

# House Research Act Summary

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## Overview

This is the omnibus public pension bill.

Article 1: Actuarial Standards and Costs

Article 2: Re-employed Annuitant Earnings Limitations

Article 3: Administrative Provisions

Article 4: Military Service Credit Purchase

Article 5: Retirement Health Care

Article 6: MSRS Correctional Plan Membership

Article 7: PERA Membership

Article 8: Pension Coverage upon Privatization

Article 9: Local Police and Fire Consolidation

Article 10: Local Correctional Plan

Article 11: Teacher Plans

Article 12: MnSCU Pension Changes

Article 13: Employer Matching Contributions Tax Sheltered Annuity Changes

Article 14: Annuity Limits

Article 15: Volunteer Firefighter Relief Associations

Article 16: Dissolutions and Consolidations of Volunteer Fire Relief Associations

Article 17: Minneapolis Firefighters and Police

Article 18: Judges Pensions

Article 19: Individual and Small Groups

### Article 1: Actuarial Standards and Costs

This article makes changes in the standards used to determine the assets and liabilities of public pension funds, and in the method of paying for actuarial work.

- 1 **Allocation of actuarial costs.** Provides that costs for certain actuarial work will be allocated among public pension plans based on the cost of the work, rather than on the number of members of the plan.
- 2 **Projection valuations.** Permits the commissioner of finance to contract with the Pension Commission actuary for preparation of quadrennial projection valuations. Requires assessing the retirement plans for the cost. Under current law, the Pension Commission performs this function.
- 3 **Value of assets.** Changes the method for valuing assets, for purposes of actuarial valuations of pension funds. Under current law, assets are valued at cost, plus one-third of unrealized capital gains or losses (unrealized capital gains or losses would be the current market value of the assets compared to cost). The new procedure will be based on the market value of assets, but with a mechanism for smoothing changes in market value over time, to avoid rapid fluctuation in value.
- 4 **Projection valuation.** Permits the commissioner of finance, rather than the Pension Commission to contract for quadrennial projection valuations.
- 5 **Actuarial assumption changes.** Implements actuarial assumptions for salary increases, as recommended by the Pension Commission actuary. Clarifies prior conflicting law concerning the postretirement interest assumption for certain pension plans.
- 6 **Surpluses.** Specifies a method under which current surpluses of assets over liabilities are amortized over time, so as to reduce the current contribution requirements of a pension fund. Under current law, this method applies only to public safety plans.
- 7 **Effective date.** Section 1 is effective for costs incurred after July 1, 2000. Sections 2 to 6 apply to actuarial valuations on or after June 30, 2000.

## **Article 2: Re-employed Annuitant Earnings Limitations**

Under current law, if a person retires and then returns to work in a position covered by the same pension system, the person's pension is reduced once the person earns a specified amount of money. This article provides that when this reduction occurs, the amount of the pension reduction will be placed in a special account that will be available to the person at age 65, or one year after termination of reemployment, whichever is later.

- 1 **MnSCU.** A current MnSCU phased retirement program applies to a faculty member who retires and returns to work part-time and does not earn more than \$35,000 in a year. This section strikes the \$35,000 limit.
- 2 **MSRS.** For MSRS retirees, pension amounts that are not paid because the person exceeds earnings limits will be placed in a special account created in section 10.
- 3 **MnSCU.** Increases earnings limit from \$35,000 to \$46,000 for MnSCU faculty who participate in a phased retirement program.
- 4 **MnSCU.** Increases earnings limit from \$35,000 to \$46,000 for MnSCU faculty who participate in a phased retirement program.
- 5 **PERA.** For PERA retirees, pension amounts that are not paid because the person exceeds earnings limits will be placed in a special account created in section 10.
- 6 **TRA.** For TRA retirees, pension amounts that are not paid because the person exceeds earnings limits will be placed in a special account created in section 10.
- 7 **MnSCU.** Increases earnings limit from \$35,000 to \$46,000 for MnSCU faculty who participate in a phased retirement program.
- 8 **First-class city teachers.** For first-class city teacher retirees, pension amounts that are not paid because the person exceeds earnings limits will be placed in a special account created in section 10.
- 9 **MnSCU.** Increases earnings limit from \$35,000 to \$46,000 for MnSCU faculty who participate in a

phased retirement program.

- 10 **Annuity reduction amounts.** Provides that annuity reductions as a result of exceeding earnings limits will be paid to the retiree upon the later of: (1) attaining age 65; or (2) one year after terminating employment that exceeded the limit. Payments will include six percent interest. Also provides payments if a person dies.
- 11 **Report.** Requires a report on use of the MnSCU phased retirement program.
- 12 **Effective dates.** Effective July 1, 2000.

### **Article 3: Administrative Provisions**

This article makes numerous changes in the laws that govern MSRS, PERA, and TRA administration of pension plans. Many of these changes impact benefits, but generally not in a major way.

### **Article 4: Military Service Credit Purchase**

This article permits a person who has at least three years of service credit in the MSRS general, correctional, or state patrol plan or the PERA general or police and fire plan to purchase service credit for military service: (1) that occurred before the person became a state employee, or (2) for which the person failed to obtain service credit under leave of absence provisions.

Credit may be purchased only for the initial period of enlistment, induction, or call to active duty. Credit cannot be purchased if the person is entitled to receive a military pension for this time. To purchase this service credit, the person must pay the fund the full actuarial value of the credit obtained. The employer is allowed to pay for part of this amount. This article is repealed May 16, 2003.

### **Article 5: Retirement Health Care Task Force**

This article creates a task force on health care coverage. The article specifies membership, and requires a report to the legislature by November 15, 2000.

### **Article 6: Correctional Plan Membership**

Adds additional job classifications to the list of state employees who are included in the MSRS correctional pension plan if the employee spends at least 75 percent of working time in direct contact with inmates or patients at state institutions. Permits employees who have retirement coverage transferred to the plan to transfer prior service credit from the general plan to the correctional the plan by making specified payments. Provides that past employment in the Pomiga treatment program is included in the correctional plan upon payment of member contribution differential. Repeals current law under which the department of employee relations may transfer employees to the correctional plan upon approval of the Legislative Advisory Commission. With the repealer, full legislative approval would be required to make these transfers.

### **Article 7: PERA Membership**

- 1 **Excluded employees.** Provides that specified trades personnel newly- employed by the city of St. Paul or the St. Paul school district are excluded from PERA. Current employees could opt to be excluded. Requires local approval.
- 2 **Tribal police.** Permits tribal police officers to become members of the PERA police and fire fund upon request of the tribal police department, and upon receiving a favorable ruling on this inclusion from the federal Internal Revenue Service.
- 3 **Tribal police.** Specifies a mechanism under which tribal police officers who become PERA members can receive past service credit.
- 4 **Excluded employees.** Change in special law to implement the exclusion in section 1.

- 5 **Excluded employees.** Change in special law to implement the exclusion in section 1.
- 6 **Spring Lake Park.** Permits Spring Lake Park fire department employee to purchase PERA service credit.
- 7 **Effective dates.**

### **Article 8: Pension Coverage Upon Privatization**

- 1 **St. Paul Civic Center.** Includes the St. Paul Civic Center in a law specifying what happens to pension coverage when a public facility becomes private. [Under this general law, there are provisions governing vesting, augmentation of deferred annuities, early retirement, and refunds.]

### **Article 9: Local Police and Fire Consolidation**

A 1999 law provided for merger of local police and fire pension consolidation accounts into PERA. This article deals with issues that came up as a result of that merger legislation.

- 1 **Amortization aid.** Provides that municipalities (Anoka and Mankato) that did not receive additional amortization state aid in 1999, but that became obligated to make an additional municipal contribution following the 1999 merger of police or fire funds into PERA, can now receive the additional state aid.

Makes additional amortization aid payable directly to municipalities, rather than to PERA on behalf of municipalities.

Consolidates duplicative language relating to first-class city fund investment performance.

- 2 **Amortization aid.** Makes additional amortization aid payable directly to municipalities, rather than to PERA on behalf of municipalities.
- 3 **Termination of aid.** Provides that programs providing state aid to municipalities for police and fire consolidation accounts are extended through 2009. Under current law, these programs terminate earlier if Minneapolis and St. Paul teacher funds are fully funded before then.
- 4 **Optional Annuity Election.** This section applies to people who were deferred annuitants or who were receiving an annuity or disability benefit when a police or fire relief association consolidated with PERA, and who chose postretirement adjustments applicable to PERA members. This section allows these people to choose an optional annuity (i.e. an annuity that provides survivor benefits). These options must be actuarially equivalent to the current pension benefit.

### **Article 10: Local Correctional Plan**

- 1 **Plan membership.** Amends eligibility for participation in the PERA local government correctional plan. Under the new definition, a person must be: employed in a specified type of job in a county correctional institution; directly responsible for the direct security, custody, and control of the county correctional institution and its inmates; and expected to respond to incidents within the institution as part of the person's regular employment duties. Language in current law requiring the person to spend at least 95 percent of working time in direct contact with persons confined is stricken.

Provides that a person who is a member of the plan under criteria in current law remains a member while employed in the same position, even if the person's service does not come within the new definition in this section.

- 2 **Contribution rate.** Increases the member contribution rate to the local government correctional plan from 5.83 to 6.01 percent of salary and the employer rate from 8.75 to 9.02 percent of salary. These increases are based on an actuarial valuation of the plan, but are delayed until January, 2002, because the actuarial valuation was based on the plan's limited experience.
- 3 **Effective dates.** Section 1 is effective immediately. Section 2 is effective in January, 2002.

### **Article 11: Teacher Plans**

- 1 **Leave of absence.** Includes teachers in the state professional residential instructional unit in the law that governs extended leaves of absence for teachers.
- 2 **Leave of absence.** For purposes of state residential instructors under the teacher extended leave of absence law, the "school board" is the state appointing authority.
- 3, **Service credit purchase.** Authorizes a teacher to purchase service credit in TRA or first-class city  
5 teacher fund for non-profit community-based corporation teaching service. Conditions are the same as for other purchases of TRA service credit.
- 4, **Union business agent.** Provides that a member of the Minneapolis teachers retirement fund  
6 association on a leave of absence to serve as a union business agent may remain a member of the teacher pension fund, under conditions specified in this section. Makes provision for a person who has been on such leave since 1998.
- 7 **Part-time teacher.** Permits a teacher who missed a deadline for applying for a part-time teaching program to use the program.
- 8 **Effective dates.** Effective the day following final enactment.

### **Article 12: MnSCU Pension Changes**

- 1- **Leave of absence program.** Includes technical college faculty covered by a first class city teacher  
3 retirement plan in the MnSCU extended leave of absence program.
- 4 **Vendor contracts.** Provides that language concerning tax-sheltered annuity vendors applies to contracts executed after July 1, 2000.
- 5 **College supplemental.** Permits use of assets in the college supplemental retirement plan to purchase TRA service credit for specified periods.
- 6 **College supplemental.** Permits use of assets in the college supplemental retirement plan to purchase first-class city teacher fund service credit for specified periods.
- 7- **Leave of absence program.** Related to change in sections 1 to 3.  
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- 12 **Excess contributions.** Specifies mechanism for rebating contributions to IRAP back to the employee and employer when the contributions exceed federal tax code limits.
- 13 **Excess contributions.** Specifies mechanism for rebating contributions to higher education supplemental plan back to the employee and employer when the contributions exceed federal tax code limits.
- 14 **College supplemental.** Permits use of assets in the college supplemental retirement plan to purchase TRA or first-class city teacher fund service credit for specified periods.
- 15 **Supplemental plan limit.** Increases the maximum employer contribution to the higher education supplemental retirement plan from \$2,000 to \$2700 per year.
- 16 **Fiduciary responsibility.** Amends laws governing pension fund fiduciary responsibility to include local government correctional plan, IRAP, college supplemental, and the defined contribution plan in chapter 354D.
- 17 **Advisory committee.** Includes members of the higher education retirement plan advisory committee as fiduciaries. Provides that fiduciary responsibility law applies to selection of financial institutions and investment products.
- 18 **Fiduciary limits.** Provides that fiduciaries for defined contribution plans are not liable for losses resulting from a participant's investment choices. Provides that specified public pension investment limits do not apply to higher education IRAP or supplemental plans.
- 19 **Vendor.** Permits MnSCU to extend current vendor contracts for an additional two years.
- 20 **Effective dates.** Effective immediately. Section 5, 12, and 15(c), expire May 16, 2002.

### **Article 13: Employer Matching Contributions Tax Sheltered Annuity Changes**

- 1 **Supplemental pensions.** Strikes current law that limits certain supplemental employer 403(b) contributions to products purchased from a "qualified insurance company" or "qualified investment entity". Under the new law, the employer contribution can be used for any investment eligible under section 403(b) of the Internal Revenue Code.
- 2 **Vendor restrictions.** Provides that a school board (in addition to a personnel policy for unrepresented employees or a collective bargaining agreement) may establish limits on vendors for a 403(b) plan deferred compensation plan.
- 3 **State board of investment.** Provides that a company selling 403(b) products may request the State Board of Investment, in conjunction with the department of commerce, to review the financial standing of the company, the competitiveness of its investment options and returns, and its charges and fees. Requires the state board of investment to maintain a list of all reviewed companies which meet established standards. Provides that the state board is not a fiduciary for purposes of review under this section.
- 4 **Repealer.** Repeals law defining qualified insurance company and qualified investment entity for purposes of 403(b) investments.
- 5 **Effective dates.** Effective immediately.

### **Article 14: Annuity Limits**

- 1 **Annuity Limit.** Repeals law that limits public employee annuities in a manner parallel to limits on federal law.
- 2 **Effective dates.** Section 1 is effective retroactive to July 1, 1999.

### **Article 15: Volunteer Firefighter Relief Associations**

- 1 **Fire state aid.** Provides that volunteer firefighter relief associations established after 1999 are eligible for at least a minimum fire state aid allocation. This allocation is based on the number of active volunteer firefighters, up to 20.
- 2 **Funding shortfall.** Provides that if there is a funding shortfall in a police or fire relief association, the shortfall must be paid from the state general fund to the extent appropriated by the legislature.
- 3 **Change in type of pension.** Provides that if a firefighters relief association switches from paying monthly benefits to paying a lump sum (or buys an annuity from an insurance company) the association will comply with financing laws applicable to lump sum benefits, rather than complying with laws governing monthly benefits.
- 4 **Separation from active service.** Clarifies that separation from active service, for purposes of becoming eligible to receive a pension from a volunteer firefighter relief association, means a permanent separation.
- 5 **Pension maximums.** Increases the maximum pensions payable by volunteer firefighter relief associations.

For associations that pay monthly benefits, the maximum payable for each year of service is increased from \$40 per month to \$56 per month.

For associations that pay lump sum benefits, the maximum lump sum that can be paid is increased from \$5500 to \$7500, for each year of service.

These increases are phased in, from December, 2000 to December, 2003. The law requires that a relief association have a specified level of financing to pay specified benefits, so the new maximums will only affect the relief associations that can meet the statutory financial requirements.

- 6 **Deferred service pensions.** Increases the interest rate that can be paid on deferred service pensions, if the deferred benefit amount is invested in a separate account from other fund assets. Provides that

the member bears the full investment risk after transfer to the separate account.

- 7 **Ancillary benefits.** Technical changes.
- 8 **Repayment of pension.** Provides that if a retired volunteer firefighter resumes active service in the same department, the person must repay any pension received, and cannot earn additional pension credit.
- 9 **Combined service.** Clarifies conditions under which a person with volunteer fire service in more than one department may be permitted (if provided in the volunteer fire association bylaws) to receive prorated service credit from each association.
- 10 **Board membership.** Provides for county commissioners to appoint ex-officio members of volunteer relief association boards if the fire department is not associated with a municipality.
- 11 **Authorized disbursements.** Permits survivor benefits to be paid to designated beneficiaries if there is not a surviving spouse or surviving children. Permits payments to the Minnesota area relief association coalition.
- 12 **Benefits.** Provides volunteer fire survivor benefits to a spouse of a building inspector who died during the course of employment in 1997. Requires local approval of Woodbury city council.
- 13 **Effective dates.**

#### **Article 16: Dissolutions and Consolidations of Volunteer Fire Relief Associations**

Provides general statutory procedures that govern dissolution and consolidation of volunteer fire relief associations.

- 1 **Definitions.** Defines terms used in new chapter 424B.
- 2 **Consolidation authorized.** Provides that with approval of the municipal governing bodies, contiguous relief associations may consolidate. Consolidation action must be initiated by the affected relief association boards, with a public hearing required before the board acts. Consolidations are effective the next January 1. Requires notification of the state auditor, commissioner of revenue, and secretary of state.
- 3 **Subsequent association.** Provides for filing new articles of incorporation or revised articles, depending on whether the consolidated relief association is a new entity or a revised version of one of the pre-existing associations.
- 4 **Governance.** Specifies composition of the board of trustees.
- 5 **Special and general funds.** Requires the consolidated association to maintain a special fund and a general fund, in a manner prescribed in the general law dealing with volunteer fire relief associations.
- 6 **Transfers.** Provides for transfer of records, assets, liabilities to the new association.
- 7 **Dissolution of prior fund balances.** Requires that before consolidation, the associations settle accounts from the prior separate funds.
- 8 **Termination of prior associations.** Provides that the prior associations cease to exist. Requires notification of specified officials.
- 9 **Administrative expenses.** Provides for payment of authorized administrative expenses from the special fund of the consolidate relief association, in accordance with general law. Provides for other expenses to be paid from the general fund, also as provided by general law and by the bylaws of the association.
- 10 **Benefits.** Provides that the service pension of the consolidated association is the highest service pension amount of any prior association, if that amount met funding requirements in general law. Provides that, unless municipalities agree otherwise, the minimum municipal obligations must be

allocated among municipalities in proportion to their fire state aid. Makes all municipalities jointly obligated to provide required funding. Provides for reimbursing one municipality if it makes required payments that another municipality failed to make.

- 11 **Dissolution.** Specifies procedures for dissolution of an association without consolidation. Specifies a process for settling legal obligations and establishing a benefit trust.
- 12 **Annuity purchases.** Permits the board of an association that is scheduled for dissolution to purchase annuity contracts instead of transferring assets to a trust fund.
- 13 **Repealer.** Repeals section 424A.02, subdivision 11, which deals with distribution of assets when a relief association is dissolved.
- 14 **Effective dates.** This article is effective July 1, 2000.

### **Article 17: Minneapolis Firefighters and Police**

Provides a mechanism under which an additional post retirement adjustments may be paid to Minneapolis police and firefighters when assets exceed 110 percent of liabilities. Provides for suspension of city normal cost contributions to the fund in this instance. Provides a survivor benefit to a specified surviving spouse of a Minneapolis firefighter.

- 1 **Definitions.** Defines terms used in the police part of the article
- 2 **Determination of excess asset amount.** Requires the Minneapolis police relief association board to determine if the fund has excess assets each year. "Excess assets" means assets in excess of 110 percent of accrued liabilities. Provides that twenty percent of excess assets may be paid out as benefits to retired Minneapolis police officers. Provides that excess asset payments under this article are not guaranteed if there is no excess asset amount.
- 3 **City normal cost contribution.** Provides that the city of Minneapolis required contribution to the normal cost of police pensions is reduced by the amount of active member contributions that are directed to the police relief association health insurance escrow account, rather than to the fund used to pay pension benefits.
- 4 **Suspension of normal cost contribution.** Provides that when there are excess assets, as defined under this article, in the Minneapolis police relief association fund, the city is not required to contribute to the police fund for the normal cost of active members.
- 5 **Amortization.** Provides for unfunded liabilities to be amortized over 15 years.
- 6 **Surviving spouse.** Provides a survivor benefit to a specified surviving spouse of a Minneapolis firefighter.
- 7 **Definitions.** Defines terms used in the firefighter part of the article.
- 8 **Determination of excess asset amount.** Requires the Minneapolis firefighter relief association board to determine if the fund has excess assets each year. "Excess assets" means assets in excess of 110 percent of accrued liabilities.
- 9 **Payment.** Provides that twenty percent of excess assets may be paid out as benefits to retired Minneapolis firefighters.
- 10 **City normal cost contribution.** Provides that the city of Minneapolis required contribution to the normal cost of firefighter pensions is reduced by the amount of active member contributions that are directed to the fire relief association health insurance escrow account, rather than to the fund used to pay pension benefits.
- 11 **Suspension of normal cost contribution.** Provides that when there are excess assets, as defined under this article, in the Minneapolis fire relief association fund, the city is not required to contribute to the fire relief fund for the normal cost of active members.
- 12 **No guarantee.** Provides that excess asset payments under this article are not guaranteed if there is no

excess asset amount.

13 **Authorization.** Provides for unfunded liabilities to be amortized over 15 years.

14 **Effective dates.** This article requires approval of the Minneapolis city council.

#### **Article 18: Judge Pensions**

- 1 **Excess service.** Provides that judges who exceed the statutory service credit limit become participants in the state unclassified employee defined contribution plan with respect to the excess service credit.
- 2 **Contribution rate.** Provides that for a judge who becomes a member of the unclassified plan, the employee contribution is eight percent of salary, and there is no employer contribution.
- 3 **Combined service.** Amends the combined service annuity law to increase the benefit accrual percentage maximum for the judges' plan.
- 4 **Limit.** Provides that judges allowable service is subject to the limit in the next section.
- 5 **Service credit limit.** For judges, provides that the service credit limit is 24 years. Contains a special provision for judges with service before 1980.
- 6 **Member contributions.** Provides that a judge no longer makes member contributions to the judges' pension plan after reaching the service credit limit.
- 7 **Employer contribution.** Provides that the employer contribution to the judges' retirement plan continues even after the judge has exceeded the service credit limit.
- 8 **Annuity calculation.** Provides that judges' service that exceeds the service credit limit must be excluded in calculating the retirement annuity, but compensation earned during the service must be used in determining a judges' final average compensation for calculating the annuity.
- 9 **Prior service.** Provides that judges whose service on the effective date of this section exceeds the limit may have money transferred to the unclassified employee plan. The amount transferred is equal to eight percent of the salary the judge earned after reaching the limit.
- 10 **Effective dates.** Effective July 1, 2000.

#### **Article 19: Individual and Small Groups**

- 1 **Late disability benefit application.** Authorizes a person who missed a deadline to apply for a disability benefit from the Minnesota State Retirement System.
- 2 **PERA service.** Authorizes a person to obtain one year of PERA service credit for a period of Hennepin County employment. Requires Hennepin county to pay half the cost, and PERA to absorb half the cost.
- 3 **Omitted PERA deduction.** Permits a person to purchase eight months of service credit from PERA for Dakota County employment. Requires Dakota county to pay amount beyond the employee contribution plus interest.
- 4 **PERA disability benefit.** Authorizes a person who missed a deadline to apply for a disability benefit from PERA.
- 5 **TRA refund interest.** Requires TRA to pay a refund of interest charged to a person, due to TRA delays in processing an application.
- 6- **Minneapolis teachers.** Permits specified persons to purchase service credit from the Minneapolis Teachers Retirement Fund Association for the full actuarial value. The employer has an option to contribute toward the cost of this purchase.
- 8 **MERF.** Authorizes purchases of service credit from Minneapolis Employees Retirement Fund for
- 10 the full actuarial value.
- 11 **Effective dates.** Section 3 requires local approval.

