



**S.F. 2015**  
(Pappas)

**H.F. 2524**  
(Nelson)

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

*Affected Pension Plan(s):* PERA  
*Relevant Provisions of Law:* Various provisions, Minnesota Statutes, Chapter 353; uncoded law  
*General Nature of Proposal:* Revising employer reporting requirements, PERA PRO Program; sheriff early retirement provision  
*Date of Summary:* March 4, 2014

### **Specific Proposed Changes**

- Revises the PERA employing unit payroll reporting requirements to separately identify overtime and compensatory time pay.
- Extends the PERA Post-Retirement Options (PRO) Program from June 30, 2014, to June 30, 2022; and requires that PERA PRO employment be with the same governmental subdivision from which the employee retired, rather than with any governmental subdivision.
- Permits county sheriffs about one additional month to retire (February 1, 2015, rather than early January 2015) and take advantage of PERA-P&F early retirement provision before the phase-in of slightly less favorable early retirement treatment.

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

1. Whether there is sufficient need for requiring PERA-covered employers to separately identify overtime and compensatory time salary, and possible administrative burden on employing units due to that reporting.
2. Whether a) the PERA PRO program is needed at all; b) whether the extension to June 30, 2022, is too long, or c) whether the PERA PRO should be made permanent.
3. Whether it is appropriate to limit PERA PRO position renewals to two renewals, as recommended in the bill, rather than four.
4. Whether to restrict PERA PRO employment to the same employing unit from with the person retired rather than permitting employment with any government subdivision.

### **Potential Amendments**

No written staff amendments; verbal amendments can be provided if so desired.

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TO: Members of the Legislative Commission on Pensions and Retirement  
FROM: Ed Burek, Deputy Director **EB**  
RE: S.F. 2015 (Pappas); H.F. 2524 (Nelson): PERA Plans; Revising Employer Reporting Requirements; Revising Post-Retirement Option Program Requirements and Program Termination Date, Temporarily Revising the PERA-P&F Early Retirement Provision Application to Sheriffs  
DATE: March 4, 2014

General Summary of S.F. 2015 (Pappas); H.F. 2524 (Nelson)

S.F. 2015 (Pappas); H.F. 2524 (Nelson) amends various Public Employees Retirement Association (PERA) provisions, as follows:

- Requires separate identification of salary due to overtime in pay period employer reports to PERA;
- Requires that PERA Post-Retirement Option Program (PRO) employment be with the same governmental subdivision from which the employee retired, rather than with any governmental subdivision;
- Reduces PRO position renewals to no more than two renewals rather than four;
- Revises the PRO Program expiration date from June 30, 2014, to June 30, 2022; and
- Temporarily extends the deadline for using PERA-P&F early retirement provision, as it applies to sheriffs, before the benefit reduction requirements become less favorable.

Section-by-Section Summary

A section-by-section summary of S.F. 2015 (Pappas); H.F. 2524 (Nelson) is attached.

Background Information on Relevant Topics

The following attachments provide background information on topics relevant to the proposed legislation:

- **Attachment A:** Background information on the PERA Post-Retirement Options Programs.
- **Attachment B:** Background information on the PERA-P&F Early Retirement Provision.

Discussion and Analysis

S.F. 2015 (Pappas); H.F. 2524 (Nelson) makes a change in PERA employer payroll reporting requirements by requiring identification of overtime salary; by extending the PERA Post-Retirement Options Program and making a few program revisions; and by temporarily revising PERA-P&F early retirement reduction application to give county sheriffs slightly more time, about one extra month compared to current general law, to retire early before marginally less generous reductions due to early retirement will apply.

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. Sufficient Need for Reporting Requirement Change. The issue is whether there is sufficient need for the proposed changes in Section 1 and whether any parties object to the change, based on possible administrative burden or other reasons. PERA may wish to testify about the need for the section. Presumably, obtaining a separate break-out of salary due to regular employment hours and salary due to overtime can assist PERA in plan administration and for research into issues of high-five padding to enhance a person's eventual annuity.
2. Post-Retirement Options Program Issues.
  - a. Modification of Restrictions; Employer and Employee Impact. The issue is the modification of restrictions contained in the bill and the resultant impact on employers and those working in these PRO positions. Section 2 will restrict a person to accepting a PRO program employment position with the same employing subdivision from which the person worked before retiring, rather than being able to obtain a position in the program in any government subdivision. Section 3 limits the

number of years a person can be in the program from the initial up-to-one-year appointment plus four annual renewals, to the initial appointment plus two renewals. Commission members may find the changes unduly restrictive and may wish to hear testimony from PERA and/or representatives of the employers regarding why these restrictions are being proposed.

- b. Sufficient Need for Program Expiration Date Extension. Sections 4 and 6 serve to extend the programs expiration date from June 30, 2014, to June 30, 2022. The issue is whether any extension is needed. If not, all the PRO program sections can be removed from the bill and the program can be permitted to expire.

If the Commission concludes that the program serves a useful purpose, but feels that the proposed extension is too long (to June 30, 2022), that can be addressed by verbal amendments to Section 4.

If the Commission concludes that the program ought to be made permanent, that can be accomplished by a verbal amendment to remove Section 4 from the bill.

- 3. County Sheriff Early Retirement Provision Issues. Section 7 provides a slight temporary modification in PERA-P&F early retirement treatment for county sheriffs, giving them an extra month to use the plan early retirement provision (until February 1, 2015, rather than very early January 2015 under the existing law statute) to retire and avoid the slightly less favorable treatment that will otherwise start phasing-in in July 2014.
  - a. Appropriateness of Extending the Early Retirement Deadline for County Sheriffs. The issue is whether there is sufficient need to justify the proposed treatment in Section 7. PERA has indicated that the purpose of Section 7 is to permit elected county sheriffs to complete their term, and still permit them to have the full advantage of the subsidized early treatment that had been in effect under 2013 and early law. Commission members reviewed the implications of the PERA P&F early retirement provisions just last month, at one of the Commission’s February 2014 meeting. Some material presented in the staff memo for that meeting appears as a background document for this memo, which indicates that the phase-in of somewhat less generous early retirement treatment is gradual. The Commission may wish to hear testimony in deciding whether Section 7 is needed. If not, staff can suggest some verbal amendments.
  - b. Appropriate Scope; Elected/Appointed Sheriffs. The issue is whether the provision should apply to all county sheriffs, as drafted, or only to elected county sheriffs. Given the claimed intention of permitting elected county sheriffs to finish their term without precluding them from the most generous early retirement treatment, it is not clear that appointed county sheriff should be covered under the provision. If the Commission wishes to limit application strictly to elected county sheriffs, staff can suggest a verbal amendment.

Potential Amendments for Commission Consideration

No written amendments have been prepared, but most of the options mentioned in the memo can be created by verbal amendments which staff can suggest to the Commission.

Section-by-Section Summary of S.F. 2015; H.F. 2524

Sec.	Pg.Ln	Stat. Provision	Plan	Summary
1	1.10	353.27, Subd. 4	All PERA plans	Revises employer paid period reporting requirements by requiring a separate identification of salary due to overtime or compensatory pay.
2	3.13	353.371, Subd.1	PERA PRO Program	Revises the Post-Retirement Options Program (PRO) eligibility requirements by requiring that the reemployment be with the same government subdivision from which the person retired, rather than any government subdivision.
3	4.3	353.371, Subd. 4	PERA PRO Program	The PRO program duration provision is revised by limiting position renewals to two rather than four.
4	4.12	353.371, new subdivision	PERA PRO Program	An expiration provision is added to the PRO program statute, requiring the program to expire on June 30, 2022.
5	4.18	353.651, Subd. 4	PERA-P&F	The PERA-P&F early retirement provision is revised by removing language of temporary application and specific to county sheriffs, which is moved in slightly altered form to an uncoded provision.
6	5.28	Uncoded effective date/expiration date provision	PERA PRO Program	As a conforming change to the addition of an expiration date subdivision to the PRO program provision, an uncoded effective date/expiration date provision is revised by striking expiration date language.
7	6.1	Uncoded	PERA-P&F	A temporary uncoded provision applicable to county sheriffs giving the sheriffs approximately one additional month (2/1/2015, rather than 1/5/2015), to terminate service and receive early retirement benefits before less favorable terms under the PERA-P&F general law early retirement provision would become applicable.

## Background Information on Post-Retirement Option Programs

### 1. Post-Retirement Option Programs.

- a. Federal Law Authorization. In order to be considered a qualified pension plan and a qualified trust exempt from federal Internal Revenue taxation, public and private pension plans must conform with several requirements of the federal Internal Revenue Code, including a prohibition against in-service distributions. An in-service distribution is a distribution of plan assets to a plan member prior to true termination of service or retirement.

However, the federal government created an exception to its in-service distribution prohibition if the individual is at least age 62. The federal Pension Protection Act of 2006 amended the qualified plan provision, Section 401(a) of the Internal Revenue Code, effective for plan years after December 31, 2006, by adding the following paragraph:

A trust forming part of a pension plan shall not be treated as failing to constitute a qualified trust under this section solely because the plan provides that a distribution may be made from such trust to an employee who has attained age 62 and who is not separated from employment at the time of such distribution.

- b. State Post-Retirement Option Program. The state post-retirement option program (Minn. Stat. Sec. 43A.346) was enacted in 2005 as one of several programs intended to allow state employees to transition into full retirement while meeting employer workforce needs. It is based upon provisions in 2005 Session H.F. 1953 (Cornish); S.F. 1845 (Larson), and was passed as part of the 2005 Omnibus State Government Finance Bill (Laws 2005, Ch. 156, Art. 3, Sec. 2). That same omnibus bill contained a voluntary hour reduction provision and a voluntary unpaid leave of absence provision. The state post-retirement option program was revised in 2007, 2008, and 2009. The revisions include clarifications, minor eligible group expansion, revised criteria for inclusion in the program, and revised renewal requirements following initial inclusion in the program.

Under the state post-retirement option program (Minn. Stat. 2010, Sec. 43A.346), state employees who worked at least half time during the prior five years who terminate from state service and qualify for an unreduced annuity (defined in law as an annuity taken at the plan's normal retirement age or a Rule of 90 annuity), can agree to accept a post-retirement option position with the same or different appointing authority under which the individual will reduce hours at least 25% or to half time, whichever is the greater reduction. The appointments are for one year but can be renewed four times, for a total of no more than five years in the program. The appointing authority has sole discretion to determine whether positions under this program are to be offered. Any offer of a position in this program must be made in writing by the appointing authority to the employee, on a form provided by the Department of Minnesota Management and Budget and the Minnesota State Retirement System (MSRS) or the Public Employees Retirement Association (PERA), whichever retirement system is paying the retirement benefit.

In addition to eligibility requirements referred to above, an eligible person must be a "terminated state employee" as defined under the post-retirement option provision of law, meaning a person who terminated from a civil service position in the executive branch or legislative branch, including a terminated employee of the PERA plan administration, a terminated state employee covered by a PERA plan, a terminated employee of the MSRS plan administration, the Office of the Legislative Auditor, or the Metropolitan Council. Inclusion of terminated legislative branch employees, and terminated employees of PERA and PERA-covered state employees were additions made since the provision was first enacted in 2005.

The design of the state post-retirement option program reflects a need to ensure that the retirement plan remains a qualified plan under federal law. Current federal law requires that qualified plans not permit any distribution of plan assets to members under the age of 62 who have not separated from service. In an effort to ensure there is a true separation for purposes of federal qualified plan requirements, the state post-retirement option program eligibility provisions require that, if the person is under age 62, no verbal or written offer of a post-retirement option position can be made until at least 30 days after the person terminates from service.

The state post-retirement option program includes an exemption from MSRS and PERA reemployed annuitant provisions. However, that exemption may have little real effect. Given that individuals in the state post-retirement option program can work no more than half time, for some

individuals the reemployment income may be too low to trigger a deferral, even if the reemployed annuitant provision applied. And certainly the state post-retirement option program exemption has no value for individuals beyond the Social Security normal retirement age, since their age alone would be sufficient to exempt them.

- c. PERA Post-Retirement Option Program. In 2009 (Laws 2009, Ch. 169, Art. 6, Sec. 1-2), basic or coordinated program members of PERA who worked at least half time during the previous five year period are eligible for the program if they are at least age 62 and satisfy requirements for commencement of an annuity. A PERA-covered employer may offer the individual a PERA post-retirement option program position which is no more than half-time and is at least a 25% reduction from prior hours. Reemployed annuitant earnings limits and length of separation requirements are waived while in the program. A position may be renewed but not after the individual reaches Social Security normal retirement age. Under a revised PERA termination of membership definition, entering the PERA post-retirement option program triggers termination of membership. The program initially expired on June 30, 2011. In 2010 (Laws 2010, Ch. 359, Art. 5, Sec. 12, 27), the expiration date for the program was extended to June 30, 2014.

The differences between the PERA post-retirement option program and the state post-retirement option program are as follows:

- General Coverage Group. The state post-retirement option program covers eligible state employees with MSRS coverage, including PERA staff and other state employees who have PERA coverage, while the PERA post-retirement option program covers eligible employees with PERA-General coverage other than the PERA state employees.
- Annuity Requirement. The state post-retirement option program requires that the terminating employee be immediately eligible for a normal retirement annuity without reduction or a Rule of 90 annuity. The PERA post-retirement option program is less restrictive regarding annuities, requiring only that the individual be immediately eligible for any form of PERA retirement annuity, including any form of early retirement annuity.
- Age Requirement. The state post-retirement option program age requirement is normal retirement age (generally age 65) or any age with a Rule of 90 annuity. In contrast, the PERA post-retirement option program requires that the individual be age 62 or older.
- Break-in-Service Requirement. The state post-retirement option program requires individuals under age 62 to have a 30-day break in service before commencing the post-retirement option position and no offer of a post-retirement option position can be made before that termination of service. For those age 62 or older, the state post-retirement option program has no 30-day break requirement and an offer can be made before termination of service. The PERA post-retirement option program has neither a 30-day break requirement nor any restriction on the timing of a PERA post-retirement option program position offer. That is consistent with federal requirements because no one in the PERA post-retirement option program can be under age 62.
- Permanent or Temporary Program. The state post-retirement option program is a permanent program while the PERA post-retirement option program expires on June 30, 2014.
- Insurance Contribution. The state post-retirement option program specifies that the employing unit must make an insurance contribution, if not otherwise covered by another program, of up to 75% of the contribution the employer would have made on behalf of an employee not in this program. That amount must be contributed to a health reimbursement arrangement. No insurance contribution provision is specified for the PERA post-retirement option program.

2. Reemployed Annuitant Exempt Earnings Limitations. The following chart summarizes and compares the reemployed annuitant exempt earnings limitation laws applicable to Minnesota public pension plans:

Retirement Plan	Applicable Compensation	Exempt Earnings Limit Threshold	Effect After Threshold Exceeded	Reemployment Period Retirement Coverage	Exceptions
MSRS General State Employees Retirement Plan (MSRS-General)	Salary or wages from state or from employer of MSRS-General members.	Social Security maximums (\$14,160 annually if under the Social Security normal retirement age; \$37,680 in year in which Social Security normal retirement age is reached; no limit thereafter).	Suspension of annuity for the balance of the calendar year or until reemployment termination, with the suspended annuity amounts deposited in a separate account, earning 6% compound annual interest before 1/1/11, payable 1 year after reemployment ends.	No retirement coverage.	No application to service as temporary legislative employee. Suspension lifted during any sick leave.
Correctional State Employees Retirement Plan (MSRS-C)	Same as MSRS-General.	Same as MSRS-General.	Same as MSRS-General.	Same as MSRS-General.	Same as MSRS-General.
State Patrol Plan	No provision.	No provision.	No provision.	No provision.	No provision.
Legislators Plan	No provision.	No provision.	No provision.	No provision.	No provision.
Elective State Officers Plan	No provision.	No provision.	No provision.	No provision.	No provision.
Judges Plan	No provision.	No provision.	No provision.	No provision.	No provision.
Unclassified State Employees Retirement Program (MSRS-Unclassified)	No provision.	No provision.	No provision.	No provision.	No provision.
Public Employees Retirement Association (PERA)	Salary from governmental subdivision employment or public employee labor union employment.	Social Security maximums (\$14,160 annually if under the Social Security normal retirement age; \$37,680 in year in which Social Security normal retirement age is reached; no limit thereafter).	Suspension or reduction, whichever produces higher annual amount. Suspension of amount is for the balance of the calendar year or until reemployment termination. Reduction is one-half of the excess over the maximum if under the Social Security full retirement age and one-third of the excess over the maximum if at the Social Security full retirement age. The reduction or suspended amount is deposited in a separate account, earning 6% compound annual interest before 1/1/11, payable one year after the reemployment ends.	No retirement coverage.	No application to service as a local government elected official.
Public Employees Police & Fire Plan (PERA-P&F)	Same as PERA.	Same as PERA.	Same as PERA.	Same as PERA.	Same as PERA.
Teachers Retirement Association (TRA)	Income from teaching for employing unit covered by TRA, income from consultant or independent contractor teaching services for employing unit covered by TRA, or income received by comparable position if greater than actual income received.	\$46,000 annually until Social Security normal retirement age; no limit thereafter.	Reduction in following calendar year annuity of one-half of the excess over the maximum, with the annuity reduction amount deposited in a separate account earning 6% compound annual interest before 1/1/11, payable 1 year after the reemployment ends.	No retirement coverage.	No application to interim superintendents during a lifetime limit of three 90-day exemption periods or to reemployed retired Minnesota State Colleges and Universities faculty working between 33.3% and 66.7% of full time with salary under \$46,000.
First Class City Teacher Retirement Fund Associations	Same as TRA, except for applicable employers.	Same as TRA.	Same as TRA, except reduction is one-third of excess over the maximum; and for DTRFA payment of interest ends June 30, 2010; for SPTRFA, 6% interest continues until paid.	Same as TRA.	Same as TRA.
Minneapolis Employees Retirement Fund (MERF)	No provision.	No provision.	No provision.	No provision.	No provision.
Local Police or Paid Firefighter Relief Associations	Typically no provision.	Typically no provision.	Typically no provision.	Typically no provision.	Typically no provision.

3. Termination of Active Employment Requirement for Retirement Annuity Receipt. Consistent with that retirement plan purpose, especially the encouragement of a systematic out-transitioning of employees at the normally expected conclusion of a working career, Minnesota public pension plans generally require that an active plan member terminates the employment that gave rise to that retirement plan membership without a prearranged continuation of active employment or a prearranged commitment to be rehired (see Minn. Stat. Sec. 3A.02, Subd. 1, Para. (a), Cl. (3); 352.115, Subd. 1; 352.93, Subd. 1; 352B.08, Subd. 1, Para. (a); 352D.02, Subd. 1; 353.29, Subd. 1; 353.651, Subd. 1; 353D.07, Subd. 2; 353E.04, Subd. 1; 353G.09, Subd. 1, Cl. (1); 354.44, Subd. 1; 354A.31, Subd. 1; 354B.30, Para. (a); 354C.16, Para. (a); 423B.09, Subd. 1; 423C.05, Subd. 2, Para. (a); 424A.015, Subd. 1; and 490.121, Subd. 21e).
4. Purpose of a Retirement Plan. The Legislative Commission on Pensions and Retirement, in its Principles of Pension Policy, has adopted a fairly traditional view of the purpose for establishing and supporting a retirement plan.

In Pension Principle II.A.1., the Commission indicates that:

- II.A.1. Minnesota public pension plans exist to augment the Minnesota public employer's personnel and compensation system by assisting in the recruitment of new qualified public employees, the retention of existing qualified public employees, and the systematic out-transitioning of existing public employees at the normally expected conclusion of their working careers or the systematic phasing-out of existing employees who are nearing the normally expected conclusion of their full-time working careers by providing, in combination with federal Social Security coverage, personal savings and other relevant financial sources, retirement income that is adequate and affordable.



## Background Information on PERA-P&F Early Retirement Provision Recent Changes

The Public Employees Police and Fire Retirement Plan (PERA-P&F) early retirement provision (Minn. Stat. Sec. 353.651, Subd. 4) has been revised a few times in the last few years as part of efforts by the Public Employees Retirement Association (PERA) to address the plan's low funding ratio and contribution deficiencies.

The normal retirement age in the PERA-P&F plan is age 55. At that age, members can retire without reduction. Members can retire as early as age 50, but with a benefit reduced to compensate, at least to an extent, for early retirement. Leading into the 2013 Legislative Session, the early retirement provision specified that if a person became a plan member before July 1, 2007, is at least age 50, and retires before normal retirement age, the benefit will be reduced by 0.1% for each month that the member is under age 55 at the time of retirement. Under that provision, early retirements are highly subsidized. The person who retires a year before normal retirement age can be expected to live just as long as the person retiring at normal retirement age, but the person who retires a year early will be receiving benefits for a year longer. To make these benefits actuarially equivalent (having the same present value), the early retiree's benefit would need to be reduced to compensate for the longer period of receipt. The necessary reduction is probably about 6%, possibly more, but under the plan provisions the benefit to the early retiree will only be reduced by 1.2%. (0.1% for each month that the member is under normal retirement age results in a reduction of 1.2%).

To get a better feel for the numbers, we can look at a few estimates based on PERA-P&F data. The PERA-P&F accrual rate (the percentage of the high-five average salary that the individual receives for each year of service) is 3%. According to the latest PERA-P&F actuarial valuation, the average salary for plan members aged 50 through 54 was slightly over \$82,000. Assuming an \$82,000 high-five average salary and 30 years of service at the time of retirement, the early retiree's benefit before any reduction would be \$73,800 ( $\$82,000 \times 0.03 \times 30 = \$73,800$ ).

**Table 1** looks at the impact of the various possible reductions. For comparison, reductions computed using a 6% annual rate are included, as an approximation for an actuarial reduction. The net benefit after application of the PERA-P&F early retirement reduction, 0.1% per month or 1.2% per year under normal retirement age at the retirement date, creates a modest reduction, regardless of the age at early retirement. The net benefits would be much lower if any reduction approaching an actuarial reduction were applied.

**Table 1**  
Early Retirement Benefits, Current Law 1.2% Reduction

Age at Retirement	Unreduced Benefit <sup>1</sup>	Benefit After PERA-P&F Early Retirement Reduction <sup>2</sup>	Appropriate Benefit Under an Actuarial Reduction <sup>3</sup>
50	\$73,800	\$69,372	\$51,660
51	73,800	70,258	56,088
52	73,800	71,143	60,516
53	73,800	72,029	64,944
54	73,800	72,914	69,372

The 2013 legislation phases out the highly subsidized early retirement reduction, but the phase-out is long. The 1.2% per year factor remains fully available to those members who take early retirement before July 1, 2014 (a slightly longer window is available to county sheriffs, intended to permit retirement without having the person leave service before the end of the elected term). For PERA-P&F members at least age 50 who retire before age 55, and after July 1, 2019, the reduction factor will be 5% per year for each year that the person is less than age 55 at the time of retirement. These early retirements will likely still be subsidized, although the subsidy will be modest compared to the provision currently applicable. Between June 30, 2014, and July 1, 2019, early retirees will be subject to a blending of the current 1.2% per year rate and the 5% rate. For those who retire soon after July 2014, the annual rate will be modestly above 1.2%. For those who retire halfway into the July 2014-July 2019 interval, the applicable rate will be midway between the 1.2% and 5% rate, or about 3.1%. For those who retire a little before July 2019, the rate will be just a little below 5%. For those who retire early in July 2019 or after, the applicable rate is 5%.

<sup>1</sup> Based on \$82,000 high-five average salary and 30 years of service.

<sup>2</sup> Net benefit after applying reduction of 0.1% per month (1.2% per year) due to early retirement.

<sup>3</sup> Net benefit if 6% per year reduction (an approximation of an actuarial reduction) is applied.

**Table 2**, below, can be used to provide a sense of the impact of the 2013 Session changes. Table 2 is the same as Table 1 except that the final column is the benefit after application of a 5% per year reduction, which shows what our hypothetical early retiree would receive when the 5% per year reduction is in full effect rather than the current 1.2% reduction. For example, for the member who retires at age 50 before July 2014, that person would receive \$69,372 per year under the current early retirement reduction. If we had a person, however, with the same salary and years of service, but that individual retires in July 2019 or later, that person would receive \$55,350 rather than \$69,372. If our hypothetical age 50 early retiree retired midway into the July 1, 2014-July 1, 2019 interval, the benefit would be midway between those two amounts (about \$62,360). The closer to July 2014 that the person retires, the closer the benefits will be to the 1.2% per year reduction column. The closer the individual retires to July 2019, the closer the benefits will be to those shown in the final 5% reduction column.

**Table 2**  
Early Retirement Benefits, 1.2% Reduction and 5% Reduction

Age at Retirement	Unreduced Benefit <sup>4</sup>	Benefit After PERA-P&F Early Retirement: 1.2% Reduction	5% Reduction
50	\$73,800	\$69,372	\$55,350
51	73,800	70,258	59,040
52	73,800	71,143	62,730
53	73,800	72,029	66,420
54	73,800	72,914	70,110

<sup>4</sup> Based on \$82,000 high-five average salary and 30 years of service.

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

**S.F. No. 2015**

(SENATE AUTHORS: PAPPAS)

DATE	D-PG	OFFICIAL STATUS
02/27/2014		Introduction and first reading Referred to State and Local Government

A bill for an act

1.1 relating to retirement; Public Employees Retirement Association; revising  
 1.2 salary reporting requirement; clarifying early retirement provision application  
 1.3 to sheriffs; revising postretirement option program requirements and extending  
 1.4 expiration date; amending Minnesota Statutes 2012, sections 353.27, subdivision  
 1.5 4; 353.371, subdivisions 1, 4, by adding a subdivision; Minnesota Statutes 2013  
 1.6 Supplement, section 353.651, subdivision 4; Laws 2009, chapter 169, article 5,  
 1.7 section 2, as amended.  
 1.8

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

1.10 Section 1. Minnesota Statutes 2012, section 353.27, subdivision 4, is amended to read:

1.11 Subd. 4. **Employer reporting requirements; contributions; member status.**

1.12 (a) A representative authorized by the head of each department shall deduct employee  
 1.13 contributions from the salary of each public employee who qualifies for membership in  
 1.14 the general employees retirement plan of the Public Employees Retirement Association  
 1.15 or in the public employees police and fire retirement plan under this chapter or chapter  
 1.16 353D or 353E at the rate under section 353.27, 353.65, 353D.03, or 353E.03, whichever is  
 1.17 applicable, that is in effect on the date the salary is paid. The employer representative must  
 1.18 also remit payment in a manner prescribed by the executive director for the aggregate  
 1.19 amount of the employee contributions and the required employer contributions to be  
 1.20 received by the association within 14 calendar days after each pay date. If the payment is  
 1.21 less than the amount required, the employer must pay the shortage amount to the association  
 1.22 and collect reimbursement of any employee contribution shortage paid on behalf of a  
 1.23 member through subsequent payroll withholdings from the wages of the employee.  
 1.24 Payment of shortages in employee contributions and associated employer contributions, if  
 1.25 applicable, must include interest at the rate specified in section 353.28, subdivision 5, if not  
 1.26 received within 30 days following the date the amount was initially due under this section.

2.1 (b) The head of each department or the person's designee shall submit for each  
2.2 pay period to the association a salary deduction report in the format prescribed by the  
2.3 executive director. The report must be received by the association within 14 calendar  
2.4 days after each pay date or the employer may be assessed a fine of \$5 per calendar day  
2.5 until the association receives the required data. Data required as part of salary deduction  
2.6 reporting must include, but are not limited to:

2.7 (1) the legal names and Social Security numbers of employees who are members;

2.8 (2) the amount of each employee's salary deduction;

2.9 (3) the amount of salary defined in section 353.01, subdivision 10, earned in the pay  
2.10 period from which each deduction was made, including a breakdown of the portion of  
2.11 the salary that represents overtime or compensatory pay that the employee was paid for  
2.12 additional hours worked beyond the regularly scheduled hours, and the salary amount  
2.13 earned by a reemployed annuitant under section 353.37, subdivision 1, or 353.371,  
2.14 subdivision 1, or by a disabled member under section 353.33, subdivision 7 or 7a;

2.15 (4) the beginning and ending dates of the payroll period covered and the date of  
2.16 actual payment; and

2.17 (5) adjustments or corrections covering past pay periods as authorized by the  
2.18 executive director.

2.19 (c) Employers must furnish the data required for enrollment for each new or  
2.20 reinstated employee who qualifies for membership in the general employees retirement  
2.21 plan of the Public Employees Retirement Association or in the public employees police  
2.22 and fire retirement plan in the format prescribed by the executive director. The required  
2.23 enrollment data on new members must be submitted to the association prior to or  
2.24 concurrent with the submission of the initial employee salary deduction. Also, the  
2.25 employer shall report to the association all member employment status changes, such as  
2.26 leaves of absence, terminations, and death, and shall report the effective dates of those  
2.27 changes, on an ongoing basis for the payroll cycle in which they occur. If an employer  
2.28 fails to comply with the reporting requirements under this paragraph, the executive  
2.29 director may assess a fine of \$25 for each failure if the association staff has notified the  
2.30 employer of the noncompliance and attempted to obtain the missing data or form from the  
2.31 employer for a period of more than three months.

2.32 (d) The employer shall furnish data, forms, and reports as may be required by  
2.33 the executive director for proper administration of the retirement system. Before  
2.34 implementing new or different computerized reporting requirements, the executive  
2.35 director shall give appropriate advance notice to governmental subdivisions to allow time  
2.36 for system modifications.

3.1 (e) Notwithstanding paragraph (a), the executive director may provide for less  
3.2 frequent reporting and payments for small employers.

3.3 (f) The executive director may establish reporting procedures and methods as  
3.4 required to review compliance by employers with the salary and contribution reporting  
3.5 requirements in this chapter. A review of the payroll records of a participating employer  
3.6 may be conducted by the association on a periodic basis or as a result of concerns known  
3.7 to exist within a governmental subdivision. An employer under review must extract  
3.8 requested data and provide records to the association after receiving reasonable advanced  
3.9 notice. Failure to provide requested information or materials will result in the employer  
3.10 being liable to the association for any expenses associated with a field audit, which may  
3.11 include staff salaries, administrative expenses, and travel expenses.

3.12 **EFFECTIVE DATE.** This section is effective January 1, 2015.

3.13 Sec. 2. Minnesota Statutes 2012, section 353.371, subdivision 1, is amended to read:

3.14 Subdivision 1. **Eligibility.** (a) This section applies to a basic or coordinated member  
3.15 of the general employees retirement plan of the Public Employees Retirement Association  
3.16 who:

3.17 (1) for at least the five years immediately preceding separation under clause (2), was  
3.18 regularly scheduled to work 1,044 or more hours per year in a position covered by the  
3.19 general employees retirement plan of the Public Employees Retirement Association;

3.20 (2) terminates membership as defined under section 353.01, subdivision 11b;

3.21 (3) at the time of termination under clause (2), was at least age 62 and met the age  
3.22 and service requirements necessary to receive a retirement annuity from the plan and  
3.23 satisfied requirements for the commencement of the retirement annuity;

3.24 (4) agrees to accept a postretirement option position with the same ~~or a different~~  
3.25 governmental subdivision, working a reduced schedule that is both:

3.26 (i) a reduction of at least 25 percent from the employee's number of previously  
3.27 regularly scheduled work hours; and

3.28 (ii) 1,044 hours or less in public; and

3.29 (5) is not eligible for participation in the state employee postretirement option  
3.30 program under section 43A.346.

3.31 (b) For purposes of this section, the length of separation requirement and termination  
3.32 of service requirement prohibiting return to work agreements under section 353.01,  
3.33 subdivisions 11a and 28, are not applicable.

4.1 **EFFECTIVE DATE.** This section is effective July 1, 2014, and applies to  
 4.2 appointments made on or after that date.

4.3 Sec. 3. Minnesota Statutes 2012, section 353.371, subdivision 4, is amended to read:

4.4 Subd. 4. **Duration.** Postretirement option employment may be for an initial period  
 4.5 not to exceed one year. At the end of the initial period, the governing body has sole  
 4.6 discretion to determine if the offer of a postretirement option position will be renewed,  
 4.7 renewed with modifications, or terminated. Postretirement option employment may be  
 4.8 renewed annually, but as follows:

4.9 (1) if entered into before July 1, 2014, for no more than four renewals ~~may occur~~; and  
 4.10 (2) if entered on or after July 1, 2014, for no more than two renewals.

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

4.12 Sec. 4. Minnesota Statutes 2012, section 353.371, is amended by adding a subdivision  
 4.13 to read:

4.14 Subd. 8. **Program expiration.** (a) Initial postretirement option employment  
 4.15 agreements must not be entered into after June 30, 2019.

4.16 (b) This section expires on June 30, 2022.

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

4.18 Sec. 5. Minnesota Statutes 2013 Supplement, section 353.651, subdivision 4, is  
 4.19 amended to read:

4.20 Subd. 4. **Early retirement.** (a) A person who becomes a public employees police  
 4.21 and fire retirement plan member after June 30, 2007, or a former member who is reinstated  
 4.22 as a member of the plan after that date, who is at least 50 years of age and is at least  
 4.23 partially vested under section 353.01, subdivision 47, upon the termination of public  
 4.24 service ~~employees police and fire retirement plan membership~~ before July 1, 2014, if the  
 4.25 person is other than a county sheriff or after January 4, 2015, if the person is a county  
 4.26 sheriff is entitled upon application to a retirement annuity equal to the normal annuity  
 4.27 calculated under subdivision 3, reduced by two-tenths of one percent for each month that  
 4.28 the member is under age 55 at the time of retirement.

4.29 (b) Upon the termination of public service ~~employees police and fire retirement~~  
 4.30 plan membership before July 1, 2014, if the person is other than a county sheriff or  
 4.31 upon the termination of public service before January 5, 2015, if the person is a county  
 4.32 sheriff, any public employees police and fire retirement plan member who first became

5.1 a member of the plan before July 1, 2007, and who is not specified in paragraph (a),  
 5.2 upon attaining at least 50 years of age with at least three years of allowable service is  
 5.3 entitled upon application to a retirement annuity equal to the normal annuity calculated  
 5.4 under subdivision 3, reduced by one-tenth of one percent for each month that the member  
 5.5 is under age 55 at the time of retirement.

5.6 (c) A person ~~other than a county sheriff~~ who is a member of the public employees  
 5.7 police and fire retirement plan on or after July 1, 2014, ~~or a county sheriff who is a~~  
 5.8 ~~member of the public employees police and fire retirement plan on or after January 5,~~  
 5.9 ~~2015,~~ and who is at least 50 years old and is at least partially vested under section 353.01,  
 5.10 subdivision 47, and whose benefit effective date is after July 1, 2014, ~~if other than a~~  
 5.11 ~~county sheriff or after January 4, 2015, if a county sheriff~~ and on or before July 1, 2019, is  
 5.12 entitled upon application to a retirement annuity equal to the normal annuity calculated  
 5.13 under subdivision 3, reduced for each month the member is under age 55 at the time of  
 5.14 retirement by applying a blended monthly rate that is equivalent to the sum of:

5.15 (1) one-sixtieth of the annual rate of five percent, prorated for each month the  
 5.16 person's benefit effective date is after July 1, 2014, ~~or after December 31, 2014, whichever~~  
 5.17 ~~applies;~~ and

5.18 (2) one-sixtieth of the annual rate provided under paragraph (a) or (b), whichever  
 5.19 applies, for each month the person's benefit effective date is before July 1, 2019.

5.20 (d) A person ~~other than a county sheriff~~ who is a member of the public employees  
 5.21 police and fire retirement plan on or after July 1, 2014, ~~or a county sheriff who is a member~~  
 5.22 ~~of the public employees police and fire retirement plan on or after January 5, 2015,~~ and  
 5.23 who is at least 50 years old and is at least partially vested under section 353.01, subdivision  
 5.24 47, whose benefit effective date is after July 1, 2019, is entitled, upon application, to a  
 5.25 retirement annuity equal to the normal annuity calculated under subdivision 3, reduced by  
 5.26 five percent annually, prorated for each month that the member is under age 55.

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

5.28 Sec. 6. Laws 2009, chapter 169, article 5, section 2, the effective date, as amended by  
 5.29 Laws 2010, chapter 359, article 5, section 27, is amended to read:

5.30 **EFFECTIVE DATE.** This section is effective the day following final enactment  
 5.31 ~~and expires on June 30, 2014. Individuals must not be appointed to a postretirement~~  
 5.32 ~~option position after that date.~~

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

6.1       Sec. 7. **COUNTY SHERIFF TEMPORARY EARLY RETIREMENT**

6.2       **PROVISION.**

6.3       Subdivision 1. **Application.** (a) This section applies to a county sheriff who:

6.4       (1) terminates membership in the public employees police and fire retirement plan  
6.5       after June 30, 2014, and before February 1, 2015;

6.6       (2) is at least age 50 but less than age 55 on the date of termination;

6.7       (3) is at least partially vested under Minnesota Statutes, section 353.01, subdivision  
6.8       47, and meets all applicable requirements for receipt of an early retirement annuity from  
6.9       the plan; and

6.10      (4) has as the benefit effective date the day following termination of public  
6.11      employees police and fire retirement plan membership.

6.12      (b) Notwithstanding any provision of Minnesota Statutes, section 353.651,  
6.13      subdivision 4, to the contrary, the early retirement annuity applicable to an eligible person  
6.14      under paragraph (a) is the applicable benefit specified in subdivision 2.

6.15      Subd. 2. **Early retirement annuity.** (a) If an eligible person became a public  
6.16      employees police and fire retirement plan member after June 30, 2007, or was a former  
6.17      member who was reinstated as a member after that date, the person is entitled, upon  
6.18      application, to the normal annuity calculated under Minnesota Statutes, section 353.651,  
6.19      subdivision 3, reduced by two-tenths of one percent for each month that the member  
6.20      is under age 55 at the time of retirement.

6.21      (b) If an eligible person became a public employees police and fire retirement plan  
6.22      member before July 1, 2007, and is covered under paragraph (a), the person is entitled,  
6.23      upon application, to the normal annuity calculated under Minnesota Statutes, section  
6.24      353.651, subdivision 3, reduced by one-tenth of one percent for each month that the  
6.25      member is under age 55 at the time of retirement.

6.26      (c) If an eligible person is not fully vested, the annuity computed under this section  
6.27      must be reduced accordingly.

6.28      Subd. 3. **Expiration.** This section expires on January 1, 2016.

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