



2024 Pension and Retirement Policy and Supplemental Budget Bill HF 5040 (Her), the First Engrossment

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Introduction

HF 5040 (Her), the First Engrossment, is the 2024 Pension and Retirement Policy and Supplemental Budget Bill. The bill is a compilation of 18 bills and substantive amendments considered by the Legislative Commission on Pensions and Retirement (Commission) at meetings on February 19 and 26, March 4, 11, 18, and 25, and April 2 and 8, 2024. The bill, as amended by Delete-Everything Amendment H5040-DE1, was approved by the Commission at its meeting on April 8, 2024, and passed by the House State and Local Government Finance and Policy Committee at its meeting on April 18, 2024.

A more detailed summary of each bill included in the first engrossment is available on the meeting pages linked on the [Commission website](#).

Article- by- Article Summary

Article 1: Teacher Pensions

Sources: Chair's recommendations; HF 5040 (Her)/SF 4643 (Frentz), as amended by 24-06717-1A and 24-0304; and HF 4933 (Nadeau)/SF 4968 (Pappas)

Article 1 makes changes applicable to the Teachers Retirement Association (TRA), the St. Paul Teachers Retirement Fund Association (St. Paul Teachers), and the Minnesota State Higher Education Individual Retirement Account Plan (IRAP).

TRA

Section 1 accelerates by one year the effective date of the change made in 2023 to lower the normal retirement age (the age a member can retire and receive a full, unreduced annuity) from age 66 to 65 for TRA members hired after June 30, 1989 (Tier II). The effective date in current law of July 1, 2025, is changed to July 1, 2024. Section 1 is effective retroactively from July 1, 2023.

St. Paul Teachers

Section 2 lowers the employee contribution rate for members of St. Paul Teachers by 0.25% of salary for each of the fiscal years ending June 30, 2025, and June 30, 2026. The current employee contribution rate for coordinated members of 7.75% of salary through June 30, 2025, which would have increased to 9% of salary on July 1, 2025, is reduced to 7.5% and 8.75% for fiscal years 2025 and 2026, respectively. The employee contribution rates for basic members are similarly reduced.

IRAP to TRA Transfers

Sections 3 to 6 contain legislation recommended by the IRAP to TRA work group established by the 2023 Pension Policy bill to find a solution to the requests received by legislators nearly every session to introduce bills for one or a few individuals who want to transfer retirement plan coverage from the Higher Education Individual Retirement Account Plan (IRAP) administered by Minnesota State to TRA but had not been given the opportunity to do so when they were initially eligible, either when they were hired or granted tenure. These sections establish a new process for participants in the IRAP to apply for a transfer and, if the participant satisfies the eligibility criteria, elect to transfer retirement coverage from the IRAP to TRA. The participant's IRAP account is transferred to purchase past service credit toward the TRA pension and up to \$10,000 will be transferred from the new IRAP to TRA transfer account to TRA to help the participant pay for the service credit purchase.

Reemployment of Retirees

Sections 7 and 8 extend by three years a 2022 session law that temporarily suspended the earnings limitation for retirees of TRA and St. Paul Teachers who return to teaching service. Without the extension, retirees who return to employment would have their annuity payments reduced if their earnings from reemployment exceed the earnings limitation, beginning in 2026.

Article 2: Volunteer Firefighter Relief Associations

Source: HF 3636 (Cha)/SF 3574 (Pappas)

Article 2 is legislation recommended by the State Auditor's Fire Relief Association Working Group. The 32 sections in Article 2 amend Chapters 424A and 424B, which govern volunteer firefighter relief associations, as follows:

- Clarifies the requirements a relief association must meet to amend its bylaws to allow for a benefit level increase without municipal ratification.
- Requires the board of trustees of a relief association being involuntarily dissolved to comply with the same requirements that normally apply to dissolutions and gives the State Auditor the authority to waive the requirements if the board of trustees requests a waiver.
- Clarifies that a person receiving disability or survivor benefits does not have to be at least age 50 to receive a supplemental payment.
- Changes the certification requirements for the "Investment Report Card" so that instead of requiring the entire board of trustees to certify the Investment Report Card, only one member of the board of trustees needs to certify the report.
- Changes the default method for allocating investment earnings or losses to the accounts of deferred members of a relief association defined contribution plan.
- Redefines "firefighter" and "volunteer firefighter" and deletes references to the term "volunteer" in Chapter 424A, which governs volunteer firefighter relief associations.

Article 3: Statewide Volunteer Firefighter Plan; Adding a Defined Contribution Plan and Other Changes

Source: HF 5039 (Cha)/SF 5062 (Rasmusson)

Article 3 amends Chapter 353G, which governs the Public Employees Retirement Association (PERA) Statewide Volunteer Firefighter Plan (SVF Plan), to add a defined contribution plan and make other changes.

Defined Contribution Plan

Most of the article, sections 2 to 27 and 30 to 44, establishes and integrates a defined contribution plan as part of the SVF Plan, including the following:

- Revises and adds new definitions in section 353G.01.
- Revises the composition of the SVF Plan advisory board to require that one of the three representatives of volunteer firefighters appointed by the Minnesota State Fire Department Association must be a member of the defined contribution plan.
- Adds new section 353G.082, which establishes the new defined contribution plan and requires the establishment of individual accounts and annual allocation of state aid, contributions, forfeitures, expense deductions, and investment earnings and losses.
- Revises the section on distribution to firefighters who are vested but have not reached retirement age and adds a provision permitting firefighters in the defined contribution plan to take a distribution of the firefighter's individual account immediately following termination of active service.
- Establishes a procedure for converting from coverage by the defined benefit plan to coverage by the defined contribution plan.

Section 1 corrects an omission in the statute that prohibits earning additional service credit as a reemployed Minnesota State faculty member unless the additional service credit is as a volunteer firefighter covered by a relief association retirement plan or the SVF Plan.

Vesting Service Credit

Section 28 revises and moves the current law definition of "vesting service credit" to a new section 353G.075. The revised provision requires a volunteer firefighter who wants to have past service with another fire department not in the SVF Plan count toward vesting in the firefighter's retirement benefit in the SVF Plan to make a request to the executive director of PERA, rather than to the fire chief, to have the prior service counted and provide documentation to verify that past service.

Biennial Funding Requirement

Section 29 changes the frequency with which PERA must determine the funding requirements for the fire department accounts in the lump sum division of the defined benefit plan, from annually to biennially.

Article 4: Public Employees Retirement Association

Sources: HF 4899 (O'Driscoll)/SF 5073 (Westlin), as amended by H4899-1A; HF 4429 (Nelson, M.)/SF 4751 (Seeberger); HF 4297 (Berg)/SF 4604 (Nelson); and HF 4081 (Stephenson)/SF 4092 (Gustafson)

Article 4 makes changes applicable to plans administered by PERA.

Defined Contribution Plan

Sections 1 to 4, 12, and 13 make changes necessary to bring the PERA Defined Contribution Plan and the General Plan into compliance with federal law prohibiting cash or deferred arrangements (CODAs) for governmental plans by amending statutes governing eligibility for the plans to shorten the period for electing participation or electing not to participate in the plan and eliminating the right to revoke that election. Section 17 is a related session law that permits city managers, local government officials, and ambulance personnel hired within six months before August 1, 2024, to make an election during the month of October 2024, to participate in the General Plan or Defined Contribution Plan, as applicable.

Workers' Comp Offset

Sections 5 to 7, 16, and 18, paragraph (b), modify the limitation on disability payments by eliminating an offset for income received from workers' compensation to match the changes made in 2023 to the PERA Police and Fire Plan. A member receiving disability benefits will no longer need to report workers' compensation benefits to PERA nor will the member's disability benefit be reduced due to income received from workers' compensation.

Police and Fire Plan

Sections 8 and 10 modify the eligibility requirements for the PERA Police and Fire Plan to include certain employees that work in fire service but are not currently included in the Plan by including supervisors of firefighters, recognizing job duties that exist within fire service in addition to "firefighting," including fire prevention, suppression, or investigation, and adding the phrase "or exposed to" to the requirement that firefighters and others be "engaged in" the hazards of firefighting. Section 9 makes a related change to clarify plan membership for employees whose service is split between eligible firefighting service and non-firefighting employment duties. Section 11 makes a related change to clarify and expand when coverage continues after a transfer within a department or within the state.

PERA Correctional Plan

Section 14 increases the employee contribution rate for the PERA Correctional Plan by 1% of pay, from 5.83% to 6.83%, and the employer contribution rate by 1.5% of pay, from 8.75% to 10.25%. These increases are intended to fully fund the increase in the multiplier in section 15.

Section 15 increases the multiplier used to calculate the annuity amount for members of the PERA Local Government Correctional Plan from 1.9% to 2.2% for service earned after June 30, 2025. The current multiplier of 1.9% will continue to apply to years of service earned prior to the effective date. With these changes, the benefit formula will be:

$$\text{Annual benefit} = ((\text{years of service earned prior to July 1, 2024,} \times 1.9\%) + (\text{years of service earned after June 30, 2024,} \times 2.2\%)) \times \text{high-five average annual salary}$$

Miscellaneous

Section 18 repeals the following:

- Section 353D.071 (titled "Federal Compliance"), which is no longer needed because of changes made in Article 8.
- Sections 353.33, subdivision 5, to eliminate another reference to the offset for workers' compensation.

- Section 353.335, subdivision 2, a 2023 provision exempting the PERA Police and Fire Plan members receiving disability benefits from reporting income received from workers' compensation to PERA, which is made obsolete due to changes made in section 7.

Article 5: Minnesota State Retirement System (MSRS)

Sources: HF 3956 (Berg); HF 3930 (Frederick)/ SF 3761 (Frentz); HF 4539 (Frederick)/SF 4424 (Pappas), as amended by S4424-2A; HF 4553 (Tabke), 1st Engr. / SF 4645(Hauschild); and SF 5197 (Pappas)

Article 5 makes changes applicable to plans administered by the Minnesota State Retirement System.

Administrative Changes

Sections 1 to 8 and 10 amend statutes governing the pension plans administered by MSRS. The changes, which were proposed by MSRS, are administrative in nature and consist of the following:

- Section 1 modifies the definition of "salary" to clarify the timing and content of information needed by MSRS to consider pay received as part of a grievance proceeding or legal settlement as salary;
- Section 2 replaces an obsolete cross reference related to the executive director's compensation and requires the board to designate a salary range in the managerial plan and a salary within that range.
- Sections 3 and 5 conform the vesting requirements for total and permanent disability benefits and survivor benefits to match changes made to vesting for retirement annuities in the 2023 Pension Budget bill;
- Sections 4, 7, and 8 replace an outdated term, "reversionary annuity," with the term "bounce-back annuity;"
- Section 6 clarifies that a dependent child is eligible for a survivor benefit only if the dependent child did not elect to receive a refund; and
- Section 10 gives the executive director of MSRS discretion to not require an independent medical exam when a member of the MSRS Correctional Plan applies to receive disability benefits.

MSRS Correctional Plan

Section 9 amends section 352.91, subdivision 3f, to add "baker," "cook," "culinary supervisor," "food service worker," "food services supervisor," and "music therapist" to the list of Department of Human Services positions covered by the MSRS Correctional Plan.

Section 13 authorizes eligible employees working in the positions added by section 9 to transfer past service credit from the MSRS General Plan to the MSRS Correctional Plan if elected by the employee, following the process outlined in section 352.955, subdivision 1. The employee can elect a service credit transfer if the employee's prior service would have been considered MSRS Correctional Plan service had the employee been covered by the plan at the time and must pay the difference between the MSRS General Plan and MSRS Correctional Plan employee contributions for the period. If the payment is made, then the employer is required to pay the difference between the plans' employer contributions for the period.

Correctional Plan Eligibility Work Group

Section 14 establishes a work group consisting of the executive director and staff from MSRS, the commissioner and a Human Resources staff member from each of the Department of Corrections and Department of Human Services, and representatives from several bargaining organizations. The work

group is required to meet during the interim to recommend legislation to address the ongoing issues regarding eligibility for the MSRS Correctional Plan, including the inmate or patient direct contact requirement and the process for adding new positions and members. The executive director of the Commission is required to convene the work group by August 1, 2024. The work group must submit its proposal to the Commission by January 10, 2025.

State Patrol Plan

Section 11 adds a new section to chapter 352B, which governs the State Patrol Plan, to permit a member of the State Patrol Plan to:

- separate from service;
- begin to receive a retirement annuity;
- return to covered employment after a break-in-service of at least one day if at least age 55 or at least a month if at least age 50;
- make employee contributions and have employer contributions made on behalf of the member; and
- following the next separation from service, receive a refund of the employee contributions made during the period of reemployment, plus interest.

Following the separation from service, the employer contributions are not refunded to the employer. The ability to return to reemployment and continue to receive a full retirement annuity does not extend or affect the application of the age 60 mandatory retirement.

Purchases of Past Service Credit by H-1b Visa Holders

Section 12 reinstates the authority, which ended on August 31, 2021, granted to employees by a 2021 session law to purchase service credit for a prior period of employment when the employee was excluded from membership in the MSRS General Plan due to employment under an H-1b or similar visa. Under a change in federal law, these employees were required to participate in the plan immediately upon hire rather than wait three years. The University of Minnesota, one of the employers whose employees were excluded from membership in the MSRS General Plan due to employment on an H-1b visa, continues to identify employees who would have been able to purchase past service credit under the 2021 session law had they been identified and notified before the right expired.

Article 6: Minnesota Secure Choice Retirement Program

Sources: HF 4248 (Moller), as amended by H4248-1A, and HF 4270 (Becker-Finn)/SF 4319 (Pappas)

The Minnesota Secure Choice Retirement Program, established in 2023, is intended to help employees who have no access to a 401(k) plan or other retirement plan through their employment save for retirement. Employers who do not offer a retirement plan are required to transmit employee salary deferral contributions to the Program for deposit in an IRA established for each employee. The Program is required to be opened in phases, over a two-year period, beginning after January 1, 2025.

Sections 1 and 2 add a definition and amend a statute to require the board of directors of the Program to allow “home and community-based services employees” to participate within six months of opening the Program. A “home and community-based services employee” is an individual employed by the individual’s child or spouse to provide services through programs under chapters 256B (“Medical assistance for needy persons”) or 256S (“Medical assistance elderly waiver”).

Sections 3 to 6 amend the requirements for the board of directors of the Program, authorize the board to appoint an interim director, and make technical changes.

Article 7: Supplemental Plans

Source: HF 4656 (Pursell)/SF 4759 (Westlin)

Article 7 revises requirements for supplemental plans, which are retirement plans other than the primary pension or retirement plans in which public employees are required to participate. A school district or other governmental subdivision is prohibited from contributing public funds to a supplemental plan unless the plan satisfies the requirements in section 356.24.

Section 1 reinstates a provision in Section 356.24, subdivision 1, that was inadvertently deleted in 2020. Under this provision, contributions are permitted to a supplemental plan solely funded by the value of sick leave, vacation leave, and severance pay.

Section 2 amends the definition of “deferred compensation plan” to:

- permit the plan to provide for an employer matching contribution based on qualified student loan repayments, as authorized by the federal Secure 2.0 Act of 2022;
- permit the plan to be documented in an employment contract between a superintendent and a school district; and
- revise the investment disclosure requirement to exempt “fixed annuity contracts,” pare down the investment rate of return disclosure to only one-, five-, and ten-year periods, and require filing the disclosure with the Commission annually, not within 30 days of the end of each fiscal year of the plan.

Article 8: Applicable to All Plans: Amortization; Internal Revenue Compliance

Sources: Revisor #24-08106, SF 5227 (Rasmusson), as amended by S5227-2A, and SF 3673 (Rasmusson), in the form of Amendment H5040-4A

Article 8 is applicable to all plans and revises the requirements regarding amortization of unfunded liabilities and under applicable provisions of the U.S. Internal Revenue Code.

Amortization End Dates

Section 1 resolves a conflict in statute related to amortization periods. Section 356.215, subdivision 11, requires the statewide pension plans and St. Paul Teachers, in the plan’s actuarial valuation, to show the contribution needed each year to pay off the plan’s unfunded liability by the end of the amortization period (the “established date for full funding”). Under current law, one provision establishes a fixed date for full funding and another provision requires the plan’s actuary to run a calculation when actuarial assumptions or other changes occur and apply a new established date for full funding if required by the calculation. Section 1 resolves this conflict by making the fixed date (June 30, 2048) the established date for full funding unless the calculation method results in an earlier established date for full funding.

Section 1 also shortens the amortization period for TRA by five years by moving the established date for full funding from 2053 to 2048, reversing a change made in 2023.

Federal Tax Code Compliance

Sections 2 to 11 and 14 to 16 restructure and update statutes that set forth and require compliance with applicable provisions in the U.S. Internal Revenue Code. Section 12 revises a related statute that authorizes the executive directors of the statewide pension funds and St. Paul Teachers to correct operational errors as permitted by the IRS' Employee Plans Compliance Resolution System. The authority is expanded to permit correction even when another statute might interfere with correction due to a time limit. A new subdivision 3 requires each executive director to file an annual report with the Commission on whether any errors were corrected during the prior calendar year.

Amortization Work Group

Section 13 establishes a work group consisting of the executive director and a staff person from each of the statewide pension funds, the executive director of St. Paul Teachers, and the executive director of the Commission to propose legislation that will update section 356.215, subdivision 11, to "conform to actuarial best practices for amortizing liabilities." The group must meet by August 1, 2024, and submit its proposal to the Commission by January 10, 2025.

Article 9: State Aid Clarification

Source: Revisor Document 24-08106 (Her/Frentz)

Expiration Date for State Aids

Article 9 revises the expiration date for state aid paid to retirement plans. Sections 1 to 7 amend the statutes that require the payment of state aid to the following pension plans:

- MSRS State Patrol Plan
- PERA Police and Fire Plan
- TRA
- St. Paul Teachers

These changes also affect the expiration of additional employer contributions paid by the city and school district of Minneapolis to TRA and paid by the St. Paul school district to St. Paul Teachers. The aids and contributions expire as of the earlier of July 1, 2048, or after the plan reaches a specified funding target (100% or 90%) in the prior fiscal year. Sections 1 to 7 revise each of these statutes to require that the pension plan meets the funding target for each of the three preceding fiscal years, rather than just the preceding fiscal year.

Fire Department Eligibility for State Aid

Section 8 amends current law regarding the requirements that must be met in order to qualify for fire state aid, which fund retirement benefits provided by relief associations, the SVF Plan, and the PERA Police and Fire Plan for volunteer firefighters and full-time and part-time firefighters. Section 477B.02, subdivision 3, restricts fire state aid to fire departments:

- with an affiliated relief association; or
- that participate in the PERA SVF Plan; or
- "if the municipality solely employs full-time firefighters..." retirement coverage must be provided by the PERA Police and Fire Plan.

Section 8 amends this statute to remove "solely" and include part-time firefighters.

Article 10: Changes to Executive Director Qualification and Compensation

Source: Amendment H5040-1A

Article 10 amends the statutes that govern how the boards of trustees of PERA (Section 1) and TRA (Section 2) set the salary of their respective executive directors. These statutes are revised to delete a reference to another statute, section 15A.0815, subdivision 2, that had established salary limits, but was amended in 2023 to remove the salary limits and replace them with a reference to salaries as set by the Compensation Council. New language requires the board to designate a salary range in the managerial plan in effect under section 43A.18 and a specific salary within that range. The provision related to the salary for the executive director of MSRS is similarly amended by Article 5, Section 2.

Section 1, which amends the statute regarding the salary of the PERA executive director, also amends the qualifications for the position to align with the qualifications in the statutes for the executive directors of TRA and PERA.

Article 11: St. Paul Teachers Retirement Fund Association Technical Changes

Source: Amendment H5040-1A

Article 11 amends Chapter 354A to remove language that was relevant when there were other first class cities and school districts that had a pension plan, in addition to St. Paul Teachers. References to “first class city” are deleted and references to “public school of a city of the first class,” “applicable school district,” other “retirement fund associations,” and similar terms are revised or replaced with “Independent School District No 625, St. Paul,” “St. Paul Teachers Retirement Fund Association,” or “the teachers retirement fund association.”

Article 12: Miscellaneous Changes

Source: Amendment H5040-1A

Sections 1 to 5 of Article 12 amend statutes in Chapters 353, 356, and 356A to remove or revise obsolete references or terms no longer used and add provisions to permit reports and investment disclosure forms to be delivered to the Commission by email. Section 6 repeals several statutes in Chapter 353 that are obsolete.

Article 13: One-time Appropriations and Fund Transfers

Section 1 of Article 13 directs the transfer of one-time funding in the amount of \$1,458,000 in fiscal year 2025 from the general fund to the IRAP to TRA transfer account established by Article 1, sections 3 to 6. This transfer account will provide funds to help members of the Minnesota State IRAP who transfer to TRA purchase credit for past service toward their TRA pension.

Section 2 authorizes one-time appropriations, as a transfer from the general fund to TRA and a payment from the general fund to St. Paul Teachers, as follows:

- \$28,462,200 in fiscal year 2025 to TRA, by October 1, 2024; and
- \$1,537,800 in fiscal year 2025 to St. Paul Teacher, by October 1, 2024.

These amounts total \$30 million, which is being allocated between the two teacher pension plans on the basis of actuarial accrued liabilities using the plans' actuarial valuations dated July 1, 2023, as follows:

Teacher Pension Plan	AAL (\$000s)	AAL %	Appropriation
TRA	\$ 35,008,293	94.874%	\$28,462,200
St. Paul Teachers	\$ 1,891,617	5.126%	\$1,537,800