



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Ed Burek, Deputy Director *EB*
RE: Author's Amendment LCPR10-038-5A to the DTRFA Financial Sustainability Bill, Document LCPR10-038
DATE: March 3, 2010

Introduction

Representative Mary Murphy has requested that the Duluth Teachers Retirement Fund Association (DTRFA) financial sustainability bill draft be heard as revised by Amendment LCPR10-038-5A.

Summary of Amendment LCPR10-038-5A

Amendment LCPR10-038-5A amends the DTRFA financial sustainability bill (LCPR10-038), by:

1. Removing a reduction in normal retirement age for post June 30, 1989, hires from age 66 to age 65, and removing benefit improvements which would have provided the DTRFA with the prospective benefit improvements provided to TRA in 2006. The TRA benefit improvement was an increase, applicable for prospective service only, in accrual rates used in early retirement situations for pre-July 1, 1989, hires from 1.2 percent to 1.4 percent of the high-five average salary for each of the first ten years of service and 1.9 percent rather than 1.7 percent for each year thereafter, and a prospective increase applicable to all pre-July 1, 1989, hires when a level benefit calculation is used, and for all teacher hired after June 30, 1989, of 1.9 percent per year of service rather than 1.7 percent per year of service.
2. Removing all employee and employer contribution increases tied to the now deleted benefit improvements, but leaving in the bill draft a one percent increase in the DTRFA employee and employer contribution rates, phase in over two years starting on July 1, 2011.

Summary of Draft Engrossment LCPR10-038-E1

Assuming the author's amendment LCPR10-038-5A is adopted, the proposed legislation will be in the form of draft engrossment LCPR10-038-E1, which is attached. The proposal increases DTRFA employee and employer contribution rates, revises post-retirement adjustment procedures, and reduces other miscellaneous benefit provisions (vesting, the refund interest rate, deferred annuities augmentation, and removes all interest on reemployed annuitant savings accounts). More specifically, draft engrossment LCPR10-038-E1 does the following:

- Contribution Rate Increases. Effective July 1, 2011, the DTRFA employee contribution rate increases from 5.5 percent of salary to 6.0 percent, and on July 1, 2012, increases to 6.5 percent. The DTRFA employer additional contribution, 1.29 percent of pay, is merged into the employer regular contribution, currently 4.5 percent of pay, to create a single 5.79 percent contribution rate. That rate is then increased on July 1, 2011, to 6.29 percent, and on July 1, 2012, to 6.79 percent. (*Sections 1-2*)
- Revised Post-Retirement Increase Procedures. The current system of an automatic two percent annual post-retirement increase, plus additional increases based on five year annualized returns in excess of 8.5 percent, is replaced by a new approach, consisting of a transitional system, followed by a move to an inflation match approach, matching inflation up to five percent, after funding ratios improve considerably. Under the transition method, no increase will be provide to DTRFA pensioners (retirees, disabilitants, and survivors) if the funding ratio, based on comparison of the market value of assets compared to accrued liability, is less than 80 percent. A one percent increase will be paid if the market-value funding ratio is at least 80 percent but less than 90 percent, and a two percent increase will be paid if the ratio is at least 90 percent. Also, when the funding ratio, when actuarial asset value rather than market is used, is at least 90 percent, the transition method ends and a new system is put in place which will match inflation up to five percent. (*Sections 3, 4, and 5*)
- Revised Vesting. Five years of service, rather than three years, will be needed to vest for a benefit. (*Section 6*)
- Reduced Refund Interest Rate. The interest rate applicable for periods after July 1, 2010, used to compute death refunds, terminated employee refunds, and refunds in lieu of an annuity, will be four percent rather than six percent. (*Section 7, 9, 10*)

- Reduced Deferred Annuity Augmentation. The deferred annuities augmentation rate will be two percent per year in all cases for periods occurring after July, 1 2010, rather than the current three percent per year until age 55 and five percent per year thereafter. (*Section 8*)
- Elimination of Interest on Reemployed Annuitant Savings Accounts. Beginning July 1, 2010, reemployed annuitant savings accounts (created when a DTRFA annuitant is reemployed by the school district and the person exceeds the permissible maximum in reemployment income, causing a portion of the annuity to be withheld and placed in a savings account for the individual, payable after terminating the reemployment) will provide no interest, rather than six percent interest. (*Section 11*)
- Elimination of Obsolete Post-Retirement Adjustment Provision. An unnecessary post-retirement adjustment authorization provision is repealed. (*Section 12*)

Discussion and Analysis

The proposal raises numerous policy issues for Commission consideration and discussion, as follows.

1. Question of Whether the DTRFA is a Viable Fund in the Long Term. The issue is whether the Duluth Teachers Retirement Fund Association (DTRFA) is financially viable. The DTRFA is one of only a few funds specifically mentioned by the Commission's reviewing actuary, Milliman, Inc., in its actuarial review presentation to the Commission on February 19, 2010. Milliman's report noted that the DTRFA is a mature fund with nearly 40 percent of its membership in benefit-receipt status, and with more than 60 percent of its accrued liabilities due to those already retired. The actuaries also noted that the DTRFA is the last fund still using a flawed procedure to pay out post-retirement adjustments, the same process which helped drain the Minneapolis Teachers Retirement Fund Association (MTRFA) of its assets. That process permits the DTRFA to pay out additional post-retirement adjustments based on five-year average investment returns in excess of 8.5 percent. A significant problem with that procedure is that the mechanism does not require that fund asset values recover from the impacts of prior recessions before those adjustments begin again. While the actuaries were not concerned about the short term, they did recommend that future DTRFA actuarial reports include a cash flow solvency test to indicate whether the fund is headed for trouble. According to the July 1, 2009, actuarial report, the DTRFA funding ratio is 76.55 percent. However, that is computed using the actuarial value of assets which, given the smoothing procedures in place and the impact of the recent recession, considerably overstates the market value of assets. When the market value of assets is compared to the fund's liability, the funding ratio is only 49 percent; this fund has slightly less than half the assets needed to cover its liabilities.
2. Question of Whether this Proposal is in the Best Interest of Plan Members. The issue is whether this proposal is in the best interest of plan members. Instead of this proposal, the membership is likely to be better served by working to merge into the Teachers Retirement Association (TRA). That would ensure the security of the Duluth teachers and provide to them the benefits currently provided by TRA. The original bill included sections that would give DTRFA teachers the benefit increases granted to TRA in 2006 (the use of higher accrual rates to compute annuities for prospective service). That request reflected a desire by DTRFA teachers to have benefits comparable to those of TRA. However, that request has been dropped and is not included in LCPR10-038-E1. That may reflect an increased recognition of the weak financial condition of this pension fund and a feeling that a benefit improvement is not feasible in a free standing DTRFA. Instead, under this draft engrossment the active DTRFA teachers and the district will face increased contributions but no benefit increase, and DTRFA retirees will face many years of no increases, and possibly no increases in their remaining lifetimes.
3. Implications of Proposed Post-Retirement Adjustment Procedure for DTRFA Retirees. The issue is the implications of the proposed post-retirement adjustment procedure. The procedure to be used once the DTRFA reaches 90 percent funding is comparable to that provided in 2009 to the St. Paul Teachers Retirement Fund Association (SPTRFA), an inflation match up to five percent. That procedure has the desirable feature of keeping retirees whole, providing there is no deflation and inflation does not exceed five percent. However, the DTRFA under this proposal will use a transitional procedure until the fund becomes at least 90 percent funded, and will pay no increase at all if the fund remains under 80 percent funded. Since the fund is currently 49 percent funded based on the market value of assets (as of July 1, 2009), the retirees are likely could go a long time with no increase. Given that current market value of assets, if there is no change at all in liabilities the assets would have to increase by 60 percent before the funding ratio would hit 80 percent, the threshold to begin paying a one percent post-retirement increase to retirees. While other provisions of this proposal may reduce liabilities which would help improve the DTRFA funding ratio, it will be many years, possibly decades, before the DTRFA can expect to hit an 80 percent funding ratio based on market value. The Commission may wish to question the DTRFA executive director or the DTRFA

actuary regarding how long they expect the retired membership will go without any increase. It seems realistic to assume a long delay. If that is the case, then this is another reason why the DTRFA membership would be better off consolidating into TRA. They could receive at least some post-retirement increases with no delay (if existing TRA law remains in effect) or with marginal delay if proposals by TRA are enacted, while the active DTRFA membership could receive immediate access to the benefit improvement they seek.

4. Support of School District. The issue is whether the Duluth school district supports this proposal given the added cost that will be placed on the school district, without any additional state aid. The school district will face a higher employer contribution rate starting on July 1, 2011, when the employer contribution rate will increase from 5.67 percent to 6.29 percent of pay, and the following year from 6.29 percent of pay to 6.79 percent of pay. The proposal does not include a request for additional state aid to help the district cover the added costs.
5. Use of Market Value Funding Ratios; Implications for Usefulness of Actuarial Value. The issue is the implication of the DTRFA's use of funding ratios computed using market value rather than actuarial value. For example, under the new post-retirement adjustment mechanism the adjustment to be paid is dependent upon funding ratios computed using market value rather than actuarial value. If market value should be used because the actuarial value is a fictitious, misleading number, perhaps the Commission should give consideration to doing away with the concept of actuarial value and use simply the market value.
6. Cost Savings: Revised Post-Retirement Procedures. The cost analysis available as of this writing is an update of materials provided in a staff memo at the last Commission meeting, provided by the DTRFA actuary, The Segal Company. Below is a summary of that work, taken directly from the Segal work (page 3 of the Segal document), with columns labeled.

Table 1

	July 1, 2009, Valuation Results	0% Post- Retirement Increase	1% Post- Retirement Increase	Revised Refund Interest Rates	Revised Deferred Annuity Augmentation Rate	Revised Vesting
Normal Cost	7.42%	6.34%	6.84%	7.36%	7.41%	7.41%
Difference		-1.08%	-0.58%	-0.06%	-0.01%	-0.01%
Supplemental	9.55%	3.78%	6.45%	9.55%	9.26%	9.55%
Difference		-5.77%	-3.10%	0.00%	-0.29%	0.00%
Expenses	<u>0.85%</u>	<u>0.85%</u>	<u>0.85%</u>	<u>0.85%</u>	<u>0.85%</u>	<u>0.85%</u>
Total Rate	17.82%	10.97%	14.14%	17.76%	17.52%	17.81%
Difference		-6.85%	-3.68%	-0.06%	-0.30%	-0.01%
Sufficiency	-5.90%	2.95%	-0.22%	-3.84%	-3.60%	-3.89%
Difference		8.85%	5.68%	2.06%	2.30%	2.01%

* All results from the exhibits include a 2% total increase in contribution rate

By far the change which has the largest cost savings would be a change in the DTRFA post-retirement adjustment procedures. Data currently available indicate that with its current post-retirement adjustment procedure, the DTRFA cannot grow itself back to financial health through good investment returns. The DTRFA July 1, 2009, actuarial valuation indicates that the DTRFA actuarial accrued liability for its annuitants is \$226.7 million. The market value of its assets was \$179.9 million, or \$46.8 million less than the just the retiree liabilities. When a pension fund lacks sufficient assets to cover its retiree liabilities and has the form of post-retirement adjustment mechanism used by the DTRFA, any investment return the fund earns in excess of 8.5 percent will simply flow through to the retirees, further increasing liabilities because those increases are permanent and the increase actually exceeds that which can be covered by the additional assets. The pension fund goes into a death spiral. It is impossible to earn itself out of this difficulty. This is what happened to the Minneapolis Teachers Retirement Fund Association (MTRFA), and data from the DTRFA actuarial valuation and the attached cost estimates indicate that with the DTRFA's current post-retirement adjustment mechanism in place, the DTRFA will have the same fate.

The DTRFA is proposing to remove that system of post-retirement increases and replace it with a transitional provision which provides no increase at all if the funding ratio, using market value rather than actuarial value, is less than 80 percent, a one percent increase when the that funding ratio hits at least 80 percent, and a two percent increase when the ratio fits 90 percent. When the DTRFA achieves a 90 percent funding ratio, using the actuarial value of assets rather than market, this transition provision expires and a new system is put in place paying an inflation match up to five

percent (except that if the funding ratio falls below 80 percent no increase will be paid). While that revised system may stem the bleeding, it is unlikely to be a satisfactory solution for DTRFA retirees for reasons previously stated--it will take many years, and possibly decades before any increase will be paid. Also, while the cost estimate materials clearly indicate that removing the current system of post-retirement adjustments would considerably improve the cost structure of the DTRFA, the materials do not provide any estimate for the post-retirement adjustment change that is fully consistent with the proposal. The cost estimate, as summarized on page 3 of the document from Segal (see page number in the upper left corner) indicates in column 1A the impact of paying a zero percent increase (no increase) indefinitely. Perhaps that is a realistic assessment, an acknowledgement that this fund is unlikely to hit an 80 percent funding ratio based on market for the foreseeable future, the minimum needed before any increase will be provided to the retirees. But that is not likely to be a tenable situation for the retirees. According to the actuarial work, normal cost would decrease by 1.08 percent of payroll and the supplement contribution requirement would fall by 5.77 percent of payroll, for a total change of 6.85 percent of payroll. That change in contribution needs reflects the mature nature of this fund and the fact that its assets are currently insufficient to cover the liabilities of the retirees. The second column, column 1B, indicates the impact of a one percent increase paid indefinitely, but this is not possible under the proposal. A one percent increase cannot be paid until the fund hits 80 percent funding, which may not occur until many years in the future, if at all. The computations provided indicate that the reduction is less, a total reduction of 3.68 percent of payroll rather than a 6.85 percent. The impact of a two percent increase is not shown at all. Perhaps that is assumed to be the same as the current law system. Neither is there any presentation of the impact of an inflation match procedure. The actuarial work also includes no information about when, given the proposed employee and employer contribution increases, the fund might be expected to hit the target funding ratios needed to cause these various levels of post-retirement adjustments to be paid, which would be useful to the Commission and of great interest to DTRFA members and retirees.

7. Cost Savings: Reduction of Other Benefits. The various other benefit reductions shown in Table 1 have a negligible impact on reducing normal cost and supplemental contribution requirements. Reducing interest rates of refunds from six percent to four percent will reduce normal cost by 0.06 percent and has no impact at all on amortization requirements. Moving from three-year to five-year vesting will only reduce normal cost by 0.01 percent with no change in the amortization requirement. Removing interest on reemployed annuitant accounts is likely to be so negligible they the actuary did not bother to provide an estimate. Revising deferred annuity augmentation has somewhat greater impact. Normal cost goes down by 0.01 percent, but the supplemental contribution (amortization contribution) decreases by 0.29 percent of payroll. That change, however, can have a great impact on deferred retirees, who may receive considerably less at the time of retirement than they were expecting under current law.
8. Sufficient Justification for Interest Rate Reductions or Elimination, and Vesting Changes. The issue is whether there is sufficient justification to revise interest rates from six percent to four percent on all forms of DTRFA refunds, and to revise vesting requirements. The current law reflects long standing policy. It may be reasonable to abandon those policies if that were needed to address the serious financial condition of the pension fund if doing so would create a noticeable cost savings. That is not the case, however. The cost savings from those changes is essentially zero. The interest rate changes on employee and death refunds combined would lower cost by only 0.06 percent of payroll. The vesting change saves 0.01 percent of payroll. These amounts are trivial. The change in interest rate policy on reemployed annuitant savings account is so small the actuary did not bother to produce an estimate.
9. Sufficient Justification for Deferred Annuity Augmentation Change. The issue is whether there is sufficient justification to revise deferred annuity augmentation rates as proposed in this draft. Rather than three percent augmentation until age 55 and five percent thereafter, augmentation would be two percent in all cases after July 1, 2010. The savings in this case are larger. The actuary estimated that normal cost would decrease by 0.01 percent, but the amortization contribution would be reduced by 0.29 percent of payroll, for a total reduction on 0.3 percent of payroll. While the change would provide some degree of savings, the Commission may wish to consider the impact on the deferred members. The change will have a large negative impact on each of the deferred annuitants.

Table 2 below shows the impact of the proposed change in deferred annuity augmentation rates assuming that the deferred retiree decide to start drawing the annuity at normal retirement age, age 65 for pre July 1, 1989, hires. If an individual terminated service at age 60, prior to the commencing the annuity at age 65 the individual would have five years of deferred annuity augmentation at two percent per year rather than five percent. In this case, the total reduction in the benefit compared to the benefit the individual was expecting given the deferred annuity augmentation rates in law when the individual terminated is 13 percent. If the individual was expecting a \$1,000 per month benefit

age 65, the individual will instead receive only \$870, which is 13 percent less than \$1,000. If the individual were age 55 at the time of termination, two percent per year augmentation compared to five percent creates a total reduction by age 65 of 25 percent. If the individual was expecting \$1,000 per month at age 65 under the laws in effect when the person terminated, he or she will instead receive only \$750. An individual who terminated at age 40 who was expecting a \$1,000 benefit at age 65 will instead receive only \$650.

Table 2
Impact of proposed change in deferred annuity augmentation

Age at Termination of Service	Age at Retirement	Reduction Under Proposal	Reduction assuming \$1,000 monthly benefit at age 65 under current law
60	65	13%	\$870
55	65	25%	\$750
50	65	29%	\$710
45	65	32%	\$680
40	65	35%	\$650

If the individual was expecting more than \$1,000 at age 65, or less, the percentage reductions shown in the table hold. If the 60 year old was expecting \$2,000 per month at age 65, rather than the \$1,000 per month assumption used in the table, the percentage reduction is the same, 13 percent. So rather than receiving \$2,000 the individual will receive 13 percent less, or \$1,740. If the individual was expecting a \$500 benefit, the individual will receive instead \$435.

The results are not only applicable to the DTRFA proposal, but to any other plan which has a similar proposal, such as those of the Minnesota State Retirement System (MSRS), the Public Retirement Association (PERA), and TRA. Table 3 below shows the number of deferred annuitants currently in the various plans according to the July 1, 2009 actuarial valuations. Not all of these plans may be included in proposals to reduce deferred annuity augmentation.

Table 3
Deferred Annuitants, July 1, 2009, Actuarial Valuation

Plan	Number of Deferred Annuitants
MSRS-General	15,210
MSRS-Correctional	626
Judges Plan	20
Legislators Plan	95
State Patrol Plan	41
PERA-General	43,645
PERA-Correctional	1,683
TRA	12,490
DTRFA	348
SPTRFA	1,695
MERF	120

Potential Amendments for Commission Consideration

Amendment LCPR10-038-1A is a delete-everything amendment consolidating the DTRFA into the Teachers Retirement Association (TRA). If the -1A amendment is not used, the Commission may wish to consider the following amendments to the draft engrossment:

A motion to delete Section 6 removes the vesting change, effectively leaving vesting at three years.

A motion to delete Sections 7, 9, and 10 removes the interest rate reductions in the employee refund, refund in lieu of annuity, and death refund provisions.

A motion to delete Section 11 removes the elimination of interest on reemployed annuitant accounts.

A motion to delete Section 8 removes the revisions to the deferred annuity augmentation provision.

A motion to delete Sections 3, 4, 5, and 12 removes the post-retirement adjustment procedure changes.

Amendment LCPR10-038-6A, an alternative to deleting Sections 3, 4, 5, and 12, revises the proposed post-retirement adjustment procedure to be fully comparable to that enacted last year for the St. Paul Teachers Retirement Fund Association (SPTRFA). The SPTRFA adjustment is payable regardless of the

funding ratio, so to make the DTRFA procedure comparable the amendment includes language removing the prohibition in the proposed DTRFA provision against paying an adjustment if the funding ratio is less than 80 percent. A danger in using this procedure is that if inflation becomes high in the near future, the DTRFA will be rapidly depleted of its assets. The Commission may wish to consider an oral amendment to page 5, line 18, of the draft engrossment to cap the match at a level which is less than five percent.

Amendment LCPR10-038-7A authorizes the DTRFA to revise its bylaws to implement the provisions of the draft engrossment.

Amendment LCPR10-038-8A, an alternative to either a motion to delete sections 3, 4, 5, and 12 or to the -6A amendment, would instead revise the triggers used in the transitional post-retirement adjustment procedure to permit post-retirement adjustments to be paid sooner. Under the amendment, a one percent post-retirement adjustment can be paid when the funding ratio reaches 70 percent, with a two percent post-retirement adjustment at 80 percent funding. The amendment would lower the savings to the fund, increasing its financial needs. Other triggers could be defined by verbal amendment.

1.1 moves to amend S.F. No.; H.F. No., Document LCPR10-038,
1.2 as follows:

1.3 Delete everything after the enacting clause and insert:

1.4 "Section 1. MERGER OF THE DULUTH TEACHERS RETIREMENT FUND
1.5 ASSOCIATION INTO THE TEACHERS RETIREMENT ASSOCIATION.

1.6 Subdivision 1. Relation to other law. This section supersedes any other law to the
1.7 contrary.

1.8 Subd. 2. Abolition; membership transfer. The Duluth Teachers Retirement Fund
1.9 Association is abolished on July 1, 2011. All active, deferred, inactive, disabled, survivor,
1.10 and retired members of the Duluth Teachers Retirement Fund Association on July 1, 2011,
1.11 are transferred to the Teachers Retirement Association and are no longer members of the
1.12 Duluth Teachers Retirement Fund Association as of that date.

1.13 Subd. 3. Membership coverage for new hires. A person first hired as a teacher
1.14 by Independent School District No. 709, Duluth, after June 30, 2011, or who under
1.15 law in effect immediately prior to that date would be required to be a member of the
1.16 Duluth Teachers Retirement Fund Association, is a member of the Teachers Retirement
1.17 Association.

1.18 Subd. 4. Membership of transferred active members. Each active teacher
1.19 transferred under subdivision 2 shall be a member of the Teachers Retirement Association
1.20 for prospective service. The Teachers Retirement Association must grant allowable service
1.21 and salary credit in the Teachers Retirement Association for all previous service and salary
1.22 credit on the records of the Duluth Teachers Retirement Fund Association for the teacher.

1.23 Subd. 5. Treatment of benefit recipients. For every disabled member, retired
1.24 member, or survivor transferred under subdivision 2, the monthly benefit paid to the
1.25 applicable person on the date of transfer must continue to be paid by the Teachers
1.26 Retirement Association. Any postretirement adjustments to those benefits after the date of
1.27 transfer must be determined under law applicable to the Teachers Retirement Association.

1.28 Subd. 6. Treatment of deferred members. For deferred members transferred
1.29 under subdivision 2, the Teachers Retirement Association must apply the Duluth Teachers
1.30 Retirement Fund Association laws or bylaws that applied to the person on the date of
1.31 termination of service covered by the Duluth Teachers Retirement Fund Association.
1.32 Upon commencement of the annuity, postretirement adjustments must be determined
1.33 under laws applicable to the Teachers Retirement Association.

2.1 Subd. 7. **Asset and liability transfer.** (a) The liability to provide retirement
2.2 annuities, refunds, and other retirement benefits related to the transfer in subdivision 2 is a
2.3 liability of the Teachers Retirement Association. This liability must be reflected in the
2.4 actuarial valuations of the Teachers Retirement Association, effective July 1, 2011.

2.5 (b) No later than July 1, 2011, the executive director of the Duluth Teachers
2.6 Retirement Fund Association abolished in this section must transfer all assets of the
2.7 association to the executive director of the Teachers Retirement Association for deposit
2.8 in the teachers retirement fund.

2.9 Subd. 8. **Effect of transfer of power.** Minnesota Statutes, section 15.039,
2.10 subdivisions 1 to 6, but not 7, apply to the transfer from the Duluth Teachers Retirement
2.11 Fund Association to the Teachers Retirement Association under this section.

2.12 Subd. 9. **Effect on aid.** Any aid amounts payable to the Duluth Teachers Retirement
2.13 Fund Association under law in effect immediately prior to July 1, 2011, must be paid
2.14 to the Teachers Retirement Association.

2.15 Subd. 10. **Statutory revisions.** The executive director of the Duluth Teachers
2.16 Retirement Fund Association shall submit draft legislation to the chair of the House state
2.17 and local government operations reform, technology and elections committee and the
2.18 Senate state and local government operations and oversight committee for consideration
2.19 by the 2011 legislature containing all changes in statute and law necessary to implement
2.20 this section."

2.21 Amend the title accordingly

1.1 moves to amend S.F. No.; H.F. No., Document LCPR10-038,
1.2 as follows:

1.3 Page 1, delete section 1

1.4 Page 2, line 25, delete "from" and insert "effective" and delete ", until June 30, 2012"

1.5 Page 2, line 26, delete "from" and insert "effective" and delete ", until either
1.6 paragraph (b) or"

1.7 Page 2, line 27, delete "(c) is first applicable"

1.8 Page 2, delete lines 31 to 35

1.9 Page 3, delete lines 1 to 7

1.10 Page 3, line 8, delete "(d)" and insert "(b)"

1.11 Page 3, line 10, delete "(e)" and insert "(c)"

1.12 Page 3, line 26, delete "from" and insert "effective" and delete ", until June 30, 2012"

1.13 Page 3, line 27, delete "from" and insert "effective" and delete ", until the date
1.14 employee"

1.15 Page 3, delete line 28

1.16 Page 3, line 29, delete "subdivision 1, paragraph (b) or (c)"

1.17 Page 3, delete lines 30 to 35

1.18 Pages 7 to 8, delete sections 8 and 9

1.19 Renumber the sections in sequence

1.20 Amend the title accordingly

1.1 moves to amend Document LCPR10-038, the draft engrossment
1.2 (LCPR10-038-E1), as follows:

1.3 Page 3, line 15, strike "6" and delete the new language and insert "7"

1.4 Page 3, line 21, delete "6 or" and delete "whichever is applicable,"

1.5 Page 4, line 30, delete "(a) This subdivision applies"

1.6 Page 4, delete line 31

1.7 Page 4, line 32, delete "(b)" and insert "(a)"

1.8 Page 5, lines 6 and 11, delete "(c)" and insert "(b)"

1.9 Page 5, line 11, delete "(d)" and insert "(c)"

1.10 Page 5, line 18, delete "(e)" and insert "(d)"

1.11 Page 5, delete lines 19 to 21

1.12 Page 9, line 14, delete "subdivision 1, is" and insert "subdivisions 1 and 6, are"

1.1 moves to amend Document LCPR10-038, the draft engrossment
1.2 (LCPR10-038-E1), as follows:

1.3 Page 9, after line 15, insert:

1.4 "Sec. 13. **BYLAW AUTHORIZATION.**

1.5 Consistent with the requirements of Minnesota Statutes, section 354A.12,
1.6 subdivision 4, the board of the Duluth Teachers Retirement Fund Association is authorized
1.7 to revise the bylaws or articles of incorporation so that the requirements of this act apply
1.8 to the old law coordinated program.

1.9 **EFFECTIVE DATE.** This section is effective the day following final enactment."

- 1.1 moves to amend Document LCPR10-038, the draft engrossment
- 1.2 (LCPR10-038-E1), as follows:

- 1.3 Page 4, lines 19 and 20, delete "80" and insert "70"
- 1.4 Page 4, lines 20 and 22, delete "90" and insert "80"

1.1 A bill for an act
 1.2 relating to retirement; Duluth Teachers Retirement Fund Association; increasing
 1.3 contributions; revising post-retirement adjustment procedures; reducing deferred
 1.4 annuity augmentation; eliminating interest on reemployed annuitant accounts;
 1.5 reducing refund interest rates; amending Minnesota Statutes 2008, sections
 1.6 354A.12, subdivision 1; 354A.27, subdivisions 5, 6, by adding a subdivision;
 1.7 354A.31, subdivision 1; 354A.35, subdivision 1; 354A.37, subdivisions 2, 3, 4;
 1.8 356.47, subdivision 3; Minnesota Statutes 2009 Supplement, section 354A.12,
 1.9 subdivision 2a; repealing Minnesota Statutes 2008, section 354A.27, subdivision
 1.10 1.

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

1.12 Section 1. Minnesota Statutes 2008, section 354A.12, subdivision 1, is amended to
 1.13 read:

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

Association and Program	Percentage of Total Salary
Duluth Teachers Retirement Fund Association	
old law and new law	
coordinated programs	5.5 percent
<u>before July 1, 2011</u>	<u>5.5 percent</u>
<u>effective July 1, 2011</u>	<u>6.0 percent</u>
<u>effective July 1, 2012</u>	<u>6.5 percent</u>
St. Paul Teachers Retirement Fund Association	
basic program	8 percent
coordinated program	5.5 percent

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

2.1 (c) When an employee contribution rate changes for a fiscal year, the new
 2.2 contribution rate is effective for the entire salary paid by the employer with the first
 2.3 payroll cycle reported.

2.4 **EFFECTIVE DATE.** This section is effective July 1, 2010.

2.5 Sec. 2. Minnesota Statutes 2009 Supplement, section 354A.12, subdivision 2a, is
 2.6 amended to read:

2.7 Subd. 2a. **Employer regular and additional contributions.** (a) The employing
 2.8 units shall make the following employer contributions to teachers retirement fund
 2.9 associations:

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

2.14	Duluth Teachers Retirement Fund	
2.15	Association	4.50 percent
2.16	<u>before July 1, 2011</u>	<u>5.79 percent</u>
2.17	<u>effective July 1, 2011</u>	<u>6.29 percent</u>
2.18	<u>effective July 1, 2012</u>	<u>6.79 percent</u>

2.19	St. Paul Teachers Retirement Fund	
2.20	Association	4.50 percent

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

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

2.27 (4) for a coordinated member of ~~a teachers retirement fund association in a city of~~
 2.28 ~~the first class~~ the St. Paul Teachers Retirement Fund Association, the employing unit shall
 2.29 make an additional employer contribution to the respective fund in an amount equal to the
 2.30 applicable percentage of the coordinated member's salary, as provided below:

2.31	Duluth Teachers Retirement Fund	
2.32	Association	1.29 percent
2.33	St. Paul Teachers Retirement Fund	
2.34	Association	3.84 percent

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

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

3.7 (d) When an employer contribution rate changes for a fiscal year, the new
 3.8 contribution rate is effective for the entire salary paid by the employer with the first
 3.9 payroll cycle reported.

3.10 **EFFECTIVE DATE.** This section is effective July 1, 2010.

3.11 Sec. 3. Minnesota Statutes 2008, section 354A.27, subdivision 5, is amended to read:

3.12 Subd. 5. ~~Calculation~~ **Eligibility for and payment of postretirement adjustments.**

3.13 (a) Annually, after June 30, the board of trustees of the Duluth Teachers Retirement Fund
 3.14 Association determines the amount of any postretirement adjustment using the procedures
 3.15 in this subdivision and subdivision 6 or 7, whichever is applicable.

3.16 (b) Each person who has been receiving an annuity or benefit under the articles
 3.17 of incorporation, bylaws, or under this section for at least 12 months as of the date of
 3.18 the postretirement adjustment shall be eligible for a postretirement adjustment. The
 3.19 postretirement adjustment shall be payable each January 1. The postretirement adjustment
 3.20 shall be ~~equal to two percent of~~ a permanent percentage increase as specified under
 3.21 subdivision 6 or 7, whichever is applicable, applied to the annuity or benefit to which the
 3.22 person is entitled one month prior to the payment of the postretirement adjustment.

3.23 **EFFECTIVE DATE.** This section is effective July 1, 2010.

3.24 Sec. 4. Minnesota Statutes 2008, section 354A.27, subdivision 6, is amended to read:

3.25 Subd. 6. ~~Additional increase~~ **Calculation of postretirement adjustments;**
 3.26 **transitional provision.** ~~(a) In addition to the postretirement increases granted under~~
 3.27 ~~subdivision 5, an additional percentage increase must be computed and paid under this~~
 3.28 ~~subdivision.~~

3.29 ~~(b) The board of trustees shall determine the number of annuitants or benefit~~
 3.30 ~~recipients who have been receiving an annuity or benefit for at least 12 months as of the~~
 3.31 ~~current June 30. These recipients are entitled to receive the surplus investment earnings~~
 3.32 ~~additional postretirement increase.~~

4.1 ~~(c) Annually, as of each June 30, the board shall determine the five-year annualized~~
 4.2 ~~rate of return attributable to the assets of the Duluth Teachers Retirement Fund Association~~
 4.3 ~~under the formula or formulas specified in section 11A.04, clause (11).~~

4.4 ~~(d) The board shall determine the amount of excess five-year annualized rate of~~
 4.5 ~~return over the preretirement interest assumption as specified in section 356.215.~~

4.6 ~~(e) The additional percentage increase must be determined by multiplying the~~
 4.7 ~~quantity one minus the rate of contribution deficiency, as specified in the most recent~~
 4.8 ~~actuarial report of the actuary retained under section 356.214, times the rate of return~~
 4.9 ~~excess as determined in paragraph (d).~~

4.10 ~~(f) The additional increase is payable to all eligible annuitants or benefit recipients~~
 4.11 ~~on the following January 1.~~

4.12 (a) For purposes of computing postretirement adjustments after the effective date
 4.13 of this section for eligible benefit recipients of the Duluth Teachers Retirement Fund
 4.14 Association, the funding ratio of the plan, as determined by dividing the market value of
 4.15 assets by the actuarial accrued liability as reported in the most recent actuarial valuation
 4.16 prepared under sections 356.214 and 356.215, determines the postretirement increase
 4.17 as follows:

<u>Funding Ratio</u>	<u>Postretirement Increase</u>
<u>less than 80 percent</u>	<u>0 percent</u>
<u>at least 80 percent but less than 90 percent</u>	<u>1 percent</u>
<u>at least 90 percent</u>	<u>2 percent</u>

4.23 (b) If the funding ratio of the plan based on actuarial value, rather than market value,
 4.24 is at least 90 percent as reported in the most recent actuarial valuation prepared under
 4.25 sections 356.214 and 356.215, this subdivision expires and subsequent postretirement
 4.26 increases must be paid as specified under subdivision 7.

4.27 **EFFECTIVE DATE.** This section is effective July 1, 2010.

4.28 Sec. 5. Minnesota Statutes 2008, section 354A.27, is amended by adding a subdivision
 4.29 to read:

4.30 Subd. 7. Calculation of postretirement adjustments. (a) This subdivision applies
 4.31 if subdivision 6 has expired.

4.32 (b) A percentage adjustment must be computed and paid under this subdivision
 4.33 to eligible persons in subdivision 5. This adjustment is determined by reference to the
 4.34 Consumer Price Index for urban wage earners and clerical workers all items index as
 4.35 reported by the Bureau of Labor Statistics within the United States Department of Labor

5.1 each year as part of the determination of annual cost-of-living adjustments to recipients
 5.2 of federal old-age, survivors, and disability insurance. For calculations of cost-of-living
 5.3 adjustments under paragraph (c), the term "average third quarter Consumer Price Index
 5.4 value" means the sum of the monthly index values as initially reported by the Bureau of
 5.5 Labor Statistics for the months of July, August, and September, divided by 3.

5.6 (c) Before January 1 of each year, the executive director must calculate the amount
 5.7 of the cost-of-living adjustment by dividing the most recent average third quarter index
 5.8 value by the same average third quarter index value from the previous year, subtract one
 5.9 from the resulting quotient, and express the result as a percentage amount, which must be
 5.10 rounded to the nearest one-tenth of one percent.

5.11 (d) The amount calculated under paragraph (c) is the full cost-of-living adjustment
 5.12 to be applied as a permanent increase to the regular payment of each eligible member
 5.13 on January 1 of the next calendar year. For any eligible member whose effective date
 5.14 of benefit commencement occurred during the calendar year before the cost-of-living
 5.15 adjustment is applied, the full increase amount must be prorated on the basis of whole
 5.16 calendar quarters in benefit payment status in the calendar year prior to the January 1 on
 5.17 which the cost-of-living adjustment is applied, calculated to the third decimal place.

5.18 (e) The adjustment must not be less than zero nor greater than five percent.

5.19 (f) If the funding ratio of the plan as determined in the most recent actuarial
 5.20 valuation using the actuarial value of assets is less than 80 percent there will be no
 5.21 postretirement adjustment the following January 1.

5.22 **EFFECTIVE DATE.** This section is effective July 1, 2010.

5.23 Sec. 6. Minnesota Statutes 2008, section 354A.31, subdivision 1, is amended to read:

5.24 Subdivision 1. **Age and service requirements.** Any coordinated member or former
 5.25 coordinated member of the St. Paul Teachers Retirement Fund Association who has
 5.26 ceased to render teaching service for the school district in which the teachers retirement
 5.27 fund association exists and who has either attained the age of at least 55 years with not
 5.28 less than three years of allowable service credit or received credit for not less than 30
 5.29 years of allowable service regardless of age, shall be entitled upon written application to a
 5.30 retirement annuity. Any coordinated member or former coordinated member of the Duluth
 5.31 Teachers Retirement Fund Association who has ceased to render teaching service for the
 5.32 school district in which the teacher retirement fund association exists and who has either
 5.33 attained the age of at least 55 years with not less than three years of allowable service
 5.34 credit if the member became an employee before July 1, 2010, or not less than five years
 5.35 of allowable service credit if the member became an employee after June 30, 2010, or

6.1 received service credit for not less than 30 years of allowable service regardless of age,
6.2 shall be entitled upon written application to a retirement annuity.

6.3 **EFFECTIVE DATE.** This section is effective July 1, 2010.

6.4 Sec. 7. Minnesota Statutes 2008, section 354A.35, subdivision 1, is amended to read:

6.5 Subdivision 1. **Death before retirement; refund.** If a coordinated member
6.6 or former coordinated member dies prior to retirement or prior to the receipt of any
6.7 retirement annuity or other benefit payment which is or may be payable and a surviving
6.8 spouse optional annuity is not payable pursuant to subdivision 2, a refund shall be paid to
6.9 the person's surviving spouse, or if there is none, to the person's designated beneficiary,
6.10 or if there is none, to the legal representative of the person's estate. For a coordinated
6.11 member or former coordinated member of the St. Paul Teachers Retirement Fund
6.12 Association, the refund shall be in an amount equal to the person's accumulated employee
6.13 contributions plus interest at the rate of six percent per annum compounded annually. For
6.14 a coordinated member or former coordinated member of the Duluth Teachers Retirement
6.15 Fund Association, the refund shall be in an amount equal to the person's accumulated
6.16 employee contributions plus interest at the rate of six percent per annum compounded
6.17 annually to July 1, 2010, and four percent per annum compounded annually thereafter.

6.18 **EFFECTIVE DATE.** This section is effective July 1, 2010.

6.19 Sec. 8. Minnesota Statutes 2008, section 354A.37, subdivision 2, is amended to read:

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

6.29 (b) The monthly annuity amount that had accrued when the member ceased to
6.30 render teaching service must be augmented from the first day of the month following the
6.31 month during which the member ceased to render teaching service to the effective date
6.32 of retirement. There is no augmentation if this period is less than three months. For a
6.33 member of the St. Paul Teachers Retirement Fund Association, the rate of augmentation

7.1 is three percent compounded annually until January 1 of the year following the year in
 7.2 which the former member attains age 55, and five percent compounded annually after that
 7.3 date to the effective date of retirement if the employee became an employee before July
 7.4 1, 2006, and at 2.5 percent compounded annually if the employee becomes an employee
 7.5 after June 30, 2006. For a member of the Duluth Teachers Retirement Fund Association,
 7.6 the rate of augmentation is three percent compounded annually until January 1 of the year
 7.7 following the year in which the former member attains age 55, five percent compounded
 7.8 annually after that date to July 1, 2010, and two percent compounded annually after that
 7.9 date to the effective date of retirement if the employee became an employee before
 7.10 July 1, 2006, and at 2.5 percent compounded annually to July 1, 2010, and two percent
 7.11 compounded annually after that date to the effective date of retirement if the employee
 7.12 becomes an employee after June 30, 2006. If a person has more than one period of
 7.13 uninterrupted service, a separate average salary determined under section 354A.31 must
 7.14 be used for each period, and the monthly annuity amount related to each period must be
 7.15 augmented as provided in this subdivision. The sum of the augmented monthly annuity
 7.16 amounts determines the total deferred annuity payable. If a person repays a refund, the
 7.17 service restored by the repayment must be considered as continuous with the next period
 7.18 of service for which the person has credit with the fund. If a person does not render
 7.19 teaching services in any one fiscal year or more consecutive fiscal years and then resumes
 7.20 teaching service, the formula percentages used from the date of resumption of teaching
 7.21 service are those applicable to new members. The mortality table and interest assumption
 7.22 used to compute the annuity are the table established by the fund to compute other
 7.23 annuities, and the interest assumption under section 356.215 in effect when the member
 7.24 retires. A period of uninterrupted service for the purpose of this subdivision means a
 7.25 period of covered teaching service during which the member has not been separated from
 7.26 active service for more than one fiscal year.

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

7.31 **EFFECTIVE DATE.** This section is effective July 1, 2010.

7.32 Sec. 9. Minnesota Statutes 2008, section 354A.37, subdivision 3, is amended to read:

7.33 Subd. 3. **Computation of refund amount.** A former coordinated member of the
 7.34 St. Paul Teachers Retirement Fund Association who qualifies for a refund pursuant to
 7.35 under subdivision 1 shall receive a refund equal to the amount of the former coordinated

8.1 member's accumulated employee contributions with interest at the rate of six percent per
8.2 annum compounded annually. A former coordinated member of the Duluth Teachers
8.3 Retirement Fund Association who qualifies for a refund under subdivision 1 shall receive
8.4 a refund equal to the amount of the former coordinated member's accumulated employee
8.5 contributions with interest at the rate of six percent per annum compounded annually to
8.6 July 1, 2010, and four percent per annum compounded annually thereafter.

8.7 **EFFECTIVE DATE.** This section is effective July 1, 2010.

8.8 Sec. 10. Minnesota Statutes 2008, section 354A.37, subdivision 4, is amended to read:

8.9 Subd. 4. **Certain refunds at normal retirement age.** Any coordinated member
8.10 who has attained the normal retirement age with less than ten years of allowable service
8.11 credit and has terminated active teaching service shall be entitled to a refund in lieu of
8.12 a proportionate annuity pursuant to section 356.32. The refund for a member of the St.
8.13 Paul Teachers Retirement Fund Association shall be equal to the coordinated member's
8.14 accumulated employee contributions plus interest at the rate of six percent compounded
8.15 annually. The refund for a member of the Duluth Teachers Retirement Fund Association
8.16 shall be equal to the coordinated member's accumulated employee contributions plus
8.17 interest at the rate of six percent compounded annually to July 1, 2010, and four percent
8.18 per annum compounded annually thereafter.

8.19 **EFFECTIVE DATE.** This section is effective July 1, 2010.

8.20 Sec. 11. Minnesota Statutes 2008, section 356.47, subdivision 3, is amended to read:

8.21 Subd. 3. **Payment.** (a) Beginning one year after the reemployment withholding
8.22 period ends relating to the reemployment that gave rise to the limitation, and the filing
8.23 of a written application, the retired member is entitled to the payment, in a lump sum,
8.24 of the value of the person's amount under subdivision 2, plus interest at the compound
8.25 annual rate of six percent from the date that the amount was deducted from the retirement
8.26 annuity to the date of payment. For a retired member of the Duluth Teachers Retirement
8.27 Fund Association, there shall be no interest accrual on the value of the person's account
8.28 under subdivision 2 after June 30, 2010.

8.29 (b) The written application must be on a form prescribed by the chief administrative
8.30 officer of the applicable retirement plan.

8.31 (c) If the retired member dies before the payment provided for in paragraph (a) is
8.32 made, the amount is payable, upon written application, to the deceased person's surviving

9.1 spouse, or if none, to the deceased person's designated beneficiary, or if none, to the
9.2 deceased person's estate.

9.3 (d) In lieu of the direct payment of the person's amount under subdivision 2, on
9.4 or after the payment date under paragraph (a), if the federal Internal Revenue Code so
9.5 permits, the retired member may elect to have all or any portion of the payment amount
9.6 under this section paid in the form of a direct rollover to an eligible retirement plan as
9.7 defined in section 402(c) of the federal Internal Revenue Code that is specified by the
9.8 retired member. If the retired member dies with a balance remaining payable under this
9.9 section, the surviving spouse of the retired member, or if none, the deceased person's
9.10 designated beneficiary, or if none, the administrator of the deceased person's estate may
9.11 elect a direct rollover under this paragraph.

9.12 **EFFECTIVE DATE.** This section is effective July 1, 2010.

9.13 Sec. 12. **REPEALER.**

9.14 Minnesota Statutes 2008, section 354A.27, subdivision 1, is repealed.

9.15 **EFFECTIVE DATE.** This section is effective July 1, 2010.