

S.F. 810
(Pogemiller)

H.F. 855
(Mares)



Executive Summary of Commission Staff Materials

Affected Pension Plan(s): PERA-General
Relevant Provisions of Law: Primarily Minnesota Statutes, Chapter 353
General Nature of Proposal: Membership Eligibility Changes, Contribution Increases, Benefit Changes, and Additional State Aid (S.F. 810 only)
Date of Summary: March 2, 2001

Specific Proposed Change(s)

- **Membership Eligibility.** All employees of local governments, including non-teaching school district employees, would become members of PERA with the exception of seasonal employees. The current law requirement that employees must earn at least \$425 in a month to be required to become a member of PERA would be eliminated.
- **Prorated Service Credit.** PERA would begin prorating service credit on July 1, 2002, so that employees will be granted service for purposes of calculating their retirement benefits on a fractional basis if they work less than half-time. Half-time is defined as 80 compensated hours in a month.
- **Contribution Rates.** Employees and employers would share equally in contribution rate increases – both employees and employers will realize a 0.375% contribution rate increase beginning in January, 2002. If this and other funding modifications are insufficient to meet the plan's financial requirements over the next two years, these contribution rates would increase by another 0.25% in January, 2004.
- **Extended Amortization of Liabilities.** The full-funding target date would be extended from the year 2020 to 2031.
- **Vesting Requirement Change.** Employees who become members of PERA after June 30, 2002, would have to work five years in PERA-covered employment in order to be eligible for a PERA retirement benefit, rather than three years.
- **Enhanced Refunds.** Employees who are vested and terminate PERA-covered employment after June 30, 2001, would be eligible for a refund of a portion of contributions made by their employer on their behalf – for employees claiming a refund before age 55, 25% of the employer contribution plus interest and 50% for employees claiming a refund after age 55.
- **Reduced Augmentation on Deferred Benefits.** The augmentation of deferred benefits would be reduced from 5% after age 55 to 3% for members who terminate after June 30, 2001.
- **Employer Additional Contribution Increase.** (S.F. 810 (Pogemiller) only.) PERA employers would contribute an additional 0.75% of payroll to PERA.
- **Increased State Aid.** (S.F. 810 (Pogemiller) only.) The state would grant PERA employers 0.75% of their 2000 payroll (estimated at \$27 million).

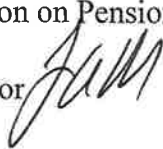
Policy Issues Raised by the Proposed Legislation

1. **Appropriateness of Membership Eligibility Changes.** The elimination of some current membership exclusions and the addition of new exclusions makes the net impact of the changes unclear.
2. **Appropriateness of Proposed Service Credit Proration.** The proration is not done on the same basis as other plans and constitutes a benefit downsizing for some employees.
3. **Appropriateness of Imposing Longer Vesting Requirements.** The current vesting requirements were promoted by PERA in 1989, have limited financial impact, are delayed, and omit the current 57,000 nonvested PERA-General members.

4. **Appropriateness of Providing An Enhanced Refund Amount.** The enhanced refund may not produce any gains when it nets out, may further reduce the number of PERA members who actually benefit from the plan, and set the stage for expansions in amount and lump sum benefit cashouts at retirement.
5. **Appropriateness of the Reduced Deferred Annuities Augmentation Rate.** The change, which has a prior precedent, is a benefit reduction.
6. **Actuarial Impact of Proposed Benefit And Membership Changes.** No actuarial figures have yet been supplied by PERA.
7. **Appropriateness of the Proposed PERA-General Benefit Changes in Light of Other Likely Benefit Improvement Proposals.** The PERA benefit changes generally go in the opposite direction of other likely 2001 proposed pension legislation.
8. **Adequacy of the Proposed Contribution Rate Increases.** The S.F. 810 (Pogemiller) contribution increases exceed the funding shortfall, so the need for the benefit changes is unclear.
9. **Appropriateness of the Amortization Target Date Change.** The target date resetting removes PERA from the general law provision, which may negatively impact it in the future.
10. **Appropriateness of the Proposed Additional PERA State Aid Program.** The aid program has a \$27 million annual price tag for the next 30 years and is not funded from other retirement savings, so it will impact budget division target figures.
11. **Lack of Uniformity With Other General Employee Public Pension Plans.** The proposed legislation is absolutely inconsistent with uniformity.
12. **Precedent.** The proposed legislation is a precedent for nonuniformity in pension plan benefits and for benefit reductions.
13. **Appropriateness of the Proposed Legislation in Light of Other Potential Remedies to the Problem.** There are a number of other potential remedies that the Commission should consider before settling on this package.
14. **Consequences of Inaction.** The PERA package is delayed in many respects, so it actually represents considerable inaction. Actual inaction would allow the Commission to review the upcoming experience studies, due later this spring, which may be good or bad news.



TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director 

RE: S.F. 810 (Pogemiller); H.F. ____ (): PERA; Contribution Increases, Benefit Modifications, Coverage Changes, and Additional State Aid

S.F. ____ (); H.F. 855 (Mares); PERA; Contribution Increases, Benefit Modifications, and Coverage Changes

DATE: March 2, 2001

General Summary of S.F. 810 (Pogemiller); H.F. ____ ():

S.F. 810 (Pogemiller); H.F. ____ () amends various provisions of Minnesota Statutes, Chapter 273, relating to local property taxes and state aid to local governments; Chapter 353, relating to the Public Employees Retirement Association (PERA); and Chapter 356, relating to public retirement generally; by making the following changes with respect to PERA General Employee Retirement Plan (PERA-General) and Public Employees Police and Fire Retirement Plan (PERA-P&F):

1. Broadened Membership Eligibility. With the exception of newly excluded seasonal (under 185 days of employment per year) employees and work-study employees, all local government and non-teaching school district employees on and after July 1, 2002, are required to become members of PERA-General (Article 1);
2. Proration of Benefit Calculation Service Credit For Part-time Employees. For PERA-General and PERA-P&F members employed less than half-time (under 80 hours per month), after July 1, 2002, service credit for benefit calculation purposes would be prorated (Article 2);
3. Increased Coordinated Member and Employer Contribution. Beginning in January, 2002, PERA-Coordinated Program member and employer contribution rates each would be increased by 0.375 percent of covered payroll, and, if the PERA-General financing deficiency continues, beginning in January, 2004, PERA-Coordinated Program member and employer contribution rates would again each be increased by 0.25 percent of covered payroll (Article 3, Section 1);
4. Extended Amortization Target Date. The current 2024 amortization target date for eliminating the PERA-General unfunded actuarial accrued liability is extended seven years, to 2031 (Article 3, Section 2);
5. Five Year Vesting Requirement. For new entrants after June 30, 2002, the service requirement for obtaining a vested PERA-General retirement annuity or benefit is increased from three years to five years (Article 4, Sections 1, 2, 3, 4, 9, and 11);
6. Refund of a Portion of Employer Contributions. After June 30, 2001, vested PERA-General members who terminate active service receive an enhanced refund, including 25 percent of the employer contribution plus interest below age 55 and 50 percent of the employer contribution plus interest after age 54 (Article 4, Sections 5, 6, 7, 8, and 10);
7. Reduced Deferred Annuities Augmentation Rate. The deferred annuity augmentation rate for vested PERA-General or PERA-P&F members who terminate active service for a period before applying for a retirement annuity would be reduced from five percent (after age 55) to three percent for all ages (Article 4, Section 12);
8. Increased State Aid to PERA Employing Units. The 1997 state aid program for local government units and school districts is increased, with an additional annual \$27 million in State revenue allocated to employing units in proportion to their total covered payroll to offset increased employer contribution rates (Article 5, Section 1); and

9. Increased PERA-General Employer Additional Contribution Rate. Effective August 1, 2001, the PERA-General employer additional contribution increases by 0.75 percent (to 1.18 percent of covered payroll).

General Summary of S.F. (); H.F. 855 (Mares)

S.F. (); H.F. 855 (Mares) is identical to S.F. 810 (Pogemiller); H.F. () as summarized above, EXCEPT it does not include the increased state aid to PERA employing units (point 8, above) or an increased PERA-General employer additional contribution rate (point 9, above).

Section-By-Section Summaries

A section-by-section summary of S.F. 810 (Pogemiller); H.F. () and a section-by-section summary of S.F. (); H.F. 855 (Mares) are attached.

Background Information on the PERA Funding Problem

- a. General Background Information On PERA. The Public Employees Retirement Association (PERA) was established in 1931. The legislation governing the plan was modeled heavily on the 1929 law governing the State Employees Retirement Association (SERA), renamed in 1969 as the Minnesota State Retirement System (MSRS). PERA was the third major statewide public pension plan established by the Legislature, following the creation of the predecessor to the Teachers Retirement Association (TRA) in 1915 and the creation of SERA in 1929. PERA was the second public pension plan that was established by the Legislature for local government general (not specifically police or fire) employees, after the Minneapolis Municipal Employees Retirement Plan (now the Minneapolis Employees Retirement Fund (MERF)) in 1919. The 1931 PERA plan was the predecessor to the current PERA General Employee Retirement Plan.

Because PERA preceded the creation of the Social Security system (federal Old Age, Survivors, and Disability Insurance Program (OASDI)) and because Social Security initially did not extend to federal, state, or local government employees, PERA was a “basic” program. This means that the public employee’s entire retirement benefit comes from the public pension plan, without any Social Security benefit. PERA coordinated with Social Security for hospital employees in 1963 and for other local government employees in 1967.

- b. Background Information On PERA Funding Developments. The funding of PERA has been a continuing concern for the Commission since the creation of the Commission in 1955, which was reportedly prompted by the predicted financial bankruptcy of PERA.

Although PERA was established in 1931, actuarial valuations did not begin until 1943 and complete regular biennial or annual actuarial valuations did not begin until 1958. The 1955 special actuarial valuation indicated that PERA was 11.32 percent funded, with ongoing funding limited to member contributions only (four percent of pay), and with liabilities growing at a rate of 14 percent of pay. The results of the various past PERA actuarial valuations are summarized, from most recent (1999) to least recent (1943), in Attachment A.

In 1931, when PERA was established, the retirement plan was designed to be funded on a non-actuarial or “pay-as-you-go” basis. Local government employees in 1931-1932 were required to pay an initial application fee (\$1 in 1931, \$10 in 1932), were obligated to make member contributions of 3.5 percent of regular salary, and post-January 1, 1932, members were required to pay back member contributions to July 1, 1931, plus five percent compound interest. There was no employer contribution required.

In 1941, governmental subdivisions that impose a mandatory retirement age limitation on employment were required to pay one-half of the cost of all retirement annuities granted to public employees affected by mandatory retirement provisions, based on a PERA determination and certification.

In 1943, the member contribution was increased to four percent.

In 1956, governmental subdivisions that had elected to participate in PERA were required to make an employer contribution, with the employer contribution set at an amount equal to one-half of the member contributions of its employees (i.e., two percent of pay). Covered salary was also limited

to \$4,800 in 1949.

In 1956, the employer contribution was increased to four percent of salary, subject to a salary maximum of \$4,800. In 1957, the member contribution was increased to six percent of salary, up to a salary maximum of \$4,800. The employer contribution was increased to five percent of covered salary for fiscal year 1958. For fiscal year 1959, the employer contribution was increased to six percent of covered salary and a 2.5 percent of covered salary additional employer contribution was imposed.

With the creation of a coordinated program for some hospital employees in 1963, the hospital coordinated member contribution was set at three percent of covered salary, while the hospital coordinated employer contribution was also set at three percent of covered salary and the hospital coordinated additional employer contribution was set at two percent of covered salary for fiscal years 1964 and 1965 and at 1.5 percent of covered salary for fiscal years after 1965.

In 1965, the covered salary amount for both contributions and retirement annuity calculations increased from \$4,800 to \$6,000. In 1967, covered salary was increased to total salary. Also, in 1967, following a generally-applicable "split basis" Social Security referendum, the PERA coordinated program contribution rates were revised, at three percent of covered salary for the member contribution rate and for the employer contribution rate, and at 1.5 percent of covered salary for the additional employer contribution. In 1971, the PERA Hospital Employee Coordinated Program was transferred into the regular PERA Coordinated Program.

In 1973, contribution rates were increased. The member contribution rates were increased to eight percent of covered salary for the PERA Basic Program and to four percent of covered salary for the PERA Coordinated Program. The employer contribution rates were increased to equal the member contribution rates, while the additional employer contribution remained at 2.5 percent of covered salary for the PERA Basic Program and at 1.5 percent of covered salary for the PERA Coordinated Program.

In 1984, the PERA Coordinated Program additional employer contribution was decreased from 1.5 percent of covered salary to 0.25 percent of covered salary.

In 1989, contribution rates again were increased. The member contribution rates were increased to 8.23 percent of covered salary for the PERA Basic Program and to 4.23 percent of covered salary for the PERA Coordinated Program, with the employer contribution rates increasing by the identical amounts.

In 1997, contribution rates were again increased. The member contribution rates were increased to 8.75 percent of covered salary for the PERA Basic Program and to 4.75 percent of covered salary for the PERA Coordinated Program. The employer contribution rates increased identically, while the additional employer contribution rates increased from 2.5 percent to 2.68 percent for the PERA Basic Program and from 0.25 percent to 0.43 percent for the PERA Coordinated Program. A special state aid program was created for fiscal year 1998 and thereafter to cover the 1997 employer contribution increases.

c. Impact on PERA of Recent Actuarial Assumption Changes

1. In General. Under Minnesota Statutes, Section 356.215, Subdivision 5, every four years, an experience study is required to be performed by the consulting actuary retained by the Commission for the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General), and the Teachers Retirement Association (TRA).

The quadrennial experience study compares the actual experience of the pension plan for that five-year period with the expected experience for the same period under the actuarial assumptions then applicable for the pension plan. The quadrennial experience study is intended, along with the actuarial gain and loss assessment portion of the annual actuarial valuation, to identify the need for actuarial assumption revisions.

Once a series of the actuarial gain and loss assessments of the annual actuarial valuations and one or more quadrennial experience studies indicate that an actuarial assumption has

become an unreliable predictor of future occurrences, the process of developing a more reliable actuarial assumption and implementing a new actuarial assumption is initiated.

Because the actuarial services rendered to the Commission and the various public pension plans are provided by a combination of sources, chiefly the consulting actuary retained by the Legislative Commission on Pensions and Retirement and the consulting actuary retained as actuarial advisor by the applicable public pension plan, the task of the development of new actuarial assumptions can be performed by either consulting actuary or in combination. If there is a difference of opinion between these actuaries, professionally or personally, the development of new actuarial assumptions can be delayed or totally derailed.

Once revised actuarial assumptions are developed by an actuary, the revisions must be implemented. Minnesota Statutes, Section 356.215, Subdivision 4d, specifies the major economic actuarial assumptions, namely the interest (future investment performance) assumption, the salary growth (individual member) assumption, and the total payroll growth (total plan membership) assumption. Minnesota Statutes, Section 356.215, Subdivision 4e, requires the use of demographic and other economic actuarial assumptions that are consistent with the most recent quadrennial experience study (or the best estimate of future occurrences if no experience study for the applicable pension plan is required) and Minnesota Statutes, Section 356.215, Subdivision 7, requires the approval of nonstatutory actuarial assumptions by the Legislative Commission on Pensions and Retirement.

2. Annual PERA Experience Gain and Loss Assessments 1985-2000. The annual actuarial valuations are required to contain an exhibit that attempts to allocate the sources of increases and decreases in the unfunded actuarial accrued liability of the pension plan. Four experience gain or loss items (five before 1986) are required to be assessed in the actuarial valuation, which are salary increase, investment return, retiree (Minnesota Post Retirement Investment Fund) mortality, and other benefit recipient (non-MPRIF) mortality. Other gains or losses are not required to be separately identified, although the Standards For Actuarial Work prescribed by the Commission require that additional analysis should be performed if the undesignated "other" items of unfunded actuarial accrued liability change is greater than two percent of the actuarial accrued liability or exceeds \$50 million.

The following sets forth the annual actuarial gain and loss identification for PERA for the past 16 years (since the actuary retained by the Commission has performed the regular annual actuarial valuation):

	Salary Increase	Investment Return	MPRIF Mortality	Other Benefit Recipient Mortality	Active Member Separations	Other Items	Total Experience Gain or Loss
2000	(\$45,597,000)	(\$278,205,000)	(\$2,463,000)	(\$9,857,000)	--	\$128,968,000	(\$207,154,000)
1999	(\$57,350,000)	(\$90,800,000)	(\$72,180,000)	(\$10,853,000)	--	\$26,381,000	(\$204,802,000)
1998	(\$127,058,000)	(\$305,238,000)	\$13,961,000	(\$6,253,000)	--	\$107,800,000	(\$316,788,000)
1997	(\$51,416,000)	(\$343,935,000)	(\$7,117,000)	(\$7,847,000)	--	\$18,616,000	(\$391,699,000)
1996	(\$84,781,000)	(\$212,339,000)	\$10,697,000	\$3,621,000	--	\$125,257,000	(\$157,545,000)
1995	\$1,734,000	(\$50,279,000)	\$252,000	(\$3,479,000)	--	(\$14,702,000)	(\$66,474,000)
1994	(\$64,319,000)	\$4,688,000	\$18,713,000	(\$6,257,000)	--	\$749,000	(\$46,426,000)
1993	(\$194,983,000)	(\$70,650,000)	\$7,350,000	(\$1,211,000)	--	\$111,488,000	(\$148,006,000)
1992	(\$64,063,000)	(\$116,412,000)	\$9,946,000	\$37,000	--	\$154,671,000	(\$15,821,000)
1991	(\$37,628,000)	\$37,842,000	\$21,809,000	(\$3,077,000)	--	\$71,637,000	\$90,583,000
1990	(\$47,601,000)	(\$64,680,000)	\$7,007,000	\$3,981,000	--	\$112,138,000	\$10,845,000
1989	(\$8,029,000)	(\$82,424,000)	\$6,321,000	\$0	--	\$92,902,000	\$8,770,000
1988	(\$14,563,000)	\$35,626,000	\$7,582,000	\$3,605,000	--	\$114,861,000	\$147,111,000
1987	(\$28,131,000)	(\$85,600,000)	\$9,827,000	\$5,124,000	--	\$26,558,000	(\$72,222,000)
1986	\$5,803,000	(\$100,539,000)	\$13,178,000	\$4,335,000	--	\$56,960,000	(\$20,263,000)
1985	\$20,877,000	(\$74,470,000)	\$6,326,000	(\$2,091,000)	\$29,414,000	\$163,485,000	\$143,541,000

Note: \$123,456,000 indicates an actuarial loss
 (\$987,654,000) indicates an actuarial gain

The period 1985-2000, as assessed by the annual actuarial valuation gain and loss analysis, reflects significant salary gains (gains in 13 of the 16 years, averaging almost \$65 million per year of gain), very significant investment gains (gains in 13 of the 16 years, averaging

over \$135 million per year of gain), modest retiree mortality losses (losses in 13 of the 16 years, averaging \$10 million per year of loss), mixed gains and losses in other benefit recipient mortality (gains in 9 years and losses in 7 years), and relatively significant “other” losses (losses in 15 of 16 years, averaging over \$85 million per year of loss).

3. 1996 PERA Experience Study Results and 2000 Assumption Changes. The 1996 PERA experience study covered the period June 30, 1992 to June 30, 1996, and was reported to the Commission on May 29, 1997.

The following summarizes the results of the 1996 PERA-General experience study and the recommendations of the actuary retained by the Commission:

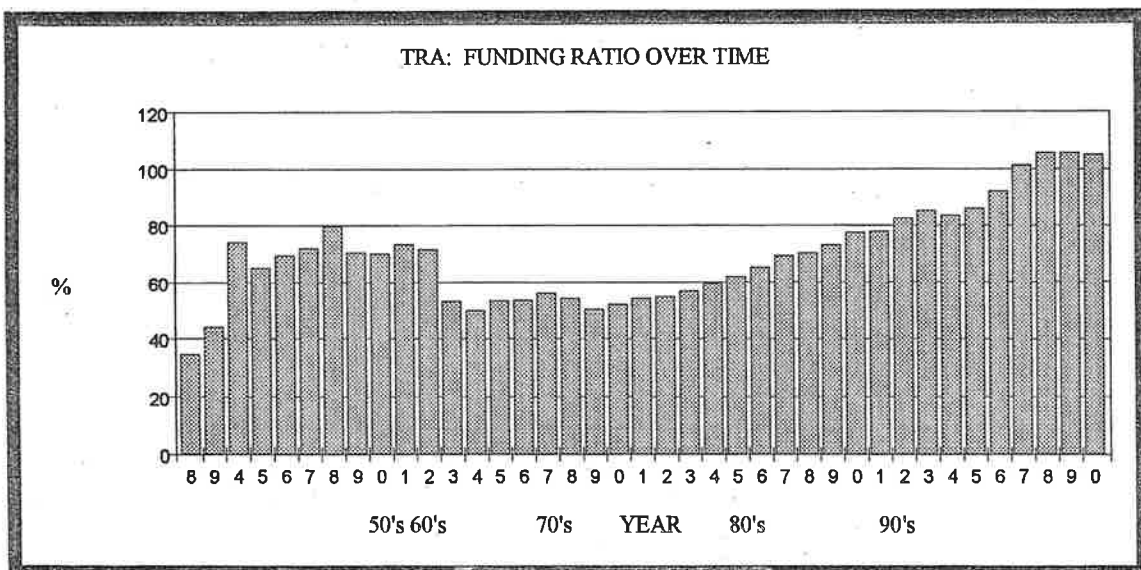
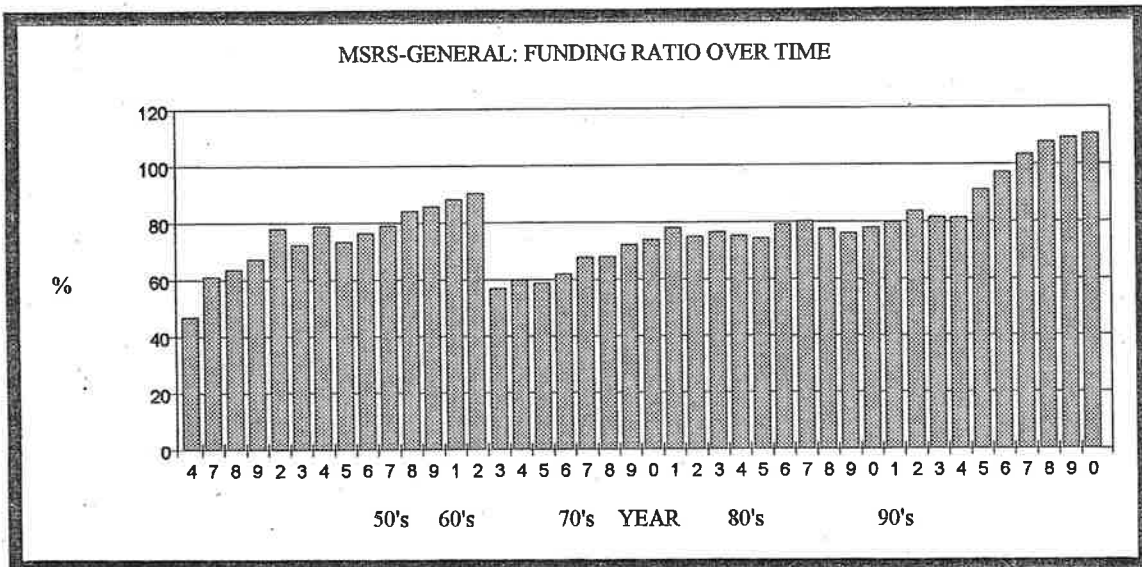
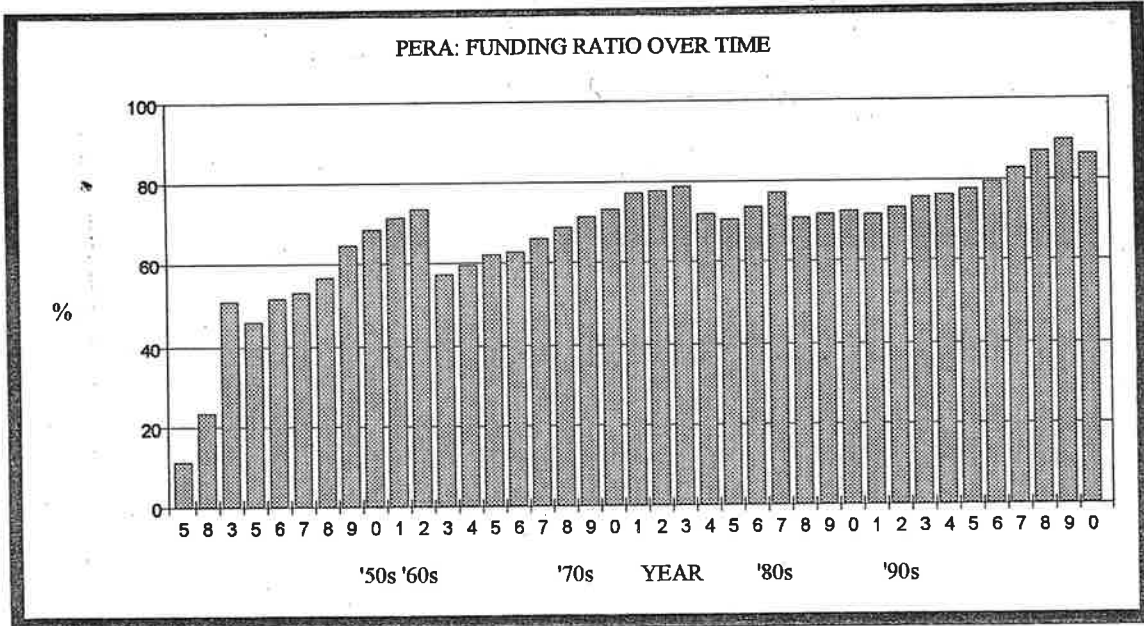
<u>Assumption</u>	<u>Analysis Observation/Conclusion</u>	<u>Recommendation</u>
<u>Interest</u>	Investment experience was favorable, averaging 12.9 percent, compared to the preretirement assumption of 8.5 percent.	Recommended retention of both the preretirement interest rate assumption and the postretirement interest rate assumption.
<u>Salary Increase</u>	Salary increases averaged 5.5 percent, with increases both age and service related and with the strongest correlation to service.	Recommended breaking the assumption into two components, a base increase assumption and a merit and longevity increase assumption. Recommended base increase rate of 4.5 percent and development of an assumption based on an age, service, or both by the plan and Commission actuaries.
<u>Payroll Growth</u>	Flat 6.5 percent assumption ignores the potential for increases/decreases in the number of active members and the impact of replacement active members.	Recommended breaking the assumption into two components, a base salary increase assumption and a total active membership growth assumption.
<u>Retirement</u>	Single age retirement assumption does not reflect the actual experience of retiring members, especially related to the utilization of the “Rule of 90” early normal retirement age. Period results also reflect the impact of early retirement incentives.	Recommended the development of an age-related retirement decrement table to more closely reflect future expected retirement patterns.
<u>Optional Annuity Selection</u>	Number of married retiring active members probably greater in the Basic Program than the Coordinated Program, based on the utilization of the subsidized joint and survivor optional annuity form.	Recommended no change.
<u>Active Member Disablement</u>	Actual disability rates are well below expected, especially for females.	Recommended that the disablement rates should be reduced, especially for females.
<u>Active Terminations</u>	Total active terminations are close to the assumption, but withdrawal rates are strongly correlated with both service and age. Potential data inconsistencies also exist.	Recommended that specific select and ultimate withdrawal tables be developed.
<u>Annuitant Mortality</u>	Annuitant mortality has been considerable below expected, especially ages 65-84.	Strongly recommended strengthening of the mortality assumption.
<u>Disabled Mortality</u>	Assumption is favorable, but relatively close to reality.	Recommended retention of assumption.
<u>Active Mortality</u>	Assumption experience is unfavorable.	Recommended consideration of a separate table with strengthened assumption.

The assumption changes recommended by the actuary retained by the Commission were approved by the Commission in February, 2000. The July 1, 2000 PERA-General actuarial valuation, in addition to the \$207.2 million net experience gain, also reflected a \$736.5 million increase in the unfunded actuarial accrued liability on account of actuarial assumption changes and a \$44.9 increase in the unfunded actuarial accrued liability on account of actuarial method changes (i.e., the redefinition of the actuarial value of assets).

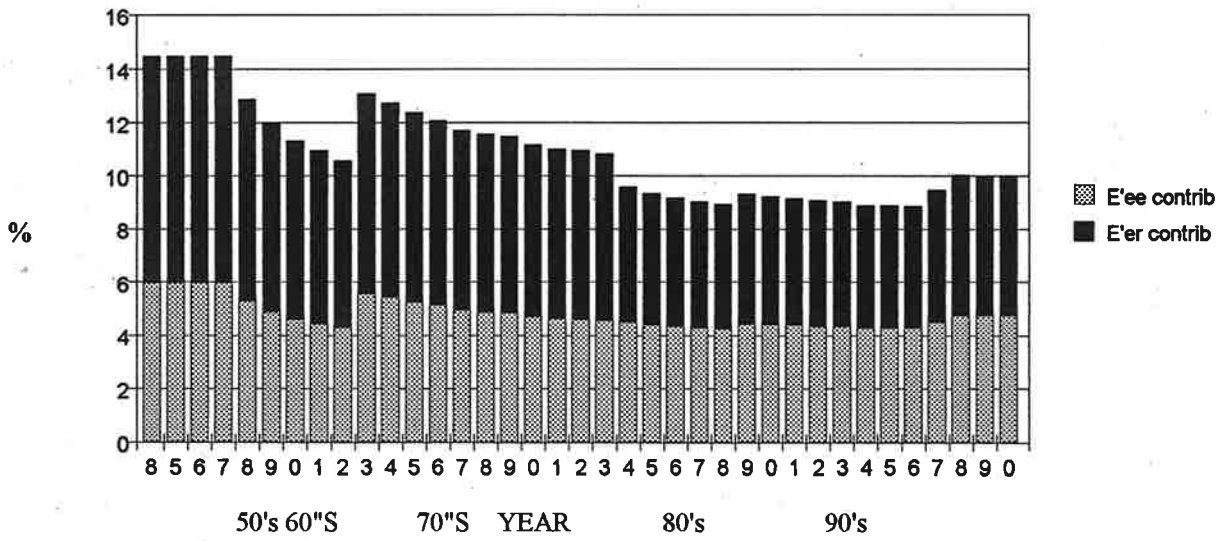
4. Current PERA-General Financing Insufficiency. The July 1, 2000, PERA-General actuarial valuation indicted a 1.96 percent of covered payroll (\$70.4 million) annual deficiency when the financial support (required member, employer, and employer additional contributions) of the pension plan is compared to the actuarial requirements of the pension plan. The results of that valuation are summarized and compared with the 1996, 1997, 1998, and 1999 valuation results, as follows:

	<u>1996</u>		<u>1997</u>		<u>1998</u>		<u>1999</u>		<u>2000</u>	
<u>Membership</u>										
Active Members		129,431		130,865		136,166		137,528		135,560
Service Retirees		32,906		34,168		36,187		38,077		39,940
Disabilitants		1,051		1,115		1,223		1,301		1,397
Survivors		5,423		5,531		5,732		5,881		6,010
Deferred Retirees		8,605		10,817		10,817		16,340		21,495
Nonvested Former Members		<u>11,448</u>		<u>15,162</u>		<u>15,162</u>		<u>18,491</u>		<u>79,362</u>
Total Membership		188,864		197,658		205,287		217,618		283,764
<u>Funded Status</u>										
Accrued Liability		\$7,270,073,000		\$8,049,666,000		\$8,769,303,000		\$9,443,678,000		\$11,133,682,000
Current Assets		<u>\$5,786,398,000</u>		<u>\$6,658,410,000</u>		<u>\$7,636,668,000</u>		<u>\$8,489,177,000</u>		<u>\$9,609,367,000</u>
Unfunded Accrued Liability		\$1,483,675,000		\$1,391,256,000		\$1,132,635,000		\$954,501,000		\$1,524,315,000
Funding Ratio	79.59%		82.72%		87.08%		89.89%		86.31%	
<u>Financing Requirements</u>										
Covered Payroll		\$3,073,106,000		\$3,214,578,000		\$3,385,720,000		\$3,544,488,000		\$3,602,750,000
Benefits Payable		\$312,511,000		\$342,154,000		\$412,746,000		\$467,602,000		\$527,119,000
Normal Cost	6.85%	\$210,507,761	7.11%	\$228,459,000	7.61%	\$257,628,000	7.49%	\$265,778,000	9.33%	\$336,088,000
Administrative Expenses	<u>0.19%</u>	<u>\$5,838,901</u>	<u>0.18%</u>	<u>\$5,786,000</u>	<u>0.22%</u>	<u>\$7,449,000</u>	<u>0.28%</u>	<u>\$9,925,000</u>	<u>0.23%</u>	<u>\$8,286,000</u>
Normal Cost & Expense	7.04%	\$216,346,662	7.29%	\$234,245,000	7.83%	\$265,077,000	7.77%	\$275,703,000	9.56%	\$344,374,000
Normal Cost & Expense Amortization	7.04%	\$216,346,662	7.29%	\$234,245,000	7.83%	\$265,077,000	7.77%	\$275,703,000	9.56%	\$344,374,000
Amortization	<u>2.71%</u>	<u>\$83,281,173</u>	<u>2.51%</u>	<u>\$80,686,000</u>	<u>2.01%</u>	<u>\$68,053,000</u>	<u>1.67%</u>	<u>\$59,193,000</u>	<u>2.38%</u>	<u>\$85,745,000</u>
Total Requirements	9.75%	\$299,627,835	9.80%	\$314,931,000	9.84%	\$333,130,000	9.44%	\$334,896,000	11.94%	\$430,119,000
Employee Contributions	4.29%	\$131,836,247	4.55%	\$146,127,000	4.79%	\$162,179,000	4.78%	\$169,398,000	4.77%	\$171,898,000
Employer Contributions	4.58%	\$140,748,255	4.92%	\$158,067,000	5.24%	\$177,504,000	5.23%	\$185,221,000	5.21%	\$187,823,000
Employer Add'l Cont.	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0
Direct State Funding	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0
Other Govt. Funding	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0
Admin Assessment	<u>0.00%</u>	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>
Total Contributions	8.88%	\$272,584,502	9.47%	\$304,194,000	10.03%	\$339,683,000	10.01%	\$354,619,000	9.98%	\$359,721,000
Total Requirements	9.75%	\$299,627,835	9.80%	\$314,931,000	9.84%	\$333,130,000	9.44%	\$334,896,000	11.94%	\$430,119,000
Total Contributions	<u>8.88%</u>	<u>\$272,584,502</u>	<u>9.47%</u>	<u>\$304,194,000</u>	<u>10.03%</u>	<u>\$339,683,000</u>	<u>10.01%</u>	<u>\$354,619,000</u>	<u>9.98%</u>	<u>\$359,721,000</u>
Deficiency (Surplus)	0.87%	\$27,043,333	0.33%	\$10,737,000	(0.19%)	(\$6,553,000)	(0.57%)	(\$19,723,000)	1.96%	\$70,398,000
Amortization Target Date		2020		2020		2020		2020		2024
Actuary		Milliman & Robertson		Milliman & Robertson		Milliman & Robertson		Milliman & Robertson		Milliman & Robertson

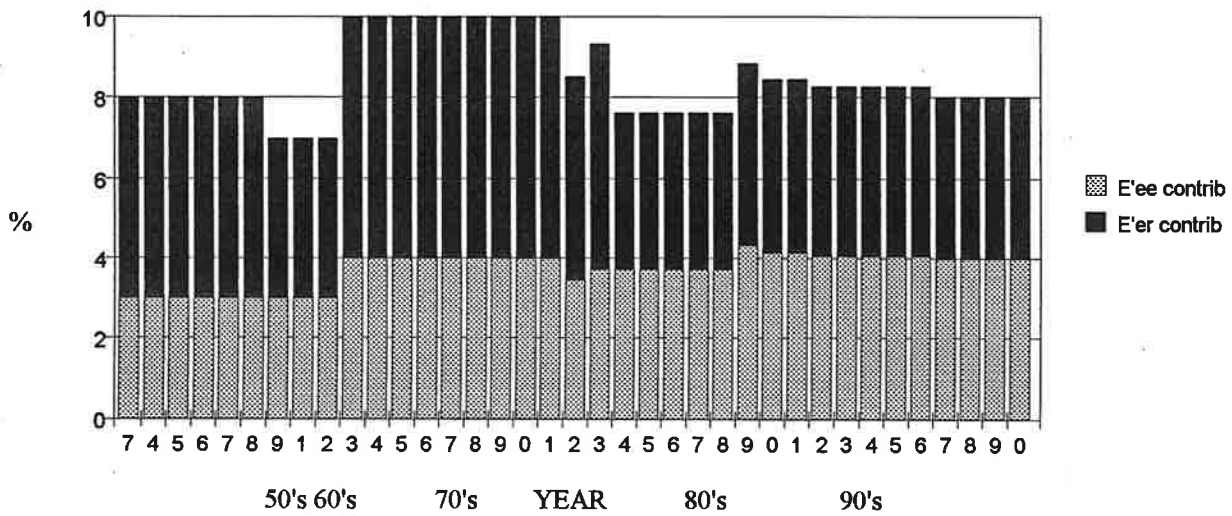
5. Comparison of Selected PERA-General Funding Information With Other Plans. The following compares selected funding information (funded ratio, employee and employer contribution rates, and administrative expenses) over time for PERA-General, the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), and the Teachers Retirement Association (TRA):



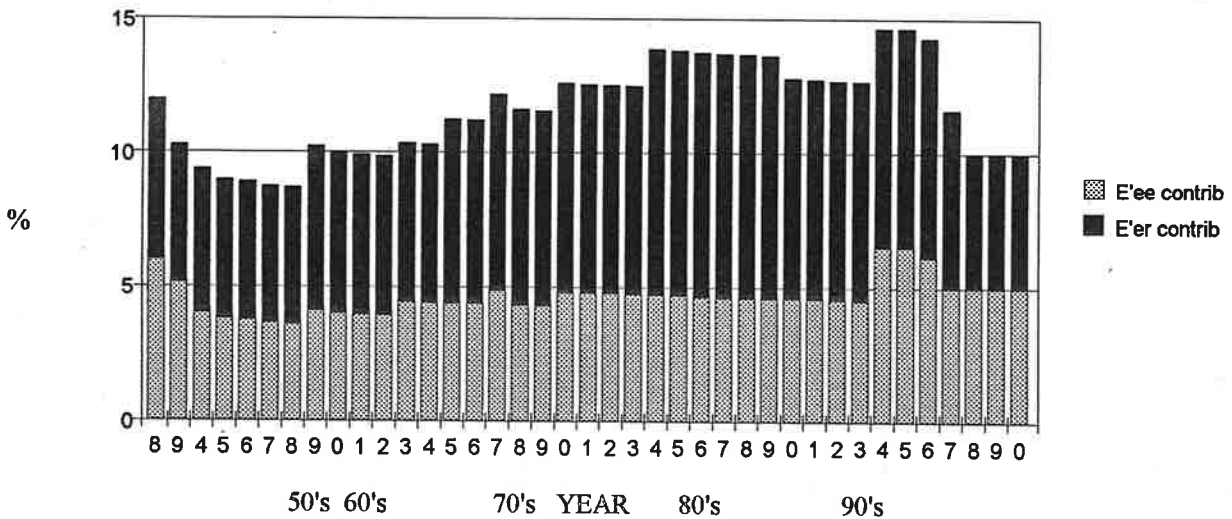
PERA: EMPLOYEE AND EMPLOYER CONTRIBUTIONS



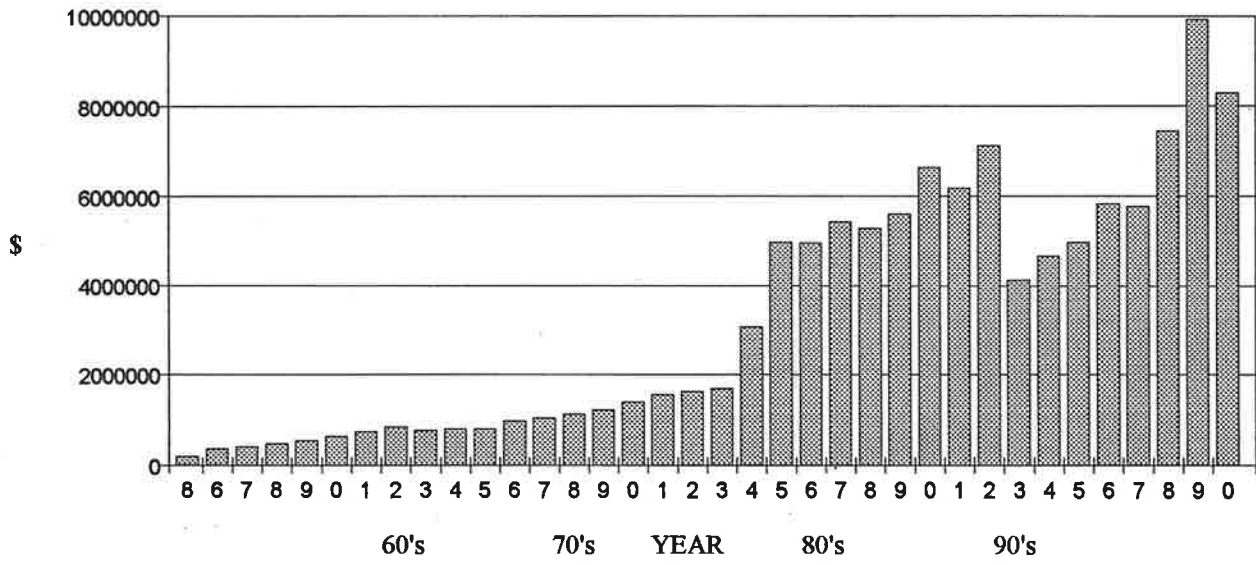
MSRS-GENERAL: EMPLOYEE AND EMPLOYER CONTRIBUTIONS



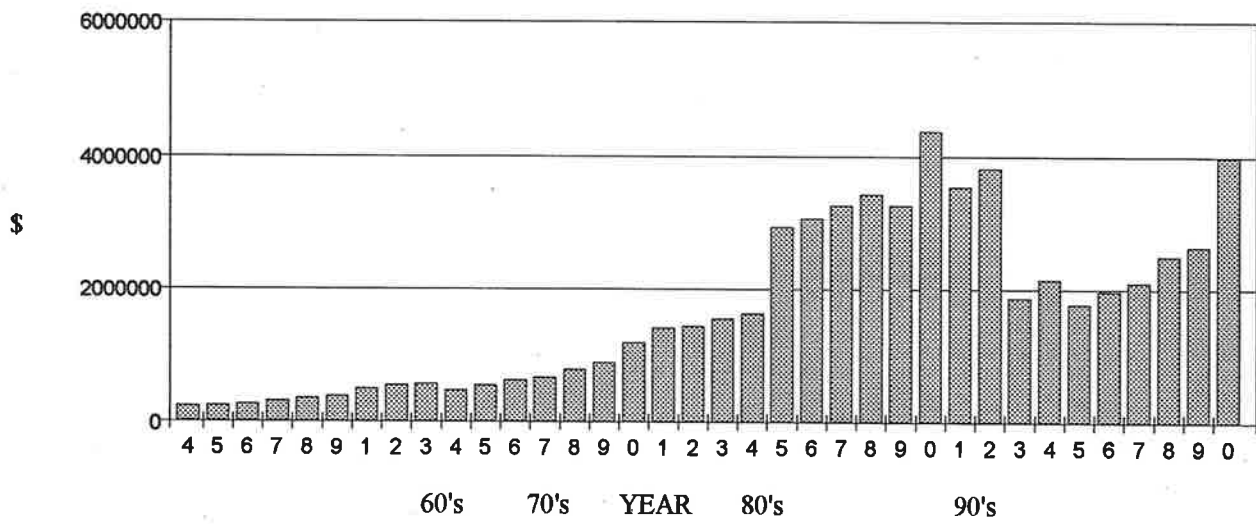
TRA: EMPLOYEE AND EMPLOYER CONTRIBUTIONS



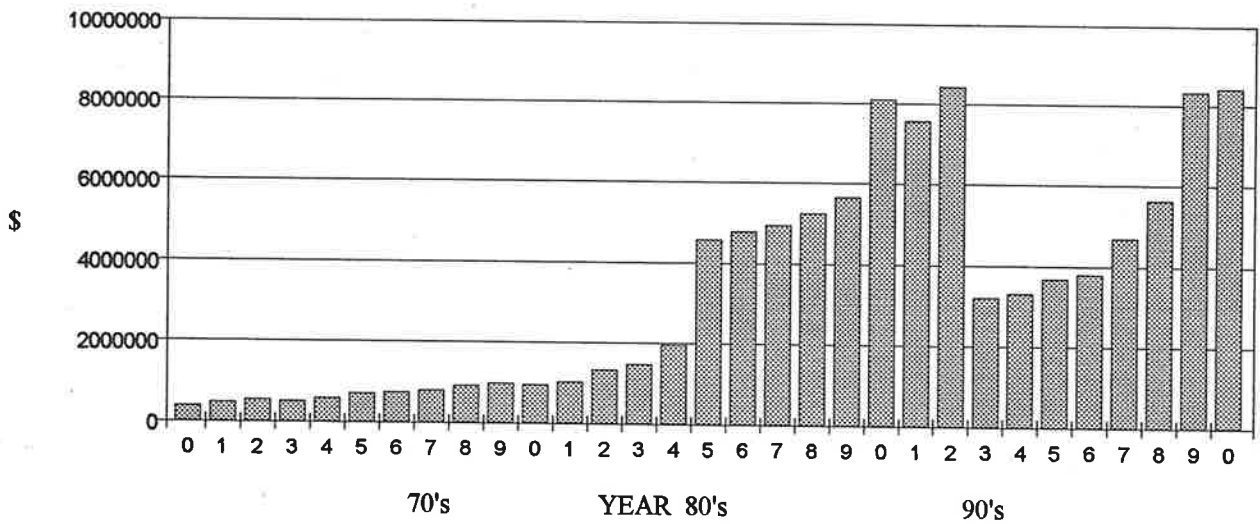
PERA: ADMINISTRATIVE EXPENSES 1958-1999



MSRS-GENERAL: ADMINISTRATIVE EXPENSES 1964-1999



TRA: ADMINISTRATIVE EXPENSES 1970-1999



Discussion

S.F. 810 (Pogemiller); H.F. _____ () and S.F. _____ (); H.F. 855 (Mares) attempt to resolve the funding deficiency situation of the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) by making several changes:

1. Enlarged Membership Eligibility. The current modest salary membership exclusion is eliminated and exclusions for seasonal employees and work-study employees are added;
2. Benefit Computation Service Credit Proration. Half-time employees would receive only prorated service credit for benefit computation purposes;
3. Member and Employer Matching Contribution Rates Increased. In two stages, January 2002, and January 2004, the PERA-General member and matching employer contribution rates are increased by 0.625 percent by each;
4. Amortization Target Date Extended. The target date used to calculate the suggested contribution requirement for amortizing the PERA-General unfunded actuarial accrued liability is extended from 2024 to 2031;
5. Lengthened Vesting Requirements. The vesting periods for various retirement annuities and benefits are increased from three years to five years;
6. Enhanced Refunds. Vested terminating members would be eligible for an additional refund of a portion of the accumulated employer contribution, plus interest (25 percent under age 55 and 50 percent over age 54);
7. Reduced Deferred Annuity Augmentation Rate. The rate of augmentation for deferred annuities over age 55 is reduced from five percent to three percent;
8. Increased Employer Additional Contribution and Offsetting State Aid Program. (S.F. 810 (Pogemiller); H.F. _____ () Only). The PERA-General employer additional contribution rate is increased by 0.75 percent of covered payroll, offset by a \$27 million annual additional State aid program for the various PERA covered employing units.

The two highly similar pieces of proposed pension legislation raise several pension and related public policy issues, including the following:

- a. Appropriateness of Membership Eligibility Changes. The policy issue is the appropriateness of the changes proposed in eligibility for PERA-General, PERA-P&F, and PERA Local Correctional Employees membership. Among a large number of changes in the PERA definition of "public employee" and specific inclusions in and exclusions from plan membership, the current exclusion of employees receiving a monthly salary under \$425 is eliminated, thereby potentially broadening the PERA-General membership, while exclusions from membership for seasonal employees (serving less than 185 consecutive calendar days during a business year) and sheltered employment or work-study employees are added. It is unclear whether the changes will result in a net expansion or contraction in the PERA-General membership and whether or not any newly included PERA-General members will produce additional turnover gains. The membership change article appears to contain a number of provisions that were potentially controversial or problematic from the 2000 Session H.F. 1444 (Krinkie); S.F. 1468 (Stevens), which the Commission declined to recommend. Testimony from potentially affected employer or employee groups on these changes should be requested by the Commission prior to taking final action.
- b. Appropriateness of Proposed Service Credit Proration. The policy issue is the appropriateness of the proposal for prorating the service credit used for benefit computation purposes for PERA-General, PERA-P&F, and PERA Local Correctional members who are employed less than half-time (less than 80 hours per month), effective July 1, 2002. Currently, PERA service credit is granted for a full month for any service that occurs in a month and is used for both vesting purposes and benefit computation purposes. The proposal would separate PERA allowable service credit into two parts, one for the purpose of vesting and one for benefit computation purposes, and would prorate benefit calculation service credit for certain part-time employees. While PERA argues that the provision aligns PERA with the service crediting methods of the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) and of the

Teachers Retirement Association (TRA), the proposed language does not replicate the practices of either of those plans. The service credit proration provision also would constitute a benefit reduction for some current PERA members. The Legislature, historically, has been very wary and slow to reduce benefits for any membership group, absent a showing of an abuse or a financial disaster. The proposed change also is delayed for more than one year. If the change is meritorious, consideration should be given to making the change more promptly.

- c. Appropriateness of Imposing Longer Vesting Requirements. The policy issue is the appropriateness of increasing the vesting requirement for benefit entitlement from three years to five years for employees who become PERA-General members after June 30, 2002. The three-year vesting requirement was enacted in 1989, largely promoted by PERA at the time, and the prior five-year requirement was enacted in 1987, again largely promoted by PERA at the time. The reduced vesting requirements did not greatly increase the PERA actuarial requirements when enacted, so the change is unlikely to produce a significant actuarial requirement change now. If the lengthened vesting requirement makes good policy sense, consideration should be given by the Commission to broadening it to apply to current PERA members and accelerating its effective date of July 1, 2002. There are currently (i.e., 7/1/2000) over 57,000 PERA-General members with less than five years of service credit.
- d. Appropriateness of Providing An Enhanced Refund Amount. The policy issue is the appropriateness of increasing the amount of a potential refund for terminating PERA members to include a portion of the employer contribution, varying in amount depending upon age. Currently, PERA and virtually all other Minnesota public pension plans limit refunds to the amount of the accumulated member contribution, plus six percent interest. The proposal would provide nonvested terminating PERA members with a refund of the accumulated member contributions plus interest, vested terminating PERA members under age 55 with a refund of accumulated member contributions and 25 percent of the accumulated member contributions, plus interest, and vested terminating PERA members over age 54 with a refund of accumulated member contributions and 50 percent of the accumulated member contributions, plus interest. The provision appears motivated by the recent turnover gain problems in PERA, where terminating members are not taking refunds and not producing turnover gains in the magnitude previously expected by the actuary based on past experiences. Given that most PERA members, under the current separation actuarial assumptions, are not expected to be in the fund at retirement age, attempting to further reduce the number of individuals who will ultimately receive a PERA benefit raises a real question about the purpose of the retirement plan and for whose actual benefit it exists. The proposal attempts to increase turnover gains by reducing each future gain. It is unclear whether this investment of resources in the form of a greater refund (and reduced gain from each refund) is the best mechanism to produce a net experience gain in fact. Also, the proposal will put the Commission on a potential slipping slope toward paying lump sum retirement benefits to retirement age terminating members and even greater refund principal and interest amounts in the future. While no refund of employer contributions is settled policy, these potential enhancement demands are relatively easy for the Commission and the Legislature to dissuade, but once employer contributions are paid in part, future demands for "cashing out" in a lump sum one's retirement coverage at retirement or earlier termination can be expected. The age related proposed employer contribution refund amounts also may violate the federal Age Discrimination in Employment Act (ADEA) and should be carefully reviewed against current federal regulations and practices under that statute before receiving a Commission recommendation or legislative enactment.
- e. Appropriateness of the Reduced Deferred Annuities Augmentation Rate. The policy issue is the appropriateness of the proposed reduction in the rate of deferred annuities augmentation for retirees after age 55. Minnesota is largely unique in public pension plan circles in providing deferred annuities augmentation (reportedly only Oregon has similar practices) and the practice is essentially unknown in the private sector. The augmentation rate, set some three decades ago, was initially three percent, was increased to five percent for all deferral periods in 1973, was reduced to three percent for all periods in 1980, and was set at three percent before age 55 and five percent after age 54 in the 1989 benefit increases sponsored by PERA and the other major retirement plans. Changing the rate for current, as well as future, deferred annuitants would represent a benefit downsizing. While there is precedent for downsizing the rate (see the 1980-1988 period), the Commission and the Legislature historically have been disinclined to impose these benefit takeaways.

- f. Actuarial Impact of Proposed Benefit And Membership Changes. The policy issue is the progress to be made toward resolving the PERA funding problem by the membership and benefit changes proposed by the PERA Board in the proposed legislation. No actuarial cost estimates have been prepared by Milliman & Robertson, Inc., the consulting actuarial firm retained by the Commission, at the Commission's request yet, or forwarded to the Commission by PERA. Since some of the proposed changes apply only to new hires and are delayed in the time of their implementation, it is unclear how great a magnitude of improvement in the PERA funding problem they produce. If the actuarial impact is modest, those changes with substantial additional adverse policy questions may not be worth further consideration.
- g. Appropriateness of the Proposed PERA-General Benefit Changes In Light of Other Likely Benefit Improvement Proposals. The policy issue is the appropriateness of the Commission recommending the PERA-General benefit changes proposed by the PERA Board when other major Minnesota public pension plans have publicly indicated that they will be proposing various other benefit increases. Recommending benefit reductions in whole or in part for one pension plan while considering benefit increases proposed by other similar pension plans, including pension plans with funding problems similar to those experienced by PERA-General, would indicate at least some policymaking confusion. Likely benefit increase proposals for the 2000 Legislative Session include earlier normal retirement ages, shortened final average salary periods, and increased benefit accrual rates.
- h. Adequacy of the Proposed Contribution Rate Increases. The policy issues are the adequacy of the proposed increases in PERA-General member and employer contribution rates. The current PERA-General financing shortfall is 1.96 percent of covered payroll. The two pieces of proposed legislation would implement the following contribution rate increases:

	<u>S.F. 810 (Pogemiller)</u>	<u>H.F. 855 (Mares)</u>
8/1/2000		
Employer Additional	0.75%	--
1/1/2002		
Member	0.375%	0.375%
Employer Matching	0.375%	0.375%
1/1/2004		
Member	0.25%	0.25%
Employer Matching	0.25%	0.25%
Total	2.00%	1.25%

Given that the contribution rate increases under S.F. 810 (Pogemiller) accomplish the goal of eliminating the current PERA shortfall, it is unclear what is further to be gained by the various membership, benefit and actuarial method changes provided for in that bill.

- i. Appropriateness of the Amortization Target Date Change. The policy issue is the appropriateness of the proposed increase for PERA-General in the amortization target date from the current date of 2024 to 2031. The amortization target date is the date used by the actuary to calculate the supplemental contribution required to retire the plan's unfunded actuarial accrued liability on a level percentage of an increasing payroll basis. The target date was set at 2020 in 1989 and reset to 2024 by operation of a complicated statutory formula as a result of the 2000 redefinition of the actuarial value of plan assets. If made, PERA would join the Minneapolis Employees Retirement Fund as the only plans exempt from the general statute provision, which updates the target date based on benefit increases, actuarial assumption changes, and actuarial method changes. While MERF is a closed fund (no new active members after 1979), PERA is not. Upon a future PERA-General benefit increase, actuarial assumption change, or actuarial method change, the proposed resetting of the target date will actually work to increase PERA's financial requirements rather than reduce them.
- j. Appropriateness of the Proposed Additional PERA State Aid Program. The policy issue is the appropriateness of the additional \$27 million annual State aid program proposed for PERA covered employing units contained in S.F. 810 (Pogemiller); H.F. ____ (), but not contained in S.F. ____ (); H.F. 855 (Mares). The additional State aid program for PERA is intended to offset the economic impact of the August 1, 2001 proposed 0.75 percent increase in the PERA additional

employer contribution rate. There is precedent for the aid program in the 1997 benefit calculation, but in that case, the PERA \$15.9 million aid program was funded from State contribution reductions to other pension plans. No similar reduction of State employer pension contributions is proposed now by the PERA Board and the State aid program will have significant impact on the State's FY2002-FY2003 budget and the budget deliberations occurring this session.

- k. Lack of Uniformity With Other General Employee Public Pension Plans. The policy issue is the lack of uniformity in benefit and related provisions between PERA-General and the other major statewide and local general employee pension plans. The proposed legislation prorates service credit for part-time PERA-General covered employees differently than the other plans, charges PERA-General members a great contribution rate than any other general employee pension plan, requires a longer vesting period of PERA-General members than of other general employee pension plans, provides a larger refund to terminating vested PERA-General members than is provided to other general employee pension plan members, and reduces the augmentation rate for deferred PERA-General retirees compared to other general employee pension plans. One of the arguments for the 1989 benefit increases was to increase benefit comparability between the various general employee pension plans by adding the "Rule of 90" to MSRS-General and TRA, thereby matching prior PERA-General practice. The entirety of the 1997 benefit increases were presented by their supporters under the argument of uniformity. The proposed legislation is absolutely inconsistent with uniformity.
- l. Precedent. Closely related to the policy issue of a lack of uniformity is the policy issue of the proposed legislation becoming a precedent for future legislative developments. The proposed legislation sets a precedent for nonuniform pension legislation, especially if other general employee pension plans seek and gain various benefit increases during this Session. The proposed legislation also sets a precedent for widespread benefit reductions to resolve a financial shortfall rather than the more typical approach of seeking contribution increases. The expanded refund proposal, if recommended by the Commission, would certainly become the basis for similar refund increases by other pension plans, even though those plans do not suffer from the same lack of turnover gain problem.
- m. Appropriateness of the Proposed Legislation In Light of Other Potential Remedies To The Problem. The policy issue is the appropriateness of the various membership, benefit and contribution modifications proposed by the PERA Board when there are other potential remedies to the PERA funding problem. The PERA funding problem, in summary, is that of a pension plan that has lagged the funding progress of the other statewide general employee pension plans in recent years and currently has a shortfall in its contribution levels of 1.96 percent of covered payroll when compared to its actuarial requirements. Broadly, a solution to the PERA funding difficulties will attempt to reduce the actuarial cost of the plan, increase the contributions to the plan, or both. Some options to do this that have been identified previously, but have not yet been explored in detail by the Commission and may merit additional Commission consideration, are as follows:
 1. Potential Membership Changes.
 - Reduce PERA Membership By Transferring School District Employees to TRA or to a New Separate Pension Plan. A review of PERA's membership apparently indicates that school district employees produce a higher pension cost than county or city employees. If school district employees were transferred to the Teachers Retirement Association (TRA), the teacher retirement plan, or to a separate pension plan, the resulting PERA contribution requirement would likely be reduced.
 2. Potential Funding Increases or Changes.
 - One-Time Lump Sum State Appropriation. A state appropriation to PERA could be used to buy down a substantial portion of what otherwise would be the future annual funding requirement shortfall.
 - Reshuffle Other Funding Support. As the Legislature did in 1997, when financial support sufficiencies in MSRS-General and TRA were redirected to PERA and to the first class city teacher retirement plans, the current MSRS-General, TRA, or Public

Employees Police and Fire Plan (PERA-P&F) financial support sufficiencies could be redirected in whole or in part to PERA.

3. Potential Actuarial Assumption or Method Modifications.

- Increase Preretirement Interest Rate. The interest rate assumption determines the portion of actual pension plan cost that will be paid from investment income and an increase in the current PERA preretirement interest rate from 8.5 percent would reduce the portion of actual pension plan cost calculated in the actuarial valuations to be paid by contributions.
- Redefine the Actuarial Value of Assets. The 2000 Legislature changed the definition of the actuarial value of assets, increasing the PERA-General unfunded actuarial accrued liability by \$44.9 million as a result. If the actuarial value of assets definition is returned to the pre-2000 definition, PERA assets increase by \$44.9 million. If the actuarial value of assets for PERA was redefined as market value, PERA assets increase by \$439.7 million, reducing the 1.96 percent of covered pay deficiency by 0.69 percent of covered pay.
- Reset The MPRIF Post Retirement Interest Rate. Minnesota Post Retirement Investment Fund (MPRIF) postretirement interest rate could be increased, which would also would reduce the recognition of the portion of the actuarial cost calculated to be borne by contributions. Because the MPRIF postretirement adjustment is based in part on investment performance in excess of an actuarial assumption, this change, however, also involves a benefit reduction.

4. Potential Structural Changes.

- Plan Consolidation. The consolidation of a pension plan with actual or potential funding problems with a pension plan with funding strengths, such as the consolidation of PERA with MSRS-General, would produce an average total cost for the resulting plan that may be more manageable.
- Fund Consolidation. The consolidation of the fund supporting a pension plan with actual or potential funding problems with a fund supporting a pension plan with funding strengths can postpone or eliminate any potential for a benefit payment default, such as the merger of the PERA retirement fund with the PERA-P&F retirement fund.
- Administrative Consolidation. The consolidation of the administration of one pension plan with the administration of another pension plan can save administrative expenses through the elimination of administrative duplications and the acquisition of greater economics of scale, such as the merger of the PERA and MSRS administration.

5. Potential Correction of Identified Benefit Abuses.

- The actuary retained by the Commission has identified preretirement “salary spiking” as a potential problem within PERA. The “salary spiking” phenomenon occurs when the salary of a retiring member immediately before retirement or during the “highest five successive years” averaging period increases dramatically over the person’s prior career salary history pattern, whether the salary increase arises from increased working hours and overtime pay or from late career promotions or unusual salary increases. If this is an actual benefit abuse, corrective action could be taken, such as eliminating overtime compensation from covered salary, or utilizing defined contribution plan coverage only for overtime compensation, or limiting end-of-career salary increases year to year to a specified percentage.

- n. Consequences of Inaction. The policy issue is the consequences for PERA-General if the Commission and the Legislature decide to review the situation for a while longer. The proposed legislation sponsored by the PERA Board is not a precipitous remedy, with the contribution increases largely delayed into the future, with many of the benefit changes not effective for 18 months, and with many of the benefit changes impacting only on future PERA-General members. The actuary retained by the Commission is currently conducting a quadrennial experience study

on Minnesota State Retirement System General, PERA-General, and TRA, with the results expected in late April or May, 2001. Additional actuarial assumption changes for PERA-General may be necessary as a result of that study, which could make any remedy assembled by the 2001 Commission and Legislature either inadequate or unnecessary. Recommendations on actuarial assumption changes arising out of the 2001 experience study would not be presented for Commission and Legislative action until the 2002 Session. A delay in corrective action for one year would likely increase the \$1.5 billion PERA-General unfunded actuarial accrued liability by \$70+ million.

Section-by-Section Summary of S.F. 810 (Pogemiller)

Article 1		
<u>Section</u>	<u>Statutory Provision</u>	<u>Proposed Change</u>
1	Section 353.01, Subdivision 2	Updates crossreferences and revised language usage in general membership provision.
2	Section 353.01, Subdivision 2a	Makes PERA coverage mandatory for all public employees. Eliminates the exclusion from coverage of low salary public employees.
3	Section 353.01, Subdivision 2b	Revises the specification of public employees excluded from membership. Excludes elected officials other than county sheriffs. Narrows the exclusion of full-time student public employees. Adds exclusion of seasonal employees who serve less than 185 days annually. Adds exclusion of certain sheltered employment or work-study employees.
4	Section 353.01, New Subdivision 2d	Creates optional membership provision by individual election for labor organization employees, elected officials, state department heads who elect not to be MSRS-General Plan members, and city managers. Creates optional membership provision by employer election for Minnesota township association employees, and county historical society employees.
5	Section 353.01, Subdivision 7	Clarifies the definition of "member."
6	Section 353.01, Subdivision 11b	Revises the termination of PERA membership provision.
7	Section 353.01, Subdivision 12	Clarifies the definition of "authorized temporary layoff."
8	Section 353.01, Subdivision 12a	Clarifies the definition of "temporary position."
9	Section 353.01, new Subdivision 38	Defines the term "business year."
10	Section 353.86, Subdivision 1	Limits the volunteer ambulance service personnel participation provision to pre-July 1, 2001 personnel.
11	Effective Date	July 1, 2002 effective date.
Article 2		
1	Section 353.01, Subdivision 16	Revises the definition of "allowable service." Limits credit for various leaves to prorated amounts. Limits the credit given for authorized temporary layoffs occurring after July 1, 2002. Restricts the on-leave military service credit provision to U.S. military service. Imposes fractional service credit for benefit calculation purposes for post-July 1, 2002 entrants employed less than 80 hours per month as a public employee.
2	Section 353.01, new Subdivision 39	Defines the term "compensated hours."
3	Section 353.27, Subdivision 4	Requires employer reporting of compensated hours.
4	Section 353.27, Subdivision 11	Requires employer reporting of actual or estimated compensated hours.
5	Effective Date	July 1, 2002 effective date.

Article 3**Section****Statutory Provision****Proposed Change**

1

Section 353.27, Subdivision 2

Increases coordinated member contribution rate by 0.375 percent on January 1, 2002, and by 0.25 percent on January 1, 2004, if the plan still has a financing deficiency.

2

Section 356.215, Subdivision 4g

Resets the PERA General Plan amortization date from 2020 to 2031.

3

Effective Date

December 31, 2001 effective date.

Article 4

1

Section 353.01, New Subdivision 40

Defines the term "vesting" as three years of allowable service for pre-July 1, 2002, entrants and five years of allowable service for post-June 30, 2002, entrants.

2

Section 353.29, Subdivision 1

Replaces the age and service retirement annuity vesting requirement with a reference to the vesting definition.

3

Section 353.32, Subdivision 1a

Replaces the specific surviving spouse optional annuity vesting requirement with a reference to the vesting definition.

4

Section 353.33, Subdivision 1

Replaces the specific disability benefit vesting requirement with a reference to the vesting definition.

5

Section 353.34, Subdivision 1

Amends the refund eligibility provision by referencing the enhanced refund provision.

6

Section 353.34, Subdivision 2

Eliminates the fiscal year balance basis for calculating refunds.

7

Section 353.34, new Subdivision 2a

Provides for the partial refund of employer contributions, depending on the member's age at the time of payment.

8

Section 353.34, new Subdivision 2b

Repositions a provision from Section 353.34, Subdivision 2.

9

Section 353.34, Subdivision 3

Replaces the specific deferred annuity vesting requirement with a reference to the vesting definition.

10

Section 353.35, Subdivision 2

Adds reference to employer contribution refund to refund repayment provision.

11

Section 353.71, Subdivision 1

Replaces the specific "service in more than one fund" portability vesting requirement with a reference to the vesting definition.

12

Section 353.71, Subdivision 2

Reduces the deferred annuities augmentation rate from five percent for some periods to three percent for all deferred periods.

13

Effective Date

July 1, 2001 effective date.

Article 5

1

Section 273.1385, Subdivision 1

Increases the 1997 PERA employing unit aid program by \$13.5 million in fiscal year 2002 and \$27 million thereafter.

2

Section 353.27, Subdivision 3a

Increases the PERA employer additional contribution by 0.75 percent.

Section-by-Section Summary of H.F. 855 (Mares)

Article 1		
<u>Section</u>	<u>Statutory Provision</u>	<u>Proposed Change</u>
1	Section 353.01, Subdivision 2	Updates crossreferences and revised language usage in general membership provision.
2	Section 353.01, Subdivision 2a	Makes PERA coverage mandatory for all public employees. Eliminates the exclusion from coverage of low salary public employees.
3	Section 353.01, Subdivision 2b	Revises the specification of public employees excluded from membership. Excludes elected officials other than county sheriffs. Narrows the exclusion of full-time student public employees. Adds exclusion of seasonal employees who serve less than 185 days annually. Adds exclusion of certain sheltered employment or work-study employees.
4	Section 353.01, New Subdivision 2d	Creates optional membership provision by individual election for labor organization employees, elected officials, state department heads who elect not to be MSRS-General Plan members, and city managers. Creates optional membership provision by employer election for Minnesota township association employees, and county historical society employees.
5	Section 353.01, Subdivision 7	Clarifies the definition of "member."
6	Section 353.01, Subdivision 11b	Revises the termination of PERA membership provision.
7	Section 353.01, Subdivision 12	Clarifies the definition of "authorized temporary layoff."
8	Section 353.01, Subdivision 12a	Clarifies the definition of "temporary position."
9	Section 353.01, new Subdivision 38	Defines the term "business year."
10	Section 353.86, Subdivision 1	Limits the volunteer ambulance service personnel participation provision to pre-July 1, 2001 personnel.
11	Effective Date	July 1, 2002 effective date.
Article 2		
1	Section 353.01, Subdivision 16	Revises the definition of "allowable service." Limits credit for various leaves to prorated amounts. Limits the credit given for authorized temporary layoffs occurring after July 1, 2002. Restricts the on-leave military service credit provision to U.S. military service. Imposes fractional service credit for benefit calculation purposes for post-July 1, 2002 entrants employed less than 80 hours per month as a public employee.
2	Section 353.01, new Subdivision 39	Defines the term "compensated hours."
3	Section 353.27, Subdivision 4	Requires employer reporting of compensated hours.
4	Section 353.27, Subdivision 11	Requires employer reporting of actual or estimated compensated hours.
5	Effective Date	July 1, 2002 effective date.

Article 3**Section****Statutory Provision****Proposed Change**

- | | | |
|---|---------------------------------|---|
| 1 | Section 353.27, Subdivision 2 | Increases coordinated member contribution rate by 0.375 percent on January 1, 2002, and by 0.25 percent on January 1, 2004, if the plan still has a financing deficiency. |
| 2 | Section 356.215, Subdivision 4g | Resets the PERA General Plan amortization date from 2020 to 2031. |
| 3 | Effective Date | December 31, 2001 effective date. |

Article 4

- | | | |
|----|------------------------------------|---|
| 1 | Section 353.01, New Subdivision 40 | Defines the term "vesting" as three years of allowable service for pre-July 1, 2002, entrants and five years of allowable service for post-June 30, 2002, entrants. |
| 2 | Section 353.29, Subdivision 1 | Replaces the age and service retirement annuity vesting requirement with a reference to the vesting definition. |
| 3 | Section 353.32, Subdivision 1a | Replaces the specific surviving spouse optional annuity vesting requirement with a reference to the vesting definition. |
| 4 | Section 353.33, Subdivision 1 | Replaces the specific disability benefit vesting requirement with a reference to the vesting definition. |
| 5 | Section 353.34, Subdivision 1 | Amends the refund eligibility provision by referencing the enhanced refund provision. |
| 6 | Section 353.34, Subdivision 2 | Eliminates the fiscal year balance basis for calculating refunds. |
| 7 | Section 353.34, new Subdivision 2a | Provides for the partial refund of employer contributions, depending on the member's age at the time of payment. |
| 8 | Section 353.34, new Subdivision 2b | Repositions a provision from Section 353.34, Subdivision 2. |
| 9 | Section 353.34, Subdivision 3 | Replaces the specific deferred annuity vesting requirement with a reference to the vesting definition. |
| 10 | Section 353.35, Subdivision 2 | Adds reference to employer contribution refund to refund repayment provision. |
| 11 | Section 353.71, Subdivision 1 | Replaces the specific "service in more than one fund" portability vesting requirement with a reference to the vesting definition. |
| 12 | Section 353.71, Subdivision 2 | Reduces the deferred annuities augmentation rate from five percent for some periods to three percent for all deferred periods. |
| 13 | Effective Date | <u>July 1, 2001 effective date.</u> |

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
Membership								
Active Members	135,560	137,528	136,166	130,865	129,431	126,612	120,199	114,932
Service Retirees	39,940	38,077	36,187	34,168	32,906	31,487	30,414	28,279
Disabilitants	1,397	1,301	1,223	1,115	1,051	959	871	794
Survivors	6,010	5,881	5,732	5,531	5,423	5,260	5,091	4,895
Deferred Retirees	21,495	16,340	10,817	10,817	8,605	7,156	6,277	5,402
Nonvested Former Members	<u>79,362</u>	<u>18,491</u>	<u>15,162</u>	<u>15,162</u>	<u>11,448</u>	<u>9,683</u>	<u>9,180</u>	<u>9,307</u>
Total Membership	283,764	217,618	205,287	197,658	188,864	181,157	172,032	163,609
Funded Status								
Accrued Liability	\$11,133,682,000	\$9,443,678,000	\$8,769,303,000	\$8,049,666,000	\$7,270,073,000	\$6,622,069,000	\$6,223,622,000	\$5,784,318,000
Current Assets	<u>\$9,609,367,000</u>	<u>\$8,489,177,000</u>	<u>\$7,636,668,000</u>	<u>\$6,658,410,000</u>	<u>\$5,786,398,000</u>	<u>\$5,138,461,000</u>	<u>\$4,747,128,000</u>	<u>\$4,374,459,000</u>
Unfunded Accrued Liability	\$1,524,315,000	\$954,501,000	\$1,132,635,000	\$1,391,256,000	\$1,483,675,000	\$1,483,608,000	\$1,476,494,000	\$1,409,859,000
Funding Ratio	86.31%	89.89%	87.08%	82.72%	79.59%	77.60%	76.28%	75.63%
Financing Requirements								
Covered Payroll	\$3,602,750,000	\$3,544,488,000	\$3,385,720,000	\$3,214,578,000	\$3,073,106,000	\$2,930,993,000	\$2,749,217,000	\$2,578,604,000
Benefits Payable	\$527,119,000	\$467,602,000	\$412,746,000	\$342,154,000	\$312,511,000	\$290,483,000	\$264,233,000	\$236,420,000
Normal Cost	9.33%	7.49%	7.61%	7.11%	6.85%	6.68%	6.75%	6.82%
Administrative Expenses	<u>0.23%</u>	<u>0.28%</u>	<u>0.22%</u>	<u>0.18%</u>	<u>0.19%</u>	<u>0.17%</u>	<u>0.17%</u>	<u>0.16%</u>
Normal Cost & Expense	9.56%	7.77%	7.83%	7.29%	7.04%	6.85%	6.92%	6.98%
Normal Cost & Expense	9.56%	7.77%	7.83%	7.29%	7.04%	6.85%	6.92%	6.98%
Amortization	<u>2.38%</u>	<u>1.67%</u>	<u>2.01%</u>	<u>2.51%</u>	<u>2.71%</u>	<u>2.76%</u>	<u>2.84%</u>	<u>2.60%</u>
Total Requirements	11.94%	9.44%	9.84%	9.80%	9.75%	9.61%	9.76%	9.58%
Employee Contributions	4.77%	4.78%	4.79%	4.55%	4.29%	4.31%	4.30%	4.36%
Employer Contributions	5.21%	5.23%	5.24%	4.92%	4.58%	4.60%	4.60%	4.68%
Employer Add'l Cont.	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Direct State Funding	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other Govt. Funding	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Administrative Assessment	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contributions	9.98%	10.01%	10.03%	9.47%	8.88%	8.91%	8.90%	9.04%
Total Requirements	11.94%	9.44%	9.84%	9.80%	9.75%	9.61%	9.76%	9.58%
Total Contributions	<u>9.98%</u>	<u>10.01%</u>	<u>10.03%</u>	<u>9.47%</u>	<u>8.88%</u>	<u>8.91%</u>	<u>8.90%</u>	<u>9.04%</u>
Deficiency (Surplus)	1.96%	(0.57%)	(0.19%)	0.33%	0.87%	0.70%	0.86%	0.54%
Amortization Target Date	2024	2020	2020	2020	2020	2020	2020	2020
Actuary	Milliman & Robertson	Milliman & Robertson	Milliman & Robertson	Milliman & Robertson	Milliman & Robertson	Milliman & Robertson	Milliman & Robertson	Milliman & Robertson

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

	<u>1992</u>	<u>1991</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>	<u>1987</u>	<u>1986</u>	<u>1985</u>
Membership								
Active Members	110,100	107,025	102,664	99,515	95,224	92,497	89,336	86,312
Service Retirees	27,057	25,634	24,314	22,932	21,882	20,341	18,719	17,277
Disabilitants	781	739	708	689	650	645	633	654
Survivors	4,721	4,553	4,414	4,251	4,168	4,029	3,970	3,854
Deferred Retirees	4,502	3,655	2,699	2,349	2,094	2,152	1,746	1,863
Nonvested Former Members	<u>8,711</u>	<u>7,995</u>	<u>7,695</u>	<u>6,805</u>	<u>6,621</u>	<u>40,185</u>	<u>40,023</u>	<u>38,986</u>
Total Membership	155,872	149,601	142,494	136,541	130,639	159,849	154,427	148,946
Funded Status								
Accrued Liability	\$5,439,953,000	\$4,988,671,000	\$4,560,469,000	\$4,175,240,000	\$3,755,608,000	\$3,188,962,000	\$2,925,006,000	\$2,614,116,000
Current Assets	<u>\$3,978,110,000</u>	<u>\$3,570,304,000</u>	<u>\$3,297,216,000</u>	<u>\$2,992,285,000</u>	<u>\$2,657,038,000</u>	<u>\$2,457,899,000</u>	<u>\$2,148,114,000</u>	<u>\$1,842,957,000</u>
Unfunded Accrued Liability	\$1,461,843,000	\$1,418,367,000	\$1,263,253,000	\$1,182,955,000	\$1,098,570,000	\$731,063,000	\$776,892,000	\$771,159,000
Funding Ratio	73.13%	71.57%	72.30%	71.67%	70.75%	77.08%	73.44%	70.50%
Financing Requirements								
Covered Payroll	\$2,455,401,000	\$2,286,179,000	\$2,074,092,000	\$1,932,674,000	\$1,767,041,000	\$1,645,876,000	\$1,551,555,000	\$1,423,911,000
Benefits Payable	\$216,952,000	\$198,324,000	\$182,363,000	\$162,130,000	\$148,587,000	\$128,009,000	\$109,613,000	\$92,891,000
Normal Cost	6.91% \$169,668,209	6.38% \$145,858,220	6.98% \$144,771,622	5.85% \$113,061,429	5.72% \$101,074,745	5.45% \$89,700,242	5.59% \$86,731,925	5.68% \$80,878,145
Administrative Expenses	<u>0.29%</u> <u>\$7,120,663</u>	<u>0.27%</u> <u>\$6,172,683</u>	<u>0.32%</u> <u>\$6,637,094</u>	<u>0.29%</u> <u>\$5,604,755</u>	<u>0.30%</u> <u>\$5,301,123</u>	<u>0.33%</u> <u>\$5,431,391</u>	<u>0.32%</u> <u>\$4,964,976</u>	<u>0.35%</u> <u>\$4,983,689</u>
Normal Cost & Expense	7.20% \$176,788,872	6.65% \$152,030,904	7.30% \$151,408,716	6.14% \$118,666,184	6.02% \$106,375,868	5.78% \$95,131,633	5.91% \$91,696,901	6.03% \$85,861,833
Normal Cost & Expense	7.20% \$176,788,872	6.65% \$152,030,904	7.30% \$151,408,716	6.14% \$118,666,184	6.02% \$106,375,868	5.78% \$95,131,633	5.91% \$91,696,901	6.03% \$85,861,833
Amortization	<u>2.75%</u> <u>\$67,523,528</u>	<u>2.79%</u> <u>\$63,784,394</u>	<u>2.74%</u> <u>\$56,830,121</u>	<u>2.69%</u> <u>\$51,988,931</u>	<u>3.40%</u> <u>\$60,079,394</u>	<u>2.43%</u> <u>\$39,994,787</u>	<u>2.64%</u> <u>\$40,961,052</u>	<u>2.75%</u> <u>\$39,157,553</u>
Total Requirements	9.95% \$244,312,400	9.44% \$215,815,298	10.04% \$208,238,837	8.83% \$170,655,114	9.42% \$166,455,262	8.21% \$135,126,420	8.55% \$132,657,953	8.78% \$125,019,386
Employee Contributions	4.38% \$107,546,564	4.41% \$100,820,494	4.44% \$92,089,685	4.47% \$86,390,528	4.27% \$75,452,651	4.31% \$70,937,256	4.37% \$67,802,954	4.43% \$63,079,257
Employer Contributions	4.72% \$115,894,927	4.76% \$108,822,120	4.81% \$99,763,825	4.86% \$93,927,956	4.67% \$82,520,815	4.74% \$78,014,522	4.37% \$67,802,954	4.43% \$63,079,257
Employer Add'l Cont.	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.46% \$7,137,153	0.50% \$7,119,555
Direct State Funding	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0
Other Govt. Funding	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0
Administrative Assessment	<u>0.00%</u> <u>\$0</u>	<u>0.00%</u> <u>\$0</u>	<u>0.00%</u> <u>\$0</u>	<u>0.00%</u> <u>\$0</u>	<u>0.00%</u> <u>\$0</u>	<u>0.00%</u> <u>\$0</u>	<u>0.00%</u> <u>\$0</u>	<u>0.00%</u> <u>\$0</u>
Total Contributions	9.10% \$223,441,491	9.17% \$209,642,614	9.25% \$191,853,510	9.33% \$180,318,484	8.94% \$157,973,465	9.05% \$148,951,778	9.20% \$142,743,060	9.36% \$133,278,070
Total Requirements	9.95% \$244,312,400	9.44% \$215,815,298	10.04% \$208,238,837	8.83% \$170,655,114	9.42% \$166,455,262	8.21% \$135,126,420	8.55% \$132,657,953	8.78% \$125,019,386
Total Contributions	<u>9.10%</u> <u>\$223,441,491</u>	<u>9.17%</u> <u>\$209,642,614</u>	<u>9.25%</u> <u>\$191,853,510</u>	<u>9.33%</u> <u>\$180,318,484</u>	<u>8.94%</u> <u>\$157,973,465</u>	<u>9.05%</u> <u>\$148,951,778</u>	<u>9.20%</u> <u>\$142,743,060</u>	<u>9.36%</u> <u>\$133,278,070</u>
Deficiency (Surplus)	0.85% \$20,870,909	0.27% \$6,172,683	0.79% \$16,385,327	(0.50%) (\$9,663,370)	0.48% \$8,481,797	(0.84%) (\$13,825,358)	(0.65%) (\$10,085,108)	(0.58%) (\$8,258,684)
Amortization Target Date	2020	2020	2020	2020	2010	2009	2009	2009
Actuary	Milliman & Robertson	Milliman & Robertson	Wyatt	Wyatt	Wyatt	Wyatt	Wyatt	Wyatt

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>
Membership								
Active Members	83,702	83,378	85,437	87,857	85,860	81,665	81,328	82,026
Service Retirees	15,765	14,577	13,332	12,252	11,296	10,422	9,753	9,123
Disabilitants	638	658	670	624	622	628	582	499
Survivors	3,665	3,581	3,526	3,737	3,514	3,542	3,531	3,631
Deferred Retirees	1,843	1,831	1,743	1,708	1,539	1,394	1,232	1,094
Nonvested Former Members	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Membership	105,613	104,025	104,708	106,178	102,831	97,651	96,426	96,373
Funded Status								
Accrued Liability	\$2,228,361,179	\$1,875,559,860	\$1,646,987,789	\$1,427,498,580	\$1,262,499,353	\$1,137,905,498	\$1,023,270,439	\$930,363,154
Current Assets	<u>\$1,599,673,540</u>	<u>\$1,474,041,241</u>	<u>\$1,278,462,836</u>	<u>\$1,101,847,894</u>	<u>\$923,152,292</u>	<u>\$812,971,819</u>	<u>\$702,543,189</u>	<u>\$613,887,437</u>
Unfunded Accrued Liability	\$628,687,639	\$401,518,619	\$368,524,953	\$325,650,686	\$339,347,061	\$324,933,679	\$320,727,250	\$316,475,717
Funding Ratio	71.79%	78.59%	77.62%	77.19%	73.12%	71.44%	68.66%	65.98%
Financing Requirements								
Covered Payroll	\$1,225,625,000	\$1,135,785,000	\$1,079,973,418	\$1,037,047,955	\$930,299,069	\$817,578,613	\$763,483,570	\$707,400,545
Benefits Payable	\$76,064,731	\$64,156,295	\$66,870,163	\$45,556,533	\$39,887,823	\$36,163,202	\$33,180,101	\$28,895,452
Normal Cost	5.64% \$69,125,250	7.44% \$84,502,404	8.10% \$87,477,847	8.04% \$83,378,656	8.15% \$75,819,374	8.28% \$67,695,509	8.22% \$62,758,349	8.81% \$62,321,988
Administrative Expenses	<u>0.25%</u> <u>\$3,064,063</u>	<u>0.15%</u> <u>\$1,703,678</u>	<u>0.15%</u> <u>\$1,619,960</u>	<u>0.15%</u> <u>\$1,555,572</u>	<u>0.15%</u> <u>\$1,395,449</u>	<u>0.15%</u> <u>\$1,226,368</u>	<u>0.15%</u> <u>\$1,145,225</u>	<u>0.15%</u> <u>\$1,061,101</u>
Normal Cost & Expense	5.89% \$72,189,313	7.59% \$86,206,082	8.25% \$89,097,807	8.19% \$84,934,228	8.30% \$77,214,823	8.43% \$68,921,877	8.37% \$63,903,575	8.96% \$63,383,089
Normal Cost & Expense	5.89% \$72,189,313	7.59% \$86,206,082	8.25% \$89,097,807	8.19% \$84,934,228	8.30% \$77,214,823	8.43% \$68,921,877	8.37% \$63,903,575	8.96% \$63,383,089
Amortization	<u>2.43%</u> <u>\$29,782,688</u>	<u>2.46%</u> <u>\$27,940,311</u>	<u>2.33%</u> <u>\$25,163,381</u>	<u>2.11%</u> <u>\$21,881,712</u>	<u>2.41%</u> <u>\$22,420,208</u>	<u>2.59%</u> <u>\$21,175,286</u>	<u>3.48%</u> <u>\$26,569,228</u>	<u>3.59%</u> <u>\$25,395,680</u>
Total Requirements	8.32% \$101,972,000	10.05% \$114,146,393	10.58% \$114,261,188	10.30% \$106,815,939	10.71% \$99,635,030	11.02% \$90,097,163	11.85% \$90,472,803	12.55% \$88,778,768
Employee Contributions	4.53% \$55,520,813	4.59% \$52,132,532	4.64% \$50,110,767	4.66% \$48,326,435	4.74% \$44,096,176	4.87% \$39,816,078	4.91% \$37,487,043	4.98% \$35,228,547
Employer Contributions	4.53% \$55,520,813	4.59% \$52,132,532	4.64% \$50,110,767	4.66% \$48,326,435	4.74% \$44,096,176	4.87% \$39,816,078	4.91% \$37,487,043	4.98% \$35,228,547
Employer Add'l Cont.	0.55% \$6,740,938	1.65% \$18,740,453	1.66% \$17,927,559	1.67% \$17,318,701	1.68% \$15,629,024	1.72% \$14,062,352	1.73% \$13,208,266	1.75% \$12,379,510
Direct State Funding	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0
Other Govt. Funding	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0	0.00% \$0
Administrative Assessment	<u>0.00%</u> <u>\$0</u>	<u>0.00%</u> <u>\$0</u>	<u>0.00%</u> <u>\$0</u>	<u>0.00%</u> <u>\$0</u>	<u>0.00%</u> <u>\$0</u>	<u>0.00%</u> <u>\$0</u>	<u>0.00%</u> <u>\$0</u>	<u>0.00%</u> <u>\$0</u>
Total Contributions	9.61% \$117,782,563	10.83% \$123,005,516	10.94% \$118,149,092	10.99% \$113,971,570	11.16% \$103,821,376	11.46% \$93,694,509	11.55% \$88,182,352	11.71% \$82,836,604
Total Requirements	8.32% \$101,972,000	10.05% \$114,146,393	10.58% \$114,261,188	10.30% \$106,815,939	10.71% \$99,635,030	11.02% \$90,097,163	11.85% \$90,472,803	12.55% \$88,778,768
Total Contributions	<u>9.61%</u> <u>\$117,782,563</u>	<u>10.83%</u> <u>\$123,005,516</u>	<u>10.94%</u> <u>\$118,149,092</u>	<u>10.99%</u> <u>\$113,971,570</u>	<u>11.16%</u> <u>\$103,821,376</u>	<u>11.46%</u> <u>\$93,694,509</u>	<u>11.55%</u> <u>\$88,182,352</u>	<u>11.71%</u> <u>\$82,836,604</u>
Deficiency (Surplus)	(1.29%) (\$15,810,563)	(0.78%) (\$8,859,123)	(0.36%) (\$3,887,904)	(0.69%) (\$7,155,631)	(0.45%) (\$4,186,346)	(0.44%) (\$3,597,346)	0.30% \$2,290,451	0.84% \$5,942,165
Amortization Target Date	2009	2009	2009	2009	2009	2009	1997	1997
Actuary	Comp. & Capital	Comp. & Capital	Comp. & Capital	Comp. & Capital	Comp. & Capital	Comp. & Capital	Comp. & Capital	Comp. & Capital

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

	1976	1975	1974	1973	1972	1971	1970	1969
Membership								
Active Members	83,798	81,140	76,863	72,981	70,873	66,130	61,206	56,406
Service Retirees	8,447	7,874	7,337	6,836	6,379	6,019	5,663	5,394
Disabilitants	458	396	322	300	236	215	181	166
Survivors	3,730	3,149	2,973	3,599	3,534	3,328	3,245	3,040
Deferred Retirees	994	911	842	801	746	367	319	294
Nonvested Former Members	0	0	0	0	0	0	0	0
Total Membership	97,427	93,470	88,337	84,517	81,768	76,059	70,614	65,300
Funded Status								
Accrued Liability	\$816,093,861	\$725,173,867	\$684,662,736	\$610,959,698	\$411,420,144	\$365,882,167	\$327,954,392	\$308,290,143
Current Assets	<u>\$511,152,418</u>	<u>\$449,178,269</u>	<u>\$407,163,809</u>	<u>\$349,259,698</u>	<u>\$302,157,370</u>	<u>\$261,422,831</u>	<u>\$224,484,103</u>	<u>\$198,968,527</u>
Unfunded Accrued Liability	\$304,941,443	\$275,995,598	\$277,498,927	\$261,700,000	\$109,262,774	\$104,459,336	\$103,470,289	\$109,321,616
Funding Ratio	62.63%	61.94%	59.47%	57.17%	73.44%	71.45%	68.45%	64.54%
Financing Requirements								
Covered Payroll	\$657,609,766	\$582,912,058	\$506,950,682	\$459,146,137	\$431,228,970	\$376,256,783	\$326,503,596	\$278,964,560
Benefits Payable	\$24,370,696	\$22,039,631	\$19,617,342	\$14,179,695	\$12,298,554	\$11,437,564	\$10,807,318	\$10,288,345
Normal Cost	9.14%	9.36%	9.26%	8.64%	8.24%	8.50%	8.64%	9.21%
Administrative Expenses	<u>0.15%</u>	<u>0.14%</u>	<u>0.16%</u>	<u>0.17%</u>	<u>0.20%</u>	<u>0.20%</u>	<u>0.20%</u>	<u>0.20%</u>
Normal Cost & Expense	9.29%	9.50%	9.42%	8.81%	8.44%	8.70%	8.84%	9.41%
Normal Cost & Expense	9.29%	9.50%	9.42%	8.81%	8.44%	8.70%	8.84%	9.41%
Amortization	<u>3.62%</u>	<u>3.60%</u>	<u>4.07%</u>	<u>4.13%</u>	<u>1.54%</u>	<u>1.63%</u>	<u>1.84%</u>	<u>2.22%</u>
Total Requirements	12.91%	13.10%	13.49%	12.94%	9.98%	10.33%	10.68%	11.63%
Employee Contributions	5.16%	5.29%	5.45%	5.60%	4.32%	4.47%	4.63%	4.92%
Employer Contributions	5.16%	5.29%	5.45%	5.60%	4.32%	4.47%	4.63%	4.92%
Employer Add'l Cont.	1.78%	1.82%	1.86%	1.90%	1.93%	1.99%	2.04%	2.14%
Direct State Funding	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other Govt. Funding	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Administrative Assessment	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total Contributions	12.10%	12.40%	12.76%	13.10%	10.57%	10.93%	11.30%	11.98%
Total Requirements	12.91%	13.10%	13.49%	12.94%	9.98%	10.33%	10.68%	11.63%
Total Contributions	<u>12.10%</u>	<u>12.40%</u>	<u>12.76%</u>	<u>13.10%</u>	<u>10.57%</u>	<u>10.93%</u>	<u>11.30%</u>	<u>11.98%</u>
Deficiency (Surplus)	0.81%	0.70%	0.73%	(0.16%)	(0.59%)	(0.60%)	(0.62%)	(0.35%)
Amortization Target Date	1997	1997	1997	1997	1997	1997	1997	1997
Actuary	Comp. & Capital	Comp. & Capital	A.S. Hansen	A.S. Hansen	A.S. Hansen	A.S. Hansen	A.S. Hansen	A.S. Hansen

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

	1968	1967	1966	1965	1963	1958	1955	1947	1943
Membership									
Active Members	51,584	46,517	44,460	42,025	40,413	37,896	36,798	8,784	7,176
Service Retirees	5,129	4,865	4,588	4,344	3,697	1,972	1,104	279	196
Disabilitants	142	163	145	133	115	4	0	0	0
Survivors	2,924	2,669	1,972	1,780	1,802	348	92	0	0
Deferred Retirees	304	472	257	352	0	153	74	0	0
Nonvested Former Members	0	0	0	0	0	142	0	0	0
Total Membership	60,083	54,686	51,422	48,634	46,027	40,515	38,068	9,063	7,372
Funded Status									
Accrued Liability	\$311,701,345	\$302,792,892	\$275,801,933	\$274,074,898	\$196,619,405	\$111,602,876	\$144,432,518	--	--
Current Assets	\$176,117,656	\$160,588,744	\$142,337,557	\$126,246,374	\$100,126,193	\$26,090,948	\$16,345,982	\$3,223,280	\$2,246,195
Unfunded Accrued Liability	\$135,583,689	\$142,204,148	\$133,464,376	\$147,828,524	\$96,493,212	\$85,511,928	\$128,086,536		
Funding Ratio	56.50%	53.04%	51.61%	46.06%	50.92%	23.38%	11.32%		
Financing Requirements									
Covered Payroll	\$231,466,338	\$206,254,241	\$169,623,104	\$154,895,063	\$146,807,028	\$114,055,965	\$85,755,000		
Benefits Payable	\$9,691,879	\$8,994,475	\$8,407,258	\$7,708,877	\$6,472,749	\$2,517,462		\$1,833,830	\$180,359
Normal Cost	10.65%	\$24,651,165	10.73%	\$22,131,080	10.75%	\$18,234,484	10.11%	\$15,659,891	\$0
Administrative Expenses	0.21%	\$486,079	0.20%	\$412,508	0.22%	\$373,171	--	\$0	\$0
Normal Cost & Expense	10.86%	\$25,137,244	10.93%	\$22,543,589	10.97%	\$18,607,655	10.11%	\$15,659,891	\$0
Normal Cost & Expense	10.86%	\$25,137,244	10.93%	\$22,543,589	10.97%	\$18,607,655	10.11%	\$15,659,891	\$0
Amortization	3.05%	\$7,059,723	3.52%	\$7,260,149	3.93%	\$6,666,188	4.68%	\$7,249,089	\$0
Total Requirements	13.91%	\$32,196,968	14.45%	\$29,803,738	14.90%	\$25,273,842	14.79%	\$22,908,980	\$0
Employee Contributions	5.32%	\$12,314,009	6.00%	\$12,375,254	6.00%	\$10,177,386	6.00%	\$9,293,704	\$0
Employer Contributions	5.32%	\$12,314,009	6.00%	\$12,375,254	6.00%	\$10,177,386	6.00%	\$9,293,704	\$0
Employer Add'l Cont.	2.27%	\$5,254,286	2.50%	\$5,156,356	2.50%	\$4,240,578	2.50%	\$3,872,377	\$0
Direct State Funding	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	\$0
Other Govt. Funding	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	\$0
Administrative Assessment	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	\$0
Total Contributions	12.91%	\$29,882,304	14.50%	\$29,906,865	14.50%	\$24,595,350	14.50%	\$22,459,784	\$0
Total Requirements	13.91%	\$32,196,968	14.45%	\$29,803,738	14.90%	\$25,273,842	14.79%	\$22,908,980	\$0
Total Contributions	12.91%	\$29,882,304	14.50%	\$29,906,865	14.50%	\$24,595,350	14.50%	\$22,459,784	\$0
Deficiency (Surplus)	1.00%	\$2,314,663	(0.05%)	(\$103,127)	0.40%	\$678,492	0.29%	\$449,196	\$0
Amortization Target Date	1997	1997	1997	1997	--	1997	--	--	--
Actuary	A.S. Hansen	A.S. Hansen	A.S. Hansen	A.S. Hansen	A.A. Weinberg	J.B. St.John	J.B. St.John	E.D. Brown	E.D. Brown

Senators Pogemiller, Stumpf and Betzold introduced--

S.F. No. 810: Referred to the Committee on State and Local Government Operations.

1 A bill for an act

2 relating to retirement; public employees retirement
 3 association; modifying membership eligibility;
 4 modifying the definition of allowable service for
 5 benefit calculation purposes; prorating service credit
 6 for benefit calculation purposes; modifying employer
 7 reporting requirements; modifying contribution rates;
 8 changing amortization requirements; modifying the
 9 definition of vesting; modifying contribution refunds;
 10 providing for state assistance; amending Minnesota
 11 Statutes 2000, sections 273.1385, subdivision 1;
 12 353.01, subdivisions 2, 2a, 2b, 7, 11b, 12, 12a, 16,
 13 and by adding subdivisions; 353.27, subdivisions 2,
 14 3a, 4, and 11; 353.29, subdivision 1; 353.32,
 15 subdivision 1a; 353.33, subdivision 1; 353.34,
 16 subdivisions 1, 2, 3, and by adding subdivisions;
 17 353.35, subdivision 2; 353.71, subdivisions 1 and 2;
 18 353.86, subdivision 1; and 356.215, subdivision 4g.

19 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

20 ARTICLE 1

21 Section 1. Minnesota Statutes 2000, section 353.01,
 22 subdivision 2, is amended to read:

23 Subd. 2. [PUBLIC EMPLOYEE.] "Public employee" means an a
 24 governmental employee performing personal services for a
 25 governmental subdivision under defined in subdivision 6, whose
 26 salary is paid, in whole or in part, from revenue derived from
 27 taxation, fees, assessments, or from other sources. The
 28 term ~~also~~ includes ~~special~~ the classes of persons listed in
 29 ~~subdivision~~ subdivisions 2a, 7, and 2d. The term excludes
 30 ~~special~~ the classes of persons listed in subdivision 2b for
 31 purposes of membership in the association. ~~Public-employee~~ The
 32 term does not include independent contractors and their

1 employees. A reemployed annuitant under section 353.37 must not
 2 be considered to be a public employee for purposes of that
 3 reemployment.

4 Sec. 2. Minnesota Statutes 2000, section 353.01,
 5 subdivision 2a, is amended to read:

6 Subd. 2a. [INCLUDED EMPLOYEES.] (a) Public employees whose
 7 salary-from-one-governmental-subdivision-exceeds-\$425-in-any
 8 month-shall-participate-as-members-of-the-association.--If-the
 9 salary-of-an-employee-is-less-than-\$425-in-a-subsequent-month,
 10 the-employee-retains-membership-eligibility.--The-following
 11 persons-are-considered-public-employees:

12 (1)-employees-whose-annual-salary-from-one-governmental
 13 subdivision-exceeds-a-stipulation-prepared-in-advance,-in
 14 writing,-to-be-not-more-than-\$5,100-per-calendar-year-or-per
 15 school-year-for-school-employees-for-employment-expected-to-be
 16 of-a-full-year's-duration-or-more-than-the-prorated-portion-of
 17 \$5,100-per-employment-period-expected-to-be-of-less-than-a-full
 18 year's-duration.--If-compensation-from-one-governmental
 19 subdivision-to-an-employee-under-this-clause-exceeds-\$5,100-per
 20 calendar-year-or-school-year-after-being-stipulated-in-advance
 21 not-to-exceed-that-amount,-the-stipulation-is-no-longer-valid
 22 and-contributions-must-be-made-on-behalf-of-the-employee-under
 23 section-353.27,-subdivision-12,-from-the-month-in-which-the
 24 employee's-salary-first-exceeded-\$425,

25 (2)-employees-whose-total-salary-from-concurrent
 26 nontemporary-positions-in-one-governmental-subdivision-exceeds
 27 \$425-in-any-month,

28 (3)-elected-officers-for-service-to-which-they-were-elected
 29 by-the-public-at-large,-or-persons-appointed-to-fill-a-vacancy
 30 in-an-elective-office,-who-elect-to-participate-by-filing-an
 31 application-for-membership,-but-not-for-service-on-a-joint-or
 32 regional-board-that-is-a-governmental-subdivision-under
 33 subdivision-6,-paragraph-(a),-unless-the-salary-earned-for-that
 34 service-exceeds-\$425-in-any-month.--The-option-to-become-a
 35 member,-once-exercised,-may-not-be-withdrawn-during-the
 36 incumbency-of-the-person-in-office,

1 ~~(4)-members-who-are-appointed-by-the-governor-to-be-a-state~~
2 ~~department-head-and-elect-not-to-be-covered-by-the-Minnesota~~
3 ~~state-retirement-system-under-section-352.021;~~

4 ~~(5)-employees-of-elected-officers;~~

5 ~~(6)-persons-who-elect-to-remain-members-under-section~~
6 ~~480.181, subdivision 2;~~

7 ~~(7)-employees-of-a-school-district-who-receive-separate~~
8 ~~salaries-for-driving-their-own-buses;~~

9 ~~(8)-employees-of-the-Minnesota-association-of-townships~~
10 ~~when-the-board-of-the-association, at its option, certifies to~~
11 ~~the-executive-director-that-its-employees-are-to-be-included-for~~
12 ~~purposes-of-retirement-coverage, in which case coverage of all~~
13 ~~employees-of-the-association-is-permanent;~~

14 ~~(9)-employees-of-a-county-historical-society-who-are-county~~
15 ~~employees;~~

16 ~~(10)-employees-of-a-county-historical-society-located-in~~
17 ~~the-county-whom-the-county, at its option, certifies to the~~
18 ~~executive-director-to-be-county-employees-for-purposes-of~~
19 ~~retirement-coverage-under-this-chapter, which status must be~~
20 ~~accorded-to-all-similarly-situated-county-historical-society~~
21 ~~employees-and, once-established, must continue as long as a~~
22 ~~person-is-an-employee-of-the-county-historical-society-and-is~~
23 ~~not-excluded-under-subdivision-2b, and~~

24 ~~(11)-employees-who-became-members-before-July-1, 1988,~~
25 ~~based-on-the-total-salary-of-positions-held-in-more-than-one~~
26 ~~governmental-subdivision. shall participate as members of the~~
27 ~~association with retirement coverage by the public employees~~
28 ~~retirement plan or the public employees police and fire~~
29 ~~retirement plan under this chapter, or the local government~~
30 ~~correctional employees retirement plan under chapter 353E,~~
31 ~~whichever applies, as a condition of their employment on the~~
32 ~~first day of employment unless they:~~

33 ~~(1) are specifically excluded under subdivision 2b;~~

34 ~~(2) do not exercise their right to elect retirement~~
35 ~~coverage in the association as provided in subdivision 2d,~~
36 ~~paragraph (a); or~~

1 (3) are employees of the governmental subdivisions listed
2 in subdivision 2d, paragraph (b), where the governmental
3 subdivision has not elected to participate in the association.

4 (b) A public employee who was a member of the association
5 on June 30, 2002, based on employment that qualified for
6 membership coverage by the public employees retirement plan or
7 the public employees police and fire plan under this chapter, or
8 the local government correctional employees retirement plan
9 under chapter 353E retains that membership until the employee
10 terminates all public employment or membership as defined in
11 subdivisions 11a and 11b.

12 Sec. 3. Minnesota Statutes 2000, section 353.01,
13 subdivision 2b, is amended to read:

14 Subd. 2b. [EXCLUDED EMPLOYEES.] The following public
15 employees shall not participate as members of the association
16 with retirement coverage by the public employees retirement
17 plan, the local government correctional employees retirement
18 plan under chapter 353E, or the public employees police and fire
19 retirement plan:

20 (1) except for elected county sheriffs, public officers
21 elected to a governing body, or persons appointed to fill a
22 vacancy in an elective office of a governing body, who do not
23 elect to participate in the association by filing an application
24 for membership whose term of office first commences on or after
25 July 1, 2002, for the service to be rendered in that elective
26 position. Elected governing body officials who were active
27 members of the association's coordinated or basic retirement
28 plans as of June 30, 2002, continue participation throughout
29 incumbency in office until termination of public service occurs
30 as defined in subdivision 11a;

31 (2) election officers or election judges;

32 (3) patient and inmate personnel who perform services in
33 charitable, penal, or correctional institutions of for a
34 governmental subdivision;

35 (4) employees who are hired for a temporary position under
36 subdivision 12a, and employees who resign from a nontemporary

1 position and accept a temporary position within 30 days in the
 2 same governmental subdivision, ~~but not those.~~ An employer must
 3 not apply the definition of temporary position so as to exclude
 4 employees who are hired for an unlimited period to fill
 5 positions that are permanent or for an unspecified period but
 6 who are serving a probationary period at the start of the
 7 employment. If the period of employment extends beyond six
 8 consecutive months ~~and the employee earns more than \$425 from~~
 9 ~~one governmental subdivision in any one calendar month,~~ the
 10 department head shall report the employee for membership and
 11 require employee deductions be made on behalf of the employee
 12 under section 353.27, subdivision 4.

13 The membership eligibility of an employee who resigns or is
 14 dismissed from a temporary position and within 30 days accepts
 15 another temporary position in the same governmental subdivision
 16 is determined on the total length of employment rather than on
 17 each separate position. Membership eligibility of an employee
 18 who holds concurrent temporary and nontemporary positions in one
 19 governmental subdivision is determined by the length of
 20 employment and salary of each separate position;

21 ~~(5) employees whose actual salary from one governmental~~
 22 ~~subdivision does not exceed \$425 per month, or whose annual~~
 23 ~~salary from one governmental subdivision does not exceed a~~
 24 ~~stipulation prepared in advance, in writing, that the salary~~
 25 ~~must not exceed \$5,100 per calendar year or per school year for~~
 26 ~~school employees for employment expected to be of a full year's~~
 27 ~~duration or more than the prorated portion of \$5,100 per~~
 28 ~~employment period for employment expected to be of less than a~~
 29 ~~full year's duration;~~

30 ~~(6)~~ employees who are employed by reason of work emergency
 31 caused by fire, flood, storm, or similar disaster;

32 ~~(7)~~ (6) employees who by virtue of their employment in one
 33 governmental subdivision are required by law to be a member of
 34 and to contribute to any of the plans or funds administered by
 35 the Minnesota state retirement system, the teachers retirement
 36 association, the Duluth teachers retirement fund association,

1 the Minneapolis teachers retirement association, the St. Paul
2 teachers retirement fund association, the Minneapolis employees
3 retirement fund, or any police or firefighters relief
4 association governed by section 69.77 that has not consolidated
5 with the public employees retirement association, or any local
6 police or firefighters consolidation account but who have not
7 elected the type of benefit coverage provided by the public
8 employees police and fire fund under sections 353A.01 to
9 353A.10, or any persons covered by section 353.665, subdivision
10 4, 5, or 6, who have not elected public employees police and
11 fire plan benefit coverage. This clause must not be construed
12 to prevent a person from being a member of and contributing to
13 the public employees retirement association and also belonging
14 to and contributing to another public pension fund for other
15 service occurring during the same period of time. A person who
16 meets the definition of "public employee" in subdivision 2 by
17 virtue of other service occurring during the same period of time
18 becomes a member of the association unless contributions are
19 made to another public retirement fund on the salary based on
20 the other service or to the teachers retirement association by a
21 teacher as defined in section 354.05, subdivision 2;

22 ~~(8)~~ (7) persons who are members of a religious order and
23 are excluded from coverage under the federal Old Age, Survivors,
24 Disability, and Health Insurance Program for the performance of
25 service as specified in United States Code, title 42, section
26 410(a)(8)(A), as amended through January 1, 1987, if no
27 irrevocable election of coverage has been made under section
28 3121(r) of the Internal Revenue Code of 1954, as amended;

29 ~~(9)-full-time-students-who~~ (8) employees who at the time
30 they are hired by a governmental subdivision are enrolled and on
31 a full-time basis to attend or are regularly attending classes
32 at an accredited school, college, or university and-who-are
33 part-time-employees-as-defined-by-a-governmental-subdivision in
34 an undergraduate, graduate, or professional-technical program,
35 or a public or charter high school, provided the employment is
36 predicated on the student status of the individual;

1 ~~(8)~~ (9) resident physicians, medical interns, and
2 pharmacist residents and pharmacist interns who are serving in a
3 degree or residency program in public hospitals;

4 ~~(9)~~ (10) students who are serving in an internship or
5 residency program sponsored by an accredited educational
6 institution;

7 ~~(10)~~ (11) persons who hold a part-time adult supplementary
8 technical college license who render part-time teaching service
9 in a technical college;

10 ~~(11)~~ (12) foreign citizens working for a governmental
11 subdivision with a work permit of less than three years, or an
12 H-1b visa valid for less than three years of employment. Upon
13 notice to the association that the work permit or visa extends
14 beyond the three-year period, the foreign citizens are eligible
15 for membership from the date of the extension;

16 ~~(12)~~ (13) public hospital employees who elected not to
17 participate as members of the association before 1972 and who
18 did not elect to participate from July 1, 1988, to October 1,
19 1988;

20 ~~(13)~~ (14) except as provided in section 353.86, volunteer
21 ambulance service personnel, as defined in subdivision 35, but
22 persons who serve as volunteer ambulance service personnel may
23 still qualify as public employees under subdivision 2 and may be
24 members of the public employees retirement association and
25 participants in the public employees retirement fund or the
26 public employees police and fire fund, whichever applies, on the
27 basis of compensation received from public employment service
28 other than service as volunteer ambulance service personnel;

29 ~~(14)~~ (15) except as provided in section 353.87, volunteer
30 firefighters, as defined in subdivision 36, engaging in
31 activities undertaken as part of volunteer firefighter duties;
32 provided that a person who is a volunteer firefighter may still
33 qualify as a public employee under subdivision 2 and may be a
34 member of the public employees retirement association and a
35 participant in the public employees retirement fund or the
36 public employees police and fire fund, whichever applies, on the

1 basis of compensation received from public employment activities
2 other than those as a volunteer firefighter;

3 ~~(17)~~ (16) pipefitters and associated trades personnel
4 employed by independent school district No. 625, St. Paul, with
5 who have retirement coverage by the pipefitters local 455
6 pension plan under a collective bargaining agreement who were
7 either first employed after May 1, 1997, or, if first employed
8 before May 2, 1997, elected to be excluded under Laws 1997,
9 chapter 241, article 2, section 12; and

10 ~~(18)~~ (17) electrical workers, plumbers, carpenters, and
11 associated trades personnel employed by independent school
12 district No. 625, St. Paul, or the city of St. Paul, with
13 coverage by the electrical workers local 110 pension plan, the
14 united association plumbers local 34 pension plan, or the
15 carpenters local 87 pension plan under a collective bargaining
16 agreement who were either first employed after May 1, 2000, or,
17 if first employed before May 2, 2000, elected to be excluded
18 under Laws 2000, chapter 461, article 7, section 5;

19 (18) employees hired after June 30, 2002, to fill seasonal
20 positions limited in duration by the employer to 185 consecutive
21 calendar days or less in each business year of the governmental
22 subdivision. A position is a seasonal position when the nature
23 of the work or its duration are related to a specific season or
24 seasons of the year, regardless of whether the employing agency
25 anticipates that the same employee will return to the position
26 each season in which it becomes available. The entire period of
27 employment in a business year will be used to determine whether
28 a position may be excluded as seasonal when there is less than a
29 30-day break between one seasonal position and a subsequent
30 seasonal position for employment with the same governmental
31 employer. Seasonal positions include, but may not be limited
32 to, coaching athletic activities; employment to plow snow or
33 maintain roads or parks, or to operate skating rinks, ski
34 lodges, golf courses, or swimming pools; and

35 (19) persons provided sheltered employment or work-study
36 positions by a governmental subdivision that participate in an

1 employment or industries program maintained for the benefit of
2 these persons where the governmental subdivision limits the
3 position's duration to three years or less. This includes
4 persons participating in a federal or state subsidized
5 on-the-job training, work experience, senior citizen, youth, or
6 unemployment relief program where the training or work
7 experience is not provided as a part of, or for future permanent
8 public employment.

9 Sec. 4. Minnesota Statutes 2000, section 353.01, is
10 amended by adding a subdivision to read:

11 Subd. 2d. [OPTIONAL MEMBERSHIP.] (a) Membership in the
12 association is optional by action of the individual employee for
13 the following public employees who meet the conditions set forth
14 in subdivision 2a:

15 (1) members of the coordinated plan who are also employees
16 of labor organizations as defined in section 353.017,
17 subdivision 1, for their employment by the labor organization
18 only if they elect to have membership under section 353.017,
19 subdivision 2;

20 (2) persons who are elected or persons who are appointed to
21 elected positions other than local governing body elected
22 positions who elect to participate by filing a written election
23 for membership;

24 (3) members of the association who are appointed by the
25 governor to be a state department head and elect not to be
26 covered by the general state employees retirement plan of the
27 Minnesota state retirement system under section 352.021; and

28 (4) city managers as defined in section 353.028,
29 subdivision 1, unless they elect to be excluded from membership
30 in the association under section 353.028, subdivision 2.

31 (b) Membership in the association is optional by action of
32 the governmental subdivision for the employees of the following
33 governmental subdivisions under the conditions specified:

34 (1) the Minnesota association of townships if the board of
35 the association, at its option, certifies to the executive
36 director that its employees are to be included for purposes of

1 retirement coverage, in which case the status of the association
2 as a participating employer is permanent; and

3 (2) a county historical society if the county in which the
4 historical society is located, at its option, certifies to the
5 executive director that the employees of the historical society
6 are to be county employees for purposes of retirement coverage
7 under this chapter. The status as a county employee must be
8 accorded to all similarly situated county historical society
9 employees and, once established, must continue as long as a
10 person is an employee of the county historical society.

11 (c) For employees covered by paragraph (a), clause (1),
12 (2), (3), or by paragraph (b), if the necessary membership
13 election is not made, the employee is excluded from retirement
14 coverage under this chapter. For employees covered by paragraph
15 (a), clause (4), if the necessary election is not made, the
16 employee must become a member and have retirement coverage under
17 this chapter. The option to become a member, once exercised
18 under this subdivision, may not be withdrawn until termination
19 of public service as defined under subdivision 11a.

20 Sec. 5. Minnesota Statutes 2000, section 353.01,
21 subdivision 7, is amended to read:

22 Subd. 7. [MEMBER.] "Member" means a person who accepts
23 employment as a "public employee" under subdivision 2, is an
24 employee who works in one or more positions that require or
25 allow membership in the association under subdivision 2a or
26 2d, for whom contributions have been withheld from salary and
27 who is not covered by the plan established in chapter 353D or
28 excluded under subdivision 2b. A person who is a member remains
29 a member while performing services as a public employee and
30 while on an authorized leave of absence or an authorized
31 temporary layoff.

32 Sec. 6. Minnesota Statutes 2000, section 353.01,
33 subdivision 11b, is amended to read:

34 Subd. 11b. [TERMINATION OF MEMBERSHIP.] (a) "Termination
35 of membership" means the conclusion of membership in the
36 association and occurs:

1 (1) upon termination of public service under subdivision
2 11a;

3 ~~(2) when a member who is a part-time employee is excluded~~
4 ~~from membership as a full-time student under subdivision 2b,~~
5 ~~clause (9);~~

6 ~~(3)~~ when a member does not return to work within 30 days of
7 the expiration of an authorized temporary layoff under
8 subdivision 12 or an authorized leave of absence under
9 subdivision 31; ~~if the employee subsequently returns to a~~
10 ~~position in the same governmental subdivision, the employee~~
11 ~~shall not again be required to earn a salary in excess of \$425~~
12 ~~per month, unless the employee has taken a refund of accumulated~~
13 ~~employee deductions plus interest under section 353.34,~~
14 ~~subdivision 1~~ as evidenced by the appropriate record filed by
15 the governmental subdivision; or

16 ~~(4)~~ (3) when a person files a written election to
17 discontinue employee deductions under section 353.27,
18 subdivision 7, paragraph (a), clause (1).

19 (b) The termination of membership must be reported to the
20 association by the governmental subdivision.

21 Sec. 7. Minnesota Statutes 2000, section 353.01,
22 subdivision 12, is amended to read:

23 Subd. 12. [AUTHORIZED TEMPORARY LAYOFF.] "Authorized
24 temporary layoff" ~~including seasonal leave of absence,~~ means a
25 suspension of public service authorized by the employing
26 governmental subdivision for a specified period not exceeding
27 three months in any calendar year or school year for school
28 employees, as evidenced by appropriate record of the employer
29 and promptly transmitted to the association. The association
30 shall credit the member for an authorized temporary layoff only
31 as provided in subdivision 16, paragraph (a), clause (4).

32 Sec. 8. Minnesota Statutes 2000, section 353.01,
33 subdivision 12a, is amended to read:

34 Subd. 12a. [TEMPORARY POSITION.] (1) "Temporary position"
35 means an employment position predetermined by the employer at
36 the time of hiring to be a period of six months or less or.

1 Temporary position also means an employment position occupied by
 2 a person hired by the employer as a temporary replacement who
 3 will be employed for a predetermined period of six months or
 4 less.

5 (2) "Temporary position" does not mean an employment
 6 position for ~~an-unlimited-period~~ a specified term in which a
 7 person serves a probationary period ~~or-works-an-irregular~~
 8 schedule as a requirement for employment on a permanent or
 9 unlimited basis.

10 Sec. 9. Minnesota Statutes 2000, section 353.01, is
 11 amended by adding a subdivision to read:

12 Subd. 38. [BUSINESS YEAR.] "Business year" means the first
 13 full pay period through the last full pay period of a
 14 governmental subdivision's 12-month fiscal year.

15 Sec. 10. Minnesota Statutes 2000, section 353.86,
 16 subdivision 1, is amended to read:

17 Subdivision 1. [PARTICIPATION.] Volunteer ambulance
 18 service personnel, as defined in section 353.01, subdivision 35,
 19 who are or become members of and participants in the public
 20 employees retirement fund or the public employees police and
 21 fire fund before July 1, 2002, and make contributions to either
 22 of those funds based on compensation for service other than
 23 volunteer ambulance service may elect to participate in that
 24 same fund with respect to compensation received for volunteer
 25 ambulance service, provided that the volunteer ambulance service
 26 is not credited to another public or private pension plan
 27 including the public employees retirement plan established by
 28 chapter 353D and provided further that the volunteer ambulance
 29 service is rendered for the same governmental unit for which the
 30 nonvolunteer ambulance service is rendered.

31 Sec. 11. [EFFECTIVE DATE.]

32 Sections 1 to 10 are effective July 1, 2002.

33 ARTICLE 2

34 Section 1. Minnesota Statutes 2000, section 353.01,
 35 subdivision 16, is amended to read:

36 Subd. 16. [ALLOWABLE SERVICE; LIMITS AND COMPUTATION.] (a)

1 "Allowable service" means:

2 (1) service during years of actual membership in the course
3 of which employee contributions were made, periods covered by
4 payments in lieu of salary deductions under section 353.35, and
5 service in years during which the public employee was not a
6 member but for which the member later elected, while a member,
7 to obtain credit by making payments to the fund as permitted by
8 any law then in effect;

9 ~~(b)-"Allowable-service"-also-means~~ (2) a period of
10 authorized leave of absence with pay from which deductions for
11 employee contributions are made, deposited, and credited to the
12 fund;

13 ~~(c)-"Allowable-service"-also-means~~ (3) a period of
14 authorized personal, parental, or medical leave of absence
15 without pay, including a leave of absence covered under the
16 Family Medical Leave Act, that does not exceed one year, and
17 during or for which a member obtained full or fractional service
18 credit for each month in the leave period by payments to the
19 fund made in place of salary deductions, provided that the
20 payments are made in an amount or amounts based on the member's
21 average salary on which deductions were paid for the last six
22 months of public service, or for that portion of the last six
23 months while the member was in public service, to apply to the
24 period in either case immediately preceding commencement of the
25 leave of absence. If the employee elects to pay employee
26 contributions for the period of any leave of absence without
27 pay, or for any portion of the leave, the employee shall also,
28 as a condition to the exercise of the election, pay to the fund
29 an amount equivalent to both the required employer and
30 additional employer contributions for the employee. The payment
31 must be made within one year from the expiration of the leave of
32 absence or within 20 days after termination of public service
33 under subdivision 11a. The employer by appropriate action of
34 its governing body, made a part of its official records, before
35 the date of the first payment of the employee contribution, may
36 certify to the association in writing its commitment to pay the

1 employer and additional employer contributions from the proceeds
2 of a tax levy made under section 353.28. Payments under this
3 paragraph must include interest at an annual rate of 8.5 percent
4 compounded annually from the date of the termination of the
5 leave of absence to the date payment is made. An employee shall
6 return to public service and receive a minimum of three months
7 of allowable service to be eligible to pay employee and employer
8 contributions for a subsequent authorized leave of absence
9 without pay. Upon payment the employee must be given allowable
10 service credit for full calendar months or fractions of a month
11 during the leave period as described in paragraph (d), clauses
12 (1) and (2), based on the salary or compensated hours used in
13 computing the payment amount;

14 ~~(d)-"Allowable-service"-also-means~~ (4) a periodic,
15 repetitive leave that is offered to all employees of a
16 governmental subdivision. The leave program may not exceed 208
17 hours per annual normal work cycle as certified to the
18 association by the employer. A participating member obtains
19 service credit by making employee contributions in an amount or
20 amounts based on the member's average salary that would have
21 been paid if the leave had not been taken. The employer shall
22 pay the employer and additional employer contributions on behalf
23 of the participating member. The employee and the employer are
24 responsible to pay interest on their respective shares at the
25 rate of 8.5 percent a year, compounded annually, from the end of
26 the normal cycle until full payment is made. An employer shall
27 also make the employer and additional employer contributions,
28 plus 8.5 percent interest, compounded annually, on behalf of an
29 employee who makes employee contributions but terminates public
30 service. The employee contributions must be made within one
31 year after the end of the annual normal working cycle or within
32 20 days after termination of public service, whichever is
33 sooner. The association shall prescribe the manner and forms to
34 be used by a governmental subdivision in administering a
35 periodic, repetitive leave. Upon payment the member must be
36 given allowable service credit for full calendar months or

1 fractions of a month during the leave period as described in
2 paragraph (d), clauses (1) and (2), based on the salary or
3 compensated hours used in computing the payment amount;

4 ~~(e) "Allowable service" also means a period during which a~~
5 ~~member is on an authorized sick leave of absence, without pay,~~
6 ~~limited to one year. An employee who has received one year of~~
7 ~~allowable service shall return to public service and receive a~~
8 ~~minimum of three months of allowable service to receive~~
9 ~~allowable service for a subsequent authorized sick leave of~~
10 ~~absence.~~

11 (f) "Allowable service" also means (5) an authorized
12 temporary layoff under subdivision 127. For temporary layoffs
13 beginning before July 1, 2002, allowable service shall be
14 limited to three months allowable service per authorized
15 temporary layoff in one calendar year. An employee who has
16 received the maximum service allowed for an authorized temporary
17 layoff shall return to public service and receive a minimum of
18 three months of allowable service to receive allowable service
19 for a subsequent authorized temporary layoff. For temporary
20 layoffs occurring on or after July 1, 2002, members shall
21 receive allowable service credit for the calendar month in which
22 the member does not receive salary due to the layoff using the
23 following formula:

24 (i) members who earn one month of credit for each of the
25 nine calendar months of the year of employment with the
26 governmental subdivision that authorized the layoff, shall
27 receive one month of credit, limited to three credits per year,
28 for each month of the temporary layoff; or

29 (ii) members who earn less than nine months of allowable
30 service credit in the year for periods of compensated employment
31 with the governmental subdivision that authorized the layoff,
32 shall receive credit on a fractional basis for each month of the
33 authorized layoff, limited to three, determined by dividing the
34 total amount of service credit earned for the compensated
35 employment by nine and multiplying the resulting number by the
36 total number of months in the layoff period that are not

1 compensated; or

2 ~~(g)-Notwithstanding any law to the contrary, "allowable~~
3 ~~service" also means a parental leave. The association shall~~
4 ~~grant a maximum of two months service credit for a parental~~
5 ~~leave, within six months after the birth or adoption, upon~~
6 ~~documentation from the member's governmental subdivision or~~
7 ~~presentation of a birth certificate or other evidence of birth~~
8 ~~or adoption to the association.~~

9 (h) "Allowable service" also means (6) a period during
10 which a member is on an authorized leave of absence to enter
11 military service in the armed forces of the United States,
12 provided that the member returns to public service upon
13 discharge from military service under section 192.262 and pays
14 into the fund employee contributions based upon the employee's
15 salary at the date of return from military service. Payment
16 must be made within three times the length of the military leave
17 period, or five years of the date of discharge from the military
18 service, whichever is less. The amount of these contributions
19 must be in accord with the contribution rates and salary
20 limitations, if any, in effect during the leave, plus interest
21 at an annual rate of 8.5 percent compounded annually from the
22 date of return to public service to the date payment is made.
23 The matching employer contribution and additional employer
24 contribution under section 353.27, subdivisions 3 and 3a, must
25 be paid by the governmental subdivision employing the member
26 upon return to public service if the member makes the employee
27 contributions. The governmental subdivision involved may
28 appropriate money for those payments. A member may not receive
29 credit for a voluntary extension of military service at the
30 instance of the member beyond the initial period of enlistment,
31 induction, or call to active duty. Upon payment the employee
32 must be given allowable service credit for full calendar months
33 or fractions of a month during the leave period as described in
34 paragraph (d), clauses (1) and (2), based on the salary or
35 compensated hours used in computing the payment amount.

36 (i) (b) For calculating benefits under sections 353.30,

1 353.31, 353.32, and 353.33 for state officers and employees
2 displaced by the Community Corrections Act, chapter 401, and
3 transferred into county service under section 401.04, "allowable
4 service" means combined years of allowable service as defined in
5 paragraphs paragraph (a) to (i), clauses (1) to (6), and section
6 352.01, subdivision 11.

7 ~~(j)~~ (c) For a public employee who has prior service covered
8 by a local police or firefighters relief association that has
9 consolidated with the public employees retirement association or
10 to which section 353.665 applies, and who has elected the type
11 of benefit coverage provided by the public employees police and
12 fire fund either under section 353A.08 following the
13 consolidation or under section 353.665, subdivision 4,
14 "applicable service" is a period of service credited by the
15 local police or firefighters relief association as of the
16 effective date of the consolidation based on law and on bylaw
17 provisions governing the relief association on the date of the
18 initiation of the consolidation procedure.

19 (d) For persons who, after June 30, 2002, first become
20 members or who terminated membership under subdivision 11b, and
21 again become members, of the public employees retirement plan,
22 the public employees police and fire plan under this chapter, or
23 the local government correctional employee retirement plan under
24 chapter 353E, whichever applies, allowable service means credit
25 for compensated hours from which deductions are made, or
26 payments are made in lieu of salary deductions as provided under
27 this subdivision and which are deposited and credited in the
28 fund as provided in section 353.27, determined as follows:

29 (1) one month of allowable service credit for each month
30 for which the employee has received salary for 80 or more
31 compensated hours; or

32 (2) a fraction of one month of allowable service for each
33 month for which the employee has received salary for less than
34 80 compensated hours based upon the number of compensated hours
35 as they relate to 80 hours.

36 (e) Elected officials and other public employees who are

1 compensated solely on an annual basis shall be considered to
2 have earned a full year of credit for each year in which
3 compensation is earned.

4 Allowable service determined and credited on a fractional
5 basis shall be used in calculating the amount of benefits
6 payable but must not be used in determining the length of
7 service required for vesting. For periods of part-time service
8 that are duplicated service credit, section 356.30, subdivision
9 1, paragraphs (g) and (h), govern.

10 No member shall receive more than 12 months of allowable
11 service credit in a year.

12 Sec. 2. Minnesota Statutes 2000, section 353.01, is
13 amended by adding a subdivision to read:

14 Subd. 39. [COMPENSATED HOURS.] "Compensated hours" means
15 the hours during which an employee performs services in one or
16 more positions for a single governmental subdivision for which
17 the employee receives compensation. The term also includes paid
18 holiday hours for which the employee is not required to work,
19 paid used sick leave hours, paid used personal leave hours and
20 vacation hours, and the paid hours drawn from accrued
21 compensatory time.

22 Sec. 3. Minnesota Statutes 2000, section 353.27,
23 subdivision 4, is amended to read:

24 Subd. 4. [EMPLOYER REPORTING REQUIREMENTS; CONTRIBUTIONS;
25 MEMBER STATUS.] (a) A representative authorized by the head of
26 each department shall deduct employee contributions from the
27 salary of each employee who qualifies for membership under this
28 chapter and remit payment in a manner prescribed by the
29 executive director for the aggregate amount of the employee
30 contributions, the employer contributions and the additional
31 employer contributions to be received within 14 calendar days.
32 The head of each department or the person's designee shall for
33 each pay period submit to the association a salary deduction
34 report in the format prescribed by the executive director. Data
35 to be submitted as part of salary deduction reporting must
36 include, but are not limited to:

- 1 (1) the legal names and social security numbers of
2 employees who are members;
- 3 (2) the amount of each employee's salary deduction;
- 4 (3) the amount of salary from which each deduction was
5 made;
- 6 (4) the beginning and ending dates of the payroll period
7 covered and the date of actual payment; and
- 8 (5) adjustments or corrections covering past pay periods;
9 and
- 10 (6) the hours in the payroll period for which the member
11 received compensation.

12 (b) Employers must furnish the data required for enrollment
13 for each new employee who qualifies for membership in the format
14 prescribed by the executive director. The required enrollment
15 data on new employees must be submitted to the association prior
16 to or concurrent with the submission of the initial employee
17 salary deduction. The employer shall also report to the
18 association all member employment status changes, such as leaves
19 of absence, terminations, and death, and the effective dates of
20 those changes, on an ongoing basis for the payroll cycle in
21 which they occur. The employer shall furnish data, forms, and
22 reports as may be required by the executive director for proper
23 administration of the retirement system. Before implementing
24 new or different computerized reporting requirements, the
25 executive director shall give appropriate advance notice to
26 governmental subdivisions to allow time for system modifications.

27 (c) Notwithstanding paragraph (a), the association may
28 provide for less frequent reporting and payments for small
29 employers.

30 Sec. 4. Minnesota Statutes 2000, section 353.27,
31 subdivision 11, is amended to read:

32 Subd. 11. [EMPLOYERS; REQUIRED TO FURNISH REQUESTED
33 INFORMATION.] All governmental subdivisions shall furnish
34 promptly such other information relative to the employment
35 status of all employees or former employees, including but not
36 limited to payroll abstracts, pertaining to all past and present

1 employees, as may be requested by the association or its
 2 executive director, including schedules of salaries applicable
 3 to various categories of employment, and the number of actual or
 4 estimated hours for which the employees received compensation.
 5 In the event payroll abstract records have been lost or
 6 destroyed, for whatever reason or in whatever manner, so that
 7 such schedules of salaries cannot be furnished therefrom, the
 8 employing governmental subdivision, in lieu thereof, shall
 9 furnish to the association an estimate of the earnings of any
 10 employee or former employee for any period as may be requested
 11 by the association or its executive director. Should the
 12 association receive such schedules of estimated earnings, the
 13 executive director is hereby authorized to use the same as a
 14 basis for making whatever computations might be necessary for
 15 determining obligations of the employee and employer to the
 16 retirement fund. If estimates are not furnished by the employer
 17 pursuant to the request of the association or its executive
 18 director, the association may estimate the obligations of the
 19 employee and employer to the retirement fund based upon such
 20 records as are in its possession. Where payroll abstracts have
 21 been lost or destroyed, the governmental agency need not furnish
 22 any information pertaining to employment prior to July 1, 1963.
 23 The association shall make no estimate of any obligation of any
 24 employee, former employee, or employer covering employment prior
 25 to July 1, 1963.

26 Sec. 5. [EFFECTIVE DATE.]

27 Sections 1 to 4 are effective July 1, 2002.

28 ARTICLE 3

29 Section 1. Minnesota Statutes 2000, section 353.27,
 30 subdivision 2, is amended to read:

31 Subd. 2. [EMPLOYEE CONTRIBUTION.] (a) The employee
 32 contribution is an amount (1) for a "basic member" equal to 8.75
 33 percent of total salary; and (2) for a "coordinated member"
 34 equal to ~~4.75~~ the following percent of total salary:

35 (i) effective on the first paid date occurring after
 36 December 31, 2001, 5.125 percent; and

1 (ii) effective on the first paid date occurring after
2 December 31, 2003, if the actuarial valuation of the public
3 employees retirement association general plan under section
4 356.215 indicates that the total contributions to the plan are
5 insufficient to meet the annual financial requirements of the
6 plan, 5.375 percent.

7 (b) These contributions must be made by deduction from
8 salary in the manner provided in subdivision 4. Where any
9 portion of a member's salary is paid from other than public
10 funds, such member's employee contribution must be based on the
11 total salary received from all sources.

12 Sec. 2. Minnesota Statutes 2000, section 356.215,
13 subdivision 4g, is amended to read:

14 Subd. 4g. [AMORTIZATION CONTRIBUTIONS.] (a) In addition to
15 the exhibit indicating the level normal cost, the actuarial
16 valuation must contain an exhibit indicating the additional
17 annual contribution sufficient to amortize the unfunded
18 actuarial accrued liability. For funds governed by chapters 3A,
19 352, 352B, 352C, 353, 354, 354A, and 490, the additional
20 contribution must be calculated on a level percentage of covered
21 payroll basis by the established date for full funding in effect
22 when the valuation is prepared. For funds governed by chapter
23 3A, sections 352.90 through 352.951, chapters 352B, 352C,
24 sections 353.63 through 353.68, and chapters 353C, 354A, and
25 490, the level percent additional contribution must be
26 calculated assuming annual payroll growth of 6.5 percent. For
27 funds governed by sections 352.01 through 352.86 and chapter
28 354, the level percent additional contribution must be
29 calculated assuming an annual payroll growth of five percent.
30 For the fund governed by sections 353.01 through 353.46, the
31 level percent additional contribution must be calculated
32 assuming an annual payroll growth of six percent. For all other
33 funds, the additional annual contribution must be calculated on
34 a level annual dollar amount basis.

35 (b) For any fund other than the Minneapolis employees
36 retirement fund and the public employees retirement association

1 ~~general plan, after-the-first-actuarial-valuation-date-occurring~~
2 ~~after-June-17-1989,~~ if there has not been a change in the
3 actuarial assumptions used for calculating the actuarial accrued
4 liability of the fund, a change in the benefit plan governing
5 annuities and benefits payable from the fund, a change in the
6 actuarial cost method used in calculating the actuarial accrued
7 liability of all or a portion of the fund, or a combination of
8 the three, which change or changes by themselves without
9 inclusion of any other items of increase or decrease produce a
10 net increase in the unfunded actuarial accrued liability of the
11 fund, the established date for full funding ~~for-the-first~~
12 ~~actuarial-valuation-made-after-June-17-1989,-and-each-successive~~
13 ~~actuarial-valuation~~ is the first actuarial valuation date
14 occurring after June 1, 2020.

15 (c) For any fund or plan other than the Minneapolis
16 employees retirement fund and the public employees retirement
17 association general plan, after-the-first-actuarial-valuation
18 date-occurring-after-June-17-1989, if there has been a change in
19 any or all of the actuarial assumptions used for calculating the
20 actuarial accrued liability of the fund, a change in the benefit
21 plan governing annuities and benefits payable from the fund, a
22 change in the actuarial cost method used in calculating the
23 actuarial accrued liability of all or a portion of the fund, or
24 a combination of the three, and the change or changes, by
25 themselves and without inclusion of any other items of increase
26 or decrease, produce a net increase in the unfunded actuarial
27 accrued liability in the fund, the established date for full
28 funding must be determined using the following procedure:

29 (i) the unfunded actuarial accrued liability of the fund
30 must be determined in accordance with the plan provisions
31 governing annuities and retirement benefits and the actuarial
32 assumptions in effect before an applicable change;

33 (ii) the level annual dollar contribution or level
34 percentage, whichever is applicable, needed to amortize the
35 unfunded actuarial accrued liability amount determined under
36 item (i) by the established date for full funding in effect.

1 before the change must be calculated using the interest
2 assumption specified in subdivision 4d in effect before the
3 change;

4 (iii) the unfunded actuarial accrued liability of the fund
5 must be determined in accordance with any new plan provisions
6 governing annuities and benefits payable from the fund and any
7 new actuarial assumptions and the remaining plan provisions
8 governing annuities and benefits payable from the fund and
9 actuarial assumptions in effect before the change;

10 (iv) the level annual dollar contribution or level
11 percentage, whichever is applicable, needed to amortize the
12 difference between the unfunded actuarial accrued liability
13 amount calculated under item (i) and the unfunded actuarial
14 accrued liability amount calculated under item (iii) over a
15 period of 30 years from the end of the plan year in which the
16 applicable change is effective must be calculated using the
17 applicable interest assumption specified in subdivision 4d in
18 effect after any applicable change;

19 (v) the level annual dollar or level percentage
20 amortization contribution under item (iv) must be added to the
21 level annual dollar amortization contribution or level
22 percentage calculated under item (ii);

23 (vi) the period in which the unfunded actuarial accrued
24 liability amount determined in item (iii) is amortized by the
25 total level annual dollar or level percentage amortization
26 contribution computed under item (v) must be calculated using
27 the interest assumption specified in subdivision 4d in effect
28 after any applicable change, rounded to the nearest integral
29 number of years, but not to exceed 30 years from the end of the
30 plan year in which the determination of the established date for
31 full funding using the procedure set forth in this clause is
32 made and not to be less than the period of years beginning in
33 the plan year in which the determination of the established date
34 for full funding using the procedure set forth in this clause is
35 made and ending by the date for full funding in effect before
36 the change; and

1 (vii) the period determined under item (vi) must be added
 2 to the date as of which the actuarial valuation was prepared and
 3 the date obtained is the new established date for full funding.

4 (d) For the Minneapolis employees retirement fund, the
 5 established date for full funding is June 30, 2020.

6 (e) For the public employees retirement association general
 7 plan, the established date for full funding is June 30, 2031.

8 (f) For the retirement plans for which the annual actuarial
 9 valuation indicates an excess of valuation assets over the
 10 actuarial accrued liability, the valuation assets in excess of
 11 the actuarial accrued liability must be recognized as a
 12 reduction in the current contribution requirements by an amount
 13 equal to the amortization of the excess expressed as a level
 14 percentage of pay over a 30-year period beginning anew with each
 15 annual actuarial valuation of the plan.

16 Sec. 3. [EFFECTIVE DATE.]

17 Section 1 is effective the first paid date following
 18 December 31, 2001. Section 2 is effective June 30, 2001, for
 19 actuarial valuations prepared on or after that date.

20 ARTICLE 4

21 Section 1. Minnesota Statutes 2000, section 353.01, is
 22 amended by adding a subdivision to read:

23 Subd. 40. [VESTING.] "Vesting" for benefit eligibility is
 24 defined as follows:

25 (1) for persons who were members of the public employees
 26 retirement association on June 30, 2002, or the public employees
 27 police and fire plan under this chapter, or the local government
 28 correctional employees retirement plan under chapter 353E,
 29 vesting means three years of allowable service as defined in
 30 subdivision 18; and

31 (2) for persons who first become members or who terminated
 32 public service under subdivision 11a and again become members of
 33 the public employees retirement association after June 30, 2002,
 34 vesting means five years of allowable service as defined in
 35 subdivision 18.

36 Sec. 2. Minnesota Statutes 2000, section 353.29,

1 subdivision 1, is amended to read:

2 Subdivision 1. [AGE AND ALLOWABLE SERVICE REQUIREMENTS.]

3 Upon termination of membership, a person who has attained normal
4 retirement age and who ~~received-credit-for-not-less-than-three~~
5 ~~years-of-allowable-service~~ is vested as defined in section
6 353.01, subdivision 40, is entitled upon application to a
7 retirement annuity. The retirement annuity is known as the
8 "normal" retirement annuity.

9 Sec. 3. Minnesota Statutes 2000, section 353.32,
10 subdivision 1a, is amended to read:

11 Subd. 1a. [SURVIVING SPOUSE OPTIONAL ANNUITY.] (a) If a
12 member or former member who ~~has-credit-for-not-less-than-three~~
13 ~~years-of-allowable-service-and~~ is vested as defined under
14 section 353.01, subdivision 40, dies before the annuity or
15 disability benefit begins to accrue under section 353.29,
16 subdivision 7, or 353.33, subdivision 2, notwithstanding any
17 designation of beneficiary to the contrary, the surviving spouse
18 may elect to receive, instead of a refund with interest under
19 subdivision 1, or surviving spouse benefits otherwise payable
20 under section 353.31, an annuity equal to the 100 percent joint
21 and survivor annuity that the member could have qualified for
22 had the member terminated service on the date of death.

23 (b) If the member was under age 55 and has credit for at
24 least 30 years of allowable service on the date of death, the
25 surviving spouse may elect to receive a 100 percent joint and
26 survivor annuity based on the age of the member and surviving
27 spouse on the date of death. The annuity is payable using the
28 full early retirement reduction under section 353.30,
29 subdivisions 1b and 1c, to age 55 and one-half of the early
30 retirement reduction from age 55 to the age payment begins.

31 (c) If the member was under age 55 ~~and-has-credit-for-at~~
32 ~~least-three-years-of-allowable-service~~ is vested as defined
33 under section 353.01, subdivision 40, on the date of death but
34 did not qualify for retirement, the surviving spouse may elect
35 to receive the 100 percent joint and survivor annuity based on
36 the age of the member and surviving spouse at the time of

1 death. The annuity is payable using the full early retirement
2 reduction under section 353.30, subdivision 1, 1b, 1c, or 5, to
3 age 55 and one-half of the early retirement reduction from age
4 55 to the age payment begins.

5 Notwithstanding the definition of surviving spouse in
6 section 353.01, subdivision 20, a former spouse of the member,
7 if any, is entitled to a portion of the monthly surviving spouse
8 optional annuity if stipulated under the terms of a marriage
9 dissolution decree filed with the association. If there is no
10 surviving spouse or child or children, a former spouse may be
11 entitled to a lump-sum refund payment under subdivision 1, if
12 provided for in a marriage dissolution decree but not a monthly
13 surviving spouse optional annuity despite the terms of a
14 marriage dissolution decree filed with the association.

15 The surviving spouse eligible for surviving spouse benefits
16 under paragraph (a) may apply for the annuity at any time after
17 the date on which the deceased employee would have attained the
18 required age for retirement based on the employee's allowable
19 service. The surviving spouse eligible for surviving spouse
20 benefits under paragraph (b) or (c) may apply for an annuity any
21 time after the member's death. The annuity must be computed
22 under sections 353.29, subdivisions 2 and 3; 353.30,
23 subdivisions 1, 1a, 1b, 1c, and 5; and 353.31, subdivision 3.

24 Sections 353.34, subdivision 3, and 353.71, subdivision 2,
25 apply to a deferred annuity or surviving spouse benefit payable
26 under this subdivision. No payment may accrue beyond the end of
27 the month in which entitlement to the annuity has terminated or
28 upon expiration of the term certain benefit payment under
29 subdivision 1b. An amount equal to any excess of the
30 accumulated contributions that were credited to the account of
31 the deceased employee over and above the total of the annuities
32 paid and payable to the surviving spouse must be paid to the
33 deceased member's last designated beneficiary or, if none, as
34 specified under subdivision 1.

35 A member may specify in writing that this subdivision does
36 not apply and that payment may be made only to the designated

1 beneficiary as otherwise provided by this chapter.

2 Sec. 4. Minnesota Statutes 2000, section 353.33,
3 subdivision 1, is amended to read:

4 Subdivision 1. [AGE, SERVICE, AND SALARY REQUIREMENTS.] A
5 coordinated member who ~~has-at-least-three-years-of-allowable~~
6 service is vested as defined under section 353.01, subdivision
7 40, and becomes totally and permanently disabled before normal
8 retirement age, and a basic member who ~~has-at-least-three-years~~
9 of-allowable-service is vested as defined under section 353.01,
10 subdivision 40, and who becomes totally and permanently disabled
11 is entitled to a disability benefit in an amount under
12 subdivision 3. If the disabled person's public service has
13 terminated at any time, (1) at least two of the required three
14 years of allowable service must have been rendered after last
15 becoming a member if vesting under section 353.01, subdivision
16 40, clause (1) applies; or (2) at least three of the required
17 five years of allowable service must have been rendered after
18 last becoming a member if vesting under section 353.01,
19 subdivision 40, clause (2), applies. A repayment of a refund
20 must be made within six months after the effective date of
21 disability benefits under subdivision 2 or within six months
22 after the date of the filing of the disability application,
23 whichever is later. No purchase of prior service or payment
24 made in lieu of salary deductions otherwise authorized under
25 section 353.01, subdivision 16, 353.017, subdivision 4, or
26 353.36, subdivision 2, may be made after the occurrence of the
27 disability for which an application under this section is filed.

28 Sec. 5. Minnesota Statutes 2000, section 353.34,
29 subdivision 1, is amended to read:

30 Subdivision 1. [REFUND OR DEFERRED ANNUITY.] (a) A former
31 member is entitled to a refund of accumulated employee
32 deductions under subdivision 2 and may be entitled to a portion
33 of accumulated matching employer contributions, as provided
34 under subdivision 2a, or to a deferred annuity under subdivision
35 3. Application for a refund may not be made prior to the date
36 of termination of public service or the termination of

1 membership, whichever is sooner. Except as specified in
 2 paragraph (b), a refund must be paid within 120 days following
 3 receipt of the application unless the applicant has again become
 4 a public employee required to be covered by the association.

5 (b) If an individual was granted an authorized temporary
 6 layoff, a refund is not payable before termination of membership
 7 under section 353.01, subdivision 11b, clause (3).

8 (c) An individual who terminates public service covered by
 9 the public employees retirement association general plan, the
 10 public employees retirement association police and fire plan, or
 11 the public employees local government corrections service
 12 retirement plan, and who becomes an active member covered by one
 13 of the other two plans, may receive a refund of employee
 14 contributions plus six percent interest compounded annually from
 15 the plan in which the member terminated service. If the
 16 individual terminated public service covered by the public
 17 employees retirement association general plan after June 30,
 18 2001, the individual may also receive a portion of the employer
 19 contributions as provided in subdivision 2a.

20 Sec. 6. Minnesota Statutes 2000, section 353.34,
 21 subdivision 2, is amended to read:

22 Subd. 2. [REFUND WITH INTEREST.] Except as provided in
 23 subdivision 1, any person who ceases to be a public employee
 24 shall receive a refund in an amount equal to accumulated
 25 deductions with interest to the first day of the month in which
 26 the refund is processed at the rate of six percent compounded
 27 annually ~~based-on-fiscal-year-balances---if-a-person-repays-a~~
 28 ~~refund-and-subsequently-applies-for-another-refund,-the~~
 29 ~~repayment-amount,-including-interest,-is-added-to-the-fiscal~~
 30 ~~year-balance-in-which-the-repayment-was-made.~~

31 Sec. 7. Minnesota Statutes 2000, section 353.34, is
 32 amended by adding a subdivision to read:

33 Subd. 2a. [PARTIAL REFUND OF EMPLOYER CONTRIBUTIONS.] A
 34 former member who is vested as defined under section 353.01,
 35 subdivision 40, when termination of public service or
 36 termination of membership occurs after June 30, 2001, who

1 applies for a refund of the accumulated employee deductions
2 under subdivision 2 is also entitled to receive an additional
3 refund in an amount equal to the applicable percentage of the
4 total accumulated matching employer contributions made on the
5 former member's behalf, with interest to the first of the month
6 in which the refund is processed at the rate of six percent
7 compounded annually:

8 (1) 25 percent if the refund is paid before the person
9 attains the age of 55; or

10 (2) 50 percent if the refund is paid after the person
11 attains the age of 55.

12 Sec. 8. Minnesota Statutes 2000, section 353.34, is
13 amended by adding a subdivision to read:

14 Subd. 2b. [REFUND OF REPAYMENT.] If a person repays a
15 refund and subsequently applies for another refund, the
16 repayment amount, including interest, is added to the pay period
17 balance in which the repayment was made.

18 Sec. 9. Minnesota Statutes 2000, section 353.34,
19 subdivision 3, is amended to read:

20 Subd. 3. [DEFERRED ANNUITY; ELIGIBILITY; COMPUTATION.] A
21 member with-at-least-three-years-of-allowable-service who is
22 vested as defined in section 353.01, subdivision 40, when
23 termination of public service or termination of membership
24 occurs has the option of leaving the accumulated deductions in
25 the fund and being entitled to a deferred retirement annuity
26 commencing at normal retirement age or to a deferred early
27 retirement annuity under section 353.30, subdivision 1, 1a, 1b,
28 1c, or 5. The deferred annuity must be computed under section
29 353.29, subdivisions 2 and 3, on the basis of the law in effect
30 on the date of termination of public service or termination of
31 membership and must be augmented as provided in section 353.71,
32 subdivision 2. A former member qualified to apply for a
33 deferred retirement annuity may revoke this option at any time
34 before the commencement of deferred annuity payments by making
35 application for a refund. The person is entitled to a refund of
36 accumulated member and employer contributions within 30 days

1 following date of receipt of the application by the executive
2 director.

3 Sec. 10. Minnesota Statutes 2000, section 353.35,
4 subdivision 2, is amended to read:

5 Subd. 2. [REFUND REPAYMENT.] A person who receives a
6 refund of accumulated employee deductions and employer
7 contributions as provided under section 353.34, subdivision 2a,
8 plus interest, may repay the total amount of the refund
9 including the interest, within 30 days of the date the refund
10 was issued, to retain allowable service.

11 Sec. 11. Minnesota Statutes 2000, section 353.71,
12 subdivision 1, is amended to read:

13 Subdivision 1. [ELIGIBILITY.] Any person who has been a
14 member of the public employees retirement association, or the
15 Minnesota state retirement system, or the teachers retirement
16 association, or any other public retirement system in the state
17 of Minnesota having a like provision, except a fund providing
18 benefits for police officers or firefighters governed by
19 sections 69.77 or 69.771 to 69.776, shall be entitled when
20 qualified to an annuity from each fund if the total allowable
21 service in all funds or in any two of these funds totals three
22 or more years, except when including allowable service in the
23 public employees retirement association general plan, the total
24 allowable service in all funds must satisfy vesting as defined
25 in section 353.01, subdivision 40, and provided no portion of
26 the allowable service upon which the retirement annuity from one
27 fund is based is again used in the computation for benefits from
28 another fund and provided further that the person has not taken
29 a refund from any one of these funds since the person's
30 membership in that association or system last terminated. The
31 annuity from each fund shall be determined by the appropriate
32 provisions of the law except that the requirement that a person
33 must have at least three years of allowable service in the
34 respective association or system, or in the case of the public
35 employees retirement association general plan, the vesting
36 requirements defined in section 353.01, subdivision 40, shall

1 not apply for the purposes of this section ~~provided-the-combined~~
2 ~~service-in-two-or-more-of-these-funds-equals-three-or-more-years.~~

3 Sec. 12. Minnesota Statutes 2000, section 353.71,
4 subdivision 2, is amended to read:

5 Subd. 2. [DEFERRED ANNUITY COMPUTATION; AUGMENTATION.] (a)
6 The deferred annuity accruing under subdivision 1, or under
7 sections 353.34, subdivision 3, and 353.68, subdivision 4, must
8 be computed on the basis of allowable service prior to the
9 termination of public service and augmented as provided in this
10 paragraph. The required reserves applicable to a deferred
11 annuity, or to any deferred segment of an annuity must be
12 determined as of the first day of the month following the month
13 in which the former member ceased to be a public employee, or
14 July 1, 1971, whichever is later. These required reserves must
15 be augmented at the rate of five percent ~~annually~~ compounded
16 annually until January 1, 1981, and at the rate of three percent
17 thereafter ~~until-January-1-of-the-year-following-the-year-in~~
18 ~~which-the-former-member-attains-age-55.--From-that-date~~ to the
19 effective date of retirement, ~~the-rate-is-five-percent~~
20 ~~compounded-annually.~~ If a person has more than one period of
21 uninterrupted service, the required reserves related to each
22 period must be augmented as specified in this paragraph. The
23 sum of the augmented required reserves is the present value of
24 the annuity. Uninterrupted service for the purpose of this
25 subdivision means periods of covered employment during which the
26 employee has not been separated from public service for more
27 than two years. If a person repays a refund, the restored
28 service must be considered as continuous with the next period of
29 service for which the employee has credit with this association.
30 This section must not reduce the annuity otherwise payable under
31 this chapter. This paragraph applies to individuals who become
32 deferred annuitants on or after July 1, 1971. For a member who
33 became a deferred annuitant before July 1, 1971, the paragraph
34 applies from July 1, 1971, if the former active member applies
35 for an annuity after July 1, 1973.

36 (b) The retirement annuity or disability benefit of, or the

1 survivor benefit payable on behalf of, a former member who
2 terminated service before July 1, 1997, or the survivor benefit
3 payable on behalf of a basic or police and fire member who was
4 receiving disability benefits before July 1, 1997, which is
5 first payable after June 30, 1997, must be increased on an
6 actuarial equivalent basis to reflect the change in the
7 postretirement interest rate actuarial assumption under section
8 356.215, subdivision 4d, from five percent to six percent under
9 a calculation procedure and tables adopted by the board and
10 approved by the actuary retained by the legislative commission
11 on pensions and retirement.

12 Sec. 13. [EFFECTIVE DATE.]

13 Sections 1 to 12 are effective July 1, 2001.

14 ARTICLE 5

15 Section 1. Minnesota Statutes 2000, section 273.1385,
16 subdivision 1, is amended to read:

17 Subdivision 1. [AID TO OFFSET RATE INCREASE.] (a)

18 Beginning with the December 26, 1997, payment, and according to
19 the schedule for payment of local aid under section 477A.015
20 thereafter, the commissioner of revenue shall pay to each city,
21 county, town, and other nonschool jurisdiction an amount equal
22 to 0.35 percent of the fiscal year 1997 payroll for employees
23 who were members of the general plan of the public employees
24 retirement association. Except for the December 1997
25 distribution under this section, the amount of aid must be
26 certified before September 1 of the year preceding the
27 distribution year to the affected local government. The
28 executive director of the public employees retirement
29 association shall certify the general plan fiscal year covered
30 payroll and other information requested by the commissioner of
31 revenue, on or before August 1, 1997, and in subsequent years
32 where necessary, in order to facilitate administration of this
33 section. The amount necessary to make these aid payments is
34 appropriated annually from the general fund to the commissioner
35 of revenue. Expenditures under this section paragraph are
36 estimated to be \$7,942,500 in fiscal year 1998, and \$15,885,000

1 in each subsequent fiscal year, less any future reductions under
2 subdivision 2.

3 (b) In addition to amounts paid under paragraph (a),
4 beginning with the December 26, 2001, payment, and according to
5 the schedule for payment of local aid under section 477A.015
6 thereafter, the commissioner of revenue shall pay to each
7 governmental subdivision whose employees are members of the
8 public employees retirement association general plan, an amount
9 equal to 0.75 percent of the fiscal year 2000 payroll for
10 employees who were members of the general plan of the public
11 employees retirement association. Except for the December 2001
12 distribution under this paragraph, the amount of aid must be
13 certified before September 1 of the year preceding the
14 distribution year to the affected local government. The
15 executive director of the public employees retirement
16 association shall certify the general plan fiscal year covered
17 payroll and other information requested by the commissioner of
18 revenue, on or before August 1, 2001, and in subsequent years
19 where necessary, in order to facilitate administration of this
20 section. The amount necessary to make these aid payments is
21 appropriated annually from the general fund to the commissioner
22 of revenue. Expenditures under this paragraph are estimated to
23 be \$13,500,000 in fiscal year 2002, and \$27,000,000 in each
24 subsequent fiscal year, less any future reductions under
25 subdivision 2.

26 Sec. 2. Minnesota Statutes 2000, section 353.27,
27 subdivision 3a, is amended to read:

28 Subd. 3a. [ADDITIONAL EMPLOYER CONTRIBUTION.] (a) An
29 additional employer contribution must be made equal to (1) 2.68
30 percent of the total salary of each "basic member"; and
31 (2) ~~4.3~~ 1.18 percent of the total salary of each "coordinated
32 member." These contributions must be made from funds available
33 to the employing subdivision by the means and in the manner
34 provided in section 353.28.

35 (b) This subdivision is repealed once the actuarial value
36 of the assets of the plan equal or exceed the actuarial accrued

1 liability of the plan as determined by the actuary retained by
2 the legislative commission on pensions and retirement under
3 section 356.215. The repeal is effective on the first day of
4 the first full pay period occurring after March 31 of the
5 calendar year following the issuance of the actuarial valuation
6 upon which the repeal is based.

Article 1..... page 1
Article 2..... page 12
Article 3..... page 20
Article 4..... page 24
Article 5..... page 32

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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY SECOND
SESSION

HOUSE FILE No. 855

February 15, 2001

Authored by Mares, Murphy and Rhodes

Read First Time and Referred to the Committee on GOVERNMENTAL OPERATIONS AND VETERANS AFFAIRS POLICY

1 A bill for an act
2 relating to retirement; public employees retirement
3 association; modifying membership eligibility;
4 modifying the definition of allowable service for
5 benefit calculation purposes; prorating service credit
6 for benefit calculation purposes; modifying employer
7 reporting requirements; modifying contribution rates;
8 changing amortization requirements; modifying the
9 definition of vesting; modifying contribution refunds;
10 amending Minnesota Statutes 2000, sections 353.01,
11 subdivisions 2, 2a, 2b, 7, 11b, 12, 12a, 16, and by
12 adding subdivisions; 353.27, subdivisions 2, 4, and
13 11; 353.29, subdivision 1; 353.32, subdivision 1a;
14 353.33, subdivision 1; 353.34, subdivisions 1, 2, 3,
15 and by adding subdivisions; 353.35, subdivision 2;
16 353.71, subdivisions 1 and 2; 353.86, subdivision 1;
17 and 356.215, subdivision 4g.

18 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

19 ARTICLE 1

20 Section 1. Minnesota Statutes 2000, section 353.01,
21 subdivision 2, is amended to read:

22 Subd. 2. [PUBLIC EMPLOYEE.] "Public employee" means an a
23 governmental employee performing personal services for a
24 governmental subdivision under defined in subdivision 6, whose
25 salary is paid, in whole or in part, from revenue derived from
26 taxation, fees, assessments, or from other sources. The
27 term ~~also~~ includes special the classes of persons listed in
28 subdivision subdivisions 2a~~7~~-but and 2d. The term excludes
29 ~~special~~ the classes of persons listed in subdivision 2b for
30 purposes of membership in the association. ~~Public-employee~~ The
31 term does not include independent contractors and their

1 employees. A reemployed annuitant under section 353.37 must not
 2 be considered to be a public employee for purposes of that
 3 reemployment.

4 Sec. 2. Minnesota Statutes 2000, section 353.01,
 5 subdivision 2a, is amended to read:

6 Subd. 2a. [INCLUDED EMPLOYEES.] (a) Public employees whose
 7 ~~salary from one governmental subdivision exceeds \$425 in any~~
 8 ~~month shall participate as members of the association. If the~~
 9 ~~salary of an employee is less than \$425 in a subsequent month,~~
 10 ~~the employee retains membership eligibility. The following~~
 11 ~~persons are considered public employees:~~

12 (1) ~~employees whose annual salary from one governmental~~
 13 ~~subdivision exceeds a stipulation prepared in advance, in~~
 14 ~~writing, to be not more than \$5,100 per calendar year or per~~
 15 ~~school year for school employees for employment expected to be~~
 16 ~~of a full year's duration or more than the prorated portion of~~
 17 ~~\$5,100 per employment period expected to be of less than a full~~
 18 ~~year's duration. If compensation from one governmental~~
 19 ~~subdivision to an employee under this clause exceeds \$5,100 per~~
 20 ~~calendar year or school year after being stipulated in advance~~
 21 ~~not to exceed that amount, the stipulation is no longer valid~~
 22 ~~and contributions must be made on behalf of the employee under~~
 23 ~~section 353.27, subdivision 12, from the month in which the~~
 24 ~~employee's salary first exceeded \$425.~~

25 (2) ~~employees whose total salary from concurrent~~
 26 ~~nontemporary positions in one governmental subdivision exceeds~~
 27 ~~\$425 in any month;~~

28 (3) ~~elected officers for service to which they were elected~~
 29 ~~by the public at large, or persons appointed to fill a vacancy~~
 30 ~~in an elective office, who elect to participate by filing an~~
 31 ~~application for membership, but not for service on a joint or~~
 32 ~~regional board that is a governmental subdivision under~~
 33 ~~subdivision 6, paragraph (a), unless the salary earned for that~~
 34 ~~service exceeds \$425 in any month. The option to become a~~
 35 ~~member, once exercised, may not be withdrawn during the~~
 36 ~~incumbency of the person in office;~~

1 ~~(4)-members-who-are-appointed-by-the-governor-to-be-a-state~~
2 ~~department-head-and-elect-not-to-be-covered-by-the-Minnesota~~
3 ~~state-retirement-system-under-section-352.021;~~

4 ~~(5)-employees-of-elected-officers;~~

5 ~~(6)-persons-who-elect-to-remain-members-under-section~~
6 ~~480.181,-subdivision-2;~~

7 ~~(7)-employees-of-a-school-district-who-receive-separate~~
8 ~~salaries-for-driving-their-own-buses;~~

9 ~~(8)-employees-of-the-Minnesota-association-of-townships~~
10 ~~when-the-board-of-the-association,-at-its-option,-certifies-to~~
11 ~~the-executive-director-that-its-employees-are-to-be-included-for~~
12 ~~purposes-of-retirement-coverage,-in-which-case-coverage-of-all~~
13 ~~employees-of-the-association-is-permanent;~~

14 ~~(9)-employees-of-a-county-historical-society-who-are-county~~
15 ~~employees;~~

16 ~~(10)-employees-of-a-county-historical-society-located-in~~
17 ~~the-county-whom-the-county,-at-its-option,-certifies-to-the~~
18 ~~executive-director-to-be-county-employees-for-purposes-of~~
19 ~~retirement-coverage-under-this-chapter,-which-status-must-be~~
20 ~~accorded-to-all-similarly-situated-county-historical-society~~
21 ~~employees-and,-once-established,-must-continue-as-long-as-a~~
22 ~~person-is-an-employee-of-the-county-historical-society-and-is~~
23 ~~not-excluded-under-subdivision-2b;-and~~

24 ~~(11)-employees-who-became-members-before-July-1,-1988,~~
25 ~~based-on-the-total-salary-of-positions-held-in-more-than-one~~
26 ~~governmental-subdivision; shall participate as members of the~~
27 ~~association with retirement coverage by the public employees~~
28 ~~retirement plan or the public employees police and fire~~
29 ~~retirement plan under this chapter, or the local government~~
30 ~~correctional employees retirement plan under chapter 353E,~~
31 ~~whichever applies, as a condition of their employment on the~~
32 ~~first day of employment unless they:~~

33 ~~(1) are specifically excluded under subdivision 2b;~~

34 ~~(2) do not exercise their right to elect retirement~~
35 ~~coverage in the association as provided in subdivision 2d,~~
36 ~~paragraph (a); or~~

1 (3) are employees of the governmental subdivisions listed
2 in subdivision 2d, paragraph (b), where the governmental
3 subdivision has not elected to participate in the association.

4 (b) A public employee who was a member of the association
5 on June 30, 2002, based on employment that qualified for
6 membership coverage by the public employees retirement plan or
7 the public employees police and fire plan under this chapter, or
8 the local government correctional employees retirement plan
9 under chapter 353E retains that membership until the employee
10 terminates all public employment or membership as defined in
11 subdivisions 11a and 11b.

12 Sec. 3. Minnesota Statutes 2000, section 353.01,
13 subdivision 2b, is amended to read:

14 Subd. 2b. [EXCLUDED EMPLOYEES.] The following public
15 employees shall not participate as members of the association
16 with retirement coverage by the public employees retirement
17 plan, the local government correctional employees retirement
18 plan under chapter 353E, or the public employees police and fire
19 retirement plan:

20 (1) except for elected county sheriffs, public officers
21 elected to a governing body, or persons appointed to fill a
22 vacancy in an elective office of a governing body, who do not
23 elect-to-participate-in-the-association-by-filing-an-application
24 for-membership whose term of office first commences on or after
25 July 1, 2002, for the service to be rendered in that elective
26 position. Elected governing body officials who were active
27 members of the association's coordinated or basic retirement
28 plans as of June 30, 2002, continue participation throughout
29 incumbency in office until termination of public service occurs
30 as defined in subdivision 11a;

31 (2) election officers or election judges;

32 (3) patient and inmate personnel who perform services in
33 ~~charitable, penal, or correctional institutions of~~ for a
34 governmental subdivision;

35 (4) employees who are hired for a temporary position under
36 subdivision 12a, and employees who resign from a nontemporary

1 position and accept a temporary position within 30 days in the
 2 same governmental subdivision, ~~but not those.~~ An employer must
 3 not apply the definition of temporary position so as to exclude
 4 employees who are hired for an unlimited period to fill
 5 positions that are permanent or for an unspecified period but
 6 who are serving a probationary period at the start of the
 7 employment. If the period of employment extends beyond six
 8 consecutive months ~~and the employee earns more than \$425 from~~
 9 ~~one governmental subdivision in any one calendar month,~~ the
 10 department head shall report the employee for membership and
 11 require employee deductions be made on behalf of the employee
 12 under section 353.27, subdivision 4.

13 The membership eligibility of an employee who resigns or is
 14 dismissed from a temporary position and within 30 days accepts
 15 another temporary position in the same governmental subdivision
 16 is determined on the total length of employment rather than on
 17 each separate position. Membership eligibility of an employee
 18 who holds concurrent temporary and nontemporary positions in one
 19 governmental subdivision is determined by the length of
 20 employment and salary of each separate position;

21 ~~(5) employees whose actual salary from one governmental~~
 22 ~~subdivision does not exceed \$425 per month, or whose annual~~
 23 ~~salary from one governmental subdivision does not exceed a~~
 24 ~~stipulation prepared in advance, in writing, that the salary~~
 25 ~~must not exceed \$5,100 per calendar year or per school year for~~
 26 ~~school employees for employment expected to be of a full year's~~
 27 ~~duration or more than the prorated portion of \$5,100 per~~
 28 ~~employment period for employment expected to be of less than a~~
 29 ~~full year's duration;~~

30 ~~(6)~~ employees who are employed by reason of work emergency
 31 caused by fire, flood, storm, or similar disaster;

32 ~~(7)~~ (6) employees who by virtue of their employment in one
 33 governmental subdivision are required by law to be a member of
 34 and to contribute to any of the plans or funds administered by
 35 the Minnesota state retirement system, the teachers retirement
 36 association, the Duluth teachers retirement fund association,

1 the Minneapolis teachers retirement association, the St. Paul
2 teachers retirement fund association, the Minneapolis employees
3 retirement fund, or any police or firefighters relief
4 association governed by section 69.77 that has not consolidated
5 with the public employees retirement association, or any local
6 police or firefighters consolidation account but who have not
7 elected the type of benefit coverage provided by the public
8 employees police and fire fund under sections 353A.01 to
9 353A.10, or any persons covered by section 353.665, subdivision
10 4, 5, or 6, who have not elected public employees police and
11 fire plan benefit coverage. This clause must not be construed
12 to prevent a person from being a member of and contributing to
13 the public employees retirement association and also belonging
14 to and contributing to another public pension fund for other
15 service occurring during the same period of time. A person who
16 meets the definition of "public employee" in subdivision 2 by
17 virtue of other service occurring during the same period of time
18 becomes a member of the association unless contributions are
19 made to another public retirement fund on the salary based on
20 the other service or to the teachers retirement association by a
21 teacher as defined in section 354.05, subdivision 2;

22 ~~(8)~~ (7) persons who are members of a religious order and
23 are excluded from coverage under the federal Old Age, Survivors,
24 Disability, and Health Insurance Program for the performance of
25 service as specified in United States Code, title 42, section
26 410(a)(8)(A), as amended through January 1, 1987, if no
27 irrevocable election of coverage has been made under section
28 3121(r) of the Internal Revenue Code of 1954, as amended;

29 ~~(9)-full-time-students-who~~ (8) employees who at the time
30 they are hired by a governmental subdivision are enrolled and on
31 a full-time basis to attend or are regularly attending classes
32 at an accredited school, college, or university and who are
33 part-time-employees-as-defined-by-a-governmental-subdivision in
34 an undergraduate, graduate, or professional-technical program,
35 or a public or charter high school, provided the employment is
36 predicated on the student status of the individual;

1 ~~(10)~~ (9) resident physicians, medical interns, and
2 pharmacist residents and pharmacist interns who are serving in a
3 degree or residency program in public hospitals;

4 ~~(11)~~ (10) students who are serving in an internship or
5 residency program sponsored by an accredited educational
6 institution;

7 ~~(12)~~ (11) persons who hold a part-time adult supplementary
8 technical college license who render part-time teaching service
9 in a technical college;

10 ~~(13)~~ (12) foreign citizens working for a governmental
11 subdivision with a work permit of less than three years, or an
12 H-1b visa valid for less than three years of employment. Upon
13 notice to the association that the work permit or visa extends
14 beyond the three-year period, the foreign citizens are eligible
15 for membership from the date of the extension;

16 ~~(14)~~ (13) public hospital employees who elected not to
17 participate as members of the association before 1972 and who
18 did not elect to participate from July 1, 1988, to October 1,
19 1988;

20 ~~(15)~~ (14) except as provided in section 353.86, volunteer
21 ambulance service personnel, as defined in subdivision 35, but
22 persons who serve as volunteer ambulance service personnel may
23 still qualify as public employees under subdivision 2 and may be
24 members of the public employees retirement association and
25 participants in the public employees retirement fund or the
26 public employees police and fire fund, whichever applies, on the
27 basis of compensation received from public employment service
28 other than service as volunteer ambulance service personnel;

29 ~~(16)~~ (15) except as provided in section 353.87, volunteer
30 firefighters, as defined in subdivision 36, engaging in
31 activities undertaken as part of volunteer firefighter duties;
32 provided that a person who is a volunteer firefighter may still
33 qualify as a public employee under subdivision 2 and may be a
34 member of the public employees retirement association and a
35 participant in the public employees retirement fund or the
36 public employees police and fire fund, whichever applies, on the

1 basis of compensation received from public employment activities
2 other than those as a volunteer firefighter;

3 ~~(17)~~ (16) pipefitters and associated trades personnel
4 employed by independent school district No. 625, St. Paul, with
5 who have retirement coverage by the pipefitters local 455
6 pension plan under a collective bargaining agreement who were
7 either first employed after May 1, 1997, or, if first employed
8 before May 2, 1997, elected to be excluded under Laws 1997,
9 chapter 241, article 2, section 12; and

10 ~~(18)~~ (17) electrical workers, plumbers, carpenters, and
11 associated trades personnel employed by independent school
12 district No. 625, St. Paul, or the city of St. Paul, with
13 coverage by the electrical workers local 110 pension plan, the
14 united association plumbers local 34 pension plan, or the
15 carpenters local 87 pension plan under a collective bargaining
16 agreement who were either first employed after May 1, 2000, or,
17 if first employed before May 2, 2000, elected to be excluded
18 under Laws 2000, chapter 461, article 7, section 5;

19 (18) employees hired after June 30, 2002, to fill seasonal
20 positions limited in duration by the employer to 185 consecutive
21 calendar days or less in each business year of the governmental
22 subdivision. A position is a seasonal position when the nature
23 of the work or its duration are related to a specific season or
24 seasons of the year, regardless of whether the employing agency
25 anticipates that the same employee will return to the position
26 each season in which it becomes available. The entire period of
27 employment in a business year will be used to determine whether
28 a position may be excluded as seasonal when there is less than a
29 30-day break between one seasonal position and a subsequent
30 seasonal position for employment with the same governmental
31 employer. Seasonal positions include, but may not be limited
32 to, coaching athletic activities; employment to plow snow or
33 maintain roads or parks, or to operate skating rinks, ski
34 lodges, golf courses, or swimming pools; and

35 (19) persons provided sheltered employment or work-study
36 positions by a governmental subdivision that participate in an

1 employment or industries program maintained for the benefit of
2 these persons where the governmental subdivision limits the
3 position's duration to three years or less. This includes
4 persons participating in a federal or state subsidized
5 on-the-job training, work experience, senior citizen, youth, or
6 unemployment relief program where the training or work
7 experience is not provided as a part of, or for future permanent
8 public employment.

9 Sec. 4. Minnesota Statutes 2000, section 353.01, is
10 amended by adding a subdivision to read:

11 Subd. 2d. [OPTIONAL MEMBERSHIP.] (a) Membership in the
12 association is optional by action of the individual employee for
13 the following public employees who meet the conditions set forth
14 in subdivision 2a:

15 (1) members of the coordinated plan who are also employees
16 of labor organizations as defined in section 353.017,
17 subdivision 1, for their employment by the labor organization
18 only if they elect to have membership under section 353.017,
19 subdivision 2;

20 (2) persons who are elected or persons who are appointed to
21 elected positions other than local governing body elected
22 positions who elect to participate by filing a written election
23 for membership;

24 (3) members of the association who are appointed by the
25 governor to be a state department head and elect not to be
26 covered by the general state employees retirement plan of the
27 Minnesota state retirement system under section 352.021; and

28 (4) city managers as defined in section 353.028,
29 subdivision 1, unless they elect to be excluded from membership
30 in the association under section 353.028, subdivision 2.

31 (b) Membership in the association is optional by action of
32 the governmental subdivision for the employees of the following
33 governmental subdivisions under the conditions specified:

34 (1) the Minnesota association of townships if the board of
35 the association, at its option, certifies to the executive
36 director that its employees are to be included for purposes of

1 retirement coverage, in which case the status of the association
2 as a participating employer is permanent; and

3 (2) a county historical society if the county in which the
4 historical society is located, at its option, certifies to the
5 executive director that the employees of the historical society
6 are to be county employees for purposes of retirement coverage
7 under this chapter. The status as a county employee must be
8 accorded to all similarly situated county historical society
9 employees and, once established, must continue as long as a
10 person is an employee of the county historical society.

11 (c) For employees covered by paragraph (a), clause (1),
12 (2), (3), or by paragraph (b), if the necessary membership
13 election is not made, the employee is excluded from retirement
14 coverage under this chapter. For employees covered by paragraph
15 (a), clause (4), if the necessary election is not made, the
16 employee must become a member and have retirement coverage under
17 this chapter. The option to become a member, once exercised
18 under this subdivision, may not be withdrawn until termination
19 of public service as defined under subdivision 11a.

20 Sec. 5. Minnesota Statutes 2000, section 353.01,
21 subdivision 7, is amended to read:

22 Subd. 7. [MEMBER.] "Member" means a person who accepts
23 employment as a "public employee" under subdivision 2, is an
24 employee who works in one or more positions that require or
25 allow membership in the association under subdivision 2a or
26 2d, for whom contributions have been withheld from salary and
27 who is not covered by the plan established in chapter 353D or
28 excluded under subdivision 2b. A person who is a member remains
29 a member while performing services as a public employee and
30 while on an authorized leave of absence or an authorized
31 temporary layoff.

32 Sec. 6. Minnesota Statutes 2000, section 353.01,
33 subdivision 11b, is amended to read:

34 Subd. 11b. [TERMINATION OF MEMBERSHIP.] (a) "Termination
35 of membership" means the conclusion of membership in the
36 association and occurs:

1 (1) upon termination of public service under subdivision
2 11a;

3 ~~(2) when a member who is a part-time employee is excluded~~
4 ~~from membership as a full-time student under subdivision 2b,~~
5 ~~clause (9);~~

6 ~~(3) when a member does not return to work within 30 days of~~
7 ~~the expiration of an authorized temporary layoff under~~
8 ~~subdivision 12 or an authorized leave of absence under~~
9 ~~subdivision 31;--if the employee subsequently returns to a~~
10 ~~position in the same governmental subdivision, the employee~~
11 ~~shall not again be required to earn a salary in excess of \$425~~
12 ~~per month, unless the employee has taken a refund of accumulated~~
13 ~~employee deductions plus interest under section 353.34,~~
14 ~~subdivision 1 as evidenced by the appropriate record filed by~~
15 ~~the governmental subdivision; or~~

16 ~~(4) (3) when a person files a written election to~~
17 ~~discontinue employee deductions under section 353.27,~~
18 ~~subdivision 7, paragraph (a), clause (1).~~

19 (b) The termination of membership must be reported to the
20 association by the governmental subdivision.

21 Sec. 7. Minnesota Statutes 2000, section 353.01,
22 subdivision 12, is amended to read:

23 Subd. 12. [AUTHORIZED TEMPORARY LAYOFF.] "Authorized
24 temporary layoff," ~~including seasonal leave of absence,~~ means a
25 suspension of public service authorized by the employing
26 governmental subdivision for a specified period not exceeding
27 three months in any calendar year or school year for school
28 employees, as evidenced by appropriate record of the employer
29 and promptly transmitted to the association. The association
30 shall credit the member for an authorized temporary layoff only
31 as provided in subdivision 16, paragraph (a), clause (4).

32 Sec. 8. Minnesota Statutes 2000, section 353.01,
33 subdivision 12a, is amended to read:

34 Subd. 12a. [TEMPORARY POSITION.] (1) "Temporary position"
35 means an employment position predetermined by the employer at
36 the time of hiring to be a period of six months or less or.

1 Temporary position also means an employment position occupied by
2 a person hired by the employer as a temporary replacement who
3 will be employed for a predetermined period of six months or
4 less.

5 (2) "Temporary position" does not mean an employment
6 position for ~~an-unlimited-period~~ a specified term in which a
7 person serves a probationary period ~~or-works-an-irregular~~
8 ~~schedule~~ as a requirement for employment on a permanent or
9 unlimited basis.

10 Sec. 9. Minnesota Statutes 2000, section 353.01, is
11 amended by adding a subdivision to read:

12 Subd. 38. [BUSINESS YEAR.] "Business year" means the first
13 full pay period through the last full pay period of a
14 governmental subdivision's 12-month fiscal year.

15 Sec. 10. Minnesota Statutes 2000, section 353.86,
16 subdivision 1, is amended to read:

17 Subdivision 1. [PARTICIPATION.] Volunteer ambulance
18 service personnel, as defined in section 353.01, subdivision 35,
19 who are or become members of and participants in the public
20 employees retirement fund or the public employees police and
21 fire fund before July 1, 2002, and make contributions to either
22 of those funds based on compensation for service other than
23 volunteer ambulance service may elect to participate in that
24 same fund with respect to compensation received for volunteer
25 ambulance service, provided that the volunteer ambulance service
26 is not credited to another public or private pension plan
27 including the public employees retirement plan established by
28 chapter 353D and provided further that the volunteer ambulance
29 service is rendered for the same governmental unit for which the
30 nonvolunteer ambulance service is rendered.

31 Sec. 11. [EFFECTIVE DATE.]

32 Sections 1 to 10 are effective July 1, 2002.

33 ARTICLE 2

34 Section 1. Minnesota Statutes 2000, section 353.01,
35 subdivision 16, is amended to read:

36 Subd. 16. [ALLOWABLE SERVICE; LIMITS AND COMPUTATION.] (a)

1 "Allowable service" means:

2 (1) service during years of actual membership in the course
3 of which employee contributions were made, periods covered by
4 payments in lieu of salary deductions under section 353.35, and
5 service in years during which the public employee was not a
6 member but for which the member later elected, while a member,
7 to obtain credit by making payments to the fund as permitted by
8 any law then in effect;

9 ~~(b)-"Allowable-service"-also-means~~ (2) a period of
10 authorized leave of absence with pay from which deductions for
11 employee contributions are made, deposited, and credited to the
12 fund;

13 ~~(c)-"Allowable-service"-also-means~~ (3) a period of
14 authorized personal, parental, or medical leave of absence
15 without pay, including a leave of absence covered under the
16 Family Medical Leave Act, that does not exceed one year, and
17 during or for which a member obtained full or fractional service
18 credit for each month in the leave period by payments to the
19 fund made in place of salary deductions, provided that the
20 payments are made in an amount or amounts based on the member's
21 average salary on which deductions were paid for the last six
22 months of public service, or for that portion of the last six
23 months while the member was in public service, to apply to the
24 period in either case immediately preceding commencement of the
25 leave of absence. If the employee elects to pay employee
26 contributions for the period of any leave of absence without
27 pay, or for any portion of the leave, the employee shall also,
28 as a condition to the exercise of the election, pay to the fund
29 an amount equivalent to both the required employer and
30 additional employer contributions for the employee. The payment
31 must be made within one year from the expiration of the leave of
32 absence or within 20 days after termination of public service
33 under subdivision 11a. The employer by appropriate action of
34 its governing body, made a part of its official records, before
35 the date of the first payment of the employee contribution, may
36 certify to the association in writing its commitment to pay the

1 employer and additional employer contributions from the proceeds
2 of a tax levy made under section 353.28. Payments under this
3 paragraph must include interest at an annual rate of 8.5 percent
4 compounded annually from the date of the termination of the
5 leave of absence to the date payment is made. An employee shall
6 return to public service and receive a minimum of three months
7 of allowable service to be eligible to pay employee and employer
8 contributions for a subsequent authorized leave of absence
9 without pay. Upon payment the employee must be given allowable
10 service credit for full calendar months or fractions of a month
11 during the leave period as described in paragraph (d), clauses
12 (1) and (2), based on the salary or compensated hours used in
13 computing the payment amount;

14 ~~(d) "Allowable service" also means (4) a periodic,~~
15 repetitive leave that is offered to all employees of a
16 governmental subdivision. The leave program may not exceed 208
17 hours per annual normal work cycle as certified to the
18 association by the employer. A participating member obtains
19 service credit by making employee contributions in an amount or
20 amounts based on the member's average salary that would have
21 been paid if the leave had not been taken. The employer shall
22 pay the employer and additional employer contributions on behalf
23 of the participating member. The employee and the employer are
24 responsible to pay interest on their respective shares at the
25 rate of 8.5 percent a year, compounded annually, from the end of
26 the normal cycle until full payment is made. An employer shall
27 also make the employer and additional employer contributions,
28 plus 8.5 percent interest, compounded annually, on behalf of an
29 employee who makes employee contributions but terminates public
30 service. The employee contributions must be made within one
31 year after the end of the annual normal working cycle or within
32 20 days after termination of public service, whichever is
33 sooner. The association shall prescribe the manner and forms to
34 be used by a governmental subdivision in administering a
35 periodic, repetitive leave. Upon payment the member must be
36 given allowable service credit for full calendar months or

1 fractions of a month during the leave period as described in
 2 paragraph (d), clauses (1) and (2), based on the salary or
 3 compensated hours used in computing the payment amount;

4 ~~(e) "Allowable service" also means a period during which a~~
 5 ~~member is on an authorized sick leave of absence, without pay,~~
 6 ~~limited to one year. An employee who has received one year of~~
 7 ~~allowable service shall return to public service and receive a~~
 8 ~~minimum of three months of allowable service to receive~~
 9 ~~allowable service for a subsequent authorized sick leave of~~
 10 ~~absence.~~

11 (f) "Allowable service" also means (5) an authorized
 12 temporary layoff under subdivision 127. For temporary layoffs
 13 beginning before July 1, 2002, allowable service shall be
 14 limited to three months allowable service per authorized
 15 temporary layoff in one calendar year. An employee who has
 16 received the maximum service allowed for an authorized temporary
 17 layoff shall return to public service and receive a minimum of
 18 three months of allowable service to receive allowable service
 19 for a subsequent authorized temporary layoff. For temporary
 20 layoffs occurring on or after July 1, 2002, members shall
 21 receive allowable service credit for the calendar month in which
 22 the member does not receive salary due to the layoff using the
 23 following formula:

24 (i) members who earn one month of credit for each of the
 25 nine calendar months of the year of employment with the
 26 governmental subdivision that authorized the layoff, shall
 27 receive one month of credit, limited to three credits per year,
 28 for each month of the temporary layoff; or

29 (ii) members who earn less than nine months of allowable
 30 service credit in the year for periods of compensated employment
 31 with the governmental subdivision that authorized the layoff,
 32 shall receive credit on a fractional basis for each month of the
 33 authorized layoff, limited to three, determined by dividing the
 34 total amount of service credit earned for the compensated
 35 employment by nine and multiplying the resulting number by the
 36 total number of months in the layoff period that are not

1 compensated; or

2 ~~(g) Notwithstanding any law to the contrary, "allowable~~
3 ~~service" also means a parental leave. The association shall~~
4 ~~grant a maximum of two months service credit for a parental~~
5 ~~leave, within six months after the birth or adoption, upon~~
6 ~~documentation from the member's governmental subdivision or~~
7 ~~presentation of a birth certificate or other evidence of birth~~
8 ~~or adoption to the association.~~

9 (h) "Allowable service" also means (6) a period during
10 which a member is on an authorized leave of absence to enter
11 military service in the armed forces of the United States,
12 provided that the member returns to public service upon
13 discharge from military service under section 192.262 and pays
14 into the fund employee contributions based upon the employee's
15 salary at the date of return from military service. Payment
16 must be made within three times the length of the military leave
17 period, or five years of the date of discharge from the military
18 service, whichever is less. The amount of these contributions
19 must be in accord with the contribution rates and salary
20 limitations, if any, in effect during the leave, plus interest
21 at an annual rate of 8.5 percent compounded annually from the
22 date of return to public service to the date payment is made.
23 The matching employer contribution and additional employer
24 contribution under section 353.27, subdivisions 3 and 3a, must
25 be paid by the governmental subdivision employing the member
26 upon return to public service if the member makes the employee
27 contributions. The governmental subdivision involved may
28 appropriate money for those payments. A member may not receive
29 credit for a voluntary extension of military service at the
30 instance of the member beyond the initial period of enlistment,
31 induction, or call to active duty. Upon payment the employee
32 must be given allowable service credit for full calendar months
33 or fractions of a month during the leave period as described in
34 paragraph (d), clauses (1) and (2), based on the salary or
35 compensated hours used in computing the payment amount.

36 (i) (b) For calculating benefits under sections 353.30,

1 353.31, 353.32, and 353.33 for state officers and employees
2 displaced by the Community Corrections Act, chapter 401, and
3 transferred into county service under section 401.04, "allowable
4 service" means combined years of allowable service as defined in
5 ~~paragraphs~~ paragraph (a) to (f), clauses (1) to (6), and section
6 352.01, subdivision 11.

7 ~~(f)~~ (c) For a public employee who has prior service covered
8 by a local police or firefighters relief association that has
9 consolidated with the public employees retirement association or
10 to which section 353.665 applies, and who has elected the type
11 of benefit coverage provided by the public employees police and
12 fire fund either under section 353A.08 following the
13 consolidation or under section 353.665, subdivision 4,
14 "applicable service" is a period of service credited by the
15 local police or firefighters relief association as of the
16 effective date of the consolidation based on law and on bylaw
17 provisions governing the relief association on the date of the
18 initiation of the consolidation procedure.

19 (d) For persons who, after June 30, 2002, first become
20 members or who terminated membership under subdivision 11b, and
21 again become members, of the public employees retirement plan,
22 the public employees police and fire plan under this chapter, or
23 the local government correctional employee retirement plan under
24 chapter 353E, whichever applies, allowable service means credit
25 for compensated hours from which deductions are made, or
26 payments are made in lieu of salary deductions as provided under
27 this subdivision and which are deposited and credited in the
28 fund as provided in section 353.27, determined as follows:

29 (1) one month of allowable service credit for each month
30 for which the employee has received salary for 80 or more
31 compensated hours; or

32 (2) a fraction of one month of allowable service for each
33 month for which the employee has received salary for less than
34 80 compensated hours based upon the number of compensated hours
35 as they relate to 80 hours.

36 (e) Elected officials and other public employees who are

1 compensated solely on an annual basis shall be considered to
2 have earned a full year of credit for each year in which
3 compensation is earned.

4 Allowable service determined and credited on a fractional
5 basis shall be used in calculating the amount of benefits
6 payable but must not be used in determining the length of
7 service required for vesting. For periods of part-time service
8 that are duplicated service credit, section 356.30, subdivision
9 1, paragraphs (g) and (h), govern.

10 No member shall receive more than 12 months of allowable
11 service credit in a year.

12 Sec. 2. Minnesota Statutes 2000, section 353.01, is
13 amended by adding a subdivision to read:

14 Subd. 39. [COMPENSATED HOURS.] "Compensated hours" means
15 the hours during which an employee performs services in one or
16 more positions for a single governmental subdivision for which
17 the employee receives compensation. The term also includes paid
18 holiday hours for which the employee is not required to work,
19 paid used sick leave hours, paid used personal leave hours and
20 vacation hours, and the paid hours drawn from accrued
21 compensatory time.

22 Sec. 3. Minnesota Statutes 2000, section 353.27,
23 subdivision 4, is amended to read:

24 Subd. 4. [EMPLOYER REPORTING REQUIREMENTS; CONTRIBUTIONS;
25 MEMBER STATUS.] (a) A representative authorized by the head of
26 each department shall deduct employee contributions from the
27 salary of each employee who qualifies for membership under this
28 chapter and remit payment in a manner prescribed by the
29 executive director for the aggregate amount of the employee
30 contributions, the employer contributions and the additional
31 employer contributions to be received within 14 calendar days.
32 The head of each department or the person's designee shall for
33 each pay period submit to the association a salary deduction
34 report in the format prescribed by the executive director. Data
35 to be submitted as part of salary deduction reporting must
36 include, but are not limited to:

- 1 (1) the legal names and social security numbers of
2 employees who are members;
3 (2) the amount of each employee's salary deduction;
4 (3) the amount of salary from which each deduction was
5 made;
6 (4) the beginning and ending dates of the payroll period
7 covered and the date of actual payment; and
8 (5) adjustments or corrections covering past pay periods;
9 and
10 (6) the hours in the payroll period for which the member
11 received compensation.

12 (b) Employers must furnish the data required for enrollment
13 for each new employee who qualifies for membership in the format
14 prescribed by the executive director. The required enrollment
15 data on new employees must be submitted to the association prior
16 to or concurrent with the submission of the initial employee
17 salary deduction. The employer shall also report to the
18 association all member employment status changes, such as leaves
19 of absence, terminations, and death, and the effective dates of
20 those changes, on an ongoing basis for the payroll cycle in
21 which they occur. The employer shall furnish data, forms, and
22 reports as may be required by the executive director for proper
23 administration of the retirement system. Before implementing
24 new or different computerized reporting requirements, the
25 executive director shall give appropriate advance notice to
26 governmental subdivisions to allow time for system modifications.

27 (c) Notwithstanding paragraph (a), the association may
28 provide for less frequent reporting and payments for small
29 employers.

30 Sec. 4. Minnesota Statutes 2000, section 353.27,
31 subdivision 11, is amended to read:

32 Subd. 11. [EMPLOYERS; REQUIRED TO FURNISH REQUESTED
33 INFORMATION.] All governmental subdivisions shall furnish
34 promptly such other information relative to the employment
35 status of all employees or former employees, including but not
36 limited to payroll abstracts pertaining to all past and present

1 employees, as may be requested by the association or its
2 executive director, including schedules of salaries applicable
3 to various categories of employment, and the number of actual or
4 estimated hours for which the employees received compensation.
5 In the event payroll abstract records have been lost or
6 destroyed, for whatever reason or in whatever manner, so that
7 such schedules of salaries cannot be furnished therefrom, the
8 employing governmental subdivision, in lieu thereof, shall
9 furnish to the association an estimate of the earnings of any
10 employee or former employee for any period as may be requested
11 by the association or its executive director. Should the
12 association receive such schedules of estimated earnings, the
13 executive director is hereby authorized to use the same as a
14 basis for making whatever computations might be necessary for
15 determining obligations of the employee and employer to the
16 retirement fund. If estimates are not furnished by the employer
17 pursuant to the request of the association or its executive
18 director, the association may estimate the obligations of the
19 employee and employer to the retirement fund based upon such
20 records as are in its possession. Where payroll abstracts have
21 been lost or destroyed, the governmental agency need not furnish
22 any information pertaining to employment prior to July 1, 1963.
23 The association shall make no estimate of any obligation of any
24 employee, former employee, or employer covering employment prior
25 to July 1, 1963.

26 Sec. 5. [EFFECTIVE DATE.]

27 Sections 1 to 4 are effective July 1, 2002.

28 ARTICLE 3

29 Section 1. Minnesota Statutes 2000, section 353.27,
30 subdivision 2, is amended to read:

31 Subd. 2. [EMPLOYEE CONTRIBUTION.] (a) The employee
32 contribution is an amount (1) for a "basic member" equal to 8.75
33 percent of total salary; and (2) for a "coordinated member"
34 equal to ~~4.75~~ the following percent of total salary:

35 (i) effective on the first paid date occurring after
36 December 31, 2001, 5.125 percent; and

1 (ii) effective on the first paid date occurring after
2 December 31, 2003, if the actuarial valuation of the public
3 employees retirement association general plan under section
4 356.215 indicates that the total contributions to the plan are
5 insufficient to meet the annual financial requirements of the
6 plan, 5.375 percent.

7 (b) These contributions must be made by deduction from
8 salary in the manner provided in subdivision 4. Where any
9 portion of a member's salary is paid from other than public
10 funds, such member's employee contribution must be based on the
11 total salary received from all sources.

12 Sec. 2. Minnesota Statutes 2000, section 356.215,
13 subdivision 4g, is amended to read:

14 Subd. 4g. [AMORTIZATION CONTRIBUTIONS.] (a) In addition to
15 the exhibit indicating the level normal cost, the actuarial
16 valuation must contain an exhibit indicating the additional
17 annual contribution sufficient to amortize the unfunded
18 actuarial accrued liability. For funds governed by chapters 3A,
19 352, 352B, 352C, 353, 354, 354A, and 490, the additional
20 contribution must be calculated on a level percentage of covered
21 payroll basis by the established date for full funding in effect
22 when the valuation is prepared. For funds governed by chapter
23 3A, sections 352.90 through 352.951, chapters 352B, 352C,
24 sections 353.63 through 353.68, and chapters 353C, 354A, and
25 490, the level percent additional contribution must be
26 calculated assuming annual payroll growth of 6.5 percent. For
27 funds governed by sections 352.01 through 352.86 and chapter
28 354, the level percent additional contribution must be
29 calculated assuming an annual payroll growth of five percent.
30 For the fund governed by sections 353.01 through 353.46, the
31 level percent additional contribution must be calculated
32 assuming an annual payroll growth of six percent. For all other
33 funds, the additional annual contribution must be calculated on
34 a level annual dollar amount basis.

35 (b) For any fund other than the Minneapolis employees
36 retirement fund and the public employees retirement association

1 general plan, after-the-first-actuarial-valuation-date-occurring
2 after-June-17-1989, if there has not been a change in the
3 actuarial assumptions used for calculating the actuarial accrued
4 liability of the fund, a change in the benefit plan governing
5 annuities and benefits payable from the fund, a change in the
6 actuarial cost method used in calculating the actuarial accrued
7 liability of all or a portion of the fund, or a combination of
8 the three, which change or changes by themselves without
9 inclusion of any other items of increase or decrease produce a
10 net increase in the unfunded actuarial accrued liability of the
11 fund, the established date for full funding for-the-first
12 actuarial-valuation-made-after-June-17-1989--and-each-successive
13 actuarial-valuation is the first actuarial valuation date
14 occurring after June 1, 2020.

15 (c) For any fund or plan other than the Minneapolis
16 employees retirement fund and the public employees retirement
17 association general plan, after-the-first-actuarial-valuation
18 date-occurring-after-June-17-1989, if there has been a change in
19 any or all of the actuarial assumptions used for calculating the
20 actuarial accrued liability of the fund, a change in the benefit
21 plan governing annuities and benefits payable from the fund, a
22 change in the actuarial cost method used in calculating the
23 actuarial accrued liability of all or a portion of the fund, or
24 a combination of the three, and the change or changes, by
25 themselves and without inclusion of any other items of increase
26 or decrease, produce a net increase in the unfunded actuarial
27 accrued liability in the fund, the established date for full
28 funding must be determined using the following procedure:

29 (i) the unfunded actuarial accrued liability of the fund
30 must be determined in accordance with the plan provisions
31 governing annuities and retirement benefits and the actuarial
32 assumptions in effect before an applicable change;

33 (ii) the level annual dollar contribution or level
34 percentage, whichever is applicable, needed to amortize the
35 unfunded actuarial accrued liability amount determined under
36 item (i) by the established date for full funding in effect

1 before the change must be calculated using the interest
2 assumption specified in subdivision 4d in effect before the
3 change;

4 (iii) the unfunded actuarial accrued liability of the fund
5 must be determined in accordance with any new plan provisions
6 governing annuities and benefits payable from the fund and any
7 new actuarial assumptions and the remaining plan provisions
8 governing annuities and benefits payable from the fund and
9 actuarial assumptions in effect before the change;

10 (iv) the level annual dollar contribution or level
11 percentage, whichever is applicable, needed to amortize the
12 difference between the unfunded actuarial accrued liability
13 amount calculated under item (i) and the unfunded actuarial
14 accrued liability amount calculated under item (iii) over a
15 period of 30 years from the end of the plan year in which the
16 applicable change is effective must be calculated using the
17 applicable interest assumption specified in subdivision 4d in
18 effect after any applicable change;

19 (v) the level annual dollar or level percentage
20 amortization contribution under item (iv) must be added to the
21 level annual dollar amortization contribution or level
22 percentage calculated under item (ii);

23 (vi) the period in which the unfunded actuarial accrued
24 liability amount determined in item (iii) is amortized by the
25 total level annual dollar or level percentage amortization
26 contribution computed under item (v) must be calculated using
27 the interest assumption specified in subdivision 4d in effect
28 after any applicable change, rounded to the nearest integral
29 number of years, but not to exceed 30 years from the end of the
30 plan year in which the determination of the established date for
31 full funding using the procedure set forth in this clause is
32 made and not to be less than the period of years beginning in
33 the plan year in which the determination of the established date
34 for full funding using the procedure set forth in this clause is
35 made and ending by the date for full funding in effect before
36 the change; and

1 (vii) the period determined under item (vi) must be added
2 to the date as of which the actuarial valuation was prepared and
3 the date obtained is the new established date for full funding.

4 (d) For the Minneapolis employees retirement fund, the
5 established date for full funding is June 30, 2020.

6 (e) For the public employees retirement association general
7 plan, the established date for full funding is June 30, 2031.

8 (f) For the retirement plans for which the annual actuarial
9 valuation indicates an excess of valuation assets over the
10 actuarial accrued liability, the valuation assets in excess of
11 the actuarial accrued liability must be recognized as a
12 reduction in the current contribution requirements by an amount
13 equal to the amortization of the excess expressed as a level
14 percentage of pay over a 30-year period beginning anew with each
15 annual actuarial valuation of the plan.

16 Sec. 3. [EFFECTIVE DATE.]

17 Section 1 is effective the first paid date following
18 December 31, 2001. Section 2 is effective June 30, 2001, for
19 actuarial valuations prepared on or after that date.

20 ARTICLE 4

21 Section 1. Minnesota Statutes 2000, section 353.01, is
22 amended by adding a subdivision to read:

23 Subd. 40. [VESTING.] "Vesting" for benefit eligibility is
24 defined as follows:

25 (1) for persons who were members of the public employees
26 retirement association on June 30, 2002, or the public employees
27 police and fire plan under this chapter, or the local government
28 correctional employees retirement plan under chapter 353E,
29 vesting means three years of allowable service as defined in
30 subdivision 18; and

31 (2) for persons who first become members or who terminated
32 public service under subdivision 11a and again become members of
33 the public employees retirement association after June 30, 2002,
34 vesting means five years of allowable service as defined in
35 subdivision 18.

36 Sec. 2. Minnesota Statutes 2000, section 353.29,

1 subdivision 1, is amended to read:

2 Subdivision 1. [AGE AND ALLOWABLE SERVICE REQUIREMENTS.]
3 Upon termination of membership, a person who has attained normal
4 retirement age and who ~~received-credit-for-not-less-than-three~~
5 ~~years-of-allowable-service~~ is vested as defined in section
6 353.01, subdivision 40, is entitled upon application to a
7 retirement annuity. The retirement annuity is known as the
8 "normal" retirement annuity.

9 Sec. 3. Minnesota Statutes 2000, section 353.32,
10 subdivision 1a, is amended to read:

11 Subd. 1a. [SURVIVING SPOUSE OPTIONAL ANNUITY.] (a) If a
12 member or former member who ~~has-credit-for-not-less-than-three~~
13 ~~years-of-allowable-service-and~~ is vested as defined under
14 section 353.01, subdivision 40, dies before the annuity or
15 disability benefit begins to accrue under section 353.29,
16 subdivision 7, or 353.33, subdivision 2, notwithstanding any
17 designation of beneficiary to the contrary, the surviving spouse
18 may elect to receive, instead of a refund with interest under
19 subdivision 1, or surviving spouse benefits otherwise payable
20 under section 353.31, an annuity equal to the 100 percent joint
21 and survivor annuity that the member could have qualified for
22 had the member terminated service on the date of death.

23 (b) If the member was under age 55 and has credit for at
24 least 30 years of allowable service on the date of death, the
25 surviving spouse may elect to receive a 100 percent joint and
26 survivor annuity based on the age of the member and surviving
27 spouse on the date of death. The annuity is payable using the
28 full early retirement reduction under section 353.30,
29 subdivisions 1b and 1c, to age 55 and one-half of the early
30 retirement reduction from age 55 to the age payment begins.

31 (c) If the member was under age 55 ~~and-has-credit-for-at~~
32 ~~least-three-years-of-allowable-service~~ is vested as defined
33 under section 353.01, subdivision 40, on the date of death but
34 did not qualify for retirement, the surviving spouse may elect
35 to receive the 100 percent joint and survivor annuity based on
36 the age of the member and surviving spouse at the time of

1 death. The annuity is payable using the full early retirement
2 reduction under section 353.30, subdivision 1, 1b, 1c, or 5, to
3 age 55 and one-half of the early retirement reduction from age
4 55 to the age payment begins.

5 Notwithstanding the definition of surviving spouse in
6 section 353.01, subdivision 20, a former spouse of the member,
7 if any, is entitled to a portion of the monthly surviving spouse
8 optional annuity if stipulated under the terms of a marriage
9 dissolution decree filed with the association. If there is no
10 surviving spouse or child or children, a former spouse may be
11 entitled to a lump-sum refund payment under subdivision 1, if
12 provided for in a marriage dissolution decree but not a monthly
13 surviving spouse optional annuity despite the terms of a
14 marriage dissolution decree filed with the association.

15 The surviving spouse eligible for surviving spouse benefits
16 under paragraph (a) may apply for the annuity at any time after
17 the date on which the deceased employee would have attained the
18 required age for retirement based on the employee's allowable
19 service. The surviving spouse eligible for surviving spouse
20 benefits under paragraph (b) or (c) may apply for an annuity any
21 time after the member's death. The annuity must be computed
22 under sections 353.29, subdivisions 2 and 3; 353.30,
23 subdivisions 1, 1a, 1b, 1c, and 5; and 353.31, subdivision 3.

24 Sections 353.34, subdivision 3, and 353.71, subdivision 2,
25 apply to a deferred annuity or surviving spouse benefit payable
26 under this subdivision. No payment may accrue beyond the end of
27 the month in which entitlement to the annuity has terminated or
28 upon expiration of the term certain benefit payment under
29 subdivision 1b. An amount equal to any excess of the
30 accumulated contributions that were credited to the account of
31 the deceased employee over and above the total of the annuities
32 paid and payable to the surviving spouse must be paid to the
33 deceased member's last designated beneficiary or, if none, as
34 specified under subdivision 1.

35 A member may specify in writing that this subdivision does
36 not apply and that payment may be made only to the designated

1 beneficiary as otherwise provided by this chapter.

2 Sec. 4. Minnesota Statutes 2000, section 353.33,
3 subdivision 1, is amended to read:

4 Subdivision 1. [AGE, SERVICE, AND SALARY REQUIREMENTS.] A
5 coordinated member who ~~has-at-least-three-years-of-allowable~~
6 service is vested as defined under section 353.01, subdivision
7 40, and becomes totally and permanently disabled before normal
8 retirement age, and a basic member who ~~has-at-least-three-years~~
9 of-allowable-service is vested as defined under section 353.01,
10 subdivision 40, and who becomes totally and permanently disabled
11 is entitled to a disability benefit in an amount under
12 subdivision 3. If the disabled person's public service has
13 terminated at any time: (1) at least two of the required three
14 years of allowable service must have been rendered after last
15 becoming a member if vesting under section 353.01, subdivision
16 40, clause (1) applies; or (2) at least three of the required
17 five years of allowable service must have been rendered after
18 last becoming a member if vesting under section 353.01,
19 subdivision 40, clause (2), applies. A repayment of a refund
20 must be made within six months after the effective date of
21 disability benefits under subdivision 2 or within six months
22 after the date of the filing of the disability application,
23 whichever is later. No purchase of prior service or payment
24 made in lieu of salary deductions otherwise authorized under
25 section 353.01, subdivision 16, 353.017, subdivision 4, or
26 353.36, subdivision 2, may be made after the occurrence of the
27 disability for which an application under this section is filed.

28 Sec. 5. Minnesota Statutes 2000, section 353.34,
29 subdivision 1, is amended to read:

30 Subdivision 1. [REFUND OR DEFERRED ANNUITY.] (a) A former
31 member is entitled to a refund of accumulated employee
32 deductions under subdivision 2 and may be entitled to a portion
33 of accumulated matching employer contributions, as provided
34 under subdivision 2a, or to a deferred annuity under subdivision
35 3. Application for a refund may not be made prior to the date
36 of termination of public service or the termination of

1 membership, whichever is sooner. Except as specified in
 2 paragraph (b), a refund must be paid within 120 days following
 3 receipt of the application unless the applicant has again become
 4 a public employee required to be covered by the association.

5 (b) If an individual was granted an authorized temporary
 6 layoff, a refund is not payable before termination of membership
 7 under section 353.01, subdivision 11b, clause (3).

8 (c) An individual who terminates public service covered by
 9 the public employees retirement association general plan, the
 10 public employees retirement association police and fire plan, or
 11 the public employees local government corrections service
 12 retirement plan, and who becomes an active member covered by one
 13 of the other two plans, may receive a refund of employee
 14 contributions plus six percent interest compounded annually from
 15 the plan in which the member terminated service. If the
 16 individual terminated public service covered by the public
 17 employees retirement association general plan after June 30,
 18 2001, the individual may also receive a portion of the employer
 19 contributions as provided in subdivision 2a.

20 Sec. 6. Minnesota Statutes 2000, section 353.34,
 21 subdivision 2, is amended to read:

22 Subd. 2. [REFUND WITH INTEREST.] Except as provided in
 23 subdivision 1, any person who ceases to be a public employee
 24 shall receive a refund in an amount equal to accumulated
 25 deductions with interest to the first day of the month in which
 26 the refund is processed at the rate of six percent compounded
 27 annually based-on-fiscal-year-balances.--if-a-person-repays-a
 28 refund-and-subsequently-applies-for-another-refund,-the
 29 repayment-amount,-including-interest,-is-added-to-the-fiscal
 30 year-balance-in-which-the-repayment-was-made.

31 Sec. 7. Minnesota Statutes 2000, section 353.34, is
 32 amended by adding a subdivision to read:

33 Subd. 2a. [PARTIAL REFUND OF EMPLOYER CONTRIBUTIONS.] A
 34 former member who is vested as defined under section 353.01,
 35 subdivision 40, when termination of public service or
 36 termination of membership occurs after June 30, 2001, who

1 applies for a refund of the accumulated employee deductions
2 under subdivision 2 is also entitled to receive an additional
3 refund in an amount equal to the applicable percentage of the
4 total accumulated matching employer contributions made on the
5 former member's behalf, with interest to the first of the month
6 in which the refund is processed at the rate of six percent
7 compounded annually:

8 (1) 25 percent if the refund is paid before the person
9 attains the age of 55; or

10 (2) 50 percent if the refund is paid after the person
11 attains the age of 55.

12 Sec. 8. Minnesota Statutes 2000, section 353.34, is
13 amended by adding a subdivision to read:

14 Subd. 2b. [REFUND OF REPAYMENT.] If a person repays a
15 refund and subsequently applies for another refund, the
16 repayment amount, including interest, is added to the pay period
17 balance in which the repayment was made. -

18 Sec. 9. Minnesota Statutes 2000, section 353.34,
19 subdivision 3, is amended to read:

20 Subd. 3. [DEFERRED ANNUITY; ELIGIBILITY; COMPUTATION.] A
21 ~~member with-at-least-three-years-of-allowable-service~~ who is
22 vested as defined in section 353.01, subdivision 40, when
23 termination of public service or termination of membership
24 occurs has the option of leaving the accumulated deductions in
25 the fund and being entitled to a deferred retirement annuity
26 commencing at normal retirement age or to a deferred early
27 retirement annuity under section 353.30, subdivision 1, 1a, 1b,
28 1c, or 5. The deferred annuity must be computed under section
29 353.29, subdivisions 2 and 3, on the basis of the law in effect
30 on the date of termination of public service or termination of
31 membership and must be augmented as provided in section 353.71,
32 subdivision 2. A former member qualified to apply for a
33 deferred retirement annuity may revoke this option at any time
34 before the commencement of deferred annuity payments by making
35 application for a refund. The person is entitled to a refund of
36 accumulated member and employer contributions within 30 days

1 following date of receipt of the application by the executive
2 director.

3 Sec. 10. Minnesota Statutes 2000, section 353.35,
4 subdivision 2, is amended to read:

5 Subd. 2. [REFUND REPAYMENT.] A person who receives a
6 refund of accumulated employee deductions and employer
7 contributions as provided under section 353.34, subdivision 2a,
8 plus interest, may repay the total amount of the refund
9 including the interest, within 30 days of the date the refund
10 was issued, to retain allowable service.

11 Sec. 11. Minnesota Statutes 2000, section 353.71,
12 subdivision 1, is amended to read:

13 Subdivision 1. [ELIGIBILITY.] Any person who has been a
14 member of the public employees retirement association, or the
15 Minnesota state retirement system, or the teachers retirement
16 association, or any other public retirement system in the state
17 of Minnesota having a like provision, except a fund providing
18 benefits for police officers or firefighters governed by
19 sections 69.77 or 69.771 to 69.776, shall be entitled when
20 qualified to an annuity from each fund if the total allowable
21 service in all funds or in any two of these funds totals three
22 or more years, except when including allowable service in the
23 public employees retirement association general plan, the total
24 allowable service in all funds must satisfy vesting as defined
25 in section 353.01, subdivision 40, and provided no portion of
26 the allowable service upon which the retirement annuity from one
27 fund is based is again used in the computation for benefits from
28 another fund and provided further that the person has not taken
29 a refund from any one of these funds since the person's
30 membership in that association or system last terminated. The
31 annuity from each fund shall be determined by the appropriate
32 provisions of the law except that the requirement that a person
33 must have at least three years of allowable service in the
34 respective association or system, or in the case of the public
35 employees retirement association general plan, the vesting
36 requirements defined in section 353.01, subdivision 40, shall

1 not apply for the purposes of this section ~~provided-the-combined~~
2 ~~service-in-two-or-more-of-these-funds-equals-three-or-more-years.~~

3 Sec. 12. Minnesota Statutes 2000, section 353.71,
4 subdivision 2, is amended to read:

5 Subd. 2. [DEFERRED ANNUITY COMPUTATION; AUGMENTATION.] (a)
6 The deferred annuity accruing under subdivision 1, or under
7 sections 353.34, subdivision 3, and 353.68, subdivision 4, must
8 be computed on the basis of allowable service prior to the
9 termination of public service and augmented as provided in this
10 paragraph. The required reserves applicable to a deferred
11 annuity, or to any deferred segment of an annuity must be
12 determined as of the first day of the month following the month
13 in which the former member ceased to be a public employee, or
14 July 1, 1971, whichever is later. These required reserves must
15 be augmented at the rate of five percent ~~annually~~ compounded
16 annually until January 1, 1981, and at the rate of three percent
17 ~~thereafter until January 1 of the year following the year in~~
18 ~~which the former member attains age 55. From that date to the~~
19 ~~effective date of retirement, the rate is five percent~~
20 ~~compounded annually.~~ If a person has more than one period of
21 uninterrupted service, the required reserves related to each
22 period must be augmented as specified in this paragraph. The
23 sum of the augmented required reserves is the present value of
24 the annuity. Uninterrupted service for the purpose of this
25 subdivision means periods of covered employment during which the
26 employee has not been separated from public service for more
27 than two years. If a person repays a refund, the restored
28 service must be considered as continuous with the next period of
29 service for which the employee has credit with this association.
30 This section must not reduce the annuity otherwise payable under
31 this chapter. This paragraph applies to individuals who become
32 deferred annuitants on or after July 1, 1971. For a member who
33 became a deferred annuitant before July 1, 1971, the paragraph
34 applies from July 1, 1971, if the former active member applies
35 for an annuity after July 1, 1973.

36 (b) The retirement annuity or disability benefit of, or the

1 survivor benefit payable on behalf of, a former member who
2 terminated service before July 1, 1997, or the survivor benefit
3 payable on behalf of a basic or police and fire member who was
4 receiving disability benefits before July 1, 1997, which is
5 first payable after June 30, 1997, must be increased on an
6 actuarial equivalent basis to reflect the change in the
7 postretirement interest rate actuarial assumption under section
8 356.215, subdivision 4d, from five percent to six percent under
9 a calculation procedure and tables adopted by the board and
10 approved by the actuary retained by the legislative commission
11 on pensions and retirement.

12 Sec. 13. [EFFECTIVE DATE.]

13 Sections 1 to 12 are effective July 1, 2001.

Article 1.....	page	1
Article 2.....	page	12
Article 3.....	page	20
Article 4.....	page	24