



TO: Members of the Legislative Commission on Pensions and Retirement
 FROM: Lawrence A. Martin, Executive Director
 RE: H.F. xxxx; S.F. 430 (Betzold) *JAM*
 DATE: March 1, 2007

Summary of H.F. xxxx; S.F. 430 (Betzold)

H.F. xxxx; S.F. 430 (Betzold) amends various provisions in 2006 legislation, chiefly the 2006 omnibus retirement bills, to correct errors or omitted language that were identified by the Commission staff in preparing the summary of the 2006 pension legislation or by the Office of the Revisor of Statutes.

Section-by-Section Summary of H.F. xxxx; S.F. 430 (Betzold)

Sec.	Pg.Ln – Pg.Ln	Retirement Plan	Stat. Provision	Summary
1	1.1 – 1.18	Legislators Plan	3A.05	Corrects retroactive payment date for survivor benefit of later of the date of the benefit accrual or one year prior to the application filing so that benefit payment cannot predate the qualifying death.
2	1.19 – 4.3	TRA	354.44, Subd. 6	Completes the verb for the post-July 1, 2006, benefit accrual rate provision with the addition of the word “entitled” after “is.”
3	4.4 – 4.24	First Class City Teachers	354A.12, Subd. 3c	Clarifies the application of the supplemental local contribution termination provision by separating the prior compound sentence into two sentences, one for Special School District No. 1, Minneapolis, and one for Independent School District No. 625, St. Paul.
4	4.25 – 6.24	SPTRFA	354A.12, Subd. 3d	Corrects the baseline administrative experience amount reference for a supplemental administrative expense assessment by reinstating the word “plus” that had been inadvertently stricken in 2006.
5	6.25 – 8.3	Small Volunteer Fire Plans	356A.06, Subd. 6	Corrects a cross-reference to the 2006 enactment of the 2002 Uniform Securities Act, replacing a reference in the investment authority provision to a non-existent section in the uniform act with what appears to be the correct reference.
6	8.4 – 8.31	MSRS-Correctional	Laws 2006, Ch. 271, Art. 2, Sec. 12, Subd. 1	Replaces a reference to “section 1” with “this subdivision,” correcting a provision that was not correctly adapted when a separate bill was folded into the omnibus retirement bill.
7	8.32 – 9.8	MSRS-Correctional	Laws 2006, Ch. 271, Art. 2, Sec. 13, Subd. 3	Corrects an incorrect “2005” date to “2007” for the due date provision for a potential service credit transfer for a Department of Corrections employee who may be authorized to transfer coverage for a period of prior service.
8	9.9 – 9.18	PERA-P&F	Laws 2006, Ch. 271, Art. 14, Sec. 2, Subd. 3	Replaces language relating to a Faribault firefighter service credit purchase authorized in 2006 that was in the original bill but was omitted when the provision was incorporated into the 2006 omnibus retirement bill.
9	9.20 – 9.25	--	Effective Date	Generally effective retroactively to the appropriate date based on the passage of the 2006 omnibus retirement bill.

Discussion and Analysis

H.F. xxxx; S.F. 430 (Betzold) attempts to correct various errors and omissions identified in 2006 legislation related to pensions and retirement.

Because the proposed legislation is intended to correct technical, typographical, or engrossing errors or problems, the proposed legislation raises a single issue for consideration by the Commission, which is the accuracy of the proposed corrections. The Commission staff has circulated the draft proposed legislation among the three major pension system administrators for their reaction in November 2006 or December 2006. The system administrators should be afforded an opportunity to identify any problems with the proposed legislation or to suggest any improvements in the intended corrections.



Senator Betzold introduced—

S.F. No. 430: Referred to the Committee on State and Local Government Operations and Oversight.

1.1 A bill for an act
 1.2 relating to retirement; correcting errors and omissions in 2006 omnibus
 1.3 retirement and other legislation; amending Minnesota Statutes 2006, sections
 1.4 3A.05; 354.44, subdivision 6; 354A.12, subdivisions 3c, 3d; 356A.06,
 1.5 subdivision 6; Laws 2006, chapter 271, article 2, sections 12, subdivision 1; 13,
 1.6 subdivision 3; article 14, section 2, subdivision 3.

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

1.8 Section 1. Minnesota Statutes 2006, section 3A.05, is amended to read:

1.9 **3A.05 APPLICATION FOR SURVIVOR BENEFIT.**

1.10 (a) Applications for survivor benefits under section 3A.04 must be filed with the
 1.11 director by the surviving spouse and dependent child or children entitled to benefits under
 1.12 section 3A.04, or by the guardian of the estate, if there is one, of the dependent child or
 1.13 children.

1.14 (b) Survivor benefits accrue as of the first day of the month following the death of
 1.15 the member of the legislature or former legislator and payments commence as of the first
 1.16 of the month next following the filing of the application, and are retroactive to the date the
 1.17 benefit accrues or the first of the month occurring 12 months before the month in which
 1.18 the application is filed with the director, whichever is ~~earlier~~ later.

1.19 Sec. 2. Minnesota Statutes 2006, section 354.44, subdivision 6, is amended to read:

1.20 Subd. 6. **Computation of formula program retirement annuity.** (a) The formula
 1.21 retirement annuity must be computed in accordance with the applicable provisions of the
 1.22 formulas stated in paragraph (b) or (d) on the basis of each member's average salary under
 1.23 section 354.05, subdivision 13a, for the period of the member's formula service credit.

2.1 (b) This paragraph, in conjunction with paragraph (c), applies to a person who first
 2.2 became a member of the association or a member of a pension fund listed in section
 2.3 356.30, subdivision 3, before July 1, 1989, unless paragraph (d), in conjunction with
 2.4 paragraph (e), produces a higher annuity amount, in which case paragraph (d) applies. The
 2.5 average salary as defined in section 354.05, subdivision 13a, multiplied by the following
 2.6 percentages per year of formula service credit shall determine the amount of the annuity to
 2.7 which the member qualifying therefor is entitled for service rendered before July 1, 2006:

2.8		Coordinated Member	Basic Member
2.9	Each year of service	the percent specified	the percent
2.10	during first ten	in section 356.315,	specified in
2.11		subdivision 1, per year	section 356.315,
2.12			subdivision 3, per
2.13			year
2.14	Each year of service	the percent specified	the percent
2.15	thereafter	in section 356.315,	specified in
2.16		subdivision 2, per year	section 356.315,
2.17			subdivision 4, per
2.18			year

2.19 For service rendered on or after July 1, 2006, the average salary as defined in section
 2.20 354.05, subdivision 13a, multiplied by the following percentages per year of service credit,
 2.21 determines the amount the annuity to which the member qualifying therefor is entitled:

2.22		Coordinated Member	Basic Member
2.23	Each year of service	the percent specified	the percent
2.24	during first ten	in section 356.315,	specified in
2.25		subdivision 1a, per year	section 356.315,
2.26			subdivision 3, per
2.27			year
2.28	Each year of service after	the percent specified	the percent
2.29	ten years of service	in section 356.315,	specified in
2.30		subdivision 2b, per year	section 356.315,
2.31			subdivision 4, per
2.32			year

2.33 (c)(i) This paragraph applies only to a person who first became a member of the
 2.34 association or a member of a pension fund listed in section 356.30, subdivision 3, before
 2.35 July 1, 1989, and whose annuity is higher when calculated under paragraph (b), in
 2.36 conjunction with this paragraph than when calculated under paragraph (d), in conjunction
 2.37 with paragraph (e).

2.38 (ii) Where any member retires prior to normal retirement age under a formula
 2.39 annuity, the member shall be paid a retirement annuity in an amount equal to the normal
 2.40 annuity provided in paragraph (b) reduced by one-quarter of one percent for each month
 2.41 that the member is under normal retirement age at the time of retirement except that for

3.1 any member who has 30 or more years of allowable service credit, the reduction shall be
3.2 applied only for each month that the member is under age 62.

3.3 (iii) Any member whose attained age plus credited allowable service totals 90 years
3.4 is entitled, upon application, to a retirement annuity in an amount equal to the normal
3.5 annuity provided in paragraph (b), without any reduction by reason of early retirement.

3.6 (d) This paragraph applies to a member who has become at least 55 years old and
3.7 first became a member of the association after June 30, 1989, and to any other member
3.8 who has become at least 55 years old and whose annuity amount when calculated under
3.9 this paragraph and in conjunction with paragraph (e), is higher than it is when calculated
3.10 under paragraph (b), in conjunction with paragraph (c). For a basic member, the average
3.11 salary, as defined in section 354.05, subdivision 13a, multiplied by the percent specified
3.12 by section 356.315, subdivision 4, for each year of service for a basic member shall
3.13 determine the amount of the retirement annuity to which the basic member is entitled.
3.14 The annuity of a basic member who was a member of the former Minneapolis Teachers
3.15 Retirement Fund Association as of June 30, 2006, must be determined according to the
3.16 annuity formula under the articles of incorporation of the former Minneapolis Teachers
3.17 Retirement Fund Association in effect as of that date. For a coordinated member, the
3.18 average salary, as defined in section 354.05, subdivision 13a, multiplied by the percent
3.19 specified in section 356.315, subdivision 2, for each year of service rendered before July
3.20 1, 2006, and by the percent specified in section 356.315, subdivision 2b, for each year of
3.21 service rendered on or after July 1, 2006, determines the amount of the retirement annuity
3.22 to which the coordinated member is entitled.

3.23 (e) This paragraph applies to a person who has become at least 55 years old and first
3.24 becomes a member of the association after June 30, 1989, and to any other member who
3.25 has become at least 55 years old and whose annuity is higher when calculated under
3.26 paragraph (d) in conjunction with this paragraph than when calculated under paragraph
3.27 (b), in conjunction with paragraph (c). An employee who retires under the formula annuity
3.28 before the normal retirement age shall be paid the normal annuity provided in paragraph
3.29 (d) reduced so that the reduced annuity is the actuarial equivalent of the annuity that would
3.30 be payable to the employee if the employee deferred receipt of the annuity and the annuity
3.31 amount were augmented at an annual rate of three percent compounded annually from the
3.32 day the annuity begins to accrue until the normal retirement age if the employee became
3.33 an employee before July 1, 2006, and at 2.5 percent compounded annually if the employee
3.34 becomes an employee after June 30, 2006.

3.35 (f) No retirement annuity is payable to a former employee with a salary that exceeds
3.36 95 percent of the governor's salary unless and until the salary figures used in computing

4.1 the highest five successive years average salary under paragraph (a) have been audited by
4.2 the Teachers Retirement Association and determined by the executive director to comply
4.3 with the requirements and limitations of section 354.05, subdivisions 35 and 35a.

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

4.5 Subd. 3c. **Termination of supplemental contributions and direct matching**
4.6 **and state aid.** (a) The supplemental contributions payable to the Minneapolis Teachers
4.7 Retirement Fund Association by Special School District No. 1 and the city of Minneapolis
4.8 under section 423A.02, subdivision 3, ~~which~~ must continue to be paid to the Teachers
4.9 Retirement Association until 2037, ~~or~~ The supplemental contributions payable to the St.
4.10 Paul Teachers Retirement Fund Association by Independent School District No. 625 under
4.11 section 423A.02, subdivision 3, or the direct state aids under subdivision 3a to the St. Paul
4.12 Teachers Retirement Fund Association terminate at the end of the fiscal year in which the
4.13 accrued liability funding ratio for that fund, as determined in the most recent actuarial
4.14 report for that fund by the actuary retained under section 356.214, equals or exceeds the
4.15 accrued liability funding ratio for the teachers retirement association, as determined in
4.16 the most recent actuarial report for the Teachers Retirement Association by the actuary
4.17 retained under section 356.214.

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

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

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

4.26 Subd. 3d. **Supplemental administrative expense assessment.** (a) The active and
4.27 retired membership of the St. Paul Teachers Retirement Fund Association is responsible
4.28 for defraying supplemental administrative expenses other than investment expenses of the
4.29 respective teacher retirement fund association.

4.30 (b) Investment expenses of the teachers retirement fund association are those
4.31 expenses incurred by or on behalf of the retirement fund in connection with the investment
4.32 of the assets of the retirement fund other than investment security transaction costs. Other
4.33 administrative expenses are all expenses incurred by or on behalf of the retirement fund
4.34 for all other retirement fund functions other than the investment of retirement fund assets.

5.1 Investment and other administrative expenses must be accounted for using generally
5.2 accepted accounting principles and in a manner consistent with the comprehensive annual
5.3 financial report of the teachers retirement fund association for the immediately previous
5.4 fiscal year under section 356.20.

5.5 (c) Supplemental administrative expenses other than investment expenses of the St.
5.6 Paul Teachers Retirement Fund Association are those expenses for the fiscal year that:

5.7 (1) exceed, for the St. Paul Teachers Retirement Fund Association, \$443,745 plus
5.8 an additional amount derived by applying the percentage increase in the Consumer Price
5.9 Index for Urban Wage Earners and Clerical Workers All Items Index published by the
5.10 Bureau of Labor Statistics of the United States Department of Labor since July 1, 2001,
5.11 to the dollar amount; and

5.12 (2) exceed the amount computed by applying the most recent percentage of
5.13 pay administrative expense amount, other than investment expenses, for the teachers
5.14 retirement association governed by chapter 354 to the covered payroll of the respective
5.15 teachers retirement fund association for the fiscal year.

5.16 (d) The board of trustees of the St. Paul Teachers Retirement Fund Association
5.17 shall allocate the total dollar amount of supplemental administrative expenses other than
5.18 investment expenses determined under paragraph (c), clause (2), among the various active
5.19 and retired membership groups of the teachers retirement fund association and shall assess
5.20 the various membership groups their respective share of the supplemental administrative
5.21 expenses other than investment expenses, in amounts determined by the board of trustees.
5.22 The supplemental administrative expense assessments must be paid by the membership
5.23 group in a manner determined by the board of trustees of the respective teachers retirement
5.24 association. Supplemental administrative expenses payable by the active members of the
5.25 pension plan must be picked up by the employer in accordance with section 356.62.

5.26 (e) With respect to the St. Paul Teachers Retirement Fund Association, the
5.27 supplemental administrative expense assessment must be fully disclosed to the various
5.28 active and retired membership groups of the teachers retirement fund association. The
5.29 chief administrative officer of the St. Paul Teachers Retirement Fund Association shall
5.30 prepare a supplemental administrative expense assessment disclosure notice, which must
5.31 include the following:

5.32 (1) the total amount of administrative expenses of the St. Paul Teachers Retirement
5.33 Fund Association, the amount of the investment expenses of the St. Paul Teachers
5.34 Retirement Fund Association, and the net remaining amount of administrative expenses of
5.35 the St. Paul Teachers Retirement Fund Association;

6.1 (2) the amount of administrative expenses for the St. Paul Teachers Retirement Fund
6.2 Association that would be equivalent to the teachers retirement association noninvestment
6.3 administrative expense level described in paragraph (c);

6.4 (3) the total amount of supplemental administrative expenses required for assessment
6.5 calculated under paragraph (c);

6.6 (4) the portion of the total amount of the supplemental administrative expense
6.7 assessment allocated to each membership group and the rationale for that allocation;

6.8 (5) the manner of collecting the supplemental administrative expense assessment
6.9 from each membership group, the number of assessment payments required during the
6.10 year, and the amount of each payment or the procedure used to determine each payment;
6.11 and

6.12 (6) any other information that the chief administrative officer determines is necessary
6.13 to fairly portray the manner in which the supplemental administrative expense assessment
6.14 was determined and allocated.

6.15 (f) The disclosure notice must be provided annually in the annual report of the
6.16 association.

6.17 (g) The supplemental administrative expense assessments must be deposited in the
6.18 applicable teachers retirement fund upon receipt.

6.19 (h) Any omitted active membership group assessments that remain undeducted
6.20 and unpaid to the teachers retirement fund association for 90 days must be paid by the
6.21 respective school district. The school district may recover any omitted active membership
6.22 group assessment amounts that it has previously paid. The teachers retirement fund
6.23 association shall deduct any omitted retired membership group assessment amounts from
6.24 the benefits next payable after the discovery of the omitted amounts.

6.25 Sec. 5. Minnesota Statutes 2006, section 356A.06, subdivision 6, is amended to read:

6.26 Subd. 6. **Limited list of authorized investment securities.** (a) Except to the
6.27 extent otherwise authorized by law, a covered pension plan may invest its assets only in
6.28 investment securities authorized by this subdivision if the plan does not:

6.29 (1) have assets with a book value in excess of \$1,000,000;

6.30 (2) use the services of an investment advisor registered with the Securities and
6.31 Exchange Commission in accordance with the Investment Advisers Act of 1940, or
6.32 registered as an investment advisor in accordance with sections 80A.58, and ~~80A.59~~
6.33 80A.60, for the investment of at least 60 percent of its assets, calculated on book value;

6.34 (3) use the services of the State Board of Investment for the investment of at least 60
6.35 percent of its assets, calculated on book value; or

7.1 (4) use a combination of the services of an investment advisor meeting the
7.2 requirements of clause (2) and the services of the State Board of Investment for the
7.3 investment of at least 75 percent of its assets, calculated on book value.

7.4 (b) Investment securities authorized for a pension plan covered by this subdivision
7.5 are:

7.6 (1) certificates of deposit issued, to the extent of available insurance or
7.7 collateralization, by a financial institution that is a member of the Federal Deposit
7.8 Insurance Corporation or the Federal Savings and Loan Insurance Corporation, is insured
7.9 by the National Credit Union Administration, or is authorized to do business in this state
7.10 and has deposited with the chief administrative officer of the plan a sufficient amount of
7.11 marketable securities as collateral in accordance with section 118A.03;

7.12 (2) savings accounts, to the extent of available insurance, with a financial institution
7.13 that is a member of the Federal Deposit Insurance Corporation or the Federal Savings
7.14 and Loan Insurance Corporation;

7.15 (3) governmental obligations, including bonds, notes, bills, or other fixed
7.16 obligations, issued by the United States, an agency or instrumentality of the United States,
7.17 an organization established and regulated by an act of Congress or by a state, state agency
7.18 or instrumentality, municipality, or other governmental or political subdivision that:

7.19 (i) for the obligation in question, issues an obligation that equals or exceeds the
7.20 stated investment yield of debt securities not exempt from federal income taxation and of
7.21 comparable quality;

7.22 (ii) for an obligation that is a revenue bond, has been completely self-supporting
7.23 for the last five years; and

7.24 (iii) for an obligation other than a revenue bond, has issued an obligation backed by
7.25 the full faith and credit of the applicable taxing jurisdiction and has not been in default on
7.26 the payment of principal or interest on the obligation in question or any other nonrevenue
7.27 bond obligation during the preceding ten years;

7.28 (4) corporate obligations, including bonds, notes, debentures, or other regularly
7.29 issued and readily marketable evidences of indebtedness issued by a corporation organized
7.30 under the laws of any state that during the preceding five years has had on average
7.31 annual net pretax earnings at least 50 percent greater than the annual interest charges
7.32 and principal payments on the total issued debt of the corporation during that period
7.33 and that, for the obligation in question, has issued an obligation rated in one of the top
7.34 three quality categories by Moody's Investors Service, Incorporated, or Standard and
7.35 Poor's Corporation; and

8.1 (5) shares in an open-end investment company registered under the federal
8.2 Investment Company Act of 1940, if the portfolio investments of the company are limited
8.3 to investments that meet the requirements of clauses (1) to (4).

8.4 Sec. 6. Laws 2006, chapter 271, article 2, section 12, subdivision 1, is amended to read:

8.5 Subdivision 1. **Election of prior state coverage.** (a) An employee in the
8.6 occupational position of laundry coordinator or delivery van driver at the Minnesota
8.7 Correctional Facility-Faribault who has future retirement coverage transferred to the
8.8 correctional state employees retirement plan under section 5 is entitled to elect to obtain
8.9 prior service credit for eligible correctional state service performed after June 30, 1997,
8.10 and before July 1, 2006, with the Department of Corrections and an employee who had
8.11 future retirement coverage transferred to the correctional state employees retirement
8.12 plan under Laws 2004, chapter 267, article 1, section 1, is entitled to elect to obtain
8.13 prior service credit for eligible correctional state service performed at the Minnesota
8.14 Correctional Facility-Rush City before August 1, 2004. All prior service credit in either
8.15 instance must be purchased.

8.16 (b) Eligible correctional state service is either a prior period of continuous service
8.17 after June 30, 1997, at the Minnesota Correctional Facility-Faribault, or a prior period
8.18 of continuous service at the Minnesota Correctional Facility-Rush City before August 1,
8.19 2004, whichever applies, performed as an employee of the Department of Corrections that
8.20 would have been eligible for the correctional state employees retirement plan coverage
8.21 under section 1, if that prior service had been performed after August 1, 2004, or June 30,
8.22 2006, rather than before August 1, 2004, or July 1, 2006, whichever applies. Service is
8.23 continuous if there has been no period of discontinuation of eligible state service for a
8.24 period greater than 30 calendar days.

8.25 (c) The commissioner of corrections shall certify eligible correctional state service
8.26 to the commissioner of employee relations and to the executive director of the Minnesota
8.27 State Retirement System.

8.28 (d) A correctional employee covered under ~~section 1~~ this subdivision is entitled to
8.29 purchase the past service if the department certifies that the employee met the eligibility
8.30 requirements for coverage. The employee must make additional employee contributions.
8.31 Payment for past service must be completed by June 30, 2007.

8.32 Sec. 7. Laws 2006, chapter 271, article 2, section 13, subdivision 3, is amended to read:

8.33 Subd. 3. **Employee equivalent contribution.** To receive the transfer of service
8.34 credit specified in subdivision 1, the individual must pay to the executive director of the

9.1 Minnesota State Retirement System the difference between the employee contribution rate
9.2 for the general state employees retirement plan and the employee contribution rate for the
9.3 correctional state employees retirement plan in effect during the period eligible for transfer
9.4 applied to the eligible individual's salary at the time each additional contribution would
9.5 have been deducted from pay if coverage had been provided by the correctional state
9.6 employees retirement plan. These amounts shall be paid in a lump sum by September 1,
9.7 ~~2005~~ 2007, or prior to termination of service, whichever is earlier, plus 8.5 percent annual
9.8 compound interest from the applicable payroll deduction date until paid.

9.9 Sec. 8. Laws 2006, chapter 271, article 14, section 2, subdivision 3, is amended to read:

9.10 Subd. 3. **Payment.** If an eligible person meets the requirements to purchase service
9.11 credit under this section, the public employees police and fire fund must be paid the
9.12 amount determined under Minnesota Statutes, section 356.551. Of this amount:

9.13 (1) the eligible person must pay an amount equal to the employee contribution rate
9.14 during the period of service to be purchased, applied to the actual salary in effect during
9.15 that period, plus interest at the rate of 8.5 percent per year compounded annually from
9.16 the date on which the contributions should have been made to the date on which payment
9.17 is made under this section; and

9.18 (2) the city of Faribault must pay the remainder of the amount determined under
9.19 Minnesota Statutes, section 356.551.

9.20 Sec. 9. **EFFECTIVE DATES; RETROACTIVITY.**

9.21 (a) Sections 1, 2, 3, 4, and 7 are effective retroactively from July 1, 2006.

9.22 (b) Section 5 is effective August 1, 2007.

9.23 (c) Section 6 is effective retroactively from June 14, 2006.

9.24 (d) Section 8 is effective retroactively from June 2, 2006.