

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Edward Burek, Deputy Executive Director

RE: Summary of 1997 Regular Session and First Special Session Pension Legislation

DATE: July 21, 1997

Many pension-related bills passed during the 1997 regular and first special legislative sessions. The most significant single bill passed as Laws 1997, Chapter 233, which revised contribution and accrual rates, altered expected post-retirement adjustments, and created new pension aids for many plans. For defined benefit plans administered by the Minnesota State Retirement System (MSRS), the Teachers Retirement Association (TRA), and the Public Employees Retirement Association (PERA), Chapter 233 altered the pension plans by creating higher benefits at the time of retirement while lowering expected future post-retirement increases. The first class city teacher plans received a clear benefit improvement rather than a trade off. Coordinated members in those teacher plans will have higher benefits at the time of retirement, without any reduction in expected post-retirement adjustments in those plans. The Saint Paul Teacher Retirement Fund Association will also receive an improved post retirement adjustment system, essentially identical to that currently used by the Minneapolis Teachers Retirement Fund Association and the Duluth Teachers Retirement Fund Association. In an effort to keep the bill revenue neutral, contribution rates are adjusted in several of the local and state-wide plans, and revenue will be shifted through various aids to PERA employers and to the first class city school districts.

The following is a summary of 1997 legislative session pension provisions. The first major section in the following summary covers all pension-related legislation for individual plans or plans of a certain type, such as the first class city teacher plans, local police and paid fire plans, and volunteer fire plans. The second major section summarizes pension legislation applying to all public plans or to miscellaneous groupings of plans. That section also includes miscellaneous pension-related legislation.

I. FUND SPECIFIC LEGISLATION

A. Minnesota State Retirement System (MSRS)

1. MSRS General

- a. Limit on normal retirement age, post-June 30, 1989 hires. The normal retirement age for post-June 30, 1989 hires, which under prior law is tied to scheduled increases in "normal retirement age" as defined for social security benefit purposes, is restricted to not exceed age 66. (Laws 1997, Chapter 233, Article 1, Section 17.)
- b. Employee contribution rate reduction. The MSRS General employee contribution rate is reduced from 4.07 percent of salary to 4.0 percent. (This has the effect of also reducing the employee contribution rate to the MSRS Unclassified Plan, since the employee contribution rate for that plan is tied to the MSRS General employee contribution rate provision by a cross-reference.) (Laws 1997, Chapter 233, Article 1, Section 18.)
- c. Employer contribution rate reduction. The MSRS employer contribution rate is reduced from 4.2 percent of salary to 4.0 percent. (Laws 1997, Chapter 233, Article 1, Section 18.)
- d. Language is stricken which mandated contribution rate increases to correct deficiencies. Language requiring that MSRS General employee and employer contribution rates be increased equally if a contribution deficiency exists is stricken. (Laws 1997, Chapter 233, Article 1, Section 18.)
- e. Increased accrual rates for computing MSRS General annuities. Higher accrual rates are established for computing benefits. The tier I rates (which are used to compute Rule of 90 annuities and may be applicable for other annuities computed for retirement prior to normal retirement age for pre-June 30, 1989 hires) are revised from 1.0 percent to 1.2 percent for each of the first ten years of allowable service, and from 1.5 percent to 1.7 percent for subsequent years. Tier II rates (which would be applicable for computing benefits for pre-

June 30, 1989 hires retiring at or near normal retirement age, and for all annuities for post-June 30, 1989 hires) are increased from 1.5 percent to 1.7 percent. (Laws 1997, Chapter 233, Article 1, Sections 19 and 55.)

- f. Reduction in inflation match guarantee. The requirement to provide minimum post-retirement adjustments that match annual inflation up to 3.5 percent is reduced to a match up to 2.5 percent. (Laws 1997, Chapter 233, Article 1, Section 5.)
- g. Recomputation of deferred annuities. Retirement, disability, and survivor benefits relating to former members who terminated service before July 1, 1997, which are not first payable until after June 30, 1997, must be increased on an actuarial equivalent basis to reflect the change in the post retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 20.)
- h. Recomputation of existing annuities. Retirement, disability, and survivor benefits for existing annuitants are permanently increased effective July 1, 1997 to make the benefit actuarially equivalent to the benefit currently received, given the change in the post-retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 72.)
- i. Full MSRS coverage for certain MNSCU employees with part-time MSRS covered employment. Individuals providing teaching or other service to MNSCU and part-time service to MSRS-covered employing units will be covered by MSRS for all employment, if the majority of the person's salary is earned in MSRS-covered employment, or if the person is certified for MSRS General coverage by the MNSCU chancellor. (Laws 1997, Chapter 241, Article 8, Section 3.)
- j. MSRS-coverage, Department of Revenue seasonal employees. Department of Revenue seasonal help in classified service will receive MSRS General coverage by adding them to the MSRS included employee provision. These seasonal employees are permitted to purchase service credit for past service, at full actuarial value, if the person has provided seasonal service to the department in each of the last three years. (Laws 1997, Chapter 241, Article 8, Sections 3, 4, and 7.)

The following is a special law provision.

- k. Waiver of reemployment earnings limitations, certain Metropolitan State University employee. A retiring Metropolitan State University employee born on June 22, 1939, who meets all requirements for the higher education faculty waiver from TRA reemployed annuitant earnings limitations under Section 354.445, except that the individual was covered by MSRS General rather than TRA, is permitted a similar waiver from MSRS reemployed annuitant earnings limitations. (Laws 1997, Chapter 241, Article 12, Section 1.)

2. MSRS Correctional Plan

- a. Employee contribution rate increase. The MSRS Correctional employee contribution rate is increased from 4.90 percent of pay to 5.50 percent. (Laws 1997, Chapter 233, Article 1, Section 21.)
- b. Employer contribution rate increase. The employer contribution rate is increased from 6.75 percent of salary to 7.70 percent. (Laws 1997, Chapter 233, Article 1, Section 22.)

The following is an appropriation to the Department of Corrections to assist in meeting the increased employer contribution cost.

- c. Department of Corrections Appropriation. \$900,000 is appropriated to the Department of Corrections in 1998 and 1999. (Laws 1997, Chapter 233, Article 1, Section 69.)
- d. Reformulation of plan benefit structure. The MSRS Correctional Plan annuity structure is revised to pay a level benefit computed with a 2.4 percent per year accrual rate, rather than the present system of computing a pension using a 2.5 percent per year accrual rate for annual benefits to be received prior to the age for drawing Social Security benefits, and then paying a

recomputed benefit using a 1.5 percent per year accrual rate from that age forward. (Laws 1997, Chapter 233, Article 1, Sections 23, 24, and 55.)

e. Creation of a Social Security leveling option. The MSRS Board is authorized to create an actuarial equivalent Social Security leveling option, paying higher benefits prior to receipt of Social Security benefits. (Laws 1997, Chapter 233, Article 1, Section 25.)

f. Death-while-active survivor benefits. The following death-while-active survivor benefits are created.

(1) *Vested, at least retirement age, surviving spouse benefit.* If an vested active member dies who reached the minimum age for early retirement (age 50), the surviving spouse may elect to receive an annuity for life equal to the 100 percent joint-and-survivor annuity which employee would have qualified for at the time of death. The annuity begins to accrue the month after filing for the benefit. An employee may request in writing that that this surviving spouse benefit not apply, and that payment be made only to a designated beneficiary.

(2) *Vested, below minimum retirement age, surviving spouse benefit.* If the employee was under age 50 but vested at the time of death, the surviving spouse may elect to receive a 100 percent joint-and-survivor annuity based on the age of the employee and surviving spouse at the time of death. Application for the annuity may be made any time following the employee's death. A benefit would be actuarially reduced to age 50, with one-half of a full actuarial reduction applied after age 50. Deferred annuity augmentation procedures apply. An employee may request in writing that that this surviving spouse benefit not apply, and that payment be made only to a designated beneficiary.

(3) *Alternative term-certain annuity for surviving spouse.* In lieu of the above 100 percent joint-and-survivor optional annuities in (1) or (2), the surviving spouse may elect a 10, 15, or 20 year term-certain annuity of equivalent value. If the survivor dies before the termination of the term-certain period, the remaining value is paid to the survivor's estate.

(4) *Dependent child benefit.* If there is no surviving spouse, dependent child benefits are payable to age 20, or if the child is at least age 15 at the time of the employee's death, the benefit is payable for five years. The payment is actuarially equivalent to a 100 percent joint-and-survivor annuity using the age of the employee at death and the age of the dependent child. If there is more than one dependent child, the benefit is divided proportionately.

(5) *Death refund of excess contributions.* If the accumulated contributions credited to the account of a deceased employee exceed the total surviving spouse or dependent child benefits, the excess must be paid to the deceased employee's designated beneficiary. (Laws 1997, Chapter 233, Article 1, Section 26.)

g. Revision in job-related disability provision. The job-related disability benefit is revised from 50 percent of high-five average salary plus 2.5 percent of that salary for each year of covered correctional service in excess of 20 years, to 50 percent of high -five average salary plus 2.4 percent of that salary for each year of covered correctional service in excess of 20 years, ten months. (Laws 1997, Chapter 233, Article 1, Section 27.)

h. Reduction in inflation match guarantee. The requirement to provide minimum post-retirement adjustments that match annual inflation up to 3.5 percent is reduced to a match up to 2.5 percent. (Laws 1997, Chapter 233, Article 1, Section 5.)

i. Conforming changes, disability provision at normal retirement age. The MSRS Correctional Plan provision which specifies that disabilitants are deemed to be retirees once normal retirement age is reached, is amended to conform with revised procedures, noted above, for determining Correctional Plan retirement benefits. (Laws 1997, Chapter 233, Article 1, Section 28.)

j. Reverse amortization authorized. Consistent with PERA P&F current law treatment, for the MSRS Correctional Plan and the MSRS State Patrol Plan the actuary is permitted to lower required contributions if there is a surplus of assets over plan liabilities, in the reverse of the

way an unfunded liability would increase required contributions through an amortization contribution requirement. (Laws 1997, Chapter 233, Article 1, Section 59.)

- k. Recomputation of existing annuities. Retirement, disability, and survivor benefits for existing annuitants are permanently increased effective July 1, 1997 to make the benefit actuarially equivalent to the benefit currently received, given the change in the post-retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 72.)

The following provisions permit certain individuals to elect MSRS Correctional Plan coverage rather than continuing General Plan coverage.

- l. Election of coverage, certain employment classifications. Certain individuals at the Minnesota sexual psychopathic personality treatment center and individuals in certain employment classifications at the Minnesota correctional facility at Red Wing (auto mechanic lead, electrician, electrician master of record, groundskeeper intermediate, or plumber master) are added to an uncoded 1996 coverage election law authorizing a prospective coverage election by the Correctional Plan rather than continued MSRS General coverage. The deadline in this 1996 provision for making an election is changed from June 30, 1997 to December 31, 1997. (Laws 1997, Chapter 241, Article 11, Section 1, and Chapter 239, Article 9, Section 40.)
- m. Election to transfer prior service coverage. The individuals who transfer prospective coverage to the MSRS Correctional Plan under the above election are added to an existing 1996 law which authorized an election to transfer prior state service if that service would have been eligible for current Correctional Plan coverage. The deadline in the 1996 law for making the election is revised from June 30, 1997 to December 31, 1997. (Laws 1997, Chapter 241, Article 11, Section 2 and Chapter 239, Article 9, Section 41.)
- n. Eligibility for state paid early retirement incentive. Those electing prospective Correctional plan coverage in (j) above are included in a state paid early retirement incentive. The date for electing the early retirement incentive, by any individual to which the provision applied or to which the provision is newly applicable, is revised from December 31, 1997 to June 30, 1998. (Laws 1997, Chapter 241, Article 11, Section 3 and Chapter 239, Article 9, Section 42.)

3. MSRS Legislators Retirement Plan

Retirement coverage for Legislators and Elected State Officers was substantially revised during the 1997 session. All newly elected legislators will become members of the MSRS Unclassified Plan, an existing defined contribution plan, and will have Social Security coverage. Legislators currently holding office may remain in the current Legislators Plan, as revised below, which is a basic member defined benefit plan, or elect prospective Social Security and MSRS Unclassified Plan coverage.

The following four revisions [items (a) through (d)] to the existing Legislators Retirement Plan are intended to provide annuities of equivalent lifetime value to those offered under the plan prior to the 1997 revisions, in recognition of the change in the post-retirement interest rate assumption which will lower the rate of post-retirement increases over the annuitant's lifetime.

- a. Computation of actuarial equivalent annuities for existing Legislators. The retirement benefits computed under the existing Legislators Retirement Plan, for existing members of the Legislature who terminate service after June 30, 1997, will be increased on an actuarial equivalent basis to retain equivalent value, reflecting the change in the post-retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 3.)
- b. Recomputation of deferred annuities. Retirement and survivor benefits relating to former legislators who terminated service before July 1, 1997, which are not first payable until after June 30, 1997, must be increased on an actuarial equivalent basis to reflect the change in the post retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 4.)

- c. Deferred annuity actuarial reserve revisions. The required reserves for deferred annuities will be computed with a six percent interest assumption rather than five percent. (Laws 1997, Chapter 233, Article 1, Section 4.)
- d. Recomputation of existing annuities. Retirement and survivor benefits for existing annuitants are permanently increased effective July 1, 1997 to make the benefit actuarially equivalent to the benefit currently received, given the change in the post-retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 72.)
- e. Reduction in inflation match guarantee. The requirement to provide minimum post-retirement adjustments that match annual inflation up to 3.5 percent is reduced to a match up to 2.5 percent. (Laws 1997, Chapter 233, Article 1, Section 5.)

The following provisions create Social Security and MSRS Unclassified Plan coverage for newly elected legislators and constitutional officers (those first elected after June 30, 1997) and allows existing legislators and constitutional officers to elect that prospective coverage.

- f. Application of existing plan law. The existing Legislators Plan, governed by Chapter 3A as amended, and the existing Elected State Officers Plan, governed by Chapter 353C as amended, provides ongoing coverage to members first elected before July 1, 1997, providing the member does not elect MSRS Unclassified Plan prospective coverage. (Laws 1997 Chapter 233, Article 2, Sections 1 and 2.)
- g. Coverage for newly elected legislators and constitutional officers, and existing members electing revised coverage. The MSRS Unclassified Plan will provide coverage for all legislators and constitutional officers newly elected after June 30, 1997, and those existing legislators and constitutional officers who choose prospective MSRS Unclassified Plan coverage. (Laws 1997, Chapter 233, Article 2, Section 3.)
- h. Technical corrections, coverage-upon-employment-change and investment option provisions. Cross references are revised in an MSRS Unclassified Plan change of coverage provision to reflect revisions in other sections, and references to “employee” in the investment option provision are revised to “person.” (Laws 1997, Chapter 233, Article 2, Sections 4 and 5.)
- i. Definition of legislative salary for purposes of Unclassified Plan. For legislator contribution rate purposes under the Unclassified Plan, the same definition of salary is used as that applying to salary under the current Legislators Plan (salary includes regular and special session per diem, but not any additional compensation due to leadership positions, living expense payments, or special session living expense payments). (Laws 1997, Chapter 233, Article 2, Section 6.)

The following provisions [items (j) through (n)] apply to the Social Security coverage referendum for existing legislators and constitutional officers. By electing the Social Security coverage, the member will also receive prospective MSRS Unclassified Plan coverage.

- j. Social Security referendum. The Governor will designate an agency or individual to supervise a Social Security referendum to be held after July 1, 1998 for legislators and constitutional officers. These individuals must be provided with notice of the referendum including a statement of Social Security Act rights and an explanation of the implications of electing Social Security coverage. (Laws 1997, Chapter 233, Article 2, Sections 7, 8 and 9.)
- k. Elections under the referendum. Members of the existing Legislators Plan or the existing Elected State Officers Plan as of July 1, 1998 are eligible to participate in the referendum. The member may retain coverage under the current plan, as amended, or may elect prospective Social Security and MSRS Unclassified Plan coverage. If this prospective coverage by the MSRS Unclassified Plan is elected, the individual is entitled to an augmented, deferred retirement annuity from the prior plan. Refunds are not permitted until termination of service. (Laws 1997, Chapter 233, Article 2, Section 15.)
- l. Division of Legislators Plan and Elected State Officers Plan. Consistent with requirements of the Social Security Act, the Legislators Plan must be divided into two parts; similarly with the

Elected State Officers Plan. The first division of the plan will include all future legislators (elected state officers), and those current legislators (elected state officers) electing Social Security coverage under the referendum. These groups will be covered under the MSRS Unclassified Plan. The second division will provide pension coverage for the existing legislators (existing elected state officers) who do not desire the Social Security coverage, under the current Legislators Plan as revised, or Elected State Officers Plan as revised, as applicable. (Laws 1997 Chapter 233, Article 2, Sections 10 and 11.)

- m. Certification by Governor, agreements with federal agency. If the referendums has been properly conducted, the Governor will so certify, and will enter into necessary agreements with federal agencies on behalf of the legislators and elected state officers. (Laws 1997, Chapter 233, Article 2, Sections 12 and 13.)
- n. Responsibility for Social Security contributions. On behalf of legislators and elected state officers with Social Security coverage, the House, Senate, or relevant constitutional office must make applicable Social Security employer contribution payments, and Social Security employee contributions must be deducted from pay. (Laws 1997, Chapter 233, Article 2, Sections 14 and 15.)

The following is a mandated study.

- o. Legislators and Elected State Officer pension coverage, mandated study. The LCPR must study the question of appropriate pension coverage for legislators and elected state officers. The study must consider member contribution rates and their relation to plan normal cost and expenses; the appropriateness of including new or current legislators and elected state officers in Social Security along with the current plan or new defined contribution plan; and the appropriateness of permitting Social Security elections and the impact on prior service coverage. The study must reflect the following principals: the pension plan coverage should match or parallel the coverage provided to legislative employees an agency heads; the coverage should be appropriate given the part-time nature of legislative service and the unique character of elected public service; and the coverage should be consistent with LCPR pension policy principals. The study, to be reported to the 1998 Legislature, should include applicable proposed legislation including possible repeal of coverage as reflected in 1997 legislation. (Laws 1997, Chapter 233, Article 2, Section 16.)

The following item is from an appropriations bill.

- p. Legislative Plan appropriation. \$2,093,000 in fiscal 1998 and \$2,197,000 in fiscal 1999 are appropriated to cover the existing plan's cost for expected transfers to the Minnesota Post Retirement Investment Fund of actuarial reserves at the time of retirement, and to pay refunds, death benefits, and other miscellaneous benefits. (Laws 1997, Chapter 202, Article 1, Section 31.)

4. MSRS State Patrol Plan

- a. Authorization to Share in Police State Aid. Peace Officers who are members of the State Patrol Plan will be included in the annual allocation of police state aid on a phase-in basis. By July 1, 1997, one-half of these officers will be certified for aid allocation purposes; by July 1, 1998, seven-tenths will be certified; and by March 15, 1999 and thereafter, all will be certified. The aid received will be used to cover employer contribution costs on behalf of employees paid by the state general fund, then if any aid remains, it will be credited towards employer contributions for employees paid from other funds. (Laws 1997, Chapter 233, Article 1, Sections 8, 10, 13, and 71.)
- b. Reduced member contribution rate. The employee contribution rate is reduced from 8.92 percent of pay to 8.40 percent of pay. (Laws 1997, Chapter 233, Article 1, Section 29.)
- c. Reduced employer contribution rate; elimination of contribution deficiency/sufficiency reporting requirement. The employer contribution rate is reduced from 14.88 percent of pay to 12.60 percent of pay, and the requirement that the MSRS Board report each year to the LCPR, House Appropriations, and Senate Finance on whether the plan has a deficiency or

sufficiency in current contributions is stricken. (Laws 1997, Chapter 233, Article 1, Section 30.)

- d. Increased accrual rate for computing pensions. The accrual rate for computing benefits is increased from 2.65 percent per year of covered service to 3.0 percent per year. (Laws 1997, Chapter 233, Article 1, Section 31.)
- e. Subsidy created for early retirement. The full actuarial reduction for early retirement is replaced with a reduction of .2 percent for each month that the member is under age 55 at the time of retirement. (Laws 1997, Chapter 233, Article 1, Section 32.)
- f. Duty-related disability benefits increased. For duty-related disabilitants, the individual will receive a benefit of 60 percent of the member's average monthly salary, rather than 50 percent, plus an additional 3.0 percent, rather than 2.65 percent, per year of service in excess of 20. (Laws 1997, Chapter 233, Article 1, Section 33.)
- g. Recomputation of deferred annuities. Retirement, disability, and survivor benefits relating to plan members who terminated service before July 1, 1997, which are not first payable until after June 30, 1997, must be increased on an actuarial equivalent basis to reflect the change in the post retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 34.)
- h. Recomputation of existing annuities. Retirement, disability, and survivor benefits for existing annuitants are permanently increased effective July 1, 1997 to make the benefit actuarially equivalent to the benefit currently received, given the change in the post-retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 72.)
- i. Reduction in inflation match guarantee. The requirement to provide minimum post-retirement adjustments that match annual inflation to 3.5 percent is reduced to a match up to 2.5 percent. (Laws 1997, Chapter 233, Article 1, Section 5.)
- j. Reverse amortization authorized. Consistent with PERA P&F current law treatment, for the MSRS State Patrol Plan and the Correctional Plan the actuary is permitted to lower required contributions if there is a surplus of assets over plan liabilities, in the reverse of the way an unfunded liability would increase required contributions through an amortization contribution requirement. (Laws 1997, Chapter 233, Article 1, Section 59.)

5. MSRS Elected State Officers Plan

Retirement coverage for Legislators and Elected State Officers was substantially revised during the 1997 session. All newly elected legislators and elected state officers will become members of the MSRS Unclassified Plan, an existing defined contribution plan, and will have Social Security coverage. Elected State Officers currently holding office may remain in the current Elected State Officers Plan, as revised below, which is a basic member defined benefit plan, or elect prospective Social Security and MSRS Unclassified Plan coverage.

- a. Computation of actuarial equivalent annuities for existing Constitutional Officers. The retirement benefits computed under the existing Elected State Officers Plan, for existing constitutional officers who terminate service after June 30, 1997, will be increased on an actuarial equivalent basis to retain equivalent value, reflecting the change in the post-retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 35.)
- b. Recomputation of deferred annuities. Retirement and survivor benefits relating to former constitutional officers who terminated service before July 1, 1997, which are not first payable until after June 30, 1997, must be increased on an actuarial equivalent basis to reflect the change in the post retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 36.)
- c. Recomputation of existing annuities. Retirement and survivor benefits for existing annuitants are permanently increased effective July 1, 1997 to make the benefit actuarially equivalent to

the benefit currently received, given the change in the post-retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 72.)

- d. Reduction in inflation match guarantee. The requirement to provide minimum post-retirement adjustments that match annual inflation up to 3.5 percent is reduced to a match up to 2.5 percent. (Laws 1997, Chapter 233, Article 1, Section 5.)

The following provisions establish the new coverage for newly elected legislators and constitutional officers (those first elected after June 30, 1997) and allows existing legislators and constitutional officers to elect prospective Social Security and MSRS Unclassified Plan coverage.

- e. Application of existing plan law. The existing Legislators Plan, governed by Chapter 3A as amended, and the existing Elected State Officers Plan, governed by Chapter 353C as amended, provides continued coverage to members first elected before July 1, 1997, providing the member does not elect MSRS Unclassified Plan prospective coverage. (Laws 1997 Chapter 233, Article 2, Sections 1 and 2.)
- f. Coverage for newly elected legislators and constitutional officers, and existing members electing revised coverage. The MSRS Unclassified Plan will provide coverage for all legislators and constitutional officers newly elected after June 30, 1997, and those existing legislators and constitutional officers who choose prospective MSRS Unclassified Plan coverage. (Laws 1997, Chapter 233, Article 2, Section 3.)
- g. Technical corrections, coverage-upon-employment-change and investment option provisions. Cross references are revised in an MSRS Unclassified Plan change of coverage provision to reflect revisions in other sections, and references to “employee” in the investment option provision are revised to “person.” (Laws 1997, Chapter 233, Article 2, Sections 4 and 5.)

The following provisions [items (h) through (l)] apply to the Social Security coverage referendum for existing legislators and constitutional officers. By electing the Social Security coverage the member also receives prospective MSRS Unclassified coverage.

- h. Social Security referendum. The Governor will designate an agency or individual to supervise a Social Security referendum to be held after July 1, 1998 for legislators and constitutional officers. These individuals must be provided with notice of the referendum including a statement of Social Security Act rights and an explanation of the implications of electing Social Security coverage. (Laws 1997, Chapter 233, Article 2, Sections 7, 8 and 9.)
- i. Elections under the referendum. Members of the Legislature and Elected State Officers as of July 1, 1998 are eligible to participate in the referendum. The member may retain coverage under the current plan, as amended, or may elect prospective Social Security and MSRS Unclassified Plan coverage. If this prospective coverage by the MSRS Unclassified Plan is elected, the individual is entitled to an augmented, deferred retirement annuity from the prior plan. Refunds are not permitted until termination of service. (Laws 1997, Chapter 233, Article 2, Section 15.)
- j. Division of Legislators Plan and Elected State Officers Plan. Consistent with requirements of the Social Security Act, the Legislators Plan must be divided into two parts; similarly with the Elected State Officers Plan. The first division of the plan will include all future legislators (elected state officers), and those current legislators (elected state officers) electing Social Security coverage under the referendum. These groups will be covered under the MSRS Unclassified Plan. The second division will provide pension coverage for the existing legislators (existing elected state officers) who do not desire the Social Security coverage, under the current Legislators Plan as revised, or Elected State Officers Plan as revised, as applicable. (Laws 1997 Chapter 233, Article 2, Sections 10 and 11.)
- k. Certification by Governor, agreements with federal agency. If the referendums has been properly conducted, the Governor will so certify, and will enter into agreements with federal agencies on behalf of the legislators and elected state officers. (Laws 1997, Chapter 233, Article 2, Sections 12 and 13.)

1. Responsibility for Social Security contributions. On behalf of legislators and elected state officers with Social Security coverage, the House, Senate, or relevant constitutional office must make applicable employer contribution payments, and employee contributions must be deducted from pay. (Laws 1997, Chapter 233, Article 2, Sections 14 and 15.)

The following is from an appropriations bill to cover the existing Elected State Officer Plan expected benefit payments.

- m. Appropriation, Elected State Officers Plan. \$173,000 and \$182,000 are appropriated to cover the pay-as-you-go benefit payments of this plan: the retirement benefits, survivor benefits, and miscellaneous refunds. (Laws 1997, Chapter 202, Article 1, Section 31.)

6. MSRS Judges Plan

- a. Increased accrual rates for computing annuities. The accrual rate for pre-July 1, 1980 service is increased from 2.5 percent per year of service to 2.7 percent, and the accrual rate for post-June 30, 1980 service is increased from 3.0 to 3.2 percent per year of covered service. (Laws 1997, Chapter 233, Article 1, Section 66.)
- b. Increase in pension maximum. The maximum annuity payable is increased from 65 percent to 70 percent of the salary in the year preceding retirement. (Laws 1997, Chapter 233, Article 1, Section 66.)
- c. Recomputation of deferred annuities. Retirement, disability, and survivor benefits relating to former members who terminated service before July 1, 1997, which are not first payable until after June 30, 1997, must be increased on an actuarial equivalent basis to reflect the change in the post retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 67.)
- d. Recomputation of existing annuities. Retirement, disability, and survivor benefits for existing annuitants are permanently increased effective July 1, 1997 to make the benefit actuarially equivalent to the benefit currently received, given the change in the post-retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 72.)
- e. Reduction in inflation match guarantee. The requirement to provide minimum post-retirement adjustments that match annual inflation up to 3.5 percent is reduced to a match up to 2.5 percent. (Laws 1997, Chapter 233, Article 1, Section 5.)

7. MSRS Unclassified Plan

- a. Recomputation of existing annuities. Retirement, disability, and survivor benefits for existing annuitants are permanently increased effective July 1, 1997 to make the benefit actuarially equivalent to the benefit currently received, given the change in the post-retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 72.)
- b. Reduction in inflation match guarantee. The requirement to provide minimum post-retirement adjustments through the Minnesota Post-Retirement Adjustment Fund that match annual inflation up to 3.5 percent is reduced to a match up to 2.5 percent. (Laws 1997, Chapter 233, Article 1, Section 5.)
- c. Employee contribution rate reduction. The employee contribution rate is reduced from 4.07 percent of salary to 4.0 percent. (This is due to a corresponding drop in the MSRS General employee contribution rate. Through a cross reference, the employee contribution rates for the two plans are required to be identical.) (Laws 1997, Chapter 233, Article 1, Section 18.)
- d. Technical corrections, coverage-upon-employment-change and investment option provisions. Cross references are revised in an MSRS Unclassified Plan change of coverage provision to reflect revisions in other sections, and references to “employee” in the investment option provision are revised to “person.” (Laws 1997, Chapter 233, Article 2, Sections 4 and 5.)

As noted under the Legislators Plan and Elected State Officer Plan sections, MSRS Unclassified Plan membership is expanded to include all newly elected legislators and elected state officers, and all existing active members of those plans who elect prospective coverage under this defined contribution plan.

- e. Coverage for newly elected legislators and constitutional officers, and existing members electing revised coverage. The MSRS Unclassified Plan will provide coverage for all legislators and constitutional officers newly elected after June 30, 1997, and those existing legislators and constitutional officers who choose prospective MSRS Unclassified Plan coverage. (Laws 1997, Chapter 233, Article 2, Section 3.)

B. Public Employees Retirement Association

1. PERA General

- a. Limit on normal retirement age, post-June 30, 1989 hirees. The normal retirement age for post-June 30, 1989 hirees, which under prior law is tied to scheduled increases in “normal retirement age” as defined for social security benefit purposes, is restricted to not exceed age 66. (Laws 1997, Chapter 233, Article 1, Section 37.)
- b. Employee contribution rate increase. The PERA General employee contribution rate is increased from 8.23 percent of salary to 8.75 percent of salary for basic members, and from 4.23 percent of salary to 4.75 percent of salary for coordinated members. (Laws 1997, Chapter 233, Article 1, Section 38.)
- c. Employer additional contribution rate increase; repealer upon reaching full funding. The PERA employer additional contribution rate on behalf of basic members is increased from 2.5 percent of salary to 2.68 percent of salary, and the employer additional contribution rate on behalf of coordinated members is increase from .25 percent of salary to .43 percent of salary. The employer additional contribution rate requirements are repealed once the plan becomes fully funded, as indicated by the actuarial report produced by the LCPR-retained actuary. The repeal is effective on the first day of the first full pay period occurring after March 31 of the calendar year following the year in which the report is issued. (Laws 1997, Chapter 233, Article 1, Section 39.)
- d. Increased accrual rates for computing PERA General annuities. Higher accrual rates are established for computing benefits. The tier I rates (which are used to compute Rule of 90 annuities and may be applicable for other annuities computed for retirement prior to normal retirement age for pre-June 30, 1989 hirees) for coordinated members are revised from 1.0 percent to 1.2 percent for each of the first ten years of allowable service, and from 1.5 percent to 1.7 percent for each subsequent year. The comparable rates for basic members are revised from 2.0 percent to 2.2 percent for each of the first ten years of allowable service, and from 2.5 percent to 2.7 percent for each subsequent year. Tier II rates (which would be applicable for computing benefits for pre-June 30, 1989 hirees retiring at or near normal retirement age, and for all annuities for post-June 30, 1989 hirees) for coordinated members are increased from 1.5 percent to 1.7 percent. The comparable rate for basic members is increased from 2.5 to 2.7 percent of salary. (Laws 1997, Chapter 233, Article 1, Sections 40 and 55.)
- e. Recomputation of deferred annuities. Retirement, disability, and survivor benefits relating to former members who terminated service before July 1, 1997, which are not first payable until after June 30, 1997, must be increased on an actuarial equivalent basis to reflect the change in the post retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 43.)
- f. Recomputation of existing annuities. Retirement, disability, and survivor benefits for existing annuitants are permanently increased effective July 1, 1997 to make the benefit actuarially equivalent to the benefit currently received, given the change in the post-retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 72.)
- g. Reduction in inflation match guarantee. The requirement to provide minimum post-retirement adjustments that match annual inflation up to 3.5 percent is reduced to a match up to 2.5 percent. (Laws 1997, Chapter 233, Article 1, Section 5.)

The following provision is an exclusion of coverage provision applying to Saint Paul school district pipefitters.

- h. Exclusion of Saint Paul school district pipefitters. Pipefitters working for the Saint Paul school district newly employed after May 1, 1997 are not covered by PERA. Similar employees hired before that date may elect exclusion from PERA coverage through an irrevocable election. Those electing exclusion with less than three years of PERA coverage may apply for a refund. (Laws 1997, Chapter 241, Article 2, Sections 1, 8, and 12.)

The following applies to Jackson Medical Center, Melrose Hospital and Pine Villa, and the Tracy Municipal Hospital and Clinic, if the organization is sold, leased, or transferred to a private entity, nonprofit corporation, or public corporation.

- i. Medical Center privatizations, treatment of terminated, non-vested employees. If the applicable center is privatized, the city is authorized to make payments to a qualified pension plan established for the transferred employees which provides benefits similar to those provided by PERA General. A PERA covered employee who is terminated upon the sale, lease, or transfer, and is not vested is entitled to an additional amount, payable by the city, matching the PERA refund, provided the individual applies for a refund within one year of termination. City matching payments in excess of \$200 must be transferred to an Individual Retirement Account (IRA) or to another qualified pension plan. Local approval required. (Laws 1997, Chapter 241, Article 2, Sections 16, 17, 18, and 21.)

The following is a special law authorizing a purchase of service credit.

- j. Purchase of service credit, certain PERA disabilitant. A certain PERA disabilitant with a period of uncredited Saint Paul Parks and Recreation Division employment is authorized to purchase service credit for that period at full actuarial value and to have the disability benefit recomputed. The former employer is permitted to share in meeting the purchase cost. (Laws 1997, Chapter 241, Article 12, Section 3.)

The following applies to non-teacher personnel in charter schools.

- k. PERA coverage, non-teaching employees in charter schools. Except for teachers (who would be covered by TRA or a first class city teacher plan, as applicable) all other charter school employees are public employees for purposes of PERA coverage. (Laws 1997, First Special Session, Chapter 4, Article 5, Section 10.)

2. PERA Police and Fire

- a. Increased accrual rate for computing pensions. The accrual rate for computing benefits is increased from 2.65 percent per year of covered service to 3.0 percent per year. (Laws 1997, Chapter 233, Article 1, Section 41.)
- b. Duty-related disability benefits increased. For duty-related disabilitants, the individual will receive a benefit of 60 percent of the member's average monthly salary, rather than 53 percent, plus an additional 3.0 percent, rather than 2.65 percent, per year of service in excess of 20. (Laws 1997, Chapter 233, Article 1, Section 42.)
- c. Recomputation of deferred annuities. Retirement, disability, and survivor benefits relating to plan members who terminated service before July 1, 1997, which are not first payable until after June 30, 1997, must be increased on an actuarial equivalent basis to reflect the change in the post retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 43.)
- d. Recomputation of existing annuities. Retirement, disability, and survivor benefits for existing annuitants are permanently increased effective July 1, 1997 to make the benefit actuarially equivalent to the benefit currently received, given the change in the post-retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 72.)

- e. Reduction in inflation match guarantee. The requirement to provide minimum post-retirement adjustments that match annual inflation up to 3.5 percent is reduced to a match up to 2.5 percent. (Laws 1997, Chapter 233, Article 1, Section 5.)

The following is a mandated study.

- f. Study of PERA P&F consolidation accounts. The LCPR, in consultation with affected constituencies, will study the advantages and disadvantages of blending some or all of the consolidation accounts into the PERA P&F Fund. The LCPR will report by January 31, 1998 to the respective chairs of the Senate Committee on Government Operations and Veterans, the Senate Governmental Operations Budget Division, the House Committee on Governmental Operations, and the House State Government Finance Division. (Laws 1997, Chapter 233, Article 1, Section 75.)

The following is a special law.

- g. Clarification of retirement eligibility for certain PERA P&F retiree. A person born on October 11, 1943, hired by the city of Rochester on February 16, 1971, and who terminated on October 31, 1996, must be considered by PERA P&F to have retired on the termination date although the person worked occasionally during November and December 1996 for another governmental subdivision. PERA will deduct from subsequent annuity payments an amount equal to the November and December employment earnings. (Laws 1997, Chapter 241, Article 5, Section 1.)

3. PERA Consolidation Accounts

- a. Recomputation of certain survivor benefits. If first payable after July 1, 1997, survivor benefits computed under the local plan, except for a pre-July 1, 1997 election of PERA P&F post-retirement adjustments, must be increased on an actuarial equivalent basis to reflect the change in the PERA P&F post retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 44.)
- b. Recomputation of certain deferred annuitant benefits. If consolidation occurred before July 1, 1997, and a deferred annuitant has benefits that will be computed under the local plan provisions except for election of PERA P&F post-retirement adjustments, the benefit must be increased on an actuarial equivalent basis to reflect the change in the PERA P&F post retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 45.)
- c. Recomputation of existing annuities, if PERA P&F post-retirement adjustments are applicable. Retirement, disability, and survivor benefits for existing annuitants are permanently increased effective July 1, 1997 to make the benefit actuarially equivalent to the benefit currently received, given the change in the post-retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 72.)
- d. Pre-July 1, 1997 consolidation account benefit modification provisions. For plans that consolidated prior to July 1, 1997, unless the applicable city approves the extension of the post-June 30, 1997 PERA P&F benefit plan for the consolidation account members, the following revisions apply:

(1) *July 1, 1993 benefit changes were approved.* If the city approved the July 1, 1993 PERA P&F benefit provisions, the applicable PERA P&F accrual rate for service pensions and optional survivor annuities is 2.9 percent of average salary, and the duty-related disability benefit is 58 percent of average salary plus 2.9 percent of that average salary for each year of service in excess of 20, and the non-duty disability benefit is 43.50 percent of average salary plus an additional 2.9 percent of the average salary for each year in excess of 20.

(2) *July 1, 1993 benefit changes not approved.* If the city has not approved the July 1, 1993 PERA P&F benefit provisions, the applicable PERA P&F accrual rate for service pensions and optional survivor annuities is 2.74 percent of average salary, and the duty-related

disability benefit is 54.80 percent of average salary plus 2.74 percent of that average salary for each year of service in excess of 20, and the non-duty disability benefit is 41.10 percent of average salary plus an additional 2.74 percent of the average salary for each year in excess of 20. (Laws 1997, Chapter 233, Article 1, Section 46.)

- e. Reduction in inflation match guarantee. The requirement to provide minimum post-retirement adjustments that match annual inflation up to 3.5 percent is reduced to a match up to 2.5 percent. (Laws 1997, Chapter 233, Article 1, Section 5.)

The following is a mandated study.

- f. Study of PERA P&F consolidation accounts. The LCPR, in consultation with affected constituencies, will study the advantages and disadvantages of blending some or all of the consolidation accounts into the PERA P&F Fund. The LCPR will report by January 31, 1998 to the respective chairs of the Senate Committee on Government Operations and Veterans, the Senate Governmental Operations Budget Division, the House Committee on Governmental Operations, and the House State Government Finance Division. (Laws 1997, Chapter 233, Article 1, Section 75.)

The following is a revision to Saint Paul Police and Fire Consolidation Account special law.

- g. Consolidation account benefit floor. The benefit floor language added in 1996 is stricken and replaced with similar language specifying that for any vested former active members who terminated active service prior to consolidation, or their survivors, the benefit floor amount equals the highest service pension, surviving spouse benefit, or surviving child benefit, whichever applies, then currently payable to any comparable eligible benefit recipient. Local approval required. (Laws 1997, Chapter 241, Article 2, Sections 11 and 15.)

4. PERA Local Government Correctional Service Retirement Plan.

- a. PERA Local Government Correctional Service Retirement Plan repealed. Minnesota Statutes, Chapter 353C, the PERA Local Government Correctional Service Retirement Plan, is repealed, and references to the plan are removed from laws requiring actuarial valuations and allocating the cost of the valuations among covered plans, from laws specifying interest, salary, and amortization procedures to be used in the valuations, from laws covering modification of actuarial services, and from various combined service annuity provisions. (MN Laws 1997, Chapter 233, Article 1, Sections 1, 2, 56, 58, 59, 60, 62, 63, and 78. The PERA Local Government Correctional Service Retirement Plan had no members. Laws establishing the plan passed in 1987, but in the ensuing years no local units of government elected to permit its employees to participate in the plan.)

C. Teachers Retirement Association (TRA)

- a. Limit on normal retirement age, post-June 30, 1989 hires. The normal retirement age for post-June 30, 1989 hires, which under prior law is tied to scheduled increases in “normal retirement age” as defined for social security benefit purposes, is restricted to not exceed age 66. (Laws 1997, Chapter 233, Article 1, Section 47.)
- b. Employee contribution rate decrease. The TRA employee contribution rate is decreased from 6.5 percent of salary to 5.0 percent of salary for coordinated members, and from 10.5 percent of salary to 9.0 percent of salary for basic members. (Laws 1997, Chapter 233, Article 1, Section 48.)

The following two items apply to TRA employer contributions. Although the TRA employer regular contribution is increased, the drop in the employer additional contribution rate creates a net decrease.

- c. Employer regular contribution rate increase. The TRA employer regular contribution rates are revised to match the new employee contribution rates. The rate is increased from 4.5 percent of salary to 5.0 percent of salary on behalf of each coordinated member, and from 8.5 percent of salary to 9.0 percent of salary on behalf of each basic member. (Laws 1997 Chapter 233, Article 1, Section 49.)

- d. Employer additional contribution rate decrease; repealer upon reaching full funding. The TRA employer additional contribution rate on behalf of each member is decreased from 3.64 percent of salary to 1.64 percent of salary. The employer additional contribution rate requirement is repealed once the plan reaches full funding, as indicated by the actuarial report produced by the LCPR-retained actuary. The repeal is effective on the first day of the first full pay period occurring after March 31 of the calendar year following the year in which the report is issued. (Laws 1997, Chapter 233, Article 1, Section 50.)
- e. Increased accrual rates for computing TRA annuities. Higher accrual rates are established for computing benefits. The tier I rates (which are used to compute Rule of 90 annuities and may be applicable for other annuities computed for retirement prior to normal retirement age for pre-June 30, 1989 hirees) for coordinated members are revised from 1.13 percent to 1.2 percent for each of the first ten years of allowable service, and from 1.63 percent to 1.7 percent for each subsequent year. The comparable rates for basic members are revised from 2.13 percent to 2.2 percent for each of the first ten years of allowable service, and from 2.63 percent to 2.7 percent for each subsequent year. Tier II rates (which would be applicable for computing benefits for pre-June 30, 1989 hirees retiring at or near normal retirement age, and for all annuities for post-June 30, 1989 hirees) for coordinated members are increased from 1.63 percent to 1.7 percent. The comparable rate for basic members is increased from 2.63 to 2.7 percent of salary. (Laws 1997, Chapter 233, Article 1, Sections 51 and 55.)
- f. Additional benefit increase if benefit begins to accrue after July 1, 1997 and before July 2, 2002. Service pensions, disability benefits, and survivor benefits which begin to accrue after July 1, 1997 and before July 2, 2002 will be further increased by a portion of the benefit level adjustment given to existing benefit recipients to compensate them for the impact of the expected lower lifetime post-retirement increases. The increases are as follows:
- (1) *if the benefit begins to accrue in the period from July 2, 1997 to July 1, 1998, the new benefit recipient will be given an additional benefit of 50 percent of the permanent increases for existing, comparable pensioners;*
- (2) *if the benefit begins to accrue in the period from July 2, 1998 to July 1, 1999, the new benefit recipient will be given an additional benefit of 40 percent of the permanent increases for existing, comparable pensioners;*
- (3) *if the benefit begins to accrue in the period from July 2, 1999 to July 1, 2000, the new benefit recipient will be given an additional benefit of 30 percent of the permanent increases for existing, comparable pensioners;*
- (4) *if the benefit begins to accrue in the period from July 2, 2000 to July 1, 2001, the new benefit recipient will be given an additional benefit of 20 percent of the permanent increases for existing, comparable pensioners; and*
- (5) *if the benefit begins to accrue in the period from July 2, 2001 to July 1, 2002, the new benefit recipient will be given an additional benefit of 10 percent of the permanent increases for existing, comparable pensioners. (Laws 1997, Chapter 233, Article 1, Section 52.)*
- g. Deferred annuities recomputation. Retirement, disability, and survivor benefits relating to former members who terminated service before July 1, 1997, which are not first payable until after June 30, 1997, must be increased on an actuarial equivalent basis to reflect the change in the post-retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 54.)
- h. Existing annuities recomputation. Retirement, disability, and survivor benefits for existing annuitants are permanently increased effective July 1, 1997 to make the benefit actuarially equivalent to the benefit currently received, given the change in the post-retirement interest assumption from five percent to six percent. (Laws 1997, Chapter 233, Article 1, Section 72.)

- i. Reduction in inflation match guarantee. The requirement to provide minimum post-retirement adjustments that match annual inflation up to 3.5 percent is reduced to a match up to 2.5 percent. (Laws 1997, Chapter 233, Article 1, Section 5.)
- j. Revised military service credit purchase procedures. The TRA military service credit purchase provision is revised by striking obsolete employee contribution rates and requiring that employee contributions be based on the contribution rates in effect at the time the military service was rendered, by clarifying that the applicable salary base for computing the contributions is the annual salary for the year beginning on the return date from military service, and by specifying that the employer and employer additional contributions must be determined by the rates applicable for the same period, and on the same salary base, as those used in determining the employee contributions. (Laws 1997, Chapter 233, Article 1, Section 53.)
- k. Revised sabbatical leave contribution requirements; elimination of pro-rated service credit. For a sabbatical leave, TRA employee and employer contributions must be based on full normal base contract salary rather than a lesser salary if full salary is not received during the leave. Given this change, authority is removed to make optional payments based on the difference between salary received and full salary and to pro-rate service credit. (Laws 1997, Chapter 241, Article 3, Sections 4, 5, and 6.)

The following two items are special law provisions, intended to deal with extraordinary circumstances caused by fire or flood. The specific provision for Hibbing may be redundant, given the more general authority in item (l).

- l. Termination date waiver, teachers in areas impacted by flooding or fire. In areas where the school year was disrupted or extended by flooding during the first half of calendar year 1997, or by fire damage to the school during the 1996-97 school year, the teacher termination date for retirement purposes is the closing date of the school calendar initially in effect, not the school calendar as extended or otherwise revised due to flooding or fire. (Laws 1997, Chapter 233, Article 1, Section 76.)
- m. Termination date waiver, Hibbing high school teachers impacted by school fire. Hibbing high school teachers terminating active service for retirement during June 1997, will have May 30, 1997 as their termination date for retirement purposes. (Laws 1997, Chapter 241, Article 9, Section 4.)

The following is a special law provision dealing with a beneficiary designation change.

- n. Acceptance of beneficiary designation change after member's death. TRA is authorized to accept a beneficiary designation change form postmarked January 8, 1997, although the member died on December 22, 1996. The designated beneficiary is permitted to receive survivor benefits, retroactive to January 1, 1997. (Laws 1997, Chapter 241, Article 12, Section 2.)

The following are repealers of a state aid adjustment due to a prior TRA contribution rate change, made obsolete by the 1997 revisions in TRA employer contribution rates and related aid provisions.

- o. Repealers. Section 124.195, Subdivision 12, which revised school aids due to a prior law revision in TRA employer contribution rates, and Section 124.2139, which revised aids due to a revision in employer contribution rates that was effective July 1, 1984, are repealed. (Laws 1997, Chapter 233, Article 1, Section 78.)

The following is a change in default coverage if technical college faculty fail to make an election between IRAP and TRA coverage.

- p. Shift in default coverage/waiver of interest on omitted contributions. If the technical college faculty member fails to make an election, the default coverage will be IRAP rather than TRA. If the individual fails to certify prior membership in TRA, then MNSCU will not be charged any interest on omitted deductions to TRA. (Laws 1997, Chapter 241, Article 8, Section 5.)

The final TRA provision was included in the education bill passed during the first special session as Laws 1997, First Special Session, Chapter 4, Article 7, Section 56. The provision was also part of the education bill passed by the 1997 Legislature during the regular session but vetoed by the Governor due to disagreement over tax credits and tax deductions for private schools. We believe the following pension language first appeared in the conference committee report during the regular session and was not part of the House or Senate bill prior to that time.

The pension provision's drafting and purpose are unclear. The provision provides retention of coordinated member status by certain teacher union representatives by creating an exemption from general law requirements regarding timing of continued coverage elections by teacher union representatives, prohibitions against double pension coverage under public teacher plans, maximum permitted covered salary relative to Governor's salary, and TRA's definition of salary for pension purposes. The provision also provides an exemption from TRA employee/employer contribution withholding requirements by permitting a single annual lump sum contribution rather than standard contribution-withholding-from-pay arrangements, with frequent transmittal to TRA. The arrangement causes TRA to forego investment earnings due to the delayed remittance. It is unclear which of the many exemptions is actually necessary because it is unclear what underlying problem is being addressed. Also, the provision may have been intended to address the needs of a single person, but the drafting can be interpreted as impacting an entire class of individuals. The provision, in its entirety, follows.

- q. [Teacher Retirement]. (a) Notwithstanding Minnesota Statutes, section 354.41, subdivision 4, a person who is a member of the teacher retirement association and is employed by the Minnesota federation of teachers or its affiliated branches within the state or by the Minnesota education association on July 1, 1997, may remain a coordinated member.

(b) Notwithstanding Minnesota Statutes section 354.41, subdivision 5, payment of the applicable employee contributions, employer contributions, and additional employer contributions under Minnesota Statutes, section 354.42, subdivisions 2, 3, and 5, must be made in a lump sum to the association on or before June 30 of each fiscal year. (Laws 1997, First Special Session, Chapter 4, Article 7, Section 56.)

D. Higher Education Individual Retirement Account Plan (IRAP) and Supplemental Plan.

- a. Advisory committee on IRAP and Supplemental Plan. An advisory committee is created comprised of twelve representatives. The exclusive representatives of the state university, community college, and technical college instructional units will each appoint two members, and the exclusive representatives of the general professional unit, the supervisory employees unit, and the state university administrative unit will each appoint one member. Three employer representatives (one of which must be a personnel administrator) will be selected by the Minnesota State Colleges and Universities System (MNSCU) Chancellor. The committee will advise SBI and the MNSCU Board on the Higher Education IRAP and the Supplemental Plan operations and structure, financial institution and investment product selection, and third-party plan administration selection. (Laws 1997, Chapter 241, Article 3, Section 7.)
- b. IRAP administrative expenses reported to advisory committee. The board of trustees will report annually on IRAP administrative expenses to the advisory committee established in (a) above. Administrative expense charges collected from IRAP plan participants must be kept in a separate account and used only for necessary and reasonable plan expenses. (Laws 1997, Chapter 241, Article 3, Section 8.)
- c. Supplemental Plan administrative expenses reported to advisory committee. The board of trustees will report annually on Supplemental Plan administrative expenses to the advisory committee established in (a) above. Administrative expense charges collected from the plan participants must be kept in a separate account and used only for necessary and reasonable plan expenses. (Laws 1997, Chapter 241, Article 3, Section 10.)
- d. Supplemental Plan, leveling of employee contributions. MNSCU is authorized to deduct Supplemental Plan employee contributions in equal amounts per pay check, based upon anticipated annual salary. (Laws 1997, Chapter 241, Article 3, Section 9.)

- e. Retention of supplemental plan continuing coverage provision. Transfers a provision on continuing Supplemental Plan coverage eligibility from a law that is being repealed (Laws 1995, Chapter 262, Article 1, Section 10.). (Laws 1997, Chapter 241, Article 8, Section 6.)

The following is a revision in default coverage if technical college faculty fail to make an election between IRAP and TRA coverage.

- f. Shift in default coverage/waiver of interest on omitted contributions. If the technical college faculty member fails to make an election, the default coverage will be IRAP rather than TRA. If the individual fails to certify prior membership in TRA, then MNSCU will not be charged any interest on omitted deductions to TRA. (Laws 1997, Chapter 241, Article 8, Section 5.)

The following is a repealer. The provisions repealed below were 1995 laws that would have amended sections in Chapter 354B (IRAP), except that the sections being amended were repealed in that same legislative session in a recodification of that IRAP chapter. As a consequence, these laws appear in footnotes in current statutes. The following repealer serve to remove those footnotes from existing statutes.

- g. Repealer. Laws 1995, Chapter 262, Article 1, Section 8, purchasing of annuity contracts; Section 9, selection of financial institutions; Section 10, plan eligibility provision; Section 11, asset redemptions; and Section 12, administration, are repealed. (Laws 1997, Chapter 241, Article 8, Section 9.)

E. First Class City Teacher Plans

The following is a mandated study.

- a. Study of consolidation options. The LCPR, in consultation with the relevant constituencies, will study the advantages and disadvantages of restructuring or consolidating the first class city teacher retirement fund associations and TRA. The study will take into consideration the future funding needs of MERF and other applicable state funding resources. The LCPR will report by January 31, 1998 to the respective chairs of the Senate Committee on Government Operations and Veterans, the Senate Governmental Operations Budget Division, the House Committee on Governmental Operations, and the House State Government Finance Division. (Laws 1997, Chapter 233, Article 1, Section 75.)

The following provisions [items (b) through (f)] are a package which increases benefits in the coordinated plans, increases funding in all three plans, and improves SPTRFA post-retirement adjustments.

- b. Limit on normal retirement age, post-June 30, 1989 hirees. The normal retirement age for post-June 30, 1989 hirees, which under prior law is tied to scheduled increases in “normal retirement age” as defined for social security benefit purposes, is restricted to not exceed age 66. (Laws 1997, Chapter 233, Article 3, Section 1.)
- c. Employee contribution rate increase. The employee contribution rate for MTRFA and SPTRFA coordinated members is increased from 4.5 to 5.5 percent of salary. (Laws 1997, Chapter 233, Article 3, Section 2.)
- d. SPTRFA employer additional contribution rate increase. The SPTRFA employer additional contribution rate on behalf of coordinated members is increased, as of July 1, 1997, from 3.64 percent of salary to 3.84 percent of salary. (Laws 1997, Chapter 233, Article 3, Section 3.)
- e. Increased accrual rates for computing coordinated plan annuities. Higher accrual rates are established for computing coordinated plan benefits. For the MTRFA and the SPTRFA, the tier I coordinated plan rates (which are used to compute Rule of 90 annuities and may be applicable for many other annuities computed for retirement prior to normal retirement age for pre-June 30, 1989 hirees) are revised from 1.0 percent to 1.2 percent for each of the first ten years of allowable service, and from 1.5 percent to 1.7 percent for each subsequent year. MTRFA and SPTRFA coordinated plan tier II rates (which would be applicable for computing benefits for pre-June 30, 1989 hirees retiring at or near normal retirement age, and for all annuities for post-June 30, 1989 hirees) are increased from 1.5 percent to 1.7 percent. For DTRFA, the New Law Coordinated Plan tier I rate is increased from 1.13 percent to 1.2

percent for each of the first ten years of allowable service, and from 1.63 percent to 1.7 percent for each subsequent year. The DTRFA New Law Coordinated Plan tier II rates are increased from 1.63 percent to 1.7 percent. The DTRFA is authorized to amend its articles of incorporation or bylaws to provide an accrual rate for old law coordinated members of 1.45 percent per year of service. (Laws 1997, Chapter 233, Article 3, Sections 8, 9, and 11.)

The following provision removes the existing SPTRFA post-retirement system and replaces it with a system identical to that used by MTRFA and DTRFA.

- f. SPTRFA revised post-retirement adjustment system. The previous lump-sum post retirement adjustment mechanism used by SPTRFA is replaced with a system identical to that currently used by MTRFA and DTRFA (an automatic two percent increase coupled with an investment performance related increase based on the five-year annualized rate of return in excess of 8.5 percent, with an adjustment for the contribution deficiency, if any). Before the first adjustment under this section, the amount of any lump-sum post retirement adjustment paid to a SPTRFA annuitant in 1997 must be added to the base. If no lump-sum adjustment was payable, the annuity must first be increased by an inflator (the Consumer Price Index for urban wage earners and clerical workers All Price Index) from the date of initial annuity receipt to June 30, 1997. Authority to amend the SPTRFA by-laws to implement and pay the prior lump-sum post-retirement adjustment system is stricken from the initial authorizing law (Laws 1979, Chapter 109, Section 1, as amended by Laws 1981, Chapter 157, Section 1). (Laws 1997, Chapter 233, Article 3, Sections 7 and 10.)

The following provision establishes significant new direct state aid to MTRFA and DTRFA, and increases the existing direct state aid to SPTRFA.

- g. Direct state aid to first class city teacher funds. In fiscal year 1998, the state will make direct payment to the SPTRFA of \$4,827,000, rather than \$500,00 as would have been paid under prior law. A new direct state aid is established for MTRFA and DTRFA. In fiscal year 1998 the MTRFA will receive \$17,954,000 and DTRFA will receive \$486,000. In subsequent years, the aid will be \$2,827,000 for SPTRFA, \$12,954,000 for MTRFA, and \$486,000 for DTRFA. (Laws 1997, Chapter 233, Article 3, Section 4.)
- h. Termination of aid provision expanded to include termination of DTRFA aid. Section 354A.12, subdivision 3c, which requires termination of state aid, state supplemental aid, and state matching aid to the MTRFA or SPTRFA once the respective association reaches the same funding level as TRA, is expanded to include a cutoff to DTRFA, since aid is established to that association in (g) above. If aid shuts off to one or more of these first class city teacher fund associations, aid will be reallocated proportionally to the remaining associations based on the relative sizes of their unfunded liabilities. (Laws 1997, Chapter 233, Article 3, Section 6.)

The following item removes indexing for the existing MTRFA-state matching aid provision (Section 354A.12, Subdivision 3b.)

- i. Indexing removed from MTRFA-state matching aid. Indexing is removed from the MTRFA-state matching aid program. Under prior law, the amount available for a match (up to \$2.5 million in fiscal 1994) was indexed by the increase in the general education revenue formula allowance. (Laws 1997, Chapter 233, Article 3, Section 5.)

The following is a special law for an ex-MTRFA member.

- j. Purchase of service credit, ex-MTRFA part-time teacher. A person who was a MTRFA active member from March 1, 1986 to June 28, 1991, who was not included in Social Security coverage from July 1, 1978 to March 7, 1986, and who had uncredited MTRFA service as a part-time teacher of nursing from April 7, 1975 to March 7, 1986, is authorized to purchase service credit, before July 1, 1998, at full actuarial value for the uncredited MTRFA service. The school district may, at its option, pay a portion of the purchase price. (Laws 1997, Chapter 241, Article 5, Section 2.)

The following are repealers.

- k. Repealers. Section 354A.12, Subdivision 2b, which required each first class city teacher plan executive director to report annually regarding any contribution deficiencies or sufficiencies to the LCPR and the chairs of the House Ways and Means Committee and the Senate Finance Committee; Laws 1985, Chapter 259, Section 3, which authorized SPTRFA to pay lump-sum post-retirement adjustments; and Laws 1993, Chapter 336, Article 3, Section 1, which authorized SPTRFA to reduce waiting periods to receive lump-sum post-retirement adjustments and to annuitize those adjustments; are repealed.

F. Minneapolis Employees Retirement Fund (MERF)

- a. Retention of Existing Post-Retirement Procedures. Except for certain Metropolitan Airports Commission (MAC) police and fire fighters or their survivors as noted in (b) below, MERF will continue to follow all existing procedures in effect on June 30, 1997 for its Retirement Benefits Fund, including its procedures for computing post-retirement adjustments. (This includes authority to pay minimum post-retirement adjustments that match inflation up to 3.5 percent, although the guaranteed match for MSRS, PERA, and TRA defined benefit plans is lowered to 2.5 percent. Laws 1997, Chapter 233, Article 1, Section 5 and 64.)
- b. Post-retirement benefit revision, post-June 30, 1997 MAC retirees, disabilitants, and survivors selecting PERA P&F benefits. For MAC retirees, disabilitants, and survivors who elect to have benefits computed under the PERA P&F benefit plan provisions, and who begin receiving benefits after June 30, 1997, the post-retirement adjustments otherwise payable will be lowered by one percent. If this would create a negative adjustment (a lowering of the benefit previously paid), the benefit must not be reduced, but future benefit adjustments must be revised downward to compensate. (Laws 1997, Chapter 233, Article 1, Section 64 and 65.)

The following items cover various state appropriations to MERF. In the following, the state contribution to meet MERF's general financing obligations is referred to as the "general state aid," while "supplemental aid" means the additional, separate state aid toward the supplemental benefit for MERF pre-March 5, 1974 retirees and "\$2 bill and annuity" recipients.

- c. Fiscal year 1998, 1999 state appropriations to MERF. \$10,455,000 in fiscal 1998 and \$9,000,000 in fiscal 1999 are appropriated to MERF as general state aid, to cover the state contribution portion of MERF's total required contributions. An additional \$550,000 in each year is appropriated to MERF as supplemental aid toward the payment of the supplemental benefit. (Laws 1997, Chapter 202, Article 1, Section 32.)
- d. Revised cap on general state aid; revised reallocation procedures if remaining financial requirements exceed state contribution. The general state aid to MERF may not exceed \$10,455,000 in fiscal 1998, and for fiscal 1999 and thereafter, a new, lower annual cap of \$9 million is established. Also, rather than requiring further contributions from local employers whenever a remaining annual financial requirement exists after applying the state contribution, that remaining contribution requirement will be accessed only if it exceeds \$1.455 million in fiscal 1998 or \$2.910 million thereafter. (Laws 1997, Chapter 202, Article 2, Section 48.)
- e. Revised supplemental benefit responsibilities, longer term funding arrangements. The general responsibility for covering the cost of the supplemental benefit is transferred from the state to MERF, and the state's responsibility through 2001 for financing this benefit is limited to the existing state supplemental aid to MERF, \$550,000 annually in fiscal years 1992 through 2001. After fiscal year 2001, any difference between the cumulative supplemental benefit amounts paid since fiscal 1991 and the cumulative supplemental aid, plus investment earnings on the aid, will be included in MERF's annual financial requirement as computed by the actuary. (Laws 1997, Chapter 202, Article 2. Section 46.)

G. Local Police and Paid Fire Relief Associations

1. Minneapolis Police Relief Association (MPRA). Items (a) through (l) require local approval. The first provision, item (a), increases the definition of "excess income" if the funding ratio exceeds 102 percent.

This makes it possible to pay a larger thirteenth check post-retirement adjustment, item (b) below. The thirteenth check is in addition to post-retirement escalation matching the percentage increase over time in first grade patrol officer salary.

- a. Revised, expanded definition of excess income. Excess income, currently limited to one percent of fund assets, is expanded to 1.5 percent of fund assets if the funding ratio, according to the most recent actuarial valuation, is greater than 102 percent of fund assets. (Laws 1997, Chapter 233, Article 4, Section 1.)
- b. Expanded thirteenth check. The MPRA thirteenth check procedure is revised to permit a distribution to retirees of 1.5 percent of plan assets, rather than .5 percent of plan assets, if the most recent actuarial valuation shows a funding ratio of at least 102 percent. (Laws 1997, Chapter 233, Article 4, Section 8 to 10.)

The following service pension increase also passed, contingent upon the funding ratio.

- c. Increase in service pensions; contingent upon funding ratio. *Funding ratio less than 90 percent.* If the funding ratio is less than 90 percent, service pensions are computed under rates permitted in existing law: 8.0 units if the individual has five years of service, increasing by 1.6 units per year of additional service, up to a maximum of 40 units.

Funding ratio greater than 90 percent. If the funding ratio according to the most recent valuation is greater than 90 percent, the service pensions payable with twenty years or more years of service are increased by two units, creating a new maximum of 42 units at twenty-five years of service. This increase would apply to active members, deferred members, and service pensioners. (Laws 1997, Chapter 233, Article 4, Section 5.)

Note: The above two unit service pension benefit increase may have been intended, in part, as a trade off against a one unit health and welfare benefit, with the pension benefit increased as the health and welfare benefit is phased out or repealed. Certain revisions in other laws suggest that intent. The revision in item (d) below, to an authorized fund disbursement provision, strikes existing law language which allowed payment from the fund of “health and welfare benefits of one unit per month in addition to other benefits for members who retired after July 1, 1980, and have completed 20 years or more of service or for members who are permanent disabilitants.” This deletion suggests the specific one unit health and welfare benefit would no longer be payable. Language in the effective date section which states that the change in fund disbursement provision is effective at the same time as the potential increase in the service pension in (c) above further suggests an intended trade of one benefit for another. However, Section 423B.13, which established the one unit health and welfare benefit in the plan, is not repealed. If the intent was to eliminate the one unit health and welfare benefit as the more general two unit pension benefit increase is implemented, it would seem appropriate that Section 423B.13 be repealed.

- d. Revisions in authorized fund disbursement provision. The MPRA authorized-fund-disbursement provision (Section 423B.07) is amended to include general authority to pay hospital and medical insurance plan administrative expenses, and by striking specific language which had authorized payment, in addition to any other benefits payable under law, of a one unit per month health and welfare benefit. This section is to be effective at the same time as the increase in the service pension in (c) above. (Laws 1997, Chapter 233, Article 4, Section 4.)

If the funding ratio exceeds 102 percent, but then drops below full funding, the following waiver of property taxes would apply.

- e. Waiver of Minneapolis employer amortization contribution, certain cases. If the MPRA funding ratio is greater than 102 percent and then drops below 100 percent, the city is not required to levy a property tax to amortize the unfunded obligation unless there are two successive valuations indicating unfunded liabilities. (Laws 1997, Chapter 233, Article 4, Section 3.)

The following increases in disability benefits, items (f) and (g), are contingent upon the fund achieving a 90 percent or greater funding ratio in the most recent valuation.

- f. Increase in non-service disability pension. The non-duty disability benefit, currently two units for five years of service and an additional two units for each full year of service over five and less than 20, is increased to four units for five years of service and two units for each full year of service over five and less than twenty. (Laws 1997, Chapter 233, Article 4, Sections 5 and 23.)
- g. Increase in duty disability pension. The duty disability benefit is increased from 32 units to 34 units. (Laws 1997, Chapter 233, Article 4, Sections 5 and 23.)

Optional annuities were added to the plan, as an option to the plan's automatic spousal coverage provisions. Since the optional annuities, item (g), are to be actuarially equivalent to the benefit with automatic spousal coverage, a definition of actuarial equivalence is added to the plan, item (h).

- h. Definition of actuarial equivalent. A definition of actuarial equivalence is added to the MPRA plan definitions provision. (Laws 1997, Chapter 233, Article 4, Section 2.)
- i. Optional annuities created. Optional annuities are created for retirees and disabilitants. The options are 50 percent, 75 percent, and 100 percent joint-and-survivor annuities without a bounce-back; and 50 percent, 75 percent, and 100 percent joint-and-survivor annuities with a bounce-back. These optional annuity forms must be actuarially equivalent to the service pension and automatic survivor coverage otherwise payable to the retiring member and the member's beneficiaries. The optional annuities are irrevocable. Current retirees and disabilitants have 60 days from the effective date to elect an optional annuity rather than the normal retirement annuity. (Laws 1997, Chapter 233, Article 4, Section 6.)

The definition of eligible surviving spouse was expanded, item (j), and the surviving spouse and family maximum benefits were increased, item (k). These are not contingent on achieving or maintaining any specified funding ratio.

- j. Expansion of eligibility for surviving spouse benefit. A surviving spouse who would not be eligible for survivor benefits (because he or she was not legally married to the deceased covered member, was not married at the time the employee was on the payroll, or did not reside with the member; or in the case of a deceased service pensioner or deferred pensioner, was not married at least one year prior to retirement) is made eligible for survivor benefits if, at the time of death, the surviving spouse was married to the decedent for at least five years and was residing with the decedent at the time of death. If the surviving spouse, made eligible for a benefit due to this expansion of eligibility, is younger than the deceased, the surviving spouse benefit must be actuarially equivalent to the benefit payable to a spouse of the same age as the deceased. Effective retroactive to July 1, 1996. (Laws 1997, Chapter 233, Article 4, Sections 7 and 23.)
- k. Increase in surviving spouse benefit and family maximum benefit. The surviving spouse benefit for survivors of deceased active members, disabilitants, service pensioner, or deferred pensioners is increased from 21 units to 22 units, and the family maximum benefit is increased from 40 to 41 units. Effective retroactive to July 1, 1996. (Laws 1997, Chapter 233, Article 4, Sections 7 and 23.)

The following two items are miscellaneous revisions.

- l. Revised actuarial valuation deadline. The actuarial valuation must be completed by May 1st of each year. (Laws 1997, Chapter 233, Article 4, Section 11.)
- m. Added sources of funding, MPRA special fund. All rewards, money, or proceeds from sales of seized or unclaimed property acquired by any Minneapolis police officer, rather than by any Minneapolis police officer who is a relief association active member, will be placed in the relief association special fund. (Laws 1997, Chapter 241, Article 9, Sections 2 and 3.)

2. Minneapolis Fire Relief Association (MFRA). All items require local approval.

- a. Expansion of eligibility for surviving spouse benefit. A surviving spouse who would not be eligible for survivor benefits (because he or she was not legally married to the deceased

covered member, was not married at the time the employee was on the payroll, or did not reside with the member; or in the case of a deceased service pensioner or deferred pensioner, was not married at least one year prior to retirement) is made eligible for survivor benefits if the surviving spouse, at the time of death, was married to the decedent for at least five years and was residing with the decedent. If the surviving spouse, who is made eligible for a benefit due to this expansion of eligibility, is younger than the deceased, the surviving spouse benefit must be actuarially equivalent to the benefit payable to spouse of the same age as the deceased, and may be less than 17 units, notwithstanding other law. Effective retroactive to July 1, 1996. (Laws 1997, Chapter 233, Article 4, Section 12.)

- b. Spousal benefits, removal of the remarriage penalty. Surviving spouse benefits are made payable for life, rather than ending upon remarriage. Effective retroactive to July 1, 1996. (Laws 1997, Chapter 233, Article 4, Section 12.)

The first provision below, item (c), increases the definition of excess income if the funding ratio exceeds 102 percent. This makes it possible to pay a larger thirteenth check post-retirement adjustment, item (d) below. The thirteenth check is in addition to post-retirement escalation equal to the percentage increase in the salary of a first grade firefighter.

- c. Revised, expanded definition of excess income. Excess income, currently limited to one percent of fund assets, is expanded to 1.5 percent of fund assets if the funding ratio, according to the most recent actuarial valuation, is greater than 102 percent of fund assets. (Laws 1997, Chapter 233, Article 4, Section 13.)
- d. Expanded thirteenth check. The MFRA thirteenth check procedure is revised to permit a distribution to retirees of 1.5 percent of plan assets, rather than .5 percent of plan assets, if the most recent actuarial valuation shows a funding ratio of at least 102 percent. (Laws 1997, Chapter 233, Article 4, Section 14 to 16.)

The following service pension revisions also passed, with increasing benefit levels contingent upon achieving and maintaining various increased funding levels.

- e. Increase in service pensions; contingent upon funding ratio, traded against health and welfare benefit. *Funding ratio less than 90 percent.* If the funding ratio is less than 90 percent, service pensions payable to members terminating active service as a Minneapolis firefighter after June 1, 1993 are maintained as in current law, except that authority is deleted to pay service pensions on less than ten years of service.

Funding ratio greater than 90 percent. If the funding ratio according to the most recent valuation is greater than 90 percent, the plan is authorized to use a new unit schedule which “applies to all active members and retired service pensioners who otherwise met the then existing requirements to receive a benefit.” The new schedule authorizes service pensions with five years but less than ten years of covered service, and the pension payable for 20 years service or more increases by one-half unit from the current level, with the twenty year pension computed at 33.5 units rather than 33 units, and with a maximum, at twenty five years service, of 41.5 units rather than 41.

Funding ratio greater than 92.5 percent. If the funding ratio according to the most recent valuation is greater than 92.5 percent, a third new unit schedule would be used which “applies to all active members and retired service pensioners who otherwise met the then existing requirements to receive a benefit.” This new schedule provides a further increase for twenty or more years of service. At twenty years the plan would provide a 34 unit pension, rather than 33.5 units. The units for each additional year are increased by half a unit over those of the second schedule, up to a maximum at twenty five years of service of 42 units.

Trade against health-and-welfare benefit. These higher unit pensions, increased first at a funding ratio in excess of 90 and again when the most recent valuation shows a funding ratio greater than 92.5 percent, are intended as a trade against the one unit health and welfare benefit provided by the plan. When the funding ratio of 90 or more is achieved and the twenty year-or-more pensions increased by one half unit, the one unit health and welfare benefit is to be reduced to one-half unit. When the 92.5 percent funding ratio is achieved, and

the twenty-year-or more pension is increased by another one-half unit, the remaining half unit health and welfare benefit is to be eliminated. (Laws 1997, Chapter 233, Article 4, Section 17 and 22.)

If the funding ratio exceeds 102 percent, but then drops below full funding, the following waiver of property taxes, item (f), would apply.

- f. Waiver of Minneapolis employer amortization contribution, certain cases. If the MPRA funding ratio is greater than 102 percent and then drops below 100 percent, the city is not required to levy a property tax to amortize the unfunded obligation unless there are two successive valuations indicating unfunded liabilities. (Laws 1997, Chapter 233, Article 4, Section 19.)

Optional annuities were added to the plan, as an option to the automatic spousal coverage previously provided. Since the optional annuities, item (h), are to be actuarially equivalent to the benefit with automatic spousal coverage, a definition of actuarial equivalence is added to the plan, item (g).

- g. Definition of actuarial equivalent. A definition of actuarial equivalence is added to the MPRA plan definitions provision. (Laws 1997, Chapter 233, Article 4, Section 21.)
- h. Optional annuities created. Optional annuities are created for retirees and disabilitants. The options are 50 percent, 75 percent, and 100 percent joint-and-survivor annuities without a bounce-back; and 50 percent, 75 percent, and 100 percent joint-and-survivor annuities with a bounce-back. These optional annuity forms must be actuarially equivalent to the service pension and automatic survivor coverage otherwise payable to the retiring member and the member's beneficiaries. The optional annuities are irrevocable. Current retirees and disabilitants have 60 days from the effective date to elect an optional annuity rather than the normal retirement annuity. (Laws 1997, Chapter 233, Article 4, Section 18.)

The following miscellaneous revision for the Minneapolis Fire Relief Association also passed.

- i. Revised actuarial valuation deadline. The actuarial valuation must be completed by May 1st of each year. (Laws 1997, Chapter 233, Article 4, Section 20.)

3. Richfield Fire Relief Association. Several benefit improvements impacting service, disability, and survivor pensions were granted to the Richfield Fire Relief Association contingent upon local approval and consolidation of the association with PERA. The changes have retrospective application, requiring recomputation of existing annuities, and prospective application.

- a. Service pension increase. Firefighters who terminated after age 55 with 20 or more years of service, before the 1980 alternative benefit improvement, will have the benefit recomputed from 50 percent to 54 percent of base salary (the salary of a first grade firefighter.) For firefighters retiring after the effective date of the 1980 alternative benefit improvement, the pension will be computed for new retirees and recomputed for existing retirees at 55 percent of base salary, rather than 51 percent. (Laws 1997, Chapter 241, Article 2, Sections 2 and 10.)
- b. Disability benefit increase. The disability benefit is increased from 50 to 54 percent of base salary. (Laws 1997, Chapter 241, Article 2, Section 3 and 9.)
- c. Survivor benefit increases. The surviving spouse benefit is increased from 40 to 43.2 percent of base salary; the surviving child benefit will be 5.4 percent, rather than 5.0 percent of base salary. If no surviving spouse benefit is payable, the surviving child benefit will be 16.2 percent of base salary rather than 15 percent. Surviving spouse benefits are payable for life; surviving child benefits are payable to age 18. (Laws 1997, Chapter 241, Article 2, Sections 4, 5, 13, and 14.)
- d. Increased family maximum. The family maximum benefit is increased from 50 to 54 percent of base salary. (Laws 1997, Chapter 241, Article 2, Section 6.)

- e. Elimination of ratchet-down effect. The initial surviving spouse, child, and family maximum benefit must bear the same percentage relationship to the benefit received just prior to the death of the primary annuitant whether post-retirement adjustments are computed under the local or PERA P&F plan provisions. (Laws 1997, Chapter 241, Article 2, Section 13.)
- f. Effective date; statement of legislative intent. The above benefit changes require local approval and are contingent upon consolidation with PERA P&F. The revisions have retroactive and prospective application, applying to individuals who become service pensioners, disabilitants, or survivors of firefighters who terminated service on or after the effective date of Laws 1967, Chapter 798. Retroactive payments and payments to an estate are not authorized. The intent of the provisions is to encourage consolidation, in recognition of the administrative efficiencies and potential cost savings, and in recognition of characteristics unique to this association and at no expense to the state or PERA. (Laws 1997, Chapter 241, Article 2, Sections 20 and 21.)

4. Nashwauk Police. The following item applies to Nashwauk Police.

- a. Surviving spouse post-retirement adjustments. The maximum post-retirement adjustment on surviving spouse benefit increases, a consumer price increase (CPI) match up five percent, is eliminated and replaced with city council authority to set increases. Requires local approval. (Laws 1997, Chapter 241, Article 2, Section 7.)

5. Eveleth Police and Fire Trust Fund.

- a. Post-retirement adjustment. Retirement and surviving spouse pensions payable from the Eveleth Police and Fire Trust Fund are increased by \$100 per month, retroactive to January 1, 1997. Local approval required. (Laws 1997, Chapter 241, Article 2, Sections 19 and 21.)

H. Volunteer Fire Relief Associations

Volunteer fire relief associations are impacted by increases in the flexible service pension maximums. These associations, and all other public pension authorities in the state, are impacted by changes in investment performance reporting requirements. The changes in investment reporting requirements are covered in the next major section in this memo, entitled “**General Provisions.**”

- a. Increases in flexible service pension maximums. For volunteer fire relief associations paying monthly pensions, the highest permitted pensions under the flexible maximum service pension provisions is increased from \$30 per month for each year of service to \$40 per month for each year of service. The corresponding maximum permitted service pensions for plans paying lump sum benefits is increased from \$4,000 to \$5,500 per year of service. The increased ceilings are effective for pensions payable January 1, 1998 or later. (Laws 1997, Chapter 241, Article 6.)
- b. Appropriation, reimbursement of supplemental benefits. \$378,000 in fiscal 1998 and \$375,000 in fiscal 1999 is appropriated to the Department of Revenue to reimburse volunteer fire relief associations paying supplemental benefits under Section 424A.10. (Laws 1997, Chapter 202, Article 1, Section 33.)

II. GENERAL PROVISIONS

The following requirement to have quadrennial projection valuations applies to the MSRS General Plan, the PERA General Plan, and to TRA, and to an other plans for which the LCPR determines the analysis would be beneficial. The projection valuation requirement is noted in (a) below. Item (b) is an additional appropriation to cover the expected cost, prior to having that expense billed back to retirement plans for re-deposit in the state general fund.

- a. Quadrennial projection valuation requirement. Two years after the quadrennial experience studies, the actuary retained by the LCPR must conduct quadrennial projection valuations for MSRS General, PERA General, TRA, and for any other plans for which the LCPR determines a study of this type would be beneficial. These quadrennial projection valuations will be

conducted in consultation with the LCPR Executive Director, the retirement fund directors, the State Economist, the State Demographer, the Commissioner of Finance, and the Commissioner of Employee Relations. The results will be reported in the same manner as the quadrennial experience studies. The quadrennial projection valuation cost will be paid by retirement plans, with the costs allocated among all plans for which the actuary retained by the LCPR performs annual actuarial valuations. (Laws 1997, Chapter 233, Article 1, Sections 2 and 57.)

- b. Appropriation for LCPR. For fiscal 1999, \$50,000 is appropriated to the Legislative Coordinating Commission for allocation to the LCPR. (Laws 1997, Chapter 233, Article 1, Section 69.)

The following three provisions are from the major benefit increase/revision bill, Laws 1997, Chapter 233, and apply to all MSRS, PERA, and TRA defined benefit plans. Further specifics are found in the individual sections in the first part of this memo dealing with individual plans.

- c. Reduction in inflation match guarantee. The requirement to provide minimum post-retirement adjustments that match annual inflation up to 3.5 percent is reduced to a match up to 2.5 percent. (Laws 1997, Chapter 233, Article 1, Section 5.)
- d. Specification of service accrual rates; statement that any future increase in accrual rates apply to prospective service only. A new section is added to Minnesota Statutes, Chapter 356, specifying the new, higher service accrual rates for the various plans in the MSRS, PERA, and TRA systems, and stating that after January 2, 1998, any accrual rate increases enacted for these plans will apply to prospective service only. (Laws 1997, Chapter 233, Article 1, Section 55.)
- e. Increase in the post-retirement interest assumption. The post-retirement interest assumption is increased from five to six percent, and reference to the PERA Local Government Correctional Plan is deleted (since that plan is repealed). (Laws 1997, Chapter 233, Article 1, Section 58.)

To cover the costs of benefit improvements and revisions in Laws 1997, Chapter 233, that chapter includes a combination of appropriation reductions for some systems and new appropriations and aid for others. Primarily, funding is shifted from MSRS General and TRA, following reductions in employer contributions to eliminate potential contribution sufficiencies, and toward PERA General and first class city teacher plans, to assist in addressing expected deficiencies. The additional appropriations to the Department of Corrections, the addition of State Patrol Plan member in the police state aid distribution, and the new and increased aids to the first class city teacher plans can be considered part of this process. Provisions not covered in the individual plan sections of this memo are noted below.

- f. Appropriation reductions. In fiscal 1998 and 1999, for the following employee groups if financed through the state general fund, the appropriation to the employer is reduced and the saving canceled to the state general fund. The amount of the reduction is .9 percent of payroll relating to TRA members at Minnesota state colleges and universities and 1.50 percent of payroll for TRA members for all agencies other than the Minnesota state colleges and universities. Relating to employees covered by MSRS General, the reduction is .12 percent for the Minnesota state colleges and universities, .0728 percent for the University of Minnesota, and .2 percent for all other employing units. The expected savings relating to TRA members is \$1.9 million in fiscal 1998 and \$2.1 million in fiscal 1999. Relating to MSRS General members, the expected savings is \$1.6 million in fiscal 1998 and \$1.7 million in fiscal 1999. (Laws 1997, Chapter 233, Article 1, Section 70.)
- g. Expected net aid decreases for TRA school districts, net aid increases to first class city school districts. School districts will receive an increase in aid of .35 percent of payroll of PERA-covered employees in fiscal 1998, and .70 percent of payroll thereafter, and a decrease of 2.34 percent of salaries paid to members covered by TRA in fiscal 1997. These adjustments are expected to provide net general fund savings of \$29,819,000 in fiscal 1998, and \$26,997,000 per fiscal year thereafter. The size of any future adjustments to any school district is limited to the fiscal year 1999 amounts. All aid terminates on June 30, 2020. (Laws 1997, Chapter 233, Article 1, Section 14).

- h. Aid increases for non-school district PERA employing units. These employers will receive an increase in aid of .35 percent of PERA-covered payroll in fiscal 1998, and .70 percent of PERA-covered payroll thereafter, capped at the fiscal year 1999 aid amount. Additional aid is expected to be \$7,942,500 in fiscal 1998, and \$15,885,000 in each subsequent fiscal year. All aid terminates June 30, 2020. (Laws 1997, Chapter 233, Article 1, Section 15.)

The following uncoded provision will impact various jurisdictions which receive police state aid. The provision is intended to offset an error in certifying amounts paid to PERA P&F as employer contributions in calendar 1995, which lead to an erroneous aid distribution in September, 1996. The October 1997 police state aid for each jurisdiction will be adjusted up or down, as necessary, to offset the erroneous prior distribution.

- i. Correction of police state aid. The Legislature determines that total employer contributions paid to PERA P&F for calendar year 1995, as certified to the Commissioner of Revenue by PERA, were overstated for some counties and cities and understated in others. The Commission of Revenue will adjust the October 1997 police state aid distributions accordingly. The estimated net adjustment for police state aid in the fiscal year ending June 30, 1987 is \$1,835,000. The expected net reduction to future state police state aid expenditures due to this adjustment is 6.5 percent less each year. (Laws 1997, Chapter 233, Article 1, Section 77.)

The following uncoded provision is intended to provide additional 1996 police state aid amounts to certain government entities, mainly jurisdictions with free-standing police relief associations, which received less police state aid in September 1996 than was intended due to drafting deficiencies in Laws 1996, Chapter 390, Sections 26 to 30.

- j. Additional correction in 1996 police state aid. Brainerd, Crookston, Fairmont, Faribault, Mankato, Minneapolis, South Saint Paul, and the Metropolitan Airports Commission are appropriated additional amounts as 1996 police state aid. The total adjustment is \$2,136,631, with the largest individual recipient, Minneapolis, receiving \$1,918,185. Amounts paid as police state aid in September 1996 to PERA consolidation accounts are ratified. (Laws 1997, Chapter 125.)

The following provision is relevant to any municipality which, in the past, used police state aids to cover all or part of the cost of paid firefighter pension coverage in PERA P&F.

- k. Use of police state aid for PERA P&F firefighter pension costs is grandfathered. The practice of applying police state aid revenues to cover PERA P&F firefighter employer contribution pension costs is grandfathered, but is limited to the amounts used for this purpose by municipalities from the 1996 aid allocation. The municipalities for which part of this aid was used for firefighter purposes and which are therefore grandfathered are: Albert Lea, Anoka, Apple Valley Austin, Bemidji, Brooklyn Center, Brooklyn Park, Burnsville, Cloquet, Coon Rapids, Cottage, Crystal, East Grand Forks, Edina, Elk River, Ely, Eveleth, Fergus Falls, Fridley, Golden Valley, Hastings, Hopkins, International Falls, Lakeville, Lino Lakes, Little Falls, Maple Grove, Maplewood, Minnetonka, Montevideo, Moorhead, New Hope, North Saint Paul, Northfield, Owatonna, Plymouth, Red Wing, Richfield, Rosemount, Roseville, Saint Anthony, Saint Louis Park, Thief River Falls, Virginia, Waseca, West Saint Paul, White Bear Lake, and Woodbury. (Laws 1997, Chapter 233, Article 1, Section 11, and Laws 1997, Chapter 241, Article 1, Section 7.)

The following two items clarify procedures for computing excess police state aids, and clarify responsibility for the excess police state aid holding account. In any of the following situations where the employer obligation to PERA P&F is a factor, that liability is defined to include the grandfathering noted in (k) above.

- l. Computation of excess police state aid. Excess police state aid is defined as:
 - (1) In situations where all police pension coverage is provided by PERA P&F, the amount in excess of the employer's total prior calendar year obligation to PERA P&F;
 - (2) In situations where part of the coverage is by a police consolidation account and part of the coverage is by PERA P&F, the amount in excess of the employer's total prior calendar year obligation to the consolidation account and PERA P&F;

(3) In situations where part of the coverage is by a local relief association and part of the coverage is by PERA P&F, the amount in excess of the employer's total prior calendar year obligation to the relief association and the employer's total prior calendar year obligation to PERA P&F;

(4) For the Metropolitan Airports Commission, the amount in excess of the employer's total prior calendar year obligation to PERA P&F and an estimate of the prior year contribution to MERF on behalf of the Metropolitan Airports Commission peace officers; and,

(5) For MSRS State Patrol Plan peace officers, the amount in excess of the employer's prior year employer contribution to MSRS. (Laws 1997, Chapter 233, Article 1, Section 11; Laws 1997, Chapter 241, Article 1, Section 7; and Laws 1997, First Special Session, Chapter 5, Section 8.)

- j. Responsibility for excess police state aid holding account. The excess police state aid holding account provision is clarified by stating that the holding account is to be administered by the Commissioner of Revenue. (Laws 1997, Chapter 241, Article 1, Section 8.)

Several subdivisions of Section 69.021 (reporting of tax premiums, calculation of police and fire state aid) are revised to correctly accommodate the netting of excess police state aid prior to the distribution of police state aid, and to provide general clarification as indicated in the following two items.

- m. Clarification of police and fire state aid determination provisions. Section 69.021 is revised by adding appropriate cross-references to the aid determination provision, by clarifying the need to determine and deduct excess police aid prior to allocating aid; by clarifying determination and distribution of police aid to counties; by clarifying that minimum fire aid is in addition to the aid derived from the fire, lightning, sprinkler leakage, and extended coverage premium tax; by eliminating obsolete 1975 minimum police state aid grandfathering language; and by clarifying that municipalities and counties, in addition to relief associations, may appeal an aid allocation believed to be in error. (Laws 1997, Chapter 241, Article 1, Sections 1 through 7, and 9 and 10.)
- n. Clarification of deposit-of-state-aid provision. Consistent with existing requirements elsewhere in law, language is added noting withholding of fire aid from associations that have not filed required financial reports; language is added indicating that where a police consolidation account exists, police aid is to be allocated toward PERA P&F employer obligations and to the consolidation account obligations; and, for the MAC police, aid is to be used for the PERA P&F obligation if any remains after meeting the MERF obligations. (Laws 1997, Chapter 241, Article 1, Section 11.)

The following revises the computation of additional amortization aid. Additional amortization aid is funded out of excess police state aid, and is receivable by local police and paid fire relief associations which have unfunded liabilities.

- o. Revised procedure for determining total amount available for distribution as additional amortization aid. In 1998, 1999, and 2000, rather than distributing half the net excess police aid as additional amortization aid, the entire net excess police aid will be distributed. However, the net excess police aid is decreased in these years due to a reduction in the initial police aid allocation, from which excess police aid is derived. The police aid allocation will be reduced by \$1,779,000 in fiscal year 1999, \$2,077,000 in fiscal 2000, and by \$2,404,000 in fiscal year 2001. These reductions cancel to the general fund. (Laws 1997, Chapter 233, Article 1, Sections 9 and 12.)

The following applies to applicable plans included in the combined service annuity provision, Section 356.30.

- p. Revised maximum formula percentages under the combined service annuity provision. The maximum formula percentage, if a combined service annuity is used, is 2.5 percent for Legislative Plan or Elected State Officer Plan service (accept for any required adjustment to retain actuarial equivalency given the shift in the Post Retirement Fund interest assumption from five to six percent); a maximum formula percentage of 3.0 percent if the service is in the State Patrol Plan or PERA P&F; and a maximum formula percentage of 2.7 if the service is in any other included plan. (Laws 1997, Chapter 233, Article 1, Section 61.)

The 1997 Legislature directed the LCPR to conduct several studies of pension issues as noted in (q) through (s) below.

- q. Study of PERA P&F consolidation accounts. The LCPR, in consultation with relevant constituencies, will study the advantages and disadvantages of blending some or all of the consolidation accounts into the PERA P&F Fund. The LCPR will report by January 31, 1998 to the respective chairs of the Senate Committee on Government Operations and Veterans, the Senate Governmental Operations Budget Division, the House Committee on Governmental Operations, and the House State Government Finance Division. (Laws 1997, Chapter 233, Article 1, Section 75.)
- r. Study of consolidation options. The LCPR, in consultation with the relevant constituencies, will study the advantages and disadvantages of restructuring or consolidating the first class city teacher retirement fund associations and TRA. The study will take into consideration MERF future funding needs and other applicable state funding resources. The LCPR will report by January 31, 1998 to the respective chairs of the Senate Committee on Government Operations and Veterans, the Senate Governmental Operations Budget Division, the House Committee on Governmental Operations, and the House State Government Finance Division. (Laws 1997, Chapter 233, Article 1, Section 75.)
- s. Legislators and Elected State Officer pension coverage, mandated study. The LCPR must study the question of appropriate pension coverage for legislators and elected state officers. The study must consider member contribution rates and their relation to plan normal cost and expenses; the appropriateness of including new or current legislators and elected state officers in Social Security along with the current plan or new defined contribution plan; and the appropriateness of permitting Social Security elections and the impact on prior service coverage. The study must reflect the following principals: the pension plan coverage should match or parallel the coverage provided to legislative employees an agency heads; the coverage should be appropriate given the part-time nature of legislative service and the unique character of elected public service; and the coverage should be consistent with LCPR pension policy principals. The study, to be reported to the 1998 Legislature, should include applicable proposed legislation including possible repeal of coverage as reflected in 1997 legislation. (Laws 1997, Chapter 233, Article 2, Section 16.)

The following is a repealer of the Rule-of-85 provision that applied to MSRS, PERA, TRA, and the first class city teacher retirement funds. The Rule-of-85 was a temporary early retirement window which required retirement by July 1, 1987.

- t. Obsolete Rule-of-85 provision repealed. Section 356.70, which authorized early retirement without reduction from MSRS, PERA, TRA, or a first class city teacher plan when a members is at least age 55 and if age plus years of service equaled at least 85, providing retirement occurred before July 1, 1987, and which required the Department of Finance to report on net savings, if any, from the provision, is repealed. (Laws 1997, Chapter 233, Article 1, Section 78.)

The following is a repealer of an obsolete study provision.

- u. Obsolete salary advisory committee language repealed. Section 356.88, Subdivision 2, which established a group to advise the LCPR and the Legislature on salary definitions for retirement purposes and provide a report to the LCPR by February 15, 1995, is repealed. (Laws 1997, Chapter 233, Article 1, Section 78.)

The following three items apply to the MSRS Deferred Compensation Plan.

- v. MSRS Deferred Compensation Plan; expansion of investment options and providers. Permissible investment options under the plan is expanded to include mutual funds, investments provided by registered investment providers, and investments managed by banks and bank holding companies. SBI is authorized to solicit bids from these providers, retain consultants to facilitate solicitation and review, and to allocate costs to the selected providers. (Laws 1997, Chapter 241, Article 3, Sections 1 and 2.)

- w. MSRS Deferred Compensation Plan amounts to be held in trust. Account balances will be held in trust for the participants and beneficiaries, rather than having legal title vested in the state. (Laws 1997, Chapter 241, Article 3, Sections 1 and 3.)
- x. MSRS Deferred Compensation Plan, correction of cross-reference. The purchase-of-shares provision is revised to state the proper cross-reference to an employer contribution authorization provision. (Laws 1997, Chapter 251, Section 1.)

The following item revises actuarial assumptions for the first class city teacher plans and many state-wide and local plans.

- y. Actuarial assumption changes. The salary increase assumption is revised for the MSRS State Patrol Plan, MSRS Correctional, PERA P&F, and the first class city teacher plans, and a payroll growth assumption is added to the MSRS General, Correctional, State Patrol, Legislators, Elected State Officers, and Judges Plans; to PERA General and PERA P&F; to TRA; and to the first class city teacher plans. (Laws 1997, Chapter 241, Article 4, Section 1.)

The following provision applies to the Itasca County Medical Center privatization.

- z. Extension of deadline for local approval. The Itasca county board is given additional time, until January 1, 1999, to comply with local approval requirements for a 1996 law (Laws 1996, Chapter 448, Article 1) which authorized the transfer of the facility to a public corporation, and which offered an enhanced refund for short-service employees terminated at the time of the transfer. (Laws 1997, Chapter 233, Article 1, Section 68.)

The following applies to MSRS, PERA, and TRA.

- aa. Potential study, annuitants exceeding life expectancy. If the benefit increase when existing annuities are recomputed due to the increase in the post-retirement interest assumption to six percent, along with the annual post-retirement increases during the ten years following July 1, 1997 average less than inflation or 3.5 percent, which ever is less, the executive directors of MSRS, PERA, and TRA must suggest alternative benefit adjustments for retirees receiving benefits on June 30, 1997 and who exceed their life expectancies by three or more years. (Laws 1997, Chapter 233, Article 1, Section 73.)

1996 legislation, coded as Minnesota Statutes, Chapter 352F, contained pension-benefit provisions for the University of Minnesota/Fairview Hospital merger. The intent of that legislation was to ensure, to the extent possible, that the MSRS General employees who are terminated from the plan due to privatization will receive future retirement benefits from MSRS commensurate with prior contributions made by them or on their behalf. The 1997 Legislature authorized a related group of individuals, the University of Minnesota Academic Health Center employees who are transferred to the University of Minnesota Physicians or the University Affiliated Family Physicians, to be included under Chapter 352F. The provisions follow.

- bb. University of Minnesota Academic Health Center added to MSRS termination provision. Employees of the University of Minnesota Academic Health Center are considered terminated employees for purposes of MSRS General. (Laws 1997, Chapter 241, Article 7, Sections 2 and 3.)
- cc. Definitions. “Academic Health Center” is the seven professional schools in health care related disciplines at the University of Minnesota; “University of Minnesota Physicians” means the medical school faculty multi-specialty medical practice group beginning in 1997; “University Affiliated Family Physicians” means the Department of Family Practice private practice group in the university’s medical school. (Laws 1997, Chapter 241, Article 7, Sections 3 to 5.)
- dd. Immediate vesting. The employees of the Academic Health Center are added to the special vesting provision, deeming them to be vested in MSRS General although they may have less than three years service. (Laws 1997, Chapter 241, Article 7, Section 6.)

- ee. Added to deferred annuity augmentation provision. The plan's deferred-annuities provision is made applicable to the ex-Academic Health Center employees. (Laws 1997, Chapter 241, Article 7, Section 7.)
- ff. Continued service usable for qualifying for early retirement. Service while employed at the University of Minnesota Physicians or University Affiliated Family Physicians can be used to qualify to the Rule of 90, but is not recognized in computing the benefit.
- gg. Application of reemployed annuitant earnings limitations. Reemployed annuitant earnings limitations apply to any MSRS annuity received while the individual is employed by University of Minnesota Physicians or University Affiliated Family Physicians.
- hh. Refund eligibility provisions. The ex-Academic Health Center employees are made eligible for immediate MSRS refunds. (Laws 1997, Chapter 241, Article 7, Section 10.)
- ii. Counseling services. The Academic Health Center and MSRS will provide benefit counseling. (Laws 1997, Chapter 241, Article 7, Section 11.)

The following two provisions apply to the MNSCU tax-sheltered annuity program.

- jj. Administrative expense pickup. The MNSCU tax-sheltered annuity program administrative expenses, up to a maximum of \$100,000, will be paid by the participating insurance companies. (Laws 1997, Chapter 241, Article 8, Section 1.)
- kk. Periodic review of providers. A periodic review of tax-sheltered annuity vendor insurance companies is authorized, with the cost charged to the providers. (Laws 1997, Chapter 241, Article 8, Section 2.)

The following, applying to SBI, is a mandated study of tax-sheltered annuity programs.

- ll. Mandated study, tax-sheltered annuity programs. SBI, in consultation with the Commissioner of Commerce, will study methods for evaluating tax-sheltered annuity [Internal Revenue Code Section 403(b)] providers, and on the most desirable method for the use and delivery of these annuity programs. SBI will report to the LCPR by February 1, 1998. (Laws 1997, Chapter 241, Article 8, Section 8.)

The following applies to potential recipients of amortization and supplemental amortization aid: police and paid fire relief associations, or PERA P&F consolidation accounts.

- mm. Restarting of aid. If a fully funded pension plan experiences a new unfunded actuarial liability due to 1997 actuarial assumption changes, the association or consolidation account requalifies for amortization and supplemental amortization aid. (Laws 1997, Chapter 241, Article 9, Section 1.)

The following item impacts all Minnesota public pension fund administrations through revision and consolidation of time-weighted rate of return and investment performance attribution laws.

- nn. Revised investment reporting requirements. Effective January 1, 1998, the existing time weighted rate of return law (Section 356.218) is repealed and the existing investment performance attribution law (Section 356.219) is extensively revised. Mandatory reporting to the LCPR is eliminated. Responsibility for computing returns will shift from the pension funds to the State Auditor, who will compute time-weighted rates of return from data provided in required reports from pension fund administrators. The level of detail to be submitted to the State Auditor by small plan administrators is significantly reduced, and separate reporting requirements are created for defined contribution plans. The various revised requirements, in more detail, are outlined below.

(1) *Definitions: scope of SBI investment authority; definition of fully invested; definition of asset class.* Under existing law language, SBI is the investment authority for any Minnesota public pension fund required to be invested by SBI, and due to new language, SBI is also the

investment authority for any “fully invested fund,” defined as any police or fire fund which decides to have all pension assets, except for sufficient cash to meet six months expected expenses, invested in SBI Supplemental Fund investments. An asset class definition subdivision is added, where asset classes are defined as cash, bonds and other longer term fixed income securities, domestic stocks, international stocks, international debt, real estate and venture capital, and mutual funds.

Items (2), (3) and (4) apply specifically to defined benefit plans.

(2) *Large fund defined benefit plans, investment data requirements.* If a public pension fund has more than \$10 million in assets at the beginning of the calendar year, the investment authority must include in the report to the State Auditor the market values, by month, for the total portfolio and each investment account, portfolio, or asset class, and the corresponding injection and withdrawal data.

In addition, for these large plans, the authority must include a calculation of the total time-weighted rate of return available from index-matching investments assuming the asset class targets and the target asset mix indicated in the investment policy statement, and an explanation of why the selected indices are appropriate. (As noted later, the State Auditor is required to report to the LCPR by January 1, 1999 on ways to further enhance the usefulness of the comparison of this resulting total portfolio benchmark return to the actual portfolio return.)

(3) *Small fund defined benefit plans, investment date requirements.* If the pension fund market value has never equaled or exceeded \$10 million, the investment authority must supply total portfolio market values by quarter, and the corresponding total portfolio injection and withdrawal data. Also, these investment authorities must retain, but not routinely submit, quarterly asset value and injection and withdrawal information by investment account or portfolio. This additional retained information must be submitted to the State Auditor if requested.

(4) *All defined benefit plans: investment policy statements.* All defined benefit plans, large or small, must provide to the State Auditor an investment policy statement in effect on June 30, 1997, (if not already on file due to prior law requirements) and any subsequent revisions to the document.

In lieu of (2) through (4) above, the following requirement [item (5)] applies to defined contribution plans.

(5) *New reporting requirements for defined contribution plans.* The applicable defined contribution plan investment authority will submit computed time weighted rates of return for each investment option available to plan members, by calendar year, net of fees and costs, to the State Auditor.

The following report deadline provision in item (6) below, and the non-compliance penalty provision in item (7) below, have application to defined benefit and defined contribution plans.

(6) *Report deadlines.* For police relief associations, and paid firefighter relief associations, and volunteer fire relief associations, the investment reports must be filed at the same time as the annual financial report or financial statement which is transmitted to the State Auditor. SBI, on behalf of all fully invested plans and all other plans for which it is the investment authority, must submit required reports to the State Auditor by September 1st. The MTRFA, SPTRFA, DTRFA, MERF, the University of Minnesota Faculty Supplemental Retirement Plan, and the applicable administrators for the University of Minnesota Faculty Retirement Plan, and the various IRAP plans must submit the required reports by June 1st.

The penalty provision for non-compliance is revised as follows.

(7) *Penalties for non-compliance, defined benefit and defined contribution plans.* The current law penalty for non-compliance, withholding of state aid for failure by an investment authority to comply with all applicable requirements, is expanded to include withholding of all state appropriations to which the defined benefit or defined contribution plan is directly or

indirectly entitled. New language is added permitting the State Auditor to waive this aid or appropriation withholding if there is a determination that compliance would create an excessive hardship. Also, no penalties under the new law can be assessed for non-compliance occurring before January 1, 1999.

Given the data the State Auditor will receive from the various investment authorities, the State Auditor is required to produce the following annual report.

(10) *Annual report by the State Auditor.* Using the information in the submitted reports, the State Auditor will compute and report time-weighted rates of return, net of fees and related costs, for the various funds. On behalf of defined benefit plans with assets greater than \$10 million the State Auditor will compute and report total portfolio and asset class rates of return. On behalf of defined benefit plans which have never exceeded \$10 million in assets, the State Auditor will compute total portfolio returns, and may include asset class returns if more detailed data was requested from specific funds. The State Auditor report will also include return information submitted by defined contribution plans. The report may also include multi-year performance results or any other information or analysis deemed appropriate by the State Auditor.

The article also included a one-time special report by the State Auditor:

(11) *State Auditor report on utility of large plan benchmark portfolio return information.* Before January 1, 1999, the State Auditor must report to the LCPR with recommendations to further enhancing the usefulness of benchmark total portfolio return information supplied by large defined benefit funds as part of their required reporting. (The benchmark total portfolio return is the total portfolio return resulting from the asset mix specified for the fund in the investment policy statement, assuming each asset class benchmark return is achieved. Laws 1997, Chapter 241, Article 10, Sections 4, 6, 7, and 8.)

The following two provisions were also in the investment reporting requirements article, but are not directly related to investment reporting.

- oo. State auditor extension of financial reporting deadlines; waiver authority; penalties for non-compliance. State Auditor authority to waive financial report deadlines is moved from the large plan financial reporting provision (police, volunteer or paid fire relief association with assets/liabilities of \$200,000 or more) to a new subdivision, and the authority is clarified to also apply to smaller associations (those with assets/liabilities less than \$200,000). The deadline extension requires a demonstration of hardship or inability to conform, and authority to extend the deadlines does not extend beyond November 30th following the initial due date. Failure to supply required financial reports will result in forfeiture of current year's aid and, until the report is received, the association is ineligible for any future aid. (Laws 1997, Chapter 241, Article 10, Sections 1 to 3.)
- pp. Revising reference in by-law reporting provision. Volunteer fire by-law amendments must be submitted to the State Auditor, rather than to the Commissioner of Commerce. (Laws 1997, Chapter 241, Article 10, Section 5.)

The following is a special law for certain Range Technical College employees, providing access to retiree health benefits.

- qq. Range Technical College retiring employees, access to health benefits. A person employed by the Range Technical College who filed a retirement notice prior to July 1, 1995 and who retires no later than June 15, 1997 is entitled to health insurance benefits provided in the applicable Range Technical College collective bargaining agreement. (Laws 1997, Chapter 50.)

The following is the appropriation for police and fire amortization aid and supplemental amortization aid. The recipients of the aid are the various local police and paid fire fighter relief associations and consolidation accounts with unfunded liabilities.

- rr. Amortization and supplemental amortization aid appropriation. \$4,925,00 is appropriated in each of fiscal years 1998 and 1999 for amortization aid. \$1,000,000 in each year is appropriated as supplemental amortization aid. (Laws 197, Chapter 202, Article 1, Section 33.)

The following provision adds more members to the LCPR.

- ss. LCPR membership expansion. The LCPR membership is expanded from five House members and five Senate members to six and six. (Laws 1997, Chapter 202, Article 2, Section 5.)

The following voluntary unpaid leave of absence provision applies to “appointing authorities in state government.” These individuals could be covered by any of the MSRS Plans, and in some cases, by plans other than those in the MSRS system.

- tt. Voluntary unpaid leave of absence. Appointing authorities in state government will encourage employees to take unpaid leaves of absence for up to 160 hours prior to July 1, 1999. The law specifies that “each appointing authority approving such a leave will allow the employee to continue accruing vacation and sick leave, be eligible for paid holidays and insurance benefits, accrue seniority, and accrue service credit in state retirement plans permitting service credit for authorized leaves of absence as if the employee had actually been employed during the leave.” (Laws 1997, Chapter 202, Article 2, Section 61.)

The following revises the Bureau of Criminal Apprehension general fund appropriation to reflect pension-related changes passed in 1997.

- uu. Revised Bureau of Criminal Apprehension appropriation. The general fund appropriation to the Bureau of Criminal Apprehension is revised to reflect the impact of 1997 legislation creating reduced employer contributions to the pension plan or plans covering its employees and any money for pensions provided from police state aid. (Laws 1997, Chapter 202, Article 1, Section 7, Subdivision 3.)

The following provision applies to police officers and paid firefighters who are eligible for duty related disability benefits or who are killed in the line of duty.

- vv. Health coverage for police officers and paid firefighters killed or disabled in line of duty. The employer of a police officer or paid firefighter killed in the line of duty must continue to pay the employer’s share of health coverage costs for the dependents, or in cases of line-of-duty disability, for the disabilitant and dependents. Public employers paying these costs may annually apply to the Commissioner of Public Safety for cost reimbursement. (Laws 1997, Chapter 239, Article 8, Section 6.)

The following revision will have some impact on the allocation of state fire aid, since that fire aid is distributed based half on population and half on property values.

- ww. State fire aid distribution, inclusion of exempt natural resource land property values for which in lieu payments are made. In determining property value for use in distributing fire aid, exempt natural resource land property values are to be included. The assessors will estimate these values. If a certain parcel or parcels can not be effectively estimated, the average value of this type of property within the county will be used. (Laws 1997, Chapter 231, Article 2, Section 1 and 22.)