

BILLS ENACTED DURING THE 1980 LEGISLATIVE SESSION CONCERNING PENSIONS

FUND/FUNDS	CHAPTER	BILL	SUBJECT
MSRS, PERA, TRA	342	SF 960, Sec. 20	-Nonforfeitable interest in pension plan modification only after 2 years
	342	SF 960, Secs. 3, 7, 10, 11	-Maximum earnings for re-employed annuitant increased
	342	SF 960, Sec. 15	-Maximum service requirement for proportionate annuity reduced to one year
	607	HF 1121, Art. XV, Secs. 18, 20, 24	-Post-retirement increase to pre-1973 retirees omitted from 1979 adjustment
MSRS, PERA, TRA, StPTRFA, MTRFA, DTRFA, MMER	614	HF 2476, Secs. 34, 37-39, 57, 89, 136-145, 155	-Appropriations changed from open and standing to direct appropriations
MSRS	607	HF 1121, Art. XIV, Secs. 33, 34, 37-40	-Administrative Amendments
	342	SF 960, Secs. 4, 5, 22	-Administrative Amendments
	607	HF 1121, Art. XV, Sec. 22	-Military Affairs Dept. retirement program established
	342	SF 960, Secs. 1, 2, 16-19	-MTC Merger Clarification
	600	HF 1453, Secs. 10, 19, 20	-MTC purchase of prior service
Correctional Employees	342	SF 960, Sec. 6	-Revision of disability law
	600	HF 1453, Secs. 1-5	-Mandatory retirement; additional employees
Highway Patrol	600	HF 1453, Sec. 6	-Eligibility for joint and survivor annuity
Judges	607	HF 1121, Art. XV, Secs. 16, 17	-Increase in member contribution, accrual rate, and maximum annuity percentage
PERA, TRA, StPTRFA, DTRFA, MTRFA	609	HF 1781, Art. V, Secs. 20, 21, 22	-Excludes part-time supplemental AVTI teachers from membership if teach fewer than 300 hours per year
TRA	454	SF 210	-Mobility incentives for Community College and State University Teachers
	609	HF 1781, Art. V, Sec. 21	-Exclusion for part-time teachers with IRA repealed
	342	SF 960, Secs. 9, 12, 13	-Administrative Amendments
	600	HF 1453, Sec. 20	-Retroactive disability benefit
TRA, DTRFA, MTRFA, StPTRFA, MMER	609	HF 1781, Art. VI, Sec. 28	-Early Retirement Incentive program expanded
MMER	342	HF 960, Sec. 22	-Elected officials to receive pension only with 30 years of service or if age 60
	607	HF 1121, Art. XVI, Secs. 1-18	-Administrative Amendments
StPTRFA, MTRFA, DTRFA	342	SF 960, Sec. 14	-Maximum earnings amount increased for annuitant re-employed as substitute

<u>FUND/FUNDS</u>	<u>CHAPTER</u>	<u>BILL</u>	<u>SUBJECT</u>
Local Police and Fire	607	HF 1121, Art. XV, Secs. 1, 2, 4-7	-Amortization by 2010 required; phase-out of local funds into PERA-P&F; establishment of amortization state aid program; various benefit increases; provisions for operation of phased-out local funds
	341	SF 1128, Secs 1, 9	-Member contribution raised to 8%
	607	HF 1121, Art. XV, Secs. 8-10	-Minneapolis: benefit increase and member contribution rate; police chief to be excluded from membership in relief association and PERA-P&F
	341	SF 1128, Secs. 2-5	-St. Cloud: future operation of phased-out police relief association; increased member and municipal contribution rate; survivor's benefit increased
	341	SF 1128, Sec. 6	-Bloomington: police chief to be PERA-P&F member
	600	HF 1453, Sec. 16	-Moorhead: police chief to be PERA-P&F member
	600	HF 1453, Sec. 17	-St. Louis Park: former police officer authorized to buy time in PERA-P&F
	341	SF 1128, Sec. 7	-St. Anthony: part-time firefighter into PERA-P&F
	607	HF 1121, Art. XV, Sec. 23	-Richfield and Crystal: ratified ordinances phasing out local relief associations
	607	HF 1121, Art. XV, Sec. 13	-Hibbing: separate relief associations for salaried and volunteer firefighters
	607	HF 1121, Art. XV, Sec. 14	-Eveleth: benefit increases
	600	HF 1453, Secs. 18, 22	-Rochester: investment authorization for police and fire relief associations
	600	HF 1453, Sec. 11	-Duluth: length of marriage requirement in definition of spouse reduced for police relief association
	600	HF 1453, Secs. 12-15	-St. Paul: gender references clarified for police relief association
----- PERA-P&F -----	607	HF 1121, Art. XV, Sec. 3	-Survivor benefit increased
Volunteer Fire	607	HF 1121, Art. XV, Secs. 11, 12, 15	-Periodic benefit increases for retired members; retiree on board; retroactive approval of increases
State Board of Investment	607	HF 1121, Art. XIV	-Recodification of chapter governing SBI; necessary technical amendments
Miscellaneous	600	HF 1453, Secs. 7, 9, 21	-All government subdivisions authorized to pay severance pay if plan funded
	614	HF 2476, Sec. 151	-Some government subdivisions authorized to pay severance pay
	607	HF 1121, Art. 1, Sec. 1	-Maximum exclusion of pension income from gross income increased to \$11,000 including lump sum payments

TO: Legislative Commission on Pensions and Retirement
FROM: Karen A. Dudley
RE: Brief Summary of Pension Legislation in 1980
DATE: April - 1980

I. Bill Which Became Law in 1980

During the 1980 Session of the Minnesota Legislature, more than 60 bills were introduced which concerned pension matters. More than 150 bills carried over from the 1970 Session. In accordance with Minnesota Statutes, Section 3.85, these bills were reviewed and analyzed by the Commission members and staff.

Of the bills considered in 1979 and 1980, 58 became law, either as separate bills or as amendments to other bills. Three bills passed separately in the 1980 Session and the substance of an additional 26 bills was amended to other bills.

II. Significant Changes

Several of the 1980 Session Laws represent significant pension changes:

A. INVESTMENT OF RETIREMENT FUNDS

1. Recodification of the Statutory Chapter Governing the State Board of Investment (Laws 1980, Chapter 607)

- Voting membership of Investment Advisory Council was expanded to include executive directors of MSRS, PERA, TRA and MMER.
- Management duties relating to investment of state and pension assets and to operation of State Board of Investment staff were shifted to the executive director.
- A combined investment fund was established for investment of assets of the various statewide retirement funds.
- Limitation on certificates of deposit, commercial paper, corporate bonds, corporate stocks and government issued or guaranteed obligations were relaxed or eliminated.
- Four additional types of investment securities were authorized: bankers acceptances, reverse repurchase agreements, governmental financial contracts, and conventional mortgage participation certificates and pools.
- Salaries for the State Board of Investment staff are to be set by Personnel Commissioner and State Board of Investment.
- The executive director was required to prepare a study regarding an investment policy that would be directly beneficial to all Minnesotans.

2. Revision of the Post-Retirement Adjustment Mechanism for the State Public Pension Funds (Laws 1980, Chapter 607)

-Minnesota Adjustable Fixed Benefit Fund renamed Minnesota Post-Retirement Investment Fund.

-Definition of investment income for determination of income available for payment of post-retirement increases changed to recognition of dividends, interest and net realized capital gains from the sale of securities.

-Post-retirement increases can be paid out of 75% of excess investment income. Remaining 25% is used to retire the fund's deficit.

3. Pre-1973 Retirees Post-Retirement Increase (Laws 1980, Chapter 607)

-A \$15 per year of service post-retirement increase was provided to those pre-1973 retirees who were omitted from the 1979 post-retirement adjustment.

B. LOCAL POLICE AND FIRE FUNDS

--All local police and salaried firefighters' relief associations are required to phase out by placing all of their newly employed personnel into the PERA-P&F Fund unless the city elects prior to August 15, 1980, to retain the local fund for all personnel. (Laws 1980, Chapter 607)

--All local police and salaried firefighters' relief associations are required to amortize their unfunded accrued liabilities by December 31, 2010. (Laws 1980, Chapter 607)

--All cities with local police and salaried firefighters' relief associations which phase out and which comply with the Financing Guidelines Act are entitled to participate in a state amortization aid program, which would provide the amount needed to begin to amortize the principal of the unfunded accrued liability of the relief association, excluding the payment of interest, without necessitating a property tax increase. (Laws 1980, Chapter 607)

--All current active members of local police and salaried firefighters relief associations which phase out are entitled to receive a benefit increase, either a longevity increase for each year of service in excess of 25 years or an alternative benefit increase which does not exceed 1.26 percent total actuarial cost, or for the Minneapolis police and firefighters' relief associations a health and welfare benefit of one escalated unit (1/75-1/80 of salary). (Laws 1980, Chapter 607)

--Nine local police and salaried firefighters' relief associations are entitled to limited automatic post retirement adjustments (3.5% annually after age 55) if the local fund phases out and if the city approves. (Laws 1980, Chapter 607)

--The PERA-P&F survivor benefit family maximum is increased from \$450 per month to 50% of the salary of the deceased active member for the six months prior to the date of death. (Laws 1980, Chapter 607)

--A two percent of salary increase in the minimum required member contribution was imposed as a condition for further receipt of police or fire state aid, except for the Austin Police and Firefighters' Relief Associations. (Laws 1980, Chapter 341)

--The city of Hibbing was authorized to establish and maintain separate relief associations for its volunteer and salaried firefighters. (Laws 1980, Chapter 607)

- A post-retirement increase was authorized for retired Eveleth police officers and firefighters. (Laws 1980, Chapter 607)
- The police chief of Minneapolis was permitted to establish an employer financed deferred compensation plan and be excluded from membership in either the Minneapolis Police Relief Association or PERA-P&F. (Laws 1980, Chapter 607)
- Provisions were made for membership on the board of trustees of the St. Cloud Police Relief Association as the relief association is phased out into PERA-P&F. Member contribution rate was increased an additional one quarter of one percent of salary. The minimum required municipal contribution was also increased by one quarter of one percent of salary. The survivor's benefit was increased from 18 units to 24 units (unit equals 1/75 of salary of top grade patrol officer). (Laws 1980, Chapter 341)
- The current chiefs of police in Moorhead and Bloomington were authorized to be members of PERA-P&F rather than the local police relief association. (Moorhead: Laws 1980, Chapter 600; Bloomington: Laws 1980, Chapter 341)
- Previously enacted municipal ordinances of the cities of Richfield and Crystal requiring newly hired police and fire personnel to have their retirement coverage provided by PERA-P&F were ratified. (Laws 1980, Chapter 607)
- The length of marriage requirement in the Duluth Police Relief Association's definition of spouse for purposes of survivor benefits was reduced from three years to one year. (Laws 1980, Chapter 600)
- Various obsolete references to gender from the local laws governing the St. Paul Police Relief Association were removed. (Laws 1980, Chapter 600)
- Part-time St. Anthony firefighters were permitted membership in PERA-P&F. (Laws 1980, Chapter 341)
- A former St. Louis Park police officer was authorized to purchase prior service as a St. Louis Park police officer in PERA-P&F. (Laws 1980, Chapter 600)
- The Rochester Police and Firefighters' Relief Associations were authorized to invest in any securities in which any other local police or salaried firefighters relief association is entitled to invest. (Laws 1980, Chapter 600)
- Volunteer firefighters relief associations were authorized to grant periodic and ad hoc post-retirement adjustments to retired volunteer firefighters with city approval and to substitute a retired member for an active member on the board of trustees of the relief association. (Laws 1980, Chapter 607)

C. MINNESOTA STATE RETIREMENT SYSTEM

- Application for an annuity can be made up to 60 days prior to retirement. (Laws 1980, Chapter 607)
- Repayments of refunds may be made either in a lump sum payment or by installment payment. (Laws 1980, Chapter 607)
- Sections relating to the MSRS Unclassified Program clarified the provisions governing which employees are covered by the plan, require a 30 day waiting period for taking a refund of contributions and authorize the repayment of refunds taken from the MSRS Unclassified Program. (Laws 1980, Chapter 607)
- For the Judges Retirement Fund, the formula benefit accrual rate, the maximum retirement annuity percentage and the member contribution rate were increased. (Laws 1980, Chapter 607)
- Ambiguities remaining from the 1978 consolidation of the Metropolitan Transit Commission-Transit Operating Division (MTC-TOD) Employees Retirement Fund into MSRS were clarified. (Laws 1980, Chapter 342)
- An employee of the MTC was authorized to purchase three years and eleven months of prior service with the management firm hired by the MTC. (Laws 1980, Chapter 600)
- The requirement that a spouse be married to a member of the Highway Patrol Retirement Fund for at least three years prior to retirement in order to be included in a joint and survivor annuity was removed. (Laws 1980, Chapter 600)
- The MSRS-Correctional Employees Retirement Plan was improved by the introduction of an occupational inability definition of what constitutes a disability. (Laws 1980, Chapter 342)
- Numerous technical changes concerning the mandatory retirement age requirement for employees covered by the MSRS-Correctional Employees Retirement Plan and the correctional institutions having employees eligible for coverage by the plan were made. Additional correctional employees can be included in coverage by the plan at the direction of the Personnel Commissioner with the approval of the Legislative Advisory Committee and the receipt of comments from the Legislative Commission on Pensions and Retirement. (Laws 1980, Chapter 600)

D. MINNEAPOLIS MUNICIPAL EMPLOYEES RETIREMENT FUND (Laws 1980, Chapter 607)

- The position of executive secretary was renamed executive director.
- The board of trustees were permitted to serve as the custodians of the assets of the fund.
- The comptroller-treasurer of the city is to be the treasurer of the fund.
- The provisions governing the standard of care in investing retirement fund assets, the handling of conflicts of interest of the board of trustees and the authorized investments for the retirement fund were revised.
- The interest on various refund repayments and contribution deficiencies was increased to six percent per annum.
- Technical changes were made in the composition of the board of trustees.

MISCELLANEOUS

All open and standing appropriations for retirement funds were changed to direct appropriations. (Laws 1980, Chapter 614)

The service requirement for vesting for a proportionate annuity at age 65 is reduced from three years of service to one year of service. (Laws 1980, Chapter 342)

The maximum allowable earnings for re-employed MSRS, PERA or TRA annuitants are increased to match the current Social Security re-employment benefit earnings maximum amount. (Laws 1980, Chapter 342)

The exclusion of certain part-time teachers with individual retirement account (IRA) retirement coverage from membership in the Teachers Retirement Association (TRA) was clarified by Laws 1980, Chapter 342. However, Laws 1980, Chapter 609, Section 21, deleted the exclusion for part-time teachers with IRA coverage from Minnesota Statutes 1978, Section 354.05, Subdivision 2, as amended by Laws 1980, Chapter 342, Section 8.

The teacher mobility programs were expanded. (Laws 1980, Chapter 609)

Part-time AVTI instructors with fewer than 300 hours were excluded from membership in PERA, TRA and the 1st class city teachers' retirement associations. (Laws 1980, Chapter 609)

A special retirement program was established for six positions in the Military Affairs Department, allowing an unreduced normal retirement annuity paid at age 60 and providing for an occupationally defined disability, with an additional member and employer contribution of one percent each. (Laws 1980, Chapter 607)

Various units of government were authorized to pay severance pay in two separate chapters of the 1980 Session Laws. Laws 1980, Chapter 600, provided that severance pay plans are not prohibited as supplemental pension plans, that severance pay can include accumulated vacation leave and sick leave, and that severance pay plans must be funded. Laws 1980, Chapter 614, provided a much narrower authorization concerning the payment of severance pay.

The retroactive payment of a disability benefit to an employee of the Brainerd Community College who was previously totally and permanently disabled was authorized. (Laws 1980, Chapter 600)

The maximum exclusion of pension income from gross income was increased from \$10,000 to \$11,000. Lump sum distributions qualify for the pension exclusion. (Laws 1980, Chapter 607)

Mobility incentives for Community College and State University teachers were authorized. (Laws 1980, Chapter 454)

TO: Legislative Commission on Pensions and Retirement

FROM: Karen Dudley

RE: 1980 Legislation Pertaining to the Major Statewide Retirement Funds

Date: May, 1980

The 1980 Legislature made the following changes in the laws governing the three statewide retirement funds, the Minnesota State Retirement System (MSRS), the Public Employees Retirement Association (PERA), and the Teachers Retirement Association (TRA):

I. GENERAL PROVISIONS APPLICABLE TO ALL STATEWIDE FUNDS

A. Laws 1980, Chapter 342, Section 20 (SF 960) provided that no person acquires a nonforfeitable interest or right to any pension plan modification contained in legislation until a two year period has elapsed.

B. Laws 1980, Chapter 342, Section 15 (SF 960), reduced the maximum service requirement for a proportionate retirement annuity from three years to one year. Any person aged 65 or older who has credit for at least one year but less than 10 years of allowable service in one or more of the applicable funds can apply for a proportionate annuity from each fund in which the person has service credit. Applicable funds include the State Employees Retirement Fund, the Correctional Employees Retirement Program, the Highway Patrol Retirement Fund, PERA, PERA-P&F, TRA, Minneapolis Municipal Employees Retirement Fund, and the three first class city teachers retirement funds. The annuity is to be governed by the applicable laws in effect at the time of retirement. The annuity is calculated on the person's average salary for the highest five successive years of allowable service, or the average salary for the entire period of allowable service if less than five years. Appropriate early retirement reductions can be made for an annuity which commences prior to normal retirement age.

C. Laws 1980, Chapter 607, Article XV, Sections 18, 20, & 24, (HF 1121), provided a post retirement increase to those pre-1973 retirees who were omitted from the 1979 post retirement adjustment because they had not yet attained the age of 65 years on or before July 1, 1979. That adjustment was \$15 per year of service payable in two lump payments. Provisions were made to transfer money from funds with excess appropriations to funds with a deficiency. After all payments have been made, any excess funds and investment income earned on the original December 1979 appropriation will be returned to the general fund.

D. Laws 1980, Chapter 614, Sections 34, 37 to 39, 57, 89, 136 to 145, and 155, (HF 2476), provided that appropriations for TRA, MSRS, the first class city teachers retirement fund associations, and the Minneapolis Municipal Employees Retirement Fund be changed from open and standing appropriations from the general fund to direct appropriations made annually in the budget.

E. Laws 1980, Chapter 607, Article I, Section 1, (HF 1121), increased the maximum exclusion of pension income from gross income from \$10,000 to \$11,000, effective for taxable years beginning after December 31, 1979. Volunteer firefighters who receive an involuntary lump sum distribution of pension benefits at retirement also had their exclusion raised to \$11,000, effective for taxable years beginning after December 31, 1978.

II. PROVISIONS APPLICABLE TO MSRS

A. Laws 1980, Chapter 342, Section 3, (SF 960), provided for an increase in the maximum earnings amount allowed for an annuitant from MSRS who becomes re-employed as a state employee. The maximum earnings amount, previously set at \$3,000, will be set automatically each year at the same level for a given age as the limitations applicable to recipients of Social Security. The levels for 1980 are \$3720 if pre-age 65, and \$5,000 for those 65 or older. There is no limitation for those over 72. Once the maximum is reached, the annuity is suspended for the balance of the year as long as the annuitant remains re-employed.

B. Laws 1980, Chapter 607, Article XIV, Sections 33 and 34, (HF 1121), provided that applications for annuities can be made up to 60 days prior to retirement, and that the payment of refunds may be made either in a lump sum payment or by installment.

C. Laws 1980, Chapter 342, Sections 4, 5 and 22, (SF 960), made changes in the laws governing refunds from MSRS. The waiting period for a refund was reduced from 60 days to 30 days. Employees who are required to retire at mandatory retirement age and former MSRS employees who become covered by TRA must also wait 30 days before applying for a refund.

D. Laws 1980, Chapter 607, Article XIV, Sections 37 to 40, (HF 1121), which related to the MSRS Unclassified Program, clarified the provisions governing which employees are covered by the plan, required a 30 day waiting period for taking a refund of contributions, and authorized the lump sum repayment of refunds taken from the MSRS Unclassified program. Repayment of refunds restores the service credit, rights, and benefits originally forfeited by the taking of the refund.

E. Laws 1980, Chapter 342, Section 6, (SF 960) totally amended the law governing the disability retirement benefit payable to a disabled correctional officer covered by the MSRS-Correctional Employees Retirement Plan. The disability retirement benefit changes included a liberalization in the definition of disability from that of a total and permanent disability rendering the person incapable of performing any gainful employment to that of an occupational inability rendering the person incapable of performing the duties of a correctional officer. The amount of the duty-related disability retirement benefit was increased from the amount of the retirement annuity accrued to date without any reduction due to the early commencement of benefits to a minimum disability retirement benefit of 50% of the highest five successive years average salary plus an additional 2% per year of service in excess of 20 years. Non-duty related disability benefits for employees with five years of correctional service are computed on covered correctional service only or as if the employee had at least 10 years of covered correctional service. Any disability retirement benefits are offset by amounts received from workers compensation or by earnings from subsequent service which when added to the benefit exceed the higher of the employee's salary at the time of disability or the current salary of comparable positions.

F. Laws 1980, Chapter 600, Sections 1 to 5, (HF 1453), made numerous changes in the MSRS-Correctional Employees Retirement Plan. The conditional mandatory age was set at 55 years. Employees desiring employment beyond that age must annually request continued employment and undergo a medical examination to determine if the employee has the mental and physical ability to continue the duties of the covered position. Technical changes were made concerning the correctional facilities having employees eligible for coverage by the plan. Additional correctional employees can be included in coverage by the plan at the discretion of the Personnel Commissioner with the approval of the Legislative Advisory Committee and the receipt of comments from the Legislative Commission on Pensions and Retirement.

G. Laws 1980, Chapter 600, Section 6, (HF 1453), removed from the law governing the Highway Patrol Retirement Fund the requirement that a spouse be married to a member of the patrol at least one year before the member retired in order for the member to select an actuarially equivalent joint and survivor annuity. Any designated beneficiary is now eligible for that joint and survivor annuity.

H. Laws 1980, Chapter 342, Sections 1, 2, and 16 to 19, (SF 960), clarified various ambiguities remaining from the 1978 consolidation of the Metropolitan Transit Commission-Transit Operating Division (MTC-TOD) Employees Retirement Fund into MSRS. The provision of MSRS law which specifies what is allowable service for vesting and benefit accrual purposes was amended to provide fractional service credit for employees who are employed as permanent part time employees. The service credit will be in proportion to the relationship that actual service bears to full time service (40 hours per week or 2080 hours per year). The 3.8% of payroll additional employer contribution requirement was replaced with a set dollar requirement based on the actual unfunded accrued liability resulting from the consolidation as determined by the MSRS actuary. The MTC was required to provide disability and survivorship coverage in addition to the current MSRS level to bring the total coverage up to the pre-consolidation level. Various retirement increases were given retroactive effect due to an omission in the 1978 law. MTC-TOD employees on military leave on July 1, 1978, who returned to MSRS-covered MTC-TOD employment immediately upon completion of military service were authorized to purchase prior service in MSRS.

I. Laws 1980, Chapter 600, Sections 10, 19 and 20, (HF 1453), authorized an employee of the MTC to purchase three years and 11 months of prior service with the management firm hired by the MTC. The actuarial cost of the purchase is to be paid by the employee and the MTC.

J. Laws 1980, Chapter 607, Article XV, Sections 16 and 17, (HF 1121), provided for changes in the Judges Retirement Fund. The member contribution rate was increased from the percentage of payroll required for Social Security contributions to a rate equal to one-half percent of payroll plus the Social Security rate, but not less than 7%. The formula benefit accrual rate was increased from 2 1/2% for all service to 3% for all service rendered after June 30, 1980. The maximum retirement annuity percentage was increased from 60% to 65% of the judge's annual salary for the year preceding retirement.

K. Laws 1980, Chapter 607, Article XV, Section 22, (HF 1121) established a special retirement program for six positions in the Military Affairs Department. The adjutant general was specifically excluded from coverage. The plan provides (1) an unreduced normal retirement annuity to be paid at age 60 and (2) an occupationally defined disability benefit. Additional employer and member contributions of one percent were required. Members must elect to be covered by the plan by July 1, 1980, or within 30 days of employment, whichever is later.

III PROVISIONS APPLICABLE TO PERA

A. Laws 1980, Chapter 342, Section 7, (SF 960), provided for an increase in the maximum earnings amount allowed for an annuitant re-employed as a non-elective employee of a governmental subdivision. The maximum earnings amount, previously set at \$3,000, will be set automatically each year at the same level for a given age as the limitations applicable to recipients of Social Security. The levels for 1980 are \$3720 for pre-age 65, and \$5,000 for those 65 or older. There is no limitation for those over 72. Once the maximum is reached, the annuity is suspended for the balance of the year as long as the annuitant remains re-employed. Payment of the annuity will resume after proper showing by the annuitant that the reason for the suspension of the annuity payment no longer exists.

B. Laws 1980, Chapter 609, Article V, Section 20, (HF 1781), provided that part-time adult supplemental vocational-technical teachers could be excluded from membership in PERA provided the teaching service was incidental to the person's regular non-teaching occupation and the teaching service does not exceed 300 hours in a fiscal year.

IV. PROVISIONS APPLICABLE TO TRA

A. Laws 1980, Chapter 342, Sections 10 and 11, (SF 960), provided for an increase in the maximum earnings amount allowed for a TRA annuitant re-employed as a teacher. The maximum quarterly earnings amount, previously set at \$800 per quarter will be set automatically each year at the same level for a given age as the quarterly limitations applicable to recipients of Social Security. The 1980 limitations are \$820 quarterly if pre-age 65, and \$1,125 quarterly for those 65 and older. There is no limitation for those over 72. The amount of re-employment earnings in excess of the applicable maximums will be deducted from the annuity payable for the subsequent quarters. A corresponding increase was made in the salary maximum applicable to the substitute teacher exception in the mandatory retirement laws of TRA. Any teacher over the age of 65 working as a substitute or part-time teacher must terminate employment for the remainder of the academic year once the maximum earnings amount has been exceeded. For 1980, the earnings limitation would be \$5,000. There is no limitation for those age 72 or older.

B. Laws 1980, Chapter 609, Article V, Section 21, (HF 1781), provided part-time adult supplemental vocational-technical teachers could be excluded from membership in TRA provided the teaching service was incidental to the person's regular non-teaching occupation and that the teaching service did not exceed 300 hours in a fiscal year.

C. Laws 1980, Chapter 342, Section 8, (SF 960), clarified that part-time teachers with an Individual Retirement Account (IRA) could be excluded from membership in TRA if the IRA had been established prior to the time teaching service began and if the IRA was based on non-teaching employment. However, Laws 1980, Chapter 609, Article V, Section 21, (HF 1781), deleted the language that provided an exclusion from membership in TRA for part-time teachers with an IRA.

D. Laws 1980, Chapter 609, Article VI, Section 28, (HF 1781), modified and expanded the teacher early retirement incentive program. Any person employed in a public elementary, secondary or area vocational-technical school as a member of the instructional or supervisory staff who has at least 15 years of full time teaching service in the public schools and who is at least 55 years of age was authorized to apply to the school board of the employing district for a contract for termination of services, withdrawal from active teaching service, and payment of an early retirement incentive. Early retirement incentives are in the amount of \$10,000, reduced by \$500 for each year the teacher is over the age of 55 to a maximum of 60 years, and by \$1500 for each year the teacher is over the age of 60. Teachers employed by a school district which is implementing a desegregation plan receive early retirement incentives of \$15,000, reduced by \$750 for each year over 55, and by \$2,250 for each year over 60 for teachers retiring at the end of the 1979-1980, 1980-1981, and 1981-1982 school years. Early retirement incentives are paid by the school district with the state reimbursing the district for 50% of the amount. Teachers who retire under the program can later be re-employed as a substitute teacher.

E. Laws 1980, Chapter 342, Section 12, (SF 960), provided that annuity and benefit payments be paid monthly during the first week of the month. Annuitants and benefit recipients are required to submit quarterly an evidence of receipt form in order to qualify for future annuities or benefits.

F. Laws 1980, Chapter 342, Section 13, (SF 960), removed the requirement that the surviving spouse of a TRA member who died before retirement had to be dependent in order to have priority over the deceased TRA member's estate.

G. Laws 1980, Chapter 600, Section 20, (HF 1453), provided that a retroactive disability benefit be paid to an employee of the Brainerd Community College who was totally and permanently disabled from December 18, 1976 through January 8, 1978.

H. Laws 1980, Chapter 342, Section 9, (SF 960), provided qualifications for the executive director of TRA. The person appointed as executive director must have had at least five years of experience on the staff of a major retirement system and be selected on the basis of fitness, leadership and experience.

I. Laws 1980, Chapter 454, (SF 210), provided mobility incentives for community college and state university teachers. Teachers in those systems can participate in the TRA qualified part-time teacher program which permits the teacher to obtain full-time service for part-time teaching service. The act also provided for extended leaves of absence for up to five years with the right of reinstatement. Teachers on extended leaves of absence are entitled to receive allowable service credit in TRA by paying member contributions. The state is obliged to pay the employer contributions for the years that the member makes employee contributions.

TO: Legislative Commission on Pensions and Retirement

FROM: Karen Dudley, Commission Staff

RE: 1980 Legislation Governing the State Board of Investment

DATE: May, 1980

The 1980 Legislature enacted legislation in Laws 1980, Chapter 607, Article XIV, which recodified all laws governing the State Board of Investment. All former laws governing the Board were repealed and necessary technical and reference changes were made. In many sections of Article XIV, the changes in language were not substantive.

The following is a summary of Article XIV containing the laws governing the State Board of Investment:

A. Section 1 provided a statement of purpose for the law governing the State Board of Investment.

B. Section 2 added a definition section. Terms defined were "State Board", "Council", "Fund", "Director", and "Management".

C. Section 3 specified that the state board be composed of the governor, state auditor, state treasurer, secretary of state and attorney general, with the governor to serve as ex-officio chairman.

D. Section 4 provided a statement of the duties and powers of the board. The board is to: 1) act as trustees for each fund for which it invests or manages money in accordance with the standard of care stated in Section 7; 2) continue to formulate policies and procedures to carry out its functions; 3) employ an executive director, and as necessary, investment advisors and consultants; 4) prescribe policies concerning personal investments of all employees of the board to prevent conflicts of interest; 5) maintain a record of its proceedings; 6) establish advisory committees as necessary to assist the board in carrying out its duties; 7) not permit state funds to be used to underwrite or purchase municipal securities directly; 8) direct the state treasurer to sell escheated property; 9) undertake any activities necessary to implement duties and powers of the board; 10) establish formulas to measure management performance and returns on investment; and 11) adopt procedures to allow fund beneficiaries and members of the public to become informed of proposed board actions. Procedures and policies of the board are not subject to the state's administrative procedure act.

E. Section 5 provided for the qualifications, confirmation, and duties and powers of the executive director of the state board. The section changed the name of the position from "executive secretary" to "executive director" and shifted many management duties from the state board to the executive director. The duties of the director were expanded to include 1) planning, directing, coordinating and executing administrative and investment functions in conformity with the policies and directives of the board; 2) purchasing and selling all securities on the basis of competitive offerings; 3) receiving and expending legislative appropriations; 4) reporting in the annual report the total annual rate of return and the yield to the state treasury and to each of the funds whose assets are invested by the board; and 5) undertaking any other activities necessary to implement the duties and powers of the position.

F. Section 6 concerned the investment advisory council. Various subdivisions provided for membership; duties and powers; officers and meetings; terms; compensation; removal of members; the filling of vacancies on the council; liability and indemnification of members; and conflict of interest and an economic interest statement. The voting membership on the council was expanded to include the executive directors of the Minnesota State Retirement System, the Public Employees Retirement Association, the Teachers Retirement Association, and the Minneapolis Municipal Employees Retirement Fund. The duties of the investment advisory council remained substantially the same: to advise the board and the director regarding 1) policy matters relating to investments; 2) methods of improving rate of return; and 3) the form and content of the annual report so that the report clearly and objectively discloses the investment activities of the State Board and the director. The investment advisory council is also to perform other tasks of an advisory nature as requested by the state board.

G. Section 7 stated the standard of care to be applied to members of the board, the director, the board staff, members of the advisory council and all other persons charged with the responsibility of investing money pursuant to the standards set forth in sections 1 to 23. The standard states that in the discharge of their duties, those persons shall act in good faith and exercise that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived therefrom.

H. Section 8 provided for duties of other officials. The legislative auditor was required to conduct state audits of the board and its delegates. The state treasurer and all other custodians of securities were required to provide the board and its delegates with reasonable access to those securities. The responsibilities of the commissioner of finance to notify the board regarding escheated property and of the commissioner of administration to provide office and storage space were continued.

I. Section 9 provided that the state board should receive from time to time the moneys that are available for investment in the various funds subject to the supervision and control of the State Board. The board is given broad powers to purchase sell, exchange and lend securities, reinvest, pay execution expenses of securities transactions, amortize premiums or accumulation of discounts, and to receive contributions for and to redeem participation in the funds.

J. Section 10 provided that all interest and profit accruing from and all losses incurred by investment activity be credited to the fund from which the investment was made.

K. Section 11 provided that legal title to the assets of state funds invested by the State Board be in the State of Minnesota or its nominees. However, legal title to pension funds invested by the State Board shall be in the State Board or its nominee, as trustees for persons having a beneficial interest in the fund subject to the rights of the particular fund. The rights of public employees to assets of the retirement funds are fixed by laws governing the retirement funds. All documents, forms and applications from the various funds to the State Board are to be considered as legal and valid.

L. Section 12 provided for the establishment, assets, management, and investment limitations of the Minnesota Combined Investment Fund as an entirely new fund established to provide a common investment vehicle for the assets of the current participating funds: the State Employees Retirement Fund, the Correctional Employees Retirement Plan, the Highway Patrol Retirement Fund, the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, the Teachers Retirement Fund and the Judges Retirement Fund.

Other funds may be required by law to participate at a later time.

The combined fund, to be established on July 1, 1980, or later, will consist of two investment accounts, a cash management account invested in fixed income obligations with maturities of less than three years and an equity account which may be completely invested in corporate stocks. Each participating fund is allocated account units of \$1,000 in each account in the same proportion as their assets are to the total assets in each account. An unrealized appreciation (depreciation) account was created for gains or losses in the value of the investments incurred by a fund at the time of the establishment of the fund, when the appropriate securities are transferred. Future gains or losses are to be recorded in the account at the close of each fiscal year. Provision was made to value units for the equity account as of the last business day of each month, or more frequently if necessary. Valuations for the cash account are to be performed daily. The value of a unit, as determined on valuation date, is the sum total of the fair market value of all assets in each account less the value of the undistributed income in each account, divided by the number of units. Purchase and redemption of units, to be made in cash, are on the first business day following the valuation date.

Investment earnings is to be the sum total of 1) dividends receivable on securities; 2) cash dividends received but not accounted for on a previous date; 3) accrued interest; 4) interest received that had not been accrued and accounted for on a prior valuation date; 5) income from the sale of options, rights, warrants, or security lending; and 6) any other income received. These investment earnings are to be distributed at least once each month to the participating funds in proportion to their average unit holdings in each account during the period.

The director of the board is required to keep accounting records that indicate the number of units owned by each fund. As of each valuation date, each participant is to be informed of the number of units owned and the value of the units. An annual financial statement, prepared in accordance with generally accepted accounting principles, is to be provided to each participant.

M. Section 13 provided for a continuation of the State Bond Fund. Assets of the fund consist of money appropriated to the fund, income from the invested assets of the State Bond Fund which are not immediately required to pay principal or interest on state bonds, and proceeds from the sale of any securities of the fund. The fund is managed by the state treasurer. The investments must be invested subject to the provisions of Section 23 which requires not only that the securities conform to the applicable provisions of Section 22, but also that the securities must be debt securities maturing within 3 years of the date of purchase. Withdrawal of assets is at the request of the state treasurer when money is necessary to pay principal or interest due on state bonds. Net income of the state bond fund is to be deducted from the amount of subsequent appropriations for the payment of principal or interest of the state bonds.

N. Section 14 provided for a continuation of the Permanent School Fund which was established pursuant to Article XI, Section 8, of the constitution of the State of Minnesota. Assets are proceeds derived from the school lands, the swamp lands and the internal improvement lands granted to the state, and all cash and investments credited to the permanent school fund, to the swamp land fund and to the internal improvement land fund. Management of the fund will be by the commissioner of finance.

Although many restrictions were deleted in the recodification, the investment of the permanent school fund was limited to 1) interest bearing fixed income securities of the United States and its agencies, bonds of Minnesota and its political subdivisions and agencies, and of other states but with no more than 50% of any issue by a political subdivision; 2) stocks of corporations with cash dividends paid from earnings for the preceding five years before purchase, with limitations on what percentage of stock can be owned in any one corporation; and 3) bonds of corporations whose earnings exceeded three times the interest requirements on outstanding bonds for the five consecutive years prior to purchase. Up to 20% of the fund can be invested in corporate stock

and no more than 40% can be invested in corporate bonds.

Investment income, the amount of interest on debt securities and dividends on equity securities, is to be determined at the end of each fiscal year. Losses are recovered over a period of years from interest and dividend income. Gains on the sale of securities are added to the principal of the fund. Income is to be credited to the permanent school fund and transferred to the school endowment fund as needed.

O. Section 15 provided for a continuation of the Minnesota Supplemental Retirement Investment Fund for investment of assets of the various public retirement plans and funds. The fund has three investment accounts: an income share account to be invested according to the standards of Section 22, a fixed-return account to be invested entirely in debt obligations, and a growth share account which can be invested entirely in corporate stocks with up to 6% of book value invested in stock of any one corporation and up to 10% of book value invested in corporate stocks which do not conform to the dividend standard of Section 22.

Public retirement plans or funds authorized or required by law to invest in the fund can purchase investment shares in any of the three investment accounts. Each participating plan or fund is required to maintain adequate records to account for moneys certified to the fund. Participation by each participating plan or fund is determined by the ratio of the number of shares credited to each participating fund to the total number of shares in each investment account.

Purchase price per share and redemption value for shares are determined by dividing the total market values of the securities constituting the respective account by the number of shares then outstanding. Shares are to be split on a two new share for one prior share basis if the value of shares exceeds \$10 per share for six consecutive months.

The value of shares in the fixed-return account is to be \$5 per share. However, if those shares are not attributable to the individual account of any person at a given date, then the market value of the shares is to be the value of the share. Any investment income earned by the fixed-return account is to be used to purchase additional shares on behalf of each participating plan or fund.

The board may specify required forms for certification of moneys and requests for redemption. The board is required to prepare and issue a prospectus for the fund with separate exhibits for each of the three investment accounts. Each exhibit is to list for each security representing the current assets of the account the following items, if applicable: 1) the purchase price of the security; 2) current market value; 3) dividend or interest rate; and the rating of the debt security by a nationally recognized rating agency if the debt security is not issued or guaranteed by the United States government. The prospectus is to set forth the statutory provisions governing the fund. Sufficient copies are to be transmitted to each participating fund to meet the plan or fund's distribution requirements.

At the beginning of each fiscal year, the board is to set an assumed rate of interest for moneys invested in the fixed return account. At the end of the year, any earnings accrued to the account above the assumed rate are to be used to purchase additional shares.

P. Section 16 established the Minnesota Post-Retirement Fund to replace the former Minnesota Adjustable Fixed Benefit Fund as the vehicle to invest the reserves for the payment of various retirement annuities and benefits by the participating retirement funds and plans. Most aspects of the Adjustable Fixed Benefit Fund were continued: the fund will continue to be managed by the State Board; the deferred yield account will be continued to offset annually a portion of losses due to sales of debt securities at less than book value against investment income for the year; and the requirement that the participating public retirement funds and plans certify and

transfer, prior to the time the payment of benefits and annuities commence, moneys equal to the actuarially determined reserves necessary to pay the retirement annuities and benefits.

Participation on any valuation date is equal to the participation on the prior valuation date, plus the sum of 1) moneys certified and transferred to the fund since the prior valuation for the actuarially determined reserves necessary to pay retirement annuities; 2) the amount of required investment income attributable to the funds or plan's participation; and 3) the reserves for any benefit adjustment as adjusted for mortality gains or losses.

Money is withdrawn from the fund upon certification by the participating plan or fund that moneys are required for the payment of a retirement annuity or benefit.

Some major changes in the legislation establishing the Minnesota Post-Retirement Investment Fund concerned the procedures to calculate post-retirement adjustments. The simplified procedures provide that annually, following June 30, the State Board is to determine whether a post-retirement adjustment should be paid and what the amount of the adjustment should be. The board no longer defines investment income as the recognition of unrealized appreciation and depreciation on investment securities. Rather, the board is directed to consider as investment income the amount of dividends, interest, accruals and realized equity capital gains or losses applicable to the most recent fiscal year. After receiving from the participating plans and funds the amount of reserves required for all annuitant or benefit recipients, both for recipients eligible for a post-retirement adjustment because they have been receiving an annuity or benefit for at least one year, and for recipients not yet eligible for a post-retirement adjustment, the board determines the amount of investment income required to equal 5% of the required reserves as of June 30. The amount of required investment income is subtracted from the actual amount of investment income to determine excess investment income. If the amount of excess investment income is positive, a post-retirement adjustment can be paid.

Another change concerns the method to determine the amount of post-retirement investment. The participating funds and plans must certify to the board the total required reserves as of the next following first of January. If the book value of the assets of the fund, the cost of equity investments, and the amortized cost of fixed income investments, is less than the amount needed for the current June 30 required reserves, adjusted for mortality losses and gains, then 25% of the excess investment income is allocated to lessen the deficiency of the fund and the remaining 75% is available for distribution. The amount available for distribution is to be increased by 2 1/2%. That result is then stated as a percentage of the total required reserves required for the first of January next following the current June 30. If the percentage is equal to or greater than one percent, then the amount is certified as the amount of the post-retirement adjustment. If less than one percent, the amount is to be credited to a separate reserve, invested, and credited with any investment income. Amounts credited to the reserve are to be utilized in determining a post-retirement adjustment in a subsequent year.

Once the participating public pension fund or plan receives the certification of the percentage of the post-retirement adjustment, the fund or plan can determine the amount of the adjustment payable to each eligible annuitant and benefit recipient. Post retirement adjustments shall commence to be paid on January 1 following the calculations and thereafter are to be included in the monthly annuity or benefit.

Q. Section 17 provides for the continuation of the Variable Annuity Investment Fund for the investment of assets of the variable annuity program of the Teachers Retirement Association. The assets of the fund consist of all cash and investments credited to the program. The State Board manages the fund. Assets are to be invested subject to the provisions of Section 22 except that 1) up to 100% of the book value may be in corporate stocks; 2) up to 6% of the book value may be in the stock of any one corporation; and 3) up to 10% of the book value may be invested in corporate stock which does

not conform with the dividend standard provided for in Section 22, Subdivision 5.

No changes were made regarding the valuation of the fund or the procedures for determining earnings from investments, realized and unrealized gains or losses, total annual increment or decrement, and rate of return which is used to determine the percentage of increase or decrease to be credited to an individual member's account balance at the end of the fiscal year.

R. Section 18 provided for the continuation of the investment by the State Board of state treasury funds not needed currently. As in the previous law governing the investment of these funds, the investment limitations are most strict: the investments must be invested subject to the provisions of Section 23 which requires not only that the securities conform to the applicable provisions of Section 22, but also that the securities must be debt obligations maturing within three years of the date of purchase. All investment income and losses attributable to the investment of state treasury funds not currently needed are to be credited to the general fund.

S. Section 19 provided for the continuation of the investment of Highway Funds. To be invested by the board, the commissioner of transportation must determine that the funds are not required for immediate use. These funds must be invested subject to the provisions of Section 23.

T. Section 20 provided for a continuation of the State Zoological Garden Operating Receipts Investment Account for funds not required for immediate use. These funds must be invested subject to the provisions of Section 23. All investment income and losses attributable to the investment of Zoological Garden receipts are to be credited to the State Zoological Garden General Account. Upon certification by the Zoological Garden Board that moneys are needed for current purposes, the state board is to sell securities to equal the assets certified as needed and transfer the assets to the Zoological Garden General Account.

U. Section 21 provided that the State Board is authorized to invest those assets of the participating retirement funds or plans which are not required for immediate use. The participating retirement funds or plans are as follows: the State University and State Community College Supplemental Retirement Plan, the State Employees Retirement Fund, the Correctional Employees Retirement Plan, the Highway Patrol Retirement Fund, the Unclassified Employees Retirement Plan, the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, the Teachers Retirement Fund, the Judges Retirement Fund and any other funds required by law to be invested by the board. Investment of fund assets are to be invested subject to the provisions of Section 22. Upon certification by an executive director that assets are required for immediate use, the State Board is to sell securities to equal the assets certified and transfer the assets to the appropriate executive director.

V. Section 22 provides the general statutory provision for authorized investments. The State Board was given the authority to purchase, sell, lend or exchange authorized investment securities for funds or accounts specifically made subject to Section 22, including the writing of covered call options. Limitations applicable to the following types of investment securities were relaxed or eliminated: Certificates of Deposit, Commercial Paper, Corporate Bonds, Corporate Stocks and Government Obligations. The board is now authorized to invest in government issued or guaranteed obligations of 1) the United States, its agencies or instrumentalities; 2) Canada and its provinces; 3) the states and their political subdivisions and agencies with certain limitations; and 4) various United States government sponsored organizations such as the International Bank for Reconstruction and Development.

Limitations on corporate obligations were relaxed to enable the board to invest funds in bonds, notes, debentures, transportation equipment obligations and other longer term evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the United States, any state, the Dominion of Canada, or any Canadian province, if they conform to certain provisions: 1) that Canadian securities be payable in United States dollars, that the consolidated net pretax earnings of non-finance corporations have

been 1.2 times the annual interest charges on total funded debt for the preceding five years; and 4) that obligations be either rated among the top three quality categories or if unrated, the corporations should have other comparably secured issues or consolidated net pretax earnings of at least twice the ratios required in clauses (2) and (3).

The board is authorized to invest in 1) bankers acceptances of United States banks if the acceptances are eligible for purchase by the Federal Reserve System; 2) certificates of deposit that meet collateral requirements, or non-collateralized certificates of deposit from United States banks and Savings institutions that are rated in the highest quality category by a nationally recognized rating agency; 3) Commercial paper of the highest quality if issued by a United States corporation or its Canadian subsidiary and if it matures in 270 days or less; 4) mortgage participation certificates and pools secured by first mortgages or trust deeds on improved real estate located in the United States if there is a guarantee of replacement in the event of a default, and where the loan to value ratio does not exceed 80% for fully amortizable residential properties; 5) repurchase agreements and reverse repurchase agreements limited to government issued or guaranteed obligations; and 6) savings accounts if fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation.

The board was authorized to invest in corporate stocks or convertible issues of corporations organized under the laws of the United States, any state, the Dominion of Canada, any Canadian province, or any corporation listed on the New York or American Stock Exchanges with the following limitations: 1) the aggregate value of corporate stock investment, adjusted for realized profits and losses, is not to exceed 50% of book value of a fund; 2) investments in any one corporation is not to exceed 3% of the book value of a fund; 3) investments in any one corporation is not to exceed 5% of the total outstanding shares; 4) cash dividends on corporate stock investments must have been earned and paid for the preceding five years; and 5) investments which do not conform to the standard in clause (4) may be held, but the total amount of these securities is not to exceed 5% of the book value of a fund.

W. Section 23 provided a continuation of the additional investment restriction applicable only to funds or accounts specifically made subject to the section. That restriction, in addition to those applicable from Section 22, is that all securities must be debt securities maturing within three years of the date of purchase.

X. Section 24 provided that the executive director of the State Board is required to prepare a study of the policy desirability of and ways to implement investment policy which produces results directly beneficial to all Minnesotans.

Y. Section 25 and 26 provided that the salaries for the staff of the State Board of Investment, including the executive director, are to be set by the State Board of Investment and the Personnel Commissioner.

Z. Sections 27 to 32, 35, 36, and 41 to 46, contained language and reference changes in other chapters of statutes to conform to the recodification of Chapter 11. Section 47 contained a temporary provision to enable the board to retain portfolio securities which met statutory criteria at the time of purchase but which became nonconforming as a result of the recodification of Chapter 11. Chapter 48 provided the necessary repealers. Section 49 provided that Article XIV, which recodified Chapter 11, was effective the day following enactment.

TO: Legislative Commission on Pensions & Retirement
FROM: Karen Dudley, Commission Staff
RE: 1980 Legislation Applicable to All Governmental Subdivisions
DATE: May, 1980

Laws 1980, Chapter 600, Sections 7 to 9, and 21, (HF 1453), provided for the payment of severance pay by governmental subdivisions. This legislation was in response to an opinion by the office of the attorney general which had stated that the payment of severance pay was a supplemental pension benefit which was prohibited by Minnesota Statutes 1978, Section 356.24. That section stated it was unlawful for various governmental subdivisions to levy taxes for, or contribute public funds to a supplemental pension or deferred compensation plan which is maintained and operated in addition to a primary pension program for the benefit of the governmental subdivision employees.

Section 7 of Chapter 600 amended Section 356.24 to state that the section does not apply to plans which provide for the payment of severance pay as authorized by Section 465.72 to a retiring or terminating employee.

Section 8 amended Section 465.72 to authorize all governmental subdivisions, in addition to counties, cities, townships and school districts, to pay severance pay to all employees when an employee leaves employment. The amended language clarifies that severance pay can be paid prior to retirement on the normal retirement date, or after the normal retirement date. The term severance pay was defined to include the payment of accumulated vacation leave and accumulated sick leave. Payment of severance pay is to be excluded from calculation of retirement benefits, and is to be paid in a manner mutually agreeable to the employee and employer within five years from retirement or termination of employment. If the former employee dies before the entire payment has been made, the balance is to be paid to a named beneficiary or to the deceased's estate. Laws 1980, Chapter 600, Section 8, contained language which stated that severance pay should not exceed an amount equivalent to one year's pay except for a teacher as defined in Section 179.63, Subdivision 13. (Several lines of original language were deleted from the last sentence of this section.)

Section 9 added a section to Chapter 465 to provide that no governmental subdivision can implement a plan for payment of severance pay until a plan providing for full funding has been developed and approved by the governing body.

Section 21 validated any payments or agreements for payment of severance pay, which were within the limitations contained in Sections 7 and 8, made or authorized by various governmental subdivisions prior to the effective date of the act.

[Note: Section 465.72 of the Chapter relating to the rights, powers and duties of municipalities, was also amended by Laws 1980, Chapter 614, Section 151. Section 151 permits a county, city, township and school district to pay severance pay. The authorization is only to pay severance pay to an employee who leaves employment before the normal retirement date. Severance pay provided for an employee including a teacher as defined in Section 179.63, Subdivision 13, is not to exceed an amount equivalent to one year of pay.]

TO: Legislative Commission on Pensions and Retirement

FROM: Karen Dudley, Commission Staff

RE: 1980 Legislation Applicable to First Class City Funds

DATE: May, 1980

The 1980 Legislature made the following changes in the laws governing the Minneapolis Municipal Employees Retirement Fund (MMER) and the three first class city teachers' retirement funds, the Duluth Teachers Retirement Fund Association (DTRFA), the Minneapolis Teachers Retirement Fund Association (MTRFA), and the St. Paul Teachers Retirement Fund Association (StPTRFA):

I. PROVISIONS APPLICABLE TO ALL FIRST CLASS CITY FUNDS

Laws 1980, Chapter 609, Article VI, Section 28, (HF 1781), modified and expanded the teacher early retirement incentive program. Any person employed in a public elementary, secondary or area vocational-technical school as a member of the instructional or supervisory staff who has had at least 15 years of full time teaching service in the public schools and who is at least 55 years of age was authorized to apply to the school board of the employing district for a contract for termination of services, withdrawal from active teaching service, and payment of an early retirement incentive. Early retirement incentives are in the amount of \$10,000, reduced by \$500 for each year the teacher is over the age of 55 to a maximum of 60 years, and by \$1500 for each year the teacher is over 60. Teachers employed by a school district which is implementing a desegregation plan receive early retirement incentives of \$15,000, reduced by \$750 for each year over 55, and by \$2,250 for each year over 60 for teachers retiring at the end of the 1979-1980, 1980-1981, and 1981-1982 school years. Early retirement incentives are paid by the school district with the state reimbursing the district for 50% of the amount. Teachers who retire under the program can later be re-employed as a substitute teacher. This program affects MMER because some non-teaching employees of the Minneapolis school district, such as nurses, who are eligible for early retirement under this early retirement incentive program are members of MMER rather than the teachers retirement fund associations.

II. PROVISIONS APPLICABLE TO MMER

Laws 1980, Chapter 342, Section 22, (SF 960), provided that MMER was not authorized to pay a retirement allowance to a former, present, or future elective officer of the city unless that official had attained the age of at least 60 years or unless the official had at least 30 years of service.

Laws 1980, Chapter 607, Article XVI, (HF 1121), provided numerous changes in the laws governing MMER:

A. Section 1 related to the composition of the retirement board. One technical change provided that the seat formerly held by the comptroller of the city is to be held by the city comptroller-treasurer. The residency requirement for the four legally qualified voter-members of the board was repealed.

B. Section 3 provided that the board can designate certain positions under the supervision of the board to be unclassified positions that will not be subject to the applicable civil service laws and rules of the city.

C. Section 4 provided that the city comptroller-treasurer serve as treasurer of the board.

D. Section 6 provided that the retirement board rather than the city treasurer be custodian of the funds subject to their control. The board will no longer be subject to the terms, conditions, limitations and restrictions imposed by law upon savings banks in the making and disposing of their investments. Minnesota Statutes 1978, Section 422A.17, which provided that the city treasurer be the custodian of the funds and provided standards for the deposit of the funds, was repealed.

E. Section 7 stated the standard of care to which the members of the board, the executive director, the board staff and all persons charged with responsibility of investing money are to be held. The standard of care, known as the prudent person rule, is identical to that found in the recodification of the laws governing the State Board of Investment in Article XIV of Laws 1980, Chapter 607.

F. Section 8 added a conflict of interest provision providing that no member of the board may participate in deliberations or in voting on any matter which would or could likely result in direct, measurable personal gain to the member. Minnesota Statutes 1978, Section 422A.07, which contained different language concerning conflicts of interest was repealed.

G. Section 9 authorized the board to invest in a broad range of investments with regard to stocks and obligations of corporations organized under the laws of the United States or of Canada, or corporations traded on the New York or American Stock Exchange. Minnesota Statutes 1978, Section 422A.05, Subdivision 2, which contained the previous authorization, was repealed.

H. Section 10 broadened the board's authority to invest in real estate by repealing the requirement that the board invest only in obligations insured by the federal housing administration. The board was authorized to invest in mortgage participation certificates and pools secured by first mortgages or trust deed if there was a guarantee of replacement in the event of a default, and where the loan to value ratio did not exceed 80%. The board is no longer required to prorate the cost of making or foreclosing mortgages against the earnings of mortgages. The board is now authorized to employ agents, attorneys, appraisers and others to handle and service all investments, not only mortgages.

I. Section 11 removed the requirement that payments from the fund be made by warrants signed by the city treasurer. The MMER revolving fund is no longer required to be kept in the same bank or trust company in which the city treasurer keeps other retirement funds. The revolving fund is no longer to be considered as a fund of the city for purposes of bonding by the bank or trust company to protect the city against loss.

J. Section 15 amended the laws which provided that all pensions, annuities, retirement allowances, refunds, and death benefits granted by the MMER board were obligations of the city. The city is now obliged to pay 6% interest per annum, rather than 4%, on any deficiency from the previous year's levy.

K. Section 16 amended the law which permits elected officials, who are normally exempt from membership in the fund, to become contributors to MMER. The interest rate on contributions made by such officials to purchase credit for prior service was increased to 6% compound interest from 4% compound interest.

L. Section 17 instructed the revisor of statutes to substitute the term "executive director" for the term "executive secretary" in Chapter 422A which governs MMER, and to substitute "six percent interest" wherever "four percent interest" appears in reference to the Minneapolis Municipal Employees Retirement Fund.

M. Section 18 provided that the board could retain any portfolio securities held by the board which met statutory criteria at the time of purchase but which became nonconforming as a result of this new legislation.

Sections 2, 5, 12, 13 and 14 contained no substantive changes.

Article XVI is effective upon compliance with Minnesota Statutes, Section 645.021, Subdivision 3..

III. PROVISIONS APPLICABLE TO THE FIRST CLASS CITY TEACHERS FUNDS

A. Laws 1980, Chapter 342, Section 14, (SF 960), provided for an increase in the salary maximum applicable to the substitute teacher exception in the mandatory retirement laws applicable to the first class city teachers funds. The maximum earnings amount, previously set at \$3,000, will be set automatically each year at the same level for a given age as the limitations applicable to recipients of Social Security. The 1980 earnings limitations for those over 65 is \$5,000. There is no limitation for those over age 72. Any teacher over 65 working as a substitute or part-time teacher must terminate employment for the remainder of the academic year once the earnings maximum has been exceeded.

B. Laws 1980, Chapter 609, Article V, Section 22, (HF 1781), provided that part-time adult supplemental vocational-technical school teachers could be excluded from membership in the first class city teachers funds provided the teaching service was incidental to the person's regular non-teaching occupation and the teaching service did not exceed 300 hours in a fiscal year.

TO: Legislative Commission on Pensions and Retirement

FROM: Karen Dudley, Commission Staff

RE: 1980 Legislation Applicable to Local Police and Firefighters Relief Associations

DATE: May, 1980

The 1980 Legislature made the following changes in the general and special laws governing the various local police and firefighters' relief associations:

I. General Law Provisions applicable to local Police and Salaried Firefighters:

- A. Laws 1980, Chapter 341, Sections 1 and 9, (SF 1128), imposed a two percent of salary increase in the minimum required member contribution as a condition for further receipt of police or fire state aid. Members of the Austin Police and Firefighters Relief Associations are exempt from this requirement if the governing body of Austin approves the exception provided for in Section 9. The new minimum member contribution paid for retirement and survivorship benefits applies only to the local police and salaried firefighters relief associations. The increase from six percent to eight percent is to begin after January 1, 1981. To avoid an undue increase in the amount of employee contributions in any one year, the governing body of the municipality can spread the increase over several years, but the increase in rate in each year commencing in 1981 is to be not less than one percent until the appropriate rate is reached.
- B. Laws 1980, Chapter 607, Article XV, (HF 1121), provided the following changes:
1. Section 4, Subdivision 1, required all local police and salaried firefighters relief associations to phase out by placing all their newly employed personnel, after June 15, 1980, into the Public Employees Police and Fire Fund (PERA-P&F) unless the city elects to retain the local fund for all personnel. Any municipality which elects to retain the local relief association must do so by the adoption of a municipal resolution approved by a majority of the governing body of the municipality after a public meeting at which the views of the public are considered. A copy of the municipal resolution is to be filed with the secretary of state, the commissioner of finance, the commissioner of insurance, and the executive secretary of the Legislative Commission on Pensions and Retirement on or before August 15, 1980.
 2. Section 4, Subdivision 2, provided for the operation of local relief associations after the modification of retirement coverage for newly hired police officers and firefighters. Once the relief association begins to phase out by placing all new personnel into PERA-P&F, the minimum obligation of the municipality continues to be governed by Minnesota Statutes, Sections 69.77, 356.215 and 356.216, except that the normal cost calculations are computed as a percentage of payroll paid to the active members of the relief association.

When every active member of the relief association retires or terminates, the local relief association will cease to exist as a legal entity and the assets will be transferred to a trust fund established by the municipality for the purpose of paying service pensions and retirement benefits. As long as there are at least five recipient beneficiaries, the trust fund will be managed by a

board of trustees composed of five members selected by the recipient beneficiaries. When there are fewer than five recipient beneficiaries, the governing body of the municipality will govern the trust fund. Trustees will only be reimbursed for expenses actually and necessarily incurred in the performance of their duties as trustees. The municipality is to perform whatever services are necessary to administer the trust fund. The balance of assets of the trust fund will revert to the municipalities only after all obligations of the trust fund are paid.

Financial requirements and minimum obligations of the municipality with respect to the trust fund continue until the unfunded accrued liability is fully amortized. The municipality must provide in its annual budget for the aggregate amount of service pensions, disability benefits, survivorship benefits and refunds projected as payable for the following calendar year, less the amount of assets in the trust fund.

The salary base for the applicable position as specified in the articles of incorporation or bylaws on June 14, 1980, shall continue to be the salary base for calculating service pensions, other retirement benefits, and the amount of any escalated increases in service pensions or retirement benefits, irrespective of whether retirement coverage for persons holding the applicable position is provided by the local relief association or by PERA-P&F.

Municipalities in which the local relief associations are phasing out have three options concerning the disbursement of police and fire state aid. The municipality can elect to 1) transmit the total state aid to the treasurer of the local relief association; 2) apply the total state aid toward the municipality's employer contribution to PERA-P&F; or 3) allot the state aid proportionately between the special fund of the local relief association and the employer contribution to PERA-P&F on the basis of the respective number of officers or firefighters receiving retirement coverage from each.

3. Section 2 required all local police and salaried firefighters' relief associations to amortize their unfunded accrued liabilities by December 31, 2010. The previous law required frozen level deficit funding of the relief association by stating that the financial requirements of the relief association consisted of the dollar amount of normal cost plus the amount of one year's interest at five percent on the unfunded liability. The new law stated that the financial requirements of the relief association consist of the dollar amount of normal cost plus an amount equal to the level dollar amount required to amortize the unfunded accrued liability by December 31, 2010, as determined by the most recent actuarial survey prepared in accordance with Sections 356.215, Subdivision 4, and 356.216.

4. Section 5 provided for the establishment of the local police and firefighters' relief association amortization state aid program. Municipalities are eligible to receive amortization state aid unless the municipality elects to retain the local relief association for all personnel. The amount of amortization state aid is based on the unfunded accrued liability of the relief association as reported in the 1978 actuarial valuation of the relief association. Upon annual application to the commissioner of finance, a municipality is entitled to an amount equal to the level annual dollar amount required to amortize less the dollar amount required to pay interest on the unfunded accrued liability. Payment of the amortization state aid is to be made directly to the municipality in four equal installments on March 15, July 15, September 15, and November 15 of each year.

The municipal treasurer is to transmit the aid amount to the relief association treasurer for immediate deposit in the special fund of the relief association.

The amortization state aid program is to provide the amount needed to begin to amortize the principal of the unfunded accrued liability of the relief association without necessitating a property tax increase. Section 2 states that the minimum obligation of the municipality is the amount necessary to pay normal cost and to amortize less the estimated amount of member contributions from covered salary anticipated in the following calendar year, and less one year's estimated receipts expected from the applicable police or fire state aid program and from the local police and salaried firefighters' relief associations amortization program.

5. Sections 4 and 7 provide alternative benefit increases for all current active members of local police and salaried firefighters' relief associations which phase out. (Section 9 provided a benefit increase applicable only to members of the Minneapolis Police and firefighters' relief associations.)

The benefit increase in Section 4, Subdivision 3, provided a longevity increase of one-half of one percent per year of service in excess of twenty-five years. The longevity increase is in addition to the service pension. The longevity increase is to be calculated on the salary on the date of termination of service, and the longevity increase is not subject to any escalation. Municipal authorization is not required for the implementation of this benefit.

Section 7 provided for an alternative benefit in lieu of the Section 4, Subdivision 3, benefit. The governing body of a participating municipality is authorized, following consideration of an actuarial analysis of the effect of any change, to modify any provision of the benefit plan of the relief association. The total cost of any increase or modification, including amortization, is not to exceed 1.26 percent of covered payroll. This authorization to grant an alternative benefit, which is subject to local approval, expires the first day of the legislative session in 1981.

6. Section 4, Subdivision 4, provided a limited automatic post retirement adjustment for active and retired members of the following: Buhl Police Relief Association; Crookston Police and Firefighters Relief Associations; Eveleth Joint Retired Police and Firefighters Retirement Trust Fund; Moorhead Police and Firefighters Relief Associations; Thief River Falls Police Retirement Fund, Virginia Firefighters Relief Association; and West St. Paul Police Relief Association. The local association must be phased out to receive the benefit adjustment. The local municipality must approve the increase within ten months following the June 15, 1980, effective date for the section.

Members of the associations who are entitled to receive the benefit increase include 1) members of the applicable associations who comply with all requirements for entitlement to a service pension and who begin receiving the service pension after attaining age 55; 2) members of the covered associations who retired before age 55, and who subsequently attain the age of 55 years; and 3) retired members who are at least 55 years of age and who are currently receiving a service pension.

Retired members over age 55 who already are receiving a service pension are entitled to receive the post retirement adjustment beginning on the January 1 next following the effective date of the approval of the benefit modification. Retired members who are not yet 55 years of age are entitled to receive the post retirement

adjustment on the January 1 next following their 55th birthday. Active members of the association are entitled to receive the post retirement adjustment beginning on the January 1 next following retirement after age 55.

The escalator permitted by Section 4, Subdivision 4, increases the benefit payments to benefit recipients by the same percentage, not to exceed three and one-half percent in any year, as the increase in compensation paid to a top grade patrol officer or a top grade firefighter, whichever is applicable. Any increase in the salary level of the applicable position which is in excess of three and one half percent cannot be carried over to be used in calculating the rate of salary increase in any succeeding year.

7. Section 6 provided that municipalities which had begun to phase out their local relief associations by special law be entitled to take advantage of the various provisions of Section 4, such as the amortization state aid program of Subdivision 5; the provisions of Subdivision 2 governing the operation of local relief associations after the new personnel are placed in PERA-P&F; the longevity benefit increase of Subdivision 3; and the limited escalator provisions of Subdivision 4. The provisions of Section 4 can be made applicable by the adoption, by the majority vote of the governing body, of a resolution implementing the provisions of Section 4 which are not present in or which are in substantial conflict with the applicable special law. A copy of the resolution is to be filed with the secretary of state, the commissioner of finance, the commissioner of insurance, and the executive secretary of the Legislative Commission on Pensions and Retirement.

8. Section 3 increased the PERA-P&F survivor benefit family maximum from \$450 per month to 50% of the salary of the deceased active member for the six months prior to the date of death.

II. General Law Provisions Applicable to Volunteer Firefighters Relief Associations.

Laws 1980, Chapter 607, Article XV, (HF 1121), provided the following changes:

- A. Section 11 authorized volunteer firefighters' relief associations to amend the bylaws of the relief association to grant periodic post retirement increases to retired members and other retirement benefit recipients. Municipal approval is required for such increases.
- B. Section 12 authorizes the substitution of a retired member for an active member on the board of trustees of the relief association.
- C. Section 15 provided retroactive approval for volunteer firefighters' relief associations which granted a post retirement increase prior to the effective date of Laws 1979, Chapter 201.

III. Special Law Provisions Governing Local Police and Firefighters' Relief Associations

[Minnesota Statutes, Section 645.021, provides that special laws require approval by the local government unit or units affected, and the filing of a certificate of approval with the Secretary. If a local government unit fails to file a certificate of approval before the first day of the next regular session, the law is deemed to be disapproved by the unit.]

- A. Laws 1980, Chapter 607, Article XV, Sections 8, 9, 10 and 21, (HF 1121), amended the laws applicable to the Minneapolis Police and Firefighters Relief Associations.

Section 8 provided that the minimum employee contributions for

retirement and survivorship benefits by each member is to be seven percent of the applicable salary, effective July 1, 1980, and eight percent, effective January 1, 1981.

Section 9 provided a monthly health and welfare benefit in an amount equal to one unit for members of the relief associations unless the municipality elects to retain the local relief associations for all personnel. Any person who retires on a service pension or disability benefit after July 1, 1980, from either relief association is entitled to the benefit on January 1, 1981, or on the date of retirement, whichever is later. The monthly health and welfare benefit is to be paid to the retired member unless the retired member designates in writing that the amount be paid to an insurance carrier to defray the cost of health or welfare related insurance coverage.

Section 10 required the Minneapolis relief associations to include the cost of the health and welfare benefit as determined by the actuary for each relief association in their determination of the financial requirements of the relief association to be submitted to the city on or before September 1, 1980. The city is required to provide sufficient financial support to meet its minimum obligation including the cost of the health and welfare benefit, effective January 1, 1981.

Section 21 authorized the city of Minneapolis to permit the police chief of Minneapolis to be excluded from membership in either the Minneapolis Police Relief Association or PERA-P&F, unless the person was a member of either fund at the time of appointment. The city was authorized to pay the police chief additional compensation to be deposited by the city in a deferred compensation program. The additional compensation, in lieu of the employer contribution to either the relief association or to PERA-P&F, is to be the dollar amount equal to the employer contribution to meet the normal cost obligation of the Minneapolis Police Relief Association as specified in the most recent actuarial valuation of the police relief association.

- B. Laws 1980, Chapter 341, Sections 2 to 5, (SF 1128), amended the laws governing the St. Cloud Police Relief Association.

Section 2 provided for future operation of the relief association as it is phased out: recipient beneficiaries are to fill positions on the board of trustees when there are insufficient active members; after the retirement or termination of the last active member the funds of the relief association will be placed in a trust fund managed by a board of trustees of recipient beneficiaries; and moneys of the trust shall revert to the city after all obligations of the association are paid.

Section 3 provided that the member contribution increase one quarter of one percent of the monthly salary of a top grade patrolman.

Section 5 provided that the city of St. Cloud make an additional municipal contribution to the relief association of one quarter of one percent of the monthly salary of a top grade patrolman.

Section 4 provided that the survivor's benefit increase from 18 units to 24 units per month. (A unit equals 1/75 of the salary of a top grade patrolman.)

- C. Laws 1980, Chapter 341, Section 6, (SF 1128), authorized the current chief of police of Bloomington to be a member of PERA-P&F rather than the local police relief association. All employee

contributions to the local association for the chief of police were to be transferred to PERA-P&F. The city was required to pay into PERA-P&F an additional amount which together with the employee contributions would equal the total employer and employee contributions which would have been required by PERA-P&F during the period of employment. PERA-P&F was authorized to credit the chief of police with service only upon receipt of the required amount.

- D. Laws 1980, Chapter 600, Section 16, (HF 1453), authorized the current chief of police of Moorhead to be a member of PERA-P&F rather than the local relief association. That authorization was identical to that for the police chief of Bloomington found in Laws 1980, Chapter 341, Section 6.
- E. Laws 1980, Chapter 600, Section 17, (HF 1453), authorized a former St. Louis Park police officer with 9 years and 10 months of service to purchase prior service as a St. Louis Park police officer in PERA-P&F. To be entitled to transfer all allowable service, the former officer must first be reemployed as a St. Louis Park police officer, repay any employee contribution refunds at six percent compound interest, and complete additional service sufficient to total ten years or more. The local relief association must then pay to PERA-P&F, before December 31, 1986, an amount equal to the combined employer and employee contributions plus six percent compound interest from the date the contributions were originally received. If the amount paid is less than the amount which would have been required had the individual been a PERA-P&F member during the periods when the service was rendered, the police officer must pay the difference or the governing body of St. Louis Park can elect to make the payment. If an excess amount is paid, the excess is to be refunded to the local relief association. No PERA-P&F service credit is to be granted until all conditions of the section are fulfilled and all required payments made.
- F. Laws 1980, Chapter 341, Section 7, (SF 1128), permitted a certain full time employee of the public works department of the city of St. Anthony who has as part of his municipal duties the secondary responsibility of providing service as a firefighter to be a member of PERA-P&F as an employee serving on less than a full time basis as a firefighter within the meaning of Minnesota Statutes, Section 353.64, Subdivisions 1 and 3.
- G. Laws 1980, Chapter 607, Article XV, Section 23, (HF 1121), ratified previously enacted municipal ordinances of the cities of Richfield and Crystal which required that newly hired police and fire personnel have their retirement coverage provided by PERA-P&F.
- H. Laws 1980, Chapter 607, Article XV, Section 13, (HF 1121), authorized the city of Hibbing to establish and maintain or continue separate relief associations for its volunteer and salaried firefighters. Fire state aid amounts are to be allocated proportionately between the two relief associations. Members of the Hibbing salaried firefighters relief association are no longer entitled to be members of or accrue any additional service credit in the Hibbing volunteer firefighters relief association. Persons prohibited from accruing further service credit in the volunteer firefighters relief association who would not have sufficient years of service with either the salaried firefighters relief association or the volunteer firefighters relief association to be entitled to a service pension when otherwise qualified were entitled to receive a proportionate service pension based on the number of completed years of service.

- I. Laws 1980, Chapter 607, Article XV, Section 14, (HF 1121), provided for a \$50 per month increase in benefits paid to retired members of the Eveleth police and fire trust fund. Survivors' benefits were increased \$25 per month. Increases were retroactive to January 1, 1980.
- J. Laws 1980, Chapter 600, Sections 18 and 22, (HF 1453), authorized the Rochester Police and Firefighters Relief Associations to invest in any securities in which other local police and salaried firefighters' relief associations are entitled to invest. Section 22 repealed the former language which restricted the investment authority of the two relief associations.
- K. Laws 1980, Chapter 600, Section 11, (HF 1453), amended the laws governing the Duluth Police Relief Association to reduce the length of marriage requirement in the definition of spouse for purposes of survivor benefits from three years to one year.
- L. Laws 1980, Chapter 600, Sections 12 to 15, (HF 1453), clarified gender references in laws governing the St. Paul Police Relief Association to provide that the benefits of the association are applicable to both male and female members of the association, their surviving spouses and their children. Section 12 included the spouse of an "on duty" disability pensioner in the definition of "surviving spouse".

State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

TO: Rep. Fred Norton

FROM: Lawrence Martin, Exec. Sec.

RE: Background Information on Pension Issues Facing the 1980
Legislative Session

DATE: February 21, 1980

As you requested, I have prepared a brief background summary on a number of pension issues which are before the 1980 Legislature.

There are four major pension issues which are likely to be addressed this session:

- 1) funding of the four teacher retirement funds;
- 2) investment of public pension fund assets;
- 3) revision of the post retirement adjustment mechanism;
- 4) authorizing municipalities to phase out their local police and fire funds.

Teacher Retirement Funding (HF 1964 (Moe); SF 1712 (Strand); HF 1857 (Patton))
The current support for the four teacher retirement funds in the state (Teachers Retirement Association (TRA), Duluth Teachers Retirement Fund Association (DTRFA), Minneapolis Teachers Retirement Fund Association (MTRFA) and St. Paul Teachers Retirement Fund Association (StPTRFA) is insufficient to meet full amortization or frozen deficit financing requirements of the funds as calculated by the actuaries of the funds. The deficiency in financing is substantial, potentially jeopardizing the future security of the funds involved and requiring greater eventual tax support into the future than if the financing was adequate. Since 1976, the TRA unfunded accrued liability has grown from \$598.12 million to \$1.02 billion and the aggregate unfunded accrued liability for the four funds has increased over the same period from \$755.72 million to \$1.31 billion. The additional financing needed is \$111.1 million per biennium for the next 30 years, up from \$89.7 million per biennium requested by the Commission last session.

Investment of Public Pension Fund Assets (HF 1915 (Moe), SF 1607 (Schaaf))
The State Board of Investment is requesting a total revision in the statute chapter governing the operation of the State Board and the Investment Department, and the definition of permissible securities for investment of state funds and pension fund assets. The authorized investments open to the State Board of Investment would be expanded by the bill. The bill has attracted the interest of various groups both within and outside the public pension funds, particularly issues like the representation of active and retired pension fund members on the State Board of Investment or its Investment Advisory Council and the addition of social criteria in the investment of public pension fund assets (such as restricting investments in certain types of corporations for social policy reasons or targeting investments to Minnesota related investments even if investment return is diminished).

Revision of Post Retirement Adjustment Mechanism (HF 1914 (Moe); SF 1635 (Ogdahl))

The State Board of Investment is also requesting a revision of the Minnesota Adjustable Fixed Benefit Fund, the statewide pension funds' post retirement adjustment mechanism. The mechanism provides increases after retirement when investment performance exceeds the assumed rate of investment return (5%). The current mechanism is exceedingly complex and has not provided

regular post retirement increases recently. The revision is hoped to simplify the operation of the mechanism and make post retirement increases more regular in the future. The Public Employees Retirement Association (PERA) has selected the bill as its major legislative proposal.

Phase Out of Local Police and Fire Funds (HF 2033 (Moe); SF 1965 (Peterson))

A proposal recently considered and recommended by the Commission would authorize municipalities to phase out their local police or salaried firefighters' relief associations into the statewide Public Employees Police and Fire Fund (PERA-P&F) by requiring all newly hired personnel to become members of PERA-P&F rather than the local relief association. To assist municipalities in amortizing the unfunded accrued liabilities of the local relief associations, a local relief association amortization state aid program is proposed at a cost to the state's general fund of \$6.5 million annually. Current active members of the local relief associations also would receive a benefit increase. The bill is supported by the League of Minnesota Cities, St. Paul and Minneapolis, but is opposed by the local police and salaried firefighters' relief association members, especially from Minneapolis.

Remaining Potential Pension Issues

There are a number of pension issues which may receive attention by the Legislature this session. A list of these issues and a very brief summary of each is as follows:

- 1) Purchases of Prior Service: Many pension fund members now seek to obtain service credit for periods of service for which they had made no contributions to the pension fund previously.
- 2) Consolidation of Management of Various Pension Funds: There has been considerable turmoil on the PERA Board of Trustees in recent years, leading to the introduction of legislation which would merge the management of PERA with that of the Minnesota State Retirement System (MSRS) (HF 1194 (Patton)).
- 3) Legislators Pension Plan; Vesting Requirement: There are numerous proposals increasing the minimum service requirement for vesting for a benefit from the plan beyond 6 years.
- 4) Volunteer Firefighters' Relief Associations; Increases to Retired Members: Many volunteer firefighters' relief associations seek authority to increase the service pension paid to retired members at the same time and by the same amount as the increase in service pension amount for active members is approved, which is not currently permitted under the revision of the volunteer firefighters' relief association laws enacted by the 1979 Legislature.
- 5) TRA Variable Annuity Program: Many TRA members have part of their retirement coverage provided by the TRA Variable Annuity Program rather than the TRA Full Formula Program based on their election programs in 1969, and the Variable Annuity Program has not provided a benefit comparable to that provided by the Full Formula Program. These persons seek to have their Variable Annuity Program service shifted to the Full Formula Program, which would increase the TRA unfunded accrued liability by over \$60 million.
- 6) PERA Hospital District Employees: Many Public Hospital Districts seek to make PERA coverage optional for their employees, so that they would not have to provide retirement coverage beyond Social Security coverage for these folks. This is contrary to the Commission's general policy of pension fund membership by all public employees.

- 7) TRA Membership for Part Time AVTI Personnel: The area Vocational Technical Institutes are seeking to exclude various groups of part time AVTI teachers from TRA retirement coverage, which is contrary to the Commission's general policy of pension fund membership for all public employees.

- 8) Benefit Increases for Various Groups of Public Employees: Many groups of public employees are seeking improvements in the various public pension funds, especially automatic indexed cost of living post retirement increases, increases in the retirement annuity formula, improved survivor benefit coverage, improved disability coverage, improved portability of pension fund service credit and employer paid health insurance coverage during retirement. The Commission does not anticipate approving benefit increases given the current funding problems facing the four teacher retirement funds and the need to keep the benefit plans of the various public pension funds uniform.

I hope this adequately responds to your request. If you have any questions about any of the information contained here or any other pension matter, please feel free to contact me at your convenience.

LAM/ed