association, for the payment and collection of payments from members, and for the payment of withdrawals and benefits; to pass upon and allow or disallow applications for membership in the association and for credit for teaching service; to pass upon and allow or disallow claims for withdrawals, pensions, or benefits payable by the fund; to adopt an appropriate mortality table based on experience of the association as ~~recommended~~ certified as accurate by the actuary retained under section 356.214 and using the applicable postretirement interest assumption specified in section 356.215, subdivision 8; to provide for the payment out of the fund of necessary expenses for the administration by the association and of claims for withdrawals, pensions, or benefits allowed.

Sec. 20. Minnesota Statutes 2007 Supplement, section 354.35, subdivision 2, is amended to read:

Subd. 2. **Election of accelerated annuity.** (a) Any coordinated member who retires before normal retirement age may elect to receive an optional accelerated retirement annuity from the association which provides for different annuity amounts over different periods of retirement. The optional accelerated retirement annuity must take the form of an annuity payable for the period before the member attains age 65, or normal retirement age, in a greater amount than the amount of the annuity calculated under section 354.44 on the basis of the age of the member at retirement, but the optional accelerated retirement annuity must be the actuarial equivalent of the member's annuity computed on the basis of the member's age at retirement. The greater amount must be paid until the retiree reaches age 65, or normal retirement age, and at that time the payment from the association must be reduced. For each year the retiree is under age 65, or normal retirement age, up to five percent of the total life annuity required reserves may be used to accelerate the optional retirement annuity under this section.

(b) Members who retire before age 62 may elect to have the annuity under this subdivision accelerated to age 62 rather than normal retirement age or age 65.

(c) The method of computing the optional accelerated retirement annuity provided in this subdivision is established by the board of trustees. In establishing the method of computing the optional accelerated retirement annuity or any modification of that procedure, the board of trustees must obtain the written ~~approval~~ certification of accuracy from the actuary retained under section 356.214. The written ~~approval~~ certification must be a part of the permanent records of the board of trustees. The election of an optional accelerated retirement annuity is exercised by making an application on a form provided by the executive director.

Sec. 21. Minnesota Statutes 2006, section 354.45, subdivision 1, is amended to read:

Subdivision 1. **Optional annuity forms.** The retirement board shall establish optional annuities at retirement which ~~shall~~ must take the form of an annuity payable for a period certain and for life thereafter or the form of a joint and survivor annuity. The board shall also establish an optional annuity which ~~shall~~ must take the form of a guaranteed refund annuity paying the annuitant a fixed amount for life with the guarantee that in the event of death the balance of the accumulated deductions and interest accrued to the date of retirement ~~will be paid~~ is payable to the designated beneficiary. Except as provided in subdivision 1a, any optional annuity forms ~~shall~~ must be actuarially equivalent to the normal forms provided in section 354.44. In establishing these optional annuity forms, the board shall obtain the written ~~recommendation~~ certification of accuracy of the actuary retained under section 356.214. The ~~recommendations shall~~ certification must be a part of the permanent records of the board.

Sec. 22. Minnesota Statutes 2006, section 354.55, subdivision 11, is amended to read:

Subd. 11. **Deferred annuity; augmentation.** (a) Any person covered under section 354.44, subdivision 6, who ceases to render teaching service, may leave the person's accumulated deductions in the fund for the purpose of receiving a deferred annuity at retirement. Eligibility for an annuity under this subdivision is governed pursuant to section 354.44, subdivision 1, or 354.60.

(b) The amount of the deferred retirement annuity is determined by section 354.44, subdivision 6, and augmented as provided in this subdivision. The required reserves related to that portion of the annuity which had accrued when the member ceased to render teaching service must be augmented by interest compounded annually from the first day of the month following the month during which the member ceased to render teaching service to the effective date of retirement. There ~~shall be~~ is no augmentation if this period is less than three months or if this period commences prior to July 1, 1971. The rates of interest used for this purpose must be five percent compounded annually commencing July 1, 1971, until January 1, 1981, and three percent compounded annually thereafter until January 1 of the year following the year in which the former member attains age 55 and from that date to the effective date of retirement, the rate is five percent compounded annually if the employee became an employee before July 1, 2006, and at 2.5 percent compounded annually if the employee becomes an employee after June 30, 2006. If a person has more than one period of uninterrupted service, a separate average salary determined under section 354.44, subdivision 6, must be used for each period and the required reserves related to each period must be augmented by interest pursuant to this subdivision. The sum of the augmented required reserves so determined ~~shall be~~ is the basis for purchasing the deferred annuity. If a person repays a refund, the service restored by the repayment must be considered as continuous with the next period of service for which the person has credit with this fund. If a person does not render teaching service in any one fiscal year or more consecutive fiscal years and then resumes teaching service, the formula percentages used from the date of the resumption of teaching service must be those applicable to new members. The mortality table and interest assumption used to compute the annuity must be the applicable mortality table established by the board under section 354.07, subdivision 1, and the interest rate assumption under section 356.215 in effect when the member retires. A period of uninterrupted service for the purposes of this subdivision means a period of covered teaching service during which the member has not been separated from active service for more than one fiscal year.

(c) In no case ~~shall~~ may the annuity payable under this subdivision be less than the amount of annuity payable pursuant to section 354.44, subdivision 6.

(d) The requirements and provisions for retirement before normal retirement age contained in section 354.44, subdivision 6, clause (3) or (5), ~~shall~~ also apply to an employee fulfilling the requirements with a combination of service as provided in section 354.60.

(e) The augmentation provided by this subdivision applies to the benefit provided in section 354.46, subdivision 2.

(f) The augmentation provided by this subdivision ~~shall~~ does not apply to any period in which a person is on an approved leave of absence from an employer unit covered by the provisions of this chapter.

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

Sec. 23. Minnesota Statutes 2006, section 354A.011, subdivision 3a, is amended to read:

Subd. 3a. **Actuarial equivalent.** "Actuarial equivalent" means the condition of one annuity or benefit having an equal actuarial present value as another annuity or benefit, determined as of a given date with each actuarial present value based on the appropriate mortality table adopted by the appropriate board of trustees based on the experience of that retirement fund association as ~~recommended~~ certified as accurate by the actuary retained under section 356.214, and approved under section 356.215, subdivision 18, and using the applicable preretirement or postretirement interest rate assumption specified in section 356.215, subdivision 8.

Sec. 24. Minnesota Statutes 2006, section 354A.021, subdivision 7, is amended to read:

Subd. 7. **Actuarial consultant.** The board of trustees or directors of each teachers retirement fund association may contract for the services of an approved actuary and fix the reasonable compensation for those services. ~~Any~~ An approved actuary retained by the board ~~shall function as~~ is the actuarial ~~advisor~~ adviser to the board and may perform benefit increase cost estimates, actuarial valuations, and experience studies to supplement those performed by the actuary retained under section 356.214. ~~Any~~ Supplemental benefit increase cost estimates, actuarial valuations ~~or~~, and experience studies must be filed with the executive director of the Legislative Commission on Pensions and Retirement.

Sec. 25. Minnesota Statutes 2007 Supplement, section 354A.12, subdivision 3c, is amended to read:

Subd. 3c. **Termination of supplemental contributions and direct matching and state aid.** (a) The supplemental contributions payable to the Minneapolis Teachers

Retirement Fund Association by Special School District No. 1 and the city of Minneapolis under section 423A.02, subdivision 3, must continue to be paid to the Teachers Retirement Association until 2037. The supplemental contributions payable to the St. Paul Teachers Retirement Fund Association by Independent School District No. 625 under section 423A.02, subdivision 3, or the direct state aids under subdivision 3a to the St. Paul Teachers Retirement Fund Association terminate at the end of the fiscal year in which the accrued liability funding ratio for that fund, as determined in the most recent actuarial report for that fund by the actuary retained under section 356.214, equals or exceeds the accrued liability funding ratio for the teachers retirement association, as determined in the most recent actuarial report for the Teachers Retirement Association by the actuary retained under section 356.214.

(b) If the state direct matching, state supplemental, or state aid is terminated for a first class city teachers retirement fund association under paragraph (a), it may not again be received by that fund.

(c) If the St. Paul Teachers Retirement Fund Association is funded at <u>or in excess of</u> the funding ratio applicable to the Teachers Retirement Association when the provisions of paragraph (b) become effective, then any state aid previously distributed to that association must be immediately transferred to the Teachers Retirement Association.

Sec. 26. Minnesota Statutes 2006, section 354A.31, subdivision 7, is amended to read:

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

actuarial equivalency must be determined using a procedure certified as accurate by the actuary retained under section 356.214.

Sec. 27. Minnesota Statutes 2006, section 354A.32, subdivision 1, is amended to read:

Subdivision 1. **Optional forms generally.** The board of the St. Paul Teachers Retirement Fund Association shall establish for the coordinated program and the board of the Duluth Teachers Retirement Fund Association shall establish for the new law coordinated program an optional retirement annuity which ~~shall~~ must take the form of a joint and survivor annuity. Each board may also, in its discretion, establish an optional annuity which ~~shall take~~ takes the form of an annuity payable for a period certain and for life thereafter. Each board ~~shall~~ must also establish an optional retirement annuity that guarantees payment of the balance of the annuity recipient's accumulated deductions to a designated beneficiary upon the death of the annuity recipient. Except as provided in subdivision 1a, optional annuity forms ~~shall~~ must be the actuarial equivalent of the normal forms provided in section 354A.31. In establishing these optional annuity forms, the board shall obtain the written ~~recommendation~~ certification of the accuracy of the actuarial equivalence determination procedure from the actuary retained under section 356.214. The recommendation ~~shall~~ must be retained as a part of the permanent records of the board.

Sec. 28. Minnesota Statutes 2006, section 354A.33, is amended to read:

354A.33 SOCIAL SECURITY LEVELING ADJUSTMENT OPTION.

Any coordinated member who retires ~~prior to~~ before the ~~time~~ date on which the member becomes eligible for Social Security old age retirement benefits ~~shall be~~ is entitled to elect to receive a Social Security leveling adjustment optional annuity from the teachers retirement fund association. The Social Security leveling adjustment optional annuity ~~shall~~ must be established by the board of the teachers retirement fund association. ~~It shall~~ The option must take the form of an annuity payable for the period ~~prior to~~ before the member's becoming eligible for Social Security old age retirement benefits in an amount greater than the amount of the member's annuity calculated ~~pursuant to~~ under section 354A.31 on the basis of the age of the member at retirement but equal insofar as possible to the Social Security old age retirement benefit and the adjusted retirement annuity amounts payable immediately subsequent to becoming eligible for Social Security old age retirement benefits in an amount less than the amount of the member's annuity calculated ~~pursuant to~~ under section 354A.31 on the basis of the age of the member at retirement. The optional form ~~shall~~ must be the actuarial equivalent to the normal forms provided in section 354A.31. In establishing the optional form, the board shall obtain the written ~~recommendation~~ certification of the actuary retained under section 356.214 and the ~~recommendation shall~~ certification must be retained as a part of the permanent records of the board.

Sec. 29. Minnesota Statutes 2006, section 354A.37, subdivision 2, is amended to read:

Subd. 2. **Eligibility for deferred retirement annuity.** Any coordinated member who ceases to render teaching services for the school district in which the teachers retirement fund association is located, with sufficient allowable service credit to meet the minimum service requirements specified in section 354A.31, subdivision 1, ~~shall be~~ is entitled to a deferred retirement annuity in lieu of a refund ~~pursuant to~~ under subdivision 1. The deferred retirement annuity ~~shall~~ must be computed ~~pursuant to~~ under section 354A.31 and ~~shall~~ must be augmented as provided in this subdivision. The deferred annuity ~~shall~~ must commence upon application after the person on deferred status attains at least the minimum age specified in section 354A.31, subdivision 1.

The monthly annuity amount that had accrued when the member ceased to render teaching service must be augmented from the first day of the month following the month during which the member ceased to render teaching service to the effective date of retirement. There is no augmentation if this period is less than three months. The rate of augmentation is three percent compounded annually until January 1 of the year following the year in which the former member attains age 55, and five percent compounded annually after that date to the effective date of retirement if the employee became an employee before July 1, 2006, and at 2.5 percent compounded annually if the employee becomes an employee after June 30, 2006. If a person has more than one period of uninterrupted service, a separate average salary determined under section 354A.31 must be used for each period, and the monthly annuity amount related to each period must be augmented as provided in this subdivision. The sum of the augmented monthly annuity amounts determines the total deferred annuity payable. If a person repays a refund, the service restored by the repayment must be considered as continuous with the next period of service for which the person has credit with the fund. If a person does not render teaching services in any one fiscal year or more consecutive fiscal years and then resumes teaching service, the formula percentages used from the date of resumption of teaching service are those applicable to new members. The mortality table and interest assumption used to compute the annuity are the table established by the fund to compute other annuities, and the interest assumption under section 356.215 in effect when the member retires. The calculation procedure must be certified as accurate by the actuary retained under section 356.214. A period of uninterrupted service for the purpose of this subdivision means a period of covered teaching service during which the member has not been separated from active service for more than one fiscal year.

The augmentation provided by this subdivision applies to the benefit provided in section 354A.35, subdivision 2. The augmentation provided by this subdivision does not apply to any period in which a person is on an approved leave of absence from an employer unit.

Sec. 30. Minnesota Statutes 2006, section 356.20, subdivision 3, is amended to read:

Subd. 3. **Filing requirement.** The financial report is a public record. A copy of the report or a synopsis of the report containing the information required by this section must be distributed annually to each member of the ~~fund~~ retirement plan and to the governing body of each governmental subdivision of the state which makes employers contributions thereto or in whose behalf taxes are levied for the employers' contribution. A signed copy of the report must be delivered to the executive director of the Legislative Commission on Pensions and Retirement and to the Legislative Reference Library not later than six months after the close of each fiscal year or one month following the completion and delivery to the retirement ~~fund~~ plan of the actuarial valuation report of the fund by the actuary retained under section 356.214, if applicable, whichever is later.

Sec. 31. Minnesota Statutes 2006, section 356.20, subdivision 4, is amended to read:

Subd. 4. **Contents of financial report.** (a) The financial report required by this section must contain financial statements and disclosures that indicate the financial operations and position of the retirement plan and fund. The report must conform with generally accepted governmental accounting principles, applied on a consistent basis. The report must be audited. The report must include, as part of its exhibits or its footnotes, an actuarial disclosure item based on the actuarial valuation calculations prepared by the actuary retained under section 356.214 or by the actuary retained by the retirement fund or plan, whichever applies, according to applicable actuarial requirements enumerated in section 356.215, and specified in the most recent standards for actuarial work adopted by the Legislative Commission on Pensions and Retirement. The accrued assets, the accrued liabilities, including accrued reserves, and the unfunded actuarial accrued liability of the fund or plan must be disclosed. The disclosure item must contain a declaration by the actuary retained under section 356.214 or the actuary retained by the fund or plan, whichever applies, specifying that the required reserves for any retirement, disability, or survivor benefits provided under a benefit formula are computed in accordance with the entry age actuarial cost method, under section 356.215, and in accordance with the most recent applicable standards for actuarial work adopted by the Legislative Commission on Pensions and Retirement.

(b) Assets of the fund or plan contained in the disclosure item must include the following statement of ~~the actuarial value of~~ current assets as defined in section 356.215, subdivision 1, paragraph (f):

	Value at cost	Value at market
Cash, cash equivalents, and short-term securities	....	....
Accounts receivable	....	....
Accrued investment income	....	....
Fixed income investments	....	....
Equity investments other than real estate	....	....
Real estate investments	....	....
Equipment	....	....
Participation in the Minnesota postretirement investment fund or the retirement benefit fund	....	....
Other	....	....
Total assets		
Value at cost		....
Value at market		....
Actuarial value of current assets		....

(c) The unfunded actuarial accrued liability of the fund or plan contained in the disclosure item must include the following measures of unfunded actuarial accrued liability, using the actuarial value of current assets:

(1) the unfunded actuarial accrued liability, determined by subtracting the current assets and the present value of future normal costs from the total current and expected future benefit obligations; and

(2) the unfunded pension benefit obligation, determined by subtracting the current assets from the actuarial present value of credited projected benefits.

If the current assets of the fund or plan exceed the actuarial accrued liabilities, the excess must be disclosed and indicated as a surplus.

(d) The pension benefit obligations schedule included in the disclosure must contain the following information on the benefit obligations:

(1) the pension benefit obligation, determined as the actuarial present value of credited projected benefits on account of service rendered to date, separately identified as follows:

(i) for annuitants,
retirement annuities,
disability benefits,
surviving spouse and child benefits;

(ii) for former members without vested rights;

(iii) for deferred annuitants' benefits, including any augmentation;

(iv) for active employees,
accumulated employee contributions, including allocated investment income,
employer-financed benefits vested,
employer-financed benefits nonvested,
total pension benefit obligation; and

(2) if there are additional benefits not appropriately covered by the ~~foregoing items of~~ benefit ~~obligations~~ obligation items under clause (1), a separate identification of the obligation.

(e) The report must contain an itemized exhibit describing the administrative expenses of the plan, including, but not limited to, the following items, classified on a consistent basis from year to year, and with any further meaningful detail:

(1) personnel expenses;

(2) communication-related expenses;

(3) office building and maintenance expenses;

(4) professional services fees; and

(5) other expenses.

(f) The report must contain an itemized exhibit describing the investment expenses of the plan, including, but not limited to, the following items, classified on a consistent basis from year to year, and with any further meaningful detail:

(1) internal investment-related expenses; and

(2) external investment-related expenses.

(g) Any additional statements or exhibits or more detailed or subdivided itemization of a disclosure item that will enable the management of the fund to portray a true interpretation of the fund's financial condition must be included in the additional statements or exhibits.

Sec. 32. Minnesota Statutes 2006, section 356.215, subdivision 1, is amended to read:

Subdivision 1. **Definitions.** (a) For the purposes of sections 3.85 and 356.20 to 356.23, each of the terms in the following paragraphs has the meaning given.

(b) "Actuarial valuation" means a set of calculations prepared by the actuary retained under section 356.214 if so required under section 3.85, or otherwise, by an approved actuary, to determine the normal cost and the accrued actuarial liabilities of a benefit plan, according to the entry age actuarial cost method and based upon stated assumptions including, but not limited to rates of interest, mortality, salary increase, disability, withdrawal, and retirement and to determine the payment necessary to amortize over a stated period any unfunded accrued actuarial liability disclosed as a result of the actuarial valuation of the benefit plan.

(c) "Approved actuary" means a person who is regularly engaged in the business of providing actuarial services and who has at least 15 years of service to major public employee pension or retirement funds or who is a fellow in the Society of Actuaries.

(d) "Entry age actuarial cost method" means an actuarial cost method under which the actuarial present value of the projected benefits of each individual currently covered by the benefit plan and included in the actuarial valuation is allocated on a level basis over the service of the individual, if the benefit plan is governed by section 69.773, or over the earnings of the individual, if the benefit plan is governed by any other law, between the entry age and the assumed exit age, with the portion of the actuarial present value which is allocated to the valuation year to be the normal cost and the portion of the actuarial present value not provided for at the valuation date by the actuarial present value of future normal costs to be the actuarial accrued liability, with aggregation in the calculation process to be the sum of the calculated result for each covered individual and with recognition given to any different benefit formulas which may apply to various periods of service.

(e) "Experience study" means a report providing experience data and an actuarial analysis of the adequacy of the actuarial assumptions on which actuarial valuations are based.

(f) "Current assets" means~~:~~

~~(1) for the July 1, 2001, actuarial valuation, the market value of all assets as of June 30, 2001, reduced by:~~

~~(i) 30 percent of the difference between the market value of all assets as of June 30, 1999, and the actuarial value of assets used in the July 1, 1999, actuarial valuation;~~

~~(ii) 60 percent of the difference between the actual net change in the market value of assets between June 30, 1999, and June 30, 2000, and the computed increase in the market value of assets between June 30, 1999, and June 30, 2000, if the assets had increased at the percentage preretirement interest rate assumption used in the July 1, 1999, actuarial valuation; and~~

~~(iii) 80 percent of the difference between the actual net change in the market value of assets between June 30, 2000, and June 30, 2001, and the computed increase in the market value of assets between June 30, 2000, and June 30, 2001, if the assets had increased at the percentage preretirement interest rate assumption used in the July 1, 2000, actuarial valuation;~~

~~(2) for the July 1, 2002, actuarial valuation, the market value of all assets as of June 30, 2002, reduced by:~~

~~(i) ten percent of the difference between the market value of all assets as of June 30, 1999, and the actuarial value of assets used in the July 1, 1999, actuarial valuation;~~

~~(ii) 40 percent of the difference between the actual net change in the market value of assets between June 30, 1999, and June 30, 2000, and the computed increase in the market value of assets between June 30, 1999, and June 30, 2000, if the assets had increased at the percentage preretirement interest rate assumption used in the July 1, 1999, actuarial valuation;~~

~~(iii) 60 percent of the difference between the actual net change in the market value of assets between June 30, 2000, and June 30, 2001, and the computed increase in the market value of assets between June 30, 2000, and June 30, 2001, if the assets had increased at the percentage preretirement interest rate assumption used in the July 1, 2000, actuarial valuation; and~~

~~(iv) 80 percent of the difference between the actual net change in the market value of assets between June 30, 2001, and June 30, 2002, and the computed increase in the market value of assets between June 30, 2001, and June 30, 2002, if the assets had increased at the percentage preretirement interest rate assumption used in the July 1, 2001, actuarial valuation; or~~

~~(3) for any actuarial valuation after July 1, 2002,~~ the market value of all assets as of the preceding June 30, reduced by:

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

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

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

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

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

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

Sec. 33. Minnesota Statutes 2006, section 356.215, subdivision 2, is amended to read:

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

(1) the actuary retained under section 356.214 shall prepare annual actuarial valuations of the retirement plans enumerated in section 356.214, subdivision 1, paragraph (b), and quadrennial experience studies of the retirement plans enumerated in section 356.214, subdivision 1, paragraph (b), clauses (1), (2), and (7); and

(2) at Department of Finance expense, the commissioner of finance may have ~~prepared by~~ the actuary retained ~~by the commission~~ under section 356.214, prepare two years after each set of quadrennial experience studies, quadrennial projection valuations of ~~at least~~ one or more of the retirement plans enumerated in section 6, subdivision 1, paragraph (b), for which the commissioner determines that the analysis may be beneficial.

(b) The governing or managing board or administrative officials of each public pension and retirement fund or plan enumerated in section 356.20, subdivision 2, clauses

(9), (10), and (12), ~~shall~~ must have prepared by an approved actuary annual actuarial valuations of their respective funds as provided in this section.

~~This~~ (c) The actuarial valuation requirement also applies to any fund or plan that is the successor to any organization enumerated in section 356.20, subdivision 2, or to the governing or managing board or administrative officials of any newly formed retirement fund, plan, or association operating under the control or supervision of any public employee group, governmental unit, or institution receiving a portion of its support through legislative appropriations, and any local police or fire fund to which section 356.216 applies.

Sec. 34. Minnesota Statutes 2006, section 356.215, subdivision 2a, is amended to read:

Subd. 2a. **Projection valuation requirements.** (a) A quadrennial projection valuation authorized under subdivision 2 is intended to serve as an additional analytical tool with which policy makers may assess the future funding status of public plans through forecasting and testing various potential outcomes over time if certain plan assumptions or valuation methods were to be modified.

(b) In consultation with the retirement fund directors, the state economist, the state demographer, the commissioner of finance, and the commissioner of employee relations, the actuary retained under section 356.214 shall perform the quadrennial projection valuations on behalf of the commissioner of finance, if requested to do so by the commissioner of finance, testing future implications for plan funding by modifying assumptions and methods currently in place. The actuary retained under section 356.214 shall provide advice to the commissioner as to the periods over which such projections should be made, the nature and scope of the scenarios to be analyzed, and the measures of funding status to be employed, and shall report the results of these analyses in the same manner as for quadrennial experience studies.

Sec. 35. Minnesota Statutes 2006, section 356.215, subdivision 17, is amended to read:

Subd. 17. **Actuarial services by approved actuaries.** (a) The benefit increase cost estimate, the actuarial valuation ~~or~~, and the quadrennial experience study must be made and any actuarial consulting services for a retirement fund or plan must be provided by an approved actuary. The benefit increase cost estimate, the actuarial valuation ~~or~~, and the quadrennial experience study must include a signed written declaration that it has been prepared according to sections 356.20 to 356.23 and according to the most recent standards for actuarial work adopted by the Legislative Commission on Pensions and Retirement.

(b) Benefit increase cost estimates, actuarial valuations ~~or~~, and experience studies prepared by an approved actuary retained by a retirement fund or plan must be submitted to the Legislative Commission on Pensions and Retirement within ten days of the submission of the document to the retirement fund or plan.

Sec. 36. Minnesota Statutes 2006, section 356.215, subdivision 18, is amended to read:

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

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

Sec. 37. Minnesota Statutes 2006, section 356.551, subdivision 2, is amended to read:

Subd. 2. **Determination.** (a) Unless the minimum purchase amount set forth in paragraph (c) applies, the prior service credit purchase amount is an amount equal to the actuarial present value, on the date of payment, as calculated by the chief administrative officer of the pension plan and reviewed for accuracy by the actuary retained under section 356.214, of the amount of the additional retirement annuity obtained by the acquisition of the additional service credit in this section.

(b) Calculation of this amount must be made using the preretirement interest rate applicable to the public pension plan specified in section 356.215, subdivision 8, and the mortality table adopted for the public pension plan. The calculation must assume continuous future service in the public pension plan until, and retirement at, the age at which the minimum requirements of the fund for normal retirement or retirement with an annuity unreduced for retirement at an early age, including section 356.30, are met with the additional service credit purchased. The calculation must also assume a full-time equivalent salary, or actual salary, whichever is greater, and a future salary history that includes annual salary increases at the applicable salary increase rate for the plan specified in section 356.215, subdivision 4d.

(c) The prior service credit purchase amount may not be less than the amount determined by applying the current employee or member contribution rate, the employer contribution rate, and the additional employer contribution rate, if any, to the person's current annual salary and multiplying that result by the number of whole and fraction years of service to be purchased.

(d) Payment must be made in one lump sum within one year of the prior service credit authorization. Payment of the amount calculated under this section must be made by the applicable eligible person.

(e) However, the current employer or the prior employer may, at its discretion, pay all or any portion of the payment amount that exceeds an amount equal to the employee contribution rates in effect during the period or periods of prior service applied to the actual salary rates in effect during the period or periods of prior service, plus interest at the rate of 8.5 percent a year compounded annually from the date on which the contributions would otherwise have been made to the date on which the payment is made. If the employer agrees to payments under this subdivision, the purchaser must make the employee payments required under this subdivision within 90 days of the prior service credit authorization. If that employee payment is made, the employer payment under this subdivision must be remitted to the chief administrative officer of the public pension plan within 60 days of receipt by the chief administrative officer of the employee payments specified under this subdivision.

Sec. 38. Minnesota Statutes 2006, section 422A.01, subdivision 7, is amended to read:

Subd. 7. **Actuarial equivalent.** "Actuarial equivalent" means the condition of one annuity or benefit having an equal present worth or present value as another annuity or benefit determined as of a given date with each actuarial present value based on the appropriate mortality table adopted by the board based on the experience of the retirement plan as certified as accurate by the actuary retained under section 356.214 and approved under section 356.215, subdivision 18, and using the applicable preretirement or postretirement interest rate assumption specified in section 356.215, subdivision 8.

Sec. 39. Minnesota Statutes 2006, section 422A.04, subdivision 2, is amended to read:

Subd. 2. **Actuarial data.** The board shall keep, in a convenient form, any data that is necessary for the preparation of the annual actuarial valuation of the fund created by this chapter. The actuarial valuation of the fund ~~shall be~~ must be prepared by the actuary retained under section 356.214 and is governed by the provisions of chapter 356 and the standards for actuarial work adopted by the Legislative Commission on Pensions and Retirement.

Sec. 40. Minnesota Statutes 2006, section 422A.04, subdivision 3, is amended to read:

Subd. 3. **Experience data and mortality tables.** The board shall prepare and keep any needful tables, records, and accounts required for carrying out the provisions of sections 422A.01 to 422A.25, including data showing the mortality and disability experience of the officers and employees of the service and the date of withdrawal from service, and any other information that may serve as a guide for future actuarial valuations and adjustments in the actuarial assumptions for the retirement fund. Mortality tables ~~shall~~ must be adopted and may be modified from time to time by the board based on the experience of the fund as recommended by the actuary retained under section 356.214 as a basis of calculation for retirement allowances, with ~~any recommendation~~ a certification as to accuracy by the actuary retained as a part of the permanent records of the board and any assumption change approved as required under section 356.215, subdivision 18.

Sec. 41. Minnesota Statutes 2006, section 422A.06, subdivision 2, is amended to read:

Subd. 2. **Actuarial valuation required.** As of July 1 of each year, an actuarial valuation of the retirement fund ~~shall~~ must be prepared by the actuary retained ~~by the joint retirement systems~~ under section 356.214 and filed in conformance with the provisions and requirements of sections 356.215 to 356.23. Experience studies ~~shall~~ must be prepared at those times required by statute, required by the standards for actuarial work adopted by the Legislative Commission on Pensions and Retirement or ordered by the board.

The board may contract for the services of an approved actuary and fix the reasonable compensation for those services. Any approved actuary retained by the board ~~shall function~~ functions as the actuarial ~~advisor~~ adviser to the board and may perform benefit increase cost estimates, actuarial valuations, and experience studies to supplement those performed by the actuary retained ~~by the joint retirement systems~~ under section 356.214. ~~Any~~ Benefit increase cost estimates, supplemental actuarial valuations ~~or~~, and experience studies prepared by an approved actuary retained by the board must be filed with the executive director of the Legislative Commission on Pensions and Retirement at the same time as the document is filed with the board.

Sec. 42. Minnesota Statutes 2007 Supplement, section 422A.06, subdivision 8, is amended to read:

Subd. 8. **Retirement benefit fund.** (a) The retirement benefit fund consists of amounts held for payment of retirement allowances for members retired under this chapter, including any transfer amount payable under subdivision 3, paragraph (c).

(b) Unless subdivision 3, paragraph (c), applies, assets equal to the required reserves for retirement allowances under this chapter determined in accordance with the appropriate mortality table adopted by the board of trustees based on the experience of the fund as recommended by the actuary retained under section 356.214 must be transferred from the deposit accumulation fund to the retirement benefit fund as of the last business day of the month in which the retirement allowance begins. The income from investments of these assets must be allocated to this fund and any interest charge under subdivision 3, paragraph (c), must be credited to the fund. There must be paid from this fund the retirement annuities authorized by law. A required reserve calculation for the retirement benefit fund must be made by the actuary retained under section 356.214 and must be certified to the retirement board by ~~the~~ that actuary ~~retained under section 356.214~~.

(c) The retirement benefit fund must be governed by the applicable laws governing the accounting and audit procedures, investment, actuarial requirements, calculation and payment of postretirement benefit adjustments, discharge of any deficiency in the assets of the fund when compared to the actuarially determined required reserves, and other applicable operations and procedures regarding the Minnesota postretirement investment fund in effect on June 30, 1997, established under Minnesota Statutes 1996, section 11A.18, and any legal or administrative interpretations of those laws of the State Board of Investment, the legal ~~advisor~~ adviser to the Board of Investment and the executive director of the State Board of Investment in effect on June 30, 1997. If a deferred yield adjustment account ~~is~~ was established for the Minnesota postretirement investment fund before June 30, 1997, under Minnesota Statutes 1996, section 11A.18, subdivision 5, the retirement board ~~shall~~ also must establish and maintain a deferred yield adjustment account within this fund.

(d) Annually, following the calculation of any postretirement adjustment payable from the retirement benefit fund, the board of trustees shall submit a report to the executive director of the Legislative Commission on Pensions and Retirement and to the commissioner of finance indicating the amount of any postretirement adjustment and the underlying calculations on which that postretirement adjustment amount is based, including the amount of dividends, the amount of interest, and the amount of net realized and unrealized capital gains or losses utilized in the calculations.

(e) With respect to a former contributing member who began receiving a retirement annuity or disability benefit under section 422A.151, paragraph (a), clause (2), after June 30, 1997, or with respect to a survivor of a former contributing member who began receiving a survivor benefit under section 422A.151, paragraph (a), clause (2), after June 30, 1997, the reserves attributable to the one percent lower amount of the cost-of-living adjustment payable to those annuity or benefit recipients annually must be transferred back to the deposit accumulation fund to the credit of the Metropolitan Airports Commission. The calculation of this annual reduced cost-of-living adjustment reserve transfer must be reviewed by the actuary retained under section 356.214.

Sec. 43. Minnesota Statutes 2006, section 422A.101, subdivision 1, is amended to read:

Subdivision 1. **Financial requirements of fund.** ~~Prior to~~ (a) Before July 31 annually, the retirement board, in consultation with the actuary retained under section 356.214, shall prepare an itemized statement of the financial requirements of the fund for the succeeding fiscal year. A copy of the statement ~~shall~~ must be submitted to the city council, the board of estimate and taxation of the city, the managing board or chief administrative officer of each city owned public utility, improvement project or municipal activity supported in whole or in part by revenues other than real estate taxes, public corporation, or unit of metropolitan government employing members of the fund, the board of Special School District No. 1, and the state commissioner of finance ~~prior to~~ on or before July 31 annually.

(b) The statement ~~shall~~ must be itemized and ~~shall~~ must include the following:

(1) an estimate of the administrative expenses of the fund for the following year, including the amount necessary to amortize through June 30, 2020, the annual costs that are determined by the retirement board to be related to investment activities of the deposit accumulation fund other than actual investment transaction amounts;

(2) an estimate of the normal cost of the fund expressed as a dollar amount, which ~~shall~~ must be determined by applying the normal cost of the fund as reported in the most recent actuarial valuation prepared by the actuary retained under section 356.214 and expressed as a percentage of covered payroll to the estimated total covered payroll of all employees covered by the fund for the following year;

(3) an estimate of the contribution required to amortize on a level annual dollar basis the unfunded actuarial accrued liability of the fund by June 30, 2020, using an interest rate of six percent compounded annually, as reported in the most recent actuarial valuation~~;~~ prepared by the actuary retained under section 356.214, expressed as a dollar amount. In determining the amount of the unfunded actuarial accrued liability of the fund, all assets other than the assets of the retirement benefit fund ~~shall~~ must be valued as current assets as defined under section 356.215, subdivision 1, ~~clause (6)~~ paragraph (f), and the assets of the retirement benefit fund ~~shall~~ must be valued as an amount equal to the actuarially determined required reserves for benefits payable from that fund; and

(4) the amount of any deficiency in the actual amount of any employer contribution provided for in this section when compared to the required contribution amount certified for the previous year, plus interest on the amount at the rate of six percent per annum.

Sec. 44. Minnesota Statutes 2006, section 422A.101, subdivision 1a, is amended to read:

Subd. 1a. **City contributions.** ~~Prior to~~ (a) Before August 31 of each year, the retirement board shall prepare an itemized statement of the financial requirements of the fund payable by the city for the succeeding fiscal year~~, and~~. A copy of the statement ~~shall~~ must be submitted to the board of estimate and taxation and to the city council by September 15 annually.

(b) The financial requirements of the fund payable by the city ~~shall~~ must be calculated as follows:

~~(a)~~ (1) a regular employer contribution of an amount equal to the percentage, rounded to the nearest two decimal places of the salaries and wages of all employees covered by the retirement fund which equals the difference between the level normal cost plus administrative cost as reported in the annual actuarial valuation prepared by the actuary retained under section 356.214 and the employee contributions provided for in section 422A.10 less any amounts contributed toward the payment of the balance of the normal cost not paid by employee contributions by any city owned public utility, improvement project, other municipal activities supported in whole or in part by revenues other than real estate taxes, any public corporation, any employing unit of metropolitan government, or by Special School District No. 1 ~~pursuant to~~ under subdivision 2;

~~(b)~~ (2) an additional employer contribution of an amount equal to the percent specified in section 353.27, subdivision 3a, clause (a), multiplied by the salaries and wages of all employees covered by the retirement fund less any amounts contributed toward amortization of the unfunded actuarial accrued liability by June 30, 2020, attributable to their respective covered employees by any city owned public utility, improvement project, other municipal activities supported in whole or in part by revenues other than real estate taxes, any public corporation, any employing unit of metropolitan government, or by Special School District No. 1 ~~pursuant to~~ under subdivision 2; and

~~(c)~~ (3) a proportional share of an additional employer amortization contribution of an amount equal to $3,900,000 annually until June 30, 2020, based upon the share of the fund's unfunded actuarial accrued liability attributed to the city as disclosed in the annual actuarial valuation prepared by the actuary retained under section 356.214.

(c) The city council shall, in addition to other taxes levied by the city, annually levy a tax equal to the amount of the financial requirements of the fund which are payable by the city. The tax, when levied, ~~shall~~ must be extended upon the county lists and ~~shall~~ must be collected and enforced in the same manner as other taxes levied by the city. If the city does not levy a tax sufficient to meet the requirements of this subdivision, the retirement board shall submit the tax levy statement directly to the county auditor, who shall levy the tax. The tax, when levied, ~~shall~~ must be extended upon the county lists and ~~shall~~ must be collected and paid into the city treasury to the credit of the retirement fund. Any amount to the credit of the retirement fund ~~shall constitute~~ constitutes a special fund and ~~shall~~ may be used only for the payment of obligations authorized ~~pursuant to~~ under this chapter.

Sec. 45. Minnesota Statutes 2006, section 422A.101, subdivision 2, is amended to read:

Subd. 2. **Contributions by or for city-owned public utilities, improvements, or municipal activities.** (a) Contributions by or for any city-owned public utility, improvement project, and other municipal activities supported in whole or in part by revenues other than real estate taxes, any public corporation, any employing unit of metropolitan government, Special School District No. 1, or Hennepin County, on ~~account~~ behalf of any employee covered by the fund, ~~shall~~ must be calculated as follows:~~.~~

~~(a)~~ (1) a regular employer contribution of an amount equal to the percentage rounded to the nearest two decimal places of the salaries and wages of all employees of the employing unit covered by the retirement fund which equals the difference between the level normal cost plus administrative cost reported in the annual actuarial valuation prepared by the actuary retained under section 356.214 and the employee contributions provided for in section 422A.10;

~~(b)~~ (2) an additional employer contribution of an amount equal to the percent specified in section 353.27, subdivision 3a, clause (a), multiplied by the salaries and wages of all employees of the employing unit covered by the retirement fund; and

~~(c)~~ (3) a proportional share of an additional employer amortization contribution of an amount equal to $3,900,000 annually until June 30, 2020, based upon the share of the fund's unfunded actuarial accrued liability attributed to the employer as disclosed in the annual actuarial valuation prepared by the actuary retained under section 356.214.

(b) The city council or any board or commission may, by proper action, provide for the inclusion of the cost of the retirement contributions for employees of any city-owned public utility or for persons employed in any improvement project or other municipal activity supported in whole or in part by revenues other than taxes who are covered by the retirement fund in the cost of operating the utility, improvement project, or municipal activity. The cost of retirement contributions for these employees ~~shall~~ must be determined by the retirement board and the respective governing bodies having jurisdiction over the financing of these operating costs.

(c) The cost of the employer contributions on behalf of employees of Special School District No. 1 who are covered by the retirement fund ~~shall be~~ is the obligation of the school district. Contributions by the school district to the retirement fund or any other public pension or retirement fund of which its employees are members must be remitted to the fund each month. An amount due and not transmitted begins to accrue interest at the rate of six percent compounded annually 15 days after the date due. The retirement board shall prepare an itemized statement of the financial requirements of the fund payable by the school district, which ~~shall~~ must be submitted ~~prior to~~ before September 15. Contributions by the school district ~~shall~~ must be made at times designated by the retirement board. The school district may levy for its contribution to the retirement fund only to the extent permitted ~~pursuant to~~ under section 126C.41, subdivision 3.

(d) The cost of the employer contributions on behalf of elective officers or other employees of Hennepin County who are covered by the retirement fund ~~pursuant to~~ under section 422A.09, subdivision 3, clause (2), 422A.22, subdivision 2, or 488A.115, or Laws 1973, chapter 380, section 3, Laws 1975, chapter 402, section 2, or any other applicable law ~~shall be~~ is the obligation of Hennepin County. The retirement board shall prepare an itemized statement of the financial requirements of the fund payable by Hennepin County, which ~~shall~~ must be submitted ~~prior to~~ before September 15. Contributions by Hennepin County ~~shall~~ must be made at times designated by the retirement board. Hennepin County may levy for its contribution to the retirement fund.

Sec. 46. Minnesota Statutes 2006, section 422A.101, subdivision 2a, is amended to read:

Subd. 2a. **Contributions by Metropolitan Airports Commission and Metropolitan Council.** The Metropolitan Airports Commission and the Metropolitan Council shall pay to the Minneapolis Employees Retirement Fund annually, in installments as specified in subdivision 3, the share of the additional support rate required for full amortization of the unfunded actuarial accrued liabilities by June 30, 2020, that is attributable to employees of the airports commission or former Metropolitan Waste Control Commission who are members of the fund. The amount of the payment ~~shall~~ must be determined as if the airport commission and Metropolitan Council's employer contributions determined under subdivision 2 had also included a proportionate share of a $1,000,000 annual employer amortization contribution. The amount of this

$1,000,000 annual employer amortization contribution that would have been allocated to the commission or council would have been based on the share of the fund's unfunded actuarial accrued liability attributed to the commission or council compared to the total unfunded actuarial accrued liability attributed to all employers under subdivisions 1a and 2. The determinations required under this subdivision must be based on the most recent actuarial valuation prepared by the actuary retained under section 356.214.

Sec. 47. Minnesota Statutes 2007 Supplement, section 422A.101, subdivision 3, is amended to read:

Subd. 3. **State contributions.** (a) Subject to the limitation set forth in paragraph (c), the state shall pay to the Minneapolis Employees Retirement Fund annually an amount equal to the amount calculated under paragraph (b).

(b) The payment amount is an amount equal to the financial requirements of the Minneapolis Employees Retirement Fund reported in the actuarial valuation of the fund prepared by the actuary retained under section 356.214 consistent with section 356.215 for the most recent year, but based on a target date for full amortization of the unfunded actuarial accrued liabilities by June 30, 2020, less the amount of employee contributions required under section 422A.10, and the amount of employer contributions required under subdivisions 1a, 2, and 2a. Payments ~~shall~~ must be made September 15 annually.

(c) The annual state contribution under this subdivision may not exceed $9,000,000, plus the cost of the annual supplemental benefit determined under section 356.43.

(d) If the amount determined under paragraph (b) exceeds $9,000,000, the excess must be allocated to and must be paid to the fund by the employers identified in subdivisions 1a and 2, other than units of metropolitan government. Each employer's share of the excess is proportionate to the employer's share of the fund's unfunded actuarial accrued liability as disclosed in the annual actuarial valuation prepared by the actuary retained under section 356.214 compared to the total unfunded actuarial accrued liability attributed to all employers identified in subdivisions 1a and 2, other than units of metropolitan government. Payments must be made in equal installments as set forth in paragraph (b).

Sec. 48. Minnesota Statutes 2006, section 422A.15, subdivision 2, is amended to read:

Subd. 2. **Withdrawal of voluntary contributions.** (a) Voluntary additions to the employee's deposits made by the employee under section 422A.10 may be withdrawn in a lump sum by the retiring employee ~~or,~~. With the approval of the retirement board, ~~applied~~ voluntary additions to the employee's deposits may be used to ~~the~~ purchase ~~of~~ an additional annuity computed and determined under a procedure specified by the actuary retained under section 356.214 utilizing the appropriate mortality table established by the board of trustees based on the experience of the fund as ~~recommended~~ certified as accurate by the actuary retained under section 356.214 and using the applicable postretirement interest rate assumption specified in section 356.215, subdivision 8.

Sec. 49. Minnesota Statutes 2006, section 422A.15, subdivision 3, is amended to read:

Subd. 3. **Optional defined contribution annuity.** In lieu of the formula pension and annuity, a person who was a contributing member on April 28, 1973, who is eligible to retire and who ceases to be employed and who qualifies for retirement ~~shall have the option of electing~~ may elect to receive a retirement allowance known as "the $2 bill and annuity."

If a member of the contributing class makes the election provided for in this section, the member ~~shall~~ is entitled to receive a minimum pension of $2 per month for each year of service. The pension ~~shall~~ must be the actuarial equivalent of the accumulated amounts of the annual installments as may be fixed and designated by law throughout the period of service of the retiring employee, not to exceed 25 years, accumulated to the date of retirement at six percent compound interest, and such extra credit to be provided by the city as will produce the minimum pension of $2 per month for each year of service. The pension ~~shall be~~ is in addition to the annuity. The annuity ~~shall~~ must be ~~in~~ the actuarial equivalent of the net accumulated contributions to the credit of the retiring employee, calculated at the date of retirement. For the purposes of this chapter, the "service allowance" for members of the contributing class ~~shall consist~~ consists of an "annuity" and a "pension."

The pension provided for ~~herein shall~~ in this subdivision must be the actuarial equivalent of the accumulated annual installments of $2 per month for each year of service. The sum of $2 ~~shall~~ must be computed as a single life annuity and is subject to the option selections provided for in section 422A.17. The pension and annuity provided for in this subdivision ~~shall~~ must be first paid from the contributing member's own contributions and normal earned credits, plus interest, until those credits are exhausted.

The retirement allowance provided under this subdivision or any optional annuity form of the retirement allowance ~~shall~~ must be computed and determined under a procedure specified by the actuary retained under section 356.214 utilizing the appropriate mortality table established by the board of trustees based on the experience of the fund as ~~recommended~~ certified by the actuary retained under section 356.214 and using the applicable postretirement interest rate assumption specified in section 356.215, subdivision 8.

Sec. 50. Minnesota Statutes 2006, section 422A.16, subdivision 2, is amended to read:

Subd. 2. **Deferred defined contribution annuity.** A person who ~~is~~ was a member of the contributing class on April 28, 1973, and who makes the election provided for in this subdivision and in subdivision 1, may, upon attaining the age of 55 years, but before attaining the age of 65 years, or someone acting in the member's behalf, may make application to receive the retirement allowance provided for in section 422A.15, subdivision 3, or an optional retirement allowance in the manner provided for by section 422A.17. The retirement allowance ~~shall~~ must be the actuarial equivalent of the city's contribution and the member's deposit, as they were on the date the separation becomes permanent, plus interest, as provided for in section 422A.12.

The retirement allowance provided under this subdivision or any optional annuity form of the retirement allowance ~~shall~~ must be computed and determined under a procedure specified by the actuary retained under section 356.214 utilizing the appropriate mortality table established by the board of trustees based on the experience of the fund as ~~recommended~~ certified by the actuary retained under section 356.214 and using the applicable postretirement interest rate assumption specified in section 356.215, subdivision 8.

Sec. 51. Minnesota Statutes 2006, section 422A.17, is amended to read:

422A.17 RETIREMENT ALLOWANCE; OPTIONS.

At retirement, any employee who is eligible to receive a service allowance may elect to receive benefits in a retirement allowance payable throughout life or may on retirement elect to receive the actuarial equivalent at that time of annuity, pension, or retirement allowance in a lesser annuity, or a lesser pension, or a lesser retirement allowance, payable throughout life, with the provisions that:

Option I. If the benefit recipient dies before receiving in payments an amount equal to the present value of the benefit recipient's annuity, pension, or retirement allowance, as of the date of the benefit recipient's retirement, the balance ~~shall be paid~~ is payable to the benefit recipient's legal representatives or to such person as the benefit recipient ~~shall nominate~~ nominates by written designation duly acknowledged and filed with the retirement board as of the date of retirement, or

Option II. Upon the death of the benefit recipient, the benefit recipient's annuity, pension, or retirement allowance ~~shall be continued~~ continues throughout the life of and paid to the person as the benefit recipient ~~shall nominate~~ nominates by written designation duly acknowledged and filed with the retirement board as of the date of retirement, or

Option III. Upon death of the benefit recipient, one-half of the benefit recipient's annuity, pension, or retirement allowance ~~shall be continued~~ continues throughout the life of and paid to the person as the benefit recipient ~~shall nominate~~ nominates by written designation duly acknowledged and filed with the retirement board as of the date of retirement, or

Option IV. Other optional retirement allowance forms, including a bounceback joint and survivor option under which the benefit recipient receives a normal single-life annuity if the designated optional annuity beneficiary dies before the benefit recipient, ~~shall be paid~~ are payable to the benefit recipient or other person or persons the benefit recipient nominates~~, provided that~~ if the optional annuity is of equivalent actuarial value to the applicable single life annuity calculated under section 422A.15 and is approved by the retirement board.

~~Any~~ An optional retirement allowance ~~shall~~ must be computed and determined under a procedure specified by the actuary retained under section 356.214 utilizing the appropriate mortality table established by the board of trustees based on the experience of the fund as ~~recommended~~ certified by the actuary retained under section 356.214 and using the applicable postretirement interest rate assumption specified in section 356.215, subdivision 8.

In adopting optional annuity forms, the board of trustees ~~shall~~ must obtain the written ~~recommendation of~~ certification of accuracy from the actuary retained under section 356.214. The ~~recommendations shall~~ certifications must be a part of the permanent records of the board of trustees.

Sec. 52. Minnesota Statutes 2006, section 422A.23, subdivision 12, is amended to read:

Subd. 12. **Determination of annuity.** The survivor annuities payable under this section must be computed and determined under a procedure specified by the actuary retained under section 356.214 utilizing the appropriate mortality table based on the experience of the fund as recommended by that actuary and approved by the Legislative Commission on Pensions and Retirement under section 356.215, subdivision 18, and using the applicable postretirement interest rate assumption specified in section 356.215, subdivision 8.

Sec. 53. Minnesota Statutes 2006, section 422A.231, is amended to read:

422A.231 COST ALLOCATION.

(a) Notwithstanding any law to the contrary, all current and future contribution requirements due to ~~this article~~ Laws 1999, chapter 222, article 17, are payable by the participating contributing employing units other than the state of Minnesota.

(b) In each actuarial valuation of the retirement fund, the actuary retained under section 356.214 shall include an exhibit on the impact of the benefit increases contained in this article on the survivor benefit fund. The actuary shall calculate the expected change in the present value of the future benefits payable from the survivor benefit fund attributable to ~~this article~~ Laws 1999, chapter 222, article 17, using the actuarial method and assumptions applicable to the Minneapolis Employees Retirement Fund, from the prior actuarial valuation and shall compare that result with the actual change in the present value of future benefits payable from the survivor benefit fund attributable to this article from the prior actuarial valuation.

(c) The executive director shall assess each participating employer, other than the state of Minnesota, its proportional share of the net increase amount calculated under paragraph (b). The assessment must be made on the first business day of the following February, plus compound interest at an annual rate of six percent on the amount from the actuarial valuation date to the date of payment.

Sec. 54. Minnesota Statutes 2006, section 490.121, subdivision 2a, is amended to read:

Subd. 2a. **Actuarial equivalent.** "Actuarial equivalent" means the condition of one annuity or benefit having an equal actuarial present value as another annuity or benefit, determined as of a given date with each actuarial present value based on the appropriate mortality table adopted by the board of directors of the Minnesota State Retirement System based on the experience of the fund as ~~recommended~~ certified as accurate by the actuary retained under section 356.214 and approved under section 356.215, subdivision 18, and using the applicable preretirement or postretirement interest rate assumption specified in section 356.215, subdivision 8.

Sec. 55. Minnesota Statutes 2006, section 490.124, subdivision 11, is amended to read:

Subd. 11. **Limitation on survivor benefits; optional annuities.** (a) No survivor or death benefits may be paid in connection with the death of a judge who retires after December 31, 1973, except as otherwise provided in this chapter.

(b) Except as provided in subdivision 10, a judge may elect to receive, instead of the normal retirement annuity, an optional retirement annuity in the form of either (1) an annuity payable for a period certain and for life after that period, (2) a joint and survivor annuity without reinstatement of the single life annuity amount if the designated beneficiary predeceases the retired judge, or (3) a bounceback joint and survivor annuity with reinstatement of the single life annuity amount if the designated beneficiary predeceases the retired judge.

(c) An optional retirement annuity must be actuarially equivalent to a single-life annuity with no term certain and must be established by the board of directors of the Minnesota State Retirement System. In establishing these optional retirement annuity forms, the board shall obtain the written ~~recommendation of~~ certification of accuracy by the actuary retained under section 356.214. The ~~recommendations~~ certifications must be retained as a part of the permanent records of the board.

Sec. 56. **EFFECTIVE DATE.**

Sections 1 to 55 are effective July 1, 2008.