



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Lawrence A. Martin, Executive Director *JLM*
RE: S.F. 2886 (Johnson); H.F. 3229 (Sanders): PERA; Service Credit Purchase;
Hennepin County Medical Center Employment Service Credit Purchase.
DATE: March 24, 2014

Summary of S.F. 2886 (Johnson); H.F. 3229 (Sanders)

S.F. 2886 (Johnson); H.F. 3229 (Sanders) is an uncoded special law proposal that would permit a narrow class of employees of the Hennepin County Medical Center who were not reported to the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) during a ten-year period from May 1986 until April 1995, to purchase PERA-General service credit, with the employee responsible for unpaid member contributions plus interest at 8.5%, compounded annually, and with the Hennepin County Medical Center responsible for the balance of the full actuarial value of the retirement benefit obtained by the uncredited service credit.

Public Pension Problem Addressed by S.F. 2886 (Johnson); H.F. 3229 (Sanders)

The Pension Commission staff did not have any information on the individual or individuals affected by the proposed legislation as of mid-afternoon of March 24, 2014.

Discussion and Analysis

S.F. 2886 (Johnson); H.F. 3229 (Sanders) permits a current Hennepin County Medical Center employee with at least 28 years of total local government employment to purchase prior uncredited service credit for ten years of that service by paying the equivalent of the unpaid member contributions, plus annual compound interest, and with the balance of the full actuarial value payment required to fund the benefit obtained by the purchase.

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

1. Conformity with Commission Policy Principles. The policy issue is whether or not the proposed legislation conforms with the applicable portion of the Commission's Principles of Pension Policy. Principle II.C.10 provides:

II.C.10. Purchases of Prior Service Credit

Purchases of public pension plan credit for periods of prior service should be permitted only if it is determined by the Commission:

- that the period to be purchased is public employment or relates substantially to the public employee's career,
- that the purchase payment amount from the member or from a combination of the member and the current or former employer must equal the actuarial liability to be incurred by the pension plan for the benefit associated with the purchase, appropriately calculated, without the provision of a subsidy from the pension plan unless an error or an omission by the pension plan was responsible for the loss of service credit,
- that the purchase payment amount must include a minimum payment by the member of the equivalent member contributions, plus compound interest from the purchase period to the date of payment unless the employer committed a particularly egregious error,
- that the purchase payment is the responsibility of the member, with the current or former employer authorized to pay some or all of the portion of the payment amount in excess of the minimum member payment amount, unless the employer has some culpability in the circumstances giving rise to the purchase and then a mandatory employer contribution may be imposed, and
- that the purchase must not violate notions of equity.

Except for the equity considerations discussed in issues #2 and #3, the pension problem giving rise to the proposed legislation appears to involve public service and would result in full finding of the new liability to be incurred by the PERA General Employees Retirement Plan (PERA-General).

2. Equity Considerations Given the 20-Year Delay in Seeking a Remedy. The policy issue is whether or not there are equitable considerations attributable to the prospective purchaser from the proposed

purchase. The uncredited period of prior service ended in 1995, when the prospective purchaser was almost 40 years old, but no corrective action appears to have been taken over the 20-year interval since membership began. The prospective purchaser may need to provide some explanation for the delay and why the delay was not the prospective purchaser's fault.

3. Equitable Considerations Known to the Prospective Purchaser's Employer. The policy issue is whether or not other equitable considerations adverse to the prospective purchaser exist. Given the absence of information available to the commission staff, the Commission will need to look to the employing unit, the Hennepin County Medical Center, for an identification of any additional adverse equitable considerations.
4. Division of Full Actuarial Value Purchase Payment. The policy issue is the manner in which the prior service credit full actuarial value purchase payment is proposed to be divided. The greatest portion of the total cost, as proposed, lies with the Hennepin County Medical Center. Commission practice for the past 15 years has been to impose liability on an employing unit only if some fault by the employer causing the loss of service credit is demonstrated. The proposed legislation describes the service credit loss as attributable to an employer failure to report the person or persons involved to PERA and an employer failure to deduct member contributions. The Commission may wish to obtain testimony on the question.

SENATE
STATE OF MINNESOTA
EIGHTY-EIGHTH SESSION

S.F. No. 2886

(SENATE AUTHORS: JOHNSON)

DATE	D-PG	OFFICIAL STATUS
03/24/2014		Introduction and first reading Referred to State and Local Government

1.1 A bill for an act
 1.2 relating to retirement; authorizing purchase of service credit from the public
 1.3 employees retirement association for omitted service.
 1.4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.5 Section 1. **PERA-GENERAL; SERVICE CREDIT PURCHASE FOR OMITTED**
 1.6 **CONTRIBUTION PERIOD; HENNEPIN COUNTY MEDICAL CENTER**
 1.7 **EMPLOYEE.**

1.8 (a) Notwithstanding any provision of law to the contrary, an eligible person
 1.9 described in paragraph (b) is entitled to purchase from the general employees retirement
 1.10 plan of the Public Employees Retirement Association allowable service credit under
 1.11 Minnesota Statutes, section 353.01, subdivision 16, for the period of omitted member
 1.12 deductions described in paragraph (c).

1.13 (b) An eligible person is a person who:

1.14 (1) was born on July 10, 1955;

1.15 (2) is a current employee of the Hennepin County Medical Center, covered by the
 1.16 general employees retirement plan of the Public Employees Retirement Association;

1.17 (3) has worked for the medical director of the hospital since March, 1986; and

1.18 (4) was not reported for retirement coverage and membership in the general
 1.19 employees retirement plan of the Public Employees Retirement Association between
 1.20 May 30, 1986, and April 3, 1995.

1.21 (c) The period of uncredited service authorized for purchase is the period from
 1.22 May 30, 1986 and April 3, 1995, during which no member contributions for the general
 1.23 employees retirement plan of the Public Employees Retirement Association were deducted
 1.24 from the eligible person's salary, and which could not be corrected through the Public

2.1 Employees Retirement Association omitted contribution provision due to a three-year
2.2 time limit in the provision.

2.3 (d) Minnesota Statutes, section 356.551, applies to this purchase, except that the
2.4 purchase payment amount payable by the eligible person is the employee contributions that
2.5 should have been made, plus 8.5 percent interest compounded annually from the date each
2.6 deduction should have occurred, until the date paid to the Public Employees Retirement
2.7 Association. The purchase payment amount payable by Hennepin County Medical Center
2.8 is the balance of the full actuarial value prior service credit purchase payment amount as
2.9 of the first day of the month next following the receipt of the eligible person's payment that
2.10 is remaining after deducting the purchase payment amount payable by the eligible person.

2.11 (e) The payment amount due from the Hennepin County Medical Center under
2.12 paragraph (d) must be made on or before the 15th of the month next following the receipt
2.13 of the eligible person's payment under paragraph (d). If the Hennepin County Medical
2.14 Center purchase payment amount is not paid in a timely fashion, the amount due accrues
2.15 compound monthly interest at the rate of 0.71 percent per month from the first day of
2.16 the month next following the receipt of the eligible person's payment until the purchase
2.17 payment amount is received by the Public Employees Retirement Association.

2.18 (f) The eligible person must provide the executive director of the Public Employees
2.19 Retirement Association with any relevant requested information pertaining to this service
2.20 credit purchase.

2.21 (g) Authority to make a service credit purchase under this section expires on June
2.22 30, 2015, or upon the termination from public employment under Minnesota Statutes,
2.23 section 353.01, subdivision 11a, whichever occurs earlier.

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