H.F. xxxx **S.F. 1252**
(Olson, G.)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): TRA

Relevant Provisions of Law: Uncoded

General Nature of Proposal: Independent School District No. 270, Hopkins; Part-Time Teacher Participant Salary Credit Purchase Authorization

Date of Summary: May 2, 2011

Specific Proposed Changes

- Permits Deborah Cooper, a Minnetrista, Minnesota, resident who is a teacher in the Hopkins School District, to purchase the balance of the full-time equivalent salary for the 2008-2009 school year employed by the Hopkins Public School District with the payment of $609.98, the member contribution rate applied to the balance of her full-time compensation for the 2008-2009 school year, plus 8.5% annual compound interest from January 31, 2009, the midpoint of the 2008-2009 school year, until the date of actual payment.
- If Ms. Cooper makes her payment, the Hopkins Public School District is obligated to pay the balance of the full actuarial value of the benefit to be obtained by the salary credit increase purchase in excess of Ms. Cooper's member contribution equivalent payment.
- The deadline for making the member payment is July 1, 2012, and the special legislation expires on August 1, 2012.

Policy Issues Raised by the Proposed Legislation

1. The conformity of the proposed legislation with the policy on the purchases of prior service credit of the Legislative Commission on Pensions and Retirement
2. Whether or not there are any equitable considerations adverse to the affected teacher that would disqualify the person from the special authorization in the proposed special legislation.
3. The amount of the full actuarial value service and salary credit purchase payment that is payable under the special legislation.
4. Whether or not precedent exists for the proposed special legislation in past special legislation and whether or not the proposed special legislation would, if enacted, constitute an adverse precedent for future special legislation.

Potential Amendments

No staff amendments.

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director LAM

RE: H.F. xxxx; S.F. 1252 (Olson, G.): TRA, Independent School District No. 270, Hopkins; Part-Time Teacher Participant Salary Credit Purchase Authorization

DATE: May 2, 2011

Summary of H.F. xxxx; S.F. 1252 (Olson, G.)

H.F. xxxx; S.F. 1252 (Olson, G.) permits Deborah Cooper, a Minnetrista, Minnesota, resident who is a teacher in the Hopkins School District, to purchase the balance of the full-time equivalent salary for the 2008-2009 school year employed by the Hopkins Public School District with the payment of $609.98, the member contribution rate applied to the balance of her full-time compensation for the 2008-2009 school year, plus 8.5% annual compound interest from January 31, 2009, the midpoint of the 2008-2009 school year, until the date of actual payment. If Ms. Cooper makes her payment, the Hopkins Public School District is obligated to pay the balance of the full actuarial value of the benefit to be obtained by the salary credit increase purchase in excess of Ms. Cooper's member contribution equivalent payment. The deadline for making the member payment is July 1, 2012, and the special legislation expires on August 1, 2012.

Public Pension Problem of Deborah Cooper of Minnetrista, Minnesota

Deborah Cooper, a 60-year-old school teacher, is employed by Independent School District No. 270, Hopkins, and, as such, is a member of the Teachers Retirement Association (TRA). In the 2007-2008 school year, Ms. Cooper participated in the TRA qualified part-time teacher program, where a part-time teacher is permitted to make full-time equivalent member contributions and receive full-time service credit and covered salary credit for the part-time teaching year. Ms. Cooper continued as a part-time teacher during the 2008-2009, 2009-2010, and 2010-2011 school years, but the Hopkins Public School District failed to file the part-time teacher program agreement for the 2008-2009 school year until September 20, 2010, almost nine months after the latest deadline date for its filing (December 31, 2009). Although Ms. Cooper, at 80% of full-time, worked enough hours (minimum of five hours) for enough school days (minimum of 170 days) to receive a full year of TRA allowable service credit, she did not receive full salary credit for the school year, which is likely to be part of her highest five successive years average salary period. The $11,090.60 of omitted salary for the 2008-2009 school year is estimated by TRA to result in a $63.17 reduction in her eventual TRA single-life retirement annuity. The Hopkins Public School District has acknowledged its reporting error. Ms. Cooper appealed the TRA staff denial of her request to receive full salary credit for the 2008-2009 school year despite the delay in its filing, which denial was upheld by an action of the TRA Board of Trustees on February 16, 2011.

Relevant Background Information

Background information that may be relevant to the consideration of the proposed legislation is the following:

- **Attachment A**: Background Information on the Part-Time Teaching/Full-Time Service Credit Program.
- **Attachment B**: Background Information on Service Credit and Service Credit Purchases.

Discussion and Analysis

H.F. xxxx; S.F. 1252 (Olson, G.) is special legislation that permits Deborah Cooper, a part-time Hopkins Public School teacher who is coming to the conclusion of her public employment career and who lacks full salary credit for her part-time teaching for the 2008-2009 school year because her school district failed to file her part-time teaching with full-time equivalent service credit agreement with the Teachers Retirement Association (TRA) in a timely fashion (within 15 months of October 1, annually), to purchase the balance of her full-time equivalent salary credit with the payment by her of the amount that shoe would have paid if the agreement had been filed on a timely basis and with school district payment of the balance of the full actuarial value of the benefit obtained by the purchase on or before July 1, 2012.

The proposed legislation raises several pension and related public policy issues for consideration and possible discussion by Commission members, as follows:

1. Conformity with Legislative Commission on Pensions and Retirement Policy on Service Credit Purchases. The policy issue is the conformity of the proposed legislation with the policy on the purchases of prior service credit of the Legislative Commission on Pensions and Retirement. The policy of the Commission on prior service credit purchases is that

    > [P]urchases of public pension plan credit for periods of prior service should be permitted only if it is determined by the Commission:
    > - that the period to be purchased is public employment or relates substantially to the public employee's career,
    > - that the purchase payment amount from the member or from a combination of the member and the current or former employer must equal the actuarial liability to be incurred by the pension plan for the benefit associated with the purchase, appropriately calculated, without the provision of a subsidy from the pension plan unless an error or an omission by the pension plan was responsible for the loss of service credit,
    > - that the purchase payment amount must include a minimum payment by the member of the equivalent member contributions, plus compound interest from the purchase period to the date of payment unless the employer committed a particularly egregious error,
    > - that the purchase payment is the responsibility of the member, with the current or former employer authorized to pay some or all of the portion of the payment amount in excess of the minimum member payment amount, unless the employer has some culpability in the circumstances giving rise to the purchase and then a mandatory employer contribution may be imposed, and
    > - that the purchase must not violate notions of equity.

    Excluding the question of any adverse equitable considerations, discussed as policy issue #2, the proposed legislation conforms with the Commission's prior service (and salary) credit purchase policy because the service related to the salary credit is public employment, the purchase payment is the full actuarial value requirement, the purchase payment must include the equivalent member contribution, and the purchase payment balance imposed on the school district reflects culpability.

2. Equitable Considerations. The policy issue is whether or not there are any equitable considerations adverse to the affected teacher that would disqualify the person from the special authorization in the proposed special legislation. The sole adverse equitable consideration that the Commission staff can identify in this instance is a lack of or a diminished amount of vigilance by the teacher in verifying that full-time equivalent member contributions were made during the 2009-2009 school year. Ms. Cooper indicated, in her testimony before the TRA board during her appeal, that the 2008-2009 school year was the same year as the year in which the school district shifted to the direct deposit of employee compensation and the provision of electronic payroll documents, making monitoring of the amount of the member contribution more difficult. The Hopkins School District admits its error in not filing the 2008-2009 part-time teaching program agreement.

3. Full Actuarial Value Purchase Payment. The policy issue is the amount of the full actuarial value service and salary credit purchase payment that is payable under the special legislation. The Teachers Retirement Association (TRA) has not provided an estimate of the full actuarial value purchase payment that would be required under the proposed legislation. Thus, it is unclear whether the full actuarial value purchase payment balance that is payable by the school district is greater than the amount that would be the full-time equivalent employer contribution, which would be equal to the full-time equivalent member contribution. Presumably, with the error admitted by the school district, the school district should not be required to pay less than the full-time equivalent member contribution amount.

4. Precedent. The policy issue is whether or not precedent exists for the proposed special legislation in past special legislation and whether or not the proposed special legislation would, if enacted, constitute an adverse precedent for future special legislation. There have been several part-time teaching service credit purchases, including Laws 1995, Chapter 262, Article 1, Section 16; Laws 1996, Chapter 438, Article 9, Sections 3-4; Laws 1998, Chapter 390, Article 4, Section 3, Subdivision 3; and Laws 2000, Chapter 461, Article 11, Section 7. The proposed prior salary credit purchase legislation does not involve factual circumstances or pension policy principle departures that would appear to create any adverse precedent with respect to potential future pension credit purchases.

Background Information on the
Part-Time Teaching/Full-Time Service Credit Provision

Teachers Retirement Association (TRA) and the first class city teacher retirement fund associations (Duluth Teachers Retirement Fund Association (DTRFA) and St. Paul Teachers Retirement Fund Association (SPTRFA)) have long had provisions permitting teachers who, by agreement with the employing district, are in the part-time teacher program. The teachers can receive full-time retirement fund credit if the necessary contributions are made.

The relevant provisions are Minnesota Statutes, Section 354.66, for TRA and Minnesota Statutes, Section 354A.094, for first class city teacher retirement fund associations. Prior to 1994, the teacher was required to have 20 years of service to qualify for the part-time program, although TRA law also permitted a member to qualify with ten years of service if the member is at least age 55. The employee paid an employee contribution based on full-time equivalent salary. The law required the employing unit to pay the employer contribution on the part-time salary. The difference between this amount and a full-time equivalent employer contribution was to be contributed to the fund, with the payment shared by the employee and employing unit as agreed to by the parties.

To qualify for the part-time teaching program, the position must constitute at least 50 full days of teaching service or its equivalent and must not be compensated in excess of 67% of the compensation of a full-time teacher with identical education and experience in the district. The qualified part-time teacher retirement fund participation is limited to a period of ten years. While utilizing the qualified part-time teacher retirement fund participation provision, the teacher is not allowed to:

a. simultaneously be a member of, make contributions to, and receive service credit from another Minnesota public pension plan other than a volunteer firefighter relief association;
b. utilize the qualified part-time teacher retirement fund participation provision in more than one employing unit simultaneously;
c. utilize the provision in one district during a year when the teacher also takes a full-time or a part-time teaching position in another employing unit other than that of a substitute teacher; and
d. utilize the provision for any part of any year for which the teacher qualifies for full service credit from the applicable retirement fund.

Legislation in 1994 amended the part-time teacher provisions with the intent to transform the provision to one which could be beneficial to all vested teachers, including those with little teaching experience who may have young families and may be interested in job sharing or other less than full-time employment. The pre-1994 law was narrower in intent. Its use was limited to those teachers who had 20 or more years of service, permitting older, experienced teachers to cut back on services, possibly as a transition into retirement.

The 1994 legislation made it mandatory that the employing unit pays the full-time equivalent employer contribution for any teacher in the program who had 20 or more years of service. This increased the financial burden on the employer. The employing unit could no longer negotiate with the employee to determine how the cost of the employer contribution above that necessary solely for part-time work would be allocated between the two parties. After passage of the 1994 legislation, it was found that the mandatory employer payment of the full-time equivalent employer contribution was reducing the willingness of some employers to offer the program to teachers. Some of the employing units responded by refusing to let employees take part in the program.

The 1995 legislation removed that employer disincentive by deleting the requirement that the employer pay the full-time equivalent employer contribution to the pension fund on behalf of those employees in the program who have 20 or more years of service. This was a return to the pre-1994 cost-sharing arrangement. The employer must pay the employer contribution relevant on the part-time service rendered. The issue of sharing the burden of paying the difference between this employer contribution and the full-time equivalent employer contribution is negotiated between the employee and the employer. The 1995 legislation also allowed teachers who rendered part-time teaching service during the 1994-1995 school year and who were not allowed by their school districts to participate in the full-time retirement credit program to pay the back contributions for that school year. School districts were required to notify affected part-time teachers before July 3, 1995, of the option to make retroactive contributions for the additional service credit. The deadline for making the additional contributions was August 1, 1995.

Background Information on
Service Credit and Service Credit Purchases

1. Defined Benefit Plans. Most Minnesota public pension plans are defined benefit plans. In defined benefit plans, the pension benefit amount that is ultimately payable is predeterminable or fixed using a formula or comparable arrangement. The fixed element of the benefit amount leaves a variable element, which is the funding required to provide that benefit. The formula utilizes allowable service credit and salary credit in the calculation, averaging the salary amounts for the five successive years' average salary period that produces the highest amount for use as the base to which is applied a total percentage amount determined by assigning a percentage amount to each year of allowable service credit.

2. Historical Shift in Plan Types and to Salary-Based Plans. Minnesota's statewide retirement plans were not originally salary-related pension plans, with the predecessor to the Teachers Retirement Association (TRA) established in 1915 as a money purchase (defined contribution) plan, with the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) established in 1929 as a set dollar amount ($200 per month) plan, and with the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) established in 1931 also as a set dollar amount ($200 per month) plan. Conversion to salary-related pension plans occurred for MSRS-General and PERA-General in 1957, which was a recommendation of the initial interim predecessor to the Legislative Commission on Pensions and Retirement, and for TRA in 1969, which was a recommendation of the initial permanent predecessor to the Pension Commission. The first class city teacher retirement fund associations and Minneapolis Employees Retirement Fund (MERF) generally shifted to salary-related pension plans in the 1950s (the Duluth Teachers Retirement Fund Association (DTRFA) shifted in 1971).

3. Definition of Minnesota Defined Benefit Public Pension Plan Service Credit. Allowable service credit in Minnesota's statewide and major local defined benefit retirement plans generally includes many different service periods, which are:

   a. Covered Current Service. Employment is a covered position with a covered employer for which member contributions have been deducted and transmitted to the retirement plan;

   b. Historic Credit in Plan Records. Service credit as reflected in the records of the retirement plan that predates the plan's establishment or reformulation;

   c. Military Service Leave. Periods of service in the U.S. Armed Forces during a leave of absence;

   d. Temporary Disability Periods. Periods of leaves caused by a temporary disability;

   e. Credit Reinstated by a Refund Repayment. Periods of service covered by a prior refund of member contributions which have been repaid subsequently;

   f. Part-Time Employment. Periods where full service credit is granted for part-time employment;

   g. Sabbatical Leaves and Other Leaves of Absence with Pay. Periods of an authorized leave of absence during which the member is paid a whole or a partial salary;

   h. Extended Leaves of Absence Without Pay. Periods of an authorized leave of absence without pay;

   i. Labor Union Employment or Elective Service. Periods of employment as an exclusive collective bargaining representative or as an elected official;

   j. Parental or Family Leaves of Absence. Periods of leaves or breaks in service for parental or family reasons;

   k. Strike Periods. Periods of a labor union strike; and

   l. Out-of-State Teaching or Other Outside Service. Periods of teaching service, Peace Corps service, or VISTA service.

4. Purpose of Service Credit. Service credit in a Minnesota defined benefit retirement plan exists for three reasons, determining vesting rights, determining eligibility for an early normal retirement annuity, and determining the amount of a retirement annuity.

   Vesting is the circumstance of possessing a non-forfeitable right to an eventual retirement annuity, even if covered employment is terminated before reaching retirement age. In virtually all Minnesota defined benefit retirement plans, the vesting period is three years of service credit, which need not be consecutive periods of service and which may include service covered by more than one Minnesota defined benefit retirement plan.

Early normal retirement annuity eligibility in Minnesota defined benefit retirement plans generally means qualification for the Rule of 85, where a member can retire with an unreduced retirement annuity when the sum of the person's age and service credit total at least 85, or for the Minneapolis Employees Retirement Fund (MERF), means qualification for the "30 and out" unreduced retirement annuity payable when a person has credit for at least 30 years of service credit.

Retirement annuity determination is the calculation of a member's defined benefit retirement annuity, using the plan's benefit accrual rate percentage (frequently 1.7% per year of service credit), multiplied by the member's service credit, and the total applied to the member's final average salary figure (highest five years' average salary).

Defined benefit retirement plans exist to provide a retirement annuity at the conclusion of an employee's normal working lifetime. Service credit allows for the retirement plan to bear its proportional share of the burden of the ultimate total retirement annuity amount.

5. <u>Special Legislation Service Credit Purchase Authorization</u>. In Minnesota, until 1999, there were few general law service credit purchase authorizations, and service credit purchase authorizations were generally special law provisions.

The primary general law service credit purchase authorization was Minnesota Statutes 2004, Section 354.51, enacted in 1931, when the Teachers Retirement Association (TRA) was a defined contribution retirement plan, which allows TRA members with 15 years of service who have pre-1953 out-of-state teaching service to purchase that service by making equivalent member contributions, plus interest at the rate of 8.5% per annum.

During the period 1957-2010, the Legislature has enacted 264 special laws authorizing one person or a small group of individuals to purchase prior service credit, distributed as follows:

Year	#	Year	#	Year	#	Year	#	Year	#	Year	#
1957	1	1973	4	1981	14	1989	12	1997	3	2005	1
1959	4	1974	5	1982	16	1990	10	1998	9	2006	14
1961	5	1975	10	1983	2	1991	6	1999	8	2007	3
1963	6	1976	4	1984	3	1992	6	2000	8	2008	4
1965	5	1977	9	1985	2	1993	7	2001	10	2009	2
1967	1	1978	9	1986	6	1994	8	2002	2	2010	1
1969	2	1979	7	1987	3	1995	7	2003	6		
1971	2	1980	4	1988	7	1996	6	2004	1		

A majority of special prior service credit purchase laws relate to the three major general employees retirement plans, with 33 special laws relating to the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), with 84 special laws relating to the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General), and with 52 special laws relating to the Teachers Retirement Association (TRA).

In considering special law service credit purchase requests, the Legislative Commission on Pensions and Retirement has generally followed its Principles of Pension Policy, which require:

a. <u>Individual Review</u>. The Commission considers each service credit purchase request separately, whether the request is proposed legislation for a single person or is proposed legislation relating to a group of similarly situated individuals.

b. <u>Public Employment</u>. The period requested for purchase should be a period of public employment or service that is substantially akin to public employment. This is consistent with the notion that public pension plans should be providing coverage for public employees for periods of time when they were serving the public through public employment or through quasi-public employment. Coverage for a period when an individual provided private sector employment is not consistent with this statement.

c. <u>Minnesota Connection</u>. The employment period to be purchased should have a significant Minnesota connection. This is consistent with the notion that Minnesota taxpayers support these public pension plans and bear the investment risk in amassing plan assets. Given the support that taxpayers provide, it is appropriate that the service have a Minnesota connection, reflecting services provided to the people in the state.

d. Presumption of Active Member Status at the Time of Purchase. The principle states that contributions should be made by the member or in combination by the member and by the employer. It is presumed that the individual covered by the service purchase request is an active employee, because retirees generally are not considered to be "members" of a plan and these individuals no longer have a public employer. If there are unresolved issues of whether an individual should have service credit for a given period, those issues should be resolved before the individual terminates from public service, and certainly before the individual retires. The act of retiring undermines a claim that there is sufficient need for the Legislature to consider the coverage issue. If there was considerable hardship caused by the lack of service credit, presumably the individual would not have retired. Entering retirement suggests that the associated pension benefit is adequate without any further increase in the benefit level due to a purchase. Only on rare occasions have the Commission and the Legislature authorized service credit purchases by retirees.

e. Presumption of Purchase in a Defined Benefit Plan. The prior service credit purchase contributions in total should match the associated actuarial liability. The specific procedures in Minnesota Statutes and law for computing service credit purchase amounts, Minnesota Statutes, Sections 356.55 and 356.551, presume that the purchase is in a defined benefit plan with a benefit based on the individual's high-five average salary. There is no process in law specifying a procedure for computing a "full actuarial value" purchase in a defined contribution plan, or even defining what that concept means in the context of a service purchase or service credit purchase in a defined contribution plan.

f. Full Actuarial Value Purchase. Within the context of a defined benefit plan, the pension fund should receive a payment from the employee, or from the employee and employer in combination, which equals the additional liability placed on the fund due to the purchase. This amount is referred to as the full actuarial value of the service credit purchase. The procedure used to compute this full actuarial value should be a methodology that accurately estimates the proper amounts. When clear evidence indicates that the employing unit committed an error that caused the individual to not receive pension plan coverage, the Commission has permitted the employee to make the employee contribution for the relevant time period, plus 8.5% interest, and the employer has been mandated to cover the remainder of the computed full actuarial value payment. If the employer does not directly make the payment following notification that the employee has made his or her portion of the full payment, the Commission has required that a sufficient amount to cover the remainder of the full actuarial value be deducted from any state aids that would otherwise be transmitted to the employer. The Commission has purposely departed from the full actuarial value requirement when there is evidence that the pension plan administration created the lack of service credit coverage due to pension plan administration error. In situations of pension plan error, the employee may be required to pay the contributions that would have been required for the relevant time period, plus 8.5% interest to adjust for the time value of money, leaving any difference between that payment and the full actuarial value to be absorbed by the pension fund.

g. No Violation of Equitable Considerations. Purchases of service credit should not violate equitable considerations. Equity is a resort to general principles of fairness and justice whenever the existing law is inadequate. In general, any issue or factor associated with a service credit purchase request which can be viewed as lacking fairness or being less than impartial can be a basis for rejecting a request. Requests by existing retirees to purchase additional service credit and have their annuities recomputed could be viewed as being a situation that violated equity considerations. New requests on behalf of individuals who were covered by purchase of service credit authorizations passed by earlier Legislatures but who are dissatisfied with the purchase of service credit terms that were provided can be considered as violating equity considerations. Individuals requesting service credit purchases for periods specifically excluded from plan coverage under the applicable law could be considered as violating equity considerations, among other policy concerns relating to those considerations. Requests to purchase service credit for periods covered by another pension plan may raise equity concerns. Generally, a service credit purchase is intended to fill a gap in coverage, not to create double coverage. Long delays in seeking remedial action can also be considered a violation of equity considerations. Individuals tend to wait until late in their careers before seeking any remedial action for lost service credit. Prompt action, closer to the time period when the service credit problem occurred, would often result in a solution at a lower cost and would avoid efforts by the Commission to try to determine the factual situation many years, or even decades, after the event occurred.

6. <u>1999-2004 General Service Credit Purchase Provisions</u>. The recently expired full actuarial value service credit purchase provisions and the years in which they were enacted are as follows:

<u>1999</u>
- Military service (TRA and first class city teacher plans)
- Out-of-state teaching service (TRA and first class city teacher plans)
- Maternity leave or absence or maternity break-in-service (TRA and first class city teacher plans)
- Parochial or private school teaching service (TRA and first class city teacher plans)
- Peace Corps and VISTA service (TRA and first class city teacher plans)
- Charter school teaching (TRA and first class city teacher plans)
- Previously uncredited part-time teaching service (first class city teacher plans)

<u>2000</u>
- Military service (various MSRS plans, PERA plans)
- Teaching service credit for various nonprofit Community Based Corporation service (TRA and first class city teacher plans)

<u>2001</u>
- Out-of-country and tribal teaching service credit (TRA and first class city teacher plans)
- Developmental Achievement Center teaching service (TRA and first class city teacher plans)
- Uncovered teaching service at the University of Minnesota (TRA and first class city teacher plans)
- Parental leave/break-in-service (teacher plans, various MSRS and PERA plans, various other plans)

In 1999, the Commission was persuaded to support several proposed generalized service credit purchase provisions applicable to the Teachers Retirement Association (TRA) and the first class city teacher retirement fund associations (the Duluth Teachers Retirement Fund Association and the St. Paul Teachers Retirement Fund Association). Under these provisions, classes of individuals (those with prior military service, out-of-state teaching service in a K-12 situation, individuals who taught in parochial schools, provided Peace Corps service and various other groups), were permitted to purchase service credit in the applicable Minnesota plan for the specified service. These provisions, which were strongly supported by teacher groups, conflicted with the Commission's Policy Principles in several ways. All lacked any requirement of an individual review of the circumstance. Others were not related to public service or had no Minnesota connection.

In 2000, more service credit purchase provisions were added to law, this time for non-teacher plans, providing a full actuarial value service credit provision for individuals who had military service prior to becoming a public employee, or who failed to pay contribution requirements in a timely manner under other military leave service credit purchase provisions. These provisions enacted in 2000 were comparable to the military service credit provisions added to teacher plan law a year earlier. In 2000, teacher plan law was also revised to permit full actuarial value service credit purchases for nonprofit community-based teaching service.

In 2001, several other service credit purchase provisions were enacted. An out-of-country teaching service credit purchase provision was created in teacher plan law, and also one for Development Achievement Center teaching. These new provisions included sections of law permitting purchase of service credit, not to exceed ten years, in the teacher plans for service while teaching at the University of Minnesota which was not covered by a pension plan at the university. These provisions stemmed from a legislative request for the executive director of the Minneapolis Employees Retirement Fund (MERF), who many years earlier taught some accounting courses at the University while employed in a position that was excluded from pension plan coverage. The final generalized service credit provision enacted was a family leave provision permitting individuals who may be covered by a teacher plan, or any of several other general employee and public safety plans, to purchase service credit for the past family leaves or family-related breaks-in-service.

There are several reasons why the Commission and Legislature may have supported the above provisions. First, the provisions were intended to be temporary. Each was set to expire a few years after enactment. The departure from policy may have been viewed as a short-term departure from established policy to address short-term market conditions for teachers. Second, the Legislature had been given assurances that the provisions created no financial harm to the pension funds because the purchases would be at full actuarial value. The methodology to compute full actuarial value purchase prices had been revised in 1998, and the teacher unions and the administrators of the teacher pension funds were confident that the procedures would produce accurate price estimates, thereby shielding other fund contributors from subsidizing these purchases. When the revised methodology was enacted in 1998 as Minnesota Statutes, Section 356.55, the section included a provision requiring data to be retained and analyzed on every service credit purchase made using the procedure, and the section included an expiration date. If legislative review of these purchases suggested that the procedure was not accurate and was causing subsidies to occur, the section would be permitted to expire. If it expired, a previous procedure used to estimate full actuarial value, coded as Minnesota Statutes, Section 356.551, would again become effective. That prior procedure in Minnesota Statutes, Section 356.551, tended to produce higher cost estimates than the revised procedure. Teacher unions and other constituent groups favor continuing the revised procedure in Minnesota Statutes, Section 356.55, because it tends to produce lower prices. From a policy standpoint, the procedure contained in Minnesota Statutes, Section 356.55, is better if it is more accurate than the prior procedure. If the lower prices are resulting in subsidies, its use harms the pension funds.

As the repeal date for the revised full actuarial methodology and each of these temporary generalized service credit provisions approached, the repeal dates were extended by the Legislature due to strong support for these provisions from the teacher unions and other constituent groups. Most of the provisions have now been extended more than once, but generally expired in July 2004.

Senator Olson introduced-

S.F. No. 1252: Referred to State Government Innovation and Veterans.

A bill for an act

relating to retirement; Teachers Retirement Association; authorizing a salary credit purchase by certain part-time teaching program participants.

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

Section 1. **INDEPENDENT SCHOOL DISTRICT NO. 270, HOPKINS; SALARY CREDIT PURCHASE FOR PART-TIME TEACHING PROGRAM SERVICE AUTHORIZED.**

(a) An eligible person described in paragraph (b) is entitled, upon application to the executive director of the Teachers Retirement Association, to purchase salary credit from the Teachers Retirement Association for the period of part-time teaching service specified in paragraph (c) if the purchase payment required under paragraph (d) is paid on or before July 1, 2012, or the date of the person's retirement, whichever is earlier.

(b) An eligible person is a person who:

(1) was born on January 20, 1951;

(2) was hired by Independent School District No. 270, Hopkins, as a teacher;

(3) first participated in the qualified part-time teacher association membership program with a properly submitted teacher-school district agreement for the 2007-2008 school year;

(4) was employed part-time as a teacher by Independent School District No. 270, Hopkins, during the 2008-2009 school year, but the Minnesota Statutes, section 354.66, agreement was not filed with the Teachers Retirement Association until September 20, 2010; and

(5) was employed by Independent School District No. 270, Hopkins, as a part-time teacher under Minnesota Statutes, section 354.66, for the 2009-2010 school year and for the 2010-2011 school year.

(c) The period of part-time teaching service is the period during the 2008-2009 school year during which the eligible person was paid 80 percent of the eligible person's full-time service salary rate for part-time teaching service rendered for Independent School District No. 270, Hopkins.

(d) The total purchase payment amount for the increase in the annual salary credit for the 2008-2009 school year of $11,090.60 in the employ of Independent School District No. 270, Hopkins, is the service credit purchase payment amount required under Minnesota Statutes, section 356.551. The eligible person shall pay $609.98 plus compound interest at the annual rate of 8.5 percent from January 31, 2009, until the date of payment. Independent School District No. 270, Hopkins, must pay the balance of the purchase payment amount under Minnesota Statutes, section 356.551, in excess of the eligible person's payment amount. The school district payment is due 30 days after notification by the executive director of the Teachers Retirement Association that the eligible person's payment amount has been received by the association. If the school district fails to make the required payment in a timely manner, the executive director of the Teachers Retirement Association shall notify the commissioner of management and budget and the commissioner of education of that failure and those commissioners shall subtract the unpaid amount from and state aid otherwise payable to the school district.

(e) Upon receipt by the Teachers Retirement Association of the total amount required under paragraph (d), the eligible person shall receive annual salary credit for an additional $11,090.60 for the 2008-2009 school year.

(f) The salary credit purchase payment authorization under this section expires August 1, 2012.

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