

TO: Legislative Commission on Pensions and Retirement

FROM: Jim Heidelberg, Assistant Director

RE: Summaries of Legislation Enacted in 1986 Regular and Special Sessions

DATE: May, 1986

I. Provisions Applicable to the Commission

A. Laws 1986, Chapter 359

Section 1 gives the Commission authority to request information from the various funds and the funds are "authorized and directed to promptly furnish any data requested."

Section 9, subdivision 4 requires the state auditor in performing an audit or examination of a pension plan to notify the Commission if the audit or examination reveals malfeasance, misfeasance, or nonfeasance in office and requires the commissioner of revenue to notify the Commission if the state auditor has not filed with the commissioner of revenue the required financial compliance reports by the July 1 deadline. (The state auditor will oversee the completion and auditing of financial statements of the police and fire relief associations rather than the commissioner of revenue and will notify the commissioner of revenue by July 1 in any year which relief associations that with the financial reporting requirements necessary to qualify for fire and police state aids. See the discussion in VIII. below.)

II. Provisions Applicable to the Statewide Funds

A. Rule of 85

Laws of 1986, Chapter 458

Section 21 allows any member of MSRS, PERA, TRA, or the first class city teachers funds who qualifies for the Rule of 85 within the current window period, which ends December 31, 1986, to work through June 30, 1987. Service credit and increases in the high-5 salary continue to accrue while the individual continues to work.

B. Pre'73 Individuals Who Deferred Retirement Until After the July 1, 1973 Benefit Formula Change

Laws of 1986, Chapter 458

Section 38 authorizes the payment of the 25 percent increase granted to pre-73 retirees in 1973-1974 to any member of PERA, MSRS general plan, highway patrol plan, or TRA who terminated service before July 1, 1973 (July 1, 1972 in the case of a TRA member) and who deferred receipt of an annuity until after June 30, 1973. Only those who were at least 55 years of age and had at least ten years of service at the time of termination are eligible. The retirement funds must transfer to the post retirement fund the required reserves necessary to support the increases granted by this section. (The language of the section is unclear whether the 25 percent increase should be calculated on the individual's pre'73 annuity figure or be calculated on the individual's present annuity amount which includes postretirement increases. Calculating the increase from the present annuity amount is administratively simple and efficient.)

III. Provisions Applicable to MSRS

A. General Plan Provisions

Laws 1986, Chapter 458

Section 4 changes the eligibility requirements for the surviving spouse death while eligible benefit from age 55 with 10 years of service to age 50 with ten years of service, and allows the surviving spouse to begin receiving the annuity when the member would have turned age 55. The same benefit change is made in the laws governing TRA, PERA, PERA P&F, and the coordinated plans of the first class city teacher funds.

B. Correctional Employees Plan

Laws 1986, Chapter 458

Sections 31 and 32 include in the correctional plan certain state employees who were excluded as too old when there was a strong mandatory retirement age law of 55 in effect and when there was language in the correctional plan that an individual could not be in the plan if the individual could not accrue at least 10 years of service. The employee must make up the difference in employee contributions plus six percent interest; the employer must pay the difference in employer contributions for the period plus interest of six percent per year.

C. Unclassified Employees Plan

1. Expansion of List of Employees Covered by Plan

Laws 1986, Chapter 458

Sections 5 through 10, 14, and 36 add state university administrative employees to the plan, make necessary technical changes, and add language to protect Social Security coverage of those employees affected by the change. These administrative employees are currently members of TRA. Section 36 allows an incumbent in a position transferred under the provisions to elect prospective coverage in the plan or to remain in TRA.

2. Temporary Option to Choose Coverage in the Plan

Laws of 1986, Chapter 458

Section 37 allows certain legislative employees who are not currently covered by the plan to elect coverage in the plan.

IV. Provisions Applicable to TRA

A. Laws 1986, Chapter 458

Sections 5 through 10, 14, and 36 transfer certain state university employees from coverage in TRA to coverage in the MSRS unclassified plan. Section 36 allows an incumbent in a position whose coverage is transferred to MSRS unclassified plan to retain TRA coverage or to choose prospective coverage in the unclassified plan.

Section 17 changes the eligibility requirements of the surviving spouse death while eligible benefit from age 55 with 10 years of service to age 50 with ten years of service, and allows the surviving spouse to begin receiving the benefit when the member would have turned age 55.

Section 15 clarifies that annuity payments made by the postretirement investment fund will always be at least an amount equal to the amount as adjusted on each January 1.

Section 16 provides up to 90 days retroactivity for the accrual of retirement benefits in the event a member files a late retirement application. The provision provides a measure of retroactivity for TRA similar to provisions in MSRS and PERA law.

Section 18 clarifies the present calculation method when deferred annuity augmentation is applied to two separate periods of service by specifying the use of a separate high-5 average salary for each period of service.

Section 20 amends the interest assumption provision of Chapter 356 to specify that the amount of the Variable Annuity reserve used in the determination of annual variable annuity adjustments is based on the same interest assumption used to originally calculate the benefit at the time of retirement.

B. Laws of 1986, First Special Session Chapter 1

This law is the 1986 tax bill and the provisions were not heard by the Commission.

The provisions highlighted below refer to the change enacted in 1985 by which school districts rather than the state make employer contributions to the various teacher funds and to social security.

Article 9, Sections 23 through 27 require that school districts make teacher retirement and social security employer contribution payments from appropriate accounts rather than from the school district's general fund. Some state

education aids go to these other accounts, and school districts pay salaries from other accounts such as transportation or community education funds. The change will protect the integrity of these other funds.

Article 9, Section 4 changes the inflation factor for the social security component of the education aid formula.

Article 5, Section 5 makes necessary language changes to include in the education aids formula employer contributions for teacher retirement and for social security.

Article 10, Section 1 allows the director of vocational technical education to transfer 1987 appropriation moneys to pay 1986 costs if the 1986 appropriation for teacher retirement and social security is insufficient.

#### V. Provisions Applicable to PERA

##### A. General Plan Provisions

###### 1. Laws 1986, Chapter 458

Section 12 changes the eligibility requirements for the surviving spouse death while eligible benefit from age 55 with 10 years service to age 50 with 10 years service, and allows the surviving spouse to begin receiving the annuity when the member would have turned age 55. The same benefit change was made for MSRS, TRA, PERA P&F, and the coordinated plans in the first class city teacher funds.

Sections 11 and 33 exclude from PERA coverage those county historical society employees who are not county employees.

Sections 26 and 27 provide a refund of employee plus employer contributions plus six percent interest a year or a deferred annuity with five years of service in PERA to employees of Falls nursing home which was taken over by private management. The language of the sections is identical to the language of similar bills passed in 1984 and 1985.

###### Laws 1986, Chapter 462

Section 12 deals with the retirement coverage of public employees employed by Ramsey County Hospital. As part of the legal restructuring of the medical center, employees are no longer considered to be public employees for purposes of PERA coverage. The language allows the Legislature a year to implement a plan to deal with the situation.

##### B. Police and Fire Provisions

###### Laws 1986, Chapter 458

Section 13 changes the eligibility requirements of the surviving spouse death while eligible benefit from age 55 with 10 years service to age 50 with 10 years service, and allows the surviving spouse to begin receiving the annuity when the member would have turned age 55.

#### VI. Provisions Applicable to First Class City Funds

##### A. Provisions Applicable to First Class City Teacher Funds

###### 1. Laws 1986, Chapter 458

Section 19 changes the eligibility requirements for the surviving spouse death while eligible benefit from age 55 with 10 years service to age 50 with 10 years service, and allows the surviving spouse to begin receiving the annuity when the member would have turned age 55.

Sections 1 and 2 provide health care benefits to older retirees of the Minneapolis Teachers fund who do not qualify for Medicare. The benefits would be provided as part of the Minnesota Comprehensive Health Association governed by Minnesota Statutes chapter 62E, and would not be provided as an additional benefit of the MTRFA. They would be paid for equally by active Minneapolis school district teachers and by the school district. The provisions are effective only upon approval of the school district.

###### 2. Laws 1986, First Special Session Chapter 1

Various provisions of the tax bill dealing with the 1985 change by which the schools districts not the state make employer contributions to the teacher retirement funds and to social security apply to the first class city teacher funds. See the discussion in IV.B. above.

#### B. Provisions Applicable to MERF

There were no provisions passed that dealt specifically with MERF.

### VII. State Board of Investment Provisions

Laws 1986, Chapter 356 expands the group of investment options available to participants in the Minnesota Supplemental Investment Fund, who include members of the unclassified employees plan in MSRS and police and fire relief associations.

### VIII. General Law Provisions Applicable to Local Police and Salaried Firefighter Relief Associations

#### A. Changes in State Aid Programs

##### 1. Laws 1986, Chapter 359

Sections 2, 6, and 9 transfer administration of the fire and police state aid program from the department of revenue to the state auditor.

Sections 5, 8, 11, and 14 changes the deadline for state aid applications for fire and police state aid from June 1 to July 1.

Section 17 transfers the amortization state aid program from the department of finance to the department of revenue. The qualification standards for amortization aid are the same as those for fire and police state aid.

Section 20 transfers the supplemental amortization state aid program from the department of finance to the department of revenue. The qualification standards for supplemental amortization aid are the same as those for fire and police state aid.

##### 2. Laws 1986, First Special Session Chapter 1

Article 4, Sections 1 through 6, and 48 changes the distribution procedure of fire and police state aid so that aid moneys are sent directly to the municipalities rather than to the county auditors for subsequent distribution.

Article 6, Sections 4 and 35 change from two to three the number of installment payments of premium tax moneys made by insurance companies to the state's general fund.

##### 3. Laws 1986, First Special Session Chapter 3

Article 2, Section 19 clarifies the effective date of the transfer to the state auditor of the fire and police state aid program. The state auditor's duties under the program are effective for the aid payments beginning after December 31, 1986.

#### B. Financial Reporting and Auditing Requirements

Laws 1986, Chapter 359

Section 9 specifies that the financial statements of each police and salaried firefighter relief association must be on a form prepared by the state auditor and that the audited financial statements must be submitted to the state auditor.

#### C. Changes in Investment Authority and Fiduciary Responsibility

Laws 1986, Chapter 359

Section 10 deletes authority to invest in certain real estate and deletes authority to exceed the 5 percent stock limitation of Section 11A.24. The changes bring the investment authority of the various relief associations in line with that of the state board of investment, with one minor exception.

Section 13 authorizes as a proper administrative expense the expenditure of moneys for investment performance evaluations.

Section 15, subdivision 4 defines the fiduciary responsibility of the board of trustees and lists prohibited transactions. Subdivision 3 defines the officers and trustees of the board as public officers for purposes of conflict of interest and misconduct in office.

#### D. Increased Municipal Oversight

Laws 1986, Chapter 359

Section 9, subdivision 2 sets the amount of the treasurer's surety bond at an amount agreeable to the municipality.

Section 15 adds a new section to the general law governing all police and salaried firefighter relief associations to specify that the records of the relief associations are public records and to require at least two municipal members with full voting powers be on each board. See also VIII.C., Section 15 above.

Section 16 requires each relief association to report annually to the municipality concerning its financial affairs and to have disbursements of at least \$5000 countersigned by an official of the municipality. The municipality is authorized to countersign all disbursements if it so chooses. An official designated by the municipality must receive and deposit all money received for the special fund of the relief association. (A conforming change in the distribution of fire and police state aid appears in Section 7 of Chapter 359.)

#### E. Technical Corrections

Laws 1986, Chapter 359, Section 4 and Laws 1986, First Special Session Chapter 3, Article 1, Section 11 correct statutory references in Minnesota Statutes, Section 69.011, subdivision 1.

Laws 1986, First Special Session Chapter 3, Article 1, Section 46 corrects a statutory reference in Minnesota Statutes, Section 356.216.

### IX. Special Law Provisions Applicable to Local Police and Salaried Firefighter Relief Associations

#### A. Laws 1986, Chapter 458

Section 23 provides a benefit increase to surviving spouses or children of members of the Buhl police relief association.

Section 24 provides a benefit increase for Eveleth police and firefighters and their surviving spouses.

Section 34 allows Mankato police relief association members to purchase a one year probationary period as service credit for purposes of meeting the 20 year vesting period. The required payment is equal to the employee contributions for the year purchased plus interest as actually earned by the special fund since the pre-1966 period and must be made by December 31, 1987.

#### B. Laws 1986, Chapter 359

Sections 22 through 25 authorizes the commissioner of finance to release state aids withheld from Winona after the state auditor audits the 1984 and 1985 books of the Winona police relief association and the relief association actuary determines a new employer contribution based on the state auditor's asset totals. The city of Winona is allowed to contribute in 1986 the amount it contributed in 1985 to the police relief association until the state auditor and relief association actuary determine firm asset figures.

### X. General Law Provisions Applicable to Volunteer Firefighter Relief Associations.

#### A. Financial Reporting and Auditing Requirements

Laws 1986, Chapter 359

Section 9 provides that the preparation and submission of financial reports is based on the size of the relief association. Subdivision 1 requires that for volunteer associations with assets or liabilities of at least \$200,000 the relief association must:

- 1) prepare its annual financial reports on forms prescribed by the state auditor,
- 2) file the report in its office for public inspection and present it to the city council and
- 3) submit audited financial statements to the state auditor within 180 days after the close of the fiscal year.

Subdivision 1a requires that for volunteer associations with assets and liabilities less than \$200,000 the relief association must:

- 1) prepare annually a detailed financial statement on a form prescribed by the state auditor,
- 2) have the detailed financial statement certified by an independent public accountant or auditor or the auditor that regularly examines the books of the municipality (this language was retained from previous statutes),
- 3) file the statement in its office for public inspection and present it to the city council within 45 days of the close of the fiscal year, and
- 4) send a copy of the statement to the state auditor.

Subdivision 2 sets the amount of the surety bond of the relief association treasurer. For relief associations with assets or liabilities of at least \$200,000 the amount of the bond is a reasonable amount acceptable to the municipality. For relief associations with assets and liabilities less than 200,000 the amount must be at least 10 percent of assets but does not have to exceed \$500,000.

#### B. Changes in Investment Authority and Fiduciary Responsibility

##### 1. Laws 1986, Chapter 359

Section 12 changes the investment authority of all volunteer firefighter relief associations to delete the authority to exceed the 5 percent stock limitation of Section 11A.24.

Section 19 adds a section to the general law in Chapter 424A to define the fiduciary responsibility of board members and lists prohibited transactions.

##### 2. Laws 1986, First Special Session Chapter 3

Article 2, Section 40 makes a correction to Chapter 359, Section 19 to make the language in the volunteer firefighters general law concerning fiduciary responsibility and prohibited transactions the same as that in the salaried relief associations' general law.

#### C. Government Entity

##### Laws 1986, Chapter 359

Section 18 adds language to clarify that volunteer firefighter relief associations are governmental entities providing retirement benefits for individuals performing governmental services. This section is designed to help the volunteer firefighter relief associations in their dealings with the IRS concerning their tax status.

#### D. Changes in the Fire and Police State Aid Program

See the discussion in VII.A. above.

#### XI. Special Law Provisions Applicable to Volunteer Firefighter Relief Associations

##### Laws 1986, Chapter 458

Section 25 allows members of Andover volunteer relief association to receive credit in the relief association for time worked for the fire department before the relief association was incorporated.

#### XII. Miscellaneous Provisions

##### A. Purchase of Prior Service Credit and Payment of Voluntary Assessments

##### Laws 1986, Chapter 458

Section 27 allows a PERA member to purchase prior service credit at a cost equal to full actuarial value.

Sections 28 and 29 allow a PERA member to purchase prior service credit at a cost equal to full actuarial value.

Section 30 allows a PERA member to pay voluntary assessments to restore a hole in a high-5 salary due to time off for disability.

Section 35 allows certain employees of the Minneapolis public library to purchase prior service credit in PERA at a cost equal to full actuarial value.

#### B. Severance Pay and Health Care for Retirees

Laws 1986, Chapter 321 allows the retiree to pay the entire group premium when remaining in the employer's health insurance group and the insurance carrier must write the policy. One or more insurance companies had balked about the provision of health care benefits to retirees to the extent that the retiree is allowed to remain in the group.

Laws 1986, Chapter 411, Section 3 provides that existing agreements to provide health benefits to retirees and severance pay may continue for a year in order for the Legislature to respond to an Attorney General's opinion that holds that the severance pay provisions in statute supersede the statutory provisions allowing local units of government to provide postretirement health and welfare benefits.

#### C. Other

##### 1. Laws 1986, Chapter 458

Section 3 places the director of the state council on vocational education in the MSRS unclassified plan.

Section 22 changes erroneous dates in a 1985 law.

##### 2. Laws 1986, First Special Session Chapter 3

Article 3, Section 2 provides that in the law governing augmented estate the decedent's estate includes the "value of amounts payable after the decedent's death" from any public or private pension. ERF.

#### VII. State Board of Investment Provisions

##### Law

public records and to req pal members with full voting powers be on each board. See also VIII.C., Section 15 above.

Section 16 each relief association to report annually to the municipality concerning its financial affairs and to have disburseme