

HOUSE RESEARCH

Bill Summary

FILE NUMBER: H.F. 3082

DATE: May 8, 2008

Version: Third engrossment

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Subject: Public Pensions

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Overview

This is the 2008 omnibus public pension bill.

Section

Article 1

Post-retirement fund

Under current law, postretirement benefit increases are based on two components: inflation up to 2.5%, and an additional increase paid when investment returns are high and generate excess assets. Under current law there is a 5% cap on annual increases. This bill maintains the current inflation-based component, but provides that the investment-based component will be paid only if inflation is more than 2.5%. The bill maintains the 5% annual cap. The bill also provides that when the postretirement fund is more than 90 percent funded and the increase in the consumer price index is less than 2.5 percent, excess investment earnings can be used to pay an increase based on lost purchasing power from prior years.

- 1** **Composite funded ratio.** Requires the State Board of Investment to annually determine the composite funded ratio of the postretirement investment fund.
- 2** **Calculation of postretirement adjustment.** Provides that the annual postretirement

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- adjustment for benefit recipients covered by the postretirement adjustment fund is the consumer price index increase, up to 2.5 percent. Provides that excess investment earnings can be used to pay an additional amount, if the increase in the consumer price index is more than 2.5 percent. Maintains the five percent maximum in any year that is in current law.
- 3 Lost purchasing power increase.** Provides that when the postretirement fund is more than 90 percent funded and the increase in the consumer price index is less than 2.5 percent, excess investment earnings can be used to pay an increase based on lost purchasing power from prior years.
- 4 Excess assets trigger.** Provides that if the postretirement fund is more than 115 percent funded, the governing bodies of retirement plans participating in the fund must report to the Pension Commission, making recommendations with respects to benefits and funding of the postretirement fund.
- 5 Benefit adjustments; disability and survivor.** Makes changes to conform to other changes in this article.
- 6 MERF.** Maintains the substance of current provisions governing postretirement increases for MERF retirees by codifying these provisions in the chapter of statutes governing MERF.

Article 2

Postretirement Investment Fund Dissolution

Provides that the postretirement investment fund will be dissolved if the funded ratio is less than 80 percent in any year, or less than 85 percent for two consecutive years. If this occurs, the assets of the postretirement fund will be transferred back to the participating retirement plan, based on each fund's relative participation in the postretirement fund. Provides that if the postretirement fund is dissolved, there will be a flat 2.5 percent postretirement increase each year, regardless of inflation and investment returns.

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Article 3

Phased retirement or return to employment

Current law specifies conditions under which state employees who terminate employment while eligible to receive an unreduced annuity can accept a reduced-time postretirement position and receive their full annuity. Sections 1 to 6 amend this law. The primary substantive change is a requirement that if a person is under age 62, an offer of postretirement employment must not be made until at least 30 days after the person terminates employment.

Sections 7 to 10 and 12 deal with teachers who resume teaching after retirement. The maximum amount that such a teacher can earn without having part of their annuity placed in a deferred account is increased to \$46,000, instead of the Social Security earnings limit. Provides that to participate in this return-to-work agreement, a teacher must be at least age 62.

Section 11 provides that a person who is receiving an annuity from the PERA police and fire plan and who is employed as a sworn peace officer by the Metropolitan Airports Commission is exempt from the limit on reemployed annuitant earnings during 2008.

Article 4

Mandatory Joint and Survivor Benefit

Provides that public pension plan benefits automatically will provide a 50 percent benefit to a surviving spouse, unless the spouse waives the right to this benefit at the time of retirement. (This does not apply to volunteer fire plans, to plans that already have automatic surviving spouse coverage, or to contrary arrangements provided by court order, such as in a marriage dissolution proceeding.)

Article 5

Administrative Provisions

Makes administrative changes in laws governing the Minnesota State Retirement System, Public Employees Retirement Association, and Teachers Retirement Association.

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Article 6

MSRS-Corrections Plan Coverage

Includes in the MSRS correctional employee plan (instead of the MSRS general plan) general maintenance worker lead and painter lead positions at a correctional facility or the Minnesota Security Hospital .

Article 7

MSRS-Unclassified Retirement Program

Allows legislators and constitutional officers to choose coverage in the MSRS general plan rather than the MSRS unclassified plan: (1) during the first year of service; and (2) after 10 years of more of allowable service. Under current law, this option to choose general plan coverage already applies to other participants in the MSRS unclassified plan.

Article 8

PERA benefits following privatization

Current law specifies provisions that apply when a public medical facility privatizes (thus making the employees ineligible for future inclusion in PERA). Current law specifies medical facilities to which these provisions apply. This article adds the Rice Memorial Hospital in Willmar (with respect to the Department of Radiology and the Department of Radiation/Oncology) and the Worthington Regional Hospital to the list of covered facilities, both subject to local approval.

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Article 9

Retirement-Related State Aid Programs

Eliminates obsolete language regarding state aid to first class city teacher pension funds. Reinstates aid to the Duluth Teachers Retirement Fund Association. Provides that supplemental contributions payable to TRA on behalf of the former Minneapolis teacher fund will cease if TRA no longer has an unfunded liability. Provides that aid paid to the St. Paul teacher fund will be redirected to TRA if the St. Paul fund has a higher funding ratio than TRA. Provides that amortization aid available after the 2009 full funding of merged local police and fire relief associations will be allocated 20% to the St. Paul Teachers fund, 20% to Minneapolis for its local police and fire relief associations, 20% to Duluth to pay police and fire pension costs, and 40% to support minimum fire state aid for volunteer fire relief associations.

Article 10

MnSCU-IRAP and related changes

Amends laws governing the Individual Retirement Account plan and the supplemental plan governing MnSCU faculty and administrative employees.

- 1 Unclaimed plan account amounts.** Defines this term for purposes of the IRAP plan.
- 2 IRAP administrative expenses.** Requires the administrative fee charged to IRAP participants to be offset by certain interest earnings.
- 3 Disposition of abandoned amounts.** Provides for crediting unclaimed IRAP plan account amounts to a reserve account. Establishes procedures for participants to claim amounts in a forfeited account.
- 4 Administrative expenses.** Requires the administrative fee charged to MnSCU supplemental plan participants to be offset by certain interest earnings.
- 5 Unclaimed plan account amounts.** Makes procedures for dealing with unclaimed supplemental plan amounts identical to those for the IRAP plan in section 3 of this article.
- 6 Prohibition on pretermination distributions.** Prohibits distributions from the supplemental plan before termination of employment, except as part of a phased retirement program.
- 7 Actuarial impact study.** Requires an actuarial study of the impact on TRA of permitting tenure track faculty employed by MnSCU who have not yet attained tenure to elective TRA coverage within a year of attaining tenure. Requires a report to the Pension Commission by January 15, 2009 .

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Article 11

Financial and Actuarial Reporting

Makes a number of changes relating to financial and actuarial reporting by public pension plans. These changes include:

- eliminating authority for quadrennial project valuations (sections 1 and 11);
- providing for the governing board of each major pension fund to retain its own actuary, and eliminating a requirement that the funds jointly contract with an actuary (section 7);
- authorizing the Pension Commission to contract with an actuary to audit or review actuarial work done by actuaries hired by the pension funds, and appropriating money for this purpose (sections 9 and 17);
- re-setting the target dates for full funding of certain plans (section 14);
- authorizing pension funds to set actuarial interest and salary assumptions, subject to Pension Commission approval (section 15).

Article 12

Retirement Savings Programs

Amends laws governing tax-sheltered annuities and deferred compensation programs. Changes include:

- providing that the number and identity of vendors of 403(b) programs for school districts is a term and condition of employment that must be negotiated under the Public Employment Labor Relations Act (section 1);
- authorizing the MSRS deferred compensation plan to administer a Roth 457 plan or IRA if allowed by federal tax law (section 3);
- increasing the limit on the employer contribution to supplemental retirement plans to one-half of the available elective deferral permitted each year under the Internal Revenue Code, instead of being limited to \$2,000 each year; and requiring these supplemental plans to disclose fees and historic rates of return (section 6).

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Article 13

Overview

Increases the PERA police and fire fund disability benefit by 3% of salary for each year of service in excess of 20 years.

Article 14

Local Police and Paid Fire

Provides that a permanent benefit increase of one unit will be paid to recipients of the Minneapolis Firefighters Relief Association when the funded ratio of the fund first exceeds 110 percent. Also revises laws under which excess investment income is used to pay an additional benefit equal to one month's normal benefit.

Article 15

Volunteer Fire

Amends laws governing volunteer firefighter relief associations. Changes include:

- allowing securities brokers or agents to hold plan assets (section 3);
- changing the definition of "surviving spouse" to mean the person married to a member of the association at the time of death (section 7);
- phasing in increases in maximum monthly pensions so that by 2013 monthly benefits may be up to \$100 per month per year of service, and that by 2011 lump sum maximums per year of service may be up to \$10,000. The benefits that can be paid continue to be tied to available funding (section 8);
- creating a voluntary statewide volunteer firefighter retirement plan advisory board to draft legislative recommendations for establishment, organization, and administration of a voluntary statewide lump-sum volunteer firefighter retirement plan (section 12).

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Article 16

Membership dues withholding

Authorizes MSRS, TRA, PERA, and MERF, upon written authorization of a plan member, to deduct from a person's retirement annuity dues to be paid to an exclusive bargaining agent representing public employees or to an organization representing retired public employees, and to pay the amount deducted to the organization. Limits these deductions to two per year. Requires the labor organization to reimburse the public pension fund for administrative expenses incurred in doing these deductions.

Article 17

Small Group Provisions

- 1 **PERA; Rochester** . Authorizes a person who terminated service with the Rochester school district and was elected to the Rochester city council to receive a PERA annuity based on the school district service.
- 2 **PERA; St. Paul** . Allows an employee to withdraw a retirement annuity application and apply for a disability benefit.
- 3 **PERA P&F; Maple Grove** . Authorizes a transfer of service credit from the PERA general plan to the PERA police and fire plan.
- 4 **TRA; MnSCU faculty**. Authorizes a person to elect TRA coverage rather than MnSCU IRAP coverage.
- 5 **TRA; Apple Valley** . Authorizes purchase of TRA service credit at full actuarial value for approximately four years of Illinois teaching service.
- 6 **PERA; Minneapolis bomb squad**. Provides that the disability benefit for a person injured while working on the Minneapolis bomb squad is 75 percent of average salary.
- 7 **PERA; Glencoe/Silver Lake** . Specifies that an employee is considered to have retired for purposes of receiving a PERA annuity, despite the person's later service as an independent contractor for the same employer.
- 8 **PERA; St. Paul** . Authorizes purchase of PERA services credit, at full actuarial value, for specified service not previously credited. Requires the city of St. Paul to pay part of the cost.
- 9 **PERA; St. Paul school board**. Authorizes purchase of service in PERA defined contribution plan for St. Paul school board service.
- 10 **TRA; Wayzata**. Authorizes purchase of service credit in TRA for a leave of absence period.
- 11 **MSRS unclassified; marital property division**. Authorizes an employee to have their unclassified MSRS account divided as part of a marital dissolution agreement before the person terminates state employment.

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Article 18

Pension Commission Membership

Increases the membership of the Legislative Commission on Pensions and Retirement to seven members of each chamber instead of five. Provides that no more than five members from each chamber may be from the majority caucus.