



TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Ed Burek, Deputy Director *EB*

RE: H.F. 1313 (Thissen); S.F. 1141 (Betzold): MERF; Permitting Investing with the State Board of Investment and Transfer Liquidity Flexibility

DATE: February 28, 2007

Summary of H.F. 1313 (Thissen); S.F. 1141 (Betzold)

H.F. 1313 (Thissen); S.F. 1141 (Betzold) amends sections in Minnesota Statutes, Chapter 422A, the Minneapolis Employees Retirement Fund (MERF) chapter, by making the following changes:

1. MERF Authority to Invest with the State Board of Investment. The MERF Board would be permitted to invest some or all of the fund's assets with the State Board of Investment (SBI) through either the Minnesota Supplemental Investment Fund, a mutual fund-like family of investment accounts, or the Minnesota Combined Investment Funds, an investment pool made up of the active member assets of the various statewide retirement plans (Section 1).
2. MERF Internal Transfer Liquidity Flexibility. The transfer of assets between the MERF active member investment account (the MERF Deposit Accumulation Fund) and the MERF retired member investment account (the MERF Retirement Benefit Fund), if the Deposit Accumulation Fund has insufficient assets to make the transfer upon the retirement of an active member, can be made with an internal interest-bearing promissory obligation. The obligation would bear interest at the rate of five percent, plus the percentage increase in the Consumer Price Index over the period, and the interest and the principal of the obligation would be payable first from any balance in the Deposit Accumulation Fund (Sections 2 to 6).
3. Repealer. Minnesota Statutes, Section 422A.101, Subdivision 4, a provision requiring the City of Minneapolis to provide sufficient assets to make required transfers to MERF's retired fund at the time of retirement, is repealed (because it is replaced by the mechanism in 2, above).

These provisions are effective June 30, 2006.

Background Information

1. MERF, In General. Background information on the creation, plan design, benefits, and administration of the Minneapolis Employees Retirement Fund (MERF) is attached as Attachment A.
2. Minnesota Retirement Plan Investment Authority. Background information on the investment authority of MERF as compared to SBI and other major local retirement plans is presented in Attachment B.
3. MERF Post-Retirement Adjustment Mechanism. Background information comparing the operation of MERF's retirement Benefit Fund with the Minnesota Post Retirement Investment Fund operated by SBI is contained in Attachment C.
4. Background Information on State Aid to MERF. Background information on the state aid payable to MERF is set forth in Attachment D.

Discussion and Analysis

H.F. 1313 (Thissen); S.F. 1141 (Betzold) authorizes the MERF Board to invest some or all of MERF's assets with the State Board of Investment through either the Minnesota Supplemental Investment Fund or the Minnesota Combined Investment Funds; and it would authorize use of internal interest-bearing promissory obligations for use in covering transfer requirements between MERF's active and retired member fund when the active fund has insufficient assets to make the transfer upon the retirement of an active member. The interest on the obligation would be five percent plus the percentage increase in the Consumer Price Index over the period, and the interest and the principal of the obligation would be payable first from any balance in the active fund.

The current bill is based on a bill introduced in the House in 2005 by Representative Margaret Anderson Kelliher, H.F. 853. The Commission heard 2005 H.F. 853 (Kelliher) and recommended it to pass, but it

was not enacted in 2005. On February 15, 2006, the Commission again recommended various provisions of that bill to pass, but portions of it were removed by the House and again not enacted. The two items that were removed by the House, revised MERF investment authority to allow investing with SBI and permission to use an internal liquidity transfer, are the substance of the current bill. The drafting incorporates technical revisions suggested by Commission staff in 2006.

H.F. 1313 (Thissen); S.F. 1141 (Betzold) raises several pension and related policy issues for Commission consideration and discussion, as follows:

1. Appropriateness of a Continued Separate Plan Administration for MERF and other Minneapolis Pension Funds. The policy issue is the appropriateness of retaining a separate plan administration for MERF. The MERF benefit plan has been closed to new members since 1979 (1977 in actuality, since the MERF Coordinated Program created for all new entrants in 1977 was consolidated into the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) in 1979). According to the July 1, 2006, MERF actuarial valuation, MERF had only 335 active members (down from 462 a year earlier), and a considerable portion of these remaining active members meet or exceed minimum age and service requirements for retirement. MERF uses outside investment managers to handle its portfolios, and MERF is considering placing some or all MERF assets with the State Board of Investment.

MERF also has a considerably larger administrative expense per plan member (including all active, disabled, deferred, retired, and survivors) than PERA-General (\$147.12 per member for MERF compared to \$26.07 per member for PERA-General in fiscal 2006). Another way of viewing this is that, on a per member basis, for every \$1 PERA spends on administrative expenses, MERF spends \$5.65. The two other Minneapolis pension funds, the Minneapolis Fire Relief Association (MFRA), and the Minneapolis Police Relief Association (MPRA) are even less efficient. In the State Auditor's Large Public Pension Plan Investment Report for the Year Ended December 31, 2005, and in a presentation before the Commission last year, State Auditor Patricia Anderson indicated that in 2005, MPRA's administrative expenses were \$640 per member and MFRA's administrative costs were \$1,047 per member. On a per member basis, for every \$1 in administrative expenses spent by PERA to run PERA-General, the MPRA spent about \$24.60, while the MFRA spent \$40.26.

At some point pension plans become too small in size, have shifted sufficient functions to outside contractors, and are too expensive in administrative cost to justify continuing separate plan administration. If MERF or other Minneapolis pension funds have reached that point in the opinion of the Commission, there are at least three options that could be considered for reorganizing the MERF and other Minneapolis plan administrations. These options are:

- a. MERF Administration by PERA. The MERF Board either could be authorized to contract with PERA for the provision of plan administrative services for MERF or PERA could be mandated to administer MERF. **Amendment H1313-1A** authorizes the MERF Board to contract with the PERA Board for plan administrative services. **Amendment H1313-2A** mandates that PERA administer MERF.
- b. PERA Administration of the Minneapolis Firefighters and the Minneapolis Police Relief Associations. **Amendment H1313-3A** mandates that PERA administer the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association.
- c. Combine Minneapolis Pension Plan Administrations. The plan administrations of two or more of the Minneapolis pension plans could be combined into a single plan administration. **Amendment H1313-4A** would require that the MERF plan administration provide administrative services for the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association.
- d. Convert MERF to a Trust Fund Administered by the City. MERF could be converted to a trust fund to be administered by the City of Minneapolis, akin to the situation of the former Eveleth Police Relief Association, the former Eveleth Fire Department Relief Association, and the former Thief River Falls Police Relief Association. **Amendment H1313-5A** converts MERF to a trust fund of the City of Minneapolis to be administered by the city finance director.

A consideration for any proposal that would have MERF administer one or both of the Minneapolis relief associations is that it would be a second-best solution, and a temporary one. All these organizations are rapidly losing their remaining active membership to retirement and soon will consist entirely of retirees and survivors. It may be more efficient to consider merging all administrative functions into PERA and all investment-related functions into SBI.

2. Appropriateness of Authorizing MERF to Invest with SBI. The policy issue is the appropriateness of permitting MERF to utilize the State Board of Investment (SBI) to invest some or all of the MERF assets, either by purchasing shares in one or more accounts of the Minnesota Supplemental Investment Fund, or in a separately managed account in the Minnesota Combined Investment Fund, the current investment vehicle operated by SBI for the active member funds of the various statewide retirement plans. The five remaining local police or paid fire relief associations (Bloomington Fire, Fairmont Police, Minneapolis Fire, Minneapolis Police, and Virginia Fire) and the 700+ volunteer firefighter relief associations have had authority to utilize the Minnesota Supplemental Investment Fund under Minnesota Statutes, Section 69.77 (enacted in 1969) or 69.775 (enacted in 1971). Last year, the remaining first class city teacher fund associations received statutory authority to use the SBI Supplemental Fund (Laws 2006, Chapter 271, Article 8, Section 2).

While authority to invest in the Minnesota Supplemental Investment Fund has been granted to nearly all Minnesota public plans, the MERF proposal for the authority to use the Minnesota Combined Investment Funds is without current precedent in any other local Minnesota public pension plan. The proposal also grants MERF discretion to allocate assets to the Minnesota Combined Investment Funds while also granting the SBI discretion as to whether to place MERF assets in fixed income pools or separately managed accounts. The Commission should consider taking testimony from MERF and from the State Board of Investment about how they envision this joint discretion will operate in practice.

3. Appropriateness of According MERF Full Discretion on the Amount of Its Assets Allocated to the State Board of Investment. The policy issue is the appropriateness of letting the MERF Board determine the amount of its assets to be invested with SBI. Under the authority, the MERF Board could increase or reduce the amount of its assets invested with SBI month to month or year to year as it saw fit. Allowing this much discretion reflects a continuing commitment to local pension plan autonomy.
4. Question of Whether to Amend Bill to Mandate the Investment of MERF Assets by SBI. The policy issue is whether the bill should be revised to mandate the investment of MERF assets by the State Board of Investment. Until 1969, MERF was responsible for investing all of its assets, but when the predecessor to the Minnesota Post Retirement Investment Fund (Post Fund) was established in 1969, MERF retiree member assets were moved to that SBI fund and invested by SBI. Then, in 1981 or 1982, MERF retiree assets were transferred back to MERF and a MERF Retirement Benefit Fund statute was enacted as a virtual copy of the SBI Post Fund provision, using identical procedures for generating post retirement increases. The only difference between the MERF and SBI provisions of any significance was who did the investing of MERF retiree assets. That legislation required that the investing be done by MERF rather than SBI. If the Legislature in the early 1980s had not decided to copy the SBI system for determining post-retirement increases into MERF law and had not transferred MERF retiree assets back to MERF, SBI would at the current time be investing nearly all MERF assets, because currently nearly all MERF assets are retiree assets. As of September 30, 2006, MERF had total assets of \$1.638 billion. Of that amount, 89 percent of the assets were in the MERF Retired Fund, another 8.5 percent of assets were in a survivor benefit account to pay survivor annuities, and only two percent of assets were in the active member (deposit accumulation) fund.

As Appendix B indicates, over the long term through calendar year 2003, MERF investment performance has not been more advantageous than SBI, potentially arguing for a change in MERF's investment authority. The information in this appendix reflects the data available when Commission staff last systematically reviewed pension plan investment performance. **Amendment HF1313-6A** would transfer the investment authority with respect to all MERF assets to SBI, effective July 1, 2007.

5. Appropriateness of Permitting Transfers of Internal IOUs Instead of Cash to the MERF Retirement Benefit Fund. The policy issue is the appropriateness of replacing the obligation for MERF to transfer cash or assets from the Deposit Accumulation Fund to the Retirement Benefit Fund with authority for an interest-bearing internal transfer payable. As indicated in Appendix C, the MERF Retirement Benefit Fund was established to replace and to parallel the Minnesota Post Retirement Investment Fund, which requires the transfer of the full actuarial required reserves for a retirement annuity upon the retirement of an active member from the active member investment account to the retired member investment account. Currently, the MERF Deposit Accumulation Fund has nominal assets that will not support many full required reserve transfers and the City of Minneapolis has had large and increasing additional contributions required under Minnesota Statutes, Section 422A.101, Subdivision 4, to maintain solvency in both funds, necessitating the City of Minneapolis to issue bonds to fund the liquidity transfers. The proposed addition of internal IOU transfer authority would alleviate the need for the current practice of bonding for liquidity transfers, but as the remaining 335 active members actually retire with an individual required reserve transfer amount that averages almost \$350,000,

there is considerable potential that the internal IOUs could represent a large percentage of the Retirement Benefit Fund assets. The Minnesota Post Retirement Investment Fund and the MERF Retirement Benefit Fund have been portrayed to annuitants as beneficial because the full funding of the retired member investment account provides the security of tangible assets to them. Internal IOUs meet an accounting and a financing difficulty, but do nothing to maintain this sense of full funding security, replacing tangible assets with a promise of future city funding that is still based on actuarial assumptions and using an amortization period (i.e., until 2020) that was chosen by MERF to moderate the fiscal impact of resolving the investment losses inherited from the John Chenoweth era in 1991, but did not reflect the actual investment markets, historic salary increase practices, or the remaining working lifetime of MERF active members.

6. Appropriateness of the Internal IOU Interest Charge Calculation Procedure. The policy issue is the appropriateness of the formula proposed for calculating the interest on the internal transfer payable amounts credited to the MERF Retirement Benefit Fund. The internal IOUs are required to be credited with interest at a rate that is unrelated to the actual investment return of the plan, which could affect future investment performance component post-requirement adjustments. The interest rate to be credited on the internal IOUs is five percent plus the percentage increase in the Consumer Price Index during the fiscal year, without a maximum. While the credited interest rate would cover the potential minimum post-retirement adjustments (i.e., the five percent baseline post-retirement interest rate actuarial assumption plus up to a 3.5 percent increase in the Consumer Price Index), the rate does not cover lost investment returns during bull market periods (i.e., investment returns in excess of 8.5 percent) and will overstate actual investment returns during bear markets if there is moderate or high inflation. Inflation and investment returns are not well correlated¹, so when the interest crediting procedure would produce a high rate (five percent plus a high CPI increase percentage), actual MERF Retirement Benefit Fund performance is unlikely to also be high, meaning that the proposed interest crediting procedure will work to actually produce a higher investment performance component adjustment that is unreflective of what the situation would have been without internal IOUs. Similarly, in periods of nominal inflation and high investment returns, the internal IOUs authority will work to depress investment performance component adjustments.
7. Appropriateness of Creating a Priority for Redeeming Internal Transfer IOUs Interest Over Principal. The policy issue is the appropriateness of the proposed manner in which any future internal transfer IOUs and their interest charges will be redeemed when the MERF Deposit Accumulation Fund receives additional revenue. The proposed legislation would redeem the interest on the internal transfer IOUs first, before redeeming the principal. Given the large differential between the actuarial funding required under Minnesota Statutes, Section 422A.101, Subdivision 1, and the liquidity funding required under Minnesota Statutes, Section 422A.101, Subdivision 4, internal transfer IOUs are likely to be considerable and payment of the contrived interest charge on the IOUs instead of the principal of the IOUs could artificially increase future MERF unfunded actuarial accrued liability that drives the amount of the state contribution to MERF. MERF officials or Minneapolis city officials should be requested to disclose any projections that they have prepared that would shed some light on the magnitude of the anticipated internal transfer IOUs, IOU interest charges, city contributions, and the state's support of MERF.
8. Appropriateness of the Use of IOUs on Future State Aid to MERF. The policy issue is the impact on future state aid payments to MERF under Minnesota Statutes, Section 422A.101, Subdivision 3, of the proposed internal IOU transfers between the MERF Deposit Accumulation Fund (Active Account) and the MERF Retirement Benefit Fund (Retired Account). Rather than the aid ending when the last MERF active member retires, which is expected to be well before 2020, under this proposal the aid is likely to continue until that 2020.

The state makes annual contributions to MERF to help retire its unfunded liability. Based on the most recent actuarial study, the state is expected to contribute \$9.0 million in the coming year to help retire MERF unfunded liability by the 2020 full funding date. If the deposit accumulation fund does not have enough assets to meet asset transfer requirements when individuals retire, Minnesota Statutes, Section 422A.101, Subdivision 4, requires the city to provide any additional funding necessary for these transfers. The City of Minneapolis has issued municipal bonds to meet this and other pension obligations. Under existing laws given the expected retirement dates for MERF's remaining active members, that requirement in Section 422A.101 will cause MERF to be fully funded well in advance of 2020, and the state aid to MERF will end when that full funding date is reached.

¹ See Frederick Novomestky, "Geometric Brownian Motion Model for U.S. Stocks, Bonds and Inflation: Solution, Calibration and Simulation", 2001, p. 30.

In contrast, under the current proposal the state aid to MERF is likely to continue until 2020. Under this proposal, when the deposit accumulation fund has insufficient assets to make transfers, the retiree fund may not receive real assets. Instead, it will receive IOUs, declaring that the real assets will be provided at a later time. The IOU transfers are internal, they do not constitute actual assets of MERF, and they do not increase its funding ratio over time. The real funding, plus the additional interest required due to the delay, will be provided through the amortization process in law, which is geared to fully retiring all unfunded liability by 2020, not sooner.

9. Appropriateness of Retroactive Effective Date. The issue is why the effective date of these provisions should be July 1, 2006, rather than being prospective. The two issues covered by the bill are the issue of whether to use the State Board of Investment to invest some or all MERF assets, and whether to permit IOUs to be deposited in the retired fund, rather than requiring the City to immediately obtain sufficient assets to make the transfers by taxing or by borrowing. It does not seem that either of these could occur retroactively, so the retroactive effective date seems to have no purpose. **Amendment H1313-7A** would make the bill effective July 1, 2007.
10. Question of Local Approval. The question is whether a local approval clause should be added, if the proposal is viewed as placing additional funding responsibility or risk on the city. The Commission may wish to hear brief testimony on this matter. The bill seems quite favorable to the city in the short run, by reducing its need to quickly inject assets into MERF to cover transfer requirements. The long run impact is less clear, but still seems favorable. Some of the need to make payments to the fund to cover obligations is shifted to the more distant future, and some portion of that will be picked up by the state. But there is some risk to the city because the interest rate to be paid on the IOUs is a function of inflation, which is unknown, and a current or future Legislature might decide to limit state aid to MERF, leaving the city with a larger share of the financing responsibility. **Amendment H1313-8A** would add a local approval clause.

Attachment A

Background Information on the Minneapolis Employees Retirement Fund (MERF)

The Minneapolis Employees Retirement Fund (MERF) was established in 1919 and is governed by Minnesota Statutes, Chapter 422A. MERF was closed to new entrants in 1979. The membership of MERF is largely composed of employees of the City of Minneapolis and Special School District No. 1. Police officers employed by the Metropolitan Airports Commission before June 30, 1979, are members of MERF and are entitled to receive retirement benefits under either the MERF benefit Plan or the law governing PERA-P&F. Metropolitan Airports Commission firefighters employed before June 30, 1979, are also covered by MERF.

MERF is a defined benefit pension plan and is not coordinated with the federal Social Security System. For most MERF members, the retirement annuity is calculated based on the member's final average (highest five successive years) salary and a two part (2.0 percent for each of the first ten years; 2.5 percent for each subsequent year) benefit accrual rate. The normal retirement age is age 60 or any age with 30 years of allowable service. Police officers and firefighters covered by MERF receive the retirement benefit payable under the PERA-P&F benefit plan if that benefit plan produces a larger benefit than the MERF retirement benefit. Post-retirement adjustments are provided through the Retirement Benefit fund, modeled on the pre-1997 Minnesota Post Retirement Investment Fund law. MERF also provides disability and survivorship benefits.

MERF's two primary funds are the Deposit Accumulation Fund and the Retirement Benefit Fund. The Deposit Accumulation Fund, also called the Active Fund, accumulates and invests active member assets. At the time of retirement, the full reserves needed to pay the retirement benefits for the expected remaining lifetime of the new retiree transfer to the Retirement Benefits Fund. From the Retirement Benefit Fund, MERF pays the retirement benefits, and individuals receive increases composed of a partial inflation match and an investment-based increase. In addition to MERF's Active and Post Fund, MERF has two minor funds, a survivor benefits fund and a disability benefits fund. These are largely accounting constructs and the assets are merged with other MERF assets for investment purposes.

The state makes large annual contributions to MERF to help that fund retire its unfunded liabilities. The level of unfunded liabilities that currently exist in MERF is partially due to MERF's very weak investment performance under John Chenoweth, a former state legislator who was MERF's Executive Director for a period during the 1980s and very early 1990s, and the MERF Board at that time. MERF received several million dollars from an insurance policy as settlement of a fiduciary breach lawsuit, stemming from the activities of John Chenoweth and the Board. Losses, however, as measured by the difference between MERF assets and the assets that would have been generated for the fund under competent investment management was much higher than the recovery from the insurance policy. That opportunity loss, as measured by MERF staff during the early 1990s, ranged from \$60 million to as high as \$130 million, depending upon the exact time period under study. Some of that opportunity loss impacted MERF retirees in the form of lower post-retirement adjustments. The rest impacted the state and employing units through an increased need for state aid and employer contributions.

MERF is managed by a governing board of seven members, of which five are elected by the members of the Minneapolis Employees Retirement Fund Association, the mayor or the mayor's designee, and a Minneapolis city council member selected by the council. In addition to maintaining records and determining benefit amounts, the MERF governing board is the investment authority for the assets of its various funds, although the MERF Board is required to use independent professional investment firms.

In fiscal year 2006, MERF received total contributions of slightly over \$46.7 million (76 percent from the city, 19.3 percent from the state, and 4.7 percent from the employees), received net investment income of almost \$122 million, paid total retirement benefits of almost \$134.7 million, and paid administrative expenses of slightly more than \$792,000 (59 percent for personnel, 19 percent for conferences and professional services, and 12 percent for communications, office rent, and other expenses).

Attachment B

Background Information on Minnesota Retirement Plan Investment Authority

The investment authority for Minnesota's various retirement plans and funds is vested either in the State Board of Investment or in the governing board of the particular retirement plan.

The Minnesota State Board of Investment is the state agency responsible for administering and directing the investment of all state funds and of the pension assets of the statewide public pension systems. As of September 30, 2006, the State Board of Investment is responsible for assets in excess of \$51.1 billion and is one of the largest institutional investors in the United States. About \$45.2 billion are retirement funds for Minnesota state employees, teachers, and public employees. Approximately \$666 million is a permanent trust established for the benefit of Minnesota public schools. Approximately \$332 million is a workers compensation assigned risk pool. Approximately \$437 million is a trust established for the benefit of Minnesota's environment. Numerous state cash accounts total \$4.5 billion.

The governing boards of the Minneapolis Employees Retirement Fund (MERF), Fairmont Police Relief Association, the Minneapolis Firefighters Relief Association, the Minneapolis Police Relief Association, the Virginia Fire Department Relief Association, the Duluth Teachers Retirement Fund Association (DTRFA), the St. Paul Teachers Retirement Fund Association (SPTRFA), the Bloomington Fire Department Relief Association, and the 700+ local volunteer firefighter relief associations are the investment authorities for the retirement plans and funds not invested by the Minnesota State Board of Investment. These independent investment operations are responsible for assets of \$3.7 billion, as of December 31, 2005, as follows:

<u>Plan</u>	<u>Assets (in millions)</u>
Minneapolis Employees Retirement Fund	\$1,294.3
St. Paul Teachers Retirement Fund Association	\$983.6
Minneapolis Police Relief Association	\$369.1
700+ volunteer firefighter relief associations	\$374.0
Duluth Teachers Retirement Fund Association	\$276.1
Minneapolis Firefighters Relief Association	\$255.0
Bloomington Fire Department Relief Association	\$105.4
Fairmont Police Relief Association	\$6.5
Virginia Fire Department Relief Association	\$2.8
Total	\$3,666.4 million

The investment of public employee pension fund assets is regulated by statute, principally either Minnesota Statutes, Sections 11A.09 and 11A.24, or Sections 356A.04 and 356A.06, Subdivision 6 or 7. The statutory regulation contains two parts, a general prudent person standard of care in performing investment duties and a list of authorized investment securities. Thus, Minnesota public pension plan investments must be both prudent (done in good faith, with the exercise of that degree of judgment and care, under circumstances then prevailing, that persons of prudence, discretion, and intelligence would exercise in the management of their own affairs, not for speculation, considering the probable safety of the plan capital as well as the probable investment return to be derived from the assets) and in an approved type, with several individual requirements applicable to each variety of approved security. Some additional statutes broaden the approved list (referred to frequently as a "legal list") for a number of the local Minnesota public pension plans.

Over the past 35 years, the investment authority for most public pension plan assets has grown less restrictive both with respect to type and relative quality.

In a pension plan that is funded on a full actuarial basis (annual contributions essentially equal the actuarial requirements,) investment income at the investment performance actuarial assumption rate will provide two-thirds to three-fourths of the total revenue to be received by the pension plan. Investment income that exceeds the investment performance actuarial assumption rate will provide a further funding cushion, offsetting the need for some future amount of member contributions, employer contributions, or both.

Appropriate public pension fund investment management would include a clear understanding by the investment policy making board or entity of the applicable investment authority, the formulation by the investment policy making board or entity of an investment policy statement with sufficient specificity to be meaningful, a clear communication of that investment authority and that investment policy statement to

any investment advisors, managers, brokers, operatives or agents, the acquisition and analysis of investment performance information calculated on a total time weighted rate of return basis, the maintenance of sufficient diversification of investment types, and the maintenance of sufficient liquidity.

Although Minnesota public pension plans have been investing their assets virtually from their inception as plans, investment performance reporting from the plans has only been required by state law since 1990 (see Laws 1990, Chapter 570, Article 2, Section 1). The 1990 law originated with the Legislative Commission on Pensions and Retirement. The 1990 law, coded as Minnesota Statutes 1990, Section 356.218, has been replaced by Minnesota Statutes, Section 356.219 (source: Laws 1994, Chapter 565, Article 2, Section 1). The 1990 investment reporting law was administered by the Commission staff, while the 1994 replacement investment reporting law is administered by the Office of the State Auditor. The 1990 and 1994 public pension plan investment reporting laws both require the reporting of time-weighted total rate of return investment performance numbers. A time-weighted rate of return measures the return earned on assets invested for the entire period. The time-weighted rate of return calculation method weights an account's cash flows by the amount of time each has been invested. A cash flow is an external capital addition or withdrawal of cash and/or securities that is investor-initiated, with dividend and interest income not considered cash flows. By filtering out the effects on return caused by a board's decisions to give additional assets to a manager during a period under study, or a board's decision to withdraw assets from a manager to cover benefit checks or other operating expenses, the time-weighted rate of return procedure removes the impact of events over which the investment manager has no control. A time-weighted rate of return is a different measure from a dollar-weighted rate of return. The dollar-weighted return, also known as internal rate of return, takes an investment's performance into consideration, but also uses the timing and size of an investment in its calculation. This method does not provide the ability to distinguish between a plan's performance and the effect of market timing on the rate of return. Return calculated under the dollar-weighted method might have more to do with when and how much was invested than where monies were invested. Since actuarial work does not focus on the relative value produced by investment managers in a competitive context, investment performance results for actuarial purposes and presented in actuarial valuations will be dollar-weighted rates of return. For comparisons among investment managers, among funds, or to compare fund or manager performance to returns offered by the market, time-weighted returns are the accepted industry standard. In investment manager presentations, the use of time-weighted rates of return rather than other forms of returns are required by Association of Investment Management and Research (AIMR) presentation standards and by the Securities and Exchange Commission (SEC).

The following tables set forth information on the portfolio mix, the time-weighted total rate of return numbers, and the comparative impact on funding for the State Board of Investment, the Minneapolis Employees Retirement Fund (MERF), the three first class city teacher retirement fund associations, the Minneapolis Firefighters Relief Association, the Minneapolis Police Relief Association, and the Bloomington Fire Department Relief Association. The information is as of the end of 2003, when Commission staff last systematically reviewed the asset mix and investment results of these pension funds.

Table 1
Asset Mix
Calendar Year-End 2003

	<u>Cash</u>	<u>Bonds</u>	<u>Stock</u>		<u>Other</u>
			<u>Domestic</u>	<u>Foreign</u>	
SBI Combined	1.0%	22.9%	50.6%	16.6% ¹	8.9%
MERF Combined	1.5%	27.9%	39.7%	25.5%	5.4%
DTRFA	1.5%	27.4%	56.5%	12.6%	2.0%
MTRFA	2.0%	25.0%	57.0%	15.0%	1.0%
SPTRFA	0.0%	27.0%	52.2%	20.6%	0.2%
Minneapolis Fire	1.0%	30.0%	69.0%	0.0%	0.0%
Minneapolis Police	2.0%	30.0%	54.5%	13.2%	0.3%
Bloomington Fire	5.2%	30.6%	64.2%	0.0%	0.0%

¹ Identified by the State Board of Investment as International Stock.

Table 2
Total Portfolio Returns
Calendar Years 1990 Through September 30, 2004
with Multiple Year Returns Ending December 31, 2003

														Average (Annualized) Returns for Periods Ending 12/31/2003				
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004 ¹	3-Year	5-Year	10-Year
SBI Combined Fund	2.15%	22.93%	7.06%	11.90%	-0.4%	25.5%	15.3%	21.5%	16.1%	16.5%	-2.8%	-6.0%	-11.6%	23.1%	3.9%	0.76%	2.98%	8.94%
MERF Combined Fund	-5.90%	13.25%	8.75%	13.69%	1.2%	23.4%	12.9%	18.5%	15.7%	15.5%	-1.3%	-6.2%	-11.3%	25.2%	3.4%	1.37%	3.50%	8.66%
DTRFA	-3.20%	22.00%	6.50%	12.80%	0.2%	25.5%	13.4%	15.5%	11.1%	29.4%	-1.6%	-4.7%	-12.8%	28.1%	--	2.11%	6.27%	9.51%
MTRFA	-2.54%	24.99%	8.19%	12.29%	0.1%	25.0%	13.6%	15.5%	14.2%	21.5%	-6.0%	-7.7%	-16.2%	22.8%	1.8%	-1.70%	1.64%	7.36%
SPTRFA	4.57%	19.79%	7.20%	11.32%	0.3%	26.2%	12.6%	19.6%	12.0%	13.6%	-0.2%	-1.4%	-9.6%	27.0%	4.2%	4.22%	5.12%	9.39%
Minneapolis Fire	3.12%	27.45%	9.86%	10.47%	-1.8%	26.6%	14.0%	23.8%	21.9%	17.8%	-2.7%	-3.3%	-10.5%	19.6%	1.7%	1.16%	3.48%	9.76%
Minneapolis Police	2.06%	16.77%	6.82%	10.49%	-1.3%	20.6%	12.5%	12.7%	11.4%	11.1%	-2.0%	-4.1%	-10.1%	22.3%	1.8%	1.78%	2.80%	6.79%
Bloomington Fire	3.97%	17.75%	9.86%	12.79%	-9.1%	26.1%	12.5%	19.7%	13.8%	13.2%	-3.9%	-7.8%	-14.3%	19.9%	--	-1.79%	0.61%	6.11%
40% Bond/60% Stock	n/a	n/a	n/a	n/a	-1.3%	29.3%	14.1%	22.7%	17.5%	13.9%	-1.9%	-3.2%	-8.4%	20.6%	--	2.26%	3.62%	9.63%

¹The 2004 returns are partial year returns through September 30, 2004.

Sources:

The 1994-1998 and 2001-2004 returns are as reported to the Commission staff by the pension fund administrators.

The 1998-2000 returns are as reported by the Office of the State Auditor.

Table 3
Gain or Loss Compared to SBI Combined Fund
Calendar Years 1994-2003

	10-Year Annualized Return 1994-2003	1994 Assets	Gain or Loss Relative to the SBI Combined Portfolio Given 1994 Assets
	%	\$ millions	\$ millions
SBI Combined Fund	8.94%	\$18,852.0	--
MERF Combined Fund	8.66%	\$967.5	-\$57.9
DTRFA	9.51%	\$135.5	\$17.1
MTRFA	7.36%	\$541.1	-\$173.2
SPTREA	9.39%	\$410.6	\$40.7
Minneapolis Fire	9.76%	\$177.5	\$32.5
Minneapolis Police	6.79%	\$288.9	-\$122.9
Bloomington Fire	6.11%	\$58.8	-\$32.0
Total:			-\$295.7

Attachment C

Background Information on the MERF Post-Retirement Adjustment Mechanism

For the statewide and major local retirement plans, an automatic post-retirement adjustment mechanism has existed since 1969 (see Laws 1969, Chapter 485, Section 32) and post-retirement adjustments were first payable as of January 1, 1972.

The initial automatic post-retirement adjustment mechanism was the Minnesota Adjustable Fixed Benefit Fund, which was created to provide increases in the pensions of the subject retired persons to help meet increased costs of living. The adjustments under the Minnesota Adjustable Fixed Benefit Fund were funded from investment gains in excess of the post-retirement interest rate actuarial assumption on the fully funded reserves for the retirement annuities covered by the mechanism. Under the Minnesota Adjustable Fixed Benefit Fund, of the mechanism experiences investment losses, previous increases, if any, can be reduced, but the retirement annuity amount payable at retirement is guaranteed. Thus, the Minnesota Adjustable Fixed Benefit Fund was a variable annuity mechanism with a benefit floor. The Minneapolis Employees Retirement Fund (MERF) was a participant in the Minnesota Adjustable Fixed Benefit Fund in 1969, and MERF retirement annuity reserves made up 27.92 percent of the initial participation in the adjustment (the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) accounted for 17.97 percent, the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) accounted for 31.86 percent, and the Teachers Retirement Fund Association (TRA) accounted for 19.45 percent).

The Minnesota Adjustable Fixed Benefit Fund was substantially revised in 1980 (see Laws 1980, Chapter 607, Article XV, Section 16) and was renamed the Minnesota Post Retirement Investment Fund. The 1980 Minnesota Post Retirement Investment Fund retained the pooling of fully funded retirement annuity reserves and increases were based on investment performance in excess of the post-retirement interest rate actuarial assumption, but the investment performance was determined on a yield basis (i.e. dividends on equities, interest on debt equities, and realized gains on the sale of investments). In 1981 (Laws 1981, Chapter 298, Sections 5, 9, and 10), MERF was permitted to withdraw its participation from the Minnesota Post Retirement Investment Fund and created an identical internal post-retirement mechanism, the Retirement Benefit Fund.

MERF was obligated to operate the Retirement Benefit Fund in an identical manner as the Minnesota Post Retirement Investment Fund and, in 1992 (Laws 1992, Chapter 530, Sections 1 and 2), shifted the manner in which increases are calculated, effective for January 1, 1994, increases. The 1992 mechanism has two components, an inflation component and an investment performance-based component. Under the inflation component, the MERF Retirement Benefit Fund pays an inflation adjustment matching changes in the Consumer Price Index up to 3.5 percent. Under the investment performance-based component, the MERF Retirement Benefit Fund pays an increase from a form of five-year averaging of the total required reserves, calculated on a total return basis, above the five percent actuarial requirement and the additional actuarial reserves needed to cover the inflation component, allocated equally over five-year periods, and each year the positive or negative allocations to that year are expressed as a percentage of the total eligible required reserves and, if positive, are certified as an investment based-percentage increase in annuities.

In 1997, when the Consumer Price Index component of the Minnesota Post Retirement Investment Fund statewide post-retirement adjustment mechanism was reduced by one percent as part of the funding for an increase in the benefit accrual rates of the various statewide retirement plans (Laws 1997, Chapter 233, Article 1, Section 5), the MERF Retirement Benefit Fund was not similarly modified.

Under its participation in the Minnesota Adjustable Fixed Benefit Fund and the Minnesota Post Retirement Investment Fund through 1981 and through the MERF Retirement Benefit Fund after 1981, MERF has provided the following post-retirement adjustments, compared to other retirement plans:

Post Retirement Increases
from the
 Minnesota Post Retirement Investment Fund (MPRIF)
 Minneapolis Employees Retirement Fund (MERF)
 Minneapolis Teachers Retirement Fund Association (MTRFA)
 Duluth Teachers Retirement Fund Association (DTRFA)
 St. Paul Teachers Retirement Fund Association (SPTRFA)
and
 Increases in the Consumer Price Index (CPI-W)

Effective Date	Percent Increase					
	CPI ¹ %	MPRIF %	MERF %	MTRFA ² %	DTRFA ³ %	SPTRFA ⁴ %
1/1/07	3.2	2.500	3.50	--	2.00	2.00
1/1/06	3.5	2.500	2.59039	2.00	2.00	2.00
1/1/05	2.6	2.500	3.17372	2.00	2.00	2.00
1/1/04	2.2	2.103	2.10347	2.00	2.00	2.00
1/1/03	1.4	0.7450	0.74456	2.00	2.00	2.00
1/1/02	2.7	4.4935	5.34299	2.31	5.25	3.70
1/1/01	3.5	9.5342	10.50999	8.81	10.2391	7.6723
1/1/00	2.2	11.1436	10.2275	9.67	9.0275	9.2619
1/1/99	1.3	9.8254	8.0432	7.33	7.0125	7.2145
1/1/98	2.3	10.0876	6.6680	7.28	6.3407	7.00
1/1/97	2.9	8.0395	3.9500	6.23	5.6315	--
1/1/96	2.9	6.3954	3.5950	3.85	4.6424	--
1/1/95	2.5	3.9850	3.1440	2.13	--	--
1/1/94	2.8	6.0170	3.8240	4.50	--	--
1/1/93	2.9	4.5530	5.9840	--	--	--
1/1/92	4.1	4.2950	0.0000	--	--	--
1/1/91	5.2	5.1000	5.0790	--	--	--
1/1/90	4.8	4.0400	6.9180	--	--	--
1/1/89	4.0	6.9180	5.93591	--	--	--
1/1/88	3.6	8.0540	9.37158	--	--	--
1/1/87	1.6	9.7920	7.5890	--	--	--
1/1/86	3.5	7.9000	8.7160	--	--	--
1/1/85	3.5	6.9050	7.3370	--	--	--
1/1/84	3.0	7.4990	10.77	--	--	--
1/1/83	6.0	6.8530	9.17	--	--	--
1/1/82	10.3	7.4360	--	--	--	--
1/1/81	13.4	3.2090	--	--	--	--
1/1/80	11.4	0	--	--	--	--
1/1/79	7.7	0	--	--	--	--
1/1/78	6.5	4.00	--	--	--	--

¹ Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) annual average percent change

² MTRFA first paid a post retirement adjustment under the new system on 1/1/94. MTRFA was merged into TRA in 2006.

³ DTRFA first paid a post retirement adjustment under the new system on 1/1/96

⁴ SPTRFA first paid a post retirement adjustment under the new system on 1/1/98

Attachment D

Background Information on State Aid to MERF

Prior to 1979, the Minneapolis Employees Retirement Fund (MERF) was funded by its members and its participating employers, primarily the City of Minneapolis and Special School District No. 1, but also Hennepin County, the Metropolitan Airports Commission, the Metropolitan Council, and the Minnesota State Colleges and Universities System (MnSCU). In 1979 (Laws 1979, Chapter 303, Article 6, Section 10), MERF was closed to new members, the MERF-Coordinated Program was consolidated into the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General), and the need for achieving full funding for the plan at an earlier date rather than a later date became apparent.

The state contribution to the Minneapolis Employees Retirement Fund (MERF) also was established in 1979 (Laws 1979, Chapter 303, Article 6, Section 9). The requirement is contained in Minnesota Statutes, Section 422A.101, Subdivision 3. The addition of a state contribution to MERF accompanied a reduction in the local government aid payable to the City of Minneapolis and represented an attempt by the Legislature to freeze the amount of the Minneapolis city contribution to the plan. The state contribution provision was part of the 1979 tax bill. The state contribution to MERF is funded from the state General Fund. There are no qualification requirements for the City of Minneapolis and MERF to receive the annual state contribution.

The amount of the state contribution is a function of the annual actuarial valuation of MERF, prepared by the consulting actuary jointly retained by the statewide and major retirement administrators, and of the MERF financial requirements prepared by the MERF Board under Minnesota Statutes, Section 422A.101, Subdivision 1. The state contribution is currently capped at \$9 million. The initial cap on the annual state contribution to MERF occurred in 1991 (Laws 1991, Chapter 345, Article 4, Section 10) and the initial state contribution maximum was set at \$10,455,000. The cap on the annual state contribution to MERF was part of legislation sought by the retirement plan, following the death of its Executive Director, John Chenoweth, a former state legislator, and the hiring of James Hacking, the former Public Employees Retirement Association (PERA) Executive Director, as part of reforms to its investment program in the wake of the investment problems attributable to Mr. Chenoweth. The 1991 MERF-sponsored legislation, in addition to the state contribution maximum, included an additional employer contribution requirement if the state contribution maximum causes insufficient funding to meet the MERF financial requirements or to meet the MERF retired account transfers, a change in the MERF interest and salary actuarial assumptions (from five to six percent and from 3.5 percent to four percent respectively), a change in the MERF amortization date from 2017 to 2020, an increase in the MERF short service survivor benefit, the creation of a MERF bounce-back joint and survivor optional annuity, the creation of a permanent pre-1974 MERF retiree post-retirement adjustment, a redefinition of MERF administrative expenses, the imposition of a limitation on parties to lawsuits relating to MERF, the authorization for awarding attorneys fees in MERF fiduciary litigation, and the requirement for Board approval for appointing MERF employees. The state contribution maximum was reset at \$9 million, beginning with the 1999 fiscal year, under Laws 1997, Chapter 202, Article 2, Section 48.

Since 1980, the annual state General Fund contribution to MERF has been as follows:

Fiscal Year	State Contribution Amount	Percentage Increase/(Decrease) Over Prior Year	Fiscal Year	State Contribution Amount	Percentage Increase/(Decrease) Over Prior Year
1980	\$1,109,800	--	1994	\$10,455,000	--
1981	\$4,718,400	4.25%	1995	\$10,455,000	--
1982	\$3,889,000	(17.58)%	1996	\$10,455,000	--
1983	\$5,214,700	34.09%	1997	\$10,455,000	--
1984	\$6,607,000	26.67%	1998	\$10,455,000	--
1985	\$7,007,000	6.05%	1999	\$7,032,750	(32.74)%
1986	\$7,650,000	9.18%	2000	\$3,085,000	(56.63)%
1987	\$9,774,000	27.77%	2001	\$3,224,000	4.51%
1988	\$10,892,000	11.44%	2002	\$3,232,000	0.25%
1989	\$11,004,000	1.03%	2003	\$6,632,000	105.20%
1990	\$11,782,000	7.07%	2004	\$7,093,000	6.95%
1991	\$11,919,000	1.16%	2005	\$8,087,000	14.01%
1992	\$10,455,000	(12.28)%	2006	\$9,000,000	11.29%
1993	\$10,455,000	--			

The state contribution to MERF becomes an asset of MERF and can be expended for any purpose for which any MERF asset can be expended.

1.1 moves to amend H.F. No. 1313; S.F. No. 1141, as follows:

1.2 Page 1, after line 7, insert:

1.3 "Section 1. Minnesota Statutes 2006, section 422A.05, subdivision 1, is amended to
1.4 read:

1.5 Subdivision 1. **Power over funds.** (a) The members of the retirement board shall
1.6 be the trustees and custodians of the several funds created by this chapter and shall have
1.7 exclusive control and management of these funds, and power to invest them and to hold,
1.8 purchase, sell, assign, transfer, or dispose of any of the securities and investments in which
1.9 any of the funds created by this chapter shall have been invested as well as the proceeds of
1.10 the investments, and of the money belonging to these funds.

1.11 (b) The power to manage and invest the assets of the funds must be exercised by
1.12 the retirement board solely through professional investment or property management
1.13 firms that are independent of the retirement fund. No financial or property assets of the
1.14 funds may be managed, serviced, or invested internally or in-house at the retirement
1.15 fund, except that any investment held by a fund on February 1, 1993, that is not readily
1.16 tradable on an established securities exchange may continue to be managed directly by
1.17 the retirement board until the investment is converted to cash. The retirement board's
1.18 functions under this section consist primarily of establishing and effectuating investment
1.19 policy and structure, managing the investment process, monitoring and measuring the
1.20 performance of the external independent professional investment or property management
1.21 firms, retaining or terminating agreements with these firms, apportioning the assets of the
1.22 funds to be managed among these firms, and making financial decisions on issues if
1.23 approvals have been specifically reserved by and to the board.

1.24 (c) The board may contract with the board of trustees of the Public Employees
1.25 Retirement Association to perform the administrative duties related to the plan."

1.26 Renumber the sections in sequence and correct the internal references

1.27 Amend the title accordingly

1.1 moves to amend H.F. No. 1313; S.F. No. 1141, as follows:

1.2 Page 1, after line 7, insert:

1.3 "Section 1. Minnesota Statutes 2006, section 422A.03, subdivision 1, is amended to
1.4 read:

1.5 Subdivision 1. **Meetings; employees.** The retirement board shall meet on the third
1.6 Tuesday of each calendar month of each year and may adjourn from time to time. Special
1.7 meetings may be held upon the call of the president. ~~The board shall, by a four-sevenths~~
1.8 ~~vote of all members of the board, appoint an executive director, who shall have charge of~~
1.9 ~~the performance of the duties required by the provisions of this chapter, and who shall~~
1.10 ~~appoint other necessary employees to positions approved in advance by the board. If at~~
1.11 ~~the time of appointment as executive director the appointee holds a position subject to~~
1.12 ~~the civil service rules and regulations of the city the appointee shall be deemed to be~~
1.13 ~~on leave of absence from the civil service position during tenure as executive director,~~
1.14 ~~and upon termination of service shall be returned to the appointee's permanent civil~~
1.15 ~~service classification. If no vacancy is available in the appointee's permanent civil service~~
1.16 ~~classified position, seniority shall prevail, and the person most recently certified to the~~
1.17 ~~position shall be returned to the permanent civil service classification held prior to such~~
1.18 ~~certification.~~

1.19 Sec. 2. Minnesota Statutes 2006, section 422A.05, is amended by adding a subdivision
1.20 to read:

1.21 Subd. 1a. **Administration.** (a) The administrative duties of the retirement plan must
1.22 be performed by the administrative staff of the Public Employees Retirement Association.

1.23 (b) The board, in consultation with the board of the Public Employees Retirement
1.24 Association, must establish a budget for plan administrative services. The budget is
1.25 subject to review by the commissioner of finance.

2.1 (c) The necessary and reasonable expenses of the Public Employees Retirement
 2.2 Association in administering the plan are payable from the assets of the plan.

2.3 Sec. 3. Minnesota Statutes 2006, section 422A.05, subdivision 2a, is amended to read:

2.4 Subd. 2a. **Fiduciary duty.** (a) In the discharge of their respective duties, the
 2.5 members of the board, the ~~executive director, the board~~ staff of the Public Employees
 2.6 Retirement Association, and any person charged with the responsibility of servicing assets
 2.7 of the funds pursuant to the standards set forth in this chapter shall act in good faith and
 2.8 shall exercise that degree of judgment and care, under circumstances then prevailing,
 2.9 which persons of prudence, discretion, and intelligence exercise in the management of
 2.10 their own affairs, not for speculation, but for investment, considering the probable safety
 2.11 of their capital as well as the probable income to be derived therefrom. In addition, the
 2.12 members of the board and the chief administrative officer shall act in a manner consistent
 2.13 with chapter 356A.

2.14 (b) Individuals authorized by the board to manage or invest the assets of the funds
 2.15 must act in a manner consistent with chapter 356A. In addition, these individuals must act
 2.16 in good faith and exercise that degree of judgment, skill, diligence, and care, under the
 2.17 circumstances then prevailing, that persons of prudence, discretion, and intelligence acting
 2.18 in a like capacity and familiar with the activity would exercise."

2.19 Page 1, after line 24, insert:

2.20 "Sec. 5. Minnesota Statutes 2006, section 422A.05, subdivision 5, is amended to read:

2.21 Subd. 5. **Payments; revolving fund.** All payments from the funds created by this
 2.22 chapter ~~shall~~ must be signed by the treasurer; and the executive director, or other person
 2.23 appointed by the retirement board, of the Public Employees Retirement Association and
 2.24 no payment ~~shall~~ may be made except by order of the board duly entered in the record of
 2.25 its proceedings; ~~except that the board may create a revolving fund in an amount as may be~~
 2.26 ~~necessary to be used for the purpose of withdrawals from the fund of excess contributions;~~
 2.27 ~~refunds to employees upon their separation from the service and for other purposes as may~~
 2.28 ~~be determined by the board. The revolving fund shall be periodically reimbursed as set~~
 2.29 ~~forth herein. It shall be subject to withdrawal upon check signed by the executive director,~~
 2.30 ~~or other person appointed by the board.~~

2.31 Sec. 6. Minnesota Statutes 2006, section 422A.05, subdivision 8, is amended to read:

2.32 Subd. 8. **Health insurance.** The retirement board may authorize the executive
 2.33 director ~~or the executive director's designee to~~ of the Public Employees Retirement
 2.34 Association:

3.1 (1) offer the beneficiaries of the fund the option of having their health insurance
3.2 premiums deducted automatically from their monthly benefit amounts and paid to a
3.3 designated insurer; and

3.4 (2) provide beneficiaries information about available group health insurance plan
3.5 options.

3.6 Beneficiaries who elect to avail themselves of this service are ultimately responsible
3.7 for the timely payment of premiums and the payment of premiums in the proper amount."

3.8 Page 5, line 34, delete "section" and insert "sections 422A.03, subdivisions 2 and 5;
3.9 and" and delete "is" and insert "are"

3.10 Renumber the sections in sequence and correct the internal references

3.11 Amend the title accordingly

1.1 moves to amend H.F. No. 1313; S.F. No. 1141, as follows:

1.2 Page 5, after line 32, insert:

1.3 "Sec. 6. **[422A.27] ADDITIONAL ADMINISTRATIVE DUTIES.**

1.4 Notwithstanding any law to the contrary, the administrative staff of the Public
1.5 Employees Retirement Association shall perform the administrative duties of the
1.6 Minneapolis Police Relief Association and the Minneapolis Firefighters Relief
1.7 Association.

1.8 Sec. 7. Minnesota Statutes 2006, section 423B.04, subdivision 4, is amended to read:

1.9 Subd. 4. **Management of relief association and fund.** (a) The board created in
1.10 section 423B.05 shall manage and control the fund.

1.11 (b) The administrative duties related to the plan and the fund must be performed by
1.12 the administrative staff of the Public Employees Retirement Association.

1.13 Sec. 8. Minnesota Statutes 2006, section 423C.03, subdivision 2, is amended to read:

1.14 Subd. 2. **Board officers; administration.** (a) The officers of the association shall
1.15 consist of a president, one or more vice-presidents, ~~an executive~~ a secretary, a treasurer,
1.16 ~~an assistant executive secretary~~, and an assistant treasurer. Only elected members of the
1.17 board are eligible to be officers. Officers shall have those duties and responsibilities as set
1.18 forth in this chapter, other applicable law, and the association's bylaws. Officers shall be
1.19 compensated as provided in subdivision 3. All officers shall be elected in even years at the
1.20 association's annual meeting. Officers shall hold their office for a term of two years unless
1.21 they are removed from the board before their two-year term expires.

1.22 (b) The administrative duties related to the plan and the fund must be performed by
1.23 the administrative staff of the Public Employees Retirement Association.

1.24 Sec. 9. Minnesota Statutes 2006, section 423C.03, subdivision 3, is amended to read:

2.1 Subd. 3. **Compensation of officers and board members.** (a) Notwithstanding any
2.2 other law to the contrary, the association may provide for salaries to its officers and board
2.3 members as specified in this subdivision.

2.4 ~~(b) If the executive secretary is not an active member, the executive secretary may~~
2.5 ~~receive a salary to be set by the board, subject to the limitations stated in paragraph (d). If~~
2.6 ~~the executive secretary is an active member, the executive secretary may receive a salary~~
2.7 ~~not exceeding 50 percent of the maximum salary of a first grade firefighter.~~

2.8 (e) (b) The president may receive a salary not exceeding ten percent of the maximum
2.9 salary of a first grade firefighter, and all other elected members of the board, other than
2.10 the executive secretary, may receive a salary not exceeding 2.5 percent of the maximum
2.11 salary of a first grade firefighter.

2.12 ~~(d) If the executive secretary is not an active member, the executive secretary's~~
2.13 ~~salary may not exceed the highest salary currently received by the executive director of~~
2.14 ~~the Minnesota State Retirement System, the Public Employees Retirement Association,~~
2.15 ~~or the Teachers Retirement Association.~~

2.16 Sec. 10. Minnesota Statutes 2006, section 423C.03, subdivision 4, is amended to read:

2.17 Subd. 4. **Bond for executive secretary and treasurer.** (a) The executive secretary
2.18 and the treasurer must furnish to the relief association a corporate bond for the faithful
2.19 performance of the duties of that office in an amount as the board of trustees from time
2.20 to time may determine, subject to the minimum amount specified in section 69.051,
2.21 subdivision 2.

2.22 (b) The relief association must pay the premiums on these bonds from the special
2.23 fund of the relief association."

2.24 Renumber the sections in sequence and correct the internal references

2.25 Amend the title accordingly

1.1 moves to amend H.F. No. 1313; S.F. No. 1141, as follows:

1.2 Page 5, after line 32, insert:

1.3 "Sec. 6. **[422A.27] ADDITIONAL ADMINISTRATIVE DUTIES.**

1.4 Notwithstanding any law to the contrary, the executive director shall perform the
1.5 administrative duties of the Minneapolis Police Relief Association and the Minneapolis
1.6 Firefighters Relief Association.

1.7 Sec. 7. Minnesota Statutes 2006, section 423B.04, subdivision 4, is amended to read:

1.8 Subd. 4. **Management of relief association and fund.** (a) The board created in
1.9 section 423B.05 shall manage and control the fund.

1.10 (b) The administrative duties related to the plan and the fund must be performed by
1.11 the executive director of the Minneapolis Employees Retirement Fund.

1.12 Sec. 8. Minnesota Statutes 2006, section 423C.03, subdivision 2, is amended to read:

1.13 Subd. 2. **Board officers; administration.** (a) The officers of the association shall
1.14 consist of a president, one or more vice-presidents, ~~an executive~~ a secretary, a treasurer,
1.15 ~~an assistant executive secretary~~, and an assistant treasurer. Only elected members of the
1.16 board are eligible to be officers. Officers shall have those duties and responsibilities as set
1.17 forth in this chapter, other applicable law, and the association's bylaws. Officers shall be
1.18 compensated as provided in subdivision 3. All officers shall be elected in even years at the
1.19 association's annual meeting. Officers shall hold their office for a term of two years unless
1.20 they are removed from the board before their two-year term expires.

1.21 (b) The administrative duties related to the plan and the fund must be performed by
1.22 the executive director of the Minneapolis Employees Retirement Fund.

1.23 Sec. 9. Minnesota Statutes 2006, section 423C.03, subdivision 3, is amended to read:

1.24 Subd. 3. **Compensation of officers and board members.** (a) Notwithstanding any
1.25 other law to the contrary, the association may provide for salaries to its officers and board
1.26 members as specified in this subdivision.

2.1 ~~(b) If the executive secretary is not an active member, the executive secretary may~~
 2.2 ~~receive a salary to be set by the board, subject to the limitations stated in paragraph (d). If~~
 2.3 ~~the executive secretary is an active member, the executive secretary may receive a salary~~
 2.4 ~~not exceeding 50 percent of the maximum salary of a first grade firefighter.~~

2.5 (e) (b) The president may receive a salary not exceeding ten percent of the maximum
 2.6 salary of a first grade firefighter, and all other elected members of the board, other than
 2.7 the executive secretary, may receive a salary not exceeding 2.5 percent of the maximum
 2.8 salary of a first grade firefighter.

2.9 ~~(d) If the executive secretary is not an active member, the executive secretary's~~
 2.10 ~~salary may not exceed the highest salary currently received by the executive director of~~
 2.11 ~~the Minnesota State Retirement System, the Public Employees Retirement Association,~~
 2.12 ~~or the Teachers Retirement Association.~~

2.13 Sec. 10. Minnesota Statutes 2006, section 423C.03, subdivision 4, is amended to read:

2.14 Subd. 4. **Bond for executive secretary and treasurer.** (a) The executive secretary
 2.15 and the treasurer must furnish to the relief association a corporate bond for the faithful
 2.16 performance of the duties of that office in an amount as the board of trustees from time
 2.17 to time may determine, subject to the minimum amount specified in section 69.051,
 2.18 subdivision 2.

2.19 (b) The relief association must pay the premiums on these bonds from the special
 2.20 fund of the relief association."

2.21 Renumber the sections in sequence and correct the internal references

2.22 Amend the title accordingly

1.1 moves to amend H.F. No. 1313; S.F. No. 1141, as follows:

1.2 Page 1, after line 7, insert:

1.3 "Section 1. Minnesota Statutes 2006, section 422A.02, is amended to read:

1.4 **422A.02 RETIREMENT BOARD; MEMBERS; CONTINUATION AS TRUST**
1.5 **FUND.**

1.6 (a) A retirement board of seven members is hereby constituted ~~which shall consist.~~

1.7 The board consists of the following:

1.8 (1) mayor, or a designee selected by the mayor;

1.9 (2) one member of the city council selected by the council; and

1.10 (3) five legally qualified voters to be chosen by the members of the retirement fund
1.11 created by this chapter at least two of whom shall be retired members.

1.12 (b) The members may form an association for that purpose and the employing
1.13 authorities are authorized to make payroll deductions for the payment of dues to the
1.14 association. The persons selected shall serve for staggered terms of three years from the
1.15 first of the next succeeding January after their election, and until their successors are duly
1.16 elected. The selection shall be made by the members of the association during the first
1.17 week of December of each year. Vacancies occurring by death, resignation, or removal of
1.18 representatives shall be filled by representatives chosen by the members of the association.

1.19 (c) As of the January 1 next following the determination by the city council that the
1.20 administration of the plan and fund could better be performed as a trust fund administered
1.21 by the city, the plan and fund becomes a trust fund of the city. The retirement board
1.22 shall advise the city council, the mayor, and the city finance director with respect to the
1.23 operation of the trust fund. The administrative duties with respect to the trust fund are
1.24 the responsibility of the city finance director, who also has the responsibility to invest the
1.25 assets of the trust fund."

1.26 Page 5, after line 32, insert:

2.1 "Sec. 8. **REVISOR'S INSTRUCTION.**

2.2 If the Minneapolis Employees Retirement Fund is converted to a city trust fund
2.3 under Minnesota Statutes, section 422A.02, paragraph (c), the revisor of statutes shall
2.4 prepare draft proposed legislation replacing all references to the "executive director" with
2.5 references to the "city finance director" in Minnesota Statutes, chapter 422A, and shall
2.6 provide that draft proposed legislation to the chair of the Legislative Commission on
2.7 Pensions and Retirement, the chair of the senate State and Local Government Operations
2.8 and Oversight Committee and to the chair of the house Governmental Operations, Reform,
2.9 Technology and Elections Committee."

2.10 Renumber the sections in sequence and correct the internal references

2.11 Amend the title accordingly

1.1 moves to amend H.F. No. 1313; S.F. No. 1141, as follows:

1.2 Page 1, delete lines 8 to 24 and insert:

1.3 "Section 1. Minnesota Statutes 2006, section 422A.05, subdivision 1, is amended to
1.4 read:

1.5 Subdivision 1. **Power over funds.** (a) The members of the retirement board shall
1.6 be the trustees of the retirement plan and custodians of the several funds created by this
1.7 chapter ~~and shall have.~~

1.8 (b) The State Board of Investment has exclusive control and management of the
1.9 assets of these funds, and power to invest them and to hold, purchase, sell, assign, transfer,
1.10 or dispose of any of the securities and investments in which any of the funds created by
1.11 this chapter ~~shall have been invested,~~ as well as the proceeds of the investments, and of
1.12 the money belonging to these funds. ~~The power to manage and invest the assets of the~~
1.13 ~~funds must be exercised by the retirement board solely through professional investment~~
1.14 ~~or property management firms that are independent of the retirement fund. No financial~~
1.15 ~~or property assets of the funds may be managed, serviced, or invested internally or~~
1.16 ~~in-house at the retirement fund, except that any investment held by a fund on February 1,~~
1.17 ~~1993, that is not readily tradable on an established securities exchange may continue to~~
1.18 ~~be managed directly by the retirement board until the investment is converted to cash.~~
1.19 ~~The retirement board's functions under this section consist primarily of establishing~~
1.20 ~~and effectuating investment policy and structure, managing the investment process,~~
1.21 ~~monitoring and measuring the performance of the external independent professional~~
1.22 ~~investment or property management firms, retaining or terminating agreements with~~
1.23 ~~these firms, apportioning the assets of the funds to be managed among these firms, and~~
1.24 ~~making financial decisions on issues if approvals have been specifically reserved by and to~~
1.25 ~~the board.~~

2.1 (c) The executive director shall, from time to time, certify to the State Board of
2.2 Investment for investment such portions of the revenue of the plan that is not needed for
2.3 immediate retirement benefit or administrative expense payment.

2.4 Sec. 2. Minnesota Statutes 2006, section 422A.05, subdivision 2a, is amended to read:

2.5 Subd. 2a. **Fiduciary duty.** (a) In the discharge of their respective duties, the
2.6 members of the board, the executive director, the board staff, and any person charged with
2.7 the responsibility of servicing assets of the funds pursuant to the standards set forth in this
2.8 chapter shall act in good faith and shall exercise that degree of judgment and care, under
2.9 circumstances then prevailing, which persons of prudence, discretion, and intelligence
2.10 exercise in the management of their own affairs, not for speculation, but for investment,
2.11 considering the probable safety of their capital as well as the probable income to be
2.12 derived therefrom. In addition, the members of the board and the chief administrative
2.13 officer shall act in a manner consistent with chapter 356A.

2.14 ~~(b) Individuals authorized by the board to manage or invest the assets of the funds~~
2.15 ~~must act in a manner consistent with chapter 356A. In addition, these individuals must act~~
2.16 ~~in good faith and exercise that degree of judgment, skill, diligence, and care, under the~~
2.17 ~~circumstances then prevailing, that persons of prudence, discretion, and intelligence acting~~
2.18 ~~in a like capacity and familiar with the activity would exercise.~~

2.19 Sec. 3. Minnesota Statutes 2006, section 422A.05, subdivision 6, is amended to read:

2.20 Subd. 6. **Special funds.** (a) The board may, in carrying out the provisions of this
2.21 chapter, establish special funds supplementing individual contributions by the employees
2.22 and to receive, invest, and disburse for such purpose all moneys in the form of donations,
2.23 gifts, legacies, bequests, or otherwise which may be contributed by private individuals
2.24 or corporations or organizations for the benefit of the city employees generally, or any
2.25 special employee or class of employees of the city.

2.26 (b) The assets of any special funds must be invested by the State Board of Investment
2.27 under section 11A.17.

2.28 Sec. 4. Minnesota Statutes 2006, section 422A.06, subdivision 1, is amended to read:

2.29 Subdivision 1. **Creation; divisions of fund.** (a) For the purposes of this chapter,
2.30 there is established the Minneapolis Employees Retirement Fund.

2.31 (b) That retirement fund is subdivided into (1) a deposit accumulation fund, (2) a
2.32 survivor benefit fund, (3) a disability benefit fund, and (4) a retirement benefit fund.

2.33 (c) The expense of the administration of the retirement fund must be paid from
2.34 the deposit accumulation fund, ~~less the amount as the retirement board may charge~~

3.1 ~~against income of the retirement benefit fund from investments as the cost of handling the~~
3.2 ~~investments of the retirement benefit fund."~~

3.3 Page 5, line 34, delete "section" and insert "sections 422A.01, subdivision 13;
3.4 422A.05, subdivisions 2c and 2d; and" and delete "is" and insert "are"

3.5 Page 6, delete line 2 and insert:

3.6 "Sections 1 to 4 are effective July 1, 2007. Sections 5 to 10 are effective July
3.7 1, 2006."

3.8 Renumber the sections in sequence and correct the internal references

3.9 Amend the title accordingly

1.1 moves to amend H.F. No. 1313; S.F. No. 1141, as follows:

1.2 Page 6, line 2, delete "2006" and insert "2007"

1.1 moves to amend H.F. No. 1313; S.F. No. 1141, as follows:

1.2 Page 6, delete lines 1 and 2 and insert:

1.3 "Sec. 8. **EFFECTIVE DATE; LOCAL APPROVAL.**

1.4 Sections 1 to 7 are effective the day after the city council of the city of Minneapolis
1.5 and its chief clerical officer timely complete their compliance with Minnesota Statutes,
1.6 section 645.021, subdivisions 2 and 3."

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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH
SESSION

HOUSE FILE No. 1313

February 22, 2007

Authored by Thissen, Kelliher and Kahn

The bill was read for the first time and referred to the Committee on Governmental Operations, Reform, Technology and Elections

1.1 A bill for an act
1.2 relating to retirement; Minneapolis Employees Retirement Fund; permitting the
1.3 investment of fund assets with the State Board of Investment; modifying certain
1.4 liquidity requirements; amending Minnesota Statutes 2006, sections 422A.05,
1.5 subdivision 2c; 422A.06, subdivisions 3, 5, 7, 8; 422A.101, subdivision 3;
1.6 repealing Minnesota Statutes 2006, section 422A.101, subdivision 4.

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

1.8 Section 1. Minnesota Statutes 2006, section 422A.05, subdivision 2c, is amended to
1.9 read:

1.10 Subd. 2c. **Minneapolis Employees Retirement Fund investment authority.**

1.11 (a) For investments made on or after July 1, 1991, the board shall invest funds only in
1.12 investments authorized by section 356A.06, subdivision 7.

1.13 (b) However, in addition to real estate investments authorized under paragraph (a),
1.14 the board may also make loans to purchasers of Minnesota situs nonfarm residential real
1.15 estate that is owned by the Minneapolis Employees Retirement Fund. The loans must
1.16 be secured by mortgages or deeds of trust.

1.17 (c) For investments made before July 1, 1991, the board may, but is not required to,
1.18 comply with paragraph (a). However, with respect to these investments, the board shall
1.19 act in accordance with subdivision 2a and chapter 356A.

1.20 (d) The board may certify assets for investment by the State Board of Investment
1.21 under section 11A.17. Alternatively or in addition, the board may certify assets for
1.22 investment by the State Board of Investment in fixed income pools or in a separately
1.23 managed account at the discretion of the State Board of Investment as provided in section
1.24 11A.14.

2.1 Sec. 2. Minnesota Statutes 2006, section 422A.06, subdivision 3, is amended to read:

2.2 Subd. 3. **Deposit accumulation fund.** (a) The deposit accumulation fund consists
 2.3 of the assets held in the fund, including amounts contributed by or for employees, amounts
 2.4 contributed by the city, amounts contributed by municipal activities supported in whole or
 2.5 in part by revenues other than taxes and amounts contributed by any public corporation,
 2.6 amounts paid by the state, and by income from investments.

2.7 (b) There must be paid from the fund the amounts required to be transferred to the
 2.8 retirement benefit fund, or the disability benefit fund, refunds of contributions, including
 2.9 the death-while-active refund specified in section 422A.22, subdivision 4, postretirement
 2.10 increases in retirement allowances granted under Laws 1965, chapter 688, or Laws 1969,
 2.11 chapter 859, and expenses of the administration of the retirement fund which were not
 2.12 charged by the retirement board against the income of the retirement benefit fund from
 2.13 investments as the cost of handling the investments of the retirement benefit fund.

2.14 (c) To the extent that the deposit accumulation fund has insufficient assets to transfer
 2.15 the total value of the required reserves for retirement annuities to either the disability
 2.16 benefit fund under subdivisions 5 and 7 or the retirement benefit fund under subdivisions 5
 2.17 and 8 as required, the deposit accumulation fund has a transfer amount payable on which
 2.18 an interest charge accrues. The executive director must determine the interest charge for
 2.19 the period that the transfer amount payable remains unpaid at an annual rate equal to five
 2.20 percent plus the percentage increase in the amount of the annual Consumer Price Index for
 2.21 urban wage earners and clerical workers as calculated by the Bureau of Labor Statistics of
 2.22 the United States Department of Labor from the previous June 30. The interest charge
 2.23 must be reflected in the books of the Minneapolis Employees Retirement Fund and
 2.24 assessed against the deposit accumulation fund based on the average quarterly transfer
 2.25 amount payable balance outstanding. Any revenue received by the deposit accumulation
 2.26 fund subsequent to unpaid transfers must be transferred from the deposit accumulation
 2.27 fund to the disability benefit fund or to the retirement fund, whichever applies, and must
 2.28 first be applied to any remaining interest charge and then must be applied to the principal
 2.29 amount of transfer amount payable outstanding.

2.30 Sec. 3. Minnesota Statutes 2006, section 422A.06, subdivision 5, is amended to read:

2.31 Subd. 5. **Transfer of reserves to retirement benefit fund; adjustments of**
 2.32 **annuities and benefits.** (a) Assets equal to the required reserves for retirement annuities
 2.33 as determined in accordance with the appropriate mortality table adopted by the board
 2.34 of trustees based on the experience of the fund as recommended by the actuary retained
 2.35 under section 356.214 and using the postretirement interest assumption specified in

3.1 section 356.215, subdivision 8, ~~shall~~ must be transferred to the disability benefit fund as
 3.2 provided in subdivision 7, or the retirement benefit fund, except for any amounts payable
 3.3 from the survivor benefit fund, as of date of retirement.

3.4 (b) To the extent that the deposit accumulation fund has insufficient assets to cover a
 3.5 full required transfer amount, the applicable fund must be credited with an interest-bearing
 3.6 transfer amount payable.

3.7 (c) Annuity payments ~~shall~~ must be adjusted in accordance with this chapter, except
 3.8 that no minimum retirement payments described in this chapter ~~shall~~ must include
 3.9 any amounts payable from the survivors' benefit fund or disability benefit fund and
 3.10 supplemented benefits specifically financed by statute.

3.11 ~~(e)~~ (d) Increases in annuity payments ~~pursuant to~~ under this section shall be made
 3.12 automatically unless written notice on a form prescribed by the board is filed with the
 3.13 retirement board requesting that the increase not be made.

3.14 ~~(d)~~ (e) Any additional annuity which began to accrue on July 1, 1973, or which
 3.15 began to accrue on January 1, 1974, ~~pursuant to~~ under Laws 1973, chapter 770, section
 3.16 1, ~~shall~~ must be considered as part of the base amount to be used in determining any
 3.17 postretirement adjustments payable ~~pursuant to~~ under the provisions of subdivision 8.

3.18 Sec. 4. Minnesota Statutes 2006, section 422A.06, subdivision 7, is amended to read:

3.19 Subd. 7. **Disability benefit fund.** (a) A disability benefit fund is established,
 3.20 containing the required reserves for disability allowances under this chapter. A
 3.21 proportionate share of income from investments must be allocated to this fund and any
 3.22 interest charge under subdivision 3, paragraph (c), must be credited to the fund. ~~There~~
 3.23 ~~must be paid from this fund~~ The disability allowances payable under this chapter must be
 3.24 paid from this fund.

3.25 (b) In the event of the termination of any disability allowance for any reason other
 3.26 than the death of the recipient, the balance of the required reserves for the disability
 3.27 allowance as of the date of the termination must be transferred from the disability benefit
 3.28 fund to the deposit accumulation fund.

3.29 (c) At the end of each fiscal year, as part of the annual actuarial valuation, a
 3.30 determination must be made of the required reserves for all disability allowances being
 3.31 paid from the disability benefit fund. Any excess of assets over actuarial required reserves
 3.32 in the disability benefit fund must be transferred to the deposit accumulation fund. Unless
 3.33 subdivision 3, paragraph (c), applies, any excess of actuarial reserves over assets in the
 3.34 disability benefit fund must be funded by a transfer of the appropriate amount of assets
 3.35 from the deposit accumulation fund.

4.1 Sec. 5. Minnesota Statutes 2006, section 422A.06, subdivision 8, is amended to read:

4.2 Subd. 8. **Retirement benefit fund.** (a) The retirement benefit fund ~~shall consist~~
4.3 consists of amounts held for payment of retirement allowances for members retired
4.4 pursuant to under this chapter, including any transfer amount payable under subdivision 3,
4.5 paragraph (c).

4.6 (b) Unless subdivision 3, paragraph (c), applies, assets equal to the required reserves
4.7 for retirement allowances ~~pursuant to under~~ under this chapter determined in accordance with
4.8 the appropriate mortality table adopted by the board of trustees based on the experience of
4.9 the fund as recommended by the actuary retained under section 356.214 ~~shall~~ must be
4.10 transferred from the deposit accumulation fund to the retirement benefit fund as of the last
4.11 business day of the month in which the retirement allowance begins. The income from
4.12 investments of these assets ~~shall~~ must be allocated to this fund and any interest charge
4.13 under subdivision 3, paragraph (c), must be credited to the fund. There ~~shall~~ must be paid
4.14 from this fund the retirement annuities authorized by law. A required reserve calculation
4.15 for the retirement benefit fund must be made by the actuary retained under section 356.214
4.16 and must be certified to the retirement board by the actuary retained under section 356.214.

4.17 (c) The retirement benefit fund ~~shall~~ must be governed by the applicable laws
4.18 governing the accounting and audit procedures, investment, actuarial requirements,
4.19 calculation and payment of postretirement benefit adjustments, discharge of any deficiency
4.20 in the assets of the fund when compared to the actuarially determined required reserves,
4.21 and other applicable operations and procedures regarding the Minnesota postretirement
4.22 investment fund in effect on June 30, 1997, established under Minnesota Statutes 1996,
4.23 section 11A.18, and any legal or administrative interpretations of those laws of the State
4.24 Board of Investment, the legal advisor to the Board of Investment and the executive
4.25 director of the State Board of Investment in effect on June 30, 1997. If a deferred yield
4.26 adjustment account is established for the Minnesota postretirement investment fund
4.27 before June 30, 1997, under Minnesota Statutes 1996, section 11A.18, subdivision 5, the
4.28 retirement board shall also establish and maintain a deferred yield adjustment account
4.29 within this fund.

4.30 (d) Annually, following the calculation of any postretirement adjustment payable
4.31 from the retirement benefit fund, the board of trustees shall submit a report to the
4.32 executive director of the Legislative Commission on Pensions and Retirement and to the
4.33 commissioner of finance indicating the amount of any postretirement adjustment and
4.34 the underlying calculations on which that postretirement adjustment amount is based,
4.35 including the amount of dividends, the amount of interest, and the amount of net realized
4.36 capital gains or losses utilized in the calculations.

5.1 (e) With respect to a former contributing member who began receiving a retirement
5.2 annuity or disability benefit under section 422A.151, paragraph (a), clause (2), after June
5.3 30, 1997, or with respect to a survivor of a former contributing member who began
5.4 receiving a survivor benefit under section 422A.151, paragraph (a), clause (2), after June
5.5 30, 1997, the reserves attributable to the one percent lower amount of the cost-of-living
5.6 adjustment payable to those annuity or benefit recipients annually must be transferred back
5.7 to the deposit accumulation fund to the credit of the Metropolitan Airports Commission.
5.8 The calculation of this annual reduced cost-of-living adjustment reserve transfer must be
5.9 reviewed by the actuary retained under section 356.214.

5.10 Sec. 6. Minnesota Statutes 2006, section 422A.101, subdivision 3, is amended to read:

5.11 Subd. 3. **State contributions.** (a) Subject to the limitation set forth in paragraph (c),
5.12 the state shall pay to the Minneapolis Employees Retirement Fund annually an amount
5.13 equal to the amount calculated under paragraph (b).

5.14 (b) The payment amount is an amount equal to the financial requirements of the
5.15 Minneapolis Employees Retirement Fund reported in the actuarial valuation of the fund
5.16 prepared by the actuary retained under section 356.214 ~~pursuant to~~ consistent with section
5.17 356.215 for the most recent year but based on a target date for full amortization of the
5.18 unfunded actuarial accrued liabilities by June 30, 2020, less the amount of employee
5.19 contributions required ~~pursuant to~~ under section 422A.10, and the amount of employer
5.20 contributions required ~~pursuant to~~ under subdivisions 1a, 2, and 2a. Payments shall be
5.21 made September 15 annually.

5.22 (c) The annual state contribution under this subdivision may not exceed \$9,000,000,
5.23 plus the cost of the annual supplemental benefit determined under section 356.43.

5.24 (d) If the amount determined under paragraph (b) exceeds ~~\$11,910,000~~ \$9,000,000,
5.25 the excess must be allocated to and paid to the fund by the employers identified in
5.26 subdivisions 1a and 2, other than units of metropolitan government. Each employer's
5.27 share of the excess is proportionate to the employer's share of the fund's unfunded
5.28 actuarial accrued liability as disclosed in the annual actuarial valuation prepared by the
5.29 actuary retained under section 356.214 compared to the total unfunded actuarial accrued
5.30 liability attributed to all employers identified in subdivisions 1a and 2, other than units of
5.31 metropolitan government. Payments must be made in equal installments as set forth in
5.32 paragraph (b).

5.33 Sec. 7. **REPEALER.**

5.34 Minnesota Statutes 2006, section 422A.101, subdivision 4, is repealed.

6.1 **Sec. 8. EFFECTIVE DATE.**

6.2 Sections 1 to 7 are effective retroactively from July 1, 2006.