



TO: Senate Members of the Legislative Commission on Pensions and Retirement

FROM: Edward Burek, Deputy Director ^{EB}

RE: Summary of the 2008 Senate Omnibus Retirement Bill as Recommended by the Senate State and Local Government Operations and Oversight Committee, S.F. 2720 (Betzold), the First Engrossment

DATE: May 2, 2008

Introduction

A general summary of the Senate Omnibus Retirement Bill, S.F. 2720 (Betzold), the first engrossment, as recommended by the Senate State and Local Government Operations and Oversight Committee on April 30, 2008, appears below, followed by a section-by-section summary.

Source Legislation for the 2008 Omnibus Retirement Bill

The Senate Omnibus Retirement Bill, S.F. 2720 (Betzold), the first engrossment, is derived from the following retirement bills and amendments:

1. H.F. 228 (Paymar); S.F. 266 (Cohen): PERA; Service credit purchase, St. Paul school board member.
2. H.F. 1953 (Kahn); S.F. 2154 (Olson, M.): IRAP/TRA; Transfer of membership by certain MnSCU faculty members.
3. H.F. 2170 (Kahn); S.F. 2153 (Olson, M.): MnSCU-IRAP and supplemental plan; Unclaimed account procedures.
4. H.F. 2194 (Kahn); S.F. 2006 (Pappas); Various plans; Reemployed annuitant earnings limits; actuarial services; state aid.
5. H.F. 2451 (Nelson); S.F. 2266 (Wergin): Minnesota public pension plans; Mandating joint-and-survivor annuity unless waived by spouse.
6. H.F. 2589 (Hamilton); S.F. 2501 (Vickerman): PERA Privatization; Worthington Regional Hospital.
7. H.F. 2762 (Wardlow); S.F. xxxx: TRA; Service credit purchase for prior Illinois teaching service.
8. H.F. 2803 (Greiling); S.F. 3618 (Marty): MnSCU, TRA; Permit certain MnSCU faculty member to elect TRA coverage.
9. H.F. 3021 (Juhnke); S.F. xxxx; and H.F. xxxx; S.F. 2855 (Gimse): PERA Privatization; Rice Memorial Hospital, certain departments.
10. H.F. 3029 (Hilstrom); S.F. 2759 (Betzold): Various employers; Alternative employer-funded deferred compensation plans.
11. H.F. 3041 (Murphy, M. by request); S.F. 2715 (Betzold): Retirement provisions modified relating to actuarial and financial reporting.
12. H.F. 3082 (Murphy, M.); S.F. 2720 (Betzold): MSRS-C; Adding two employment positions to retirement plan coverage.
13. H.F. 3221 (Murphy, M., by request); S.F. 2655 (Betzold): MSRS; Deferred compensation plan recodification and offering Roth plans.
14. H.F. 3223 (Mahoney); S.F. 3054 (Tomassoni): MSRS-General/Unclassified; Revise plan coverage options for certain legislators, elected state officials, and judges; permit election of general plan coverage.
15. H.F. 3242 (Peppin); S.F. 3127 (Limmer): PERA-P&F; Service credit transfer, Maple Grove fire inspector.
16. H.F. 3311 (Atkins); S.F. 2469 (Metzen): PERA; Authorize revocation of retirement annuity application in favor of disability application.
17. H.F. 3320 (Nelson); S.F. 2423 (Betzold): TRA; Clarification of special direct state aid allocation.
18. H.F. 3415 (Pelowski); S.F. 3531 (Larson): Teacher plans; Providing for phased retirement from teaching.
19. H.F. 3421 (Murphy, M., by request); S.F. 2969 (Betzold): Minnesota Post Retirement Investment Fund; Revisions/dissolution procedure.
20. H.F. 3436 (Nelson); S.F. 3136 (Betzold): MSRS; Modification of state employee postretirement options program.
21. H.F. 3508 (Hausman); S.F. 3188 (Anderson): PERA; Service credit purchase by St. Paul employee.
22. H.F. 3567 (Shimanski); S.F. 3150 (Dille): PERA; Waive separation of service requirement for certain independent contractor.
23. H.F. 3713 (Nelson); S.F. 3405 (Betzold); PERA-P&F: Injured police officers/firefighters duty disability pension amount and less hazardous duty requirements.
24. H.F. 3715 (Nelson); S.F. 3325 (Betzold): Volunteer firefighters; Increase maximum service pension amounts.
25. H.F. 3743 (Nelson); S.F. 3375 (Dahle): School district tax-sheltered annuity vendors collective bargaining requirement.
26. H.F. 3744 (Thissen); S.F. 3532 (Larson): Local P&F; Reallocation of additional amortization aid.
27. H.F. 3764 (Thissen); S.F. 3506 (Larson): MFRA; Additional cost-of-living unit upon 110% funding; modify investment-related postretirement adjustment.
28. H.F. 3798 (Murphy, M., by request); S.F. 3324 (Betzold): MSRS/PERA/TRA; Benefit-related and administrative provisions.
29. H.F. 3799 (Murphy, M., by request); S.F. 2998 (Betzold): MSRS/PERA/MERF; Retirement annuity voluntary membership dues deduction.
30. H.F. 3840 (Gunther); S.F. 3554 (Rosen): Supplemental retirement plans; Exemption to restriction for Blue Earth United Hospital District.
31. H.F. 3895 (Murphy, M.); S.F. 3630 (Saxhaug): Volunteer firefighters; Statewide lump sum volunteer firefighter retirement plan.
32. H.F. 3938 (Murphy, M., by request); S.F. xxxx: Volunteer firefighters; State Auditor's volunteer fire working group recommendations.
33. H.F. 4117 (Holberg); S.F. 3803 (Pariseau): PERA-P&F; Increasing total and permanent duty disability benefits in short service situations.
34. H.F. 4131 (Smith); S.F. xxxx: PERA-P&F; One-year reemployed annuitant earnings limits exemption for MAC police officers.
35. H.F. 4151 (Hoppe); S.F. xxxx: TRA, Service credit purchase for leave of absence, Wayzata teacher.
36. H.F. xxxx; S.F. 1643 (Senjem): PERA; Authorize retirement annuity application, Olmstead Co./Rochester city employee.
37. Commission amendment (Betzold): MSRS-General; Minnesota Government Engineers Council employees membership inclusion.
38. Commission amendment (Murphy, M., LCPR08-BA04): PERA; Prior military service credit purchase.
39. Commission amendment (Kahn): MSRS-Unclassified; Pre-employment termination marital property division in certain instances.

General Summary of S.F. 2720 (Betzold), the First Engrossment

Article 1: Postretirement Provisions. The article amends the statutes governing the current statewide public retirement plan post-retirement adjustment mechanism, the Minnesota Post Retirement Investment Fund, by un-naming the current investment component adjustment, adding a lost purchasing power increase payable when the Consumer Price Index increase is less than 2.5 percent and the fund is 90 percent funded and had investment income in excess of 8.5 percent, and providing for additional benefit changes if the fund becomes over 115 percent funded.

Article 2: Minnesota Postretirement Investment Fund Dissolution. The article provides for the elimination of the statewide public retirement plan post-retirement adjustment mechanism if the Post Fund falls below 80 percent funded in one year or below 85 percent funded in two consecutive years, replacing the mechanism with a flat 2.5 percent post-retirement adjustment and transferring fund assets back to the particular retirement funds.

Article 3: Phased Retirement or Return to Employment Provisions. The article updates the 2006 Department of Employee Relations Post-Retirement Options program, increases the Teachers Retirement Association (TRA) and the first class city teacher retirement fund associations reemployed annuitant maximum to \$46,000, creates a return to work agreement program within the TRA, and exempts Metropolitan Airports Commission police officers from the Public Employees Police and Fire Retirement Plan (PERA-P&F) reemployed earnings limitations until December 31, 2009.

Article 4: Mandating Joint and Survivor Benefit Form. The article makes any retirement annuity from most Minnesota public retirement plans other than a volunteer firefighter relief association payable as at least a 50 percent joint and survivor benefit form, covering the participant's spouse, rather than as a single life annuity form, unless the spouse waives the joint and survivor benefit.

Article 5: Administrative Provisions. The article revises various provisions with respect to the retirement plans administered by the Minnesota State Retirement System (MSRS), the Public Employees Retirement Association (PERA), and the Teachers Retirement Association (TRA), including:

- Changing time deadlines related to certain MSRS General State Employees Retirement Plan (MSRS-General) service credit purchases and refunds.
- Changing the manner of calculating contribution transfers and additional payments related to coverage transfers for the MSRS Correctional State Employees Retirement Plan (MSRS-Correctional).
- Reducing the number of term-certain optional annuity forms for the MSRS Unclassified State Employees Retirement Program (MSRS-Unclassified).
- Including interns and residents in public medical clinics and employees of the Minnesota Government Engineers Council in MSRS-General membership.
- Revising the administrative duties of the MSRS Board of Directors and the MSRS Executive Director.
- Authorizing a full actuarial value prior military service credit purchase provision in PERA.
- Revising the recognition by the PERA General Employee Retirement Plan (PERA-General) as salary amounts paid to certain supplemental retirement plans and certain federal or state grants.
- Clarifying what constitutes a public employment termination for PERA-administered plans.
- Modifying PERA-General service credit purchase deadlines.
- Excluding PERA-administered retirement plan disabilitants from subsequent retirement coverage, eliminating permanent partial disability payments and retraining payments from PERA-General or Public Employees Police and Fire Retirement Plan (PERA-P&F) benefit offsets.
- Adding certain federal tax law compliance provisions for the PERA Defined Contribution Plan.
- Revising the PERA privatized medical facility definition to eliminate the specification of medical facility definition to eliminate the specification of medical facilities that declined utilization of the special benefit provisions.
- Establishing a process for certifying future privatizing governmental entities for special benefit coverage.
- Revising various TRA leave and service credit purchase limits.
- Accelerating eligibility for the payment of reemployed annuitant earnings limitation account deferral amounts.
- Increasing the minimum employee service credit purchase payment amount on retirement plan service credit purchases generally.
- Extending the approval period for the Clearwater Health Services privatization special benefit election to January 1, 2009.
- Repealing various obsolete TRA service credit purchase or membership provisions.

Article 6: MSRS-Correctional Plan Coverage Expansion. The article amends the statutes governing the Correctional State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional) by adding the Department of Corrections occupational positions of general maintenance worker lead and painter lead to MSRS-Correctional coverage and allows a transfer of past MSRS General State Employees Retirement Plan (MSRS-General) service credit for the one filled position with past service credit.

Article 7: MSRS-Unclassified Retirement Program Changes. The article clarifies that members of the Legislature covered by the Unclassified State Employees Retirement Program of the Minnesota State Retirement System (MSRS-Unclassified) are covered by the option of electing alternative coverage by the MSRS General State Employees Retirement Plan (MSRS-General) with ten years of state employment or more, and new legislators may choose between MSRS-Unclassified and MSRS-General during the first year, effective January 6, 2009.

Article 8: PERA Benefits Following Privatizations. The article includes in the coverage of the Public Employees Retirement Association (PERA) privatization law the departments of radiology and radiation/oncology of the Rice Memorial Hospital in Willmar and the Worthington Regional Hospital following their privatization if approved by the applicable cities.

Article 9: Retirement Related State Aid Programs. The article modifies the first class city teacher retirement fund direct state aid program by reinstating the Duluth Teachers Retirement Fund Association (DTRFA) as a recipient of the former Minneapolis Teachers Retirement Fund Association (MTRFA) portion of the previously automatically redirected DTRFA direct state aid, by redirecting the St. Paul Teachers Retirement Fund Association (SPTRFA) portion of the previously automatically redirected DTRFA direct state aid to the Legislative Commission on Pensions and Retirement to fund the retention of a reviewing consulting actuary by the Commission in combination with Article 11, and by providing for a redirection of the additional amortization state aid after 2009 of the ten cities with unfunded former local police and fire consolidation accounts in the 1999 PERA-P&F merger, with 20 percent allocated to the Minneapolis Police and Fire Relief Associations, with 20 percent to the SPTRFA, 20 percent to the City of Duluth to offset police and fire pension costs, and 40 percent to the minimum volunteer firefighter fire state aid program.

Article 10: MnSCU-IRAP and Related Changes. The article modifies provisions related to the Higher Education Individual Retirement Account Plan (IRAP), covering Minnesota State Colleges and Universities System (MnSCU) faculty and administrative personnel, handling the identification and disposition of abandoned IRAP account amounts, permitting Higher Education Supplemental Retirement Plan distributions to phased retirement program participants, and providing for an actuarial study of the impact on the Teachers Retirement Association (TRA) of allowing an additional alternative retirement coverage election for MnSCU faculty after attaining tenure or its equivalent.

Article 11: Financial and Actuarial Reporting. The article modifies the retirement plan financial and actuarial reporting requirements of Minnesota Statutes, Chapter 356, eliminating the authority for projection actuarial valuations, replacing the annual financial report member distribution requirement with a report availability requirement, eliminating various outdated generally accepted accounting practice requirements, eliminating the use of a single jointly retained consulting actuary for the preparation of official actuarial work in favor of each retirement plan retaining its own consulting actuary independently, obligating the Legislative Commission on Pensions and Retirement to retain a reviewing consulting actuary and appropriating \$140,000 annually for that purpose, eliminating any specific due date for actuary valuations, implementing various salary and payroll increase actuarial assumption changes, shifting the authority to modify post-2010 salary and payroll increase assumption changes to the respective retirement plan governing boards, subject to Legislative Commission on Pensions and Retirement approval, extending the amortization target date for the Correctional State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional), the Judges Retirement Plan, and the Public Employees Police and Fire Retirement Plan (PERA-P&F), changing from a fixed date amortization target date to a "rolling 25 year" amortization procedure for the St. Paul Teachers Retirement Fund Association (SPTRFA), and allowing SPTRFA to report actuarial valuation results based on the market value of assets rather than the actuarial value of assets.

Article 12: Retirement Savings Programs. The article contains modifications in the statutory provisions related to tax-sheltered annuities or deferred compensation programs, including the specification that the identity and number of tax-sheltered annuity vendors is a term and condition of employment under the Public Employees Labor Relations Act (PELRA) between educational employees and school districts, recodifying the Minnesota Deferred Compensation Program, permitting the Minnesota Deferred Compensation Program to implement Roth deferred compensation accounts if authorized by the federal tax law, authorizing the Minnesota State Retirement System (MSRS) to provide investment advice to Minnesota Deferred Compensation Program participants, increasing the maximum amount of employer matching deferred compensation contributions from \$2,000 annually to one-half of the applicable federal tax law deferral amount, extending authority to accept employer matching deferred compensation contributions to any deferred compensation vendor, and permitting the United Hospital District, Blue Earth, to utilize the Minnesota Deferred Compensation Program as its defined contribution retirement plan, with an employer contribution up to the employer matching and additional contribution rates of the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General).

Article 13: PERA-P&F Duty Disability Benefit Increase. The article increases the amount of the Public Employees Police and Fire Retirement Plan (PERA-P&F) duty disability benefit.

Article 14: Local Police and Paid Fire Relief Association Changes. The article relates to local public safety employee retirement plans, increasing the service pension of the Minneapolis Firefighters Relief Association by one unit whenever the relief association attains a 110 percent funding ratio, increasing the amount of the thirteenth check when the relief association is under 102 percent funded, and crediting any excess investment income not used to pay the thirteenth check against the city contribution to the relief association for the following year.

Article 15: Volunteer Firefighter Relief Association Changes. The article contains statutory changes related wholly or primarily to volunteer firefighter relief associations, including requiring public accountants to report malfeasance in local retirement plans to the Office of the State Auditor, authorizing security brokers/dealers to directly hold retirement plan assets if covered by Securities Investor Protection Corporation (SIPC) insurance or excess insurance, requiring disclosure of the extent of securities insurance by brokers/dealers on uniform acknowledgement forms prescribed by the State Auditor, revising the definition of "surviving spouse" for volunteer firefighter relief association benefits, increasing monthly benefit volunteer firefighter relief association flexible service pension minimum amounts to \$2,000 per month with 20 years service over the period 2009-2013, increasing the lump sum volunteer firefighter relief association flexible service pension maximum amounts to \$200,000 lump sum with 20 years service over the period 2009-2011, permitting various volunteer firefighter relief association deferred service pension interest crediting procedures, clarifying the limitation on volunteer firefighter relief association ancillary benefits, eliminating authority for the payment of funeral benefits from volunteer firefighter relief association special funds, creating a voluntary statewide volunteer firefighter retirement plan advisory board with the Public Employees Retirement Association (PERA), and repealing various prior special law ancillary benefit provisions with local approval after June 30, 2009.

Article 16: Membership Dues Withholding. The article relates to the payment of membership dues by retirees, allowing retirees of retirement plans administered by the Minnesota State Retirement System (MSRS), the Public Employees Retirement Association (PERA), or the Minneapolis Employees Retirement Fund (MERF) to authorize a deduction of membership dues payable to a labor union up to twice per year if the labor union reimburses the pension plan for the administrative expense of the withholding.

Article 17: Small Group Provisions. The article contains various provisions applicable to individuals or small groups of public employees:

- Permits a Rochester city council member to retire from the PERA General Employee Retirement Plan of (PERA-General) for school district and county employment and continue city council service;
- Permits a St. Paul Public Works Department employee to revoke an early retirement annuity application and apply for a disability benefit;
- Permits a full-time Maple Grove fire inspector/firefighter to transfer PERA-General covered service credit for 1988-1996 fire department employment to the Public Employees Police and Fire Retirement Plan (PERA-P&F);
- Permits a Minnesota State Colleges and Universities System (MnSCU) faculty member who was not informed of a retirement coverage election opportunity to elect Teachers Retirement Association (TRA) coverage rather than the default Individual Retirement Account Plan (IRAP) coverage and purchase service credit for the previous IRAP covered service;
- Authorizes an Apple Valley teacher with prior Illinois teaching service to purchase TRA service credit for the Illinois teaching service;
- Increases the total and permanent PERA-P&F disability benefit for the former head of the Minneapolis Bomb Squad who suffered a traumatic brain injury;
- Waives the requirement for the repayment of a PERA-General retirement annuity for a certain Glencoe/Silver Lake bus driver;
- Authorizes a St. Paul city employee who was reported for PERA-General membership late to purchase PERA-General service credit for the uncredited period;
- Permits four St. Paul school board members to make back contributions to the PERA Defined Contribution Plan for prior uncredited board service accompanied by a matching school district contribution;
- Permits a Wayzata teacher to purchase service credit from a prior leave of absence to gain eligibility for a future leave of absence; and
- Permits an early division and withdrawal of the individual's account in the Unclassified State Employees Retirement Program of the Minnesota State Retirement System (MSRS-Unclassified) in favor of the former spouse of a State Lottery employee.

Section-by-Section Summary of S.F. 3082 (Betzold), the First Engrossment

Summary of S.F. 3082, 1st Engrossment

| Sec. | Pg.Ln-Pg.Ln | Source Bill(s) | Retirement Plan | Stat. Provision | Summary |
|---|-------------|--|---|-------------------------|--|
| Article 1: Postretirement Provisions | | | | | |
| 1 | | HF3421 (Murphy, M.); SF2969 (Betzold) | Minnesota Post Retirement Investment Fund (MSRS, PERA, TRA) | 11A.18, New Subd. 2a | Requires computation of composite funding ratio, the market value divided by total required reserves, for plans included in the Minnesota Post Retirement Investment Fund (Post Fund). |
| 2 | | HF3421 (Murphy, M.); SF2969 (Betzold) | Post Fund | 11A.18, Subd. 9 | Clarifies existing law Post Fund benefit adjustments (inflation match not to exceed 2.5%, total benefit adjustment not to exceed 5.0 %). |
| 3 | | HF3421 (Murphy, M.); SF2969 (Betzold) | Post Fund | 11A.18, New Subd. 9a | Permits an additional catch-up adjustment to Post Fund benefit recipients whose annuities have lagged the inflation rate, not to exceed 2.5% in total when combined with the inflation adjustment payable to all recipients for the year. |
| 4 | | HF3421 (Murphy, M.); SF2969 (Betzold) | Post Fund | 11A.18, New Subd. 9b | Requires the plan administration to report to the Commission with respect to benefits and funding if the Post Fund funding ratio is at least 115%. |
| 5 | | HF3421 (Murphy, M.); SF2969 (Betzold) | Various | 356.41 | Makes technical corrections in the provision that adjusts disability and survivor benefits for those with benefits indexed to the Post Fund. |
| 6 | | HF3421 (Murphy, M.); SF2969 (Betzold) | MERF | 422A.06, Subd. 8 | Rather than having MERF post-retirement adjustments determined by cross-reference to Post Fund procedure, the procedure is recreated in MERF retirement fund provision. |
| Article 2: Minnesota Post Retirement Investment Fund Dissolution | | | | | |
| 1 | | HF3421 (Murphy, M.); SF2969 (Betzold) | Minnesota Post Retirement Investment Fund (Post Fund) | New 11A.181 | If the Post Fund funding ratio is less than 80% in any year, or less than 85% in two consecutive years, the Post Fund will be dissolved and its assets merged with active member assets from the applicable plans. If the Post Fund is dissolved, annual benefit adjustment of 2.5% replaces all existing Post Fund adjustment provisions. |
| 2 | | HF3421 (Murphy, M.); SF2969 (Betzold) | Post Fund | Uncoded | If the Post Fund is to be dissolved, plan administrations must report to the Commission with proposed legislation containing conforming changes. |
| Article 3: Phased Retirement or Return to Employment Provisions | | | | | |
| 1 | | HF3436 (Nelson); SF3136 (Betzold) | MSRS, PERA | 43A.346, Subd. 1 | The Postretirement Option Program (PRO) definition provision clarified to make it clear the provision applies to retired (terminated) employees rather than active employees. |
| 2 | | HF3436 (Nelson); SF3136 (Betzold) | MSRS, PERA | 43A.346, Subd. 2 | PRO program eligibility provisions are clarified, including clarification that PERA length-of-separation requirements and return-to-work agreement prohibitions do not apply if the individual is at least age 62. |
| 3 | | HF3436 (Nelson); SF3136 (Betzold) | MSRS, PERA | 43A.346, Subd. 4 | Clarifies PRO program annuity reduction waiver provision. |
| 4 | | HF3436 (Nelson); SF3136 (Betzold) | MSRS, PERA | 43A.346, Subd. 5 | In conformance with federal law, if the individual is under age 62 no initial offer of a PRO position can be made until at least 30 days after termination of service. |
| 5 | | HF3436 (Nelson); SF3136 (Betzold) | MSRS, PERA | 43A.346, Subd. 6 | In conformance with federal law, requires that if the individual is under age 62, no offer to continue an individual in a PRO position can be made until at least 30 days after the end of the individual's previous PRO position. |
| 6 | | HF3436 (Nelson); SF3136 (Betzold) | MSRS, PERA | 43A.346, Subd. 7 | Clarifies the PRO acceptance of employment provision. |

