



Delete-Everything Amendment S1180-1A to
S.F. 1180 **H.F. 1774**
(Betzold) (Nelson)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): MSRS Deferred Compensation and MSRS-Unclassified
Relevant Provisions of Law: Minnesota Statutes, Chapters 352 and 352D
General Nature of Proposal: Changes to MSRS Deferred Compensation Plan and the MSRS-Unclassified Program
Date of Summary: July 1, 2009

Specific Proposed Change(s)

Delete-Everything Amendment S1180-1A requires employing units to transmit to the MSRS Deferred Compensation Plan third party administrator the information deemed necessary by the MSRS executive director; requires employers to provide identification information and financial information to a third party administrator for MSRS-Unclassified to allow daily rather than monthly valuation of the accounts; revises MSRS-Unclassified provisions to permit an annuity to accrue the day after submitting an application or the day after termination, whichever is later, rather than at the beginning of the next month; and removes the cap on MSRS-Unclassified administrative fees.

Policy Issues Raised by the Proposed Legislation

1. Sufficient need for the change.
2. Data privacy and identity theft concern due to increased use of outside record keepers.
3. Removal of cap on MSRS-Unclassified administrative fees.
4. Appropriate effective dates given that the bill did not pass during the 2009 Legislative Session.

Potential Amendments

Administrative Fee Amendments:

S1180-2A retains the cap on administrative fees remains as stated in existing law (10/100 of one percent of account assets attributable to contributions made on or after July 1, 1992, and any related investment gain) by removing this section from the delete-everything amendment.

S1180-3A, an alternative to S1180-2A, leaves a cap in place but revises the cap from 10/100 of one percent of applicable assets to an amount to be specified by the Commission.

Effective Date Amendments:

S1180-4A would make the provisions effective July 1, 2010, rather than July 1, 2009.

S1180-5A, an alternative to S1180-4A, makes the provisions effective retroactively from July 1, 2009.



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Ed Burek, Deputy Director
RE: Delete-Everything Amendment S1180-1A to S.F. 1180 (Betzold); H.F. 1774 (Nelson):
MSRS Deferred Compensation Plan and Unclassified Program; Changing to Daily
Valuation of Accounts; Using Third-Party Administrator; Revising Annuity Accrual Dates
DATE: July 1, 2009

Introduction

Minnesota State Retirement System Executive Director Dave Bergstrom requested that when S.F. 1180 (Betzold); H.F. 1774 (Nelson) is heard by the Legislative Commission on Pensions and Retirement, that it be heard in the form of Delete-Everything Amendment S1180-1A.

Summary of Delete-Everything Amendment S1180-1A to S.F. 1180 (Betzold); H.F. 1774 (Nelson)

Delete-Everything Amendment S1180-1A requires employing units to transmit to the Minnesota State Retirement System (MSRS) Deferred Compensation Plan third party administrator the information deemed necessary by the MSRS executive director; requires employers to provide identification information and financial information to a third party administrator for the Unclassified Employees Retirement Program of the Minnesota State Retirement System (MSRS-Unclassified) to allow daily rather than monthly valuation of the accounts; revises MSRS-Unclassified provisions to permit an annuity to accrue the day after submitting an application or the day after termination, whichever is later, rather than at the beginning of the next month; and removes the cap on MSRS-Unclassified administrative fees.

Section-By-Section Summary of Delete-Everything Amendment S1180-1A

1. Section 1 amends Minnesota Statutes, Section 352.965, Subdivision 6, the deferred compensation plan administrative expense provision, by requiring employers to supply necessary personal and financial data to the third party administrator on plan participants, and by clarifying that the third party administrator must comply with data privacy requirements (1.3-1.28).
2. Section 2 amends Minnesota Statutes, Section 352D.015, Subdivision 9, the definition of "value" in MSRS-Unclassified, by specifying that value means the account's market value at the end of the day, rather than value at the end of the month following receipt of an annuity (1.29-1.34).
3. Section 3 amends Minnesota Statutes, Section 352D.02, an MSRS-Unclassified coverage provision, by adding a subdivision requiring employers to provide personal and financial data to an outside record keeper selected by MSRS. The record keeper must comply with data privacy procedures (2.1-2.10).
4. Section 4 amends Minnesota Statutes, Section 352D.04, Subdivision 1, an MSRS-Unclassified investment option provision, by clarifying the provision and by making language changes consistent with the change from monthly to daily pricing, and by permitting changes in the funds used to invest an account to be made electronically rather than in writing (2.11-3.7).
5. Section 5 amends Minnesota Statutes, Section 352D.05, Subdivision 3, an asset withdrawal provision, to be consistent with daily rather than monthly valuation of accounts (3.8-3.17).
6. Section 6 amends Section 352D.06, Subdivision 3, the MSRS-Unclassified retirement accrual date provision, to permit an annuity to accrue the day after receipt of a valid application or the day following termination of employment, whichever is later, rather than at the start of the next full month (3.27).
7. Section 7 amends Minnesota Statutes, Section 352D.065, Subdivision 3, the MSRS-Unclassified disability accrual date provision, to have disability annuities accrue the day after receipt of a valid application or the day following termination of employment, whichever is later, rather than at the start of the next full month (3.28-4.3).
8. Section 8 amends Minnesota Statutes, Section 352D.09, Subdivision 3, the MSRS-Unclassified prospectus provision, by requiring the executive director to make the MSRS-Unclassified investment

prospectus available by electronic means, and by permitting individuals to request hard copies, rather than by requiring distribution of a prospectus to each participant (4.4- 4.11).

9. Section 9 amends Minnesota Statutes, Section 352D.09, Subdivision 7, the MSRS-Unclassified administrative fees provision, by removing the cap on administrative fees (4.12-4.18).

Relevant Background Information

- **Attachment A** contains background information on the MSRS Unclassified Program.
- **Attachment B** contains background information on the MSRS Deferred Compensation Plan.

Discussion and Analysis

Delete-Everything Amendment S1180-1A requires employing units to transmit to the MSRS Deferred Compensation Plan third party administrator the information deemed necessary by the MSRS executive director; requires employers to provide identification information and financial information to a third party administrator for the Unclassified Employees Retirement Program of the Minnesota State Retirement System (MSRS-Unclassified) to allow daily rather than monthly valuation of the accounts; revises MSRS-Unclassified provisions to permit an annuity to accrue the day after submitting an application or the day after termination, whichever is later, rather than at the beginning of the next month; and removes the cap on MSRS-Unclassified administrative fees.

The delete-everything amendment raises pension or related public policy issues for Commission consideration and potential discussion, as follows:

1. Sufficient Need for the Change. The issue is whether there is sufficient need for the primary changes covered by the delete-everything amendment, the move from monthly to daily pricing of accounts and the corresponding changes in annuity accrual dates, permitting an annuity to accrue on the day after receipt of a valid application and after termination of service has occurred, rather than at the start of the next month. These changes should reduce uncertainty to MSRS-Unclassified members who choose to draw an annuity from the Unclassified Program. In the very volatile markets recently encountered, large changes in account value can occur during a month. Permitting an annuity based on the account value a day after all requirements to receive an annuity have been satisfied, rather than delaying the valuation of the account for several weeks, as can occur under existing law, will add more certainty to the process. The MSRS executive director has also indicated his intention of doing away with the current practice of placing contributions received during any given month in a holding account, to be transmitted at the beginning of the next month into the investment vehicles which the member has specified. This is currently required because the price of a share of the given investment vehicle is not known until the start of the next month. Instead, contributions can be immediately transferred upon receipt to the investment vehicles specified by the individual. Over time, this should add to the investment gains in the account, creating a higher asset value.
2. Possible Concerns About the Increased Use of Outside Record Keepers. The Commission may wish to request testimony from Mr. Bergstrom to ensure the Commission is comfortable with the increased reliance on outside record keepers, particularly with the MSRS-Unclassified Program. MSRS contends that it is necessary to utilize outside record keepers to be able to price the accounts on a daily basis. A drawback is that the more parties with access to the data, the greater the risk that an unauthorized party might access the data, creating data privacy and possible identity theft concerns. The delete-everything amendment does require any third party administrator to treat the data as required by data privacy laws.
3. Removal of Cap on MSRS-Unclassified Administrative Fees. The policy issue is the removal of the cap on MSRS-Unclassified administrative fees, currently capped at 10/100 of one percent of assets attributable to contributions made on or after July 1, 1992, and any related investment gain. MSRS contends that although the fees may go up compared to existing law, the members will actually receive a net gain after the increased investment returns due to eliminating the use of holding accounts is factored in. The Commission may wish to ensure it is comfortable with the proposed removal of the cap.
4. Appropriate Effective Date. The bill was introduced in 2009 using July 1, 2009, effective dates, and the delete-everything amendment contains the same effective dates. Because the bills was not heard by the Commission in during the 2009 Legislative Session, it may be appropriate to use July 1, 2010, effective dates, or to revise the language to clarify that the provisions are effective retroactively from July 1, 2009.

