



**S.F. 2263**  
(Pappas)

**H.F. 2448**  
(Nelson)

### **Executive Summary of Commission Staff Materials**

*Affected Pension Plan(s):* PERA-General  
*Relevant Provisions of Law:* Minnesota Statutes, Section 353.27  
*General Nature of Proposal:* Employee and employer contribution rate increases  
*Date of Summary:* March 7, 2014

### **Specific Proposed Changes**

- Increases the member contribution rate for the PERA-General Coordinated Program members by 0.25% of covered salary.
- Increases the employer contribution rate on behalf of PERA-General Coordinated Program members by 0.25% of covered salary.
- Delays a contribution rate change (increase or decrease) from on or around July 1 after the stabilizer procedure has run its course to the following January 1.

### **Policy Issues Raised by the Proposed Legislation**

1. Funded condition and financing adequacy of PERA- General and whether or not they support a conclusion that a contribution increase is needed.
2. Appropriateness of the size of the proposed contribution rate increases.
3. Adequacy of the proposed contribution rate change in light of current under-recognition of actuarial liabilities in the current actuarial reporting.
4. Appropriateness of the delay in implementing a stabilizer-based contribution rate change.
5. Need to also act on the MSRS contribution stabilizer recommendations.

### **Potential Amendments**

S2263-1A provides a 1.00% of covered salary total contribution rate increase, allocated equally between members and employers effective January 1, 2015.

S2263-2A provides a 1.00% of covered salary total contribution rate increase, allocated equally between members and employers, phased in over two years, one-half effective on January 1, 2015, and one-half effective on July 1, 2016.

S2263-3A provides a 1.50% of covered salary total contribution rate increase, allocated equally between members and employers, phased in over three years, one-third effective on January 1, 2015, one-third effective on January 1, 2016, and one-third effective on January 1, 2017.

S2263-4A provides a 1.15% of covered salary total contribution rate increase, allocated equally between members and employers, effective on January 1, 2015, and a new state aid program providing PERA-General with \$26,250,000 annual general fund appropriations effective on July 1, 2015, and payable until the retirement plan is fully funded.

S2263-5A implements the MSRS contribution rate stabilizer recommendations for MSRS-General and MSRS-Correctional.

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TO: Members of the Legislative Commission on Pensions and Retirement

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

RE: S.F. 2263 (Pappas); H.F. 2448 (Nelson): PERA-General; Coordinated Program Member and Employer Contribution Rate Increases

DATE: March 7, 2014

Summary of S.F. 2263 (Pappas); H.F. 2448 (Nelson)

S.F. 2263 (Pappas); H.F. 2448 (Nelson) amends Minnesota Statutes, Section 353.27, Subdivisions 2, 3, and 3b, the employee contribution rate, employer contribution rate, and contribution rate stabilizer provisions of the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General), by making the following changes:

- Member Contribution Rate Increase. The member contribution rate for the PERA-General Coordinated Program members is increased by 0.25% of covered salary (Section 1);
- Employer Contribution Rate Increase. The employer contribution rate on behalf of PERA-General Coordinated Program members is increased by 0.25% of covered salary (Section 2); and
- Contribution Rate Stabilizer Mechanism. The mechanism for the PERA board to initiate contribution rate changes when retirement plan funding is significantly deficient or over sufficient is modified to have any rate change occur on the next following January 1 if the recommended contribution rate adjustment is not acted upon by the Pension Commission (Section 3).

Discussion and Analysis

S.F. 2263 (Pappas); H.F. 2448 (Nelson) increases the total contribution support of the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) by one-half of one percent of covered pay, allocated equally between members and employers, and resets the effective date for contribution increases arising out of the PERA contribution rate stabilizer mechanism from July 1 to January 1.

The proposed legislation raises a number of pension and related public policy issues for consideration and possible discussion by the Commission, as follows:

1. Funding and Financing Condition of PERA-General; Need for Contribution Increase. The policy issue is the funded condition and financing adequacy of the General Employer Retirement Plan of the Public Employees Retirement Association (PERA-General) and whether or not they support a conclusion that a contribution increase is needed. The following sets forth summaries of the actuarial valuation results for PERA-General for the period 2008-2013:

PERA-General

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
<b>Membership</b>						
Active Members	145,238	142,097	140,389	139,952	139,330	139,763
Service Retirees	54,855	56,948	59,159	62,198	64,472	67,861
Disabillitants	2,046	2,075	2,215	2,334	3,638	3,683
Survivors	6,979	7,036	7,120	7,289	7,425	7,539
Deferred Retirees	42,308	43,645	45,151	45,325	44,324	45,946
Nonvested Former Members	<u>116,805</u>	<u>122,434</u>	<u>126,027</u>	<u>109,630</u>	<u>115,287</u>	<u>119,509</u>
Total Membership	368,231	374,235	380,061	366,728	374,476	384,301
<b>Funded Status</b>						
Accrued Liability	\$17,729,847,000	\$18,799,416,000	\$17,180,956,000	\$17,898,849,000	\$18,598,897,000	\$19,379,769,000
Current Assets	<u>\$13,048,970,000</u>	<u>\$13,158,490,000</u>	<u>\$13,126,993,000</u>	<u>\$13,455,753,000</u>	<u>\$13,661,682,000</u>	<u>\$14,113,295,000</u>
Unfunded Accr. Liability	\$4,680,877,000	\$5,640,926,000	\$4,053,963,000	\$4,443,096,000	\$4,937,215,000	\$5,266,474,000
Funding Ratio	73.60%	69.99%	76.40%	75.18%	73.45%	72.82%
<b>Financing Requirements</b>						
Covered Payroll	\$4,952,751,000	\$5,130,307,000	\$5,160,545,000	\$5,183,629,000	\$5,201,524,000	\$5,256,798,000
Benefits Payable	\$824,372,000	\$863,910,000	\$906,300,000	\$950,708,000	\$1,000,644,000	\$1,051,591,000
Normal Cost	7.74% \$383,111,000	7.82% \$400,956,000	6.44% \$332,526,000	6.65% \$344,925,000	6.26% \$325,782,000	6.25% \$328,513,000
Admin. Exp.	0.19% \$9,410,000	0.20% \$10,261,000	0.18% \$9,289,000	0.19% \$9,849,000	0.19% \$9,883,000	0.19% \$9,988,000
Amortization	<u>6.29%</u> <u>\$311,528,000</u>	<u>7.53%</u> <u>\$386,312,000</u>	<u>5.78%</u> <u>\$298,280,000</u>	<u>6.63%</u> <u>\$343,675,000</u>	<u>7.43%</u> <u>\$386,473,000</u>	<u>8.14%</u> <u>\$427,903,000</u>
Total Requirements	14.22% \$704,049,000	15.55% \$797,529,000	12.40% \$640,095,000	13.47% \$698,449,000	13.88% \$722,138,000	14.58% \$766,404,000

PERA-General

	FY2008		FY2009		FY2010		FY2011		FY2012		FY2013	
Employee Contributions	6.00%	\$297,220,000	6.00%	\$307,819,000	6.13%	\$316,120,000	6.25%	\$323,996,000	6.25%	\$325,113,000	6.25%	\$328,565,000
Employer Contributions	6.63%	\$328,211,000	6.30%	\$322,965,000	7.13%	\$367,746,000	7.25%	\$375,846,000	7.25%	\$377,139,000	7.25%	\$381,142,000
Employer Add'l Cont.	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0
Direct State Funding	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0
Other Govt. Funding	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0
Admin. Assessment	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0
Total Contributions	12.63%	\$625,431,000	12.30%	\$630,784,000	13.25%	\$683,866,000	13.50%	\$699,842,000	13.50%	\$702,252,000	13.50%	\$709,707,000
Total Requirements	14.22%	\$704,049,000	15.55%	\$797,529,000	12.40%	\$640,095,000	13.47%	\$698,449,000	13.88%	\$722,138,000	14.58%	\$766,404,000
Total Contributions	12.63%	\$625,431,000	12.30%	\$630,784,000	13.25%	\$683,866,000	13.50%	\$699,842,000	13.50%	\$702,252,000	13.50%	\$709,707,000
Deficiency (Surplus)	1.59%	\$78,618,000	3.25%	\$166,745,000	(0.85%)	(\$43,771,000)	(0.03%)	(\$1,393,000)	0.38%	\$19,886,000	1.08%	\$56,697,000

Both the recent trend line (shift from contribution sufficiency to contribution deficiency) over the course of three years and the magnitude of the current deficiency (1.6% of covered pay) indicates the retirement plan needs additional contributions.

2. Appropriateness of the Size of the Proposed Contribution Rate Increases. The policy issue is whether or not a 0.5% of covered salary increase provided for in the proposed legislation is well matched with the need for additional contribution support in PERA-General. The contribution deficiency in PERA-General is 1.65% of covered pay, so the proposed contribution rate increase would only cover about one-third of the contribution deficiency, leaving a deficiency of a very sizable 1.15% of pay deficiency remaining. If the Commission is convinced that the contribution rate increase is too modest to address the retirement plan’s need, these are several alternative means to address the problem:

- **Amendment S2263-1A** would provide a 1.00% of covered salary total contribution rate increase, allocated equally between members and employers effective January 1, 2015;
- **Amendment S2263-2A** would provide a 1.00% of covered salary total contribution rate increase, allocated equally between members and employers, phased in over two years, one-half effective on January 1, 2015, and one-half effective on July 1, 2016;
- **Amendment S2263-3A** would provide a 1.50% of covered salary total contribution rate increase, allocated equally between members and employers, phased in over three years, one-third effective on January 1, 2015, one-third effective on January 1, 2016, and one-third effective on January 1, 2017; and
- **Amendment S2263-4A** would provide a 1.15% of covered salary total contribution rate increase, allocated equally between members and employers, effective on January 1, 2015, and a new state aid program providing PERA-General with \$26,250,000 annual general fund appropriations effective on July 1, 2015, and payable until the retirement plan is fully funded.

3. Sufficiency of Proposed Contribution Rate Change in Light of Current Under-Recognition of Actuarial Liabilities in the Current Actuarial Reporting. The policy issue is the question of whether or not the proposed contribution rate change is adequate given an understatement in pension plan actuarial accrued liability amounts because of the manner in which post-retirement adjustment liabilities since 2010 have been recognized under the current actuarial reporting laws and the Commission’s Standards for Actuarial Work. Since post-retirement adjustment rates were downsized in 2010-2012 for statewide and major local Minnesota defined benefit public employee retirement plans, the liability release associated with that rate downsizing has been implemented by increasing the post-retirement interest rate assumption by the same amount change in the post-retirement adjustment rate. This implicit post-retirement adjustment rate procedure could be argued as appropriate as a temporary means to reflect the actuarial impact of the 2010 post-retirement adjustment legislation, but the procedure understates, potentially significantly, the actuarial accrual liabilities and the total actuarial funding requirements of the various retirement plans because it understates the actual post-retirement adjustment rate in effect and overstates the period during which the downsized post-retirement adjustment rate will be in effect. The Commission staff has been suggesting to the retirement plans and the Commission-retained actuary since 2011 that the actuarial reporting law be modified to replace the current implicit post-retirement adjustment rate actuarial assumption with explicit post-retirement adjustment rate actuarial assumptions. The Commission staff included a specific proposed for explicit post-retirement adjustment rate actuarial assumptions as part of the 2013-2014 interim project reviewing current Minnesota defined benefit public employee retirement plan interest rate actuarial assumptions in September 2013, and again in November 2013, as part of the Commission staff issue memorandum accompanying a request from the Minnesota State Retirement System (MSRS), Public Employees Retirement Association (PERA), and Teachers Retirement Association (TRA), administrators for accelerated consideration of a potential, but undrafted, amendment to the Commission's Standards for Actuarial Work codifying the current temporary procedure for recognizing actuarial liability releases from the 2010 post-retirement adjustment rate downsizings. The retirement system administrators and their actuarial consultants have had a telephone conference call consultation with the actuarial firm retained by the Commission,

Milliman, on February 6, 2014, but there appears to be a lack of urgency in addressing the problem and fashioning a more appropriate response to the current inadequate temporary actuarial procedure for calculating post-retirement adjustment mechanism actuarial liabilities. In testimony before the Commission on March 4, 2014, as part of Milliman's review of the 2013 actuarial valuation results, a representative of the retirement plan administrators indicated that consideration of an improved procedure for handling post-retirement adjustment mechanism actuarial liability calculations was continuing, but the presentation to the Commission of any actual resolution of the problem this legislative session appears unlikely at this time. When the post-retirement adjustment rate liability determination problem is finally resolved, PERA-General actuarial accrued liabilities will be greater than currently recognized and the PERA-General contribution deficiency will be greater, with the PERA contribution rate stabilizer mechanism producing greater future contribution rate increases, made more drastic by the loss of time against its 2013 amortization target date.

4. Appropriateness of the Proposed Delay in Implementing a Stabilizer-Based Contribution Rate Change. The policy issue is the appropriateness of the proposed delay in a contribution rate change (increase or decrease) from on or around July 1 after the stabilizer procedure has run its course to the following January 1. The stabilizer provisions in PERA, the Minnesota State Retirement System (MSRS), and the Teachers Retirement Association (TRA) were enacted several years ago, but have only first been effective with the 2013 actuarial valuations. The stabilizer is triggered by specific magnitude of contribution deficiency or sufficiency, specifies a level of contribution rate increases or decreases based on the magnitude of the deficiency or sufficiency, thereby phasing in a funding correction over a period of years, and provides that the recommended contribution rate changes are effective based on retirement plan governing board action unless the Legislature disapproves or modifies the contribution rate changes. The procedure thus is structured with delays currently and this change, apparently required to provide better notice of contribution rate changes, when imposed, could further delay the imposition of contribution rate changes following a financial downturn for a retirement plan. The change in the PERA contribution rate stabilizer is not proposed to be replicated for the MSRS or TRA contribution rate stabilizers.
  
5. Need to Also Act on the MSRS Contribution Stabilizer Recommendations. The policy issue is the need for the Pension Commission to also take action with respect to accommodations on member and employer contribution rate increases for the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) and the Correctional State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional) that parallel the PERA contribution stabilizer recommendations. The PERA and MSRS administrators both presented their contribution rate increase recommendations under their respective statutory contribution rate stabilizer procedures to the Pension Commission in January 2014, but only PERA had implementing legislation introduced when the agenda for this meeting was set. Subsequently, S.F. 2441 (Pappas); H.F. xxxx, was introduced, implementing the MSRS-General and MSRS-Correctional contribution rate increases under the stabilizer provision. The following sets forth the recent actuarial valuation result summaries for MSRS-General and MSRS-Correctional, reflecting the clear need for additional contribution support to address current funding deficiencies:

**MSRS-General**

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
<b>Membership</b>						
Active Members	48,823	48,989	48,494	47,955	48,207	49,121
Service Retirees	21,736	22,457	23,337	24,900	26,524	27,654
Disabilitants	1,620	1,656	1,684	1,723	1,750	1,802
Survivors	3,090	3,230	3,414	3,541	3,701	3,830
Deferred Retirees	14,951	15,210	15,388	15,422	15,702	16,062
Nonvested Former Members	6,865	6,912	6,537	6,117	5,788	5,574
Total Membership	97,085	98,454	98,854	99,658	101,672	104,043
<b>Funded Status</b>						
Accrued Liability	\$9,994,602,000	\$10,512,760,000	\$10,264,071,000	\$10,576,481,000	\$11,083,227,000	\$11,428,641,000
Current Assets	\$9,013,456,000	\$9,030,401,000	\$8,960,391,000	\$9,130,011,000	\$9,162,301,000	\$9,375,780,000
Unfunded Accr. Liability	\$981,146,000	\$1,482,359,000	\$1,303,680,000	\$1,446,470,000	\$1,920,926,000	\$2,052,861,000
Funding Ratio	90.18%	85.90%	87.30%	86.32%	82.67%	82.04%
<b>Financing Requirements</b>						
Covered Payroll	\$2,378,816,000	\$2,493,948,000	\$2,483,519,000	\$2,459,441,000	\$2,463,700,000	\$2,553,156,000
Benefits Payable	\$418,757,000	\$445,792,000	\$473,447,000	\$505,573,000	\$552,088,000	\$586,256,000
Normal Cost	7.78%	7.86%	7.77%	7.14%	7.17%	6.95%
Admin. Exp.	0.23%	0.22%	0.23%	0.19%	0.26%	0.35%
Amortization	4.38%	6.77%	2.99%	3.70%	4.89%	5.15%
Total Requirements	12.39%	14.85%	10.99%	11.03%	12.32%	12.45%
Employee Contributions	4.50%	4.75%	5.00%	5.00%	5.00%	5.00%
Employer Contributions	4.50%	4.75%	5.00%	5.00%	5.00%	5.00%
Employer Add'l Cont.	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Direct State Funding	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other Govt. Funding	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Admin. Assessment	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Total Contributions	9.00%	9.50%	10.00%	10.00%	10.00%	10.00%
Total Requirements	12.39%	14.85%	10.99%	11.03%	12.32%	12.45%
Total Contributions	9.00%	9.50%	10.00%	10.00%	10.00%	10.00%
Deficiency (Surplus)	3.39%	5.35%	0.99%	1.03%	2.32%	2.45%

**MSRS-Correctional**

	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013
<b>Membership</b>						
Active Members	4,520	4,403	4,268	4,322	4,276	4,384
Service Retirees	1,293	1,381	1,505	1,621	1,773	1,920
Disabilltants	184	194	206	230	244	258
Survivors	123	134	148	165	180	196
Deferred Retirees	888	949	993	1,035	1,180	1,196
Nonvested Former Members	548	626	585	501	473	413
Total Membership	7,556	7,687	7,705	7,874	8,126	8,367
<b>Funded Status</b>						
Accrued Liability	\$760,363,000	\$821,250,000	\$851,086,000	\$907,012,000	\$968,166,000	\$1,026,098,000
Current Assets	\$572,719,000	\$590,339,000	\$603,863,000	\$637,027,000	\$663,713,000	\$701,091,000
Unfunded Accrued Liability	\$187,644,000	\$230,911,000	\$247,223,000	\$269,985,000	\$304,453,000	\$325,007,000
Funding Ratio	75.32%	71.88%	70.95%	70.23%	68.55%	68.33%
<b>Financing Requirements</b>						
Covered Payroll	\$205,537,000	\$208,388,000	\$205,574,000	\$205,608,000	\$212,056,000	\$212,972,000
Benefits Payable	\$30,932,000	\$33,239,000	\$36,078,000	\$39,116,000	\$42,571,000	\$46,226,000
Normal Cost	18.24% \$37,500,000	18.22% \$37,970,000	18.09% \$37,188,000	17.89% \$36,793,000	15.66% \$33,206,000	15.60% \$33,223,000
Administrative Expenses	0.22% \$452,000	0.20% \$417,000	0.22% \$452,000	0.17% \$350,000	0.27% \$573,000	0.33% \$703,000
Amortization	5.20% \$10,688,000	6.43% \$13,399,000	7.12% \$14,637,000	7.94% \$16,325,000	9.35% \$19,827,000	10.18% \$21,681,000
Total Requirements	23.66% \$48,640,000	24.85% \$51,786,000	25.43% \$52,277,000	26.00% \$53,468,000	25.28% \$53,606,000	26.11% \$55,607,000
Employee Contributions	7.00% \$14,388,000	7.70% \$16,046,000	8.60% \$17,679,000	8.60% \$17,682,000	8.60% \$18,237,000	8.60% \$18,316,000
Employer Contributions	10.10% \$20,759,000	11.10% \$23,131,000	12.10% \$24,875,000	12.10% \$24,879,000	12.10% \$25,659,000	12.10% \$25,770,000
Employer Add'l Cont.	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0
Direct State Funding	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0
Other Govt. Funding	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0
Administrative Assessment	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0
Total Contributions	17.10% \$35,147,000	18.80% \$39,177,000	20.70% \$42,554,000	20.70% \$42,561,000	20.70% \$43,896,000	20.70% \$44,086,000
Total Requirements	23.66% \$48,640,000	24.85% \$51,786,000	25.43% \$52,277,000	26.00% \$53,468,000	25.28% \$53,606,000	26.11% \$55,607,000
Total Contributions	17.10% \$35,147,000	18.80% \$39,177,000	20.70% \$42,554,000	20.70% \$42,561,000	20.70% \$43,896,000	20.70% \$44,086,000
Deficiency (Surplus)	6.56% \$13,493,000	6.05% \$12,609,000	4.73% \$9,723,000	5.30% \$10,907,000	4.58% \$9,710,000	5.41% \$11,521,000

- **Amendment S2263-5A** amends the appropriate portions of Minnesota Statutes, Chapter 352, to implement the MSRS contribution rate stabilizer recommendations for MSRS-General and MSRS-Correctional.

1.1 ..... moves to amend S.F. No. 2263; H.F. No. 2448, as follows:

1.2 Page 1, line 16, delete "6.50" and insert "6.75"

1.3 Page 2, line 9, delete "6.5" and insert "6.75"

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1.1 ..... moves to amend S.F. No. 2263; H.F. No. 2448, as follows:

1.2 Page 1, after line 16, insert:

1.3 "Effective July 1, 2016 6.75"

1.4 Page 2, after line 9, insert:

1.5 "Effective July 1, 2016 6.75"

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1.1 ..... moves to amend S.F. No. 2263; H.F. No. 2448, as follows:

1.2 Page 1, after line 16, insert:

1.3 "Effective January 1, 2016 6.75

1.4 Effective January 1, 2017 7.00"

1.5 Page 2, after line 9, insert:

1.6 "Effective January 1, 2016 6.75

1.7 Effective January 1, 2017 7.00"

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1.1 ..... moves to amend S.F. No. 2263; H.F. No. 2448, as follows:

1.2 Page 1, line 16, delete "6.50" and insert "6.75"

1.3 Page 2, line 9, delete "6.5" and insert "6.75"

1.4 Page 4, after line 33, insert:

1.5 "Sec. 33. **[353.285] PERA-GENERAL STATE AID.**

1.6 To assist the general employees retirement plan of the Public Employees Retirement  
1.7 Association, the state shall pay to the fund established by section 353.27, subdivision 1,  
1.8 \$26,250,000 on October 1 annually. The amount is appropriated annually to the general  
1.9 employees retirement fund."

1.10 Amend the title accordingly

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1.1 ..... moves to amend S.F. No. 2263; H.F. No. 2448, as follows:

1.2 Page 1, after line 6, insert:

1.3 "Section 1. Minnesota Statutes 2012, section 352.04, subdivision 2, is amended to read:

1.4 Subd. 2. **Employee contributions.** (a) The employee contribution to the fund must  
1.5 be equal to the following percent of salary:

1.6	<del>before July 1, 2007</del>	<del>4.00</del>
1.7	<del>from July 1, 2007, to June 30, 2008</del>	<del>4.25</del>
1.8	<del>from July 1, 2008, to June 30, 2009</del>	<del>4.50</del>
1.9	<del>from July 1, 2009, to June 30, 2010</del>	<del>4.75</del>
1.10	from July 1, 2010, and thereafter <u>to June 30,</u>	
1.11	<u>2014</u>	<del>5.00-</del>
1.12	<u>from July 1, 2014, and thereafter</u>	<u>5.50.</u>

1.13 (b) These contributions must be made by deduction from salary as provided in  
1.14 subdivision 4.

1.15 **EFFECTIVE DATE.** This section is effective on the first day of the first full pay  
1.16 period beginning after July 1, 2014.

1.17 Sec. 2. Minnesota Statutes 2012, section 352.04, subdivision 3, is amended to read:

1.18 Subd. 3. **Employer contributions.** The employer contribution to the fund must be  
1.19 equal to the following percent of salary:

1.20	<del>before July 1, 2007</del>	<del>4.00</del>
1.21	<del>from July 1, 2007, to June 30, 2008</del>	<del>4.25</del>
1.22	<del>from July 1, 2008, to June 30, 2009</del>	<del>4.50</del>
1.23	<del>from July 1, 2009, to June 30, 2010</del>	<del>4.75</del>
1.24	from July 1, 2010, and thereafter <u>to June 30,</u>	
1.25	<u>2014</u>	<del>5.00-</del>
1.26	<u>from July 1, 2014, and thereafter</u>	<u>5.50.</u>

1.27 **EFFECTIVE DATE.** This section is effective on the first day of the first full pay  
1.28 period beginning after July 1, 2014.

1.29 Sec. 3. Minnesota Statutes 2012, section 352.92, subdivision 1, is amended to read:

1.30 Subdivision 1. **Employee contributions.** (a) Employee contributions of covered  
1.31 correctional employees must be in an amount equal to the following percent of salary:

1.32	<del>before July 1, 2007</del>	<del>5.69</del>
1.33	<del>from July 1, 2007, to June 30, 2008</del>	<del>6.40</del>
1.34	<del>from July 1, 2008, to June 30, 2009</del>	<del>7.00</del>
1.35	<del>from July 1, 2009, to June 30, 2010</del>	<del>7.70</del>

2.1 from July 1, 2010, ~~and thereafter~~ to June 30,  
 2.2 2014 8.60-  
 2.3 from July 1, 2014, and thereafter 9.10.

2.4 (b) These contributions must be made by deduction from salary as provided in  
 2.5 section 352.04, subdivision 4.

2.6 **EFFECTIVE DATE.** This section is effective on the first day of the first full pay  
 2.7 period beginning after July 1, 2014.

2.8 Sec. 4. Minnesota Statutes 2012, section 352.92, subdivision 2, is amended to read:

2.9 Subd. 2. **Employer contributions.** The employer shall contribute for covered  
 2.10 correctional employees an amount equal to the following percent of salary:

2.11	<del>before July 1, 2007</del>	<del>7.98</del>
2.12	<del>from July 1, 2007, to June 30, 2008</del>	<del>9.10</del>
2.13	<del>from July 1, 2008, to June 30, 2009</del>	<del>10.10</del>
2.14	<del>from July 1, 2009, to June 30, 2010</del>	<del>11.10</del>
2.15	from July 1, 2010, <del>and thereafter</del> <u>to June 30,</u>	
2.16	<u>2014</u>	<del>12.10-</del>
2.17	<u>from July 1, 2014, and thereafter</u>	<u>12.85</u>

2.18 **EFFECTIVE DATE.** This section is effective on the first day of the first full pay  
 2.19 period beginning after July 1, 2014."

2.20 Renumber the sections in sequence

2.21 Amend the title accordingly



**SENATE**  
**STATE OF MINNESOTA**  
**EIGHTY-EIGHTH SESSION**

**S.F. No. 2263**

(SENATE AUTHORS: PAPPAS)

DATE	D-PG	OFFICIAL STATUS
03/04/2014	5956	Introduction and first reading Referred to State and Local Government

1.1 A bill for an act  
 1.2 relating to retirement; general employees retirement plan of the Public  
 1.3 Employees Retirement Association; modifying coordinated program employee  
 1.4 and employer contribution rates; amending Minnesota Statutes 2012, section  
 1.5 353.27, subdivisions 2, 3, 3b.

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

1.7 Section 1. Minnesota Statutes 2012, section 353.27, subdivision 2, is amended to read:

1.8 Subd. 2. **General employees retirement plan; employee contribution.** (a) For  
 1.9 a basic member of the general employees retirement plan of the Public Employees  
 1.10 Retirement Association, the employee contribution is 9.10 percent of salary. For a  
 1.11 coordinated member of the general employees retirement plan of the Public Employees  
 1.12 Retirement Association, the employee contribution is the following percentage of salary  
 1.13 plus any contribution rate adjustment under subdivision 3b:

1.14 <del>Effective before January 1, 2011</del>	<del>6.00</del>
1.15 Effective after December 31, 2010	6.25
1.16 <u>Effective January 1, 2015</u>	<u>6.50</u>

1.17 (b) These contributions must be made by deduction from salary as defined in section  
 1.18 353.01, subdivision 10, in the manner provided in subdivision 4. If any portion of a  
 1.19 member's salary is paid from other than public funds, the member's employee contribution  
 1.20 must be based on the total salary received by the member from all sources.

1.21 **EFFECTIVE DATE.** This section is effective the day following final enactment.

1.22 Sec. 2. Minnesota Statutes 2012, section 353.27, subdivision 3, is amended to read:

2.1 Subd. 3. **General employees retirement plan; employer contribution.** (a) For  
 2.2 a basic member of the general employees retirement plan of the Public Employees  
 2.3 Retirement Association, the employer contribution is 9.10 percent of salary. For a  
 2.4 coordinated member of the general employees retirement plan of the Public Employees  
 2.5 Retirement Association, the employer contribution is the following percentage of salary  
 2.6 plus any contribution rate adjustment under subdivision 3b:

2.7	<del>Effective before January 1, 2011</del>	<del>6.00</del>
2.8	Effective after December 31, 2010	6.25
2.9	<u>Effective January 1, 2015</u>	<u>6.5</u>

2.10 (b) This contribution must be made from funds available to the employing  
 2.11 subdivision by the means and in the manner provided in section 353.28.

2.12 **EFFECTIVE DATE.** This section is effective the day following final enactment.

2.13 Sec. 3. Minnesota Statutes 2012, section 353.27, subdivision 3b, is amended to read:

2.14 Subd. 3b. **Change in employee and employer contributions in certain instances.**

2.15 (a) For purposes of this section:

2.16 (1) a contribution sufficiency exists if the total of the employee contribution under  
 2.17 subdivision 2, the employer contribution under subdivision 3, the additional employer  
 2.18 contribution under subdivision 3a, and any additional contribution previously imposed  
 2.19 under this subdivision exceeds the total of the normal cost, the administrative expenses,  
 2.20 and the amortization contribution of the general employees retirement plan as reported in  
 2.21 the most recent actuarial valuation of the retirement plan prepared by the actuary retained  
 2.22 under section 356.214 and prepared under section 356.215 and the standards for actuarial  
 2.23 work of the Legislative Commission on Pensions and Retirement; and

2.24 (2) a contribution deficiency exists if the total of the employee contributions under  
 2.25 subdivision 2, the employer contributions under subdivision 3, the additional employer  
 2.26 contribution under subdivision 3a, and any additional contribution previously imposed  
 2.27 under this subdivision is less than the total of the normal cost, the administrative expenses,  
 2.28 and the amortization contribution of the general employees retirement plan as reported in  
 2.29 the most recent actuarial valuation of the retirement plan prepared by the actuary retained  
 2.30 under section 356.214 and prepared under section 356.215 and the standards for actuarial  
 2.31 work of the Legislative Commission on Pensions and Retirement.

2.32 (b) Employee and employer contributions to the general employees retirement plan  
 2.33 under subdivisions 2 and 3 must be adjusted:

2.34 (1) ~~if, on or after July 1, 2010,~~ the regular actuarial valuation of the general employees  
 2.35 retirement plan of the Public Employees Retirement Association under section 356.215

3.1 indicates that there is a contribution sufficiency under paragraph (a) greater than one  
3.2 percent of covered payroll and that the sufficiency has existed for at least two consecutive  
3.3 years, the coordinated program employee and employer contribution rates must be  
3.4 decreased as determined under paragraph (c) to a level such that the sufficiency is no  
3.5 greater than one percent of covered payroll based on the most recent actuarial valuation; or

3.6 (2) if, ~~on or after July 1, 2010,~~ the regular actuarial valuation of the general  
3.7 employees retirement plan of the Public Employees Retirement Association under section  
3.8 356.215 indicates that there is a contribution deficiency equal to or greater than 0.5 percent  
3.9 of covered payroll and that the deficiency has existed for at least two consecutive years,  
3.10 the coordinated program employee and employer contribution rates must be increased  
3.11 as determined under paragraph (d) to a level such that no deficiency exists based on the  
3.12 most recent actuarial valuation.

3.13 (c) If the actuarially required contribution of the general employees retirement plan is  
3.14 less than the total support provided by the combined employee and employer contribution  
3.15 rates under subdivisions 2, 3, and 3a, by more than one percent of covered payroll,  
3.16 the general employees retirement plan coordinated program employee and employer  
3.17 contribution rates under subdivisions 2 and 3 must be decreased incrementally over one or  
3.18 more years by no more than 0.25 percent of pay each for employee and employer matching  
3.19 contribution rates to a level such that there remains a contribution sufficiency of at least one  
3.20 percent of covered payroll. No contribution rate decrease may be made until at least two  
3.21 years have elapsed since any adjustment under this subdivision has been fully implemented.

3.22 (d) If the actuarially required contribution exceeds the total support provided by the  
3.23 combined employee and employer contribution rates under subdivisions 2, 3, and 3a,  
3.24 the employee and matching employer contribution rates must be increased equally to  
3.25 eliminate that contribution deficiency. If the contribution deficiency is:

3.26 (1) less than two percent, the incremental increase may be up to 0.25 percent for the  
3.27 general employees retirement plan employee and matching employer contribution rates;

3.28 (2) greater than 1.99 percent and less than 4.01 percent, the incremental increase  
3.29 may be up to 0.5 percent for the employee and matching employer contribution rates; or

3.30 (3) greater than four percent, the incremental increase may be up to 0.75 percent for  
3.31 the employee and matching employer contribution.

3.32 (e) The general employees retirement plan contribution sufficiency or deficiency  
3.33 determination under paragraphs (a) to (d) must be made without the inclusion of the  
3.34 contributions to, the funded condition of, or the actuarial funding requirements of the  
3.35 MERF division.

4.1 (f) Any recommended adjustment to the contribution rates must be reported to the  
4.2 chair and the executive director of the Legislative Commission on Pensions and Retirement  
4.3 by January 15 following the receipt of the most recent annual actuarial valuation prepared  
4.4 under section 356.215. If the Legislative Commission on Pensions and Retirement does  
4.5 not recommend against the rate change or does not recommend a modification in the rate  
4.6 change, the recommended adjustment becomes effective ~~on the first day of the first full~~  
4.7 payroll period in the fiscal year for any salary paid on or after the January 1 next following  
4.8 receipt of the most recent actuarial valuation that gave rise to the adjustment the legislative  
4.9 session in which the Legislative Commission on Pensions and Retirement did not take any  
4.10 action to disapprove or modify the Public Employees Retirement Association Board of  
4.11 Trustees' recommendation to adjust the employee and employer rates.

4.12 (g) A contribution sufficiency of up to one percent of covered payroll must be held in  
4.13 reserve to be used to offset any future actuarially required contributions that are more than  
4.14 the total combined employee and employer contributions under subdivisions 2, 3, and 3a.

4.15 (h) Before any reduction in contributions to eliminate a sufficiency in excess of one  
4.16 percent of covered pay may be recommended, the executive director must review any  
4.17 need for a change in actuarial assumptions, as recommended by the actuary retained under  
4.18 section 356.214 in the most recent experience study of the general employees retirement  
4.19 plan prepared under section 356.215 and the standards for actuarial work promulgated by  
4.20 the Legislative Commission on Pensions and Retirement that may result in an increase  
4.21 in the actuarially required contribution and must report to the Legislative Commission  
4.22 on Pensions and Retirement any recommendation by the board to use the sufficiency  
4.23 exceeding one percent of covered payroll to offset the impact of an actuarial assumption  
4.24 change recommended by the actuary retained under section 356.214, subdivision 1, and  
4.25 reviewed by the actuary retained by the commission under section 356.214, subdivision 4.

4.26 (i) No contribution sufficiency in excess of one percent of covered pay may be  
4.27 proposed to be used to increase benefits, and no benefit increase may be proposed that  
4.28 would initiate an automatic adjustment to increase contributions under this subdivision.  
4.29 Any proposed benefit improvement must include a recommendation, prepared by the  
4.30 actuary retained under section 356.214, subdivision 1, and reviewed by the actuary  
4.31 retained by the Legislative Commission on Pensions and Retirement as provided under  
4.32 section 356.214, subdivision 4, on how the benefit modification will be funded.

4.33 **EFFECTIVE DATE.** This section is effective the day following final enactment.