



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Lawrence A. Martin, Executive Director
RE: Summary of 2013 Omnibus Retirement Bill II through March 12, 2013
DATE: March 13, 2013

Introduction

The Legislative Commission on Pensions and Retirement has decided to assemble two omnibus retirement bills, one containing administrative provisions and routine pension provision changes (Omnibus I) and one containing retirement provision changes with a substantial plan or state financial impact or with a more significant policy impact (Omnibus II).

This memorandum summarizes the contents of Omnibus Retirement Bill II as assembled by the Pension Commission through March 12, 2013.

Source Legislation for the 2013 Omnibus Retirement Bill II through March 12, 2013

Delete-everything amendment S1191-1A, drawn to S.F. 1191 (Pappas); H.F. 1152 (Murphy, M.) as a vehicle, includes all or portions of the contents of the following retirement bills:

1. SF 272 (Pappas); HF 344 (Nelson): State Patrol; Benefit modifications and contribution increases.
2. SF 273 (Pappas); HF 343 (Nelson): PERA; Salary definition modification.
3. SF 439 (Saxhaug); HF 539 (Nelson): Public pension fund deductions for labor organization membership dues or payments; blind mailings authorization.
4. SF 447 (Pappas); HF 618 (Nelson): PERA-P&F, PERA-Correctional; Benefit modifications and contribution increases.
5. SF 696 (Cohen); HF 628 (Hilstrom): Judges Plan; Financial sustainability plan provisions and contribution revisions.

General Summary of Omnibus Retirement Bill II, Delete-All Amendment S1191-1A

Article 1: State Patrol Retirement Plan Financial Solvency Measures. *(Derived from SF 272/HF 403)*

The article amends portions of Minnesota Statutes, Chapters 352B and 356, relating to the State Patrol Retirement Plan, and makes the following changes:

1. Increased Contribution Rates. The member contribution rate is increased in total by 2% in two installments and the employer contribution rate is increased in total by 3% in two installments.
2. Increased Vesting Periods. The 2010 increase in the period of service to vest for an annuity or benefit is delayed until July 1, 2013, and is increased to ten years for a normal retirement annuity and an early retirement annuity.
3. Maximum Retirement Annuity. The allowable service credit used to compute retirement annuities are limited to 33 years unless the active member had 28 years of allowable service before July 1, 2013.
4. Increased Early Retirement Reduction Factor. For members who retire after June 30, 2015, the early retirement reduction factor is increased from 0.1% per month under age 55 at retirement to 0.34% per month under age 55 at retirement.
5. Restructures Two Repetitive Survivor Benefit Provisions. Two survivor benefit provisions that replicate each other are folded together.
6. Reduced Post-Retirement Adjustments. Effective January 1, 2014, the automatic annual post-retirement adjustment increases are reduced from 1.5% to 1% until the retirement plan is at least 85% funded on a market value of assets basis, then 1.5% automatic post-retirement increases until the plan is at least 90% funded on a market value of assets basis, and then a return to the 2008-2009 2.5% automatic annual post-retirement adjustment.

Article 2: PERA Plans Salary Definition. (Derived from SF 273/HF 343)

The article amends Minnesota Statutes, Section 353.01, Subdivision 10, the definition of "salary" for the various retirement plans administered by the Public Employees Retirement Association (PERA), to expand or add inclusions in the definition and to expand or add exclusions in the definitions, as follows:

1. Inclusions: Expansion of periodic compensation, modification of certain supplemental retirement plan contributions, addition of non-wrongful-discharge salary reductions remedied through a grievance, addition of paid leave of absence amounts, and addition of performance or merit pay amounts.
2. Exclusions: Extension to lump sum personal leave or benevolent leave donation payments, addition of accrued prior year compensatory or overtime hours pay paid at separation, expansion to retirement incentive payments, expansion to expense allowance and per diem payments, expansion to disability insurance payments, specification of particular forms or types of employer-paid fringe benefits exclusion, and addition of non-performance or non-merit bonus payments.
3. Conditional Inclusion: Expansion to court-ordered employer payments to an employee.

Article 3: Public Employees Police and Fire Retirement Plan (PERA-P&F) Financial Solvency Measures. (Derived from SF 447/HF 618)

The article amends various portions of Minnesota Statutes, Chapters 353 (PERA and PERA-P&F), 353E (PERA-Correctional) and 356 (Retirement, Generally), to make the following modifications with respect to the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General), the Public Employees Police and Fire Retirement Plan (PERA-P&F), and the Local Government Correctional Service Retirement Plan (PERA-Correctional), all effective immediately, on July 1, 2014, or on July 1, 2019:

1. Duty Disability Definition Revision. The duty disability definition for PERA-P&F and PERA-Correctional is restricted solely to disabilities arising out of or incurred during the performance of inherently dangerous duties.
2. Vesting Service Credit Requirement Increased. The PERA-P&F service requirement is increased from three years to ten years for PERA-P&F members first employed after June 30, 2010, and to 20 years for PERA-P&F members first employed after June 30, 2014, with the extended period vesting proportional between five years and ten years or between ten years and 20 years.
3. Expanded Employer Disability Application Reporting. PERA-P&F and PERA-Correctional disability applications would need to include more information on specific job requirements and job requirement deficiencies.
4. Increased Member and Employer Contributions. PERA-P&F member and employer contributions would be increased in two steps from 9.6% of salary to 10.8% of salary and 14.4% of salary to 16.2% of salary, respectively.
5. Maximum Retirement Annuity Imposed. A PERA-P&F retirement annuity maximum is imposed, set at 33 years of service credit and 99% of the final average salary, with any member contributions in excess of 33 years of service credit refunded with interest at retirement.
6. Increased Early Retirement Reduction Factor. Greater early retirement reduction factors are imposed on PERA-P&F retirements between age 50 and age 55 occurring after June 30, 2014, set at an amount proportionately determined between 1.2% or 2.4% per year and 5% per year if retirement occurs between June 30, 2014, and July 1, 2019, and 5% per year after June 30, 2019.
7. Post-Retirement Adjustment Modifications. The PERA-General, PERA-P&F, and PERA-Correctional post-retirement adjustments will continue at 1% until the applicable retirement fund becomes at least 90% funded on a market value basis for two consecutive actuarial valuations and if the funded ratio of the retirement fund on a market value basis including the restored adjustment rate is less than 86% for two consecutive actuarial valuations or is less than 81% for the most recent actuarial valuation and the PERA-P&F post-retirement adjustment is not payable for retirees who began receipt after June 1, 2014, for at least 25 months for a partial adjustment or for at least 36 months for a full adjustment.
8. Technical Clarifications. Technical clarifications in the PERA-P&F survivor benefit calculation and survivor benefit family maximums also are made.

Article 4: Judges Retirement Plan Financial Solvency Measures. (Derived from SF 983; HF 953)

The article amends Minnesota Statutes, Chapters 356 (Retirement, Generally) and 490 (Judges Retirement), to make modifications in the Uniform Judges Retirement Plan, as follows:

1. Reduced Benefit Accrual Rate; Creation of Tier I and Tier II. The benefit accrual rates (2.7% of the highest five successive years average salary for allowable service before July 1, 1980, and 3.2% for allowable service after June 30, 1980) of the Judges Retirement Plan are reduced as the Tier II benefit program for judges who first take office after June 30, 2013, and for judges in office on June 30, 2013, with less than five years of allowable service credit who elect to be covered by the Tier II benefit program.
2. Reduced Annual Post-Retirement Adjustment Rate for Current Retired Judges. The 2010 reduced (2% instead of 2.5%) annual post-retirement adjustment rate is further reduced to 1.75% annually until the funded ratio of the Judges Retirement Plan, measured on a market value of assets basis, equals or exceeds 70%.
3. Increased Normal Retirement Age for Tier II Benefit Program. The normal retirement age of the Tier I benefit program remains at age 65, but is reset at age 66 for the Tier II benefit program.
4. Elimination of Service Credit Maximum for Tier II Benefit Program. The service credit maximum applicable to the Judges Retirement Plan, generally 24 years of allowable service credit, are eliminated for judges covered by the Tier II benefit program.
5. Revised Contribution Rates. The employer contribution rate required to be made by the State court Administrator for all judges is increased from 20.5% of covered salary to 22.5% of covered salary, the member contribution rate for judges covered by the Tier I benefit program is increased from 8.0% of covered salary to 9.0% of covered salary, and the member contribution rate for judges covered by the Tier II benefit program is set at 7.0% of covered salary.

Article 5: Miscellaneous Provisions. (Derived from SF 439; HF 539)

The article amends Minnesota Statutes, Section 356.91, the MSRS and PERA authorization to make union dues deductions, by making the deduction of retirement annuity amounts by MSRS or PERA mandatory rather than permissive, the dues deduction is clarified as membership dues and is expanded to include "other payments," the dues deduction frequency is expanded from twice annually to monthly, and the restriction against retirement annuity deductions for political purposes is eliminated, and permitting labor organizations and retired public employee associations to have a public retirement system twice per year either mail directly voluntary membership information and dues deduction authorization cards to annuitants if the mailing does not have explicit political content, and if the organization pays the mailing costs or conducts the mailing through a mail center with a secure data share agreement in force where neither the organization or any other entity has access to the data.

Section-by-Section Summary of Omnibus Retirement Bill II, Delete-All Amendment S1191-1A

A section-by-section summary of Omnibus Retirement Bill II (S1191-1A) is attached.

cc: Representative Debra Hilstrom
Jim Gelbmann, House Gov Ops Committee
Mark Shepard, House Research
Helen Roberts, House Fiscal Analyst
Brynn Hausz, House Majority Research
Joe Marble, House Minority Research
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Section-by-Section Summary of Omnibus Retirement Bill II, Delete-All Amendment S1191-1A

Sec.	Pg.Ln	Source Bill(s)	Stat. Provision	Retirement Plan	Summary
Article 1: State Patrol Retirement Plan Financial Solvency Measures					
1	1.6	Commission amendment S0272-1A to SF 272 (Pappas); HF 403 (Nelson)	352B.011, Subd. 4	State Patrol	Includes the salary earned on employment rendered in excess of the 33-year maximum in final average salary for annuity computation purposes.
2	1.24	SF 272 (Pappas); HF 403 (Nelson)	352B.02, Subd. 1a	State Patrol	Increases the member contribution rate by 2% in two installments, 1% in FY 2015 and 1% beginning in FY 2017.
3	2.1	SF 272 (Pappas); HF 403 (Nelson)	352B.02, Subd. 1c	State Patrol	Increases the employer contribution rate by 3% in two installments, 1.5% in FY 2015 and 1.5% beginning in FY 2017.
4	2.13	SF 272 (Pappas); HF 403 (Nelson)	352B.08, Subd. 1	State Patrol	Delays the 2010 increase in years of service credit to vest for newly employed members from 7/1/2010 to 7/1/2013 and increases the minimum length of service credit to vest from five years to ten years.
5	2.26	SF 272 (Pappas); HF 403 (Nelson)	352B.08, Subd. 2	State Patrol	Unless a member had at least 28 years of allowable service credit on 6/30/2013, a maximum of 33 years of service credit can be used to calculate an annuity, and any member contributions for service in excess of 33 years are refunded at annuity commencement.
6	3.5	SF 272 (Pappas); HF 403 (Nelson)	352B.08, Subd. 2a	State Patrol	Delays the 2010 vesting period increase from 7/1/2010 to 7/1/2013, increases the minimum length of service credit to vest from five years to ten years, delays the 2010 increase in the early retirement reduction factor for retirements occurring after 6/30/2015, and increases the post-2015 retirement factor increase from 0.2 to 0.34% per month under age 55.
7	3.17	SF 272 (Pappas); HF 403 (Nelson)	352B.10, Subd. 5	State Patrol	Updates in the optional annuity provision a cross-reference to the surviving spouse benefit provision proposed for repeal.
8	3.28	Commission amendment S0272-1A to SF 272 (Pappas); HF 403 (Nelson)	352B.11, Subd. 1	State Patrol	Clarifies that a refund of post-33-year maximum member contributions does not forfeit post-33-year maximum salary credit.
9	4.10	SF 272 (Pappas); HF 403 (Nelson)	352B.11, Subd. 2b	State Patrol	In the surviving spouse benefit provision, the vesting change from three years to five years is delayed from 7/1/2010 to 7/1/2013 and this subdivision and the substance of M.S., Sec. 352B.11, Subd. 2c
10	5.29	SF 272 (Pappas); HF 403 (Nelson)	356.415, Subd. 1e	State Patrol	Reduces the automatic annual post-retirement increase to 1% beginning 1/1/2014 and continuing until the plan is at least 85% funded on a market value of assets basis and sets the automatic annual post-retirement increase to 1.5% until the December 31 after the plan is at least 90% funded on a market value of assets.
11	7.1	SF 272 (Pappas); HF 403 (Nelson)	352B.11, Subd. 2c	Repealer	Repeals Section 352B.11, Subdivision 2c.
Article 2: PERA Plans Salary Definition					
1	7.9	SF 273 (Pappas); HF 343 (Nelson)	353.01, Subd. 10	PERA	Revises the definition of salary by expanding the inclusion of periodic compensation, by modifying the inclusion of certain supplemental retirement plan contributions, by adding the inclusion of non-wrongful-discharge salary reductions remedied through a grievance, adding the inclusion of paid leave of absence amounts, by adding performance or merit pay amounts, by extending the exclusion to lump sum personal leave or benevolent leave donation payments, by adding the exclusion of accrued prior year compensatory or overtime hours pay paid at separation, by expanding the exclusion of retirement incentive payments, by expanding the exclusion to expense allowance and per diem payments, by expanding the exclusion to disability insurance payments, by specifying the exclusions of particular forms or types of employer-aid fringe benefits, by adding an exclusion of non-performance or non-merit bonus payments, and by expanding the conditional inclusion to certain court-ordered employer payments to an employee.
Article 3: Public Employees Police and Fire Retirement Plan Financial Solvency Measures					
1	10.21	Commission amendment S447-1A to SF 447 (Pappas); HF 618 (Nelson)	353.01, Subd. 17a	PERA-P&F	Includes the salary earned on employment rendered in excess of the 33-year maximum in final average salary for annuity computation purposes.
2	11.1	SF 447 (Pappas); HF 618 (Nelson)	353.01, Subd. 41	PERA-P&F	Requires for a duty disability the inability to perform normal duties arising out of or incurred during the performance of inherently dangerous duties rather than normal duties or less frequent duties, protecting property or personal safety with inherently dangerous duties, effective immediately.
3	11.11	SF 447 (Pappas); HF 618 (Nelson)	353.01, Subd. 47	PERA-P&F	For persons who first become a member of the plan after 7/1/2014, imposes 20-year proportional vesting, set at 50% vested with ten years of service to 100% vested with 20 years of service.

Section-by-Section Summary of Omnibus Retirement Bill II, Delete-All Amendment S1191-1A

Sec.	Pg.Ln	Source Bill(s)	Stat. Provision	Retirement Plan	Summary
4	12.32	SF 447 (Pappas); HF 618 (Nelson)	353.031, Subd. 4	PERA-P&F PERA-Corr.	Adds requirements that the disability benefit application must explain the duties the person cannot perform for a benefit applied for within two years, that the application must explain the duties the person cannot perform for the 90-day period before the disability if the disability is applied for more than two years after the disability, that the application must explain why or why not the person cannot continue in employment in a current or other position, and the application must state the specific act giving rise to the disability and relate the disability to an inherently dangerous duty for a duty disability application.
5	14.5	Commission amend- ment S447-1A to SF 447 (Pappas); HF 618 (Nelson)	353.35, Subd. 1	PERA-P&F	Clarifies that a refund of post-33-year maximum member contributions does not forfeit post-33-year maximum salary credit.
6	14.20	SF 447 (Pappas); HF 618 (Nelson)	353.65, Subd. 2	PERA-P&F	Increases the member contribution rate from the current 9.6% to 10.2% of salary in calendar year 2014 and to 10.8% of salary after calendar year 2014.
7	15.15	SF 447 (Pappas); HF 618 (Nelson)	353.65, Subd. 3	PERA-P&F	Increases the employer contribution rate from the current 14.4% to 13.3% of salary in calendar year 2014 and to 16.2% of salary after calendar year 2014.
8	16.1	SF 447 (Pappas); HF 618 (Nelson)	353.651, Subd. 3	PERA-P&F	Specifies that the calculated retirement annuity is multiplied by the vesting percentage if service is less than 20 years and, for plan members first enrolled after 6/30/2014, service credit is limited to 33 years, the retirement annuity is limited to 99% of final average salary, with a refund of contributions over 33 years provided at retirement with same interest rate as regular member contribution refund.
9	16.27	SF 447 (Pappas); HF 618 (Nelson) Commission amend- ment S447-13A	353.651, Subd. 4	PERA-P&F	Limits the current 0.1% per month below age 55 early retirement reduction to pre2007 hires who retire before 7/1/2014, limits the current 0.2% per month under age 55 reduction to post-2007 hires who retire before 7/1/2014, adds a reduction per year under age 55 for members who retired between 7/1/2012 and 7/1/2019, prorated between either 1.2% if the person first became a plan member after 6/30/2007 and 5.0%, and adds a 5.0% reduction per year under age 55 for members who retired after 7/1/2019.
10	17.31	SF 447 (Pappas); HF 618 (Nelson)	353.657, Subd. 2a	PERA-P&F	Corrects an obsolete citation to a normal retirement provision repealed in 2005 in the death while eligible survivor benefit provision
11	18.33	SF 447 (Pappas); HF 618 (Nelson)	353.657, Subd. 3a	PERA-P&F	Specifies that any reduction in individual benefit amounts to achieve the overall family maximum must be imposed proportionately on the annuitant, surviving spouse and dependent child and specifies restoration upon the end of child dependency or annuitant or spouse death.
12	19.24	SF 447 (Pappas); HF 618 (Nelson)	353E.001, Subd. 1	PERA-Corr.	Requires for a duty disability the inability to perform normal duties arising out of or incurred during the performance of inherently dangerous duties rather than normal duties or less frequent duties, protecting property or personal safety with inherently dangerous duties, effective immediately.
13	20.1	SF 447 (Pappas); HF 618 (Nelson)	356.415, Subd. 1b	PERA-General PERA-Corr.	Resets the post-retirement adjustment trigger for a return to full 2.5% adjustments at reaching 90% funded on a market value of assets basis for two consecutive actuarial valuations and returns to the limited adjustment rate in a subsequent year or years if the funded ratio on a market value of assets basis is less than 85% for two consequent actuarial valuations or less than 80% for the most recent actuarial valuation.
14	21.23	SF 447 (Pappas); HF 618 (Nelson)	356.415, Subd. 1c	PERA-P&F	Extends the 1% post-retirement adjustment rate through 6/1/2014 for current and near-term future retirees, extends the minimum period of receipt for new retirees after 6/1/2014 to 25 months for a partial adjustment and to 36 months for a full adjustment, with a 1% adjustment after 6/1/2014 until funding stability is restored, extends the post-funding stability minimum receipt period to 25 months for a partial adjustment and 36 months for a full adjustment, and defines funding stability if the funded ratio on a market value of assets basis is less than 85% for two consecutive actuarial valuations or less than 80% for the most recent actuarial valuation.

Article 4: Judges Retirement Plan Financial Solvency Measures

1	23.31	SF 983 (Cohen); HF 953 (Hilstrom)	356.315, New Subd. 8a	Judges Plan	Sets the Tier II benefit program benefit accrual rate at 2.5%.
2	24.1	SF 983 (Cohen); HF 953 (Hilstrom)	356.415, Subd. 1	Judges Plan	Adds an exception for the Judges Retirement Plan to the 2009 2.5% annual post-retirement adjustment provision.
3	24.28	SF 983 (Cohen); HF 953 (Hilstrom)	356.415, Subd. 1f	Judges Plan	Sets the annual post-retirement adjustment on and after January 1, 2014, at 1.75% annually until the Judges Plan becomes 70% funded on a market value of assets basis.
4	25.25	SF 983 (Cohen); HF 953 (Hilstrom)	490.121, Subd. 21f	Judges Plan	Limits the current normal retirement age of 65 to the Tier I benefit program and sets the Tier II benefit program normal retirement age at 66.
5	25.31	Commission amend- ment S0983-1A to SF 983 (Cohen); HF 953 (Hilstrom)	490.121, Subd. 22	Judges Plan	Clarifies the application of the service credit limit to Tier I judges as part of the "service credit limit" definition.

Section-by-Section Summary of Omnibus Retirement Bill II, Delete-All Amendment S1191-1A

Sec.	Pg.Ln	Source Bill(s)	Stat. Provision	Retirement Plan	Summary
6	26.6	Commission amendment S0983-1A to SF 983 (Cohen); HF 953 (Hilstrom)	490.121, New Subd. 25	Judges Plan	Adds a definition of the Tier I benefit program, with appropriate cross-references.
7	26.15	Commission amendment S0983-1A to SF 983 (Cohen); HF 953 (Hilstrom)	490.121, New Subd. 26	Judges Plan	Adds a definition of the Tier II benefit program, with appropriate cross-references.
8	26.23	SF 983 (Cohen); HF 953 (Hilstrom)	490.1221	Judges Plan	Delineates the coverages of the Judges Retirement Plan Tier I benefit program and the Tier II benefit program.
9	27.5	SF 983 (Cohen); HF 953 (Hilstrom)	490.1222	Judges Plan	Excludes Judges Retirement Plan Tier II members from the service credit limit applicable to Tier I.
10	27.9	SF 983 (Cohen); HF 953 (Hilstrom)	490.123, Subd. 1a	Judges Plan	Increases the Tier I member contribution rate to 9.00% of covered salary and sets the Tier II member contribution rate at 7.00% of covered salary.
11	27.23	SF 983 (Cohen); HF 953 (Hilstrom)	490.123, Subd. 1b	Judges Plan	Increases the employer contribution rate on all benefit program tiers to 22.5% of covered salary.
12	28.3	SF 983 (Cohen); HF 953 (Hilstrom)	490.124, Subd. 1	Judges Plan	Retains the current normal retirement annuity calculation for Tier I benefit program judges and specifies the normal retirement annuity calculation, with a prospective post-12/31/13 service accrual rate reduction.
13	28.32	SF 983 (Cohen); HF 953 (Hilstrom)	Uncoded	Judges Plan	Excludes from any post-2012 judicial salary increase for Tier I judges if the increased member contribution rate is not deducted from the judge's salary.
14	29.4	SF 983 (Cohen); HF 953 (Hilstrom)	Uncoded	Judges Plan	Authorizes pre-7/1/2013 judges to elect benefit program Tier II benefit coverage.

Article 5: Judges Retirement Plan Financial Solvency Measures

1	29.22	SF 439 (Saxhaug); HF 539 (Nelson)	356.91	PERA and MSRS	Makes the deduction of union dues mandatory for the retirement plan, expands the authority to payments beyond dues, increases the frequency of deductions to monthly, eliminates the restriction on political purpose expenditures for dedicated dues, and authorizes twice annual blind mailings to retirees.
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