



H.F. 2341

(Thissen)

S.F. 1892

(Pappas)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): St. Paul Teachers Retirement Fund Association (SPTRFA)
Relevant Provisions of Law: Minnesota Statutes, Chapters 127A, 354A, and 356
General Nature of Proposal: Funding and Postretirement Adjustment Changes
Date of Summary: April 23, 2007

Specific Proposed Changes

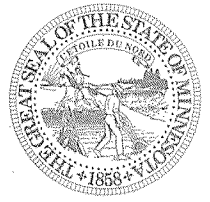
- Appropriates additional ongoing state aid to SPTRFA (Secs. 3, 4, and 8).
- Increases the SPTRFA employer contribution and Independent School District No. 625 state education aid by one percent (Secs. 1, 2, and 8).
- Revises SPTRFA postretirement adjustment mechanism (Secs. 5 and 6).
- Extends SPTRFA full funding amortization target date to 2038 (Sec. 7).
- Adds supplemental actuarial reporting items for SPTRFA (Sec. 7).
- Repeals SPTRFA excess administrative expense assessment (Sec. 8).

Policy Issues Raised by the Proposed Legislation

1. Appropriateness of state education aid increase to Independent School Dist. No. 625, St. Paul (Sec. 1).
2. Appropriateness of eliminating 2020 end date for adjustments to state education aid (Sec. 8).
3. Appropriateness of \$3.0 million increase in direct SPTRFA state aid (Sec. 3).
4. Appropriateness of a SPTRFA employer contribution increase without a SPTRFA member contribution increase (Sec. 2).
5. Appropriateness of the proposed change in the termination trigger for the SPTRFA direct state aid (Sec. 4).
6. Appropriateness of replacing the current SPTRFA postretirement adjustment mechanisms (Secs. 5 & 6).
7. Appropriateness of providing a benefit increase for a retirement plan facing significant financial difficulties (Secs. 5 and 6).
8. Appropriateness of a revised SPTRFA amortization period (Sec. 7).
9. Appropriateness of the repeal of the SPTRFA supplemental administrative expense assessment (Sec. 8).
10. Actuarial impact of the proposed legislation on SPTRFA.

Potential Amendments

- H2341-1A (substantive) limits education aid increase to Independent School District No. 625, teachers only.
H2341-2A (substantive) limits education aid to state payroll figure.
H2341-3A (substantive) limits education aid to growing payroll capped at 3.5 percent.
H2341-4A (substantive) limits salary certification on which education aid increase is to be based to once annually.
H2341-5A (substantive) specifies a fixed salary certification date for education aid increase certifications.
H2341-6A (substantive) eliminates repeal of 2020 end date for education aid increase.
H2341-7A (substantive) resets 2020 end date for education aid increase at 2038.
H2341-8A (substantive) eliminates increase in SPTRFA direct state aid and updates the provision to reflect past discontinuation of DTRFA direct state aid.
H2341-9A (substantive) adds one percent of pay member contribution increase.
H2341-10A (substantive) adds two percent of pay member contribution increase.
H2341-11A (substantive) adds member contribution increase in amount specified by the LCPR.
H2341-12A (substantive) eliminates proposed change in trigger for SPTRFA direct state aid.
H2341-13A (substantive) eliminates proposed SPTRFA post-retirement adjustment revision.
H2341-14A (substantive) eliminates proposed amortization period extension.
H2341-15A (substantive) Resets SPTRFA amortization period to 2031.
H2341-16A (substantive) integrates amortization period extension into normal period reset procedure.
H2341-17A (substantive) eliminates proposed SPTRFA supplemental administrative expense assessment repeal.
H2341-18A (technical) contains language usage correction.



TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director *Lawrence A. Martin*

RE: H.F. 2341 (Thissen, by request); S.F. 1892 (Pappas): First Class City Teacher Retirement Fund Associations; Additional State Aid and Contributions for SPTRFA; SPTRFA Post-Retirement Adjustments

DATE: April 23, 2007

General Summary of H.F. 2341 (Thissen, by request); S.F. 1892 (Pappas)

H.F. 2341 (Thissen, by request); S.F. 1892 (Pappas) amends or repeals portions of Minnesota Statutes, Chapters 127A, 354A, and 356, the laws relating to state aid to education, the first class city teacher retirement fund associations, and retirement generally, by making the following changes:

1. Appropriates Additional Ongoing State Aid to SPTRFA (Sections 3, 4, and 8). Annual ongoing state direct aid to the St. Paul Teachers Retirement Fund Association (SPTRFA) is increased by \$3,033,000, payable until 2037, and the aid would no longer cancel in favor of the Teachers Retirement Association (TRA) to cover liabilities transferred from the former Minneapolis Teachers Retirement Fund Association (MTRFA) if the SPTRFA becomes as well funded as TRA before 2037.
2. Increases the SPTRFA Employer Contribution and Independent School District No. 625 State Education Aid by One Percent (Sections 1, 2, and 8). The St. Paul Teachers Retirement Fund Association (SPTRFA) regular employer contribution is increased from 4.50 percent to 5.50 percent and state education aid to Independent School District No. 625, St. Paul, is increased by one percent of the SPTRFA covered payroll, continuing without the current 2020 termination date.
3. Revises SPTRFA Post-Retirement Adjustment Mechanism (Sections 5 and 6). The current St. Paul Teachers Retirement Fund Association (SPTRFA) post-retirement adjustment mechanism, consisting of a two percent annual automatic increase and a periodic investment-gain-funded adjustment based on five-year average rates of return performance results, is replaced by an adjustment equal to the increase in the federal Consumer Price Index up to five percent annually, but not in a negative amount.
4. Extends SPTRFA Full Funding Amortization Target Date to 2038 (Section 7). The current St. Paul Teachers Retirement Fund Association (SPTRFA) full funding amortization target date of 2021 is extended to 2038.
5. Adds Supplemental Actuarial Reporting Items for SPTRFA (Section 7). The St. Paul Teachers Retirement Fund Association (SPTRFA) actuarial work is required to include additional exhibits disclosing the funding ratio of the plan and the contribution deficiency or sufficiency of the plan based on the market value of plan assets in addition to the actuarial value of plan assets.
6. Repeals SPTRFA Excess Administrative Expense Assessment (Section 8). The current special assessment imposed on St. Paul Teachers Retirement Fund Association (SPTRFA) retirees and active members when the SPTRFA administrative expenses, expressed as a percentage of covered pay, exceed the level of Teachers Retirement Association (TRA) administrative expenses, is repealed.

Background Information

Background information is presented for the following:

- Establishment and operation of the St. Paul Teachers Retirement Fund Association (SPTRFA) (**Attachment A**)
- Retirement funding included in state aid to education (**Attachment B**)
- Direct state aid to SPTRFA (**Attachment C**)
- Public pension plan amortization procedures and amortization periods (**Attachment D**)
- Actuarial value of public pension plan assets (**Attachment E**)
- SPTRFA post-retirement adjustment mechanism (**Attachment F**)

Discussion and Analysis

H.F. 2341 (Thissen, by request); S.F. 1892 (Pappas) makes a number of changes relating to the St. Paul Teachers Retirement Fund Association (SPTRFA), including an increase of \$3,173,000 in the 1997 state supplemental aid to the plan, an increase in the SPTRFA regular employer contribution by one percent, offset by an increase of \$2,342,000 in state education aid to Independent School District No. 625, St. Paul,

provides a benefit increase by replacing the current automatic percentage increase and investment gains related to SPTRFA post-retirement adjustment with a Consumer Price Index increase post-retirement adjustment, capped at five percent annually, extends the SPTRFA amortization period from 2021 to 2038, augments the SPTRFA actuarial reporting by requiring funded condition and financial requirement calculations be made additionally on the market value of assets as well as the actuarial value of assets, and repeals the SPTRFA administrative expense member assessment.

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

1. Appropriateness of State Education Aid Increase to Independent School District No. 625, St. Paul (Section 1). The policy issue is the appropriateness of providing an increase in state education aid to Independent School District No. 625, St. Paul, to offset the school district's proposed employer contribution increase to the St. Paul Teachers Retirement Fund Association (SPTRFA) set forth in Section 2. The aid increase is one percent of the most recent fiscal year's SPTRFA covered member salaries, as certified by the SPTRFA executive director. Based on the 2006 fiscal year SPTRFA covered salary, the aid increase would be \$2,342,000 and would be expected to grow at the rate of five percent, if the current SPTRFA payroll growth actuarial assumption under Minnesota Statutes, Section 356.215, Subdivision 8, Paragraph (c), is accurate. The provision has fiscal consequences for the State General Fund that would make the proposed legislation appropriately re-referred to the Education Finance divisions. The provision appears to overcompensate Independent School District No. 625, St. Paul, compared to its cost to fund the one percent SPTRFA employer contribution increase, since the aid increase will include money to offset the employer contribution increase borne by the Minnesota State Colleges and Universities System (MnSCU) for MnSCU faculty members covered by SPTRFA. Some MnSCU faculty members at the St. Paul College were allowed to retain SPTRFA coverage rather than Teachers Retirement Association (TRA) coverage or MnSCU-Individual Retirement Account Plan (IRAP) coverage and Independent School District No. 625, St. Paul, would receive a state education aid increase on the basis of employees who are no longer school district employees.

The Independent School District No. 625, St. Paul, proposed aid adjustment differs from all other aid adjustments currently included in Minnesota Statutes, Section 127A.50, Subdivision 1, in basing the adjustment on the current covered payroll, rather than a date-specific payroll (the case of the 1997 and 2007 aid adjustments for TRA contribution rate changes and the 1997 Public Employees Retirement Association (PERA) aid). The provision is also unnecessarily vague, with the aid increase tied to the current fiscal year's SPTRFA covered salary as certified by the SPTRFA executive director. The provision does not specify that the covered salary figure could only be certified once annually, so if a labor contract settlement occurs mid year, there could be update certifications. The provision also does not specify a particular date by which the certification must occur, so the certification can mesh with other aid procedures.

To address the overcompensation and process issues, three amendments are available:

Amendment H2341-1A limits the aid adjustment for Independent School District No. 625, St. Paul, to SPTRFA members employed by Independent School District No. 625, St. Paul, only.

Amendment H2341-2A sets the proposed aid adjustment based on the fiscal year 2008 SPTRFA-Independent School District No. 625 covered salary figure without any payroll growth built in.

Amendment H2341-3A sets the proposed aid adjustment based on the fiscal year 2008 covered payroll figure, with an annual specified increase rate of 3.5 percent per year.

If the current salary figure is preferred by the Commission, **Amendment H2341-4A** limits the certification of salaries to once per year.

Amendment H2341-5A sets a specific, but yet to be determined, certification date.

2. Appropriateness of Eliminating 2020 End Date for Adjustments to State Education Aid (Section 8). The policy issue is the appropriateness of continuing the proposed adjustment to state education aid for the St. Paul Teachers Retirement Fund Association (SPTRFA) and all other pre-2007 retirement-related adjustments indefinitely instead of terminating the adjustments on June 30, 2020. The 2020 aid adjustment cancellation provision was part of the 1997 "uniformity" retirement plan benefit increases (see Laws 1997, Chapter 233, Article 1, Section 14), and the 2020 conclusion date reflected the generally applicable full funding date of the affected retirement plans. The elimination of the conclusion date probably was prompted by the proposed extension of the SPTRFA full funding amortization target date to 2038, but the elimination of the conclusion date, making the SPTRFA adjustment permanent, is unlikely to be appropriate for SPTRFA after 2038 and the repeal of the conclusion date applies to other retirement plan situations also, without the provision of any specific information about the impact beyond SPTRFA.

Amendment H2341-6A deletes the repealer of Minnesota Statutes, Section 127A.50, Subdivision 5.

Amendment H2341-7A deletes the repealer and sets a 2038 conclusion date for the SPTRFA-related aid adjustment to reflect the proposed extension of the SPTRFA amortization date.

3. Appropriateness of \$3.0 Million Increase in Direct SPTRFA State Aid (Section 3). The policy issue is the proposed annual increase of \$3,033,000 in the direct state aid to the St. Paul Teachers Retirement Fund Association (SPTRFA). Before 1993, SPTRFA received only the equivalent state aid that was paid to the Teachers Retirement Association (TRA) initially paid directly to the retirement plan and then folded into the state education aid in 1985 and paid to Independent School District No. 625, St. Paul, to defray its statutory employer contributions. In 1993 (Laws 1993, Chapter 357, Section 3), a \$0.5 million direct state aid program for SPTRFA was established, and in 1977 (Laws 1977, Chapter 233, Article 3, Section 4), the SPTRFA direct state aid was increased to \$2,827,000 annually. When the Duluth Teachers Retirement Fund Association (DTRFA) became sufficiency funded, under Minnesota Statutes, Section 354A.12, Subdivision 3c, the DTRFA direct state aid was allocated between SPTRFA and the former Minneapolis Teachers Retirement Fund Association (MTRFA) and the direct SPTRFA state aid increased to \$2,967,000. The 1993 direct state aid was prompted by a clear need by SPTRFA for additional resources and by a sense that the state may have contributed to the SPTRFA funding problems by requiring insufficient employer contributions to the SPTRFA-Coordinated Program during the initial years of that program after it was established in 1978. The 1997 direct state aid increase was prompted by the need for additional funding for the 1997 benefit increases and was funded from state education aid that was released by a reduction in TRA employer contribution rates. The policy basis for extending to the state additional responsibility for the current funding problems of SPTRFA, which relate to recent investment performance and other factors, is in control of the plan. SPTRFA representatives should be invited to testify about their rationale in requiring additional state resources for the plan.

If the Commission determines that the proposed increase in direct state aid to SPTRFA is inappropriate, **Amendment H2341-8A** revises the language of the direct SPTRFA state aid provision to reflect the elimination of DTRFA direct state aid, but without any increase in direct SPTRFA state aid.

4. Appropriateness of a SPTRFA Employer Contribution Increase Without a SPTRFA Member Contribution Increase (Section 2). The policy issue is the appropriateness of imposing employer contribution rate increases without also reassessing and increasing the member contribution rates for St. Paul Teachers Retirement Fund Association (SPTRFA). Currently, SPTRFA members pay a smaller percent of the current total contribution amount and a smaller percent of the total actuarial contribution requirement than do Duluth Teachers Retirement Fund Association (DTRFA) or Teachers Retirement Association (TRA) members, as follows:

Plan	Allocation of Total Contribution			Allocation of Total Actuarial Requirements		
	Member	Employer	State	Member	Employer	State
SPTRFA	34.9%	52.9%	12.6%	22.7%	34.3%	8.2%
DTRFA	48.7%	51.3%	0.0%	36.2%	38.1%	0.0%
TRA	48.7%	46.2%	5.1%	45.5%	43.2%	4.8%

In absolute terms, the following compares the member and employer contributions for the three teacher retirement plans:

	SPTRFA	DTRFA	TRA
<u>Basic Program</u>			
Member	8.0	--	9.0
Employer	8.0	--	9.5
Employer Additional	3.64	--	-- ¹
<u>Coordinated Program</u>			
Member	5.5	5.5	5.5
Employer	4.5	4.5	5.5
Employer Additional	3.84	1.29	-- ¹

¹ For Special School District No. 1, Minneapolis, the employer additional contribution to TRA is 3.64 percent of the Minneapolis Public Schools covered pay.

If the Commission concludes that the SPTRFA member contribution rates should be increased, the Commission has a number of options:

Amendment H2341-9A would increase the SPTRFA member contribution rates by the same one percent of covered salary increase proposed for the SPTRFA employer contribution rate.

Amendment H2341-10A would increase the SPTRFA member contribution rates by two percent of covered pay to more closely replicate the DTRFA and TRA proportion of total contributions.

Amendment H2341-11A would increase the SPTRFA member contribution rates to amounts specified by the Commission.

5. Appropriateness of the Proposed Change in the Termination Trigger for the SPTRFA Direct State Aid (Section 4). The policy issue is the appropriateness of continuing the St. Paul Teachers Retirement Fund Association (SPTRFA) direct state aid until 2037 rather than having the direct state aid be redirected to the Teachers Retirement Association (TRA) to offset some of the unfunded actuarial accrued liability inherited from the former Minneapolis Teachers Retirement Fund Association (MTRFA) when SPTRFA becomes as well funded as TRA. The obvious intent behind Minnesota Statutes, Section 354A.12, Subdivision 3c, was to provide the most direct state aid to the most financially troubled of the three first class city retirement funds and then redirect to the most financially troubled fund any aid amounts connected with a first class city teacher plan that attains the funded level of TRA. The 2006 MTRFA-TRA consolidation law made TRA the successor to the MTRFA, including this aid redirection provision. The proposed legislation would eliminate the state aid reduction provision in favor of aid continuation in its current allocation, without change, until 2037, irrespective of comparative funding condition. The change could work a hardship on TRA, having inherited the MTRFA unfunded actuarial accrued liability, if the funding condition of SPTRFA significantly improves and SPTRFA becomes as well funded as TRA.

If the Commission is uncomfortable with the proposed change, **Amendment H2341-12A** would amend the change out of the proposed legislation.

6. Appropriateness of Replacing the Current SPTRFA Post-Retirement Adjustment Mechanisms (Sections 5 and 6). The policy issue is the appropriateness of replacing the current St. Paul Teachers Retirement Fund Association (SPTRFA) post-retirement adjustment mechanisms when the Commission remains engaged in consideration of the topic of the appropriate post-retirement adjustment mechanism for the various statewide and major local retirement plans. Laws 2006, Chapter 277, Article 2, Section 1, mandated the Commission to conduct an interim study that included the structure and implications of the current investment performance-based post-retirement adjustments. The Commission concluded its work on that interim study on March 6, 2007, when it decided to report the background information that was assembled for the study and to recommend continued deliberations on the topic. It would appear to be premature and potentially problematic to approve a new configuration of one plan's post-retirement adjustment mechanisms while still considering the topic for all other statewide and major local plans.

If the Commission believes that a post-retirement mechanism redesign for a single retirement plan is problematic, **Amendment H2341-13A** would delete the SPTRFA post-retirement adjustment mechanism proposals from the proposed legislation.

7. Appropriateness of Providing a Benefit Increase for a Retirement Plan Facing Significant Financial Difficulties (Sections 5 and 6). The policy issue is the appropriateness of providing a post-retirement adjustment that likely will constitute a benefit increase for St. Paul Teachers Retirement Fund Association (SPTRFA) members and, because the adjustments are actuarially funded rather than relying in part on actuarial gains in the investment program, will undoubtedly increase the actuarial cost of the benefit plan. The proposed replacement of the current SPTRFA flat percentage automatic increase and the current SPTRFA investment performance-based increase by a Consumer Price Index-based post-retirement adjustment, with a five percent annual benefit increase maximum, is a generous post-retirement adjustment based on the 50 state statewide teacher retirement plan comparison undertaken by the Commission during the 2006-2007 interim. The proposed adjustment mechanism will significantly add to the actuarial cost of the retirement plan at a time when the plan has a \$20 million annual shortfall in contributions. If the Commission determines that the change is premature, **Amendment H2341-13A** eliminates the proposed change.
8. Appropriateness of a Revised SPTRFA Amortization Period (Section 7). The policy issue is the appropriateness of the proposed extension of the St. Paul Teachers Retirement Fund Association (SPTRFA) full funding target date from 2021 to 2038. The issue specifically is the rationale for the specific revised period, the lack of an appropriate triggering event for the proposed amortization period extension, the foreseeable problem of excluding SPTRFA from the automatic amortization period extension process, and the appropriateness of a single plan provision in a generally applicable piece of proposed legislation. The theory underlying good actuarial funding suggests that an unfunded actuarial accrued liability should be amortized over a period that does not exceed the average

