



**S.F. 914**  
(Betzold)

**H.F. 1100**  
(Thissen)

**Executive Summary of Commission Staff Materials**

*Affected Pension Plan(s):* MERF, PERA-General  
*Relevant Provisions of Law:* Minnesota Statutes, Chapters 353 and 422A  
*General Nature of Proposal:* Consolidates MERF into PERA-General on July 1, 2010  
*Date of Summary:* March 10, 2009

**Specific Proposed Change(s)**

Provides for the consolidation of MERF into PERA-General on July 1, 2010.

**Policy Issues Raised by the Proposed Legislation**

1. Actuarial condition of MERF and PERA-General.
2. Potential for MERF benefit default.
3. Urgency for consolidation legislation.
4. Precedent for consolidation.
5. Actuarial impact of a MERF consolidation on PERA-General.
6. Benefit impact on MERF members.
7. Unclear contribution by MERF members.
8. Financial impact of MERF/PERA-General consolidation on MERF-covered employing units.
9. Financial impact of MERF/PERA-General consolidation on the State of Minnesota.
10. Need for local approval for local legislation or general legislation.
11. Transitional provision; handling MERF employees in subsequent employment.

**Potential Amendments**

**Technical Amendment**

**S0914-2A** corrects an incorrect word.

**Substantive Amendments**

- S0914-3A** reduces the MERF accrued liability by totally eliminating the special adjustment for differences between the MERF post-retirement adjustment mechanism and the PERA-General post-retirement adjustment mechanism, referred to as "Uniformity Swap."
- S0914-4A** reduces the MERF accrued liability by partially eliminating the "Uniformity Swap."
- S0914-5A** extends the MERF state aid beyond 2020 to a to-be-determined future date.
- S0914-6A** adds a local approval effective date, to be implemented by the City of Minneapolis
- S0914-7A** revises the provision relating to the future employment of the current MERF employees.



TO: Members of the Legislative Commission on Pensions and Retirement  
FROM: Lawrence A. Martin, Executive Director *Lawrence A. Martin*  
RE: S.F. 914 (Betzold); H.F. 1100 (Thissen): PERA-General; MERF Consolidation  
DATE: March 9, 2009

General Summary of S.F. 914 (Betzold); H.F. 1100 (Thissen)

S.F. 914 (Betzold); H.F. 1100 (Thissen) amends portions of Minnesota Statutes, Chapters 6, 13D, 43A, 69, 126C, 256D, 352, 353, 354A, 356, 422A, 473, and 480, and provides for the consolidation of the Minneapolis Employees Retirement Fund (MERF) into the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) on July 1, 2010.

Specifically, the proposed legislation provides for the following:

- A. Consolidation Initiation. The MERF/PERA-General consolidation would be initiated by legislation, without any formal initiation action required of MERF, the City of Minneapolis, the MERF Association, or PERA. (Section 35)
- B. Consolidation Approval Procedures. The consolidation would be implemented on July 1, 2010. (Section 35, Subdivision 7)
- C. Funding Upon and Following the Consolidation. Legal title to all current assets of MERF would transfer to PERA/State Board of Investment on the effective date of the consolidation, with the beneficial title to the assets remaining in the MERF members. The City of Minneapolis would continue annually to make its contributions for MERF members to PERA set at the Fiscal Year 2008 dollar amount level until 2020. Additionally, the City of Minneapolis and other MERF-covered employing units would make an additional one-time contribution sufficient to bring the MERF funding ratio, determined at the market value of assets, up to the June 30, 2009, PERA-General funding ratio, determined at the market value of assets and payable either in a lump sum or in annual installments, with interest at 8.5 percent, for ten years. State aids currently payable to MERF would become payable to PERA-General until 2020, the PERA-General amortization target date. If PERA-General becomes fully funded before June 30, 2031, the state aids related to the former MERF and the Minneapolis ongoing annual regular contribution end as of the January 1 next following the full funded date. (Sections 21; 35, Subdivisions 4 and 5; and 57)
- D. Disposition of MERF Tangible Assets and Personnel. The MERF office lease should be converted to a month-to-month lease in anticipation of the consolidation and would end on or shortly after the effective date of the consolidation. Any MERF office equipment should be transferred to PERA-General or surplus in the ordinary manner either through the State of Minnesota, the City of Minneapolis, or the Minneapolis Public School District. MERF employees hired before June 30, 2008, would be transferred to subsequent employment by either the City of Minneapolis or Special School District No 1 without loss of salary or benefits for a yet-to-be specified period, then would be given a civil service employment preference comparable to a veteran's preference for municipal or school district employment in a position determined appropriate based on the employee's education and experience by the normal Human Resources process of the governmental entity. (Sections 35, Subdivision 3; and 63)
- E. Consolidation Transfers. MERF assets have already been shifted to the Minnesota Supplemental Investment Fund, operated by the State Board of Investment. As of June 30, 2009, the MERF Board would no longer have any investment authority over the MERF assets with the State Board of Investment and the State Board of Investment would then either continue the investment of former MERF assets in the Minnesota Supplemental Investment Fund or would transfer the former MERF assets to PERA's participation in the Minnesota Combined Investment Funds. MERF's membership and business records would be transferred to PERA as of July 1, 2010. After consolidation, retirement benefit payments to benefit recipients of the former MERF would become the responsibility of PERA. A successor-in-interest provision substitutes PERA for MERF in all legal obligations or for potential causes of action other than instances where MERF fiduciaries were not acting in good faith. (Section 35, Subdivision 4)
- F. Benefit Plan Conversion. Current MERF active members would be covered by the current benefit provisions of Minnesota Statutes 2008, Chapter 422A, administered by PERA, except for post-retirement adjustments, which would be an automatic 2.5 percent increase annually, and upon retirement, the initial annuity would be adjusted to that amount which, with a 2.5 percent post-retirement adjustment, would have the same actuarial present value as the pre-adjustment MERF annuity with the MERF Retirement Benefit Fund adjustment (i.e., Consumer Price Index-based

increases up to 3.5 percent annually). Service credited by MERF for current actives before consolidation would be credited by PERA-General as reported by MERF. The current benefit and related provisions of Minnesota Statutes, Chapter 422A, would be repealed effective upon the consolidation. MERF retirees initially would receive their current benefit amounts adjusted for an additional annuity amount that has the same actuarial present value as the difference between an automatic 2.5 percent annual post-retirement adjustment and an automatic post-retirement adjustment based on CPI increases up to 3.5 percent and then would receive annual automatic 2.5 percent post-retirement adjustments. (Sections 22 to 34; and 35, Subdivision 5)

G. Conforming Changes. Crossreferences to MERF and statutory citations to MERF or MERF-related provisions are eliminated and most current MERF provisions are repealed. (Sections 1 to 20; 36 to 56; 58 to 62; and 64 to 66)

Section-By-Section Summary

A section-by-section summary of S.F. 914 (Betzold); H.F. 1100 (Thissen) is attached.

Relevant Background Information

Background information relating to the Minneapolis Employees Retirement Fund (MERF) is set forth in several attachments, as follows:

- Attachment A, background information on MERF, generally.
- Attachment B, funding problems of MERF.
- Attachment C, actuarial valuation data for MERF, 1943-2008.
- Attachment D, state aid to MERF.
- Attachment E, MERF post-retirement adjustments.

Technical Amendment

**Amendment S0914-2A** is a technical amendment, substituting “employer” for “employee” in a PERA-General law provision relating to employer contributions.

Analysis and Discussion

S.F. 914 (Betzold); H.F. 1100 (Thissen) provides for the consolidation of the Minneapolis Employees Retirement Fund (MERF) into the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General), fully effective July 1, 2010.

S.F. 914 (Betzold); H.F. 1100 (Thissen) raises a number of pension and related public policy issues for Commission consideration and potential discussion, as follows:

1. Actuarial Condition of MERF and PERA-General. The policy issue is the actuarial condition of the two retirement plans involved in the proposed pension plan consolidation. As of July 1, 2008, the actuarial valuation results of the two retirement plans as calculated by their respective actuaries, Gabriel Roeder Smith & Company for MERF and Mercer for PERA-General, were as follows:

	<b>MERF 2008</b>		<b>PERA-General 2008</b>	
<u>Membership</u>				
Active Members		211		145,238
Service Retirees		3,577		54,855
Disabilitants		154		2,046
Survivors		915		6,979
Deferred Retirees		134		42,308
Nonvested Former Members		<u>0</u>		<u>116,805</u>
Total Membership		4,991		368,231
<u>Funded Status</u>				
Accrued Liability		\$1,576,854,841		\$17,729,847,000
Current Assets		<u>\$1,214,305,152</u>		<u>\$13,048,970,000</u>
Unfunded Accrued Liability		\$362,549,689		\$4,680,877,000
Funding Ratio	77.01%		73.60%	
<u>Financing Requirements</u>				
Covered Payroll		\$12,697,639		\$4,952,751,000
Benefits Payable		\$148,221,483		\$824,372,000
Normal Cost	12.18%	\$1,546,554	7.74%	\$383,111,000
Administrative Expenses	<u>5.66%</u>	<u>\$718,074</u>	<u>0.19%</u>	<u>\$9,410,000</u>
Normal Cost & Expense	17.84%	\$2,264,628	7.93%	\$392,521,000
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Amortization	<u>356.47%</u>	<u>\$45,263,846</u>	<u>6.29%</u>	<u>\$311,528,000</u>
Total Requirements	374.32%	\$47,528,474	14.22%	\$704,049,000

Employee Contributions	9.75%	\$1,238,020	6.00%	\$297,220,000
Employer Contributions	47.99%	\$6,093,597	6.63%	\$328,211,000
Employer Add'l Cont.	2.72%	\$345,011	0.00%	\$0
Direct State Funding	70.88%	\$9,000,000	0.00%	\$0
Other Govt. Funding	0.00%	\$0	0.00%	\$0
Administrative Assessment	<u>0.00%</u>	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>
Total Contributions	131.34%	\$16,676,628	12.63%	\$625,431,000
Total Requirements	374.32%	\$47,528,474	14.22%	\$704,049,000
Total Contributions	<u>131.34%</u>	<u>\$16,676,628</u>	<u>12.63%</u>	<u>\$625,431,000</u>
Deficiency (Surplus)	242.98%	\$30,851,846	1.59%	\$78,618,000
Amortization Target Date	2020		2031	

### Actuarial Assumptions

	MERF	PERA-General
Mortality Rates:	<p><u>Pre-Retirement</u> Average of male and female rates of 1986 Projected Experience Table with a 1-year age setback.</p> <p><u>Post-Retirement</u> Average of male and female rates of 1986 Projected Experience Table with a 1-year age setback.</p> <p><u>Disabled</u> Average of male and female rates of 1986 Projected Experience Table with a 1-year age setback.</p>	<p><u>Pre-Retirement</u> • 1983 Group Annuity Mortality for males set back eight years. • 1983 Group Annuity Mortality for females set back seven years.</p> <p><u>Post-Retirement</u> • 1983 Group Annuity Mortality for males set back one year. • 1983 Group Annuity Mortality for females set back one year.</p> <p><u>Disabled</u> 1965 RRB rates through age 54. For ages 55 to 64, graded rates between 1965 RRB rates and the Healthy Post-Retirement Mortality. For ages 65 and later, the Healthy Post-Retirement Mortality.</p>
Interest:	<p><u>Pre-Retirement</u> 6.0% per annum.</p> <p><u>Post-Retirement</u> 5.0% per annum.</p>	<p><u>Pre-Retirement</u> 8.5% compounded annually.</p> <p><u>Post-Retirement</u> 6.0% compounded annually.</p>
Salary Increases:	Total reported pay for prior calendar year increased 1.98% (half year of 4.00%, compounded) to prior fiscal year and 4.00% annually for each future year.	Reported salary for prior fiscal year, with new hires annualized, increased to current fiscal year and annually for each future year according to the ultimate rates in the rate table. During a 5-year select period, 0.60% x (5-T) where T is completed years of service is added to the ultimate rate.
Retirement Rates:	100% at age 61.	Graded rates beginning at age 55 as shown in rate table. Members who have attained the highest assumed retirement age are assumed to retire in one year.

Age	Retirement	
	Rule of 90 Eligible	Other
55	30%	7%
56	25%	7%
57	25%	7%
58	25%	7%
59	25%	9%
60	25%	9%
61	30%	15%
62	40%	22%
63	30%	20%
64	30%	20%
65	40%	40%
66	25%	25%
67	25%	25%
68	25%	25%
69	25%	25%
70	25%	25%
71	100%	100%

