



TO: Members of the Legislative Commission on Pensions and Retirement  
FROM: Lawrence A. Martin, Executive Director *LAM*  
RE: Designated Interim Commission Topic: Local Retirement Plan Consolidation  
Assistance Fund Creation – First Consideration  
DATE: July 2, 2009

### Introduction

As a topic for consideration by the Legislative Commission on Pensions and Retirement during the 2009-2010 interim, at the request of Representative Paul Thissen, Commission Chair Senator Don Betzold has designated a review of the policy considerations of creating a state-funded local retirement plan consolidation assistance fund.

The interim topic is an outgrowth of inconclusive Commission deliberations on S.F. 914 (Betzold); H.F. 1100 (Thissen), proposed legislation to consolidate the Minneapolis Employees Retirement Fund (MERF) into the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General). A major remaining issue from the deliberations over the MERF consolidation bill was to determine the amount of additional funding required to cover the actuarial cost of a potential MERF consolidation and to identify the financial resources to meet that cost.

This is the initial consideration of the topic by the Commission. The Commission staff believes that the topic will require at least three considerations by the Commission. This Commission staff memorandum will provide as background information relevant to the study a history of past retirement plan consolidations in Minnesota.

Subsequent Commission staff memoranda on the topic would be a summary of the various current state aid programs for Minnesota retirement programs, an identification of local Minnesota retirement plans currently with funding problems, and a review of the experiences of other states in establishing and operating relief funds for consolidating local retirement plans or retirement plans in fiscal distress as part of the second consideration and would be a review of options for the creation of the Minnesota local pension plan consolidation fund as part of the third consideration.

### Past Minnesota Public Pension Plan Consolidations

Minnesota has experienced a large number of legislatively authorized or mandated consolidations of statewide or local public pension plans or similar legislative enactments over the past 42 years. The following summarizes those consolidations:

1. Replacement of the 1915 Law Teachers Insurance and Retirement Fund by the Teachers Retirement Association (1931).

- In 1915 (Laws 1915, Chapter 199), the Teachers Insurance and Retirement Fund was established. The retirement plan operated until December 31, 1931, when the assets of the Teachers Insurance and Retirement Fund were transferred to the teachers retirement fund of the Teachers Retirement Association established in 1931 (Laws 1931, Chapter 460) pending the liquidation of that plan.
- The teachers covered by the Teachers Insurance and Retirement Fund on December 31, 1931, who elected not to become members of the Teachers Retirement Association and opted for a refund of prior member contributions between January 1, 1932, until January 1, 1934, were paid a refund. Annuitants of the Teachers Insurance and Retirement Fund as of January 1, 1932, became members of the Teachers Retirement Association and continued to receive annuities subject to the proration in effect on December 31, 1931. The 50 percent proration for 1915 Law annuitants from 1931 was not eliminated until 1955 (Laws 1955, Chapter 549, Section 1). Laws 1915, Chapter 199, Section 12, authorized the board of trustees of the Teachers Insurance and Retirement Fund to “ratably reduce the annuities provided in this act whenever, in the judgment of the board, the condition of the fund shall require such reduction.” The 1955 elimination of proration was prospective, not retroactive.

- No actuarial valuations were ever performed on the 1915 Law Teachers Insurance and Retirement Fund and the earliest valuation of the Teachers Retirement Association was not prepared until 1958, so the extent of the Teachers Insurance and Retirement Fund obligation assumed by the Teachers Retirement Association is unknown.
2. Consolidation of the Attorney General-State Auditor Plans into the Constitutional Officers Retirement Plan (1967).
- In 1953 (Laws 1953, Chapter 455), a retirement plan for the State Attorney General was established. The Attorney General Plan paid a benefit of one-half of the 1949 salary of the attorney general upon reaching the mandatory retirement age of 70 with 25 years of state elective service, with at least 15 years of continuous service as the attorney general, payable semiannually from an open and standing appropriation from the state general fund, and was funded on a current disbursements basis. Joseph Alfred Arner Burnquist was the Minnesota Attorney General in 1953.
  - In 1955 (Laws 1955, Chapter 648), a retirement plan for the State Auditor was established. The State Auditor Plan paid a benefit of one-half of the 1955 salary of the state auditor upon reaching age 65, serving in state elective office for at least 25 years, and having been elected seven consecutive times as state auditor, payable semimonthly from an open and standing appropriation from the state general fund, and was funded on a current disbursements basis. Elective state officers were excluded from coverage by the State Employees Retirement Association, now the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), Minnesota Statutes 1953, Section 352.01, Subdivision 2, Paragraph 3. Stafford King was the Minnesota State Auditor in 1955.
  - Both plans were consolidated into the Constitutional Officers/Elective State Officers Retirement Plan when that plan was enacted in 1967 (Laws 1967, Chapter 700). No actuarial valuations were ever performed for the Attorney General Retirement Plan or the State Auditor Retirement Plan, so the extent of the obligation assumed by the Elective State Officers Retirement Plan in 1967 is unknown. The Elective State Officers Retirement Plan was not covered by regular actuarial valuations until 1985.
3. Consolidation of the Game Wardens Retirement Plan/State Police Retirement Plan into the Highway Patrolmen Retirement Plan/State Patrol Retirement Plan (1969).
- In 1955 (Laws 1955, Chapter 679, Sections 1 to 12), a retirement plan for game wardens was established. The Game Wardens Retirement Association covered employees of the game and fish division of the State Conservation Department with police powers to serve warrants and arrest without a warrant when detecting an actual game or fish law violation. The plan was funded by a six percent member contribution and an employer contribution equal to one percent of all license fees and those contributions were deposited in the Game Wardens Retirement Fund in the state treasury. The Game Wardens Retirement Association paid a retirement annuity of one-half of the highest salary received for a period of five years at age 55 with at least 25 years of service, plus \$3 per month per year in excess of 25 years of service up to 30 years of service. The plan applied to all game wardens employed as such after June 30, 1955. Before 1955, game wardens were covered by the State Employees Retirement Association (now the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General)).
  - In 1961 (Laws 1961, Chapter 736), the Game Wardens Retirement Association was replaced by the State Police Officers Retirement Plan and the plan was expanded beyond game wardens to include the bureau of criminal apprehension officers with the power to arrest by warrant, who were transferred out of the State Employees Retirement Association. The State Police Retirement Plan was funded by a six percent member contribution and by a nine percent employer contribution and these contributions were deposited in a separate retirement fund in the state treasury. The State Police Retirement Plan paid a retirement annuity at or after age 58 with at least ten years of service equal to two percent per year of service rendered before age 60 of average salary of the highest five years before July 1, 1961, and average salary after June 30, 1961, with a reduced benefit payable as early as age 55.
  - The most recent actuarial valuation results preceding the reformulation of the Game Wardens Retirement Association as the State Police Officers Retirement Plan, as of January 1, 1958, indicated the following:

**Game Wardens  
Retirement Association  
1/1/1958**

<u>Membership</u>		
Active Members		144
Retired Members		<u>12</u>
Total Membership		156
<u>Funded Status</u>		
Accrued Liability		\$2,345,662
Assets		<u>\$424,933</u>
Unfunded Accrued Liability		\$1,920,729
Funding Ratio	18.12%	
<u>Financing Requirements</u>		
Covered Payroll		\$686,808
Benefits Payable		\$13,653
Normal Cost	14.60%	\$100,274
UAAL Interest	<u>8.40%</u>	<u>\$57,692</u>
Total Financial Requirements	23.00%	\$157,966
Member Contributions	7.00%	\$48,077
Employer Contributions	<u>6.00%</u>	<u>\$41,208</u>
Total Support	13.00%	\$89,285
Total Financial Requirements	23.00%	\$157,966
Total Support	<u>13.00%</u>	<u>\$89,285</u>
Deficiency/(Sufficiency)	10.00%	\$68,681

- In 1969 (Laws 1969, Chapter 693), the State Police Retirement Plan was consolidated into the Highway Patrolmen's Retirement Plan/ State Patrol Retirement Plan, effective July 2, 1969, with the State Patrol Retirement Plan assuming all of the liabilities and receiving all of the assets of the State Police Retirement Plan. The following sets forth the actuarial valuation results of the State Police Retirement Plan and of the State Patrol Retirement Plan immediately prior to the 1969 consolidation and of the State Patrol Retirement Plan following the consolidation:

	State Police Retirement Plan 6/30/1968		State Patrol Retirement Plan 6/30/1968		State Patrol Retirement Plan 6/30/1969	
<u>Membership</u>						
Active Members	169		397		612	
Deferred Annuitants	--		--		16	
Retired Members	--		--		113	
Disabled Members	--		--		0	
Surviving Spouses	--		--		49	
Surviving Children	--		--		<u>32</u>	
Total Membership	169		397		822	
<u>Funded Status</u>						
Accrued Liability		\$4,050,000		\$8,840,000		\$17,908,000
Assets		<u>\$1,607,000</u>		<u>\$4,920,000</u>		<u>\$7,503,000</u>
Unfunded Accrued Liability		\$2,443,000		\$3,920,000		\$10,405,000
Funding Ratio	39.68%		55.66%		41.90%	
<u>Financing Requirements</u>						
Covered Payroll		\$1,487,000		\$2,380,000		\$5,261,000
Annuity Payable						\$364,000
Normal Cost	11.90%	\$176,953	17.00%	\$404,600	14.35%	\$754,954
Administrative Expenses					0.21%	\$11,048
Amortization	<u>15.97%</u>	<u>\$237,456</u>	<u>8.30%</u>	<u>\$197,540</u>	<u>10.58%</u>	<u>\$556,614</u>
Total Financial Requirements	27.87%	\$414,409	25.30%	\$602,140	25.14%	\$1,322,616
Member Contributions	6.00%	\$89,220	7.00%	\$166,600	7.00%	\$368,270
Employer Contributions	<u>15.50%</u>	<u>\$230,485</u>	<u>20.20%</u>	<u>\$480,760</u>	<u>19.20%</u>	<u>\$1,010,112</u>
Total Support	21.50%	\$319,705	27.20%	\$647,360	26.20%	\$1,378,382
Total Financial Requirements	27.87%	\$414,409	25.30%	\$602,140	25.14%	\$1,322,616
Total Support	<u>21.50%</u>	<u>\$319,705</u>	<u>27.20%</u>	<u>\$647,360</u>	<u>26.20%</u>	<u>\$1,378,382</u>
Deficiency/(Sufficiency)	6.37%	\$94,704	(1.90%)	(\$45,220)	(1.06%)	(\$55,766)

4. Consolidation of the Various Judicial Retirement Plans into the Uniform Judges Retirement Plan (1973 and 1978).

- In 1913 (Laws 1913, Chapter 269), a retirement plan was established for Minnesota Supreme Court Justices and Minnesota district court judges. Initially, the plan paid an amount equal to the judge's salary to judges who became partially or physically incapacitated, applied to retire, and the governor determined that the judge was disabled and public service suffered as a result of the disability or to judges who were at least 85 years old and had served as a judge for at least 34 years continuously.
- In 1925 (Laws 1925, Chapter 281), provision was made for 25 freeholders and electors of the applicable judicial district to petition the governor to have the question of incapacity of a district

court judge for more than six months to be judicially determined, with a continuation of salary for the balance of the remaining term if incapacity is found.

- In 1927 (Laws 1927, Chapter 337), the retirement benefit of Supreme Court justices and district court judges was reduced to one-half of compensation for judges who were at least 70 years old, had at least 25 years of service, and elected to retire, while incapacitated judges remained entitled to full salary for the duration of their time in office.
- In 1931 (Laws 1931, Chapter 253), a retirement plan was established for probate court judges. The retirement plan provided a retirement benefit to a mentally or physically disabled probate court judge of full salary for the balance of the judge's term and, if age 70 and with at least 25 years of service or if age 65 with at least 24 years of service, a retirement annuity equal to one-half of the judge's salary at retirement. A retirement annuity of one-half of the judge's salary at retirement was also available for voluntary retirements at age 70, at any age with at least 20 years of continuous service as a probate court judge or as a probate referee, or at age 65 with at least 24 years of judicial service, but not to exceed the total retirement annuity of the district court in the same county. For probate court judges at the end of their judicial terms within three years of retirement eligibility, the governor shall extend the judge's term for the period necessary to gain retirement eligibility upon filing a written application and statement of intention to retire upon gaining eligibility.
- In 1943 (Laws 1943, Chapter 595), a retirement plan was created for Minnesota Supreme Court justices to replace the Supreme Court portion of the 1913 law. Under the retirement plan, a Supreme Court justice who retired at age 70 with at least one term in office or who becomes incapacitated from official duties and applies for a retirement benefit to the governor was entitled to full salary for the remainder of the judge's term in office and, if the judge had served for two full judicial terms or 15 years of combined service as a justice and a district court judge, the retired judge would receive one-half of salary, plus 2.5 percent of salary for each year in excess of two full terms or 15 years of combined justice and district court service, up to ten years.
- In 1949 (Laws 1949, Chapter 640), a separate retirement plan was created for district court judges to replace the 1913 Law plan. The 1949 Law district court judges retirement plan permitted retirement annuities at age 70 with at least 15 years of service as a judge of a court of record or at age 65 with at least 25 years of service as a district court judge and provided a disability benefit to a physically or mentally incapacitated judge, with a full benefit with at least 15 years of judicial service with a court of record or proportional if the judge has less than 15 years of service but more than six years of service. The full retirement annuity was one-half of the judicial salary at retirement or on July 1, 1967, whichever is greater. The administration of the Supreme Court justices' retirement plan and the district court justices' retirement plan was the same entity that pays salaries, with the payment of a portion of district court judicial pensions by counties.
- In 1953 (Laws 1953, Chapter 455, Section 2), a special retirement plan for the elected clerk of the Supreme Court was established, with a retirement annuity of one-half of the compensation of the office in 1949 payable when the clerk attained age 65, served at least 25 years in state elective office, and served as supreme court clerk for at least 25 years, of which at least 15 years must have been continuous.
- In 1971 (Laws 1971, Chapter 951), a retirement plan was established for probate court judges who also served as a judge of a court of record or as a probate referee or who did not seek election as a county judge and whose county combined with another county for a judicial district with at least 10 years of service, upon attaining at least age 65. The 1971 law retirement annuity was one-half of the 1970 salary for the judicial office, but is reduced by 4.17 percent for each year of service less than 24 years or reduced by five percent for each year under age 70 years.
- In 1959 (Laws 1959, Chapter 688), a Supreme Court justice and district court judge's survivor benefit plan was enacted, providing the surviving spouse of the judge, if married for at least five years and if the judge elected the coverage prior to retirement, with a benefit of one-half of the benefit paid or payable to the judge, with the judge entitled to a retirement annuity reduced by 25 percent if the survivor benefit coverage was elected. The survivor benefit was not payable until the survivor attains age 60 if the judge dies in active service and the survivor benefit terminates upon the remarriage of the survivor.
- In 1961 (Extra Session Laws 1961, Chapter 15, Section 3), the Supreme Court and district court survivors retirement plan was made applicable to all Supreme Court or district court survivors, without any reduction in the judge's retirement annuity amount, but funded from a two percent

member contribution by active judges, by deduction, payable to the state treasurer and deposited in a special retirement account, subject to review and adjustment to cover the benefit cost.

- In 1963 (Laws 1963, Chapter 844, Section 3), the Supreme Court and district court survivors retirement plan funding was further revised, requiring the state auditor to review its fiscal conditions each fiscal year to meet its annual disbursements obligation and to order any necessary adjustment in contribution rates, but no less than four percent of salary.
- In 1967 (Extra Session Laws 1967, Chapter 38, Sections 2 and 3), survivor benefit coverage was added to the probate judges retirement plan akin to the Supreme Court and district court judges retirement plan, including establishing a special survivor retirement account and requiring an annual review of the account by the state auditor and necessary adjustments to the member contributions by probate judges annually.
- In 1973 (Laws 1973, Chapter 744), a uniform retirement plan for all levels of judges was created, covering all judges appointed or elected after January 1, 1974, but not applying to any Supreme Court justices appointed or elected before January 1, 1974, who elected to retain coverage by the prior law. The administration of the Uniform Judicial Retirement Plan was shifted from the state auditor and state treasurer to the board of directors and the executive director of the Minnesota State Retirement System (MSRS). After 1973, various portions of the pre-1973 judicial plans were consolidated into or made part of the Uniform Judicial Retirement Plan.
- In 1975 (Laws 1975, Chapter 418), retired supreme court justices, district court judges, and their survivors who waived the post-retirement escalation awarded in *Sylvestre v. State* 298 Minn. 142, 214 NW2d 658 (1973) were transferred to the Judges Retirement Fund, as were all active supreme court justices and district court judges who waived *Sylvestre* rights, and the assets of the District and Supreme Court Survivors' Account were transferred.
- In 1978 (Laws 1978, Chapter 720, Section 18), the retired county and probate court judges were transferred to the Judges Retirement Fund. In 1979 (Laws 1979, Chapter 196, Section 4), the County and Probate Court Judges Survivors' Account was transferred into the Judges Retirement Fund.
- No actuarial work was prepared on the pre-1973 judicial retirement plans before their replacement by the Uniform Judicial Retirement Plan and Fund in 1973 and subsequently. The earliest actuarial valuations of the Uniform Judges Retirement Plan occurred on July 1, 1974, and July 1, 1975, with the following results:

<b>Judges Retirement Plan</b>				
	7/1/1974			7/1/1975
<u>Membership</u>				
Active Members	--			193
Retired Members	--			15
Disabilitants	--			0
Survivors	--			6
Total Membership	--			214
<u>Funded Status</u>				
Accrued Liability		\$14,661,628		\$14,237,461
Current Assets		\$879,628		\$1,970,067
Unfunded Accrued Liability		\$13,782,000		\$12,267,394
Funding Ratio	5.36%		13.84%	
<u>Financing Requirements</u>				
Covered Payroll		\$5,940,432		\$5,645,004
Benefits Payable		\$64,628		\$224,164
Normal Cost	13.13%	\$779,979	12.75%	\$719,611
Administrative Expenses	0.15%	\$9,008	0.17%	\$9,601
Amortization	11.91%	\$707,505	11.58%	\$653,691
Total Financial Requirements	25.19%	\$1,496,492	24.50%	\$1,382,903
Member Contributions*	4.84%	\$231,146	4.55%	\$269,790
Employer Contributions**	10.22%	\$488,218	20.25%	\$1,143,059
Total Support	15.06%	\$719,364	24.80%	\$1,412,849
Total Financial Requirements	25.19%	\$1,496,492	24.50%	\$1,382,903
Total Support	15.06%	\$719,364	24.80%	\$1,412,849
Deficiency/(Sufficiency)	10.13%	\$777,128	(0.30%)	(\$29,946)

\* The member contribution is the federal Old Age, Disability and Survivors Insurance (OASDI) or Social Security contribution rate on total salary, less the OASDI contribution on the Social Security covered salary for judges covered by Social Security.

\*\* The employer contribution is terminal actuarial funding, based on the required actuarial reserves for new retirements, rather than a specific percentage of covered salary.

5. Consolidation of the St. Paul Bureau of Health Relief Association into the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General).

- In 1919 (Laws 1919, Chapter 430), a bureau or department of health pension fund was authorized for every first class city. Only the St. Paul Bureau of Health created a bureau of health pension fund, which generally resembled a typical Minnesota public safety employee relief association. The St. Paul Bureau of Health Relief Association paid a service pension at age 50 with at least 20 years of service of 40 units, where the asset value is one percent of the current maximum monthly salary of a city health sanitarian. Members of the St. Paul Bureau of Health Relief Association had a member contribution of six percent of the current maximum monthly salary of a city health sanitarian and the city had a dedicated property tax obligation not to exceed four-tenths of one mill.
- In 1969 (Laws 1969, Chapter 1102), the St. Paul Bureau of Health Relief Association was closed to new employees in favor of the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General), existing employees with less than 10 years of service were transferred to PERA-General, Social Security coverage was extended to Bureau of Health employees on a split plan basis, and St. Paul city employer contributions were obligated to be increased to cover, at a minimum, the current disbursements (pay-as-you-go) funding level of the retirement plan for the following year.
- In 1973 (laws 1973, Chapter 767), the St. Paul Bureau of Health Pension Fund was consolidated into PERA-General. The membership of the St. Paul Bureau of Health Pension Fund, the assets of the fund, and the liabilities of the fund were transferred to PERA-General, with the unfunded actuarial accrued liability of the St. Paul Bureau of Health Pension Fund determined by the PERA actuary, with mediation from the Minnesota State Retirement System (MSRS) or Teachers Retirement Association (TRA) actuary if the St. Paul Bureau of Health Pension Fund actuary does not concur in the calculated amount, to be amortized, with six percent interest, over a ten-year period or through the proceeds of 15-year municipal bonds issued by the City of St. Paul.
- The following summarizes the actuarial condition of the St. Paul Bureau of Health Pension Fund on December 31, 1969, December 31, 1970, and December 31, 1971, preceding the consolidation, and of PERA-General on July 1, 1970, July 1, 1971, July 1, 1972, and July 1, 1973, before and after the consolidation:

	St. Paul Bureau of Health					
	12/31/1969		12/31/1970		12/31/1971	
<u>Membership</u>						
Active Members		34		33		32
Retirees		18		18		17
Disabilitants		<u>1</u>		<u>1</u>		<u>1</u>
Total Membership		53		52		50
<u>Funded Status</u>						
Actuarial Accrued Liability		\$1,864,025		\$1,892,899		\$2,055,732
Assets		<u>\$301,910</u>		<u>\$266,816</u>		<u>\$277,522</u>
Unfunded Accrued Liability		\$1,562,115		\$1,626,083		\$1,778,210
Funding Ratio	16.20%		14.10%		13.50%	
<u>Financing Requirements</u>						
Covered Payroll		\$339,780		\$335,112		\$325,140
Annuities Payable		\$94,917		\$95,974		\$90,338
Normal Cost	11.19%	\$38,021	11.02%	\$36,929	11.24%	\$36,546
Expenses	0.21%	\$714	0.21%	\$704	0.22%	\$715
Amortization	<u>25.18%</u>	<u>\$85,557</u>	<u>27.12%</u>	<u>\$90,882</u>	<u>32.16%</u>	<u>\$104,565</u>
Total Financial Requirements	36.58%	\$124,292	38.35%	\$128,515	43.62%	\$141,826
Employee Contributions	7.07%	\$24,022	6.00%	\$20,107	6.50%	\$21,134
Employer Contributions	7.15%	\$24,294	7.25%	\$24,296	7.74%	\$25,166
Employer Add'l Cont.	<u>0.00%</u>	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>
Total Support	14.22%	\$48,316	13.25%	\$44,403	14.24%	\$46,300
Total Financial Requirements	36.58%	\$124,292	38.35%	\$128,515	43.62%	\$141,826
Total Support	<u>14.22%</u>	<u>\$48,316</u>	<u>13.25%</u>	<u>\$44,403</u>	<u>14.24%</u>	<u>\$46,300</u>
Deficiency (Surplus)	22.36%	\$75,976	25.10%	\$84,112	29.38%	\$95,526

	PERA			
	7/1/1970	7/1/1971	7/1/1972	7/1/1973
<u>Membership</u>				
Active Members	61,206	66,130	70,873	72,981
Retirees	5,663	6,019	6,379	6,836
Disabilitants	181	215	236	300
Survivors	3,245	3,328	3,534	3,599
Deferred Retirees	<u>319</u>	<u>367</u>	<u>746</u>	<u>801</u>
Total Membership	70,614	76,059	81,768	84,517

