



TO: Members of the Legislative Commission on Pensions and Retirement  
 FROM: Edward Burek *EB*  
 RE: Summary of Pension Legislation Enacted by the 1989 Legislature  
 DATE: August 22, 1989

During the 1989 regular legislative session, the Legislature passed Senate File 783 (Laws 1989, Chapter 319) which changed pension coverage and improved benefits for state, county, and local employees, teachers, judges, legislators, police, fire, and other groups. The bill also included articles dealing with pension plan administration and fiduciary responsibility. The following summarizes the changes due to Senate File 783, and incorporates changes due to other 1989 laws. The material is divided into two sections. The first covers fund-specific legislation, or legislation which applies to specific categories of funds (local police funds, volunteer fire funds, etc.), while the second summarizes legislation applicable to all Minnesota public pension funds.

### I. FUND SPECIFIC LEGISLATION

#### A. Minnesota State Retirement System (MSRS)

##### 1. General State Employees Retirement Fund (MSRS General).

The Legislature granted a benefit increase to members of MSRS General. Similar increases were granted to members of the Public Employees Retirement Association (PERA), the Teachers Retirement Association (TRA), and the first class city teacher funds. Some of the following apply to all MSRS General members, while other provisions differ between new and existing employees.

All MSRS General members are eligible to benefit from the following changes:

- a. Reduction in vesting requirement. The vesting period is reduced from five years to three years. Normal retirement, early retirement, disability, portability, and survivor benefit provisions are changed to three year service eligibility rather than five year. (Laws 1989, Chapter 319, Article 13, Sections 5, 7, 10, 12, 15, 16.)
- b. Increased interest on refunds. Interest on refunds of member contributions taken when an individual leaves employment is increased to six percent from five percent. (Laws 1989, Chapter 319, Article 13, Section 14.)
- c. Increase in deferred annuity augmentation. Under prior law, individuals who have vested and then leave employment prior to retirement can have a deferred annuity, leaving their contributions in the retirement plan and eventually receiving an annuity at retirement age. Deferred annuities augmented at three percent per year during the deferral period. Under the new law, augmentation increases to five percent on January 1st of the year after the member reaches age 55. (Laws 1989, Chapter 319, Article 13, Section 17.)
- d. Automatic bounce-back, joint and survivor annuity. The new law provides a subsidized, automatic bounce-back annuity for individuals selecting a joint and survivor annuity. If the designated beneficiary of a joint and survivor annuity dies before the annuitant, the ex-employee's annuity automatically bounces back to the single life annuity level.

This automatic bounce back provision also applies to existing joint and survivor annuities. If a retired employee or disabilitant selected an optional joint and survivor annuity, but did not select a bounce back provision, they are now eligible for restoration of the normal single-life annuity if the designated beneficiary dies first, without further reduction of the current annuity. If the designated optional annuity beneficiary died before July 1, 1989, the annuitant will receive a normal single-life annuity after that date, but no retroactive payments. If a retired employee or disabilitant initially took the joint and survivor annuity with a bounce-back (which required an actuarial reduction in the present annuity), the annuity will be increased after July 1, 1989 so the individual does not bear the cost of the bounce-back provision. (Laws 1989, Chapter 319, Article 13, Section 10.)

The following benefit formula change applies only to new employees hired after 6/30/89:

- e. New level benefit formula, new employees. New employees will receive a level formula of 1.5 percent credit for all years of service, rather than the current one percent for each of the first ten years of service, followed by 1.5 percent thereafter. If the individual retires before the normal retirement age, the benefit is actuarially reduced. The normal retirement age for new employees will be automatically changed to correspond to the Social Security retirement age, as that changes over time. The normal retirement age for existing employees remains at age 65. (Laws 1989, Chapter 319, Article 13, Sections 2, 9.)

The following changes apply only to existing employees. (Laws 1989, Chapter 319, Article 13, Sections 9, 10.) Current employees will receive annuities based on whichever of the following produces the higher benefit:

- f. Current benefit formula with three percent early retirement reduction. A benefit accrual of one percent for each of the first ten years, plus 1.5 percent for each year thereafter, with three percent annual reduction for early retirement, or
- g. Level benefit formula with actuarial reduction. 1.5 percent for all years of service, with actuarial reduction for early retirement, or
- h. Rule of 90 with current benefit formula rates. If age plus years of service equal at least 90, the benefit accrual is one percent for each of the first ten years of service, followed by 1.5 percent per year thereafter, with no early retirement reduction. Use of the rule of 90 must be reviewed periodically. If use exceeds 45 percent of the members eligible to retire under that provision, the provision is voided. (Laws 1989, Chapter 319, Article 13, Section 96.)

Associated with these benefit changes are increases in contribution rates:

- i. Contribution rate increases. The employee contribution rate for all MSRS General active members increases to 4.34 percent after June 30, 1989, while the employer contribution increases to 4.51 percent. (Laws 1989, Chapter 319, Article 13, Sections 3 and 4.) \$3,916,000 in fiscal 1990 and \$4,123,000 in fiscal 1991 are appropriated from the state's general fund to the Commissioner of Finance to offset the cost of increases in employer contributions for the MSRS general plan. The money is to be allocated among state agencies and the University of Minnesota. (Laws 1989, Chapter 319, Article 13, Section 97.)

## 2. MSRS Unclassified

- a. Minimum investment account transfer and minimum balance requirements eliminated. The minimum transfer and minimum balance requirements among unclassified plan investment options are eliminated. (Laws 1989, Chapter 319, article 1, Section 13.)
- b. Minimum retirement age reduced. The minimum age for retirement and the minimum age to start receiving a surviving spouse benefit are reduced from age 58 to age 55. (Laws 1989, Chapter 319, Article 1, Section 13.)
- c. Prior service contribution transfer extension. Individuals who did not transfer prior service contributions to the unclassified plan from other public funds within one year of entering the unclassified service, and who now wish to do so, are given a window until September 30, 1989 to make the transfers. (Laws 1989, Chapter 319, Article 1, Section 16.)

## 3. Judges Retirement

- a. Combined service provisions. Combined service annuity, combined service disability, and combined service survivor benefit provisions are extended to members of the Judges Retirement Fund. (Laws 1989, Chapter 319, Article 5, Sections 4 through 6.)
- b. Repaying refunds. Judges who leave and later rejoin the plan are permitted to repay all refunds received, reinstating previous service credits, rights, and benefits. (Laws 1989, Chapter 319, Article 5, Section 7.)

## 4. Legislative Retirement

Various provisions increased legislative pensions, including removing the service accrual cap, including per diem in salary for pension computation purposes, and changes in annuity augmentation.

- a. Removal of the service credit cap. The twenty year cap on service credit and contributions is removed, effective with the start of the 1989 session, permitting long-term legislators to accrue additional service credit. (Laws 1989, Chapter 319, Article 16, Section 7.)
- b. Per diem included in salary. The high-five average salary used in the pension calculation is increased by including regular and special session per diem in the salary base. Inclusion of per diem is retroactive to December 31, 1988 if the legislator pays the retirement fund nine percent of the regular and special session per diem for the appropriate period, plus six percent interest. (Laws 1989, Chapter 319, Article 16, Sections 1 and 6.)
- c. Increase in deferred annuity augmentation. Deferred annuity augmentation increases to five percent from three percent on January 1st of the year that the legislator reaches age 55. (Laws 1989, Chapter 319, Article 16, Section 5.)
- d. Early retirement penalty reduced. The early retirement penalty is reduced from six percent per year to the actuarial equivalent of an annuity payable if the legislator delayed receipt until age 62, with three percent augmentation. (Laws 1989, Chapter 319, Article 16, Section 4.)

## 5. MSRS Highway Patrol, MSRS Correctional

Items (a) through (h) below apply to both the MSRS Highway Patrol and Correctional plans. Item (i) applies to the Highway Patrol.

- a. Reduction in vesting requirement. The retirement vesting period is reduced from five years to three years for both plans. For MSRS Correctional, the non-duty related disability vesting provision is reduced to three years. For the highway patrol, the surviving spouse and surviving child benefit provision and the service-in-more-than-one-fund portability provision are made consistent with three year vesting. (Laws 1989, Chapter 319, Article 13, Sections 20,22,25,27,28.)
- b. Definition of average salary for short service retirees. Average salary will be computed on all years of service for individuals retiring with less than five years total service. (Laws 1989, Chapter 319, Article 13, Sections 20, 24.)
- c. Refund interest rate increased. The interest rate on refunds of member contributions is increased to six percent. (Laws 1989, Chapter 319, Article 13, Sections 21,26.)
- d. Automatic bounce-back, joint and survivor annuity. The new law provides a subsidized, automatic bounce-back annuity for individuals selecting a joint and survivor annuity. If the designated beneficiary of a joint and survivor annuity dies before the annuitant, the ex-employee's annuity automatically bounces back to the single life annuity level.

This automatic bounce back provision also applies to existing joint and survivor annuities. If a retired employee or disabilitant selected an optional joint and survivor annuity, but did not select a bounce back provision, they are now eligible for restoration of the normal single-life annuity if the designated beneficiary dies first, without further reduction of the current annuity. If the designated optional annuity beneficiary died before July 1, 1989, the annuitant will receive a normal single-life annuity after that date, but no retroactive payments. If a retired employee or disabilitant initially took the joint and survivor annuity with a bounce-back (which required an actuarial reduction in the present annuity), the annuity will be increased after July 1, 1989 so the individual does not bear the cost of the bounce-back provision. (Laws 1989, Chapter 319, Article 17, Section 1.)

- e. Change to level formula. Members receive a level formula of 2.5 percent for each years of service, rather than the current drop to 2.0 percent per year after twenty five years of service. (Laws 1989, Chapter 319, Article 17, Sections 2, 6.)
- f. Early retirement. Early retirement is permitted at age 50 with full actuarial reduction to age 55, providing the individual has five years allowable service. (Laws 1989, Chapter 319, Article 17, Section 3, 6.)
- g. Service disability benefit increase. The long service disability benefit is 50 percent of salary plus 2.5 percent for each year of service in excess of twenty. (Laws 1989, Chapter 319, Article 17, Sections 4, 8.)
- h. Non-service disability benefit increases. The non-duty disability benefit vesting period is reduced to one year and the minimum benefit is calculated as though the individual had fifteen years of service, rather than the previous ten. (Laws 1989, Chapter 319, Article 17, Sections 5, 9.)
- i. Survivor benefit increase, highway patrol. For the highway patrol, the spouse survivor benefit is increased to 50 percent of average monthly salary and dependent child coverage continues through age 23 (rather than age 22), if the dependent is enrolled in a post secondary school. The maximum family benefit is increased from 50 percent to 70 percent of average monthly salary. (Laws 1989, Chapter 319, Article 17, Section 10.)

## 6. Administrative Issues, Coverage Changes

- a. Appeals procedure for benefit termination or denial. Laws 1989, Chapter 319, Article 1, Section 5 includes a benefit termination appeals procedure for funds administered by MSRS that:
  - (1) provides notice of any benefit termination or denial;
  - (2) allows for a review of an administrative termination or denial upon filing a petition;
  - (3) requires an answer to the petition;
  - (4) provides for a hearing;
  - (5) allows for resubmission of disability benefit questions to the MSRS medical advisor;
  - (6) requires board findings following the hearing;
  - (7) authorizes an appeal to the state Court of Appeals;
  - (8) provides that the administrative appeal is not to be conducted under the procedures of the state's Administrative Procedure Act contested case provisions, but allows the MSRS Board of Directors to certify any petition to the state's Office of Administrative Hearings for a contested case proceeding; and

