



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

FROM: Edward Burek, Deputy Director *EB*

RE: S.F. 2644 (Betzold), First Engrossment; MERF Administrative Consolidation, as Recommended by the Senate State and Local Government Operations and Oversight Committee

DATE: March 19, 2010

General Summary of S.F. 2644 (Betzold), the First Engrossment

S.F. 2644 (Betzold), the first engrossment, as recommended by the Senate State and Local Government Operations and Oversight Committee on March 1, 2010, contains the following provisions:

1. Provides for an Administrative Consolidation of MERF into PERA and PERA-General. The administration of the benefit plan coverage and retirement fund of Minneapolis Employees Retirement Fund (MERF) is transferred to the Public Employees Retirement Association (PERA) and to the PERA General Employees Retirement Plan (PERA-General) with the creation of a MERF division within PERA and of a MERF division account with the PERA-General fund. The MERF division would have all of the liabilities of the current MERF and the MERF division account and would be credited with all of the assets of the current MERF. The PERA board and administrative staff would replace the current MERF board and administration. The State Board of Investment, which has investment custody of current MERF assets, would gain full legal title of and investment authority over the MERF division account assets. (*Art. 1, generally; Art. 1, Sec. 17, specifically*)
2. Current and Future MERF Retirees Would Receive Downsized Post-Retirement Adjustments. The current MERF post-retirement adjustment mechanism, equaling the increase in the Consumer Price Index up to 3.5 percent plus an additional amount based on the five-year investment experience of the plan assets attributable to retirees if those plan assets equal retiree actuarial accrued liabilities, would be replaced by the flat 2.5 percent annual post-retirement adjustment attributable to the statewide retirement plans. (*Art. 1, Sec. 17, Subd. 3*)
3. MERF Division Account Continuing Liability without Shift to PERA-General. After the creation of the MERF division and the MERF division account within PERA, PERA-General will be an agent retirement plan, meaning that there will be no liability sharing between the MERF division and PERA-General and the current employing units with MERF-covered employees, principally the City of Minneapolis and Special School District No. 1, Minneapolis, still responsible for making employee and employer contributions toward those liabilities. (*Art. 1, Sec. 7, Subd. 1a; Sec. 17*)
4. Shifts Current MERF Actuarial Assumptions to Appropriate PERA-General Actuarial Assumptions. With the creation of the MERF division, PERA-General interest rate and salary actuarial assumptions would be governed. MERF division demographic assumptions for the MERF division exhibit in the July 1, 2010, PERA-General actuarial valuation will be recommended to the Legislative Commission on Pensions and Retirement for approval by the PERA Board and the PERA consulting actuary with advice from the current MERF consulting actuary. (*Art. 1, Sec. 19-20, 23*)
5. MERF Account Financial Requirement Determination. With the creation of the MERF division within PERA and PERA-General, the current employing units with MERF-covered employers retain the employer contribution obligations under MERF law (matching employer percentage contribution, employer additional contribution of 2.68 percent of salary plus \$3.9 million annually). The supplemental employer contribution, currently computed as the balance of MERF full actuarial requirements remaining after a \$9 million annual state contribution, is revised as of June 30, 2012 to be the balance remaining in excess of \$36.5 million. In the initial determination of MERF division financial requirement and employer contributions, the mortality table change recommended by the MERF consulting actuary on September 20, 2009, must be used. The statutory amortization date for MERF, currently June 30, 2020, is reset for the MERF division to June 30, 2031 to match the amortization date for the PERA-General. Upon the creation of a MERF consolidation account within the PERA, the supplemental employer contribution to the account, replacing most of Minnesota Statutes, Section 422A.101, Subdivisions 1, 1a, and 3, is made applicable to Hennepin County, the Metropolitan Council, and the Metropolitan Airports Commission. A current exemption for

Metropolitan Government from the payment of any overage in MERF financial requirements above the current cap on state MERF aid is removed so that all employing units with MERF employees or retirees are clearly responsible for MERF funding. (*Art. 1, Sec. 17, Subd. 7; Sec. 21*)

6. Increase in State Funding for MERF Division within PERA-General. The current \$9 million cap for MERF would be increased by \$27.5 million for the MERF division as of June 30, 2012, and state aid for the MERF division is payable beyond 2020 to 2031. (*Art. 1, Sec. 21*)
7. Addition of Benefit Cash Flow Special Additional Employer Contribution Requirement for the MERF Division. To provide security in the payment of retirement annuities and benefits from the MERF division, a special additional employer contribution based on any potential shortfall in assets available to pay annuities and benefits is required. If the prior year's assets and the prior year's member, employer, and state funding are less than the prior year's annuities and benefits, all adjusted by a cost-of-living factor, the shortfall becomes the special additional employer contribution, which is allocated between the various employing units covered by the former MERF based on the proportion of the July 1, 2009, MERF actuarial accrued liability attributable to each and is payable before July 1. (*Art. 1, Sec. 17, Subd. 7, Para. (f)*)
8. Eventual Full Merger with PERA-General. When the MERF division becomes 80 percent funded, the MERF division merges into PERA-General, although contributions to amortize the remaining unfunded liability by June 30, 2031, shall continue. PERA must present the Commission with the recommended draft proposed legislation to implement the merger by the February 15 following the triggering actuarial valuation report. (*Art. 1, Sec. 17, Subd. 8*)
9. Retention of the MERF Association. The Minneapolis Municipal Retirement Association, a nonprofit corporation, is permitted to continue in existence as a fraternal organization to represent the interests of the former MERF members, but the advocacy organization is not entitled to receive tax revenue and PERA is not obligated to make any special accommodations to the corporation. (*Art. 1, Sec. 24*)
10. Disposition of MERF Personnel. MERF employees hired before June 30, 2008, would be transferred to subsequent employment by either the City of Minneapolis or Special School District No. 1 without loss of salary or benefits for a yet-to-be-specified period, then would be given a civil service employment preference comparable to a veteran's preference for municipal or school district employment in a position determined appropriate based on the employee's education and experience by the normal human resources process of the governmental entity. (*Art. 1, Sec. 25*)
11. Conforming Changes. Cross-references to MERF and statutory citations to MERF or MERF-related provisions are eliminated and most current MERF provisions are repealed. (*Art. 2*)
12. Effective June 30, 2010. The creation of the MERF division and the transfer of administrative duties from the former MERF to PERA occur on June 30, 2010. (*Art. 1, Sec. 28*)

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## Section-By-Section Summary of S.F. 2644 (Betzold), First Engrossment

Summary of S.F. 2644 (Betzold), 1<sup>st</sup> Engrossment

Sec.	Pg.Ln	Retirement Plan	Stat. Provision	Summary																																						
<b>Article 1: MERF Consolidation Account in PERA</b>																																										
1	2.3	PERA	353.01, Subd. 2a	Provides that the members of the former MERF on June 29, 2010, are members of the MERF division of PERA.																																						
2	3.5	PERA	353.01, Subd. 2b	Revises PERA excluded employee provision to no longer exclude MERF-covered employees.																																						
3	6.11	PERA	353.01, New Subd. 47	Defines "MERF division" as the separate retirement plan within PERA-General.																																						
4	6.17	PERA	353.01, New Subd. 48	Defines "MERF division account" as the special account within PERA-General retaining the assets and liabilities of the former MERF.																																						
5	6.24	PERA	353.05	Expands the PERA fund custodian provision to cover the MERF division account also.																																						
6	7.5	PERA	353.06	Expands the PERA/State Board of Investment retirement funds investment provision to include the MERF division account also.																																						
7	7.20	PERA	353.27	<table border="0"> <thead> <tr> <th style="text-align: left;"><u>Subd</u></th> <th style="text-align: left;"><u>Provision</u></th> </tr> </thead> <tbody> <tr><td>1.</td><td>Includes the MERF division account in the general employees retirement fund provision.</td></tr> <tr><td>1a.</td><td>Establishes the MERF division account within the general employees retirement fund and provides for its revenues and disbursements.</td></tr> <tr><td>2.</td><td>Clarifies that the current member contribution provision is the PERA-General member contribution rate provision.</td></tr> <tr><td>3.</td><td>Clarifies that the current employer contribution provision is the PERA-General employer contribution rate provision.</td></tr> <tr><td>3a.</td><td>Clarifies the application of the current additional employee contribution provision to PERA-General.</td></tr> <tr><td>3b.</td><td>Clarifies the application of the PERA board member and employer contribution rate change authority to PERA-General and excludes the MERF division actuarial results from the contribution change trigger.</td></tr> <tr><td>4.</td><td>Clarifies that the employer reporting requirements provision applies to PERA-General and PERA-P&amp;F.</td></tr> <tr><td>7.</td><td>Clarifies that the erroneous receipts or disbursements provision applies to PERA-General and PERA-P&amp;F.</td></tr> <tr><td>7a.</td><td>Clarifies that the erroneous deductions transmission provision applies to PERA-General, PERA-P&amp;F, and PERA-Correctional.</td></tr> <tr><td>7b.</td><td>Provides that the recovery of overpayments provision applies to PERA-General, PERA-P&amp;F, and PERA-Correctional.</td></tr> <tr><td>9.</td><td>Clarifies that the current fee officers provision applies to PERA-General.</td></tr> <tr><td>10.</td><td>Clarifies that the current employer exclusion report provision applies to PERA-General.</td></tr> <tr><td>11.</td><td>Specifies that the current payroll data request response provision applies to PERA-General, PERA-P&amp;F, and PERA-Correctional.</td></tr> <tr><td>12.</td><td>Clarifies that the current omitted salary deduction collection provision applies to PERA-General, PERA-P&amp;F, and PERA-Correctional.</td></tr> <tr><td>12a.</td><td>Specifies that the current terminated employee omitted deduction provision applies to PERA-General, PERA-P&amp;F, and PERA-Correctional.</td></tr> <tr><td>12b.</td><td>Clarifies that the retiring member omitted deduction provision applies to PERA-General, PERA-P&amp;F, and PERA-Correctional.</td></tr> <tr><td>13.</td><td>Specifies that the current canceled warrants provision applies to PERA-General, PERA-P&amp;F, and PERA-Correctional.</td></tr> <tr><td>14.</td><td>Clarifies that the uncovered pre-membership service credit acquisition provision applies to PERA-General, PERA-P&amp;F, and PERA-Correctional.</td></tr> </tbody> </table>	<u>Subd</u>	<u>Provision</u>	1.	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8	19.19	PERA	353.34, Subd. 1	Clarifies that the terminated employee refund provision applies to the MERF division.																																						
9	20.1	PERA-General	353.34, Subd. 6	Clarifies that the current donation, buyout, and gift provision applies to PERA-General.																																						
10	20.5	PERA	353.37, Subd. 1	Clarifies that the current reemployed annuitant salary limit provision applies to PERA-General, PERA-P&F, and PERA-Correctional and does not apply to the MERF division.																																						
11	20.24	PERA	353.37, Subd. 2	Clarifies that the current PERA annuity suspension for certain reemployed annuitants does not apply to MERF division members.																																						
12	21.1	PERA	353.37, Subd. 3	Clarifies that the current PERA annuity reduction for certain reemployed annuitants does not apply to MERF division members.																																						
13	21.8	PERA	353.37, Subd. 4	Clarifies that the current PERA annuity resumption for certain reemployed annuitants does not apply to MERF division members.																																						
14	21.15	PERA	353.37, Subd. 5	Clarifies that the current PERA reemployed annuitant effect on annuity provision does not apply to MERF division members.																																						

Summary of S.F. 2644 (Betzold), 1<sup>st</sup> Engrossment

Sec.	Pg.Ln	Retirement Plan	Stat. Provision	Summary
15	21.23	PERA	353.46, Subd. 2	Specifies that the current deferred annuitant annuity entitlement applies to PERA-General, the MERF division, PERA-P&F, and PERA-Correctional.
16	22.1	PERA-General	353.46, Subd. 6	Reformulates the current benefit computation provision for former consolidated MERF Coordinated Program to accommodate the creation of a MERF division in PERA.
17	23.1	MERF Division of PERA	New 353.50	<u>Subd. 1</u> provides that the MERF division and MERF division consolidation account are administered by PERA. <u>Subd. 2-6</u> transfer the current MERF membership, liabilities and service credit, records, and asset legal title to the MERF division. <u>Subd. 7, Para. (a)-(e), (g) and (h)</u> specify the member and employer contributions to MERF division, broadly replicating the current Minnesota Statutes, Sections 422A.10 and 422A.101, rates and requirements, except that the amortization date is June 30, 2031 rather than 2020, and employer supplemental contributions are based on required contributions net of employee and regular employer and employer additional contributions in excess of \$36.5 million rather than in excess of \$9.0 million. <u>Subd. 7, Para. (f)</u> , establishes a minimum annual employer contribution based on the cash flow needs of the MERF division account. <u>Subd. 7a</u> . Authorizes PERA to deduct dues for the Minneapolis Municipal Retirement Association. <u>Subd. 8</u> provides for an eventual full consolidation of the MERF division or account into PERA-General when the MERF division is 80 percent funded based on market value, although additional contributions will continue until 100 percent funding is reached. <u>Subd. 9</u> . Permits employing units to transfer sufficient funds to PERA to permit its employees to be considered PERA members, relieving the employer of further liabilities specific to the merger.
18	27.26	PERA-P&F	353.64, Subd. 7	Eliminates outdated retirement coverage exemption for Metropolitan Airports Commission police and firefighters.
19	28.7	Actuarial Reporting Interest and Salary Assumptions	356.215, Subd. 8	Eliminates references to MERF and substitutes use of PERA economic actuarial assumptions.
20	32.24	Actuarial Reporting Periods & Contributions	356.215, Subd. 11	Eliminates references to MERF and implements a 2031 amortization date for the MERF division.
21	35.9	MERF Division of PERA	422A.101, Subd. 3	Redirects the current state contribution to MERF to the MERF division and provides for an increase in the MERF division state contribution by \$27.5 million after June 30, 2012, payable to 2031.
22	36.11	PERA-General	422A.26	Updates the provision requiring PERA-General membership for City of Minneapolis, Special School Dist. No. 1, and Metropolitan Airports Commission employees first hired after 1979.
23	36.25	MERF Division	Uncoded	Provides for a review of the appropriate actuarial assumptions for use on the MERF account and the forwarding of any recommendations to the Legislative Commission on Pensions and Retirement.
24	37.4	MERF Association	Uncoded	Indicates that the MERF Association can continue in operation following the administrative consolidation, but does not entitle the MERF Association to any tax-derived revenue and does not obligate PERA to extend any special privileges to the MERF Association.
25	37.16	MERF	Uncoded	Transfers two existing MERF employees to the City of Minneapolis and transfers one existing MERF employee to PERA unless the employees elect to take a severance payment.
26	38.21	--	Revisor Note	Instructs the Revisor of Statutes to renumber the remaining MERF provisions (Minnesota Statutes, Sections 422A.101, Subdivision 3, and 422A.26) into the PERA chapter.
27	38.27	--	Repealer	Repeals the bulk of the current MERF chapter and a few MERF-specific provisions in other statute chapters.
28	39.5	--	Effective Date	The article is effective June 30, 2010.
<b>Article 2: Conforming Changes</b>				
1	39.9	Local Government Auditing	6.67	Eliminates statutory citation to MERF law from requirement for public accountants to report misconduct.
2	39.21	State Board of Investment	11A.23, Subd. 4	Revise a reference to PERA-General.
3	40.3	Open Meeting Law	13D.01, Subd. 1	Eliminates statutory citation to MERF law from open meeting requirement.
4	40.30	Political Subdivision Compensation Limit	43A.17, Subd. 9	Eliminates statutory cross-references to MERF law from an exemption from a compensation limit.
5	42.8	Public Employees Insurance Program	43A.316, Subd. 8	Eliminates statutory citation to MERF law from continuation of insurance coverage provision.

Summary of S.F. 2644 (Betzold), 1<sup>st</sup> Engrossment

Sec.	Pg.Ln	Retirement Plan	Stat. Provision	Summary
6	43.3	Police State Aid	69.011, Subd. 1	Eliminates statutory citation to MERF and to MERF law from Metropolitan Airports Commission eligibility for police state aid.
7	45.5	Police State Aid	69.021, Subd. 10	Eliminates obsolete references to MERF employer contributions for certain Metropolitan Airports Commission police officers and corrects reference to Rosemount, Minnesota.
8	48.4	Police State Aid	69.031, Subd. 5	Eliminates obsolete references to MERF employer contributions for certain Metropolitan Airports Commission police officers.
9	50.15	School District Tax Levies for Benefits	126C.41, Subd. 3	Replaces references to MERF employer contributions with references to PERA-General employer for the additional Minneapolis contributions required with respect to MERF under Minnesota Statutes, Section 422A.101, Subdivision 3.
10	51.10	Certain Hennepin Co. General Assistance Employees	256D.21	Replaces MERF retirement coverage references with PERA-General retirement coverage references for former Minneapolis General Assistance employees transferred to Hennepin County in 1973.
11	52.3	MSRS-General Membership Exclusions	352.01, Subd. 2b	Clarifies reference to the former MERF for non-teaching MnSCU employees who elected coverage other than MSRS-General.
12	52.33	PERA	353.03, Subd. 1	Revise a reference to PERA-General.
13	56.14	PERA	353.71, Subd. 4	Updates potential reduction of current MERF state aid to reflect MERF consolidation with PERA-General.
14	56.19	PERA	353.86, Subd. 1	Revise a reference to PERA-General.
15	56.30	PERA	353.86, Subd. 2	Revise a reference to PERA-General.
16	57.5	PERA	353.87, Subd. 1	Revise a reference to PERA-General.
17	57.14	PERA	353.87, Subd. 2	Revise a reference to PERA-General.
18	57.21	PERA	353.88	Revise a reference to PERA-General.
19	58.8	TRA	354.71	Updates a provision potentially redirecting some MERF aid to TRA by updating MERF references.
20	58.23	First Class City Teacher Retirement Plan Membership	354A.011, Subd. 27	Eliminates obsolete reference to 1955 MERF membership retention.
21	59.27	First Class City Teacher Retirement Plan Portability	354A.39	Eliminates MERF reference from service in more than one fund portability provision.
22	60.14	Social Security election provision	355.095	Revises reference in Social Security election provision
23	60.29	Annual Retirement Plan Financial Reporting	356.20, Subd. 2	Eliminates a reference to MERF.
24	61.22	Retirement Plan Consulting Actuary Selection	356.214, Subd. 1	Eliminates a reference to MERF and corrects statutory cross-references.
25	63.8	Combined Service Annuity Portability	356.30, Subd. 3	Eliminates references to MERF.
26	63.32	Combined Service Disability Portability	356.302, Subd. 1	Corrects statutory references related to MERF.
27	64.22	Combined Service Disability Portability	356.302, Subd. 7	Eliminates a reference to MERF.
28	66.59	Combined Service Portability	356.303, Subd. 4	Eliminates a reference to MERF.
29	66.1	Age 65 Proportionate Annuity	356.32, Subd. 2	Eliminates a reference to MERF.
30	66.21	Exemption From Process	356.401, Subd. 3	Eliminates a reference to MERF and to the Minneapolis Teachers Retirement Fund Association.
31	67.22	Survivor Benefit Restoration	356.407, Subd. 2	Eliminates a reference to MERF.
32	68.1	Statewide Retirement Plans	356.415, Subd. 2	Includes the MERF division of PERA in annual automatic 2.5 percent post-retirement adjustments.

Summary of S.F. 2644 (Betzold), 1<sup>st</sup> Engrossment

Sec.	Pg.Ln	Retirement Plan	Stat. Provision	Summary
33	68.21	Post-Retirement Adjustment Conversion	356.431, Subd. 1	Corrects statutory cross-references related to MERF.
34	68.29	Supplemental Needs Trust Optional Annuity	356.465, Subd. 3	Eliminates a reference to MERF.
35	69.24	Real Estate Investments	356.64	Eliminates an exception related to MERF.
36	69.33	Abandoned Pension Property	356.65, Subd. 2	Eliminates a statutory cross-reference related to MERF.
37	70.11	Retired Member Union Dues Deduction	356.91	Eliminates a reference to MERF.
38	70.29	Statewide Plan Appeals Process	356.96, Subd. 1	Eliminates a statutory cross-reference related to MERF.
39	71.14	Metro Sewer Employees	473.511, Subd. 3	Eliminates reference to MERF from 1994 membership election option.
40	72.20	Metropolitan Airports Commission	473.606, Subd. 5	Eliminates obsolete mandatory retirement law provision that included MERF reference.
41	73.3	Municipal Pension Debt Bonding	475.52, Subd. 6	Eliminates statutory cross-reference to MERF.
42	73.16	Transfer of District Court Employees	480.181, Subd. 2	Eliminates references to MERF.
43	74.19	--	Effective Date	The article is effective June 30, 2010.