



**S.F. 2442**  
(Pappas)

**H.F. 2827**  
(Murphy, M.)

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

|                                    |  |
|------------------------------------|--|
| <i>Affected Pension Plan(s):</i>   | Primarily MSRS Plans   |
| <i>Relevant Provisions of Law:</i> | Minnesota Statutes, Chapters 3A, 352, 352B, 354, 356   |
| <i>General Nature of Proposal:</i> | Specifies interest rate for computing MSRS joint-and-survivor annuities; revises MSRS post-retirement adjustment trigger procedures; revises MSRS reemployed annuitant holding account procedures in certain divorce situations; and makes other miscellaneous changes mainly in MSRS plans. |
| <i>Date of Summary:</i>            | March 21, 2014   |

### **Specific Proposed Changes**

- Specifies a 6.5% interest rate for computing joint-and-survivor annuities in MSRS plans.
- Requires for MSRS plans two consecutive years, rather than a single year, with funding ratios in excess of the trigger level before post-retirement adjustments can be increased.
- For MSRS, when a monthly pension benefit is split between a retiree and an ex-spouse by a divorce decree, the ex-spouse's portion will not be subject to reemployed annuitant holding account deferral procedures.
- Shortens the timeframe for MSRS annuity applications.
- Revises the TRA reemployed annuitant provision to also apply to teachers who return to a covered district providing services as a third party provider.
- Revises the TRA medical advisor provision to permit TRA to contract with accredited independent organizations specializing in disability determinations.
- Corrects a cross-reference in a federal compliance provision applicable to all Minnesota public plans.

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

1. Part of the bill is administrative, but no plan complied with submission deadlines for administrative legislation.
2. Possible benefit implications for MSRS retirees of using 6.5% interest rate for computing joint-and-survivor annuities; whether there are cost implications for plans or internal inconsistencies in actuarial procedures.
3. Proper scope of joint-and-survivor procedures; if specified rates should be extended to PERA and TRA.
4. Creating a two-year trigger rather than a single year trigger for MSRS post-retirement adjustment increases is a benefit reduction for retirees, but is consistent with recent legislative actions for PERA.
5. Issue of whether two-year triggers should be extended to the teacher retirement plans.
6. Whether the MSRS annuity application revision (annuity application cannot be submitted more than 60 days before benefits commence) is too short.
7. Whether there is sufficient need for proposed MSRS revised reemployed annuitant holding account procedures involving certain divorce situations.
8. Whether there is sufficient need for proposed TRA revised reemployed annuitant inclusion of third-party providers.

### **Potential Amendments**

**S2442-1A**, intended to be technical, adds a cross-reference to a post-retirement adjustment provision.

**S2442-2A**, requested by PERA and TRA, expands the scope of Article 1, Interest Rate for Computing Joint and Survivor Annuities, to provide comparable treatment for all PERA plans and TRA.

**S2442-3A** extends the use of two-year triggers for post-retirement adjustment increases to TRA and the first class city teacher retirement plans. The amendment was requested by administrators in a few of these plans.

**S2442-4A**, requested by PERA and TRA, extends to PERA and TRA the same treatment which MSRS is requesting in Article 3, Section 2. Under the amendment, if a divorce decree requires that monthly pension benefits be split between the retiree and the ex-spouse, any amount to be received by the ex-spouse will not be subject to reduction or withholding in a reemployed annuitant holding account.

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TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Ed Burek, Deputy Director **EB**

RE: S.F. 2442 (Pappas); H.F. 2827 (Murphy, M.): MSRS, TRA, Various plans;  
MSRS: Specifying Interest Rate for Computing Joint-and-Survivor Annuities;  
Revising Post-Retirement Adjustment Triggers; Revising Reemployed  
Annuitant Withholding in Certain Divorce Situations.  
TRA: Clarifying TRA Medical Advisor and Resumption of Teaching Provisions.  
All Plans: Correcting a Cross-Reference in a Federal Compliance Provision.

DATE: March 21, 2014

General Summary of S.F. 2442 (Pappas); H.F. 2827 (Murphy, M.)

S.F. 2442 (Pappas); H.F. 2827 (Murphy, M.) revises the laws applicable to Minnesota State Retirement System (MSRS) plans, as follows:

- Specifies that for purposes of computing the reductions needed for joint-and-survivor annuities in all MSRS plans a 6.5% post-retirement interest rate will be used;
- Requires for all MSRS plans that two consecutive actuarial valuations, rather than a single actuarial valuation, must show a funding ratio at least equal to the trigger funding ratio before post-retirement adjustments can be increased;
- Requires for MSRS plans that application for an annuity must not be made more than 60 days before the person's chosen retirement date, rather than no more than 90 days before the person first meets age and length of service requirements for an annuity; and
- Revises the MSRS reemployed annuitant provision by clarifying when annuity payments will cease and be resumed (the first day of the following month) and by specifying that if a reemployed annuitant has a benefit suspended and placed in a reemployed annuitant account for later release to the individual, any portion of the person's benefit payable to a former spouse under a divorce decree must continue to be paid rather than being withheld.

The bill includes the following provisions for the Teachers Retirement Association (TRA), as follows:

- Salary from teaching service, for purposes of the TRA resumption of teaching service after retirement provision, is revised to include payments made to a retired teacher who is now a third-party supplier of services to a TRA-covered school district, or who is an employee of that third-party supplier, consultant, or independent contractor; and
- Revises the TRA medical advisor provision by permitting TRA to contract with accredited independent organizations specializing in disability determinations, rather than being limited to using physicians designated by the Minnesota Department of Health.

The bill also includes a provision correcting a cross-reference in a federal compliance provision applicable to all Minnesota public plans.

Section-by-Section Summary

A section-by-section summary of S.F. 2442; H.F. 2827 is attached.

Discussion and Analysis

Article 1: MSRS Interest Rate for Computing Joint and Survivor Annuities. Article 1 contains the sections which declare that for purposes of determining joint-and-survivor annuities, all MSRS plans will use an assumption that the post-retirement investment return assumption is 6.5%. When a retiree selects a joint-and-survivor annuity, if the person named to the second portion of the annuity (assumed to be a spouse for purposes of this discussion) outlives the retiree, the surviving spouse will continue to receive benefits for as long as that person lives. Since joint-and-survivor annuities are actuarially equivalent to a single life annuity (accept for a subsidized bounce-back feature) MSRS needs to determine the reduction in the monthly payment that is needed to pre-fund the benefit continuation after the primary annuitant's death. The amount of the reduction depends on the assumed rate of return. If the rate is high, a very modest reduction in monthly benefit is needed, because the death of the primary annuitant is not likely to occur for many years, and the amount of the reduction in monthly benefit, which is retained by the fund,

is expected to grow at a high rate over time. MSRS does not need to put much aside now to cover the benefits to be paid, years from now, to the survivor. On the other hand, if investment returns are low, more needs to be retained by MSRS (the monthly benefit reduction needs to be greater) to cover the benefits to eventually be paid to the survivor.

The concern that MSRS seeks to address is that if the post-retirement investment return assumption used to determine the necessary monthly benefit reduction for joint-and-survivor annuities is too high, the computed monthly benefit reduction is too low, and those choosing joint-and-survivor annuities are being subsidized. If, on the other hand, the post-retirement investment return assumption used for these purposes is too low, the computed monthly benefit reduction will be too high, and those choosing joint-and-survivor annuities will be penalized. It is important that the assumption used to determine necessary monthly reductions for joint-and-survivor annuities is reasonable and appropriate for the long term.

Unfortunately, current law complicates this issue and creates confusion. Pre-retirement and post-retirement interest rate assumptions are specified in Minnesota Statutes, Section 356.215, Subdivision 8, but another provision of law states that for the indefinite future the post-retirement interest rate assumption indicated there should be ignored, at least for purposes of the actuarial valuations. The major plan post-retirement adjustment provision (Minn. Stat. Sec. 356.415, Subd. 3) states that until the major plans reach funding stability (when the pension fund market value is at least 90% of accrued liabilities) the actuarial valuation must use a post-retirement interest rate assumption "equal to the difference between the preretirement interest rate assumption....and the stated annual post-retirement adjustment rate provided under this (post-retirement adjustment) section." This results in post-retirement interest rate assumptions that differ among the MSRS plans and across plans in other systems, because the post-retirement adjustments currently paid vary among the plans. All MSRS plans other than the plans for judges and state patrol officers are currently providing 2% adjustments, but the Judges Retirement Plan is currently paying 1.75%, and the State Patrol Retirement Plan is now paying 1% adjustments. In addition to the current variations, rates will vary over time as some plans reach funding stability before others. Due to the 2010 Financial Sustainability Provisions (Laws 2010, Ch. 359, Art. 1) and subsequent legislation, as plan funding ratios improve over time and reach certain thresholds, the post-retirement adjustments will increase, eventually returning to 2.5% for most plans.

What MSRS is seeking to do, despite the current diversity of post-retirement adjustments and the expectation that post-retirement adjustment rates will be higher in the future, is to create a single rate for use in determining joint-and-survivor annuities for all of its plans, based more on long-term expectations rather than current reality, and these changes will have benefit implications. Another consequence is that the plans, for purposes of computing monthly reductions in benefits to pay for the survivor coverage, will be using assumptions that differ from what the actuary uses for the actuarial valuations to value plan liabilities.

Article 2: MSRS Plans Post-Retirement Adjustment Trigger Procedures. Article 2 revises all of the MSRS plans post-retirement adjustment provisions by changing the trigger mechanism. Currently, all MSRS plans other than the plans for judges and state patrol officers use a 90% funding ratio trigger. When the funding ratio based on market value is at least 90% the plan will cease providing a 2% post-retirement increase and begin paying a 2.5% increase. Under the legislation, the plans will need to meet or beat the funding ratio trigger for two consecutive years, rather than for a single year, before post-retirement adjustments will be increased. MSRS contends that the change is needed to reduce the likelihood that starting to pay higher post-retirement adjustments will pull the plan back below what had been the trigger funding ratio. Meeting or exceeding the target funding ratio two years in a row will suggest that the plan is clearly on a path to recovery. However, the proposed changes have benefit implications for MSRS retirees. The higher post-retirement increases which would have occurred if current law remains in place will be delayed a minimum of one year and possibly much longer. If the plan does beat the trigger two years in a row, the higher post-retirement adjustment will begin one year later than under current law. If the plan beats the trigger in one year, but falls below in the following year, the whole threshold process starts again. A few years may pass before the funding ratio exceeds the threshold for a single year, and then there would be another wait to see what happens the following year.

Article 3: Miscellaneous Provisions. Article 3, Section 1, contains a change which MSRS contends is needed in its annuity application provision. The provision as currently stated permits an individual to submit an application for an annuity that might not commence until many years in the future. MSRS is concerned about changes in a person's status (for instance, marital status) between the time the person applies for an annuity and when the annuity commences. Under current law, the person can submit an annuity application as early as 90 days before meeting minimum age and service requirements for an annuity. In MSRS-General, a person can retire as early as age 55, although there would be a sizable reduction due to early retirement. So, a person can submit the application 90 days before reaching age 55 even though the person may have no intention of retiring until, perhaps, reaching the plan's normal retirement age, age 65 or 66. MSRS is requesting that the procedure in law be changed to require that an annuity application cannot be made until 60 days before the time that the plan member intends to begin drawing retirement benefits.

Article 3, Section 2, revises the MSRS reemployed annuitant provision by clarifying dates and, more significantly, by revising reemployed annuitant holding account procedures when there is a divorce situation and the member's spouse is entitled under a divorce decree to a portion of the retiree's monthly benefit checks. Under the revision in this section, MSRS will segregate this monthly annuity amount into two portions and only the retired member's portion will be deposited in the reemployed annuitant holding account, to be released at a later date following termination of the reemployment. The portion going to the spouse under the divorce decree will not be withheld but will continue to be paid.

Article 3, Sections 3 and 4, revise the TRA reemployed annuitant provision to apply to teachers working as a third party supplier of services to a school district, or as an employee of that third party supplier and the TRA medical advisor provision to permit use of medical advisors in disability determinations other than those designated by the Commissioner of Health.

Article 3, Section 5, revises a cross-reference in a federal law compliance eligible retirement plan provision.

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

1. Lack of Compliance with Administrative Legislation Submission Requirements. Some of the provisions in the bill can be considered to be administrative. The issue is the general lack of compliance with administrative legislation submission requirements. Minnesota Statutes, Section 356B.05, Public Pensions Administrative Legislation, was drafted and enacted at the request of the various retirement system administrators and requires the retirement systems to submit draft administrative proposals to the Commission and general government operations committees by October 1 if the legislation is to be considered during the next legislative session and requires the Commission staff to respond with written comments by November 15. For the 2014 Legislative Session, no administrative proposals were submitted by the October 1 deadline. A consequence of not complying with the stated deadline is that proposals are not shared and circulated until very late in the process, so issues of the proper scope of changes (whether changes should be for one plan or all plans in a system or for one systems or all or most systems) are resolved through last-minute consideration of staff amendments rather than being included in the original bill.
2. Appropriateness of Using a Single Interest Rate for All MSRS Plans. The policy issue is why MSRS contends that a 6.5% rate is the appropriate rate to use in determining joint-and-survivor annuities, why MSRS administrators deem this appropriate for all MSRS plans, and whether this practice will result in any internal inconsistencies. For example, when the actuary determines the actuarial reserves needed to support an annuity being paid, it would appear that the actuary will be using a post-retirement interest rate which differs from the rate MSRS uses to determine the monthly benefit reduction needed at benefit commencement. The Commission may wish to hear testimony on this matter.
3. Cost Implications of Using a Single Interest Rate for All MSRS Plans. The policy issue is whether the specification of an interest rate for use in MSRS plans has cost implications for the pension funds.
4. Benefit Implications of Using Single Interest Rate for MSRS Members Selecting Joint-and-Survivor Annuities. The issue is how using a 6.5% rate will impact the computed joint-and-survivor annuity benefit amounts compared to the procedures which MSRS currently uses. The Commission may wish to hear testimony on this matter.
5. Appropriate Scope of the Joint-and-Survivor Interest Rate Specification. The issue is the appropriate scope of this joint-and-survivor interest rate specification. If this change is deemed appropriate for MSRS plans, it is unclear why other plan systems are not proposing similar changes. Commission members may wish to consider whether to expand this treatment to other retirement plan systems.
6. Revised MSRS Post-Retirement Adjustment Trigger Mechanisms: Benefit Implications for Retirees. The policy issue is the implication of revising MSRS post-retirement trigger mechanisms for all of its plans by requiring funding ratios to at least equal the rate to trigger an increase in post-retirement adjustments for two consecutive years rather than for a single year. Compared to current procedures, this revision creates a benefit reduction to retirees because it will delay any increase in post-retirement adjustments for a minimum of one year and possibly for several years. This proposal may result in complaints from retirees if they are made aware of the change and its implications. The question is whether the Commission concludes that this change is needed to protect the fund and keep it on the path of full recovery despite the harm to retirees. Moving to two-year triggers would make MSRS plans consistent with Public Employees Retirement Association (PERA) plans, which currently have a two-year trigger.
7. Appropriate Scope of the Post-Retirement Adjustment Trigger Mechanism Revision. The policy issue is that currently there is a range of trigger mechanisms used across retirement plan systems, and the

Commission may wish to consider a move toward more uniformity. PERA currently has a two-year trigger comparable to what MSRS is proposing, but all of the teacher plans use a single-year trigger.

8. Appropriateness of the Proposed Change in the MSRS Annuity Application Period. The policy issue is whether the proposed change in MSRS annuity application procedures is the preferred change. Commission members may conclude that the current application period, which permits individuals to submit an annuity application more than a decade before actually retiring, is too long, but members might be concerned that the proposed change creates a window that is too small. Under the proposed change, the annuity application cannot be submitted more than 60 days before the annuity is to commence. Commission members might consider whether this window is unreasonable for individuals who perhaps are hospitalized or otherwise incapacitated during the two months prior to intended retirement, or for those who might be vacationing or otherwise traveling. The Commission might want to consider creating a somewhat larger window by making a verbal amendment to page 8, line 14, deleting “60” and inserting a different number of days, presumably for a longer period.
9. Sufficient Need for the Changes to MSRS Reemployed Annuitant Withholding in Divorce Cases. The policy issue is whether there is sufficient need for the proposed change in MSRS reemployed annuitant holding account policy in certain divorce situations. Under the proposal, MSRS will segregate the monthly annuity amount into two portions. Only the retired member’s portion will continue to be deposited in the reemployed annuitant holding account, to be released at a later date following termination of the reemployment. The portion going to the spouse under the divorce decree will not be withheld; rather, it will continue to be currently paid. Splitting pension benefits in a divorce decree is not a preferred procedure and ought to be rare. It should be avoided if at all possible because of complications like that imposed by the current MSRS law.
10. Proper Scope of the Reemployed Annuitant Withholding in Divorce Cases. If the Commission concludes that there is sufficient need for the proposed change in MSRS reemployed annuitant holding account policy in divorce situations and the proposal has sufficient merits, the issue is the question of the proper scope. Perhaps a similar procedure should be applied in other pension plans.
11. Sufficient Need for Proposed Change in TRA Reemployed Annuitant Provision. The policy issue is whether there is sufficient need for the proposed change in the TRA reemployed annuitant provision. TRA is seeking to ensure that a retired teacher who is reemployed and acting as a third-party supplier to a school district, or an employee of that third party supplier, is treated like any other reemployed teacher for purposes of the reemployed annuitant provision. The Commission may wish to hear brief testimony from TRA about the provision and why TRA believes the revision is needed. A related issue, whether language comparable to the proposed MSRS divorce decree language should be added to this TRA provision, has already been mentioned above.
12. Sufficient Need for the TRA Revised Medical Advisor Provision. The policy issue is why the proposed change in the TRA medical advisor provision is needed. TRA has used individuals designated by the Commissioner of the Department of Health as TRA’s advisors on disability matters. TRA is proposing to be permitted to also be permitted to use providers other than those designated by the Commissioner. The Commission may wish to hear testimony on why that change is needed.

#### Potential Amendments for Commission Consideration

**S2442-1A** is considered by Commission staff to be a technical amendment, but Commission members may wish to hear whether MSRS believes this amendment is needed.

**S2442-2A** was requested by PERA and TRA to expand the scope of the MSRS interest rate for computing joint-and-survivor annuities proposal to provide treatment for all PERA plans and.

**S2442-3A** would expand the scope of the two-year post-retirement adjustment trigger mechanism for post-retirement adjustment increases to include TRA and the first class city teacher retirement plans.

**S2442-4A** would expand to PERA and TRA the reemployed annuitant holding account policy in certain divorce situations proposed for MSRS. Under the amendment, if a divorce decree requires that monthly pension benefits be split between the retiree and the ex-spouse, if the retiree is reemployed any annuity reductions which would ordinarily be directed to a withholding account must not include the ex-spouse's portion of the annuity and which must continue to be paid.

In amendments S2442-3A and S2442-4A, if the Commission does not want to have a certain plan included in these amendments, your staff can suggest verbal amendments to the amendment to remove the applicable plan. There are also a number of additional changes to the bill, largely removal of certain sections or whole articles, which Commission staff can suggest if members are interested.

## Section-by-Section Summary of S.F. 2442; H.F. 2827

| Sec.  | Pg.Ln | Stat. Provision   | Plan                               | Summary  |
|---|-------|-------------------|------------------------------------|--|
| <b>Article 1: MSRS Interest Rate for Computing Joint and Survivor Annuities</b> |       |                   |                                    |  |
| 1   | 1.20  | 3A.01, Subd. 1a   | Legislators Plan                   | The definition of actuarial equivalent is revised to add a cross-reference to new Sec. 356.461, causing a 6.5% post-retirement interest rate assumption to be used for computing joint-and-survivor annuities rather than any other rate specified in Minn. Stat. Sec. 356.215, Subd. 8. |
| 2   | 2.5   | 352.01, Subd. 12  | MSRS-General                       | The definition of actuarial equivalent is revised to add a cross-reference to new Sec. 356.461, causing a 6.5% post-retirement interest rate assumption to be used for computing joint-and-survivor annuities rather than any other rate specified in Minn. Stat. Sec. 356.215, Subd. 8. |
| 3   | 2.17  | 352.03, Subd. 4   | MSRS                               | The MSRS board powers provision is revised by clarifying that board powers include approving retirement annuity factors for the MSRS-Unclassified Plan.  |
| 4   | 3.8   | 352B.08, Subd. 3  | State Patrol Plan                  | The State Patrol optional annuity form provision revised to add a cross-reference to new Sec. 356.461, causing a 6.5% post-retirement interest rate assumption to be used for computing joint-and-survivor annuities   |
| 5   | 3.31  | New 356.461       | MSRS                               | For purposes of computing joint-and-survivor annuities in MSRS plans, a 6.5% post-retirement interest rate assumption to be used rather than any other rate specified in Minn. Stat. Sec. 356.215, Subd. 8.  |
| 6   | 4.16  | 490.121, Subd. 2a | Judges Plan                        | The definition of actuarial equivalent is revised to add a cross-reference to new Sec. 356.461, causing a 6.5% post-retirement interest rate assumption to be used for computing joint-and-survivor annuities rather than any other rate specified in Minn. Stat. Sec. 356.215, Subd. 8. |
| <b>Article 2: MSRS Plans Post-Retirement Adjustment Trigger Procedures</b>      |       |                   |                                    |  |
| 1   | 4.32  | 356.415, Subd. 1a | MSRS plans other than State Patrol | Revises the post-retirement adjustment trigger procedure to require the funding ratio based on market value to be 90% or greater in two consecutive actuarial valuations, rather than in a single actuarial valuation, before post-retirement adjustments higher than 2% can be paid.    |
| 2   | 6.2   | 356.415, Subd. 1e | State Patrol Plan                  | Revises the post-retirement adjustment trigger procedure to require two consecutive actuarial valuations, rather than in a single actuarial valuation, with a funding ratio at least equal to the trigger ratio before post-retirement adjustments can be increased.                     |
| 3   | 7.15  | 356.415, Subd. 1f | Judges Plan                        | Revises the post-retirement adjustment trigger procedure to require two consecutive actuarial valuations, rather than in a single actuarial valuation, with a funding ratio at least equal to the trigger ratio before post-retirement adjustments can be increased.                     |
| <b>Article 3: Miscellaneous Provisions</b>                                      |       |                   |                                    |  |
| 1   | 8.12  | 352.115, Subd. 8  | MSRS                               | Applications for an annuity may not be submitted more than 60 days before the annuity is to commence rather than no earlier than 90 days before the person first meets age and service requirements to qualify for an annuity.   |
| 2   | 8.32  | 352.115, Subd. 10 | MSRS                               | In divorce decree situations where pension plan monthly benefits are to be split between the retiree and divorced spouse, the portion of the benefit payable to the spouse must continue to be paid, rather than being withheld if the reemployed annuitant exceeds exempt income limit. |
| 3   | 10.1  | 354.44, Subd. 5.  | TRA                                | TRA reemployed annuitant provision is revised to apply to teachers working as a third party supplier of services to a school district, or as an employee of that third party supplier.   |
| 4   | 10.30 | 354.48, Subd. 6a  | TRA                                | TRA medical advisor provision revised to permit use of medical advisors in disability determinations other than those designated by the Commissioner of Health.  |
| 5   | 11.11 | 356.635, Subd. 6  | All plans                          | Corrects a cross-reference in the federal law compliance eligible retirement plan provision.   |

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1.1 ..... moves to amend S.F. No. 2442; H.F. No. 2827, as follows:

1.2 Page 4, line 2, before "to" insert "or 356.415, subdivision 3, "

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1.1 ..... moves to amend S.F. No. 2442; H.F. No. 2827, as follows:

1.2 Page 3, after line 30, insert:

1.3 "Sec. 5. Minnesota Statutes 2012, section 353.01, subdivision 14, is amended to read:

1.4 Subd. 14. **Actuarial equivalent.** (a) "Actuarial equivalent" means the condition  
1.5 of one annuity or benefit having an equal actuarial present value as another annuity or  
1.6 benefit, determined as of a given date with each actuarial present value based on the  
1.7 appropriate mortality table adopted by the board of trustees based on the experience of the  
1.8 fund as recommended by the actuary retained under section 356.214, and approved under  
1.9 section 356.215, subdivision 18, and using the applicable preretirement or postretirement  
1.10 interest rate assumption specified in section 356.215, subdivision 8.

1.11 (b) For purposes of computing a joint and survivor annuity, the postretirement  
1.12 interest rate assumption specified in section 356.461 must be used rather than the  
1.13 postretirement interest rate specified in section 356.215, subdivision 8.

1.14 **EFFECTIVE DATE.** This section is effective on the same date as the next mortality  
1.15 assumption adjustment or on July 1, 2017, whichever is earlier.

1.16 Sec. 6. Minnesota Statutes 2012, section 353.30, subdivision 3, is amended to read:

1.17 Subd. 3. **Optional retirement annuity forms.** (a) The board of trustees shall  
1.18 establish optional annuities which shall take the form of a joint and survivor annuity.  
1.19 Except as provided in subdivision 3a, the optional annuity forms shall be actuarially  
1.20 equivalent to the forms provided in section 353.29 and subdivisions 1, 1a, 1b, 1c, and 5.  
1.21 In establishing those optional forms, the board shall obtain the written recommendation of  
1.22 the actuary retained under section 356.214. The recommendations shall be a part of the  
1.23 permanent records of the board. A member or former member may select an optional form  
1.24 of annuity, subject to the provisions of section 356.46, in lieu of accepting any other form  
1.25 of annuity which might otherwise be available.

1.26 (b) For purposes of computing a joint and survivor annuity, the postretirement  
1.27 interest rate assumption specified in section 356.461 must be used rather than the  
1.28 postretirement interest rate specified in section 356.215, subdivision 8.

1.29 **EFFECTIVE DATE.** This section is effective on the same date as the next mortality  
1.30 assumption adjustment or on July 1, 2017, whichever is earlier.

1.31 Sec. 7. Minnesota Statutes 2012, section 354.05, subdivision 7, is amended to read:

1.32 Subd. 7. **Actuarial equivalent.** (a) "Actuarial equivalent" means the condition  
1.33 of one annuity or benefit having an equal actuarial present value as another annuity or

2.1 benefit, determined as of a given date with each actuarial present value based on the  
 2.2 appropriate mortality table adopted by the board of trustees based on the experience  
 2.3 of the association as recommended by the actuary retained under section 356.214, and  
 2.4 approved under section 356.215, subdivision 18, and using the applicable preretirement or  
 2.5 postretirement interest rate assumption specified in section 356.215, subdivision 8.

2.6 (b) For purposes of computing a joint and survivor annuity, the postretirement  
 2.7 interest rate assumption specified in section 356.461 must be used rather than the  
 2.8 postretirement interest rate specified in section 356.215, subdivision 8.

2.9 **EFFECTIVE DATE.** This section is effective July 1, 2014."

2.10 Page 3, line 31, delete "MINNESOTA STATE RETIREMENT SYSTEM" and insert "  
 2.11 VARIOUS RETIREMENT SYSTEMS"

2.12 Page 4, line 13, delete "and"

2.13 Page 4, line 14, delete the period and insert a semicolon

2.14 Page 4, after line 14, insert:

2.15 "(7) the general employees retirement plan of the Public Employees Retirement  
 2.16 Association, established under chapter 353, including the MERF division of the Public  
 2.17 Employees Retirement Association;

2.18 (8) the public employees police and fire retirement plan of the Public Employees  
 2.19 Retirement Association, established under chapter 353;

2.20 (9) the local government correctional service retirement plan of the Public  
 2.21 Employees Retirement Association, established under chapter 353E; and

2.22 (10) the Teachers Retirement Association, established under chapter 354."

2.23 Page 4, delete line 15 and insert:

2.24 "**EFFECTIVE DATE.** (a) For plans administered by the Minnesota State Retirement  
 2.25 System and the Teachers Retirement Association, this section is effective July 1, 2014.

2.26 (b) For plans administered by the Public Employees Retirement Association, this  
 2.27 section applies to the determination of joint and survivor factors implemented for the  
 2.28 applicable Public Employees Retirement Association plan effective on the same date as  
 2.29 the next mortality assumption adjustment or on July 1, 2017, whichever is earlier."

2.30 Renumber the sections in sequence

2.31 Amend the title accordingly

1.1 ..... moves to amend S.F. No. 2442; H.F. No. 2827, as follows:

1.2 Page 4, delete line 30

1.3 Page 4, after line 31, insert:

1.4 "Section 1. Minnesota Statutes 2013 Supplement, section 354A.27, subdivision 6a,  
1.5 is amended to read:

1.6 Subd. 6a. **Postretirement adjustment transition.** (a) If the funded ratio of the  
1.7 retirement plan based on the actuarial value of assets is at least 90 percent as reported in  
1.8 the two most recent actuarial ~~valuation~~ valuations prepared under sections 356.214 and  
1.9 356.215, this subdivision expires and subsequent postretirement adjustments are governed  
1.10 by subdivision 7.

1.11 (b) Each annuity or benefit recipient of the retirement plan who has been receiving  
1.12 that annuity or benefit for at least 12 months as of the applicable January 1 is eligible to  
1.13 receive a postretirement adjustment of one percent, payable on January 1.

1.14 **EFFECTIVE DATE.** (a) This section is voided if Minnesota Statutes 2013  
1.15 Supplement, section 354A.27, subdivision 6a, is repealed by action of the 2014 legislature.

1.16 If paragraph (a) does not apply, this section is effective July 1, 2015.

1.17 Sec. 2. Minnesota Statutes 2012, section 354A.29, subdivision 8, is amended to read:

1.18 Subd. 8. **Calculation of postretirement adjustments; transitional provision.** (a)  
1.19 For purposes of computing postretirement adjustments for eligible benefit recipients of  
1.20 the St. Paul Teachers Retirement Fund Association, the accrued liability funding ratio  
1.21 based on the actuarial value of assets of the plan as determined by the two most recent  
1.22 actuarial ~~valuation~~ valuations prepared under sections 356.214 and 356.215 determines  
1.23 the postretirement increase, as follows:

|      |                                   |                         |
|------|-----------------------------------|-------------------------|
| 1.24 | Funding ratio                     | Postretirement increase |
| 1.25 | Less than 80 percent              | 1 percent               |
| 1.26 | At least 80 percent but less than |                         |
| 1.27 | 90 percent                        | 2 percent               |

1.28 (b) The amount determined under paragraph (a) is the full postretirement increase  
1.29 to be applied as a permanent increase to the regular payment of each eligible member  
1.30 on January 1 of the next calendar year. For any eligible member whose effective date  
1.31 of benefit commencement occurred during the calendar year before the postretirement  
1.32 increase is applied, the full increase amount must be prorated on the basis of whole  
1.33 calendar quarters in benefit payment status in the calendar year prior to the January 1 on  
1.34 which the postretirement increase is applied, calculated to the third decimal place.

2.1 (c) If the accrued liability funding ratio based on the actuarial value of assets is at  
2.2 least 90 percent in two consecutive actuarial valuations, this subdivision expires and  
2.3 subsequent postretirement increases must be paid as specified in subdivision 9.

2.4 **EFFECTIVE DATE.** This section is effective July 1, 2015."

2.5 Page 6, after line 1, insert:

2.6 "Sec. 4. Minnesota Statutes 2012, section 356.415, subdivision 1d, is amended to read:

2.7 Subd. 1d. **Teachers Retirement Association annual postretirement adjustments.**

2.8 (a) Retirement annuity, disability benefit, or survivor benefit recipients of the Teachers  
2.9 Retirement Association are entitled to a postretirement adjustment annually on January  
2.10 1, as follows:

2.11 (1) for January 1, 2011, and January 1, 2012, no postretirement increase is payable;

2.12 (2) for January 1, 2013, and each successive January 1 until funding stability is  
2.13 restored, a postretirement increase of two percent must be applied each year, effective  
2.14 on January 1, to the monthly annuity or benefit amount of each annuitant or benefit  
2.15 recipient who has been receiving an annuity or a benefit for at least 18 full months prior  
2.16 to the January 1 increase;

2.17 (3) for January 1, 2013, and each successive January 1 until funding stability is  
2.18 restored, for each annuitant or benefit recipient who has been receiving an annuity or a  
2.19 benefit for at least six full months before the January 1 increase, an annual postretirement  
2.20 increase of 1/12 of two percent for each month the person has been receiving an annuity or  
2.21 benefit must be applied, effective January 1, for which the person has been retired for at  
2.22 least six months but less than 18 months;

2.23 (4) for each January 1 following the restoration of funding stability, a postretirement  
2.24 increase of 2.5 percent must be applied each year, effective January 1, to the monthly  
2.25 annuity or benefit amount of each annuitant or benefit recipient who has been receiving an  
2.26 annuity or a benefit for at least 18 full months prior to the January 1 increase; and

2.27 (5) for each January 1 following the restoration of funding stability, for each  
2.28 annuitant or benefit recipient who has been receiving an annuity or a benefit for at least  
2.29 six full months before the January 1 increase, an annual postretirement increase of 1/12  
2.30 of 2.5 percent for each month the person has been receiving an annuity or benefit must  
2.31 be applied, effective January 1, for which the person has been retired for at least six  
2.32 months but less than 18 months.

2.33 (b) Funding stability is restored when the market value of assets of the Teachers  
2.34 Retirement Association equals or exceeds 90 percent of the actuarial accrued liabilities  
2.35 of the Teachers Retirement Association in the two most recent prior actuarial valuation

3.1 valuations prepared under section 356.215 and the standards for actuarial work by the  
3.2 approved actuary retained by the Teachers Retirement Association under section 356.214.

3.3 (c) An increase in annuity or benefit payments under this section must be made  
3.4 automatically unless written notice is filed by the annuitant or benefit recipient with the  
3.5 executive director of the Teachers Retirement Association requesting that the increase  
3.6 not be made.

3.7 (d) The retirement annuity payable to a person who retires before becoming eligible  
3.8 for Social Security benefits and who has elected the optional payment as provided in  
3.9 section 354.35 must be treated as the sum of a period-certain retirement annuity and a life  
3.10 retirement annuity for the purposes of any postretirement adjustment. The period-certain  
3.11 retirement annuity plus the life retirement annuity must be the annuity amount payable  
3.12 until age 62, 65, or normal retirement age, as selected by the member at retirement, for an  
3.13 annuity amount payable under section 354.35. A postretirement adjustment granted on  
3.14 the period-certain retirement annuity must terminate when the period-certain retirement  
3.15 annuity terminates.

3.16 **EFFECTIVE DATE.** This section is effective July 1, 2015."

3.17 Renumber the sections in sequence

3.18 Amend the title accordingly

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1.1 ..... moves to amend S.F. No. 2442; H.F. No. 2827, as follows:

1.2 Page 9, after line 36, insert:

1.3 "Sec. 3. Minnesota Statutes 2012, section 353.37, is amended by adding a subdivision  
1.4 to read:

1.5 Subd. 6. **Treatment in certain divorce situations.** Notwithstanding other  
1.6 subdivisions of this section, if a reemployed annuitant whose annuity is suspended or  
1.7 reduced under this section has a former spouse receiving a portion of the annuity under  
1.8 section 518.58, subdivision 1, the portion payable to the former spouse must not be  
1.9 suspended or deferred.

1.10 **EFFECTIVE DATE.** This section is effective retroactively from January 1, 2014."

1.11 Page 10, after line 28, insert:

1.12 "(f) Notwithstanding other paragraphs of this subdivision, if the reemployed  
1.13 annuitant has a former spouse receiving a portion of the annuity under section 518.58,  
1.14 subdivision 1, the portion payable to the former spouse must not be deferred."

1.15 Renumber the sections in sequence

1.16 Amend the title accordingly

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

**S.F. No. 2442**

(SENATE AUTHORS: PAPPAS)

| DATE       | D-PG | OFFICIAL STATUS  |
|------------|------|--|
| 03/06/2014 | 6006 | Introduction and first reading<br>Referred to State and Local Government |

A bill for an act

1.1 relating to retirement; Minnesota State Retirement System and Teachers  
 1.2 Retirement Association; specifying the interest rate for computing  
 1.3 joint-and-survivor annuities, revising postretirement adjustment trigger  
 1.4 procedures, revising annuity application time period, and revising reemployed  
 1.5 annuitant benefit withholding procedures in certain divorce situations in  
 1.6 various Minnesota State Retirement System plans; expanding and clarifying the  
 1.7 Teachers Retirement Association medical advisor selection and resumption of  
 1.8 teaching provisions; and making a technical revision in a federal compliance  
 1.9 provision; amending Minnesota Statutes 2012, sections 3A.01, subdivision  
 1.10 1a; 352.01, subdivision 12; 352.115, subdivisions 8, 10; 352B.08, subdivision  
 1.11 3; 354.44, subdivision 5; 354.48, subdivision 6a; 356.635, subdivision 6;  
 1.12 490.121, subdivision 2a; Minnesota Statutes 2013 Supplement, sections 352.03,  
 1.13 subdivision 4; 356.415, subdivisions 1a, 1e, 1f; proposing coding for new law in  
 1.14 Minnesota Statutes, chapter 356.  
 1.15

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

**ARTICLE 1**

1.17  
 1.18 style="text-align:center">**MINNESOTA STATE RETIREMENT SYSTEM**  
 1.19 style="text-align:center">**INTEREST RATE FOR COMPUTING JOINT AND SURVIVOR ANNUITIES**

1.20 Section 1. Minnesota Statutes 2012, section 3A.01, subdivision 1a, is amended to read:

1.21 Subd. 1a. **Actuarial equivalent.** (a) "Actuarial equivalent" means the condition of  
 1.22 one allowance or benefit having an equal actuarial present value to another allowance or  
 1.23 benefit, determined by the actuary retained under section 356.214 as of a given date at a  
 1.24 specified age with each actuarial present value based on the mortality table applicable for  
 1.25 the plan and approved under section 356.215, subdivision 18, and using the applicable  
 1.26 preretirement or postretirement interest rate assumption specified in section 356.215,  
 1.27 subdivision 8.

2.1 (b) For purposes of computing a joint and survivor annuity, the postretirement  
 2.2 interest rate assumption specified in section 356.461 must be used, rather than the  
 2.3 postretirement interest rate specified in section 356.215, subdivision 8.

2.4 **EFFECTIVE DATE.** This section is effective July 1, 2014.

2.5 Sec. 2. Minnesota Statutes 2012, section 352.01, subdivision 12, is amended to read:

2.6 Subd. 12. **Actuarial equivalent.** (a) "Actuarial equivalent" means the condition  
 2.7 of one annuity or benefit having an equal actuarial present value as another annuity or  
 2.8 benefit, determined as of a given date at a specified age with each actuarial present value  
 2.9 based on the appropriate mortality table adopted by the board of directors based on the  
 2.10 experience of the fund as recommended by the actuary retained under section 356.214, and  
 2.11 approved under section 356.215, subdivision 18, and using the applicable preretirement or  
 2.12 postretirement interest rate assumption specified in section 356.215, subdivision 8.

2.13 (b) For purposes of computing a joint and survivor annuity, the postretirement  
 2.14 interest rate assumption specified in section 356.461 must be used, rather than the  
 2.15 postretirement interest rate specified in section 356.215, subdivision 8.

2.16 **EFFECTIVE DATE.** This section is effective July 1, 2014.

2.17 Sec. 3. Minnesota Statutes 2013 Supplement, section 352.03, subdivision 4, is  
 2.18 amended to read:

2.19 Subd. 4. **Duties and powers of board of directors.** (a) The board shall:

2.20 (1) elect a chair;

2.21 (2) appoint an executive director;

2.22 (3) establish rules to administer this chapter and chapters 3A, 352B, 352C, 352D,  
 2.23 and 490 and transact the business of the system, subject to the limitations of law;

2.24 (4) consider and dispose of, or take any other action the board of directors deems  
 2.25 appropriate concerning, denials of applications for annuities or disability benefits under  
 2.26 this chapter, chapter 3A, 352B, 352C, 352D, or 490, and complaints of employees and  
 2.27 others pertaining to the retirement of employees and the operation of the system;

2.28 (5) oversee the administration of the deferred compensation plan established in  
 2.29 section 352.965;

2.30 (6) oversee the administration of the health care savings plan established in section;  
 2.31 and

2.32 (7) approve early retirement and optional annuity factors for all plans administered  
 2.33 by the system, including approving retirement annuity factors for the unclassified state

3.1 employees program under chapter 352D, subject to review by the actuary retained by  
 3.2 the Legislative Commission on Pensions and Retirement; establish the schedule for  
 3.3 implementation of the approved factors; and notify the Legislative Commission on  
 3.4 Pensions and Retirement of the implementation schedule.

3.5 (b) The board shall advise the director on any matters relating to the system and  
 3.6 carrying out functions and purposes of this chapter. The board's advice shall control.

3.7 **EFFECTIVE DATE.** This section is effective July 1, 2014.

3.8 Sec. 4. Minnesota Statutes 2012, section 352B.08, subdivision 3, is amended to read:

3.9 Subd. 3. **Optional annuity forms.** (a) In lieu of the single life annuity provided in  
 3.10 subdivision 2, the member or former member may elect an optional annuity form. The  
 3.11 board of the Minnesota state retirement system shall establish a joint and survivor annuity,  
 3.12 payable to a designated beneficiary for life, adjusted to the actuarial equivalent value of  
 3.13 the single life annuity. The board shall also establish an additional optional annuity with  
 3.14 an actuarial equivalent value of the single life annuity in the form of a joint and survivor  
 3.15 annuity which provides that the elected annuity be reinstated to the single life annuity  
 3.16 provided in subdivision 2, if after commencing the elected joint and survivor annuity, the  
 3.17 designated beneficiary dies before the member, which reinstatement is not retroactive but  
 3.18 takes effect for the first full month occurring after the death of the designated beneficiary.  
 3.19 The board may also establish other actuarial equivalent value optional annuity forms. In  
 3.20 establishing actuarial equivalent value optional annuity forms, each optional annuity form  
 3.21 shall have the same present value as a regular single life annuity using the mortality  
 3.22 table adopted by the board and the interest assumption specified in section 356.215,  
 3.23 subdivision 8, ~~and~~.

3.24 (b) For purposes of computing a joint and survivor annuity, the postretirement  
 3.25 interest rate assumption specified in section 356.461 must be used, rather than the  
 3.26 postretirement interest rate specified in section 356.215, subdivision 8.

3.27 (c) The board shall obtain the written recommendation of the actuary retained under  
 3.28 section 356.214. These recommendations shall be a part of the permanent records of  
 3.29 the board.

3.30 **EFFECTIVE DATE.** This section is effective July 1, 2014.

3.31 Sec. 5. **[356.461] MINNESOTA STATE RETIREMENT SYSTEM; JOINT AND**  
 3.32 **SURVIVOR ANNUITY COMPUTATION.**

4.1 Subdivision 1. **Joint and survivor annuity computation.** Notwithstanding any  
 4.2 provision of section 356.215, subdivision 8, to the contrary, for purposes of computing joint  
 4.3 and survivor annuities, the applicable postretirement interest assumption is 6.5 percent.

4.4 Subd. 2. **Covered plans.** This section applies to the following retirement plans:

4.5 (1) the legislators retirement plan, established under chapter 3A, including  
 4.6 constitutional officers as specified in that chapter;

4.7 (2) the correctional state employees retirement plan of the Minnesota State  
 4.8 Retirement System, established under chapter 352;

4.9 (3) the general state employees retirement plan of the Minnesota State Retirement  
 4.10 System, established under chapter 352;

4.11 (4) the State Patrol retirement plan, established under chapter 352B;

4.12 (5) the unclassified state employees retirement program of the Minnesota State  
 4.13 Retirement System, established under chapter 352D; and

4.14 (6) the judges retirement plan, established under chapter 490.

4.15 **EFFECTIVE DATE.** This section is effective July 1, 2014.

4.16 Sec. 6. Minnesota Statutes 2012, section 490.121, subdivision 2a, is amended to read:

4.17 Subd. 2a. **Actuarial equivalent.** (a) "Actuarial equivalent" means the condition  
 4.18 of one annuity or benefit having an equal actuarial present value as another annuity or  
 4.19 benefit, determined as of a given date with each actuarial present value based on the  
 4.20 appropriate mortality table adopted by the board of directors of the Minnesota State  
 4.21 Retirement System based on the experience of the fund as recommended by the actuary  
 4.22 retained under section 356.214 and approved under section 356.215, subdivision 18, and  
 4.23 using the applicable preretirement or postretirement interest rate assumption specified in  
 4.24 section 356.215, subdivision 8.

4.25 (b) For purposes of computing a joint and survivor annuity, the postretirement  
 4.26 interest rate assumption specified in section 356.461 must be used, rather than the  
 4.27 postretirement interest rate specified in section 356.215, subdivision 8.

4.28 **EFFECTIVE DATE.** This section is effective July 1, 2014.

## 4.29 **ARTICLE 2**

### 4.30 **MINNESOTA STATE RETIREMENT SYSTEM PLANS** 4.31 **POSTRETIREMENT ADJUSTMENT TRIGGER PROCEDURES**

4.32 Section 1. Minnesota Statutes 2013 Supplement, section 356.415, subdivision 1a,  
 4.33 is amended to read:

5.1 Subd. 1a. **Annual postretirement adjustments; Minnesota State Retirement**  
5.2 **System plans other than State Patrol retirement plan.** (a) Retirement annuity, disability  
5.3 benefit, or survivor benefit recipients of the legislators retirement plans, including  
5.4 constitutional officers as specified in chapter 3A, the general state employees retirement  
5.5 plan, the correctional state employees retirement plan, the unclassified state employees  
5.6 retirement program, and the judges retirement plan are entitled to a postretirement  
5.7 adjustment annually on January 1, as follows:

5.8 (1) a postretirement increase of two percent must be applied each year, effective  
5.9 on January 1, to the monthly annuity or benefit of each annuitant or benefit recipient  
5.10 who has been receiving an annuity or a benefit for at least 18 full months before the  
5.11 January 1 increase; and

5.12 (2) for each annuitant or benefit recipient who has been receiving an annuity or  
5.13 a benefit for at least six full months, an annual postretirement increase of 1/12 of two  
5.14 percent for each month that the person has been receiving an annuity or benefit must be  
5.15 applied, effective January 1, following the calendar year in which the person has been  
5.16 retired for at least six months, but has been retired for less than 18 months.

5.17 (b) The increases provided by this subdivision commence on January 1, 2011.  
5.18 Increases under this subdivision for the general state employees retirement plan, the  
5.19 correctional state employees retirement plan, or the judges retirement plan terminate on  
5.20 December 31 of the calendar year in which the two prior consecutive actuarial valuation  
5.21 valuations prepared by the approved actuary under sections 356.214 and 356.215 and the  
5.22 standards for actuarial work promulgated by the Legislative Commission on Pensions  
5.23 and Retirement indicates that the market value of assets of the retirement plan equals or  
5.24 exceeds 90 percent of the actuarial accrued liability of the retirement plan and increases  
5.25 under subdivision 1 recommence after that date. Increases under this subdivision for  
5.26 the legislators retirement plan or the elected state officers retirement plan terminate  
5.27 on December 31 of the calendar year in which the actuarial valuation prepared by the  
5.28 approved actuary under sections 356.214 and 356.215 and the standards for actuarial work  
5.29 promulgated by the Legislative Commission on Pensions and Retirement indicates that the  
5.30 market value of assets of the general state employees retirement plan equals or exceeds  
5.31 90 percent of the actuarial accrued liability of the retirement plan and increases under  
5.32 subdivision 1 recommence after that date.

5.33 (c) An increase in annuity or benefit payments under this subdivision must be made  
5.34 automatically unless written notice is filed by the annuitant or benefit recipient with the  
5.35 executive director of the applicable covered retirement plan requesting that the increase  
5.36 not be made.

6.1 **EFFECTIVE DATE.** This section is effective July 1, 2014.

6.2 Sec. 2. Minnesota Statutes 2013 Supplement, section 356.415, subdivision 1e, is  
6.3 amended to read:

6.4 Subd. 1e. **Annual postretirement adjustments; State Patrol retirement plan.**

6.5 (a) Retirement annuity, disability benefit, or survivor benefit recipients of the State Patrol  
6.6 retirement plan are entitled to a postretirement adjustment annually on January 1, as  
6.7 follows:

6.8 (1) a postretirement increase of one percent must be applied each year, effective on  
6.9 January 1, to the monthly annuity or benefit of each annuitant or benefit recipient who  
6.10 has been receiving an annuity or a benefit for at least 18 full months before the January 1  
6.11 increase; and

6.12 (2) for each annuitant or benefit recipient who has been receiving an annuity or a  
6.13 benefit for at least six full months, an annual postretirement increase of 1/12 of one percent  
6.14 for each month that the person has been receiving an annuity or benefit must be applied,  
6.15 effective January 1, following the calendar year in which the person has been retired for at  
6.16 least six months, but has been retired for less than 18 months.

6.17 (b) The increases provided by this subdivision commence on January 1, 2014.  
6.18 Increases under paragraph (a) for the State Patrol retirement plan terminate on December  
6.19 31 of the calendar year in which ~~the two prior consecutive actuarial valuation~~ valuations  
6.20 prepared by the approved actuary under sections 356.214 and 356.215 and the standards  
6.21 for actuarial work promulgated by the Legislative Commission on Pensions and  
6.22 Retirement indicates that the market value of assets of the retirement plan equals or  
6.23 exceeds 85 percent of the actuarial accrued liability of the retirement plan and increases  
6.24 under paragraph (c) recommence after that date.

6.25 (c) Retirement annuity, disability benefit, or survivor benefit recipients of the State  
6.26 Patrol retirement plan are entitled to a postretirement adjustment annually on January  
6.27 1, as follows:

6.28 (1) a postretirement increase of 1.5 percent must be applied each year, effective on  
6.29 January 1, to the monthly annuity or benefit of each annuitant or benefit recipient who  
6.30 has been receiving an annuity or a benefit for at least 18 full months before the January 1  
6.31 increase; and

6.32 (2) for each annuitant or benefit recipient who has been receiving an annuity or a  
6.33 benefit for at least six full months, an annual postretirement increase of 1/12 of 1.5 percent  
6.34 for each month that the person has been receiving an annuity or benefit must be applied,



7.1 effective January 1, following the calendar year in which the person has been retired for at  
7.2 least six months, but has been retired for less than 18 months.

7.3 (d) Increases under paragraph (c) for the State Patrol retirement plan terminate on  
7.4 December 31 of the calendar year in which ~~the two prior consecutive actuarial valuation~~  
7.5 valuations prepared by the approved actuary under sections 356.214 and 356.215 and  
7.6 the standards for actuarial work adopted by the Legislative Commission on Pensions  
7.7 and Retirement indicates that the market value of assets of the retirement plan equals or  
7.8 exceeds 90 percent of the actuarial accrued liability of the retirement plan and increases  
7.9 under subdivision 1 recommence after that date.

7.10 (e) An increase in annuity or benefit payments under this subdivision must be made  
7.11 automatically unless written notice is filed by the annuitant or benefit recipient with the  
7.12 executive director of the applicable covered retirement plan requesting that the increase  
7.13 not be made.

7.14 **EFFECTIVE DATE.** This section is effective July 1, 2014.

7.15 Sec. 3. Minnesota Statutes 2013 Supplement, section 356.415, subdivision 1f, is  
7.16 amended to read:

7.17 Subd. 1f. **Annual postretirement adjustments; Minnesota State Retirement**  
7.18 **System judges retirement plan.** (a) The increases provided under this subdivision begin  
7.19 on January 1, 2014, and are in lieu of increases under subdivision 1 or 1a for retirement  
7.20 annuity, disability benefit, or survivor benefit recipients of the judges retirement plan.

7.21 (b) Retirement annuity, disability benefit, or survivor benefit recipients of the  
7.22 judges retirement plan are entitled to a postretirement adjustment annually on January  
7.23 1, as follows:

7.24 (1) a postretirement increase of 1.75 percent must be applied each year, effective  
7.25 on January 1, to the monthly annuity or benefit of each annuitant or benefit recipient  
7.26 who has been receiving an annuity or a benefit for at least 18 full months before the  
7.27 January 1 increase; and

7.28 (2) for each annuitant or benefit recipient who has been receiving an annuity or a  
7.29 benefit for at least six full months, an annual postretirement increase of 1/12 of 1.75  
7.30 percent for each month that the person has been receiving an annuity or benefit must be  
7.31 applied, effective January 1, following the calendar year in which the person has been  
7.32 retired for at least six months, but has been retired for less than 18 months.

7.33 (c) Increases under this subdivision terminate on December 31 of the calendar  
7.34 year in which ~~the two prior consecutive actuarial valuation~~ valuations prepared by the  
7.35 approved actuary under sections 356.214 and 356.215 and the standards for actuarial work

8.1 promulgated by the Legislative Commission on Pensions and Retirement indicates that  
 8.2 the market value of assets of the judges retirement plan equals or exceeds 70 percent of  
 8.3 the actuarial accrued liability of the retirement plan. Increases under subdivision 1 or 1a,  
 8.4 whichever is applicable, begin on the January 1 next following that date.

8.5 (d) An increase in annuity or benefit payments under this subdivision must be made  
 8.6 automatically unless written notice is filed by the annuitant or benefit recipient with the  
 8.7 executive director of the applicable covered retirement plan requesting that the increase  
 8.8 not be made.

8.9 **EFFECTIVE DATE.** This section is effective July 1, 2014.

### 8.10 **ARTICLE 3**

#### 8.11 **MISCELLANEOUS PROVISIONS**

8.12 Section 1. Minnesota Statutes 2012, section 352.115, subdivision 8, is amended to read:

8.13 Subd. 8. **Accrual of annuity.** ~~State employees shall apply for an annuity. The~~  
 8.14 application for an annuity must not be made more than ~~90~~ 60 days before the time the state  
 8.15 employee is eligible to retire by reason of both age and service requirements or former  
 8.16 state employee elects to begin collecting a retirement annuity. If the director determines an  
 8.17 applicant for annuity has fulfilled the legal requirements for an annuity, the director shall  
 8.18 authorize the annuity payment in accordance with this chapter and payment must be made  
 8.19 as authorized. An annuity shall begin to accrue no earlier than 180 days before the date the  
 8.20 application is filed with the director, but not before the day following the termination of  
 8.21 state service or before the day the employee is eligible to retire by reason of both age and  
 8.22 service requirements. The retirement annuity shall cease with the last payment which had  
 8.23 accrued during the lifetime of the retired employee unless an optional annuity provided in  
 8.24 section 352.116, subdivision 3, had been selected and had become payable. The joint and  
 8.25 last survivor annuity shall cease with the last payment received by the survivor during  
 8.26 the lifetime of the survivor. If a retired employee had not selected an optional annuity, or  
 8.27 a survivor annuity is not payable under the option, and a spouse survives, the spouse is  
 8.28 entitled only to the annuity for the calendar month in which the retired employee died.  
 8.29 If an optional annuity is payable after the death of the retired employee, the survivor is  
 8.30 entitled to the annuity for the calendar month in which the retired employee died.

8.31 **EFFECTIVE DATE.** This section is effective July 1, 2014.

8.32 Sec. 2. Minnesota Statutes 2012, section 352.115, subdivision 10, is amended to read:

9.1 Subd. 10. **Reemployment of annuitant.** (a) Except for salary or wages received  
9.2 as a temporary employee of the legislature during a legislative session, if any retired  
9.3 employee again becomes entitled to receive salary or wages from any employer who  
9.4 employs state employees as that term is defined in section 352.01, subdivision 2, in a  
9.5 position covered by this chapter, the annuity or retirement allowance must cease ~~when~~ the  
9.6 first of the month following the month that the retired employee has earned an amount  
9.7 equal to the annual maximum earnings allowable for that age for the continued receipt of  
9.8 full benefit amounts monthly under the federal old age, survivors, and disability insurance  
9.9 program as set by the secretary of health and human services under United States Code,  
9.10 title 42, section 403, in any calendar year. If the retired employee has not yet reached the  
9.11 minimum age for the receipt of Social Security benefits, the maximum earnings for the  
9.12 retired employee are equal to the annual maximum earnings allowable for the minimum  
9.13 age for the receipt of Social Security benefits.

9.14 (b) The balance of the annual retirement annuity after cessation must be handled or  
9.15 disposed of as provided in section 356.47.

9.16 (c) The annuity must be resumed ~~when~~ the first of the month following the month  
9.17 that state service ends, or, if the retired employee is still employed at the beginning of the  
9.18 next calendar year, at the beginning of that calendar year, and payment must again end  
9.19 when the retired employee has earned the applicable reemployment earnings maximum  
9.20 specified in this subdivision. If the retired employee is granted a sick leave without pay,  
9.21 but not otherwise, the annuity or retirement allowance must be resumed during the period  
9.22 of sick leave.

9.23 (d) No payroll deductions for the retirement fund may be made from the earnings of  
9.24 a reemployed retired employee.

9.25 (e) No change may be made in the monthly amount of an annuity or retirement  
9.26 allowance because of the reemployment of an annuitant.

9.27 (f) If a reemployed annuitant whose annuity is suspended under paragraph (a)  
9.28 is having insurance premium amounts withheld under section 356.87, subdivision 2,  
9.29 insurance premium amounts must continue to be withheld and transferred from the  
9.30 suspended portion of the annuity. The balance of the annual retirement annuity after  
9.31 cessation, after deduction of the insurance premium amounts, must be treated as specified  
9.32 in paragraph (b).

9.33 (g) If a reemployed annuitant whose annuity is suspended under paragraph (a)  
9.34 has a former spouse receiving a portion of the annuity allowable under section 518.58,  
9.35 subdivision 1, the portion payable to the former spouse must continue to be paid.

9.36 **EFFECTIVE DATE.** This section is effective retroactively from January 1, 2014.

10.1 Sec. 3. Minnesota Statutes 2012, section 354.44, subdivision 5, is amended to read:

10.2 Subd. 5. **Resumption of teaching service after retirement.** (a) Any person who  
 10.3 retired under the provisions of this chapter and has thereafter resumed teaching in any  
 10.4 employer unit to which this chapter applies is eligible to continue to receive payments  
 10.5 in accordance with the annuity except that all or a portion of the annuity payments must  
 10.6 be deferred during the calendar year immediately following the fiscal year in which the  
 10.7 person's salary from the teaching service is in an amount greater than \$46,000. The  
 10.8 amount of the annuity deferral is one-half of the salary amount in excess of \$46,000 and  
 10.9 must be deducted from the annuity payable for the calendar year immediately following  
 10.10 the fiscal year in which the excess amount was earned.

10.11 (b) If the person is retired for only a fractional part of the fiscal year during the initial  
 10.12 year of retirement, the maximum reemployment salary exempt from triggering a deferral  
 10.13 as specified in this subdivision must be prorated for that fiscal year.

10.14 (c) After a person has reached the Social Security normal retirement age, no deferral  
 10.15 requirement is applicable regardless of the amount of salary.

10.16 (d) The amount of the retirement annuity deferral must be handled or disposed  
 10.17 of as provided in section 356.47.

10.18 (e) For the purpose of this subdivision, salary from teaching service includes all  
 10.19 salary or income earned as a teacher as defined in section 354.05, subdivision 2, paragraph  
 10.20 (a), clause (1). Salary from teaching service also includes, but is not limited to:

10.21 (1) all income for services performed as a consultant ~~or an~~ independent contractor  
 10.22 ~~for, or third-party supplier, or as a employee of a consultant, independent contractor, or~~  
 10.23 third-party supplier, to an employer unit covered by the provisions of this chapter; and

10.24 (2) the greater of either the income received or an amount based on the rate paid with  
 10.25 respect to an administrative position, consultant, ~~or independent contractor,~~ or third-party  
 10.26 supplier, or as an employee of a consultant, independent contractor, or third-party supplier,  
 10.27 in an employer unit with approximately the same number of pupils and at the same level  
 10.28 as the position occupied by the person who resumes teaching service.

10.29 **EFFECTIVE DATE.** This section is effective July 1, 2014.

10.30 Sec. 4. Minnesota Statutes 2012, section 354.48, subdivision 6a, is amended to read:

10.31 Subd. 6a. **Medical adviser; duties.** ~~The state commissioner of health or a~~  
 10.32 ~~licensed physician on the staff of the Department of Health who is designated by the~~  
 10.33 ~~commissioner is the medical adviser of~~ The executive director may contract with an  
 10.34 accredited independent organization specializing in disability determinations, licensed  
 10.35 physicians, or physicians on the staff of the commissioner of health as designated by the

11.1 commissioner, to be the medical advisor to the executive director. The medical adviser  
 11.2 shall designate licensed physicians, licensed chiropractors, or licensed psychologists with  
 11.3 respect to a mental impairment, who shall examine applicants for disability benefits. The  
 11.4 medical adviser shall pass upon all expert reports based on any examinations performed  
 11.5 in order to determine whether a teacher is totally and permanently disabled as defined in  
 11.6 section 354.05, subdivision 14. The medical adviser shall also investigate all health and  
 11.7 medical statements and certificates by or on behalf of a teacher in connection with a  
 11.8 disability benefit, and shall report in writing to the director setting forth any conclusions  
 11.9 and recommendations on all matters referred to the medical adviser.

11.10 **EFFECTIVE DATE.** This section is effective July 1, 2014.

11.11 Sec. 5. Minnesota Statutes 2012, section 356.635, subdivision 6, is amended to read:

11.12 Subd. 6. **Eligible retirement plan.** (a) An "eligible retirement plan" is:

11.13 (1) an individual retirement account under section 408(a) or 408A of the federal  
 11.14 Internal Revenue Code;

11.15 (2) an individual retirement annuity plan under section 408(b) of the federal Internal  
 11.16 Revenue Code;

11.17 (3) an annuity plan under section 403(a) of the federal Internal Revenue Code;

11.18 (4) a qualified trust plan under section 401(a) of the federal Internal Revenue Code  
 11.19 that accepts the distributee's eligible rollover distribution;

11.20 (5) an annuity contract under section 403(b) of the federal Internal Revenue Code;

11.21 (6) an eligible deferred compensation plan under section 457(b) of the federal  
 11.22 Internal Revenue Code, which is maintained by a state or local government and which  
 11.23 agrees to separately account for the amounts transferred into the plan; or

11.24 (7) in the case of an eligible rollover distribution to a nonspousal beneficiary, an  
 11.25 individual account or annuity treated as an inherited individual retirement account under  
 11.26 section 402(c)(11) of the federal Internal Revenue Code.

11.27 (b) For distributions of after-tax contributions which are not includable in gross  
 11.28 income, the after-tax portion may be transferred only to an individual retirement account  
 11.29 or annuity described in section 408(a) or (b) of the federal Internal Revenue Code, to a  
 11.30 Roth individual retirement account described in section 408A of the federal Internal  
 11.31 Revenue Code, or to a qualified plan described in either section 401(a) of the federal  
 11.32 Internal Revenue Code or ~~403(a)~~ to an annuity contract described in section 403(b) of  
 11.33 the federal Internal Revenue Code, that agrees to separately account for the amounts  
 11.34 transferred, including separately accounting for the portion of the distribution which is  
 11.35 includable in gross income and the portion of the distribution which is not includable.

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