State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

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.

State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director LAM

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 Sate 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:

	Allocation of Total Contribution			Allocation of Total Actuarial Requirements		
Plan	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
Basic Program			
Member	8.0	--	9.0
Employer	8.0	--	9.5
Employer Additional	3.64	--	--\1
Coordinated Program			
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. <u>Appropriateness of the Proposed Change in the Termination Trigger for the SPTRFA Direct State Aid</u> (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. <u>Appropriateness of Replacing the Current SPTRFA Post-Retirement Adjustment Mechanisms</u> (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. <u>Appropriateness of Providing a Benefit Increase for a Retirement Plan Facing Significant Financial Difficulties</u> (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. <u>Appropriateness of a Revised SPTRFA Amortization Period</u> (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

remaining working lifetime of the active membership. The unfunded actuarial accrued liability basically represents past normal cost contributions that were either not recognized, as would occur if actuarial assumptions are incorrect, or were not made in a timely fashion, as would occur if there is a contribution deficiency. Since normal costs should be funded over the working lifetimes of active members, the amortization of the unfunded actuarial accrued liability derived from unpaid normal costs should similarly be funded over the remaining active working lifetime. The period between the current (2006) average active member age for SPTRFA of 44.6 and an age 65 normal retirement age is 20.4 years, or about five years longer than the current full funding period length. The reason for the proposed extension, not accompanying the normal trigger events of a benefit increase, an actuarial method change, an actuarial assumption change, or a plan consolidation, is likely the significant contribution deficiency for the retirement plan. If there are other triggering factors for the proposed amortization period extension than making the financial condition of the retirement plan appear to be better than it currently appears to be, the SPTRFA executive director could be requested to identify those factors and the policy rationale arguing for the factor to be a trigger. A specific statutory amortization date exempts SPTRFA from the process of incremental automatic amortization period extensions under Minnesota Statutes, Section 356.215, Subdivision 11, when benefits are increased, actuarial assumptions changed, or actuarial methods changed in the future. The proposed extension follows a practice begun with the Minneapolis Employees Retirement Fund (MERF) in 1991, continued with the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) in 2001, and last occurred with the Teachers Retirement Association (TRA) in 2006, where an amortization full funding target date is specified, without any revisions in the event of future benefit, assumption, or method changes.

If the Commission is convinced that the proposed amortization period extension is misguided as policy or is inappropriate to include in this legislation, **Amendment H2341-14A** would eliminate the amortization period extension.

If the Commission believes that the proposed amortization period is too long compared to the remaining active working lifetime of the current SPTRFA active membership, **Amendment H2341-15A** would reset the period to 2031, or roughly the SPTRFA active member average remaining working lifetime.

If the Commission determines that the SPTRFA should not be exempted from the generally applicable automatic amortization period extension process, **Amendment H2341-16A** would integrate the proposed new SPTRFA full funding target date into the generally applicable amortization period provision.

9. Appropriateness of the Repeal of the SPTRFA Supplemental Administrative Expense Assessment (Section 8). The policy issue is the appropriateness of repealing the St. Paul Teachers Retirement Fund Association (SPTRFA) supplemental administrative expense assessment. The supplemental administrative expense assessment was imposed in 1993 to address the problem of disproportionately high administrative expenses on the part of SPTRFA and the former Minneapolis Teachers Retirement Fund Association (MTRFA). The supplemental administrative expense assessment required the retirement plan to charge its members, active and retired, for the amount by which its administrative expenses, expressed as a percentage of covered payroll, exceeded the Teachers Retirement Association (TRA) administrative expenses, expressed as a percentage of payroll. In 1993, the SPTRFA administrative expenses were 0.27 percent of covered pay, the MTRFA administrative expenses were 0.43 percent of covered pay, and the TRA administrative expenses were 0.15 percent of covered pay. Over time, as TRA administrative expenses have soared, SPTRFA administrative expenses no longer exceed the TRA administrative expenses as a percent of covered pay, 0.26 percent and 0.33 percent respectively. The assessment provision remains a factor encouraging administrative expense prudence by SPTRFA and that induced prudence could be lost with the proposed repeal. Given the current SPTRFA contribution deficiency of 8.70 percent of covered pay, requiring an administrative expense assessment or not will not make any material impact on the funding of the retirement plan beyond whatever administrative expense prudence it induces.

   If the Commission wishes to retain the SPTRFA supplemental administrative expense assessment provision, **Amendment H2341-17A** would delete the applicable portion of the repealer.

10. Actuarial Impact of the Proposed Legislation on SPTRFA. The policy issue is the impact of the proposed legislation on the actuarial condition of the St. Paul Teachers Retirement Fund Association (SPTRFA). Although SPTRFA has not provided any actuarial cost estimate for the proposed legislation, none of the provisions of the proposed legislation reduce the normal cost of the SPTRFA, but shift some of the plan cost to the State of Minnesota and delay further the amortization of the plan. The replacement of the current SPTRFA post-retirement adjustment mechanisms by a new Consumer Price Index-based adjustment mechanism is likely to constitute a net benefit increase and a net actuarial cost increase of an unknown amount. The following summarizes the current (6/30/2006)

actuarial condition of SPTRFA and compares the impact of the direct state aid increase, the employer contribution rate increase, and the amortization period extension:

St. Paul Teachers Retirement Fund Association (SPTRFA)

	2006		Effect of Proposed Amortization Change and Contribution Increases		Resulting Condition of the Plan, Without Post-Retirement Adjustment Change	
Membership						
Active Members		4,219		--		4,219
Service Retirees		2,302		--		2,302
Disabilitants		25		--		25
Survivors		280		--		280
Deferred Retirees		1,447		--		1,447
Nonvested Former Members		1,671		--		1,671
Total Membership		9,944		--		9,944
Funded Status						
Accrued Liability		$1,358,619,906		--		$1,358,619,906
Current Assets		$938,919,005		--		$938,919,005
Unfunded Accrued Liability		$419,700,901		--		$419,700,901
Funding Ratio	69.11%		--		69.11%	
Financing Requirements						
Covered Payroll		$234,213,344		--		$234,213,344
Benefits Payable		$78,420,222		--		$78,420,222
Normal Cost	9.21%	$21,575,645	--	--	9.21%	$21,575,645
Administrative Expenses	0.26%	$608,955	--	--	0.26%	$608,955
Normal Cost & Expense	9.47%	$22,184,600	--	--	9.47%	$22,184,600
Normal Cost & Expense	9.47%	$22,184,600	--	--	9.47%	$22,184,600
Amortization	15.55%	$36,420,175	(5.52%)	($12,934,636)	10.03%	$23,485,539
Total Requirements	25.02%	$58,604,775	(5.52%)	($12,934,636)	19.50%	$45,670,139
Employee Contributions	5.69%	$13,319,540	--	--	5.69%	$13,319,540
Employer Contributions	8.59%	$20,111,296	1.00	$2,342,133	9.59%	$22,453,429
Employer Add'l Cont.	0.00%	$0	--	--	0.00%	$0
Direct State Funding	2.05%	$4,803,000	1.29	3,033,000	3.34%	$7,836,000
Other Govt. Funding	0.00%	$0	--	--	0.00%	$0
Administrative Assessment	0.00%	$0	--	--	0.00%	$0
Total Contributions	16.32%	$38,233,836	2.29%	$5,375,133	18.62%	$43,608,969
Total Requirements	25.02%	$58,604,775	(5.52%)	($12,934,636)	19.50%	$45,670,139
Total Contributions	16.32%	$38,233,836	2.29%	$5,375,133	18.62%	$43,608,969
Deficiency (Surplus)	8.70%	$20,370,939	(7.81%)	($18,309.769)	0.89%	$2,061,170

Technical Amendment H2341-18A

Technical **Amendment H2341-18A** adds a grammatically necessary preposition to a change proposed in Section 1.

Attachment A

Background Information on the Establishment and Operation of the St. Paul Teachers Retirement Fund Association (SPTRFA)

The St. Paul Teachers Retirement Fund Association (SPTRFA) was created in 1910 under the authority of Laws 1909, Chapter 343, by the teaching body of the St. Paul public schools with the consent of the St. Paul City Council and was incorporated as a Minnesota corporation in 1910. The plan primarily covers certificated teaching and administrative personnel employed by Independent School District No. 625, St. Paul, but also includes some faculty members employed by the Minnesota State Colleges and Universities System (MnSCU). Teachers who were employed by charter schools that were located in St. Paul previously were members of SPTRFA, but coverage for them was transferred to the statewide Teachers Retirement Association (TRA) in 2002.

Initially, in 1910, membership in the SPTRFA was voluntary and the initial pensions, first paid in 1910, were \$30 per month and were funded from a 1.0 percent member contribution and a contribution from the City of St. Paul, subject to a maximum levy. The flat retirement benefit amount was increased to \$40 per month in 1913 and to \$50 in 1922. The funding of the SPTRFA before 1955 was essentially on a "current disbursements" or "pay-as-you-go" basis, with the total of the member contributions and the City of St. Paul tax levy generally equaling the retirement benefit payout (i.e. in 1952, the member contribution of \$223,891 and the tax levy of \$289,861 largely was consumed by the annuities payable of \$508,923; in 1953, the respective amounts were \$233,391; \$312,433; and \$525,959; and in 1954, \$243,181; \$334,245; and \$529,429).

In 1955, unrelated to any legislative mandate, the SPTRFA member contribution rate was increased from 4.5 percent of covered pay to 6.0 percent of covered pay and the City of St. Paul essentially doubled its local tax levy, from \$334,245 in 1954 to \$687,000 in 1955. This resulted in SPTRFA beginning to amass reserves for its actuarial liabilities, totaling \$1.6 million in assets in 1955. Also in 1955, SPTRFA first retained a consulting actuary, A. A. Weinberg of Chicago, Illinois, who also was the State Employees Retirement Association (SERA, predecessor to the Minnesota State Retirement System (MSRS)) consulting actuary. The applicable tax levy limit for SPTRFA and the other two first class city teacher retirement fund associations was set in 1923 and remained unchanged until 1969, when the levy limit was eliminated following the 1967 inclusion of the first class city teacher retirement fund associations in direct state payment of teacher employer retirement contributions.

In 1975, the local levy for SPTRFA was eliminated and the state funding of the plan, set identical as a percentage of covered payroll to the statewide Teachers Retirement Association (TRA), was set as the total employer support of the plan.

SPTRFA coordinated with Social Security in 1978, effectively closing the SPTRFA Basic Plan to new members. Each existing teacher elected to either remain as a basic member or to begin Social Security coverage (which makes them coordinated members). The current SPTRFA Basic Plan covers the pre-1978 hirees who did not elect Social Security coverage. A SPTRFA Coordinated Program was created for all post-1978 hirees and for those pre-1978 hirees who elected Social Security coverage. Because there have been no new basic members added to the SPTRFA since 1978, not many St. Paul teachers remain as Basic Program active members. As of June 30, 2004, the 362 SPTRFA Basic Program active members made up 8.2 percent of the total SPTRFA active membership, while the 1,689 SPTRFA Basic Program retired members comprised 81.0 percent of the total number of SPTRFA service retiree membership.

The SPTRFA substantially replicated the statewide TRA Coordinated Program benefit plan. In 1983, member contributions to SPTRFA were tax sheltered for federal and state income tax purposes and the plan was determined as tax qualified by the federal Internal Revenue Service. In 1987, the prior direct state funding to SPTRFA was folded into the general education state aid to the school district. Retirement benefits were improved by the addition of a two-tier benefit package, effective in 1989 (Laws 1989, Chapter 319, Article 13), for both Basic and Coordinated Plan members. Coordinated members first hired before July 1, 1989, are eligible for Tier I or Tier II benefits. Members first hired after June 30, 1989, are eligible for Tier II benefits only. Tier I is the "Rule of 90" early normal retirement age benefit program, with a modestly smaller retirement annuity formula for the initial ten years of service credit. Tier II is the "level benefit" later normal retirement age benefit program, with a higher benefit accrual rate for all years of service credit. In 1997 (Laws 1997, Chapter 233, Article 3), legislation improved first class city teacher retirement fund association Coordinated Program benefits, implement a new method of paying a post-retirement increase, and provided additional state, employer, and employee funding. Also in 1997, as part of major benefit increase legislation, special direct state aid to SPTRFA was enacted and currently totals \$4.8 million annually, or 12.5 percent of the total SPTRFA contributions in 2004.

The SPTRFA is managed by a governing board of ten members, one member of the Board of Education of Independent School District No. 625, as designated by the board, and nine elected members. In addition to maintaining member records and determining benefit amounts, the SPTRFA governing board is the investment authority for the assets of the retirement fund. The SPTRFA administrative staff consists of six employees, an executive director, an assistant director, a benefits and technology specialist, an accountant, a member records and accounting clerk, and an information clerk. Until recently, the board member who was the Secretary/Treasurer also functioned as the chief administrative officer for the plan. The plan retains several professional services providers, including legal counsel, an actuarial consulting firm in addition to the consulting actuary retained jointly by the seven major retirement plan administrators, the Office of the State Auditor, one investment consultant, and 15 investment counsels.

The 2006 SPTRFA annual financial report indicates that the plan received total contributions of \$37.5 million over Fiscal Year 2006 (55.0 percent from the school district, 35.9 percent from the active members, and 9.1 percent from the State of Minnesota), had investment income, including unrealized gains, after investment expenses of \$4.6 million and security lending expenses of \$4.0 million, of \$113.8 million (99.8 percent from the investment program and 0.2 percent from the securities lending program), paid benefits and refunds totaling \$79.6 million (88.8 percent retirement annuities, 1.1 percent disability benefits, 8.6 percent survivor benefits, and 1.4 percent refunds), and paid plan administration expenses of \$0.6 million.

Attachment B

Background Information on the Retirement Funding Included in State Aid to Education

A. Establishment. State funding for teacher retirement began in 1915 (Laws 1915, Chapter 199), with the creation of the predecessor of the current Teachers Retirement Association (TRA), the Teachers Insurance and Retirement Fund. The initial state funding was the product of a statewide property tax levy. In 1967 (Extra Session Laws 1967, Chapter 32, Article 3), state funding for teacher retirement shifted from a property tax levy to an open and standing State General Fund appropriation and the state funding was extended to the first class city teacher retirement fund associations. In 1985 (First Special Session Laws 1985, Chapter 11), a categorical state aid program for teacher retirement and teacher Federal Insurance Contributions Act (FICA) costs was established to replace the open and standing state funding. In 1987 (Laws 1987, Chapter 398, Article 1), effective for 1989, the state teacher retirement and FICA categorical aids were folded into the general state education revenue program.

B. Source of State Funding for Teacher Retirement. From 1915 to 1967, the state funding for the Teachers Insurance and Retirement Fund and its 1931 (Laws 1931, Chapter 406), successor, TRA, was derived from a state levied statewide property tax levy. From 1967, teacher retirement funding has been directly or indirectly from the State General Fund, initially from proceeds of the sales tax.

C. Qualification Requirements for State Funding of Teacher Retirement. No qualification requirements exist for a teacher retirement plan to receive state funding when it was paid to teachers retirement plans directly until 1985. Since 1985, state aid for teacher retirement has been payable to the employing unit rather than to the retirement plan, and the school district or other educational employer must qualify for general state education revenue to receive the retirement and component.

D. Amount of State Funding for Teacher Retirement. The amount of direct or indirect state support for teacher retirement plans for the period 1932-2002 is as follows:

Fiscal Year	State Contribution to TRA	State Contribution to First Class City TRFA's	Fiscal Year	State Contribution to TRA	State Contribution to First Class City TRFA's
1932	$66,258.47	--	1967	$19,950,547.74	$3,385,011
1933	162,701.97	--	1968	23,227,994.54	3,737,891
1934	125,743.09	--	1969	28,045,567.64	6,249,791
1935	152,999.08	--	1970	28,846,025.46	7,053,173
1936	153,198.24	--	1971	30,037,928.64	7,672,998
1937	254,997.85	--	1972	32,825,824.02	7,512,250
1938	232,485.22	--	1973	34,735,382.59	8,382,017
1939	214,246.59	--	1974	36,231,288.92	9,414,700
1940	200,852.16	--	1975	40,402,543.61	4,959,692
1941	278,221.11	--	1976	52,230,663.02	12,640,782
1942	279,601.89	--	1977	56,129,913.78	13,042,867
1943	264,871.72	--	1978	63,685,259.55	13,370,847
1944	319,647.87	--	1979	66,536,923.83	13,923,190
1945	263,380.91	--	1980	73,925,148.70	15,997,589
1946	282,271.20	--	1981	75,523,763.79	16,171,346
1947	348,141.96	--	1982	91,079,638.42	18,431,999
1948	292,912.05	--	1983	69,462,210.33	14,260,903
1949	295,060.40	--	1984	102,643,810.61	20,255,585
1950	352,996.32	--	1985	125,067,070.46	12,141,631
1951	530,610.35	--	1986	134,298,853.19	20,220,138
1952	523,285.03	--	1987	142,069,969.78	22,569,088
1953	767,264.72	--	1988	148,607,094.52	22,897,764
1954	431,781.24	--	1989	160,288,707.04	23,596,386
1955	602,578.39	--	1990	166,098,804.41	24,258,793
1956	607,912.21	--	1991	159,439,219.13	25,061,840
1957	713,893.14	--	1992	162,369,508.05	26,609,374
1958	897,967.12	--	1993	168,070,511.00	26,203,408
1959	3,708,446.97	--	1994	171,854,594.00	30,128,724
1960	4,098,228.34	--	1995	179,671,657.00	32,375,928
1961	6,449,492.56	--	1996	184,495,447.00	34,342,440
1962	7,391,621.27	--	1997	191,670,080.00	36,238,989
1963	9,720,185.45	--	1998	151,322,830.00	38,563,817
1964	9,520,504.59	--	1999	130,525,591.00	42,536,764
1965	13,491,215.51	--	2000	134,418,833.00	44,929,291
1966	16,923,436.23	--	2001	139,799,408.00	46,580,142
			2002	142,221,589.00	44,970,000

The state funding was direct from 1932 to 1989 for TRA and from 1967 to 1989 for the first class city teacher retirement fund associations. It has been indirect (i.e. part of general education state aid, without any specific dedication in force) since 1989.

E. <u>Permissible Uses of State Funding for Teacher Retirement.</u> The state funding for teacher retirement plans becomes an asset of the applicable retirement plan and may be expended for any lawful purpose for the retirement fund.

Attachment C

Background Information on the Direct State Aid Provided to the St. Paul Teachers Retirement Fund Association (SPTRFA)

A. In General

The St. Paul Teachers Retirement Fund Association (SPTRFA) receives direct state aid under three programs, the 1993 State Supplemental Contribution, the 1996 State Supplemental Contribution, and the 1997 State Supplemental Funding.

B. 1993 State Supplemental MTRFA/SPTRFA Contributions

1. Establishment. In 1993 (Laws 1993, Chapter 357, Sections 3 and 4), an annual supplemental state contribution was established for the Minneapolis Teachers Retirement Fund Association (MTRFA) and for the St. Paul Teachers Retirement Fund Association (SPTRFA). The program was coded as Minnesota Statutes, Section 354A.12, Subdivision 3b. The supplemental state contributions were recommended by the Legislative Commission on Pensions and Retirement (LCPR) and enacted by the Legislature to provide additional financial support for the two first class city teacher retirement fund associations that were significantly underfunded compared to other Minnesota public pension plans.

2. Source of the 1993 State Supplemental MTRFA/SPTRFA Contributions. The 1993 state supplemental MTRFA/SPTRFA contributions are funded from the State General Fund.

3. Qualification Requirements for 1993 State Supplemental MTRFA/SPTRFA Contributions. There are no qualification requirements for the SPTRFA to meet in order to receive this state funding. For the MTRFA, the state funding is a matching amount, done on $1,000 increments, based on additional funding provided in equal proportions by Special School District No. 1 (Minneapolis) and by the City of Minneapolis. The MTRFA amount is capped at $2.5 million in 1994, indexed to the increase in general education aid.

4. Amount of 1993 State Supplemental MTRFA/SPTRFA Contributions. The amount of the supplemental state contributions to MTRFA and SPTRFA under Laws 1993, Chapter 357, Sections 3 and 4, is as follows:

Fiscal Year	State Contribution to MTRFA	State Contribution to SPTRFA
1994	$2,500,000	$500,000
1995	2,500,000	500,000
1996	2,500,000	500,000
1997	2,500,000	500,000*
1998	2,500,000	500,000*
1999	2,500,000	500,000*
2000	2,500,000	500,000*
2001	2,500,000	500,000*
2002	2,500,000	500,000*

* In 1997 (Laws 1997, Chapter 233, Article 3, Section 4), this aid amount was folded into the 1997 state supplemental SPTRFA contribution.

5. Permissible Uses of 1993 State Supplemental MTRFA/SPTRFA Contributions. The state funding under Laws 1993, Chapter 357, Sections 3 and 4, becomes an asset of the applicable pension plan and may be expended for any lawful purpose for the pension plan.

C. 1996 State Supplemental MTRFA/SPTRFA Contributions

1. Establishment. In 1996 (Laws 1996, Chapter 438, Article 4, Section 9), an annual supplemental state contribution was established for the Minneapolis Teachers Retirement Fund Association (MTRFA) and for the St. Paul Teachers Retirement Fund Association (SPTRFA). The program is coded as Minnesota Statutes, Section 423A.02, Subdivision 3. The supplemental state contribution is an attempt to redirect a pension aid program that had a diminished need to the first class city teacher retirement fund associations with the greatest funding need.

2. Source of the 1996 State Supplementary MTRFA/SPTRFA Contributions. The 1996 state supplementary contributions to MTRFA and SPTRFA are funded from a substantial portion of the aid amounts released in the local police and paid firefighter relief associations amortization aid and

supplemental amortization aid programs by local public safety pension plans that have become fully funded. The amount for allocation is 70 percent of the difference between the amount of $5,720,000 and the current year's total amortization aid and supplemental amortization aid amounts. The amortization aid and supplemental amortization aid programs are funded from the State General Fund.

3. Qualification Requirements for 1996 State Supplementary MTRFA/SPTRFA Contributions. In order to receive the 1996 state supplementary MTRFA/SPTRFA state aid, Independent School District No. 625 with respect to the SPTRFA, and the City of Minneapolis and Special School District No. 1 (Minneapolis) with respect to the MTRFA, must make additional contributions to the applicable retirement plan. The minimum contribution requirements are as follows:

	MTRFA		SPTRFA Maximum
Fiscal Year	Minimum City Contribution	Minimum School District Contribution	School District Contribution
1996	$0	$0	$0
1997	0	0	0
1998	250,000	250,000	200,000
1999	400,000	400,000	400,000
2000	550,000	550,000	600,000
2001	700,000	700,000	800,000
2002	850,000	850,000	800,000
2003 and thereafter	1,000,000	1,000,000	800,000

Additionally, to qualify, the MTRFA or the SPTRFA must have an unfunded actuarial accrued liability. Upon becoming fully funded, the amount earmarked for the retirement plan is redirected to the retirement plan with a remaining unfunded actuarial accrued liability.

4. Amount of 1996 State Supplementary MTRFA/SPTRFA Contribution. The amount of the 1996 state supplementary MTRFA/SPTRFA contribution is 70 percent of the available funding for MTRFA and 30 percent of the available funding for SPTRFA, which translates into the following amounts:

Year	MTRFA	SPTRFA
1996	$1,080,000	$464,000
1997	1,215,000	725,000
1998	2,240,000	967,000
1999	2,640,000	1,400,000
2000	2,990,000	1,490,000
2001	3,290,000	1,750,000
2002	2,865,000	1,850,000

5. Permissible Uses of 1996 State Supplementary MTRFA/SPTRFA Contributions. The state funding under Laws 1996, Chapter 438, Article 4, Section 9, becomes an asset of the applicable pension plan and may be expended for any lawful purpose for the pension plan.

D. 1997 State Supplemental First Class City Teacher Retirement Fund Association Funding

1. Establishment. In 1997 (Laws 1997, Chapter 233, Article 3, Section 4), an annual supplemental state contribution was established for the Duluth Teachers Retirement Fund Association (DTRFA), the Minneapolis Teachers Retirement Fund Association (MTRFA), and the St. Paul Teachers Retirement Fund Association (SPTRFA). The program is coded as Minnesota Statutes, Section 354A.12, Subdivision 3a. The supplemental state funding is an attempt to offset the cost of the 1997 benefit improvements and to bolster the funding of these financially troubled retirement plans.

2. Source of the 1997 State Supplemental First Class City Teacher Retirement Fund Association Funding. The 1997 state supplemental funding for the first class city teacher retirement fund associations is provided from the State General Fund, derived in part from a 1997 reduction in education aids related to a reduction in the Teachers Retirement Association (TRA) employer contribution rate.

3. Qualification Requirements for the 1997 State Supplemental First Class City Teacher Retirement Fund Association Funding. In order to receive the 1997 state supplemental funding for the first

class city teacher retirement fund associations, the applicable first class city teacher retirement fund associations must be less than fully funded. Upon full funding, the funding attributable to the retirement fund association is redirected to the remaining teacher retirement fund association or associations with an actuarial accrued liability.

4. Amount of 1997 State Supplemental First Class City Teacher Retirement Fund Association Funding. The amount of the 1997 state funding for first class city teachers retirement fund association is as follows:

Year	DTRFA Amount	MTRFA Amount	SPTRFA Amount*
1998	$486,000	$17,954,000	$4,327,000
1999	486,000	12,954,000	2,327,000
2000	486,000	12,954,000	2,327,000
2001	486,000	12,954,000	2,327,000
2002	0	13,314,000	2,353,000

* The 1997 legislation rolled the 1993 aid amount into this aid program, but the 1993 aid amount is not included in the amount shown above, but is included in the SPTRFA portion of part 13.

5. Permissible Uses of 1997 State Supplemental First Class City Teachers Retirement Fund Association Funding. The state funding under Laws 1997, Chapter 233, Article 3, Section 4, becomes an asset of the applicable pension plan and may be expended for any lawful purpose for the pension plan.

Attachment D

Background Information on Public Pension Plan Amortization Procedures and Amortization Periods

When pension plan actuarial accrued liabilities exceed pension plan assets, the plan has an unfunded actuarial accrued liability, which represents the cumulative total of past departures from sound full funding practices, such as past actuarial experience losses, past insufficient contributions, past benefit increases, or a combination of the three. If a retirement plan has an unfunded actuarial accrued liability, sound pension funding practices require that the unfunded actuarial accrued liability be paid or amortized over a reasonable period of time.

The amortization of pension plan unfunded actuarial accrued liabilities depend on the amortization period, measured by the amortization target date, and on whether the amortization contribution is calculated as a level dollar amount or as a level percentage of covered pay.

In Minnesota, amortization contribution requirements are calculated as part of the actuarial valuation process under Minnesota Statutes, Section 356.215, Subdivision 11, but only MERF and local police and fire relief association future contribution amounts are required to change in the following year as a consequence of that actuarial work. For all other Minnesota defined benefit retirement plans, the amortization contribution requirement is advisory, used by the Legislative Commission on Pensions and Retirement and the Legislature to set member and employer contribution rates.

Since 1984, Minnesota has used a level percentage of covered payroll amortization rather than the prior level dollar amortization requirement and has reset the amortization target date on several occasions, usually with a period no longer than 30 years.

The following sets forth the current (6/30/2006 actuarial valuation) full funding target dates for the two plans and for the other statewide and major local retirement plans:

Retirement Plan	Amortization Target Date
MSRS-Correctional	2023
PERA-P&F	2020
State Patrol Retirement Plan	2036
Local Government Correctional Retirement Plan (PERA-Correctional)	2023
MSRS General State Employees Retirement Plan (MSRS-General)	2020
PERA General Employees Retirement Plan (PERA-General)	2031
Teachers Retirement Association (TRA)	2037
Minneapolis Employees Retirement Fund (MERF)	2020
Duluth Teachers Retirement Fund Association (DTRFA)	2032
St. Paul Teachers Retirement Fund Association (SPTRFA)	2021
Judges Retirement Plan	2020

The variation in the full funding target dates used for the various retirement plans for the calculation of the amortization contribution rate is in part a function of Minnesota Statutes, Section 356.215, Subdivision 11, which provides for an automatic extension of the amortization period upon a change in the benefit plan, a change in plan actuarial assumptions, or a change in plan actuarial methods, with a weighted averaging of the prior unfunded actuarial accrued liability portion and the prior amortization period and of the added unfunded actuarial accrued liability portion and a new 30-year amortization period, and is in part a function of revised amortization target dates set legislatively upon the occurrence of other events or for other reasons. 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 remaining working lifetime of the active membership. The unfunded actuarial accrued liability basically represents past normal cost contributions that were either not recognized, as would occur if actuarial assumptions are incorrect, or were not made in a timely fashion, as would occur if there is a contribution deficiency. Since normal costs should be funded over the working lifetimes of active members, the amortization of the unfunded actuarial accrued liability derived from unpaid normal costs should similarly be funded over the remaining active working lifetime. The following sets forth the current average age of the active membership of the various statewide and major local retirement plans and compares that age with the normal retirement age of the plan, providing some sense of the remaining average active working lifetimes:

Retirement Plan	2006 Average Age (Actives)	Normal Retirement Age	Remaining Period
MSRS-Correctional	40.2	55	14.8
PERA-P&F	39.3	55	15.7
State Patrol	41.0	55	14.0
PERA-Correctional	38.7	55	16.3
MSRS-General	46.2	65	18.8
PERA-General	46.0	65	19.0
TRA	43.3	65	21.7
MERF	56.5	60	3.5
DTRFA	46.3	65	18.7
SPTRFA	44.6	65	20.4
Judges	56.1	65	18.9

The level percentage of covered pay amortization procedure provides potential contribution rate stability over time when compared to the level dollar amortization period over time, but has the effect of deferring much of the actual payments to reduce the principal amount of the unfunded actuarial accrued liability to the second half of the amortization period, with early period payments less than full interest on the unfunded actuarial accrued liability and with the unfunded actuarial accrued liability actually increasing in amount during the early portion of the amortization period.

The following sets forth a comparison of the amortization contribution rate calculated as part of the July 1, 2006, actuarial valuations with the 8.5 percent interest rate actuarial assumption amount:

Plan	Amortization Target Date	Unfunded Actuarial Accrued Liability	$ Calculated Amortization Requirement	8.5% Interest on Unfunded Actuarial Accrued Liability	Difference
MSRS-General	2020	332,404,901	29,774,591	28,254,417	1,520,174
MSRS-Correctional	2023	112,123,450	8,853,308	9,530,493	(677,185)
Judges	2020	50,450,784	4,620,923	4,288,317	332,606
State Patrol	2036	22,488,729	1,213,074	1,911,542	(698,468)
PERA-General	2031	4,242,549,610	231,431,639	360,616,717	(129,185,078)
PERA-Correctional	2023	7,529,873	550,224	640,039	(89,815)
PERA-P&F	2020	242,613,301	20,977,965	20,622,131	355,834
TRA	2036	1,643,499,040	86,764,874	139,697,418	(52,932,544)
DTRFA	2032	51,303,478	3,012,098	4,360,796	(1,348,698)
SPTRFA	2021	419,700,901	36,420,175	35,674,577	745,598
MERF*	2020	127,373,249	14,265,726	7,642,395*	6,623,331

* *Interest only calculated based on 6.00 percent interest actuarial assumption applicable to this plan*

Attachment E

Background Information on the Actuarial Value of Public Pension Plan Assets

Since the actuarial valuation of assets determination procedure was initially codified in 1965, with the initial codification of public pension plan financial and actuarial reporting requirements, Minnesota public pension plans have utilized two different ways to establish the value of assets for determining the existence of and the size of unfunded actuarial accrued liabilities.

From 1965 to 1983, Minnesota Statutes, Sections 356.20 and 356.215, required that pension plan assets at book value be used in making a comparison of plan assets with plan liabilities. Book value is the generally initial purchase price of the investment security or other marketable asset. For bonds (debt instruments), the investment value was at amortized cost. For stocks (equity investments), the investment value was at cost. For equipment, the investment was at cost less any accrued depreciation. For real estate, the statute was unclear.

In 1984, at the initiation of the Department of Finance, among various actuarial assumption and actuarial method changes, the actuarial value of assets determination procedure changed. The method, still current, defines the actuarial value of assets as the cost value of investments plus one-third of the difference between the cost value of investments and the market value of investments. The proposal for the actuarial value of assets determination procedure change was generated external to the Commission, and the rationale for the change is not well reflected in Commission staff files for Laws 1984, Chapter 564. The change, however, clearly was an attempt to capture some of the stock and bond market appreciation that had occurred in the late 1970s and early 1980s and to have the actuarial value of assets more closely reflect market value than the prior book value definition of the actuarial value of assets.

The following compares the pre-1984 asset valuation determination procedure, the post-1984/pre-2000 asset valuation determination procedure and the current asset valuation determination procedure for a representative statewide retirement plan, the Teachers Retirement Association (TRA), and a representative local retirement plan, the St. Paul Teachers Retirement Fund Association (SPTRFA), for the fiscal year ending on June 30, 2006:

Teachers Retirement Association (TRA)

	Pre-1984 Method	Post-1984/Pre-2000 Method	Current Method
Summary	Book or cost value of investment securities.	Cost value of investment securities plus one-third of the difference between the cost value and the market value of the investment securities.	Market Value, adjusted for amortization obligations receivable at the end of each fiscal year, less a percentage of the Unrecognized Asset Return determined at the close of each of the four preceding fiscal years. Unrecognized Asset Return is the difference between actual net return on Market Value of Assets at the asset return expected during that fiscal year (based on the assumed interest rate employed in the July 1 Actuarial Valuation of the fiscal year).
Result	$19,649,139,143	$19,694,665,406	$19,035,611,839
Calculation	Book Value $19,649,139,143	Market Value $19,785,671,584 Book Value <u>$19,649,139,143</u> Difference $136,532,441 Difference $136,532,441 One-Third <u>x .3333</u> Market Adjust. $45,506,263 Book Value $19,649,159,143 Market Adjust <u>$45,506,263</u> Actuar. Value $19,694,665,406	1. Market value of assets available for benefits $19,785,671,584 Original Amount / % Not Recognized 2. Calculation of unrecognized return (a) Year ended 6/30/06 $653,165,303 80% $522,532,242 (b) Year ended 6/30/05 $179,823,045 60% $107,893,827 (c) Year ended 6/30/04 $499,642,191 40% $199,856,876 (d) Year ended 6/30/03 ($401,116,000) 20% <u>($80,223,200)</u> (e) Year ended 6/30/02 $750,059,745 3. Actuarial value of assets: (1) - (2e) ("Current Assets") $19,035,611,839
Funding Impact	Act. Liab. $20,679,110,879 Assets <u>$19,649,139,143</u> UAL $1,029,971,736 Funding Ratio 95.02% Normal Cost $349,678,399 Expenses $12,236,072 Amort. <u>$54,374,990</u> Act. Req. $416,289,461	Act. Liab. $20,679,110,879 Assets <u>$19,694,658,742</u> UAL $984,452,137 Funding Ratio 95.23% Normal Cost $349,678,399 Expenses $12,236,072 Amort. <u>$51,971,886</u> Act. Req. $413,886,357	Act. Liab. $20,679,110,879 Assets <u>$19,035,611,839</u> UAL $1,643,499,040 Funding Ratio 92.05% Normal Cost $349,678,399 Expenses $12,236,072 Amort. <u>$86,764,874</u> Act. Req. $448,679,345

St. Paul Teachers Retirement Fund Association (SPTRFA)

	Pre-1984 Method	Post-1984/Pre-2000 Method	Current Method
Summary	Book or cost value of investment securities.	Cost value of investment securities plus one-third of the difference between the cost value and the market value of the investment securities.	Market Value, adjusted for amortization obligations receivable at the end of each fiscal year, less a percentage of the Unrecognized Asset Return determined at the close of each of the four preceding fiscal years. Unrecognized Asset Return is the difference between actual net return on Market Value of Assets at the asset return expected during that fiscal year (based on the assumed interest rate employed in the July 1 Actuarial Valuation of the fiscal year).
Result	$740,961,588	$829,213,976	$938,919,005
Calculation	Book Value $740,961,588	Market Value $1,005,745,229 Book Value $740,961,588 Difference $264,783,641 Difference $264,783,641 One-Third x .3333 Market Adjust. $88,252,388 Book Value $740,961,588 Market Adjust $88,252,388 Actuar. Value $829,213,976	4. Market value of assets available for benefits $1,005,745,229 Original Amount / % Not Recognized 5. Calculation of unrecognized return (a) Year ended 6/30/06 $36,135,488 80% $28,908,390 (b) Year ended 6/30/05 $26,860,009 60% $16,116,005 (c) Year ended 6/30/04 $82,512,072 40% $33,004,829 (d) Year ended 6/30/03 ($56,015,000) 20% ($11,203,000) (e) Year ended 6/30/02 $66,826,224 6. Actuarial value of assets: (1) - (2e) ("Current Assets") $938,919,005
Funding Impact	Act. Liab. $1,358,619,906 Assets $740,961,588 UAL $617,658,318 Funding Ratio 54.54% Normal Cost $21,575,645 Expenses $608,955 Amort. $53,598,227 Act. Req. $75,782,827	Act. Liab. $1,358,619,916 Assets $829,252,388 UAL $529,367,528 Funding Ratio 61.04% Normal Cost $21,575,645 Expenses $608,955 Amort. $45,936,661 Act. Req. $68,121,261	Act. Liab. $1,358,619,906 Assets $938,919,005 UAL $419,700,901 Funding Ratio 69.11% Normal Cost $21,575,645 Expenses $608,955 Amort. $36,420,175 Act. Req. $58,604,775

Using an actuarial value of assets rather than the market value of assets for a pension plan apparently is not uncommon among public pension plans and complies with generally accepted accounting principles under Government Accounting Standards Board pronouncements. Using a smoothing method that shaves off short-term market volatility is particularly advantageous from a policy perspective if the pension plan funding procedures immediately translate actuarial results into modified employer contribution amounts in the following year, where short-term value changes would produce highly variable contribution levels year to year. In Minnesota, this is a consideration only for Minneapolis Employees Retirement Fund (MERF) and for the five remaining local police and paid firefighter relief associations. The use of a smoothing mechanism may be sensible policy where the smoothing period reflects the actual pattern of market volatility, which tends to be either less than one year or longer than five years based on long-term stock market return data from Ibbotson Associates. Even if the smoothing period matches market cycles, an actuarial value of pension assets definition does nothing more than delay the recognition of actual market changes.

The following compares the actuarial value of assets and the market value of assets for the various statewide and major local retirement plans as of June 30, 2006:

Plan	Actuarial Value of Assets	Market Value of Assets	Actuarial Value as % of Market Value
MSRS-General	$8,486,756,016	$8,767,249,551	96.8%
MSRS-Correctional	535,356,819	549,986,069	97.3
Judges	151,850,386	154,151,618	98.5
State Patrol	618,990,349	633,419,202	97.7
PERA-General	12,495,207,148	12,828,990,072	97.4
PERA-Correctional	125,775,917	131,696,690	95.5
PERA-P&F	5,017,950,719	5,167,417,402	97.1
TRA	19,035,611,839	19,785,671,584	96.2
DTRFA	270,925,689	281,950,173	96.1
SPTRFA	938,919,005	1,005,745,229	93.4
MERF	1,490,280,063	1,494,046,146	99.7
Total	$49,167,623,950	$50,800,323,736	96.8%

The valuation of both pension liabilities and pension assets is problematic because they are estimates of potential real life occurrences in advance of experiencing the occurrences. In valuing pension liabilities, the time separation from the estimation of the magnitude of the liability and the actual discharge of the liability can be considerable and the only "real" or "accurate" determination of a pension plan's ultimate pension liabilities occurs when all of the pension plan's obligations have been paid and the pension plan is terminated. In valuing pension assets, time is not the primary problem, but the primary problem is an assumption that the final market price of an investment sold by someone else on a given date by a market reporting mechanism could also be obtained by the pension plan if the plan sold all of its investments on that same date, even though an increase in the supply of investments for sale by that action should have a dampening effect on the available price. The problem of valuing pension plan assets is compounded by the considerable variability in market values from day to day, which makes the comparison of asset values on a predetermined date with the low variability of pension plan liabilities on a given date less reliable.

Attachment F

Background Information on SPTRFA Post-Retirement Adjustment Mechanism

A. In General. The St. Paul Teachers Retirement Fund Association (SPTRFA) has had two versions of an investment performance post-retirement adjustment mechanism, with the initial mechanism that provided a one-time, non-compounding, non-percentage, "thirteenth check" increase and the subsequent mechanism that provides a permanent, compounding, percentage annuity increase.

B. SPTRFA Thirteenth Check Post-Retirement Adjustment Mechanism. The St. Paul Teachers Retirement Fund Association (SPTRFA) was the initial first class city teacher retirement fund association establishing a thirteenth check post-retirement adjustment mechanism. In 1979 (Laws 1979, Chapter 109), SPTRFA was authorized to amend its bylaws to implement a post-retirement adjustment mechanism. The special law authorizing the mechanism permitted the use of one-half of one percent of the fund's asset value at the end of the prior fiscal year to be paid as an adjustment to eligible annuitants and benefit recipients if the SPTRFA investment income during the preceding fiscal year was in excess of 5.5 percent of the asset value of the plan as of the end of the current fiscal year, required annuitants and survivor benefit recipients be in receipt of the annuity or benefit for at least three years to be eligible for an adjustment, and allocated the increase in proportion to each eligible recipient's credited years of service relative to the total years of service credit of all eligible recipients. The adjustment was payable on April 1, annually. The SPTRFA board of trustees was not given any discretion to downwardly adjust the amount. The special authorization was subject to a December 31, 1982 sunset.

In 1981 (Laws 1981, Chapter 157), the December 31, 1982, sunset date on the adjustment was eliminated and the mechanism became permanent.

In 1985 (Laws 1985, Chapter 259, Section 3), the SPTRFA thirteenth check mechanism was significantly revised, with the payment date of the adjustment set as January 1, annually, the minimum investment performance required for the payment of the adjustment of fund income increased to an amount in excess of six percent of the asset value of the fund at the end of the current fiscal year, and with the allocation of the adjustment charged to be based on units that combined both years of service credit and years of annuity or survivor benefit receipt, with each recipient receiving a proportional amount related to the whole.

In 1990 (Laws 1990, Chapter 570, Article 7, Section 4), approval was granted for SPTRFA to amend its bylaws to allow for the lump sum adjustment to be annuitized based on the age of the annuitant or survivor, the plan's mortality table, and the interest rate assumption governing the Minnesota Post Retirement Investment Fund.

C. Subsequent SPTRFA Post-Retirement Adjustment Mechanism. In 1997 (Laws 1997, Chapter 233, Article 3, Section 7), the prior St. Paul Teachers Retirement Fund Association (SPTRFA) thirteenth check post-retirement adjustment mechanism was eliminated and was replaced by a new post-retirement adjustment mechanism that combined an automatic annual percentage adjustment with an investment performance related adjustment.

The recipients eligible to receive an automatic adjustment or an investment performance related adjustment are those retirement annuity or benefit recipients who had received a retirement annuity or benefit for at least 12 months as of the adjustment date. The automatic adjustment is two percent of the annuity or benefit amount without a specified payment date and the adjustment is payable annually. The investment performance related adjustment is payable if the five-year annualized total time-weighted rate of return of the plan assets exceeds the post-retirement interest actuarial assumption rate. The adjustment is the amount by which the five-year investment performance rate exceeds the post-retirement interest assumption after being downwardly modified by any contribution deficiency disclosed in the most recent actuarial valuation (i.e., (time-weighted total rate of return – 8.5 percent) x (1.00 – (the total actuarial funding requirement – the total required contribution rate)).

When the shift from the thirteenth check to the current two-part adjustment mechanism occurred in 1997, a transitional benefit was payable to 1997 retirees based on the federal Consumer Price Index increase since retirement.

D. Comparison of Adjustments Over Time and Between Plans

For the 28-year period for which data has been assembled (1977-2005), the Fairmont Police Relief Association has provided the largest cumulative post-retirement adjustment and the St. Paul Teachers Retirement Fund Association (SPTRFA) has provided the least cumulative post-retirement adjustment. The following compares the seven post-retirement adjustment mechanisms by the average effective compounded percentage increase that each mechanism provided for the 28-year period, highest to lowest:

Post-Retirement Adjustment Mechanism	Compounded Annual Percentage Increase
Fairmont Police Relief Association	7.6%
Minnesota Post Retirement Investment Fund	5.7%
Minneapolis Firefighters Relief Association	5.4%
Minneapolis Police Relief Association	5.375%
Minneapolis Employees Retirement Fund	5.2%
Consumer Price Index	4.3%
Duluth Teachers Retirement Fund Association	2.9%
St. Paul Teachers Retirement Fund Association	2.26%

The following compares the cumulative effect of the seven post-retirement adjustment mechanisms for a hypothetical individual who retired in 1977 with a monthly benefit of $1,000:

Effective Date	CPI	MPRIF	MERF	DTRFA	SPTRFA	MFRA	MPRA	Fairmont
1977	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
1978	1,067.00	1,040.00	1,040.00	1,000.00	1,000.00	1,123.00	1,122.75	1,133.00
1979	1,163.03	1,040.00	1,040.00	1,000.00	1,006.44	1,207.23	1,197.97	1,327.88
1980	1,317.71	1,040.00	1,040.00	1,000.00	1,013.17	1,300.18	1,299.80	1,596.11
1981	1,482.43	1,073.37	1,073.37	1,000.00	1,020.37	1,405.50	1,406.39	1,754.12
1982	1,614.36	1,153.19	1,153.19	1,000.00	1,028.70	1,491.23	1,478.11	1,843.58
1983	1,675.71	1,232.22	1,258.94	1,000.00	1,035.78	1,555.35	1,566.80	1,893.36
1984	1,739.39	1,324.62	1,277.39	1,000.00	1,044.66	1,628.46	1,627.90	2,105.41
1985	1,807.22	1,416.09	1,414.50	1,028.90	1,052.47	1,708.25	1,693.02	2,176.99
1986	1,875.90	1,527.96	1,537.79	1,063.81	1,062.12	1,768.04	1,752.28	2,224.89
1987	1,896.53	1,677.58	1,654.49	1,096.55	1,072.64	1,852.90	1,838.14	2,293.86
1988	1,979.98	1,812.69	1,809.54	1,129.19	1,088.53	1,927.02	1,911.66	3,133.42
1989	2,067.10	1,938.09	1,916.95	1,129.19	1,104.73	2,002.17	1,993.14	3,243.09
1990	2,162.18	2,016.39	2,049.57	1,163.68	1,122.53	2,064.31	2,065.69	3,340.38
1991	2,294.08	2,119.22	2,153.67	1,197.82	1,141.29	2,136.56	2,156.58	3,433.91
1992	2,365.19	2,210.24	2,153.67	1,231.43	1,163.04	2,224.29	2,237.62	3,519.76
1993	2,433.78	2,310.88	2,282.54	1,259.41	1,183.10	2,387.29	2,408.16	3,829.50
1994	2,499.50	2,449.92	2,369.83	1,288.78	1,204.01	2,501.87	2,459.44	3,923.89
1995	2,566.98	2,547.55	2,444.33	1,312.54	1,223.75	2,564.42	2,557.82	4,129.54
1996	2,631.16	2,710.48	2,532.21	1,373.47	1,243.98	2,872.36	2,790.56	4,294.72
1997	2,717.99	2,928.39	2,632.23	1,450.82	1,261.63	3,151.00	2,968.37	4,646.89
1998	2,764.19	3,223.79	2,807.75	1,542.81	1,349.94	3,299.52	3,103.95	5,041.56
1999	2,808.42	3,540.54	3,044.50	1,651.00	1,447.34	3,488.27	3,307.52	5,328.89
2000	2,884.24	3,935.08	3,355.87	1,800.05	1,581.39	3,690.49	3,555.77	5,825.55
2001	2,982.31	4,310.26	3,708.57	1,984.36	1,702.72	3,884.96	3,775.74	6,222.98
2002	3,030.03	4,503.94	3,906.72	2,088.53	1,765.72	4,105.84	3,926.74	6,429.72
2003	3,102.75	4,537.50	3,935.81	2,130.30	1,801.03	4,270.08	4,078.54	6,961.09
2004	3,161.70	4,632.92	4,018.60	2,172.91	1,837.05	4,209.02	4,177.88	7,536.36
2005	3,269.20	4,748.75	4,146.14	2,216.37	1,873.79	4,461.14	4,344.99	7,631.34

While the cumulative results provide a sense of the overall results for the entire period, reviewed year-to-year, the ability of each post-retirement adjustment mechanism varies, as follows:

Post-Retirement Adjustment Mechanism	Number of Years in Excess of CPI	Number of Years Below CPI	Number of Years Equal to CPI
Minnesota Post Retirement Investment Fund	19	9	0
Minneapolis Employees Retirement Fund	19	9	0
Duluth Teachers Retirement Fund Association	9	19	0
St. Paul Teachers Retirement Fund Association	6	22	0
Minneapolis Firefighters Relief Association	18	10	0
Minneapolis Police Relief Association	18	10	0
Fairmont Police Relief Association	16	11	1

The pattern of when post-retirement adjustments exceeded or understated the Consumer Price Index varies, as follows:

Post-Retirement Adjustment Mechanism	CPI Comparison	Years
Minnesota Post Retirement Investment Fund	Above:	1983-1989, 1992-2002, 2004
	Below:	1978-1982, 1990-1991, 2003, 2005
Minneapolis Employees Retirement Fund	Above:	1983-1990, 1993-2002, 2004
	Below:	1978-1982, 1991-1992, 2003, 2005
Duluth Teachers Retirement Fund Association	Above:	1987, 1996-2002, 2004
	Below:	1978-1986, 1988-1995, 2003, 2005
St. Paul Teachers Retirement Fund Association	Above:	1998-2002, 2004
	Below:	1978-1997, 2003, 2005
Minneapolis Firefighters Relief Association	Above:	1978, 1983-1985, 1987, 1991-1994, 1996-2003, 2005
	Below:	1979-1982, 1986, 1988-1990, 1995, 2004
Minneapolis Police Relief Association	Above:	1982-1985, 1987, 1992-1993, 1995-2005
	Below:	1978-1981, 1986, 1988-1991, 1994
Fairmont Police Relief Association	Above:	1978-1980, 1984-1985, 1987, 1989, 1994, 1996, 1998-2004
	Below:	1981-1983, 1986, 1988, 1990-1993, 1997, 2005
	Even:	1995

E. The Adequacy of the Mechanism

The mechanism used by the St. Paul Teachers Retirement Fund Association (SPTRFA) lacks any mechanism to recognize the impact of inflation on the purchasing power of retirement benefits. The plan utilizes a combination mechanism that provides an automatic percentage increase annually, irrespective of the current rate of inflation, and provides an investment-related adjustment whenever the plan's five-year average time-weighted total rate of investment return exceeds the post-retirement interest rate actuarial assumption. The Commission's Principles of Pension Policy indicates that the goal of post-retirement adjustment mechanisms should be the preservation of the purchasing power of the initial retirement benefit amount in the face of any inflation to the extent of budget feasibility. A flat amount increase with investment-related adjustments based on investment market variability and volatility are not well designed to replace any lost benefit amount purchasing power.

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Page 2, line 8, delete "for" and insert "of employees of Independent School District No. 625, St. Paul, who are"

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Page 2, line 9, delete "the most recent" and delete "as certified by" and insert "2008."

Page 2, delete line 10

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Page 2, line 9, delete "the most recent" and delete "as certified by" and insert "2008, multiplied by 1.035 each year thereafter."

Page 2, delete line 10

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Page 2, line 9, after "certified" insert "once per year"

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Page 2, line 9, after "certified" insert "annually, on or before ....,"

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Page 8, line 8, delete "127A.50, subdivision 5;"

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Page 2, after line 10, insert:

"Sec. 2. Minnesota Statutes 2006, section 127A.50, subdivision 5, is amended to read:

Subd. 5. **Adjustment termination.** (a) The adjustment under subdivision 1, clause (5), terminates on June 30, 2038.

(b) All other adjustments under this section terminate on June 30, 2020."

Page 8, line 8, delete "127A.50, subdivision 5;"

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Page 3, line 19, delete "Beginning in fiscal"

Page 3, line 20, delete "year 2008," and delete "$6,000,000" and insert "$2,967,000"

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Page 2, after line 10, insert:

"Sec. 2. Minnesota Statutes 2006, section 354A.12, subdivision 1, is amended to read:

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

Association and Program	Percentage of Total Salary
Duluth Teachers Retirement Association	
old law and new law coordinated programs	5.5 percent
St. Paul Teachers Retirement Association	
basic program	~~8~~ 9 percent
coordinated program	~~5.5~~ 6.5 percent

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

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Page 2, after line 10, insert:

"Sec. 2. Minnesota Statutes 2006, section 354A.12, subdivision 1, is amended to read:

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

Association and Program	Percentage of Total Salary
Duluth Teachers Retirement Association	
old law and new law coordinated programs	5.5 percent
St. Paul Teachers Retirement Association	
basic program	~~8~~ 10 percent
coordinated program	~~5.5~~ 7.5 percent

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

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Page 2, after line 10, insert:

"Sec. 2. Minnesota Statutes 2006, section 354A.12, subdivision 1, is amended to read:

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

Association and Program	Percentage of Total Salary
Duluth Teachers Retirement Association	
old law and new law coordinated programs	5.5 percent
St. Paul Teachers Retirement Association	
basic program	~~8~~ ... percent
coordinated program	~~5.5~~ ... percent

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

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Pages 3 and 4, delete section 4

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Pages 4 and 5, delete sections 5 and 6

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Page 6, line 8, delete "and the St. Paul Teachers"

Page 6, line 9, delete "Retirement Fund Association,"

Page 7, line 31, delete "the established date for"

Page 7, line 32, delete "full funding is June 30, 2038."

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Page 7, line 32, delete "2038" and insert "2031"

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Page 6, line 8, delete "and the St. Paul Teachers"

Page 6, line 9, delete "Retirement Fund Association,"

Page 6, line 16, after "after" insert "June 1, 2038, for the St. Paul Teachers Retirement Fund Association and" and after "2020" insert ", for all other applicable retirement plans"

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Page 8, line 8, delete "354A.12, subdivision 3d;"

Amend the title accordingly

.... moves to amend H.F. No. 2341; S.F. No. 1892, as follows:

Page 1, line 22, before "Independent" insert "for"

State of Minnesota

HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH SESSION

HOUSE FILE NO. 2341

March 23, 2007
Authored by Thissen, by request
The bill was read for the first time and referred to the Committee on Governmental Operations, Reform, Technology and Elections

A bill for an act

relating to retirement; modifying adjustments by the commissioner of education to aid payments for Special School District No. 625; increasing direct state supplemental contributions to the St. Paul Teachers Retirement Fund Association; removing the sunset and redistributive provisions on direct state supplemental aids to teacher retirement funds; increasing employer contribution rates; repealing language on administrative cost-related member contribution surcharges; eliminating an investment-related postretirement increase for the St. Paul Teachers Retirement Fund Association; providing for a limited cost-of-living increase; establishing a new amortization target date for the St. Paul Teachers Retirement Fund Association; appropriating money; amending Minnesota Statutes 2006, sections 127A.50, subdivision 1; 354A.12, subdivisions 2a, 3a, 3c; 354A.29, subdivisions 3, 4; 356.215, subdivision 11; repealing Minnesota Statutes 2006, sections 127A.50, subdivision 5; 354A.12, subdivision 3d; 354A.29, subdivision 6.

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

Section 1. Minnesota Statutes 2006, section 127A.50, subdivision 1, is amended to read:

Subdivision 1. **Aid adjustment.** Beginning in fiscal year 1998 and each year thereafter, the commissioner of education shall adjust state aid payments to school operating funds for Independent School District No. 625 ~~and~~ by the net amount of clauses (1), (2), and (5), Independent School District No. 709 by the net amount of clauses (1) and (2), for Special School District No. 1 by the net amount of clauses (1), (2), and (4), and for all other districts, including charter schools, but excluding any education organizations that are prohibited from receiving direct state aids under section 123A.26 or 125A.75, subdivision 7, by the net amount of clauses (1), (2), (3), and (4):

(1) a decrease equal to each district's share of the fiscal year 1997 adjustment effected under Minnesota Statutes 1996, section 124.2139;

(2) an increase equal to one percent of the salaries paid to members of the general plan of the Public Employees Retirement Association in fiscal year 1997, multiplied by 0.35 for fiscal year 1998 and 0.70 each year thereafter;

(3) a decrease equal to 2.34 percent of the salaries paid to members of the Teachers Retirement Association in fiscal year 1997; and

(4) an increase equal to 0.5 percent of the salaries paid to members of the Teachers Retirement Association in fiscal year 2007.

(5) an increase equal to 1.0 percent of the covered salaries for members of the St. Paul Teachers Retirement Fund Association in the most recent fiscal year as certified by the executive director of the retirement fund.

Sec. 2. Minnesota Statutes 2006, section 354A.12, subdivision 2a, is amended to read:

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

(1) for any coordinated member of a teachers retirement fund association in a city of the first class, the employing unit shall pay the employer Social Security taxes in accordance with section 355.46, subdivision 3, clause (b);

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

Duluth Teachers Retirement Fund Association	4.50 percent
St. Paul Teachers Retirement Fund Association	~~4.50~~ 5.50 percent

(3) for any basic member of the St. Paul Teachers Retirement Fund Association, the employing unit shall make a regular employer contribution to the respective retirement fund in an amount equal to ~~8.00~~ 9.00 percent of the salary of the basic member;

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

(5) for a coordinated member of a teachers retirement fund association in a city of the first class, the employing unit shall make an additional employer contribution to the respective fund in an amount equal to the applicable percentage of the coordinated member's salary, as provided below:

Duluth Teachers Retirement Fund Association	1.29 percent
St. Paul Teachers Retirement Fund Association	
July 1, 1993 - June 30, 1994	0.50 percent
July 1, 1994 - June 30, 1995	1.50 percent
July 1, 1997, and thereafter	3.84 percent

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

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

Sec. 3. Minnesota Statutes 2006, section 354A.12, subdivision 3a, is amended to read:

Subd. 3a. **Special direct state aid to first class city teachers retirement fund associations.** (a) ~~In fiscal year 1998, the state shall pay $4,827,000 to the St. Paul Teachers Retirement Fund Association, $17,954,000 to the Minneapolis Teachers Retirement Fund Association, and $486,000 to the Duluth Teachers Retirement Fund Association. In each fiscal year after fiscal year 2006, these payments to the first class city~~ Beginning in fiscal year 2008, the state shall pay $6,000,000 to the St. Paul Teachers Retirement Fund ~~associations must be $2,827,000 for St. Paul, $12,954,000~~ Association and $13,300,000 to the Teachers Retirement Association for the former Minneapolis Teachers Retirement Fund Association~~, and $486,000 for Duluth~~.

(b) The direct state aids under this subdivision are payable October 1 annually. The commissioner of finance shall pay the direct state aid. The amount required under this subdivision is appropriated annually from the general fund to the commissioner of finance.

Sec. 4. Minnesota Statutes 2006, section 354A.12, subdivision 3c, is amended to read:

Subd. 3c. **Termination of supplemental contributions and direct matching and state aid.** (a) The supplemental contributions payable to the Minneapolis Teachers Retirement Fund Association by Special School District No. 1 and the city of Minneapolis under section 423A.02, subdivision 3, ~~which must continue to be paid to the Teachers Retirement Association until 2037,~~ or to the St. Paul Teachers Retirement Fund Association by Independent School District No. 625 under section 423A.02, subdivision 3, or the direct state aids under subdivision 3a to the St. Paul Teachers Retirement Fund Association ~~terminate at the end of the fiscal year in which the accrued liability funding~~

~~ratio for that fund, as determined in the most recent actuarial report for that fund by the actuary retained under section 356.214, equals or exceeds the accrued liability funding ratio for the teachers retirement association, as determined in the most recent actuarial report for the Teachers Retirement Association by the actuary retained under section 356.214~~ must continue to be paid to the Teachers Retirement Association and the St. Paul Teachers Retirement Fund Association, respectively, until fiscal year 2037.

(b) If the state direct matching, state supplemental, or state aid is terminated for a ~~first class city~~ teachers retirement fund association under paragraph (a), it may not again be received by that fund.

~~(c) If the St. Paul Teachers Retirement Fund Association is funded at the funding ratio applicable to the Teachers Retirement Association when the provisions of paragraph (b) become effective, then any state aid previously distributed to that association must be immediately transferred to the Teachers Retirement Association.~~

Sec. 5. Minnesota Statutes 2006, section 354A.29, subdivision 3, is amended to read:

Subd. 3. **Postretirement adjustment eligibility.** (a) The postretirement adjustment described in the articles and bylaws of the St. Paul Teachers Retirement Fund Association must be determined by the executive director and approved by the board annually ~~after June 30~~ using the procedures under this section.

(b) On January 1, each eligible person who has ~~been receiving~~ accrued or received an annuity or benefit under the articles of incorporation, the bylaws, or this chapter for at least ~~12~~ three full calendar months as of the end of the ~~fiscal~~ calendar year is eligible to receive a postretirement adjustment ~~of 2.0 percent~~ that is payable ~~each~~ the following January 1.

Sec. 6. Minnesota Statutes 2006, section 354A.29, subdivision 4, is amended to read:

Subd. 4. **~~Additional investment percentage~~ Cost-of-living adjustment.** (a) ~~An excess investment earnings~~ A percentage adjustment must be computed and paid under this subdivision to ~~those annuitants and eligible benefit recipients who have been receiving an annuity or benefit for at least 12 months as determined each June 30 by the board of trustees~~ eligible persons as defined under subdivision 3. This adjustment is determined by reference to the Consumer Price Index for urban wage earners and clerical workers all items index as reported by the Bureau of Labor Statistics within the United States Department of Labor each year as part of the determination of annual cost-of-living adjustments to recipients of federal old-age, survivors, and disability insurance. For calculations of the cost-of-living adjustment under paragraph (b), the term "average third quarter Consumer Price Index value" means the sum of the monthly index values as initially reported by the Bureau of Labor Statistics for the months of July, August, and September, divided by 3.

~~(b) The board shall also determine the five-year annualized rate of return attributable to the assets of the St. Paul Teachers Retirement Fund Association under the formula specified in section 11A.04, clause (11), and the amount of the excess five-year annualized rate of return over the preretirement interest assumption specified in section 356.215.~~

~~(c) The excess investment percentage adjustment must be determined by multiplying the quantity one minus the rate of contribution deficiency, as specified in the most recent actuarial report of the actuary retained under sections 356.214 and 356.215, by the rate of return excess as determined in paragraph (b).~~

~~(d) The excess investment percentage adjustment is payable to all annuitants and benefit recipients on the following January 1.~~

(b) Before January 1 of each year, the executive director must calculate the amount of the cost-of-living adjustment by dividing the most recent average third quarter index value by the same average third quarter index value from the previous year, subtract one from the resulting quotient, and express the result as a percentage amount, which must be rounded to the nearest one-tenth of one percent. The final amount may not be negative and may not exceed 5.0 percent.

(c) The amount calculated under paragraph (b) is the full cost-of-living adjustment to be applied as a permanent increase to the regular payment of each eligible member under subdivision 3 on January 1 of the next calendar year. For any eligible member whose effective date of benefit commencement occurred during the calendar year before the cost-of-living adjustment is applied, the full increase amount must be prorated on the basis of whole calendar quarters in benefit payment status in the calendar year prior to the January 1 on which the cost-of-living adjustment is applied, rounded to the nearest three-tenths of one percent.

Sec. 7. Minnesota Statutes 2006, section 356.215, subdivision 11, is amended to read:

Subd. 11. **Amortization contributions.** (a) In addition to the exhibit indicating the level normal cost, the actuarial valuation must contain an exhibit indicating the additional annual contribution sufficient to amortize the unfunded actuarial accrued liability. For funds governed by chapters 3A, 352, 352B, 352C, 353, 354, 354A, and 490, the additional contribution must be calculated on a level percentage of covered payroll basis by the established date for full funding in effect when the valuation is prepared. For funds governed by chapter 3A, sections 352.90 through 352.951, chapters 352B, 352C, sections 353.63 through 353.68, and chapters 353C, 354A, and 490, the level percent additional contribution must be calculated assuming annual payroll growth of 6.5 percent. For funds governed by sections 352.01 through 352.86 and chapter 354, the level percent additional contribution must be calculated assuming an annual payroll growth of five percent. For the fund governed by sections 353.01 through 353.46, the level percent additional contribution must be calculated assuming an annual payroll growth of six percent. For all other funds, the additional annual contribution must be calculated on a level annual dollar amount basis.

(b) For any fund other than the Minneapolis Employees Retirement Fund ~~and~~, the Public Employees Retirement Association general plan, and the St. Paul Teachers Retirement Fund Association, if there has not been a change in the actuarial assumptions used for calculating the actuarial accrued liability of the fund, a change in the benefit plan governing annuities and benefits payable from the fund, a change in the actuarial cost method used in calculating the actuarial accrued liability of all or a portion of the fund, or a combination of the three, which change or changes by itself or by themselves without inclusion of any other items of increase or decrease produce a net increase in the unfunded actuarial accrued liability of the fund, the established date for full funding is the first actuarial valuation date occurring after June 1, 2020.

(c) For any fund or plan other than the Minneapolis Employees Retirement Fund and the Public Employees Retirement Association general plan, if there has been a change in any or all of the actuarial assumptions used for calculating the actuarial accrued liability of the fund, a change in the benefit plan governing annuities and benefits payable from the fund, a change in the actuarial cost method used in calculating the actuarial accrued liability of all or a portion of the fund, or a combination of the three, and the change or changes, by itself or by themselves and without inclusion of any other items of increase or decrease, produce a net increase in the unfunded actuarial accrued liability in the fund, the established date for full funding must be determined using the following procedure:

(i) the unfunded actuarial accrued liability of the fund must be determined in accordance with the plan provisions governing annuities and retirement benefits and the actuarial assumptions in effect before an applicable change;

(ii) the level annual dollar contribution or level percentage, whichever is applicable, needed to amortize the unfunded actuarial accrued liability amount determined under item (i) by the established date for full funding in effect before the change must be calculated using the interest assumption specified in subdivision 8 in effect before the change;

(iii) the unfunded actuarial accrued liability of the fund must be determined in accordance with any new plan provisions governing annuities and benefits payable from the fund and any new actuarial assumptions and the remaining plan provisions governing annuities and benefits payable from the fund and actuarial assumptions in effect before the change;

(iv) the level annual dollar contribution or level percentage, whichever is applicable, needed to amortize the difference between the unfunded actuarial accrued liability amount calculated under item (i) and the unfunded actuarial accrued liability amount calculated under item (iii) over a period of 30 years from the end of the plan year in which the applicable change is effective must be calculated using the applicable interest assumption specified in subdivision 8 in effect after any applicable change;

(v) the level annual dollar or level percentage amortization contribution under item (iv) must be added to the level annual dollar amortization contribution or level percentage calculated under item (ii);

(vi) the period in which the unfunded actuarial accrued liability amount determined in item (iii) is amortized by the total level annual dollar or level percentage amortization contribution computed under item (v) must be calculated using the interest assumption specified in subdivision 8 in effect after any applicable change, rounded to the nearest integral number of years, but not to exceed 30 years from the end of the plan year in which the determination of the established date for full funding using the procedure set forth in this clause is made and not to be less than the period of years beginning in the plan year in which the determination of the established date for full funding using the procedure set forth in this clause is made and ending by the date for full funding in effect before the change; and

(vii) the period determined under item (vi) must be added to the date as of which the actuarial valuation was prepared and the date obtained is the new established date for full funding.

(d) For the Minneapolis Employees Retirement Fund, the established date for full funding is June 30, 2020.

(e) For the general employees retirement plan of the Public Employees Retirement Association, the established date for full funding is June 30, 2031.

(f) For the Teachers Retirement Association, the established date for full funding is June 30, 2037.

(g) For the St. Paul Teachers Retirement Fund Association, the established date for full funding is June 30, 2038. In addition to other requirements of this chapter, the annual actuarial valuation shall contain an exhibit indicating the funded ratio and the deficiency or sufficiency in annual contributions when comparing liabilities to the market value of the assets of the fund as of the close of the most recent fiscal year.

(h) For the retirement plans for which the annual actuarial valuation indicates an excess of valuation assets over the actuarial accrued liability, the valuation assets in excess of the actuarial accrued liability must be recognized as a reduction in the current contribution requirements by an amount equal to the amortization of the excess expressed as a level percentage of pay over a 30-year period beginning anew with each annual actuarial valuation of the plan.

Sec. 8. **REPEALER.**

Minnesota Statutes 2006, sections 127A.50, subdivision 5; 354A.12, subdivision 3d; and 354A.29, subdivision 6, are repealed.