

**H.F. xxxx****S.F. 2923**
(Betzold)**Executive Summary of Commission Staff Materials**

<i>Affected Pension Plan(s):</i>	Various retirement plans
<i>Relevant Provisions of Law:</i>	Minnesota Statutes, Chapters 3, 352, 352B, 353, 354, 354A, 356, 422A, and 490
<i>General Nature of Proposal:</i>	Return to the Legislative Commission on Pensions and Retirement of the Authority to retain the actuary providing actuarial services
<i>Date of Summary:</i>	March 3, 2008

Specific Proposed Changes

The proposed legislation provides that:

1. The Legislative Commission on Pensions and Retirement will retain the actuary preparing actuarial valuations and experience studies in the future;
2. The actuary retained by the Commission would be funded by retirement plan allocations deposited in a revolving account established for that purpose;
3. Benefit increase cost estimates would be required to be filed with the Commission, and
4. Makes updates in the various actuarial function provisions.

Policy Issues Raised by the Proposed Legislation

1. Appropriateness of the reacquisition of the actuarial services retention authority by the Legislative Commission on Pensions and Retirement.
2. Appropriateness of providing for the option of the retention of a Commission staff actuary.
3. Appropriateness of the establishment of a Commission revolving account.
4. Appropriateness of the allocation of the actuarial services compensation to the retirement plans.
5. Appropriateness of the substitution of the Legislative Commission on Pensions and Retirement for the existing actuarial services contract.
6. Appropriateness of extending the filing requirement for retirement plan benefit increase cost estimates.
7. Appropriateness of the actuarial function update provisions.

Potential Amendments

S2923-1A eliminates the specific option for the Legislative Commission on Pensions and Retirement to retain a staff actuary rather than a consulting actuarial firm.



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Lawrence A. Martin, Executive Director *JAM*
RE: H.F. xxxx; S.F. 2923 (Betzold): Various Retirement Plans; Requiring the Legislative Commission on Pensions and Retirement to Retain the Actuary for Regular Actuarial Work
DATE: March 3, 2008

Summary of H.F. xxxx; S.F. 2923 (Betzold)

H.F. xxxx; S.F. 2923 (Betzold) amends various provisions in Minnesota Statutes, Chapters 3, 352, 352B, 353, 354, 354A, 356, 422A, and 490, the governing laws for the various statewide and major local retirement plans, by making the following changes:

1. Legislative Commission on Pensions and Retirement Retention of Joint Public Pension Plan Actuary. The Legislative Commission on Pensions and Retirement is required to retain the actuary responsible for preparing the regular actuarial valuations and other duties relating to the statewide and major local retirement plans (Article 1, Section 1 and Section 2, Subdivision 1);
2. Creation of Commission Actuarial Revolving Account. A revolving account is created within the Legislative Commission on Pensions and Retirement for the payment of actuarial compensation, with an initial start-up allocation on the statewide and major local retirement plans of 210 percent of their Fiscal Year 2008 allocation and increasing allocations thereafter (Article 1, Section 2, Subdivision 2);
3. Continuation of Current Actuarial Services Contract. Unless the actuarial consulting firm exercises a contractual opt-out provision, the Legislative Commission on Pensions and Retirement substitutes for the joint retirement plans on the current actuarial consulting contract (Article 1, Section 3);
4. Requires Filing of Outside Actuarial Benefit Increase Cost Estimates with the Legislative Commission on Pensions and Retirement. In addition to the current obligation for retirement plans to file any supplemental actuarial valuations and experience studies with the Legislative Commission on Pensions and Retirement, retirement plans would be required to file any benefit increase cost estimates with the Commission (Article 2, Sections 1, 10, 18, 24, 35, and 41); and
5. Updating of Statutory Provisions Applicable to the Jointly Retained and Retirement Plan Actuaries. The various provisions relating to the function of the actuary retained under Minnesota Statutes, Section 356.214, and the retirement plan actuaries are updated, chiefly to specify the function of the actuary as certifying the accuracy of various actuarial tables and options rather than approving them (Article 2).

Background Information

Background information on the development of Minnesota public pension plan actuarial reporting requirements that is relevant to this proposed legislation can be found in Attachment A for H.F. 3041 (Murphy, M.); S.F. 2715 (Betzold).

Discussion and Analysis

H.F. xxxx; S.F. 2923 (Betzold) modifies the manner in which actuarial services are provided to the state, the legislature, the various statewide and major local retirement plans, and local government units by requiring the Legislative Commission on Pensions and Retirement to retain the actuary providing actuarial services, by funding the actuarial services compensation through the creating of a revolving account with annual assessments on the statewide and major local retirement plans, by allowing the Legislative Commission on Pensions and Retirement to substitute for the joint retirement plans on the existing actuarial services contract, by requiring the filing with the Legislative Commission on Pensions and Retirement of benefit increase cost estimates prepared by the retirement plan actuaries, and by updating the various actuarial provisions of Minnesota Statutes.

The proposed legislation raises several pension and related public policy issues which may merit Commission consideration and discussion, as follows:

1. Appropriateness of the Reacquisition of the Actuarial Services Retention Authority by the Legislative Commission on Pensions and Retirement (Article 1). The policy issue is the appropriateness of the Legislative Commission on Pensions and Retirement reacquiring the authority to retain the actuary with the responsibility for preparing the regular actuarial reporting for the various statewide and major local retirement plans and for performing the other related actuarial functions.

From 1984 until 2004, the Legislative Commission on Pensions and Retirement had the responsibility to retain the actuary performing the valuation and other Functions. In 2004, that responsibility was transferred to the statewide and major local retirement plan administrators acting jointly. The 2004 change occurred for Commission budgetary reasons rather than for policy reasons, because the retirement plan assessments for actuarial valuation and related costs were State General Fund reimbursements and successive state budget reductions had left insufficient resources for the Commission to provide the front-end funding of the actuarial services contract. The six statewide and major local retirement plans do not appear to have functioned optimally in their joint retention of The Segal Company, the subsequent actuarial valuation and experience study work has failed to fully conform with the requirements of Minnesota Statutes, Section 356.215, and the Commission's Standards for Actuarial Work, and some legislators reportedly concerned about the adequacy of the current actuarial services arrangement. Returning the responsibility to retain the actuary would potentially resolve some of all of those concerns, based on the experience of the Commission 1984-2004, if the budgetary issues are resolved.

The principal adverse consideration from the 1984-2004 Commission experience is that the Commission is not optimally situated to conduct the contract bidding process, especially when third-party reliance and third party liability limit reservations or exceptions are demanded by potential bidders and when the bidding process must be conducted during the course of a busy legislative session.

2. Appropriateness of Providing for the Option of the Retention of a Commission Staff Actuary (Article 1, Sections 1 and 2). The policy issue is the appropriateness of expanding the authorization in Minnesota Statutes, Section 356.214, for the Commission to either retain an actuary or to contract with a consulting actuarial firm to provide the various actuarial services. Although the Commission reported considered the retention of a Commission staff actuary during the 1984 Session, Minnesota Statutes 1984, Section 3.85, Subdivision 11, required the contracting with a consulting actuarial firm for the provision of actuarial services and that requirement continued through 2004, when the contracting responsibility was shifted from the Commission to the retirement plan administrators acting jointly. Other states, notably New York and the state of Washington, have utilized staff actuaries for the preparation of annual actuarial valuation work. The provision would give the Commission the option to utilize the services of an actuary on a full-time basis rather than contracting periodically with a consultant, which is an option that government generally accords itself with other professionals, such as lawyers, architects, and engineers.

If the Commission would rather continue the practice of only retaining actuarial consulting firms. Amendment S2923-1A would eliminate the option for retaining a staff actuary.

3. Appropriateness of the Establishment of a Commission Revolving Account (Article 1, Section 2). The policy issue is the appropriateness of establishing a revolving account within the Legislative Commission on Pensions and Retirement for the payment of actuarial compensation. The Legislature has been reluctant to establish revolving accounts, which dedicate a funding source and remove a disbursement process from regular legislative oversight and control. The issue should be of concern to the Commission, but a revolving account is the cleanest means to insure continuing actuarial services despite the potential for variable State General Fund resources, and the policy issue of its appropriateness is best resolved by the House State Government Finance Division and the Senate State Government Budget Division. There is some precedent for a revolving account within the legislative branch, where the Revisor of Statutes has used that mechanism for the publication of state statute books over time.
4. Appropriateness of the Allocation of the Actuarial Services Compensation to the Retirement Plans (Article 1, Section 2). The policy issue is the appropriateness of the allocation of the cost of the actuarial services compensation between the statewide and major local retirement plans. The proposed legislation provides for an initial allocation of 210 percent of the cost of the jointly retained

actuary preparing the actuarial work for the retirement plan for the preceding year and provides for subsequent allocations of 110 percent of the preceding year's cost. The allocation is front-loaded to provide a sufficient initial carry-forward balance in the revolving account and has a significant built-in allocation escalator to insure some residual balance carried forward to fund actuarial services compensation in years with significant demand. The overall budget for actuarial services compensation would be set either by the periodic contract for the actuarial firm or by the compensation contract and expenses of a staff actuary.

5. Appropriateness of the Substitution of the Legislative Commission on Pensions and Retirement for the Existing Actuarial Services Contract (Article 1, Section 3). The policy issue is the appropriateness of making the Legislative Commission on Pensions and Retirement the successor to a contract for actuarial services that has been negotiated outside the legislative branch and that maintain provisions not wholly consistent with legislative branch views and preferences. While the Commission was provided with a copy of the 2004 actuarial services contract, the contract currently may be in the process of being rebid or renegotiated by the retirement plans and may be less acceptable as a consequence.
6. Appropriateness of Extending the Filing Requirement for Retirement Plan Benefit Increase Cost Estimates (Article 2, Sections 1, 10, 18, 24, 35, and 41). The policy issue is the appropriateness of requiring the various retirement plans to file with the Legislative Commission on Pensions and Retirement any benefit increase cost estimates that are prepared by their separately retained consulting actuaries. Currently, the retirement plans have the requirement that they file supplemental actuarial valuations and experience studies prepared by their retained actuaries, although few of the retirement plans have complied with that requirement, either ignoring it or having their consulting actuaries only prepare some document with actuarial calculations and results that is not labeled a "valuation report" or an "experience report." Extending the requirement to include benefit increase estimates will not insure any greater compliance than the current requirement, but would indicate a Commission and legislative insistence on pension policy-making with full and complete disclosure of relevant information.
7. Appropriateness of the Actuarial Function Update Provisions (Article 2). The policy issue is the appropriateness of the various updates in the statutory provisions relating to the function of the actuary preparing the regular actuarial work or the function of the actuary preparing supplemental actuarial work. The updates are principally substituting "certification of accuracy" for current "approval" or "recommendation" references. The changes address delegation of function and authority issues, where delegations to an unelected non-governmental individual or entity should be narrow and carefully drawn and where delegations should either have expressed standards for implementation or have implied clearly understood implementation standards. Actuaries under contract are well within their function to determine whether optional annuity forms accurately translate the applicable approved mortality and interest actuarial assumptions, but go beyond their appropriate function if they are called upon or allowed to substitute their policy or other judgment with respect to various benefit practices. The Commission may wish to take testimony from interested parties who may have identified unintended impacts of the proposed updates or who quarrel with the view that delegations must be limited and must contain appropriate standards.

1.1 moves to amend H.F. No.; S.F. No. 2923, as follows:

1.2 Page 1, line 29, delete "an actuary" and insert "a consulting actuarial firm"

1.3 Page 2, line 9, delete "retain an"

1.4 Page 2, line 10, delete "actuary or shall"

1.5 Page 2, line 12, delete "retained actuary or the"

1.6 Page 2, line 16, delete "provided by the retained actuary or"

1.7 Page 3, lines 9 and 22, delete "retained actuary or"

1.8 Page 4, line 5, delete "If an actuarial firm is retained, "

Senator Betzold introduced—

S.F. No. 2923: Referred to the Committee on State and Local Government Operations and Oversight.

A bill for an act

relating to retirement; providing for actuarial services to the legislature and the state; mandating the retention of the consulting actuary for various retirement-related reports by the Legislative Commission on Pensions and Retirement; allocating the costs of actuarial services among retirement plans; creating a revolving fund for actuarial services; appropriating money; making various conforming changes; amending Minnesota Statutes 2006, sections 3.85, by adding a subdivision; 352.03, subdivision 6; 352.116, subdivision 4; 352.119, subdivision 2; 352.72, subdivision 2; 352.931, subdivision 2; 352B.08, subdivision 3; 352B.26, subdivision 3; 352B.30, subdivision 2; 353.01, subdivision 14; 353.271, subdivision 2; 353.29, subdivision 6; 353.30, subdivisions 3, 5; 353.71, subdivision 2; 353.88; 353A.08, subdivision 2; 354.06, subdivision 2a; 354.07, subdivision 1; 354.45, subdivision 1; 354.55, subdivision 11; 354A.011, subdivision 3a; 354A.021, subdivision 7; 354A.31, subdivision 7; 354A.32, subdivision 1; 354A.33; 354A.37, subdivision 2; 356.20, subdivisions 3, 4; 356.214; 356.215, subdivisions 1, 2, 2a, 17, 18; 356.551, subdivision 2; 422A.01, subdivision 7; 422A.04, subdivisions 2, 3; 422A.06, subdivision 2; 422A.101, subdivisions 1, 1a, 2, 2a; 422A.15, subdivisions 2, 3; 422A.16, subdivision 2; 422A.17; 422A.23, subdivision 12; 422A.231; 490.121, subdivision 2a; 490.124, subdivision 11; Minnesota Statutes 2007 Supplement, sections 353.03, subdivision 3a; 354.35, subdivision 2; 354A.12, subdivision 3c; 422A.06, subdivision 8; 422A.101, subdivision 3.

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

ARTICLE 1

ACTUARY RETAINED BY THE LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

Section 1. Minnesota Statutes 2006, section 3.85, is amended by adding a subdivision to read:

Subd. 13. Retention of actuary. The commission shall retain an actuary as provided under section 356.214.

2.1 Sec. 2. Minnesota Statutes 2006, section 356.214, is amended to read:

2.2 **356.214 ACTUARIAL VALUATION PREPARATION; ~~JOINT~~ RETENTION**
2.3 **OF CONSULTING ACTUARY.**

2.4 Subdivision 1. **Joint retention.** (a) ~~The chief administrative officers of the~~
2.5 ~~Minnesota State Retirement System, the Public Employees Retirement Association, the~~
2.6 ~~Teachers Retirement Association, the Duluth Teachers Retirement Fund Association, the~~
2.7 ~~Minneapolis Employees Retirement Fund, and the St. Paul Teachers Retirement Fund~~
2.8 ~~Association, jointly~~ Legislative Commission on Pensions and Retirement, on behalf of
2.9 the state, its employees, its taxpayers, and its various public pension plans, shall retain an
2.10 actuary or shall contract with an established actuarial consulting firm to conduct annual
2.11 actuarial valuations and related services for the retirement plans named in paragraph (b).
2.12 The retained actuary or the principal from the actuarial consulting firm on the contract
2.13 must be an approved actuary under section 356.215, subdivision 1, paragraph (c). ~~Prior to~~
2.14 ~~becoming effective, the contract under this section is subject to a review and approval by~~
2.15 ~~the Legislative Commission on Pensions and Retirement.~~

2.16 (b) ~~The contract for~~ actuarial services provided by the retained actuary or provided
2.17 under contract under this section must include the preparation of actuarial valuations and
2.18 related actuarial work for the following retirement plans:

- 2.19 (1) the teachers retirement plan, Teachers Retirement Association;
- 2.20 (2) the general state employees retirement plan, Minnesota State Retirement System;
- 2.21 (3) the correctional employees retirement plan, Minnesota State Retirement System;
- 2.22 (4) the State Patrol retirement plan, Minnesota State Retirement System;
- 2.23 (5) the judges retirement plan, Minnesota State Retirement System;
- 2.24 (6) the Minneapolis employees retirement plan, Minneapolis Employees Retirement
- 2.25 Fund;
- 2.26 (7) the public employees retirement plan, Public Employees Retirement Association;
- 2.27 (8) the public employees police and fire plan, Public Employees Retirement
- 2.28 Association;
- 2.29 (9) the Duluth teachers retirement plan, Duluth Teachers Retirement Fund
- 2.30 Association;
- 2.31 (10) the St. Paul teachers retirement plan, St. Paul Teachers Retirement Fund
- 2.32 Association;
- 2.33 (11) the legislators retirement plan, Minnesota State Retirement System;
- 2.34 (12) the elective state officers retirement plan, Minnesota State Retirement System;
- 2.35 and

3.1 (13) local government correctional service retirement plan, Public Employees
3.2 Retirement Association.

3.3 (c) ~~The contract must require completion of the~~ annual actuarial valuation
3.4 calculations must be completed on a fiscal year basis, with the contents of the actuarial
3.5 valuation calculations as specified in section 356.215, and in conformity with the
3.6 commission's standards for actuarial work adopted by the Legislative Commission on
3.7 Pensions and Retirement.

3.8 ~~The contract must require completion of~~ Annual experience data collection must be
3.9 collected and processing processed by the retained actuary or consulting actuarial firm
3.10 and a quadrennial published experience study for the plans listed in paragraph (b), clauses
3.11 (1), (2), and (7), must be completed as provided for in the standards for actuarial work
3.12 adopted by the commission. The experience data collection, processing, and analysis
3.13 must evaluate the following:

- 3.14 (1) individual salary progression;
3.15 (2) the rate of return on investments based on the current asset value;
3.16 (3) payroll growth;
3.17 (4) mortality;
3.18 (5) retirement age;
3.19 (6) withdrawal; and
3.20 (7) disablement.

3.21 ~~The contract must include provisions for the preparation of cost analyses by the~~
3.22 jointly retained actuary for retained actuary or the consulting actuarial firm shall prepare
3.23 proposed legislation ~~that include,~~ including changes in benefit provisions or funding
3.24 policies prior to their consideration by the Legislative Commission on Pensions and
3.25 Retirement.

3.26 (d) The actuary ~~retained by the joint retirement systems~~ shall annually prepare a
3.27 report to the legislature, including a commentary on the actuarial valuation calculations
3.28 for the plans named in paragraph (b) and summarizing the results of the actuarial valuation
3.29 calculations. The actuary shall include with the report the actuary's recommendations
3.30 to the legislature concerning the appropriateness of the support rates to achieve proper
3.31 funding of the retirement plans by the required funding dates. The actuary shall, as part
3.32 of the quadrennial experience study, include recommendations to the legislature on the
3.33 appropriateness of the actuarial valuation assumptions required for evaluation in the study.

3.34 (e) If the actuarial gain and loss analysis in the actuarial valuation calculations
3.35 indicates a persistent pattern of sizable gains or losses, as directed by the ~~joint retirement~~
3.36 systems executive director of the commission or as requested by the chair of the

