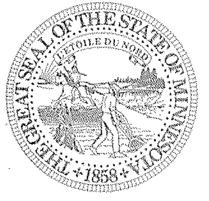


S.F. xxx (LCPR06-020) H.F. xxx

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): First Class City Teachers, MERF, Minneapolis Fire and Police Relief Associations, MSRS, PERA, TRA

Relevant Provisions of Law: Minnesota Statutes, Chapters 11A, 354A, 354A, 422A; proposing coding in Chapters 354A, 423B, 423C

General Nature of Proposal: Implementing Recommendations of the Office of the State Auditor 2004 Large Public Pension Plan Investment Report

Date of Summary: February 10, 2006

Specific Proposed Changes

- Provides language implementing many of the recommendations of the Office of the State Auditor report, Large Public Pension Plan Investment Report, for the Year Ending December 31, 2004. The full recommendations are attached.

Policy Issues Raised by the Proposed Legislation

1. Need for cap.
2. MERF-specific cap issue.
3. MFRA and MPRA cap issues.
4. Views of impacted parties.
5. Alternatives.
6. Amount of increase.
7. Appropriate comparison plan.
8. Inclusion of investment-related costs.

Potential Amendments

LCPR06-020-A1 revises Article 1 (establishing SBI-like post funds for the first class city teacher plans) by capping increases in any given year at a percent to be specified, rather than at five percent.

LCPR06-020-A2 revises Article 1 (establishing SBI-like post funds for the first class city teacher plans) by having any excess reserves created by action of the cap allocated in equal amounts for a number of years to be determined by the Commission.

LCPR06-020-A3 revises Article 1 (establishing SBI-like post funds for the first class city teacher plans) by establishing these post funds at the same funding ratio as is applicable to SBI Post Fund.

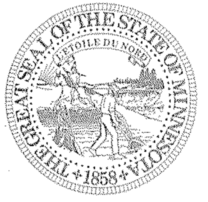
LCPR06-020-A4 revises the SBI Post Retirement adjustment mechanism, found in Article 2, by capping increases at some rate, to be determined by the Commission, other than five percent.

LCPR06-020-A5 revises the SBI Post Retirement adjustment mechanism, found in Article 2, by having any excess reserves created by action of the cap allocated in equal amounts for a number of years to be determined by the Commission.

LCPR06-020-A6 revises the SBI Post Retirement adjustment mechanism, found in Article 2, by capping the full post-retirement increase at six percent, rather than five percent.

LCPR06-020-A7 revises the cap on MFRA and MPRA adjustments in any given year to a percent to be determined by the Commission, rather than five percent.

State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT



TO:	Members of the Legislative Commission on Pensions and Retirement
FROM:	Ed Burek, Deputy Director EB
RE:	Document LCPR06-020: Implementing Recommendations of the Office of the State Auditor 2004 Large Public Pension Plan Investment Report
DATE:	February 9, 2006

Introduction

Legislative Draft LCPR06-020 provides language implementing many of the recommendations of the Office of the State Auditor report, Large Public Pension Plan Investment Report, for the Year Ending December 31, 2004 (pages 23-24 containing the recommendations are attached). The full recommendations are summarized below:

1. The Legislature should revise post-retirement adjustment statutes for first class city teacher retirement fund associations to require that investment losses from prior periods be recovered before any investment-return based portion of a post-retirement increase can be paid.
2. The Legislature should cap total post-retirement increases per year at five percent for all SBI-invested pension plans (the Minnesota State Retirement System (MSRS) plans, the Public Employees Retirement Association (PERA) plans and the Teachers Retirement Association (TRA)), the first class city teachers retirement fund associations, and the Minneapolis plans, which are the Minneapolis Employees Retirement Fund (MERF) and the Minneapolis Fire Relief Association (MFRA) and the Minneapolis Police Relief Association (MPRA).
3. The Legislature should decide on a funding solution for the Minneapolis Teachers Retirement Fund Association (MTRFA) situation during the 2006 Legislative Session.
4. Plans that have high investment expenses and/or have failed to meet their performance objectives should consider using the State Board of Investment (SBI) to invest their assets, given that SBI is offering quality investment options at low cost.
5. MFRA and MPRA administrative expenses are too high. The report recommends that several options be considered, including moving assets to SBI, consolidating boards or asset management with MERF or PERA, using lower cost investment managers, and capping administrative expenses that can be passed on to the state or the local public employer by enacting supplemental administrative expense assessments, similar to that required in law for the MTRFA and the St. Paul Teachers Retirement Fund Association (SPTRFA).

A few parts of these recommendations are not covered in Draft LCPR06-020 because they appear to be suggestions for pension board consideration rather than legislative consideration, or because authority already exists in some form. Thus, parts of recommendation #5 above are not covered, specifically, the recommendation that the MFRA and MPRA boards should consider using lower cost investment managers, and should consider consolidating boards or asset management. The suggestion to consider lower cost investment managers seems aimed to the applicable pension plan boards, and both of these organizations have existing law authority to consolidate into Public Employees Retirement Association Police and Fire (PERA-P&F), although other options could be drafted.

General Summary of Draft LCPR06-020

Legislative Draft LCPR06-020 would:

- Cap the total post-retirement increase in any rear at five percent for all MSRS plans, PERA plans, TRA, first class city teacher retirement association plans, MERF, MFRA, and the MPRA;
- Establish retirement funds for the first class city teacher retirement fund associations similar to the SBI Post Fund and which require these plans to recover sufficient assets to fully fund the existing pension benefits prior to paying any further investment performance-related increases;
- Authorize the first class city teacher fund associations and MERF to invest in the SBI Supplemental Fund; and
- Establish administrative expense assessments to be paid by MFRA and MPRA plan membership when the per-member administrative cost, including investment-related expenses for the applicable plan, exceeds the corresponding per-member costs for PERA-P&F.

Section-by-Section Summary of Draft LCPR06-020

Article 1: Requiring First Class City Teacher Retirement Fund Associations to Recover Losses Prior to Payment of Further Post-Retirement Increases; Capping Increases at Five Percent

Section 1 requires the first class city teacher retirement fund associations (the Duluth Teachers Retirement Fund Association (DTRFA), the Minneapolis Teachers Retirement Fund Association (MTRFA), and the St. Paul Teachers Retirement Fund Association (SPTRFA)) to each establish a post-retirement investment fund comparable in structure and operation to the SBI Post Fund, except that an automatic two percent increase is provided for those who have been receiving an annuity for at least one year, rather than the up to 2.5 percent inflation match used by the SBI Post Fund, and, eligibility for additional investment performance based increases is restricted to those who have been receiving benefits for at least one year. (The automatic two percent increase and requirements that the individual must be retired at least one year to be eligible are found in existing law and that approach is retained in this drafted provision.) The section also caps total increases in any year at five percent, with any excess reserves due to that cap required to be allocated to each of the next four years. (Page 1, line 20 to page 5, line 28)

Section 2 contains an uncoded provision requiring the first class city teacher fund associations to create the post-retirement fund referred to in Section 1 by June 30, 2006, and specifying that if an association has insufficient assets to fully fund its post-retirement fund, then that association may not pay any increases beyond the automatic two percent increase until it has sufficient reserves to fully fund the existing pensions. (Page 5, line 29 to page 6, line 12)

Section 3 is an uncoded provision authorizing the associations to amend their bylaws consistent with this article. (Page 6, lines 13-17)

Section 4 repeals the existing post-retirement increase provisions in first class city teacher plan law. (Page 6, lines 18-19)

Section 5 makes the article effective on the day following final enactment. (Page 6, lines 20-21)

Article 2: Five Percent Cap on Post-Retirement Increases; SBI, MERF, MFRA, and MPRA

Section 1 amends the SBI post-retirement adjustment provision, by making technical corrections and capping increases at five percent per year, with any excess reserves due to that cap being allocated equally to the next four years. (Page 6, line 26 to page 9, line 14)

Section 2 caps the total increases to MPRA pensioners at five percent in any given year. (Page 9, lines 15-18)

Section 3 caps the total increases to MFRA pensioners at five percent in any given year. (Page 9, lines 19-22)

Section 4 makes this article effective on the day following final enactment. (Page 9, lines 23-24)

Article 3: MTRFA Additional Funding

Section 1 amends Minnesota Statutes, Section 354A.12, Subdivision 3a, the special direct state aid to first class city teacher plan associations, by revising the amount provided annually to the MTRFA from $17,954,000 to an amount to be determined. (Page 9, line 28 to page 10, line 7)

Section 2 makes the article effective on the day following final enactment. (Page 10, lines 8-9)

Article 4: Authority to Invest in SBI Supplemental Fund

Section 1 amends a first class city teacher plan authorized investment provision by authorizing these associations to invest in the SBI Supplemental Fund. (Page 10, lines 13-22)

Section 2 amends a MERF authorized investment provision by authorizing MERF to invest in the SBI Supplemental Fund. (Page 10, line 23 to page 11, line 3)

Section 3 makes the article effective on the day following final enactment. (Page 11, lines 4-5)

Article 5: Supplemental Administrative Expense Assessment; MFRA and MPRA

Section 1 establishes an administrative expense assessment in the MPRA plan, with any administrative expenses (including investment-related expenses) above the per-member average in the PERA-P&F plan to be assessed to the MPRA plan membership, including all active members and retirees groups. (Page 11, line 10 to page 13, line 5)

Section 2 establishes an administrative expense assessment in the MFRA plan; with any administrative expenses (including investment-related expenses) above the per-member average in the PERA-P&F plan to be assessed to the MFRA plan membership, including all active members and retirees groups. (Page 13, line 6 to page 14, line 35)

Section 3 makes the article effective on the day following final enactment. (Page 15, lines 1-2)

Draft LCPR06-020 Article-by-Article Discussion and Analysis

Article 1 Analysis and Discussion

1. Post-Retirement Adjustment Systems. Article 1 creates for the first class city teacher retirement fund associations a post fund and post-retirement adjustment mechanism that is based on the SBI Post Fund.

   a. SBI Post Fund Operation. The SBI Fund provides post-retirement increases for pensioners who have their retired assets in that fund, which are the annuitants of the various MSRS, PERA, and TRA plans. At the present time, the Post Fund provides a guaranteed inflation match up to 2.5 percent per year, and a further investment performance-based increase is possible when investment performance exceeding 8.5 percent generates sufficient assets over five-year periods to provide full reserves for a further increase.

      To demonstrate how the Post Fund increase procedure works, assume the Post Fund's total return for several years exceeds 8.5 percent annually. To determine the increase payable, SBI first determines the total required reserves needed to sustain the current benefit level. To support that level, the reserves need to earn the actuarial rate of return for the Post Fund, which is six percent. Therefore, the total amount needed to sustain the existing benefits is computed by multiplying the full reserves by 1.06. Paying the inflation match up to 2.5 percent requires additional reserves, which, assuming inflation is 2.5 percent, is fully covered if the fund earns an 8.5 percent return. (A six percent return is needed just to continue having full required reserves for the existing benefit level, and an additional 2.5 percent return (a total of 8.5 percent), is needed to also cover the inflation match component.) If the Post Fund's total return was in excess of 8.5 percent, then there are some additional assets generated by the investment performance which can be used to provide further investment-based post-retirement adjustments. To determine this last component, the money (assets) representing this additional return (amounts above that necessary to sustain the present benefit level and to cover the inflation match) are allocated in equal proportion to five accounts representing the current year and the following four years. The amount in the current year's account is the sum of this new allocated amount and all amounts that were added in the past by the operation of this allocation process. SBI then examines the account for the current year and computes how much of a benefit increase, expressed as a percentage, can be sustained by those reserves. This percentage is then added to the inflation match to determine the total percent increase provided to the Post Fund annuities.

      This mechanism within the Post Fund for adjusting benefits has a few characteristics worth noting. First, under law no increases beyond the inflation match component can be provided unless the fund has sufficient assets, at least at the time that the increase is determined, to fully support that further increase. Second, the use of five-year accounts creates a form of averaging. A very large return in a single year will not be all paid out to retirees immediately. Some of it is allocated to future years, helping to provide increases despite weaker investment returns. However, if there is a string of very good investment years, a prolonged period of very high benefit adjustments could occur. This did occur in the late 1990s. The opposite has happened more recently. After the high permanent increases of the late 1990s commenced, the equity investment markets lost considerable value, and when they did, the Post Fund no longer had the full reserves to support the newly revised benefit levels. In those bad investment years, negative amounts rather than positive amounts were allocated to the five-year accounts, and these continue to roll forward until the Post Fund again becomes fully funded. The pension plan administrators have testified that this could take at least another ten years, and probably longer.

   b. Existing First Class City Teacher Plan Post-Retirement Adjustment Mechanism. The existing post-retirement increase mechanism used by the first class city teacher associations was first enacted in the

early 1990s at the request of the MTRFA, and a few years later comparable provisions were enacted for DTRFA and SPTRFA. These provisions include an automatic two percent increase each year, even if inflation were less than two percent, and a further investment performance increase is paid whenever the five-year time weighted rate of return exceeds 8.5 percent. If this five-year return were 11.5 percent, for example, the fund would provide a permanent increase in the annuities of three percent (11.5 – 8.5 = 3.0 percent), in addition to the automatic two percent increase, for a total increase of five percent. This mechanism is based solely on five-year average returns; it does not require a determination that there be sufficient reserves generated by the investment returns to actually provide full required reserves to support the increases granted, and it does not require that past losses be recovered before new increases commence.

The first class city teacher fund associations sought enactment of their post-retirement adjustment mechanisms to have a mechanism expected to provide increases similar to that provided under the SBI Post Fund. However, there are differences between the way the Post Fund operates and the way these first class city teacher plan post-retirement adjustment procedure function. These differences have proven to be important, and unfortunately, detrimental to all the first class city teacher plan associations, most notably to the MTRFA. The SBI system is more conservative and more financially prudent.

c. Differences between SBI and First Class City Teacher Systems. The first distinction between these systems is that the SBI Post Fund annuity adjustments are based upon actual reserves. Any investment performance-related SBI Post Fund increase is generated because the Post Fund has sufficient asset value to fully fund the existing annuity and the increase (at least at the time that the increase is granted). In contrast, the first class city teacher plan mechanism is based solely on computed investment rates of return, without any connection to the dollars upon which these returns were earned. The first class city teacher plan procedure works well only if the plan is fully funded, which means that the annuities of the existing benefit recipients are fully funded, and the liabilities incurred to date for the active members are also fully covered. In this case, if the plan were to have a five-year time weighted return of 11.5 percent, as in our previous example, the asset values have grown sufficiently to support the total five percent increase to be provided to the retirees, and remaining assets for the active members have also grown by more than the 8.5 percent investment return (the actuarial assumed investment return rate) needed to keep the plan fully funded or to actually exceed full funding. However, if a plan is less than fully funded, problems creep in. This is most evident in a case where the pension plan does not have enough total assets in its system to cover the full actuarial value of retiree annuities, leaving the active members with no assets. This occurred several years ago in the MTRFA and continues currently. If, for example, a pension fund had only half the reserves needed to fully fund its retirees, then when that fund earned an 11.5 percent five-year return and thus provided a five percent increase, that return generates only half the dollar increase in assets actually needed to fully fund the increase. Thus, it pays out an increase which is twice what can be supported by the actual reserves for the retirees. Furthermore, since there are no assets for the active members, there is no asset growth to meet their needs. The effective return on active member assets is zero because there are no active member assets on which to earn a return. Therefore, although the fund may have earned a very high return (11.5 percent), this hurts rather than helps the fund. The fund pays out an increase far larger than can be supported by the investable assets, causing the fund to deteriorate further. The unfunded liability goes up, contribution requirements increase due to the ever increasing amounts of unfunded liability, and the funding ratio continues on an accelerating downward spiral.

The funding condition of the three first class city teacher funds is shown below. The MTRFA is less than 45 percent funded. It is feared that the fund will run out of assets in less than ten years.

2005 Valuation Results

	DTRFA 2005	MTRFA 2005	SPTRFA 2005
Membership			
Active Members	1,164	4,756	4,206
Service Retirees	1,043	3,537	2,214
Disabilitants	16	25	32
Survivors	94	277	259
Deferred Retirees	313	1,377	1,368
Nonvested Former Members	638	3,604	1,687
Total Membership	3,268	13,576	9,766
Funded Status			
Accrued Liability	$310,923,929	$1,755,912,975	$1,299,831,584
Current Assets	$268,480,821	$783,354,138	$905,292,514
Unfunded Accrued Liability	$42,443,108	$972,558,837	$394,539,070
Funding Ratio	86.35%	44.61%	69.65%

2005 Valuation Results

	DTRFA 2005		MTRFA 2005		SPTRFA 2005	
Financing Requirements						
Covered Payroll		$56,237,262		$231,208,456		$227,818,794
Benefits Payable		$18,290,640		$123,031,355		$72,438,204
Normal Cost	9.05%	$5,092,255	9.51%	$21,981,273	9.23%	$21,035,503
Administrative Expenses	0.78%	$438,651	0.29%	$670,505	0.24%	$546,765
Normal Cost & Expense	9.83%	$5,530,906	9.80%	$22,651,778	9.47%	$21,582,268
Normal Cost & Expense	9.83%	$5,530,906	9.80%	$22,651,778	9.47%	$21,582,268
Amortization	4.33%	$2,435,073	36.50%	$84,391,086	14.30%	$32,578,088
Total Requirements	14.16%	$7,965,979	46.29%	$107,042,864	23.77%	$54,160,356
Employee Contributions	5.50%	$3,093,049	5.74%	$13,266,140	5.73%	$13,059,350
Employer Contributions	5.79%	$3,256,137	8.46%	$19,553,269	8.65%	$19,698,785
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	0.00%	$0	7.70%	$17,814,000	2.11%	$4,803,000
Other Govt. Funding	0.00%	$0	1.08%	$2,500,000	0.00%	$0
Administrative Assessment	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	11.29%	$6,349,186	22.99%	$53,133,409	16.49%	$37,561,135
Total Requirements	14.16%	$7,965,979	46.29%	$107,042,864	23.77%	$54,160,356
Total Contributions	11.29%	$6,349,186	22.99%	$53,133,409	16.49%	$37,561,135
Deficiency (Surplus)	2.87%	$1,616,793	23.30%	$53,909,455	7.29%	$16,599,221

The second observation worth noting is that, even if a fund was at least reasonably healthy, following a period of bad investment markets the existing first class city teacher association post-retirement adjustment systems do not require the fund to regain its reserves prior to beginning paying out investment performance-based increases. The DTRFA, SPTRFA, and MTRFA were exposed to the same investment markets as the SBI during the early 2000s, and suffered periods of very low or negative investment returns, as did the SBI. However, as soon as the five-year investment return of these associations exceeds 8.5 percent, these associations can resume paying out investment return-based increases to their retirees. That could occur soon, and when it does it will add to the financial stress on these plans. There is no requirement in existing law that they first recoup prior investment losses and return the plan to full financial health before resuming a new round of possibly sizable increases. In contrast, under the SBI mechanism, the system must recover sufficiently through investment performance to again get the Post Fund to full funding before there will be any positive increment to begin allocating to the five year accounts, and it will be some time after that before there will be sufficient assets in the account for the applicable year to grant and support an increase beyond the capped inflation match. The MSRS, PERA, and TRA executive directors are saying this will take a minimum of ten years, and probably closer to fifteen.

2. Capping Increases at Five Percent. In addition to creating an SBI Post Fund-like system for the first class city teacher plans, this article also caps the total increase provided in any given year at five percent. This is comparable to a separate proposal (S.F. 70 (Betzold); H.F. 40 (Smith)) put forward by the MSRS, PERA, and TRA executive directors to cap the SBI Post Fund at five percent.

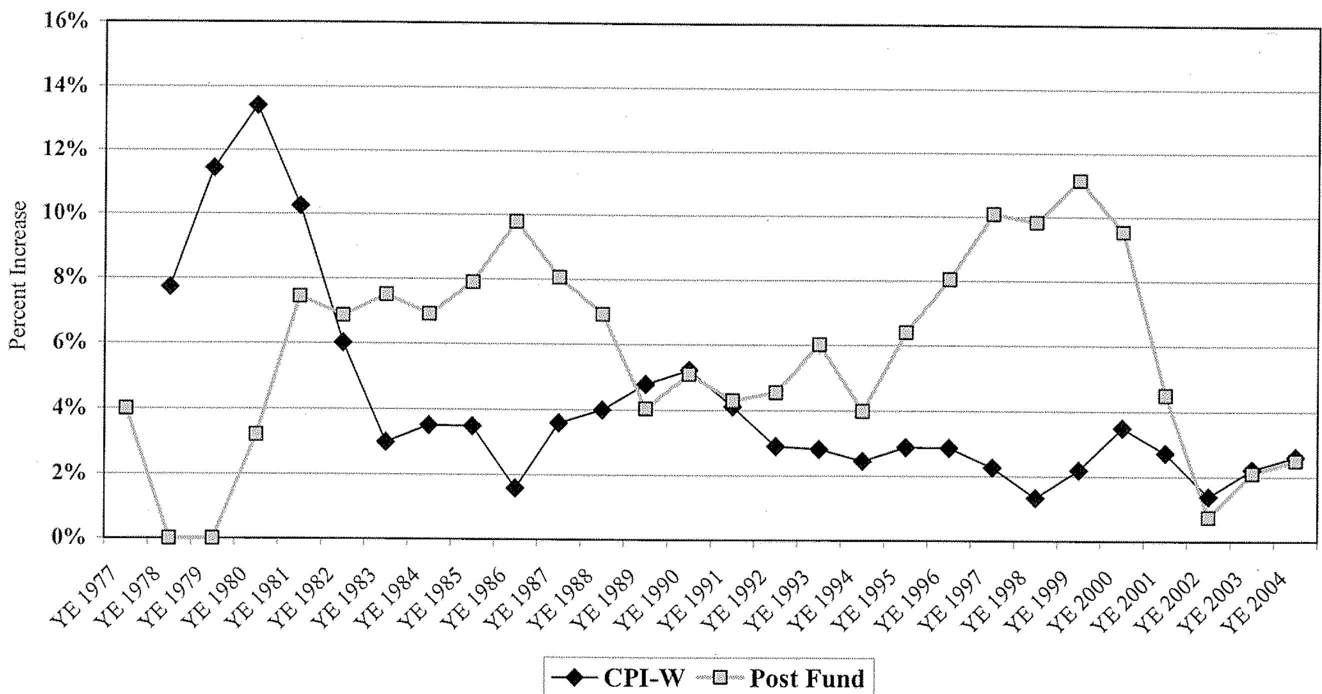
   Arguments for capping the Post Fund are that the system has not provided increases that remotely match inflation, and groups of winners and losers have been created. It is hoped that capping the Post Fund will restrict increases during periods of high investment returns to levels more closely matching actual inflation, and avoiding excessive increases in the good years will save reserves which can be used at other times. It is hoped that this will avoid a replay of past events, where retirees in the 1980s and 1990s had exceptional increases in benefits, while individuals now retiring face a prolonged period of minimal increases.

   a. Post-Retirement Increases Compared to Inflation. The chart below compares total post-retirement increases provided by the current Post Fund and its predecessors compared to inflation. The inflation rates are based on calendar years. The Post Fund increases are based on July 1 fiscal year periods, but are payable beginning the next January 1. The chart reveals that the inflation rate and the total Post Fund adjustment are rarely similar. In 1982 and earlier, inflation was much higher than the adjustment. In 1979 and 1980, no benefit adjustment occurred despite inflation of nine percent in one year and over thirteen percent the next. This was followed by a prolonged period from 1983 to 2002 where the Post Fund adjustments were in excess of inflation, often by considerable amounts, except for a brief period in the early 1990s. *On whole, for the last two decades, the Post Fund adjustments greatly exceeded inflation compared to changes in consumer prices.* This provided a considerable windfall to these retiree groups. Assets used to support the annuities of these retiree groups are not available for a rainy day, to provide needed adjustments when recent investment returns are insufficient to provide the added reserves that are needed.

Minnesota Post Fund Post-Retirement Increases

vs.

Consumer Price Index for Urban Wage Earners and Clerical Workers



The effects of these Post Fund increases compared to inflation can also be examined by reviewing the increases over time for a few groups of retirees. For individuals who retired in 1980, a basket of goods that cost $1,000 in 1980 would cost $1,780 by 1989 due to inflation. If the individual had a $1,000 pension in 1980, that pension would have increased to $1,860 by 1989. Thus, the individual is more than kept whole despite 13 percent inflation in 1980 and no Post Fund increase in that year. By 1999, that same basket of goods from 1980 would now cost $2,420 dollars, but the pension would be $3,390. The pension is nearly $1,000 per month more than is necessary to keep the retiree whole. The years 2000 through 2002 provided very high Post Fund increases with modest inflation. By 2002, the basket of goods now costs $2,610, but the individual's monthly benefit has grown to $4,310. The individual can purchase the same goods as in 1980 and have $1,700 left over.

For an individual who retired in 1990, a basket of goods that cost $1,000 in 1990 will cost $1,420 in 1999. But if the individual had a $1,000 pension in 1990, the individual is receiving a $1,820 benefit by 1999, not far from doubling within that period. By 2002 that person's benefit has increased to $2,310, while the basket of goods will cost $1,530, leaving $780 per month left over.

If inflation as measured by the CPI over time is a good measure of inflation for this group, then Post Fund increases since 1980 have been far in excess of amounts necessary to keep retirees whole. This conclusion would not change if the most recent years (2003, 2004, and 2005) are added to the analysis. Benefit increases were quite modest in those years, but so was inflation.

b. Comments on Proposed SBI Post Fund Cap. The operations of the Post Fund, due to the investment markets that have occurred over time, have created groups of winners and losers. Retirees during the 1980s and 1990s received far more in benefit adjustments than was needed to keep them whole. Failure to save enough of those assets generated through investment returns to ensure that reasonable adjustments can be paid in the future has created the current very difficult situation. One group which is hit hard includes new retirees. While older retirees may do well for some years because of the generous increases granted during the 1990s, new retirees face a decade or more of minimal increases at best. The effect will not be severe if inflation stays low. If high inflation occurs, the newer retirees will suffer considerable erosion of purchasing power.

The pension fund directors have run simulations assuming the proposed system had been in place in the past, and the results indicate that the cap would have been more than fair to the retirees and that there would be no current Post Fund funding problem. In the simulation, the Post Fund would be able to soon provide additional increases above inflation. This would be accomplished by eliminating the high Post Fund increases that occurred in much of the 1990s and into the early 2000s as indicated in the previous chart. Although the increases are capped at five percent, inflation was lower than five percent in every year during that period except 1991 (in 1991, the Post Fund provided a 5.1 percent increase while inflation was 6.1 percent). Thus, even with a five percent cap the retirees would have received increases that exceeded inflation by considerable amounts for the period as a whole. The cap would have freed up considerable reserves (all the reserves that were needed to support the increases above five percent), which could then be used currently, as needed.

While the proposal has the advantages indicated, it also has shortcomings. Like so many of the changes in the past to the Minnesota Adjustable Fixed Benefit Fund and to the Post Fund, the proposed change seems motivated by looking backward rather than by beginning with a clean conceptual slate. The proposal addresses a past problem; for nearly two decades the Post Fund provided adjustments that greatly exceeded inflation, and in the process used up assets in order to support these higher annuities, assets which are desperately needed now to support the increases that will be needed in the future to keep retirees whole. The proposed solution is to cap increases at five percent. This would provide reasonable results looking at the past. A concern for the future though is that if rates of inflation in excess of five percent occur, individuals will not be kept whole, even if the system were to have sufficient assets to pay the higher annuities. If enacted, the Legislature may again need to revisit this system when a sustained period of high inflation occurs.

c. Comments on Adding Cap to the Proposed First Class City Plan SBI-Like Post Fund. The arguments for adding a five percent cap to the proposed first class city plan SBI-like post funds are similar to those regarding the SBI Post Fund proposal. A cap would hopefully keep increases more in line with inflation, assuming inflation remains low. In a prolonged period of high inflation, it may be necessary to revisit the proposal. The cap would also save some assets for a rainy day.

Policy Issues Raised by Article 1

1. Policy issues raised by the creation of SBI-like post-retirement funds and adjustments for the first class city teacher plans are:

   a. Need for Change. The issue is whether there is a need to change the existing system for generating post-retirement increases for the first class city teacher fund associations. Previous discussion indicates that the system in law has serious flaws that result in benefit increases that cannot be justified given the assets in the fund when pension plan is not well funded, that this system can significantly and quickly worsen the actuarial condition of pension plan that has contribution deficiencies and a relatively low funding ratio, and that there is no mechanism that mandates that prior losses be covered before additional investment-based increases are resumed.

   b. Proper Change. If the Commission were to conclude that some action should be taken, the issue is whether this proposal is the best solution, or whether the Commission may want to consider other options. Another alternative, at least for the MTRFA, is the proposal or proposals under legislative consideration to merge the MTRFA into TRA.

   c. Question of Consistency with Federal Regulations. The issue is whether the existing or proposed post-retirement adjustment systems are consistent with federal requirements. Questions have been raised regarding whether the existing or proposed Post Fund adjustment mechanism is consistent with final regulations under Internal Revenue Code 401(a)(9). This issue was discussed at a recent Commission meeting, and the MSRS, PERA, and TRA executive directors expressed interest in seeking a letter ruling on the question.

   d. Inconsistency with the Commission's Principles of Pension Policy. The issue is the partial inconsistency of the existing first class city teacher fund association post-retirement increase mechanism and with this proposal with the Commission's Principles of Pension Policy, which indicates in relevant part that the Legislature should strive to create pensions which are adequate at the time of retirement, and then take steps to ensure that the benefit remains adequate during retirement by revising the benefit as necessary to match inflation.

   e. Transition Issues/Litigation Concern. The question is whether there would be a smooth transition from one system to another. The proposal does not include any transition provision, and an issue is whether one is needed. As drafted, the first class city teacher plans would begin operating under the new provision, but given the use of five yearly accounts, it could be a few years before a fund association could pay out any investment performance-based increase. Thus, for a few years the only increase would be the two percent automatic increase. Since the pattern and level of increases would differ under the new proposal compared to those that the existing mechanisms would provide, this could create claims of harm and possible litigation.

   f. Other Transition Issues: Compensation for Prior Losses. The issue is whether the proposal should be revised to require the associations to recoup all or some portion of prior reserve losses due to investment markets in recent years before they can commence further additional investment return-based increases under the new system. As drafted, when these associations create their post fund, they are allowed to fully fund their post fund if they have sufficient assets from their entire pension fund (which currently covers all their retirees and active members) to do so. This places the DTRFA and SPTRFA in a much better position than SBI, since a comparable system has been in place for

SBI for many years and the operations of that system now requires SBI to recoup prior reserve losses from the early 2000s before allocating any positive asset values to future benefit increases. The DTRFA and SPTRFA may begin paying investment performance based increases shortly; while the SBI is expected to take well over a decade before any increase above an up to 2.5 percent inflation match can continue. Perhaps the Commission might wish to revise the draft to require that these first class city post funds are established at a funding level comparable to the existing SBI Post Fund funding level, rather than allowing them to be immediately 100 percent funded.

g. Implications Specific to the MTRFA. The MTRFA does not have sufficient assets to fully fund a post-retirement fund. The drafting requires that no increases (other than the automatic two percent annual increases) can be paid until the post fund is fully funded and the operations of the fund generate an increase. For the MTRFA, is would mean that there will be a prolonged period of only two percent increases unless considerable assets were injected into the MTRFA through additional contributions or aid.

2. Policy issues raised by the proposal to establish a cap on increases of five percent are:

a. Extent of Support or Opposition by Interested Parties. In periods of high investment returns, the cap would defer part of the resulting benefit increase to future years. This may impact existing retirees of the three first class city pension plans and surviving spouses, and will impact currently active employees if they become disabled or when they retire. The Commission may wish to determine, by testimony or other means, the extent of support or opposition by these groups for the current proposal.

b. Tracking Issues and Problem Caused if High Inflation. The proposed cap may help to create benefit increases more closely matching inflation, but only if inflation were consistent and relatively low. A problem will occur if there is a prolonged period of inflation in excess of five percent. The Legislature would likely be asked to again revise the Post Fund, and possibly asked to provide an ad hoc increase to address harm caused by the cap.

The Post Fund system is based on the hope that investment returns and inflation are highly correlated, so that benefit increases during retirement will closely match inflation. A previous chart indicated that the system has not closely matched inflation. The only way to match inflation with any precision is to mandate increases which match inflation, whatever its level, to keep retirees whole. A full inflation match, however, creates more liabilities and risk to the employer because investment returns could be low while inflation is high, creating a need for additional financing to make up the difference.

c. Proper Cap Level. If the Commission supports the concept of a cap, the Commission may wish to consider the proper level of the cap. Rather than a five percent cap, the cap could be set at some higher or lower level. Assuming a post fund had sufficient assets and investment return, a six percent cap would allow more to be paid out in a given year, saving less for a future rainy day. A four percent cap would save more funding for a rainy day, but would increase the gap between the benefit adjustment and the inflation rate in high inflation years. The Commission presumably would also want to keep this proposal consistent with any cap that the Legislature might adopt for the SBI Post Fund due to consideration of S.F. 70 (Betzold); H.F. 40 (Smith).

d. Treatment of Excess. The issue is how to treat any excess reserve assets that are generated by imposing the cap. The draft proposes to add these excess amounts in equal proportion to the next four-year accounts. Other alternatives are to add them to the next year, or next two or three years. A consideration is how much the Commission desires to smooth post-retirement increases over time. Some retirees, particularly older ones, might prefer a quicker payout.

e. Benefit Takeaway or Deferral Issue, Possible Litigation. In any year in which the cap restricts the benefit adjustment that is provided, a portion of the benefit adjustment is pushed out into the future. Retirees or other benefit recipients could contend they are harmed by the delay due to the time value of money, and older retirees may contend that they may not survive to receive that delayed increase. This might lead to litigation if these amounts are deemed substantial.

Article 2 Analysis and Discussion

The five percent cap on the SBI Post Fund is also found in S.F. 70 (Betzold); H.F. 40 (Smith). That proposal was discussed at a recent Commission meeting, and considerable background and discussion was presented earlier in this memo in the Article 1 discussion.

Regarding MERF, the association has a post-retirement fund at the current time, matching the structure and operation of the SBI Post Fund because the MERF Post Fund is created and governed by a crossreference to the SBI Post Fund statute. However, there is one difference between SBI and MERF Post Fund operations. For SBI, the actuarial interest rate (assumed rate of return) is six percent, while for MERF is five percent. SBI and MERF had been identical on that issue until 1997, when the various pension plans which invest their retired assets in the SBI Post Fund sought to increase benefits at the time of retirement. In large part, the increase in accrual rates used to compute annuities was financed by increasing the assumed Post Fund return rate from five percent to six percent, which reduces the computed assets needed to support any given pension benefit. (If $300,000 were needed to support a given pension benefit for an annuitant's expected remaining lifetime if the assets earn five percent prior to payout, then somewhat less than $300,000 would be needed to support that benefit level of the assets earned a six percent return rather than five percent return prior to payout.) Because the Post Fund procedure of providing investment performance-based increases was retained based on assets generated by returns in excess of 8.5 percent, it was necessary to reduce the inflation match. This was reduced from a match not to exceed 3.5 percent to a match not to exceed 2.5 percent.

The result of these actions was that the various pension funds within MSRS, PERA, and TRA were trading somewhat higher benefits at the time of retirement for approximately one percent lower post-retirement increases each year during retirement. At the time, this seems like an easy tradeoff to make, since the Post Fund had been providing very high increases. A modest reduction in those increases was assumed to cause little noticeable harm.

MERF, however, did not take part in the 1997 benefit increase proposal, and thus its benefit formulas at the time of retirement were not revised. Therefore, the Legislature took action to hold MERF harmless as these changes occurred. This was accomplished by revising the SBI Post Fund provision to clarify that MERF was to continue using a five percent investment return assumption rather than the new six percent assumption and that MERF could continue providing an inflation match of up to 3.5 percent, rather than the up to 2.5 percent match which became applicable for the other plans. Part of the applicable changes in the SBI Post Fund provision is now shown as existing law language in LCPR06-020, page 7, lines 2-6.

Since MERF uses the same post-retirement adjustment system as SBI, with the modifications just noted, MERF also has a less-than-fully-funded post fund, due to recent markets.

Regarding the MFRA and MPRA, these local plans currently provide post-retirement increases through three different mechanisms. The first is that all pensions are increased by the same percentage increase as the annual salary increase for a top grade patrol officer or firefighter, as applicable. If salary increases at least keep up with inflation over time, this alone would provide a sufficient mechanism to keep retirees and surviving spouses whole. In addition, these associations may provide a 13th check, which is an additional annual distribution to existing benefit recipients of a portion of the pension fund's assets. The distribution occurs if, for a given year, the five-year average time weight return exceeds by at least two percent the five-year percentage increase in the salary of a top grade patrol officer. If that condition is met, the association distributes one-half percent of fund assets to benefit recipients if the funding ratio is less than 102 percent, and 1.5 percent of assets if the funding ratio exceeds 1.02 percent. Thirteenth check amounts are like a bonus payment amount, and are not added to the base annuity for purposes of determining benefit payable in later years. In addition, a third type of payment may be made, referred to as an excess asset amount payment. This payment would occur if the market value of the fund exceeds 110 percent of the fund's accrued liabilities after payment of a 13th check. This excess, if any, is referred to as an excess asset amount, and the association is authorized to distribute 20 percent of this difference each year to retirees and survivors.

Policy Issues Raised by Article 2

Many policy issues relevant for the proposal to cap the SBI Post Fund were made in the discussion of Article 1. Issues specific to MERF, MPRA, and MFRA caps are listed below. These are:

1. Need for Cap. The issue is whether it is appropriate to cap the post-retirement increases of these organizations. As discussed previously, the cap could be at five percent or some other amount. As noted previously, a cap can provide somewhat better tracking between post-retirement increases and inflation, and it can help to save pension fund assets to allow distributions in later years, but it may cause problems in a prolonged period of high inflation.

2. MERF-Specific Cap Issue. If a cap should be used, the next issue is whether MERF should have the same cap as SBI. MERF was not included in the 1997 benefit revisions that traded higher benefits at the time of retirement for approximately one percent per year lower post-retirement increases. If SBI is capped at five percent, perhaps MERF should be capped at six percent.

3. MFRA and MPRA Cap Issues. The issue is whether a cap should be used for the MFRA and MPRA and, if so, what the level should be. Imposing a cap may make the 13th check and excess asset distribution provisions partially or totally inoperative. The Commission may wish to consider whether those provisions serve any clear pension policy purpose. The 13th check and excess asset distribution are based largely or totally on the funding level of the association, which has no relationship to the need of retirees to be kept whole. Over time, the salary escalator provision should be more than capable of retaining the purchasing power of retirees. The 13th check and excess asset distribution provisions appear to provide a windfall with no clear pension policy purpose and adds to contribution requirements. An excess asset distribution can add to contribution needs if the association were to later drop below full funding due to the action of investment markets, or as a result of liabilities added to the plan.

   For the MFRA and MPRA, a cap, if operable, would have the effect of pushing out distributions that would otherwise occur to later years. If a distribution could not be made in full during the current year due to the cap, more assets are retained. This would add to the amount of a 13th check and to an excess asset distribution, if applicable, in the following year.

4. Views of Impacted Parties. The issue is the degree of support or opposition by the parties impacted by these cap proposals.

Article 3 Analysis and Discussion

Section 1 provides one way to address the existing MTRFA funding problem, by increasing, presumably significantly, the large amount of state aid already provided to that organization. Although this approach could be used to address the situation, there are reasons why some form of merger with TRA may be preferable. First, from an organizational standpoint, there is little reason to have a large state plan for teachers, TRA, covering nearly all public school teachers in the state, while having small independent teacher plans in the first class cities. There would be economies of scale in merging one or more of those associations into TRA. Second, SBI, which invests TRA's assets, has demonstrated itself to be a better investment operation than the MTRFA over the last few decades. Strong investment performance lessens the need for contributions and aid to cover liabilities. Thus, a merger into TRA with SBI running the investment operation is likely to be a lower cost approach, in the long run, than maintaining a separate MTRFA. Third, if MTRFA remains as a separate organization, then the Legislature may need to focus on the post-retirement adjustment mechanism used by this association, to consider revising it to avoid paying additional benefit increases to retirees when the fund does not have the assets to support those increases. One approach is contained in Article 1.

Policy Issues Raised by Article 3

1. Alternatives. The Commission may wish to consider other alternatives, in addition to the alternative of considerably increasing state aid, to address the MTRFA situation. Those options could include considerably increased local contributions, and/or merging MTRFA into TRA.

2. Amount of Increase. The issue is the amount to place in the draft, on page 9, line 32, as the revised state funding amount. The Commission may wish to be guided by the MTRFA actuarial presentation included earlier. The Commission may wish to consider all or some portion of the contribution deficiency amount.

Article 4 Analysis and Discussion

Most Minnesota public pension organizations (for instance, the over 700 volunteer fire plans and the few remaining paid police and fire plans) have existing law authority to invest in the SBI Supplemental Fund, which is a collection of investment options, similar to mutual funds, operated by SBI. The Supplemental Fund options include investments in the money market, bonds, various indexed and actively managed stock pools, the Income Share Account which is a balanced stock/bond investment, and foreign stock investments. There does not appear to be any authority in current law for the first class city teacher fund associations or MERF to invest in these SBI Supplemental Fund investment options. Article 4 would provide that authority.

Policy Issue Raised by Article 4

Need for Change. The question is whether there is sufficient need for this change. These organizations have access to a broad range of other investments; thus, not having access to the Supplemental Fund does not cause measurable harm. On the other hand, the SBI Supplement Funds might provide useful low-cost investments for these organizations and they are unlikely to cause harm when used with suitable discretion, and the language is permissive. The drafting adds to the range of investments and investment managers to which these organizations have access.

Article 5 Analysis and Discussion

In 1993 administrative expense assessment provisions were added to first class city teacher plan law as part of a funding package to provide additional state and local support for the SPTRFA and MTRFA. These assessment provisions are found in Minnesota Statutes, Section 354A.12, Subdivision 3d. Those expense assessments are based on annual comparisons of administrative expenses, excluding investment-related expenses, of these associations compared to TRA, on a percentage of payroll basis. Any excess above the corresponding amount for TRA is to be paid by the SPTRFA and MTRFA membership by additional payroll deductions for active members and by deductions from monthly benefits for the retirees. These assessments were added to law to help finance these two first class city teacher plans, and to make the membership aware of the inefficiencies and resulting high administrative expenses of these local teacher plans. In effect, the Legislature was saying that if the membership wished to remain in smaller, less efficient plans, the membership and not the taxpayer should cover the cost of the inefficiency.

Article 5 stems from the Office of the State Auditor's concern about the very high administrative expenses being incurred by the MPRA and MFRA. These expenses, shown with comparison to other plans in the two tables shown on page 12 of the State Auditor's Report (page 12 attached), indicate that these two organizations have administrative expenses greatly exceeding other plans, based on membership or assets. On a per-member basis, the MPRA in 2004 exceeded $800 per member, while the MFRA was close to $900 per member. In contrast, MSRS, PERA, and TRA had expenses of less than $100 per member, and in some cases, well under. On a percent of assets basis, the MFRA and MPRA expenses amounted to over 0.2 percent of assets, while the large plans (MSRS, PERA, and TRA) are all well under 0.1 percent of assets. The high expenses of MFRA and MPRA add to the contribution needs of these plans, which then absorbs more state aid and local contributions, and reduces the distributions to retirees that can be made through the 13th check.

One source of high administrative costs mentioned in the State Auditor Report is high legal fees. In 2004, MFRA spent $127,700 in legal fees while the MPRA spent $302,184. In contrast, the DTRFA spent $10,146, and MERF spent $9,321.

The MFRA and MPRA administrative expense assessments proposed in Article 5 are somewhat different than the corresponding provisions in existing law for the SPTRFA and MTRFA. The SPTRFA and MTRFA procedure is based on a percentage of payroll. That makes sense for open plans, but the MFRA and MPRA have been closed to new members since 1980. The MPRA has only a few active members remaining, while the MFRA has a few dozen. Soon neither plan will have active members and there will be no active member payroll. Therefore, the MFRA and MPRA provisions are based on average expenses of the total membership, where membership is defined to include all retired groups in addition to any active members. The organization used for comparison as the comparable plan is PERA-P&F. The MPRA and MFRA membership would be required to pay for any average administrative expenses in excess of PERA-P&F's corresponding amount. Also, the administrative assessment is based on all administrative expenses, without deduction for investment expenses as under the SPTRFA and MTRFA provisions. The reason is that there is no clear distinction between investment expenses and other administrative expenses, and attempts to draw these distinctions have been somewhat problematic with the MTRFA and SPTRFA provisions. Portions of staff salaries, office rent, utilities, and various other expenses are assigned to investment expenses, lowering the total administrative expenses used in the MTRFA and SPTRFA calculations. While some portion of these expenses is legitimately investment-related, the dividing line between these expenses and administrative expenses that are not investment-related is open to debate. A less controversial approach is to include all expenses in the calculations.

Policy Issues Raised by Article 5

1. Need for Change. The issue is whether an administrative expense assessment provision should be adopted for the MFRA and MPRA. The State Auditor has demonstrated that these organizations have excessive administrative expense and the State Auditor has requested that the Legislature consider adopting administrative expense assessments. There is no evidence apparent to outside parties that these organizations are willing to take measures to control their administrative costs. Administrative expense assessments, if effectively designed, would make the membership of these organizations pay for any excessive levels of administrative cost, and not the taxpayer.

2. Appropriate Comparison Plan. The issue is whether the draft uses the appropriate plan for comparison. The plan to which these organizations would compare their per-member costs is PERA-P&F, the statewide public safety plan.

3. Inclusion of Investment-Related Costs. The drafting includes all administrative costs of these organizations, including investment-related expenses. The SPTRFA and MTRFA administrative assessment provisions in existing law do not include investment expenses. Arguments for including investment-related expenses in the computations are that this inclusion provides a more complete and appropriate comparison, and that this inclusion avoids arguments about what is or is not properly classified as investment-related expenses.

Potential Amendments for Commission Consideration

LCPR06-020-A1 revises Article 1 (establishing SBI-like post funds for the first class city teacher plans) by capping increases in any given year at a percent to be specified, rather than at five percent. In considering this amendment, the Commission may wish to consider the degree to which it wishes to establish consistent caps across various plan systems. Later amendments discussed below would revise caps to be applicable to various other plans.

LCPR06-020-A2 revises Article 1 (establishing SBI-like post funds for the first class city teacher plans) by having any excess reserves created by action of the cap allocated in equal amounts, not to the next four years as proposed in the draft, but for a number of years to be determined by the Commission.

LCPR06-020-A3 revises Article 1 (establishing SBI-like post funds for the first class city teacher plans) by establishing these post funds at the same funding ratio as is applicable to SBI Post Fund. This corrects the initial problem of allowing quick payment of investment return-based post-retirement adjustments because those post funds are started with full funding. These organizations are placed on the same grounds as SBI. Delaying a prompt return to investment return-based adjustments may improve the funding situation by retaining more assets in the funds, creates more consistency between SBI-invested plans (MSRS, PERA, and TRA) and the first class city teacher plans, but could also raise benefit-takeaway concerns and possible litigation.

LCPR06-020-A4 revises the SBI Post Retirement adjustment mechanism, found in Article 2, by capping increases at some rate, to be determined by the Commission, other than five percent.

LCPR06-020-A5 revises the SBI Post Retirement adjustment mechanism, found in Article 2, by having any excess reserves created by action of the cap allocated in equal amounts, not to the next four years as proposed in the draft, but for a number of years to be determined by the Commission.

LCPR06-020-A6 revises the SBI Post Retirement adjustment mechanism, found in Article 2, by capping the full post-retirement increase at six percent, rather than five percent.

LCPR06-020-A7 revises the cap on MFRA and MPRA adjustments in any given year to a percent to be determined by the Commission, rather than five percent.

significantly underperformed. The worst performer was T. Rowe Price which returned only 11.6 percent compared to the benchmark of 20.4 percent. In the longer term SBI's international equity portfolio has performed well, with active management adding value. Hopefully, 2004 was an anomaly.

SBI has allocated a significant portion of assets to alternative investments. At the end of 2004, the Basic and Post Funds had 9.4 and 7.6 percent of assets in alternative investments, respectively. These investments include real estate, private equity, resources and yield-oriented investments. These investments have done well over all time periods going back 10 years, with the 2004 return being 22.7 percent. The SBI has not defined a benchmark for their alternative assets, but some would consider them an alternative to equity investments, therefore comparing them to returns available in equity markets. They have outperformed equity markets over the last 10 years. The SBI does have real expectations of a return of inflation plus a set percentage. Each category of alternative investments has exceeded its goal.

Conclusion and Recommendations

The large public pension funds examined in this report held assets totaling almost $44 billion at the end of 2004. This is nearly equivalent to the biennial budget of the state. Ensuring that these assets are properly managed is important to public employees both current and retired, and state and local officials. One aspect of the oversight role of the State Auditor regarding public pensions is to alert stakeholders to concerns regarding the management, policies, and investment strategies of these funds.

Our examination of these eight large public pension funds shows that there is considerable variance in terms of investment performance, funding ratios, and administrative costs. It is clear that political infighting and questionable investment strategies have contributed to the on-going funding problems of some of these pension funds. Funds that fail to generate adequate rates of returns put taxpayers, retirees, and public employees at risk. Policymakers need to address funding concerns now – waiting will only compound the problems.

Based on our analysis of these funds, the State Auditor makes the following recommendations:

- The present investment-based component of post-retirement benefit adjustments for the Duluth, Minneapolis, and St. Paul Teachers' Retirement Funds are hampering efforts to move these funds toward full funding. Currently, when funds achieve five-year annualized returns greater than 8.5 percent, the excess is used to provide retirees with a pension increase over the rate of inflation. These policies increase the long-term liabilities of the funds while decreasing current assets. We recommend that the Legislature amend the governing statutes of these funds so that the post-retirement benefit adjustments are in accordance with those of the Minnesota Teachers' Retirement Fund Association. The primary change would be to require that investment losses from prior periods be recovered before the investment-based portion of the increase could be triggered.

- The Legislature should adopt the SBI proposal made last legislative session that benefit increases based on investment returns be limited to a five percent increase per annum. This limitation on annual benefit increases should apply to all public pension plans including, PERA, TRA, MSRS, Minneapolis Fire, Minneapolis Police, Minneapolis

Teachers', Duluth Teachers', and St. Paul Teachers'. This recommendation would help reduce the adverse effects on funding ratios caused by large investment-based benefit increases.

- The Minneapolis Teachers' Retirement Fund Association is only 51 percent funded. Without prompt intervention to put this fund on the right track, it is at serious risk of failing. This has grave implications for all stakeholders in the fund. We recommend that the Legislature decide on a funding solution for the plan during the 2006 Legislative Session. Delaying a response will only increase the long-term costs.

- The State Board of Investment offers investment opportunities at a low cost. We recommend that plans that have high investment fees or have failed to meet their benchmarks consider using SBI to invest their assets.

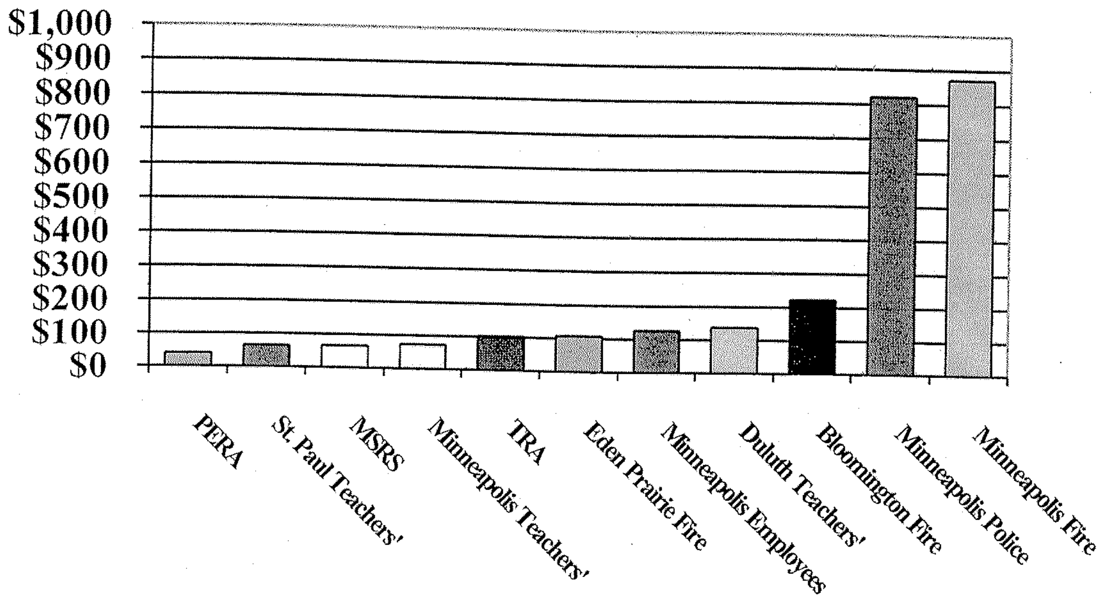
- When measured on a per member or percentage of assets basis, the administrative expenses of the Minneapolis Police and Fire Associations are too high. We recommend that a number of options are considered including:

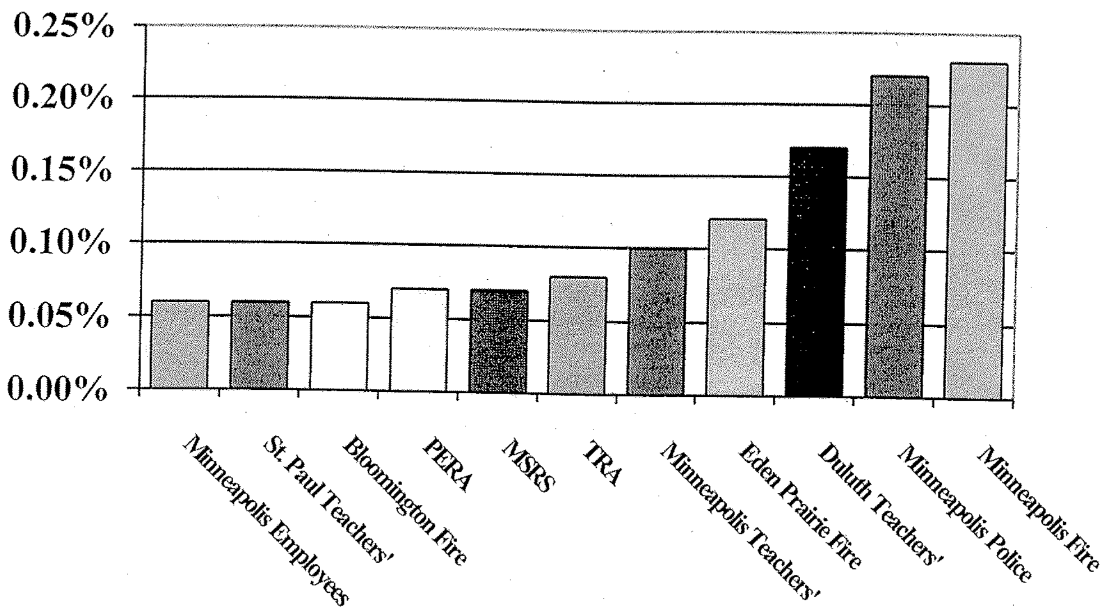
    1. Moving assets to the State Board of Investment.

    2. Consolidating the boards and/or management of the funds with MERF or PERA.

    3. Contracting with lower cost investment managers.

    4. Capping administrative expenses by enacting legislative language similar to Minn. Stat. § 354A.12, subd. 3d, that regulates the supplemental administrative expenses of local teacher plans.


Administrative Expenses Per Member - 2004
$1,000
$900
$800
$700
$600
$500
$400
$300
$200
$100
$0
PERA
St. Paul Teachers'
MSRS
Minneapolis Teachers'
TRA
Eden Prairie Fire
Minneapolis Employees
Duluth Teachers'
Bloomington Fire
Minneapolis Police
Minneapolis Fire


Administrative Expenses as a Percent of Assets - 2004
0.25%
0.20%
0.15%
0.10%
0.05%
0.00%
Minneapolis Employees
St. Paul Teachers'
Bloomington Fire
PERA
MSRS
TRA
Minneapolis Teachers'
Eden Prairie Fire
Duluth Teachers'
Minneapolis Police
Minneapolis Fire

Copyright 2005 by the Office of Revisor of Statutes, State of Minnesota.

Minnesota Statutes 2005, Table of Chapters

Table of contents for Chapter 11A

11A.18 Minnesota postretirement investment fund.

Subdivision 1. **Establishment.** There is hereby established a postretirement investment fund for the purpose of providing an investment vehicle for the reserves for various retirement annuities and benefits payable by the participating retirement funds and plans. The postretirement investment fund shall be a continuation of the Minnesota adjustable fixed benefit fund in existence on January 1, 1980.

Subd. 2. **Assets.** The assets of the postretirement investment fund shall consist of the money representing the reserves for various retirement annuities and benefits payable by participating retirement funds and plans which have been certified to and received by the state board from the participating public retirement funds and plans.

Subd. 3. **Management.** The postretirement investment fund shall be managed by the state board.

Subd. 4. **Investment.** The assets of the postretirement investment fund shall be invested by the state board subject to the provisions of section 11A.24.

Subd. 5. **Deferred yield adjustment account.** There is hereby established a deferred yield adjustment account which shall be increased by the sale or disposition of any debt securities at less than book value and shall be decreased by the sale or disposition of debt securities at more than book value. At the end of each fiscal year, a portion of the balance of this account shall be offset against the investment income for that year. The annual portion of the balance to be offset shall be proportional to the reciprocal of the average remaining life of the bonds sold, unless the amounts are offset by gains on the future sales of these securities. The amount of this account shall be included in the recognized value of assets other than corporate stocks and all other equity investments. In any fiscal year in which the gains on the sales of debt securities exceed the discounts realized on the sales of such securities, the excess shall be used to reduce the balance of the account. If the realized capital gains are sufficient to reduce the balance of the account to zero, any excess gains shall be available for the calculation of postretirement adjustments made according to subdivision 9.

Subd. 6. **Participating public retirement funds or plans; transfer of required reserves.** (a) Any public retirement fund or plan authorized by law to participate in the postretirement investment fund shall no later than the last business day of the month in which the benefit payment from the postretirement investment fund begins to accrue, certify and transfer to the state board money equal to the reserves required for those retirement annuities and benefits which are payable by the public retirement fund or plan and which are specified in law to be included in the participation in the fund as determined by or determined under a procedure specified by the actuary retained by the Legislative Commission on Pensions and Retirement.

(b) If the exact amount of the actuarially determined required reserves is not readily calculable on the required transfer date, the initial transfer must be based on the best estimate for the teachers retirement fund and the public employees retirement fund and may be based on the best estimate for the other participating funds. Any necessary adjustments based on specific calculations of actuarially determined required reserves must be made in later transfers. If a transfer is insufficient, the later transfer from the retirement fund must include interest on the amount of the required reserve insufficiency at the preretirement interest assumption for the retirement fund as specified in section 356.215, subdivision 8, stated as a monthly rate.

Interest on the amount of a required reserve insufficiency payable by a retirement fund shall be compounded on a monthly basis. No interest shall be payable from the postretirement investment fund in the event of a required reserve oversufficiency.

(c) The state board shall confirm in writing each

certification and transfer of money made by a participating public retirement fund or plan. Each participating public retirement fund or plan shall maintain adequate records to account for money transferred to or from the postretirement investment fund.

Subd. 7. **Participation and financial reporting in fund.** (a) Each participating public retirement fund or plan which has transferred money to the state board for investment in the postretirement investment fund shall have an undivided participation in the fund. The participation on any valuation date must be determined by adding to the participation on the prior valuation date:

(1) funds transferred in accordance with subdivision 6;

(2) the amount of required investment income on its participation as defined in subdivision 9, paragraph (c), clause (1); and

(3) the reserves for any benefit adjustment made as of the current valuation date with the result adjusted for any mortality gains or losses determined under subdivision 11.

(b) The total fair market value of the postretirement fund as of June 30 must be calculated in accordance with generally accepted accounting principles. The fair market value share of each fund participating in the postretirement investment fund must be allocated by adding to the fair market value at the beginning of the fiscal year:

(1) 100 percent of the funds transferred in accordance with subdivision 6; and

(2) a pro rata distribution of unrealized gains or losses, based on a weighted percentage of participation at the end of each month of the fiscal year.

Subd. 8. **Withdrawal of money.** Upon certification by the applicable executive director that a portion of the certified money representing the required reserves for various retirement annuities or benefits payable from the participating public retirement fund or plan are required for the payment of a retirement annuity or benefit, the state board shall sell sufficient securities or transfer sufficient available cash to equal the amount of money certified as required and shall order the transfer of that amount to the appropriate executive director.

Subd. 9. **Calculation of postretirement adjustment.** (a) Annually, following June 30, the state board shall use the procedures in paragraphs (b), (c), and (d) to determine whether a postretirement adjustment is payable and to determine the amount of any postretirement adjustment.

(b) If the Consumer Price Index for urban wage earners and clerical workers all items index published by the Bureau of Labor Statistics of the United States Department of Labor increases from June 30 of the preceding year to June 30 of the current year, the state board shall certify the percentage increase. The amount certified must not exceed the lesser of the difference between the preretirement interest assumption and postretirement interest assumption in section 356.215, subdivision 8, paragraph (a), or 2.5 percent. For the Minneapolis Employees Retirement Fund, the amount certified must not exceed 3.5 percent.

(c) In addition to any percentage increase certified under paragraph (b), the board shall use the following procedures to determine if a postretirement adjustment is payable under this paragraph:

(1) The state board shall determine the market value of the fund on June 30 of that year;

(2) The amount of reserves required for the annuity or benefit payable to an annuitant and benefit recipient of the participating public pension plans or funds must be determined by the commission-retained actuary as of the current June 30. An annuitant or benefit recipient who has been receiving an annuity or benefit for at least 12 full months as of the current June 30 is eligible to receive a full postretirement adjustment. An annuitant or benefit recipient who has been receiving an annuity or benefit for at least one full month, but less than 12 full months as of the current June 30, is eligible to receive a partial postretirement adjustment. Each fund shall report separately the amount of the reserves for those annuitants and benefit recipients who are eligible to receive a full postretirement benefit adjustment. This amount is known as "eligible reserves." Each fund shall also report separately the amount of the reserves for those annuitants and benefit

recipients who are not eligible to receive a postretirement adjustment. This amount is known as "noneligible reserves." For an annuitant or benefit recipient who is eligible to receive a partial postretirement adjustment, each fund shall report separately as additional "eligible reserves" an amount that bears the same ratio to the total reserves required for the annuitant or benefit recipient as the number of full months of annuity or benefit receipt as of the current June 30 bears to 12 full months. The remainder of the annuitant's or benefit recipient's reserves must be separately reported as additional "noneligible reserves." The amount of "eligible" and "noneligible" required reserves must be certified to the board by the commission-retained actuary as soon as is practical following the current June 30;

(3) The state board shall determine the percentage increase certified under paragraph (b) multiplied by the eligible required reserves, as adjusted for mortality gains and losses under subdivision 11, determined under clause (2);

(4) The state board shall add the amount of reserves required for the annuities or benefits payable to annuitants and benefit recipients of the participating public pension plans or funds as of the current June 30 to the amount determined under clause (3);

(5) The state board shall subtract the amount determined under clause (4) from the market value of the fund determined under clause (1);

(6) The state board shall adjust the amount determined under clause (5) by the cumulative current balance determined pursuant to clause (8) and any negative balance carried forward under clause (9);

(7) A positive amount resulting from the calculations in clauses (1) to (6) is the excess market value. A negative amount is the negative balance;

(8) The state board shall allocate one-fifth of the excess market value or one-fifth of the negative balance to each of five consecutive years, beginning with the fiscal year ending the current June 30; and

(9) To calculate the postretirement adjustment under this paragraph based on investment performance for a fiscal year, the state board shall add together all excess market value allocated to that year and subtract from the sum all negative balances allocated to that year. If this calculation results in a negative number, the entire negative balance must be carried forward and allocated to the next year. If the resulting amount is positive, a postretirement adjustment is payable under this paragraph. The board shall express a positive amount as a percentage of the total eligible required reserves certified to the board under clause (2).

(d) The state board shall determine the amount of any postretirement adjustment which is payable using the following procedure:

(1) The total "eligible" required reserves as of the first of January next following the end of the fiscal year for the annuitants and benefit recipients eligible to receive a full or partial postretirement adjustment as determined by clause (2) must be certified to the state board by the commission-retained actuary. The total "eligible" required reserves must be determined by the commission-retained actuary on the assumption that all annuitants and benefit recipients eligible to receive a full or partial postretirement adjustment will be alive on the January 1 in question; and

(2) The state board shall add the percentage certified under paragraph (b) to any positive percentage calculated under paragraph (c). The board shall not subtract from the percentage certified under paragraph (b) any negative amount calculated under paragraph (c). The sum of these percentages must be carried to five decimal places and must be certified to each participating public pension fund or plan as the full postretirement adjustment percentage.

(e) A retirement annuity payable in the event of retirement before becoming eligible for Social Security benefits as provided in section 352.116, subdivision 3; 353.29, subdivision 6; or 354.35 must be treated as the sum of a period certain retirement annuity and a life retirement annuity for the purposes of any postretirement adjustment. The period certain retirement annuity plus the life retirement annuity must be the annuity amount payable until age 62 or 65, whichever applies. A postretirement adjustment granted on the period certain retirement annuity must terminate when the period certain retirement annuity terminates.

Subd. 10. **Payment of postretirement adjustment.** Upon receiving the certification of the amount of the full postretirement adjustment from the state board, each participating public pension fund or plan shall determine the amount of the postretirement adjustment payable to each eligible annuitant and benefit recipient. The dollar amount of the postretirement adjustment shall be calculated by applying the certified postretirement adjustment percentage to the amount of the monthly annuity or benefit payable to each eligible annuitant or benefit recipient eligible for a full adjustment.

The dollar amount of the partial postretirement adjustment payable to each annuitant or benefit recipient eligible for a partial adjustment shall be calculated by first determining a partial percentage amount that bears the same ratio to the certified full adjustment percentage amount as the number of full months of annuity or benefit receipt as of the current June 30 bears to 12 full months. The partial percentage amount determined shall then be applied to the amount of the monthly annuity or benefit payable to each annuitant or benefit recipient eligible to receive a partial postretirement adjustment. The postretirement adjustments shall commence to be paid on January 1 following the calculations required pursuant to this section and shall thereafter be included in the monthly annuity or benefit paid to the recipient. Any adjustments pursuant to this section shall be paid automatically unless the intended recipient files a written notice with the applicable participating public pension fund or plan requesting that the adjustment not be paid.

Subd. 11. **Adjustment for mortality gains and losses.** As of June 30 annually, the commission-retained actuary shall calculate the amount of required reserves representing any mortality gains and any mortality losses incurred by each participating public pension fund or plan during the fiscal year and report the results of those calculations to the applicable participating public pension fund or plan. The actuary shall report separately the amount of the reserves for annuitants and benefit recipients who are eligible for a postretirement benefit adjustment and the amount of reserves for annuitants and benefit recipients who are not eligible for a postretirement benefit adjustment. If the net amount of required reserves represents a mortality gain, the participating public pension fund or plan shall certify that amount to the state board, which shall sell sufficient securities or transfer sufficient available cash to equal the amount of money certified. If the amount of required reserves represents a mortality loss, the participating public pension fund or plan shall transfer to the state board an amount equal to the amount of the net mortality loss. The amount of the transfers shall be determined before any postretirement benefit adjustments have been made. All transfers resulting from mortality adjustments shall be completed annually by December 31 for the preceding June 30. Interest shall be charged or credited on any transfers after December 31 based upon the preretirement interest assumption for the participating plan or fund as specified in section 356.215, subdivision 8, stated as a monthly rate. Book values of the assets of the fund for the purposes of subdivision 9 shall be determined only after all adjustments for mortality gains and losses for the fiscal year have been made.

Subd. 12. **Appropriation of required amounts.** All money necessary to meet the requirements of the certification of withdrawals and all money necessary to pay postretirement adjustments pursuant to this section are hereby and from time to time appropriated from the postretirement investment fund to the state board.

HIST: 1980 c 607 art 14 s 16; 1981 c 208 s 2; 1982 c 424 s 1; 1983 c 324 s 4-6; 1987 c 259 s 3-5; 1989 c 319 art 14 s 1,2; 1990 c 570 art 9 s 1; 1992 c 530 s 1; 1992 c 539 s 8; 1994 c 604 art 1 s 6; 1995 c 186 s 6; 1997 c 233 art 1 s 5; 1Sp2001 c 10 art 3 s 2; 2002 c 392 art 11 s 52

Subd. 3d. **Supplemental administrative expense assessment.** (a) The active and retired membership of the Minneapolis Teachers Retirement Fund Association and of the St. Paul Teachers Retirement Fund Association is responsible for defraying supplemental administrative expenses other than investment expenses of the respective teacher retirement fund association.

(b) Investment expenses of the teachers retirement fund association are those expenses incurred by or on behalf of the retirement fund in connection with the investment of the assets of the retirement fund other than investment security transaction costs. Other administrative expenses are all expenses incurred by or on behalf of the retirement fund for all other retirement fund functions other than the investment of retirement fund assets. Investment and other administrative expenses must be accounted for using generally accepted accounting principles and in a manner consistent with the comprehensive annual financial report of the teachers retirement fund association for the immediately previous fiscal year under section 356.20.

(c) Supplemental administrative expenses other than investment expenses of a first class city teacher retirement fund association are those expenses for the fiscal year that:

(1) exceed, for the St. Paul Teachers Retirement Fund Association $443,745, or for the Minneapolis Teacher Retirement Fund Association $671,513, plus, in each case, an additional amount derived by applying the percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers All Items Index published by the Bureau of Labor Statistics of the United States Department of Labor since July 1, 2001, to the applicable dollar amount; and

(2) exceed the amount computed by applying the most recent percentage of pay administrative expense amount, other than investment expenses, for the teachers retirement association governed by chapter 354 to the covered payroll of the respective teachers retirement fund association for the fiscal year.

(d) The board of trustees of each first class city teachers retirement fund association shall allocate the total dollar amount of supplemental administrative expenses other than investment expenses determined under paragraph (c), clause (2), among the various active and retired membership groups of the teachers retirement fund association and shall assess the various membership groups their respective share of the supplemental administrative expenses other than investment expenses, in amounts determined by the board of trustees. The supplemental administrative expense assessments must be paid by the membership group in a manner determined by the board of trustees of the respective teachers retirement association. Supplemental administrative expenses payable by the active members of the pension plan must be picked up by the employer in accordance with section 356.62.

(e) With respect to the St. Paul Teachers Retirement Fund Association, the supplemental administrative expense assessment must be fully disclosed to the various active and retired membership groups of the teachers retirement fund association. The chief administrative officer of the St. Paul Teachers Retirement Fund Association shall prepare a supplemental administrative expense assessment disclosure notice, which must include the following:

(1) the total amount of administrative expenses of the St. Paul Teachers Retirement Fund Association, the amount of the investment expenses of the St. Paul Teachers Retirement Fund Association, and the net remaining amount of administrative expenses of the St. Paul Teachers Retirement Fund Association;

(2) the amount of administrative expenses for the St. Paul Teachers Retirement Fund Association that would be equivalent to the teachers retirement association noninvestment administrative expense level described in paragraph (c);

(3) the total amount of supplemental administrative expenses required for assessment calculated under paragraph (c);

(4) the portion of the total amount of the supplemental administrative expense assessment allocated to each membership group and the rationale for that allocation;

(5) the manner of collecting the supplemental administrative expense assessment from each membership group, the number of assessment payments required during the year, and the amount of each payment or the procedure used to determine each payment; and

(6) any other information that the chief administrative

officer determines is necessary to fairly portray the manner in which the supplemental administrative expense assessment was determined and allocated.

(f) The disclosure notice must be provided annually in the annual report of the association.

(g) The supplemental administrative expense assessments must be deposited in the applicable teachers retirement fund upon receipt.

(h) Any omitted active membership group assessments that remain undeducted and unpaid to the teachers retirement fund association for 90 days must be paid by the respective school district. The school district may recover any omitted active membership group assessment amounts that it has previously paid. The teachers retirement fund association shall deduct any omitted retired membership group assessment amounts from the benefits next payable after the discovery of the omitted amounts.

Copyright 2005 by the Office of Revisor of Statutes, State of Minnesota.

Minnesota Statutes 2005, Table of Chapters

Table of contents for Chapter 354A

354A.27 Duluth Teachers Retirement Fund Association; postretirement adjustment mechanism.

Subdivision 1. **Postretirement adjustment modification.** Any postretirement adjustment payable from the Duluth Teachers Retirement Fund Association must be computed and paid according to this section.

Subd. 2. Repealed, 1995 c 262 art 2 s 14

Subd. 3. Repealed, 1995 c 262 art 2 s 14

Subd. 4. Repealed, 1995 c 262 art 2 s 14

Subd. 5. **Calculation of postretirement adjustments.** (a) Annually, after June 30, the board of trustees determines the amount of any postretirement adjustment using the procedures in this subdivision and subdivision 6.

(b) Each person who has been receiving an annuity or benefit under the articles of incorporation, bylaws, or under this section for at least 12 months as of the date of the postretirement adjustment shall be eligible for a postretirement adjustment. The postretirement adjustment shall be payable each January 1. The postretirement adjustment shall be equal to two percent of the annuity or benefit to which the person is entitled one month prior to the payment of the postretirement adjustment.

Subd. 6. **Additional increase.** (a) In addition to the postretirement increases granted under subdivision 5, an additional percentage increase must be computed and paid under this subdivision.

(b) The board of trustees shall determine the number of annuitants or benefit recipients who have been receiving an annuity or benefit for at least 12 months as of the current June 30. These recipients are entitled to receive the surplus investment earnings additional postretirement increase.

(c) Annually, as of each June 30, the board shall determine the five-year annualized rate of return attributable to the assets of the Duluth Teachers Retirement Fund Association under the formula or formulas specified in section 11A.04, clause (11).

(d) The board shall determine the amount of excess five-year annualized rate of return over the preretirement interest assumption as specified in section 356.215.

(e) The additional percentage increase must be determined by multiplying the quantity one minus the rate of contribution deficiency, as specified in the most recent actuarial report of the actuary retained by the legislative commission on pensions and retirement, times the rate of return excess as determined in paragraph (d).

(f) The additional increase is payable to all eligible annuitants or benefit recipients on the following January 1.

HIST: 1992 c 403 s 1; 1995 c 262 art 2 s 3-5

Copyright 2005 by the Office of Revisor of Statutes, State of Minnesota.

Minnesota Statutes 2005, Table of Chapters

Table of contents for Chapter 354A

354A.28 Modification in Minneapolis Teachers Retirement Fund Association postretirement adjustment.

Subdivision 1. **Postretirement adjustment modification.** Any postretirement adjustment payable from the Minneapolis Teachers Retirement Fund Association after June 1, 1993, must be modified as provided in this section.

Subd. 2. **Establishment.** The Minneapolis Teachers Retirement Fund Association shall establish an annuity reserve fund for providing an investment vehicle for the reserves for various retirement annuities and benefits payable by the fund.

Subd. 3. **Assets.** The assets of the annuity reserve fund consist of the money representing the actuarially determined required reserves for various retirement annuities and benefits payable by the Minneapolis Teachers Retirement Fund Association.

Subd. 4. **Management.** The Minneapolis Teachers Retirement Fund Association annuity reserve fund must be managed by the board of trustees of the Minneapolis Teachers Retirement Fund Association.

Subd. 5. **Investment.** The assets of the annuity reserve fund must be invested, reinvested, and retained in the discretion of the board of trustees of the Minneapolis Teachers Retirement Fund Association in authorized investments under section 11A.24.

Subd. 6. **Allocation of assets.** No later than the last business day of the month in which the benefit payment begins, the board of trustees of the Minneapolis Teachers Retirement Fund Association shall determine the reserves to be allocated to the respective annuity reserve fund in the following manner:

(1) the present value of the benefit payable to the annuitant or benefit recipient must be determined using the postretirement earnings assumptions specified for the first class city teachers retirement funds in section 356.215, and the mortality table applicable to the fund; and

(2) the amount determined in clause (1) must be multiplied by the funding ratio of the teachers retirement fund association determined for the previous fiscal year end, and the product must be identified as the amount allocated to the annuity reserve fund.

Subd. 7. **Withdrawal of money.** If the executive director of the Minneapolis Teachers Retirement Fund Association concludes that money is required for the payment of retirement annuities or benefits, the executive director shall sell sufficient securities in the reserve fund or transfer available cash to pay benefits.

Subd. 8. **Calculation of postretirement adjustments.** (a) Annually, after June 30, the board of trustees of the Minneapolis Teachers Retirement Fund Association shall use the procedures in this subdivision and subdivision 9 to determine the amount of any postretirement adjustment. The authority to pay the automatic two percent annual postretirement increase as specified in the articles and bylaws continues.

Subd. 9. **Additional increase.** (a) In addition to the postretirement increases granted under subdivision 8, an additional percentage increase must be computed and paid under this subdivision.

(b) The board of trustees shall determine the number of annuities or benefit recipients who have been receiving an annuity or benefit for at least 12 months as of the current June 30. These recipients are entitled to receive the surplus investment earnings additional postretirement increase.

(c) Annually, on June 30, the board of trustees of the teachers retirement fund association shall determine the amount of reserves in the annuity reserve fund as specified in subdivision 6.

(d) Annually, on June 30, the board of trustees of the Minneapolis Teachers Retirement Fund Association shall determine the five-year annualized rate of return attributable to the assets in the annuity reserve fund under the formula or formulas specified in section 11A.04, clause (11).

(e) The board of trustees shall determine the amount of excess five-year annualized rate of return over the preretirement interest assumption as specified in section 356.215.

(f) The additional increase must be determined by multiplying the quantity one minus the rate of contribution deficiency, as specified in the most recent actuarial report of the actuary retained by the legislative commission on pensions and retirement, times the rate of return excess as determined in paragraph (e).

(g) The additional increase is payable to all eligible annuitants or benefit recipients on January 1 following the June 30 determination date under paragraphs (c) and (d).

HIST: 1993 c 357 s 7

Copyright 2005 by the Office of Revisor of Statutes, State of Minnesota.

Minnesota Statutes 2005, Table of Chapters

Table of contents for Chapter 354A

354A.29 St. Paul Teachers Retirement Fund Association postretirement adjustment.

Subdivision 1. **Articles of incorporation and bylaws.** Permission is granted for the St. Paul Teachers Retirement Fund Association under Minnesota Statutes, section 354A.12, subdivision 4, to amend its articles of incorporation and bylaws to provide postretirement adjustments under this section.

Subd. 2. **Elimination of prior lump sum postretirement adjustment mechanism.** As a condition precedent to the implementation of subdivisions 3 to 6, the lump sum postretirement adjustment mechanism in effect on July 1, 1997, must be eliminated and the articles of incorporation and bylaws of the association must be amended accordingly.

Subd. 3. **Postretirement adjustment.** (a) The postretirement adjustment described in the articles and bylaws of the St. Paul Teachers Retirement Fund Association must be determined by the board annually after June 30 using the procedures under this section.

(b) Each eligible person who has been receiving an annuity or benefit under the articles of incorporation, the bylaws, or this chapter for at least 12 months as of the end of the fiscal year is eligible to receive a postretirement adjustment of 2.0 percent that is payable each January 1.

Subd. 4. **Additional investment percentage adjustment.** (a) An excess investment earnings percentage adjustment must be computed and paid under this subdivision to those annuitants and eligible benefit recipients who have been receiving an annuity or benefit for at least 12 months as determined each June 30 by the board of trustees.

(b) The board shall also determine the five-year annualized rate of return attributable to the assets of the St. Paul Teachers Retirement Fund Association under the formula specified in section 11A.04, clause (11), and the amount of the excess five-year annualized rate of return over the preretirement interest assumption specified in section 356.215.

(c) The excess investment percentage adjustment must be determined by multiplying the quantity one minus the rate of contribution deficiency, as specified in the most recent actuarial report of the actuary retained by the Legislative Commission on Pensions and Retirement under section 356.215, by the rate of return excess as determined in paragraph (b).

(d) The excess investment percentage adjustment is payable to all annuitants and benefit recipients on the following January 1.

Subd. 5. **Effect on annuity.** The adjustments calculated under subdivisions 3 and 4 must be included in all annuities or benefits paid to the recipient after the adjustments take effect.

Subd. 6. **Lump sum postretirement adjustment transition.** This subdivision applies to all annuitants and beneficiaries of the association who received a lump sum postretirement adjustment before the calculation of the first postretirement adjustment under subdivisions 3 and 4. Before the calculation of the first postretirement adjustment under subdivisions 3 and 4, the annual retirement annuity must be increased by the amount of the lump sum postretirement adjustment described in the association bylaws and paid to the annuitant or beneficiary in 1997 before July 1, 1997, or if the annuitant or beneficiary was not eligible for a lump sum postretirement adjustment, then the annual benefit paid to that annuitant or benefit recipient must be increased by the cumulative percentage increase in the Consumer Price Index for urban wage earners and clerical workers All Items Index published by the United States Department of Labor, Bureau of Labor Statistics, from the date of the initial receipt of a retirement annuity or benefit of the person whose service is the basis of the benefit to June 30, 1997.

HIST: 1997 c 233 art 3 s 7

1.1 .... moves to amend Document LCPR06-020 as follows:

1.2 Page 4, line 20, delete "five" and insert "....."

1.1 .... moves to amend Document LCPR06-020 as follows:

1.2 Page 4, line 23, delete "four" and insert "....."

1.1 .... moves to amend Document LCPR06-020 as follows:

1.2 Page 6, line 1, after "date" insert ", multiplied by the accrued liability funding ratio
1.3 of the State Board of Investment postretirement fund based on the most recent available
1.4 information"

1.5 Page 6, line 5, delete "fully"

1.1 .... moves to amend Document LCPR06-020 as follows:

1.2 Page 9, line 2, delete "five" and insert "...."

1.1 .... moves to amend Document LCPR06-020 as follows:

1.2 Page 9, line 6, delete "four" and insert "....."

1.1 .... moves to amend Document LCPR06-020 as follows:

1.2 Page 9, line 2, after "percent" insert ", except that the full postretirement adjustment
1.3 percentage certified to the Minneapolis Employees Retirement Fund must not exceed six
1.4 percent"

1.1 .... moves to amend Document LCPR06-020 as follows:

1.2 Page 9, lines 18 and 22, delete "five" and insert "....."

1.1 A bill for an act
1.2 relating to retirement; first class city teacher plans, Minneapolis Employees
1.3 Retirement Fund, Minneapolis fire and police relief associations, Minnesota State
1.4 Retirement System, Public Employees Retirement Association, and Teachers
1.5 Retirement Association; capping total annual postretirement adjustments at five
1.6 percent in all plans; requiring first class city teacher plans to recover losses prior
1.7 to paying investment-related increases and creating postretirement investment
1.8 funds; authorizing first class city teacher plans and the Minneapolis Employees
1.9 Retirement Fund to invest in the State Board of Investment supplemental funds;
1.10 establishing administrative expense assessments for Minneapolis fire and
1.11 police relief associations; amending Minnesota Statutes 2004, sections 11A.18,
1.12 subdivision 9; 354A.08; 354A.12, subdivision 3a; 422A.05, subdivision 2c;
1.13 proposing coding for new law in Minnesota Statutes, chapters 354A; 423B;
1.14 423C; repealing Minnesota Statutes 2004, sections 354A.27; 354A.28; 354A.29.

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

1.16 **ARTICLE 1**

1.17 **REQUIRING FIRST CLASS CITY TEACHER PLANS TO RECOVER**
1.18 **LOSSES PRIOR TO PAYMENT OF RETIREMENT INCREASES;**
1.19 **CAPPING INCREASES AT FIVE PERCENT**

1.20 Section 1. **[354A.25] FIRST CLASS CITY TEACHER PLANS;**
1.21 **POSTRETIREMENT INVESTMENT FUND.**

1.22 Subdivision 1. **Application.** This section applies to the Duluth Teachers Retirement
1.23 Fund Association, the Minneapolis Teachers Retirement Fund Association, and the St.
1.24 Paul Teachers Retirement Fund Association.

1.25 Subd. 2. **Establishment.** The applicable association shall establish a postretirement
1.26 investment fund for the purpose of providing an investment vehicle for the reserves for
1.27 various retirement annuities and benefits payable by the association's retirement funds
1.28 and plans.

2.1 Subd. 3. **Assets.** The assets of the postretirement investment fund shall consists of
2.2 the money representing the reserves for various retirement annuities and benefits payable
2.3 by the association's retirement funds and plans which have been certified by the board.
2.4 Subd. 4. **Management.** The postretirement investment fund shall be managed
2.5 by the board.
2.6 Subd. 5. **Transfer of required reserves.** (a) The board shall no later than the
2.7 last business day of the month in which the benefit payment from the postretirement
2.8 investment fund begins to accrue, certify and transfer to the postretirement fund, assets
2.9 equal to the full actuarial required reserves for those retirement annuities and benefits
2.10 which are payable by the fund or plan and which are specified in law or bylaw. These full
2.11 actuarial reserves are to be computed using the postretirement interest rate assumption
2.12 under section 356.215, subdivision 8, and all other relevant economic and demographic
2.13 actuarial assumptions applicable to the plan, determined by or determined under a
2.14 procedure specified by the actuary retained under section 356.214.
2.15 (b) If the exact amount of the actuarially determined required reserves is not
2.16 readily calculable on the required transfer date, the initial transfer must be based on the
2.17 best estimate. Any necessary adjustments based on specific calculations of actuarially
2.18 determined required reserves must be made in later transfers. If a transfer is insufficient,
2.19 the later transfer to the postretirement fund must include interest on the amount of the
2.20 required reserve insufficiency at the preretirement interest assumption for the retirement
2.21 fund as specified in section 356.215, subdivision 8, stated and compounded as a monthly
2.22 rate. No interest shall be payable from the postretirement investment fund in the event of a
2.23 required reserve oversufficiency.
2.24 (c) The board shall maintain adequate records to account for money or other
2.25 financial assets transferred to or from the postretirement investment fund.
2.26 Subd. 6. **Calculation of postretirement adjustment.** (a) Annually, following
2.27 June 30, the applicable board shall use the procedures in paragraphs (b), (c), and (d) to
2.28 determine whether a postretirement adjustment is payable and to determine the amount of
2.29 any postretirement adjustment.
2.30 (b) Each person who has been receiving an annuity or benefit under the articles of
2.31 incorporation, bylaws, or law, whichever is applicable, for at least 12 months as of the
2.32 date of the postretirement adjustment shall be eligible for a postretirement adjustment.
2.33 The postretirement adjustment shall be payable each January 1 and shall be equal to two
2.34 percent of the annuity or benefit to which the person is entitled one month prior to the
2.35 payment of the postretirement adjustment. This percentage increase shall be certified
2.36 by the applicable board.

3.1 (c) In addition to any percentage increase certified under paragraph (b), the board
3.2 shall use the following procedures to determine if a postretirement adjustment is payable
3.3 under this paragraph:
3.4 (1) The board shall determine the market value of the fund on June 30 of that year;
3.5 (2) The amount of reserves required for the annuity or benefit payable to an annuitant
3.6 and benefit recipient of the applicable pension plan or fund must be determined by the
3.7 actuary retained under section 356.214 as of the current June 30. An annuitant or benefit
3.8 recipient who has been receiving an annuity or benefit for at least 12 full months as of the
3.9 current June 30 is eligible to receive a postretirement adjustment under this paragraph, if
3.10 payable. Each fund shall report separately the amount of the reserves for those annuitants
3.11 and benefit recipients who are eligible to receive a postretirement benefit adjustment. This
3.12 amount is known as "eligible required reserves." Each fund shall also report separately
3.13 the amount of the reserves for those annuitants and benefit recipients who are not eligible
3.14 to receive a postretirement adjustment. This amount is known as "noneligible required
3.15 reserves." The amount of eligible and noneligible required reserves must be certified to
3.16 the board by the actuary retained under section 356.214 as soon as is practical following
3.17 the current June 30;
3.18 (3) The board shall determine the percentage increase certified under paragraph (b)
3.19 multiplied by the eligible required reserves, as adjusted for mortality gains and losses
3.20 under subdivision 8, determined under clause (2);
3.21 (4) The board shall add the amount of reserves required for the annuities or benefits
3.22 payable to annuitants and benefit recipients of the applicable pension plan or fund as of
3.23 the current June 30 to the amount determined under clause (3);
3.24 (5) The board shall subtract the amount determined under clause (4) from the market
3.25 value of the fund determined under clause (1);
3.26 (6) The board shall adjust the amount determined under clause (5) by the cumulative
3.27 current balance determined under clause (8) and any negative balance carried forward
3.28 under clause (9);
3.29 (7) A positive amount resulting from the calculations in clauses (1) to (6) is the
3.30 excess market value. A negative amount is the negative balance;
3.31 (8) The board shall allocate one-fifth of the excess market value or one-fifth of the
3.32 negative balance to each of five consecutive years, beginning with the fiscal year ending
3.33 the current June 30; and
3.34 (9) To calculate the postretirement adjustment under this paragraph based on
3.35 investment performance for a fiscal year, the board shall add together all excess market
3.36 value allocated to that year and subtract from the sum all negative balances allocated to

4.1 that year. If this calculation results in a negative number, the entire negative balance must
4.2 be carried forward and allocated to the next year. If the resulting amount is positive, a
4.3 postretirement adjustment is payable under this paragraph. The board shall express a
4.4 positive amount as a percentage of the total eligible required reserves certified to the
4.5 board under clause (2).

4.6 (d) The board shall determine the amount of any postretirement adjustment which
4.7 is payable using the following procedure:

4.8 (1) The total eligible required reserves as of the first of January next following
4.9 the end of the fiscal year for the annuitants and benefit recipients eligible to receive a
4.10 postretirement adjustment as determined by clause (2) must be certified to the board by
4.11 the actuary retained under section 356.214. The total eligible required reserves must be
4.12 determined by that actuary on the assumption that all annuitants and benefit recipients
4.13 eligible to receive a postretirement adjustment will be alive on the January 1 in question;
4.14 and

4.15 (2) The board shall add the percentage certified under paragraph (b) to any positive
4.16 percentage calculated under paragraph (c). The board shall not subtract from the
4.17 percentage certified under paragraph (b) any negative amount calculated under paragraph
4.18 (c). The sum of these percentages must be carried to five decimal places and must be
4.19 certified to the applicable pension fund or plan as the full postretirement adjustment
4.20 percentage. The full postretirement adjustment percentage must not exceed five percent.
4.21 Eligible required reserves, if any, in excess of amounts needed due to the maximum
4.22 permitted full postretirement adjustment percentage are declared to be excess reserves and
4.23 must be allocated in equal amounts to each of the next four years.

4.24 (e) If plan law allows for a retirement annuity prior to becoming eligible for Social
4.25 Security benefits which is then revised at the time of Social Security eligibility, the annuity
4.26 must be treated as the sum of a period certain retirement annuity and a life retirement
4.27 annuity for the purposes of any postretirement adjustment. The period certain retirement
4.28 annuity plus the life retirement annuity must be the annuity amount payable until age 62
4.29 or 65, whichever applies. A postretirement adjustment granted on the period certain
4.30 retirement annuity must terminate when the period certain retirement annuity terminates.

4.31 Subd. 7. **Payment of postretirement adjustment.** (a) Upon certification of the
4.32 amount of the full postretirement adjustment, the applicable board shall determine the
4.33 amount of the postretirement adjustment payable to each eligible annuitant and benefit
4.34 recipient. The dollar amount of the postretirement adjustment shall be calculated by
4.35 applying the certified postretirement adjustment percentage to the amount of the monthly

5.1 annuity or benefit payable to each eligible annuitant or benefit recipient eligible for an
5.2 adjustment.

5.3 (b) The postretirement adjustments shall commence to be paid on January 1
5.4 following the calculations required under this section and shall thereafter be included in
5.5 the monthly annuity or benefit paid to the recipient. Any adjustments under this section
5.6 shall be paid automatically unless the intended recipient files a written notice with the
5.7 applicable board requesting that the adjustment not be paid.

5.8 Subd. 8. **Adjustment for mortality gains and losses.** As of June 30 annually,
5.9 the actuary retained under section 356.214 shall calculate the amount of required
5.10 reserves representing any mortality gains and any mortality losses incurred by each
5.11 applicable public pension fund or plan during the fiscal year and report the results of those
5.12 calculations to the applicable plan administration. The actuary shall report separately
5.13 the amount of the reserves for annuitants and benefit recipients who are eligible for a
5.14 postretirement benefit adjustment and the amount of reserves for annuitants and benefit
5.15 recipients who are not eligible for a postretirement benefit adjustment. If the net amount
5.16 of required reserves represents a mortality gain for the plan's fund, the board shall sell
5.17 sufficient securities or transfer sufficient available cash from the postretirement investment
5.18 fund to equal the amount of gain determined by the actuary. If the amount of required
5.19 reserves represents a mortality loss, the plan administration shall transfer to the applicable
5.20 postretirement fund an amount equal to the amount of the net mortality loss. The amount
5.21 of the transfers shall be determined before any postretirement benefit adjustments have
5.22 been made. All transfers resulting from mortality adjustments shall be completed annually
5.23 by December 31 for the preceding June 30. Interest shall be charged or credited on any
5.24 transfers after December 31 based upon the preretirement interest assumption for the
5.25 applicable plan or fund as specified in section 356.215, subdivision 8, stated as a monthly
5.26 rate. Book values of the assets of the postretirement investment fund for the purposes of
5.27 subdivision 6 shall be determined only after all adjustments for mortality gains and losses
5.28 for the fiscal year have been made.

5.29 Sec. 2. **CREATION OF POSTRETIREMENT INVESTMENT FUND.**

5.30 (a) Consistent with section 1, on June 30, 2006, the Duluth Teachers Retirement
5.31 Fund Association, the Minneapolis Teachers Retirement Fund Association, and the St.
5.32 Paul Teachers Retirement Fund Association shall create a postretirement investment
5.33 fund, initially funded by a transfer of assets from the applicable association's existing
5.34 fund to the newly created postretirement investment fund, in an amount equal to the full
5.35 actuarial required reserves for the association's existing annuitants and benefit recipients

6.1 as of that date. The amount is to be computed by the actuary retained under Minnesota
6.2 Statutes, section 356.214, using the postretirement interest rate assumption applicable to
6.3 the plan under Minnesota Statutes, section 356.215, subdivision 8, and other applicable
6.4 demographic and economic assumptions for the plan.

6.5 (b) If a teachers retirement fund association has insufficient assets to fully fund
6.6 its postretirement investment fund, as required under paragraph (a), that association
6.7 shall not provide any increase to its plan annuitants and benefit recipients other than
6.8 the automatic two percent increase provided under section 1 of this article, until that
6.9 association has sufficient actuarially determined required reserves in its postretirement
6.10 investment fund to provide an increase in excess of two percent due to the operation
6.11 of section 1, including sufficient reserves for all prior increases granted under section
6.12 1, subdivision 6, paragraph (b).

6.13 Sec. 3. **BYLAW AMENDMENT.**

6.14 Consistent with Minnesota Statutes, section 354A.12, subdivision 4, the Duluth
6.15 Teachers Retirement Fund Association, Minneapolis Teachers Retirement Fund
6.16 Association, and St. Paul Teachers Retirement Fund Association are authorized to revise
6.17 their bylaws or articles of incorporation consistent with this article.

6.18 Sec. 4. **REPEALER.**

6.19 Minnesota Statutes 2004, sections 354A.27; 354A.28; and 354A.29, are repealed.

6.20 Sec. 5. **EFFECTIVE DATE.**

6.21 Sections 1 to 4 are effective on the day following final enactment.

6.22 **ARTICLE 2**

6.23 **FIVE PERCENT CAP ON POSTRETIREMENT INCREASES; STATE BOARD**
6.24 **OF INVESTMENT, MINNEAPOLIS EMPLOYEES RETIREMENT FUND,**
6.25 **MINNEAPOLIS FIRE AND POLICE RELIEF ASSOCIATIONS**

6.26 Section 1. Minnesota Statutes 2004, section 11A.18, subdivision 9, is amended to read:

6.27 Subd. 9. **Calculation of postretirement adjustment.** (a) Annually, following June
6.28 30, the state board shall use the procedures in paragraphs (b), (c), and (d) to determine
6.29 whether a postretirement adjustment is payable and to determine the amount of any
6.30 postretirement adjustment.

6.31 (b) If the Consumer Price Index for urban wage earners and clerical workers all
6.32 items index published by the Bureau of Labor Statistics of the United States Department

of Labor increases from June 30 of the preceding year to June 30 of the current year, the state board shall certify the percentage increase. The amount certified must not exceed the lesser of the difference between the preretirement interest assumption and postretirement interest assumption in section 356.215, subdivision 8, paragraph (a), or 2.5 percent. For the Minneapolis Employees Retirement Fund, the amount certified must not exceed 3.5 percent.

(c) In addition to any percentage increase certified under paragraph (b), the board shall use the following procedures to determine if a postretirement adjustment is payable under this paragraph:

(1) The state board shall determine the market value of the fund on June 30 of that year;

(2) The amount of reserves required as of the current June 30 for the annuity or benefit payable to an annuitant and benefit recipient of the participating public pension plans or funds must be determined by the ~~commission-retained~~ actuary ~~as of the current June 30~~ retained under section 356.214. An annuitant or benefit recipient who has been receiving an annuity or benefit for at least 12 full months as of the current June 30 is eligible to receive a full postretirement adjustment. An annuitant or benefit recipient who has been receiving an annuity or benefit for at least one full month, but less than 12 full months as of the current June 30, is eligible to receive a partial postretirement adjustment. Each fund shall report separately the amount of the reserves for those annuitants and benefit recipients who are eligible to receive a full postretirement benefit adjustment. This amount is known as "eligible required reserves." Each fund shall also report separately the amount of the reserves for those annuitants and benefit recipients who are not eligible to receive a postretirement adjustment. This amount is known as "noneligible required reserves." For an annuitant or benefit recipient who is eligible to receive a partial postretirement adjustment, each fund shall report separately as additional ~~"~~eligible required reserves~~"~~ an amount that bears the same ratio to the total reserves required for the annuitant or benefit recipient as the number of full months of annuity or benefit receipt as of the current June 30 bears to 12 full months. The remainder of the annuitant's or benefit recipient's reserves must be separately reported as additional ~~"~~noneligible required reserves.~~"~~ The amount of ~~"~~eligible~~"~~ and ~~"~~noneligible~~"~~ required reserves must be certified to the board by the ~~commission-retained~~ actuary retained under section 356.214 as soon as is practical following the current June 30;

(3) The state board shall determine the percentage increase certified under paragraph (b) multiplied by the eligible required reserves, as adjusted for mortality gains and losses under subdivision 11, determined under clause (2);

8.1 (4) The state board shall add the amount of reserves required for the annuities or
8.2 benefits payable to annuitants and benefit recipients of the participating public pension
8.3 plans or funds as of the current June 30 to the amount determined under clause (3);
8.4 (5) The state board shall subtract the amount determined under clause (4) from the
8.5 market value of the fund determined under clause (1);
8.6 (6) The state board shall adjust the amount determined under clause (5) by the
8.7 cumulative current balance determined ~~pursuant to~~ under clause (8) and any negative
8.8 balance carried forward under clause (9);
8.9 (7) A positive amount resulting from the calculations in clauses (1) to (6) is the
8.10 excess market value. A negative amount is the negative balance;
8.11 (8) The state board shall allocate one-fifth of the excess market value or one-fifth
8.12 of the negative balance to each of five consecutive years, beginning with the fiscal year
8.13 ending the current June 30; and
8.14 (9) To calculate the postretirement adjustment under this paragraph based on
8.15 investment performance for a fiscal year, the state board shall add together all excess
8.16 market value allocated to that year and subtract from the sum all negative balances
8.17 allocated to that year. If this calculation results in a negative number, the entire negative
8.18 balance must be carried forward and allocated to the next year. If the resulting amount is
8.19 positive, a postretirement adjustment is payable under this paragraph. The board shall
8.20 express a positive amount as a percentage of the total eligible required reserves certified to
8.21 the board under clause (2).
8.22 (d) The state board shall determine the amount of any postretirement adjustment
8.23 which is payable using the following procedure:
8.24 (1) The total ~~"~~eligible~~"~~ required reserves as of the first of January next following
8.25 the end of the fiscal year for the annuitants and benefit recipients eligible to receive a full
8.26 or partial postretirement adjustment as determined by clause (2) must be certified to the
8.27 state board by the ~~commission-retained~~ actuary retained under section 356.214. The total
8.28 ~~"~~eligible~~"~~ required reserves must be determined by the ~~commission-retained~~ actuary
8.29 retained under section 356.214 on the assumption that all annuitants and benefit recipients
8.30 eligible to receive a full or partial postretirement adjustment will be alive on the January
8.31 1 in question; ~~and~~
8.32 (2) The state board shall add the percentage certified under paragraph (b) to any
8.33 positive percentage calculated under paragraph (c). The board shall not subtract from the
8.34 percentage certified under paragraph (b) any negative amount calculated under paragraph
8.35 (c). The sum of these percentages must be carried to five decimal places and must be
8.36 certified to each participating public pension fund or plan as the full postretirement

adjustment percentage. The full postretirement adjustment percentage certified to each participating public pension plan or fund must not exceed five percent; and

(3) Eligible required reserves, if any, in excess of amounts needed due to the maximum permitted full postretirement adjustment percentage authorized under clause (2) are declared to be excess reserves, and must be allocated in equal amounts to each of the next four years.

(e) A retirement annuity payable in the event of retirement before becoming eligible for Social Security benefits as provided in section 352.116, subdivision 3; 353.29, subdivision 6; or 354.35 must be treated as the sum of a period certain retirement annuity and a life retirement annuity for the purposes of any postretirement adjustment. The period certain retirement annuity plus the life retirement annuity must be the annuity amount payable until age 62 or 65, whichever applies. A postretirement adjustment granted on the period certain retirement annuity must terminate when the period certain retirement annuity terminates.

Sec. 2. **[423B.152] MAXIMUM POSTRETIREMENT ADJUSTMENT.**

Notwithstanding sections 423B.01, subdivision 20; 423B.09; 423B.15; and 423B.151 to the contrary, the total increase provided in any given year under all these provisions combined for any annuitant or benefit recipient must not exceed five percent.

Sec. 3. **[423C.061] MAXIMUM POSTRETIREMENT ADJUSTMENT.**

Notwithstanding sections 423C.01, subdivision 28; 423C.05; and 423C.06 to the contrary, the total increase provided in any given year under all these provisions combined for any annuitant or benefit recipient must not exceed five percent.

Sec. 4. **EFFECTIVE DATE.**

Sections 1 to 3 are effective on the day following final enactment.

ARTICLE 3

MINNEAPOLIS TEACHERS RETIREMENT FUND ASSOCIATION ADDITIONAL FUNDING

Section 1. Minnesota Statutes 2004, section 354A.12, subdivision 3a, is amended to read:

Subd. 3a. **Special direct state aid to first class city teachers retirement fund associations.** (a) In each fiscal year ~~1998~~, the state shall pay ~~$4,827,000~~$2,827,000 to the St. Paul Teachers Retirement Fund Association, ~~$17,954,000~~$......... to the Minneapolis

10.1 Teachers Retirement Fund Association, and $486,000 to the Duluth Teachers Retirement
10.2 Fund Association. ~~In each subsequent fiscal year, these payments to the first class city~~
10.3 ~~teachers retirement fund associations must be $2,827,000 for St. Paul, $12,954,000 for~~
10.4 ~~Minneapolis, and $486,000 for Duluth.~~

10.5 (b) The direct state aids under this subdivision are payable October 1 annually. The
10.6 commissioner of finance shall pay the direct state aid. The amount required under this
10.7 subdivision is appropriated annually from the general fund to the commissioner of finance.

10.8 Sec. 2. **EFFECTIVE DATE.**

10.9 Section 1 is effective on the day following final enactment.

10.10 **ARTICLE 4**

10.11 **AUTHORITY TO INVEST IN STATE BOARD OF INVESTMENT**
10.12 **SUPPLEMENTAL FUND**

10.13 Section 1. Minnesota Statutes 2004, section 354A.08, is amended to read:

10.14 **354A.08 AUTHORIZED INVESTMENTS.**

10.15 In addition to investments authorized under section 356A.06, subdivision 7, a
10.16 teachers retirement fund association may receive, hold, and dispose of real estate or
10.17 personal property acquired by it, whether the acquisition was by purchase, or any other
10.18 lawful means, as provided in this chapter or in the association's articles of incorporation.
10.19 In addition to other authorized real estate investments, an association may also invest
10.20 funds in Minnesota situs nonfarm real estate ownership interests or loans secured by
10.21 mortgages or deeds of trust. The board may also certify assets for investment by the State
10.22 Board of Investment as provided under section 11A.17.

10.23 Sec. 2. Minnesota Statutes 2004, section 422A.05, subdivision 2c, is amended to read:

10.24 Subd. 2c. **Minneapolis Employees Retirement Fund investment authority.**
10.25 (a) For investments made on or after July 1, 1991, the board shall invest funds ~~only~~ in
10.26 investments authorized by section 356A.06, subdivision 7. The board may also certify
10.27 assets for investment by the State Board of Investment as provided under section 11A.17.

10.28 (b) ~~However,~~ In addition to real estate investments authorized under paragraph (a),
10.29 the board may ~~also~~ make loans to purchasers of Minnesota situs nonfarm residential real
10.30 estate that is owned by the Minneapolis Employees Retirement Fund. The loans must
10.31 be secured by mortgages or deeds of trust.

11.1 (c) For investments made before July 1, 1991, the board may, but is not required to,
11.2 comply with paragraph (a). However, with respect to these investments, the board shall
11.3 act in accordance with subdivision 2a and chapter 356A.

11.4 Sec. 3. **EFFECTIVE DATE.**
11.5 Sections 1 and 2 are effective on the day following final enactment.

11.6 **ARTICLE 5**
11.7 **SUPPLEMENTAL ADMINISTRATIVE EXPENSE ASSESSMENT;**
11.8 **MINNEAPOLIS POLICE RELIEF ASSOCIATION AND MINNEAPOLIS**
11.9 **FIRE RELIEF ASSOCIATION**

11.10 Section 1. **[423B.071] SUPPLEMENTAL ADMINISTRATIVE EXPENSE**
11.11 **ASSESSMENT.**
11.12 Subdivision 1. **Computations required.** (a) The active and retired membership of
11.13 the relief association is responsible for defraying supplemental administrative expenses
11.14 of the association.
11.15 (b) Administrative expenses are all expenses, including investment-related expenses,
11.16 incurred by or on behalf of the retirement fund, including salaries and expenses under
11.17 sections 69.80 and 423B.07, other than service, disability, and other pensions and benefits,
11.18 and excluding direct litigation expenses in which the relief association is a named
11.19 defendant. Administrative expenses must be accounted for using generally accepted
11.20 accounting principles and in a manner consistent with the comprehensive annual financial
11.21 report of the association for the immediately previous fiscal year under section 356.20.
11.22 (c) By December 1 of each year, the board shall request that the executive director of
11.23 the Public Employees Retirement Association certify the annual administrative expenses
11.24 of the Public Employees Retirement Association police and fire plan for that plan's most
11.25 recent prior fiscal year, generally consistent with the definition of administrative expenses
11.26 in paragraph (b), and the average administrative expense, computed by dividing the total
11.27 administrative expense by the Public Employees Retirement Association police and fire
11.28 total membership as of the beginning of the period, including all active and deferred
11.29 members, disabilitants, service retirees, and surviving spouses receiving surviving spouse
11.30 annuities.
11.31 (d) Annually, the board shall determine the average administrative expense of the
11.32 association for the calendar year, computed by dividing the total administrative expense as
11.33 defined in paragraph (b) by the total relief association membership, as of the beginning of

12.1 the period, including all active and deferred members, disabilitants, service retirees, and
12.2 surviving spouses receiving surviving spouse annuities.

12.3 (e) The amount computed under paragraph (d) shall be subtracted from the average
12.4 administrative expense under paragraph (c). This difference shall be multiplied by the
12.5 total relief association membership specified in paragraph (d). This amount, if positive,
12.6 is the total supplemental administrative expense amount.

12.7 Subd. 2. **Allocation.** (a) If a total supplemental administrative expense amount
12.8 exists under subdivision 1, paragraph (e), the board of the association shall allocate the
12.9 total dollar amount of supplemental administrative expense among the various active and
12.10 retired membership groups of the association and shall assess the various membership
12.11 groups their respective share of the supplemental administrative expenses in amounts
12.12 determined by the board. The supplemental administrative expense assessments must be
12.13 paid by the membership group in a manner determined by the board.

12.14 (b) The supplemental administrative expense assessment must be fully disclosed
12.15 to the various active and retired membership groups of the association. The chief
12.16 administrative officer of the association shall prepare a supplemental administrative
12.17 expense assessment disclosure notice, which must include the following:

12.18 (1) the total administrative expenses of the association;

12.19 (2) the amount of total administrative expenses and average administrative expenses
12.20 that the association would have if its per member expenses were equivalent to that of the
12.21 Public Employees Retirement Association police and fire plan;

12.22 (3) the total amount of supplemental administrative expenses required for assessment
12.23 calculated under paragraph (a);

12.24 (4) the portion of the total amount of the supplemental administrative expense
12.25 assessment allocated to each membership group and the rationale for that allocation;

12.26 (5) the manner of collecting the supplemental administrative expense assessment
12.27 from each membership group, the number of assessment payments required during the
12.28 year, and the amount of each payment or the procedure used to determine each payment;
12.29 and

12.30 (6) any other information that the chief administrative officer determines is necessary
12.31 to fairly portray the manner in which the supplemental administrative expense assessment
12.32 was determined and allocated.

12.33 (c) The disclosure notice must be provided annually in the annual report of the
12.34 association.

12.35 (d) The supplemental administrative expense assessments must be deposited in the
12.36 fund upon receipt.

13.1 (e) Any omitted active membership group assessments that remain undeducted and
13.2 unpaid to the association for 90 days must be paid by the city. The city may recover any
13.3 omitted active membership group assessment amounts that it has previously paid. The
13.4 association shall deduct any omitted retired membership group assessment amounts from
13.5 the benefits next payable after the discovery of the omitted amounts.

13.6 Sec. 2. **[423C.111] SUPPLEMENTAL ADMINISTRATIVE EXPENSE**
13.7 **ASSESSMENT.**

13.8 Subdivision 1. **Computations required.** (a) The active and retired membership of
13.9 the relief association is responsible for defraying supplemental administrative expenses
13.10 of the association.
13.11 (b) Administrative expenses are all expenses, including investment-related expenses,
13.12 incurred by or on behalf of the retirement fund, including salaries and expenses under
13.13 sections 69.80 and 423C.03, other than service, disability, and other pensions and benefits,
13.14 and excluding direct litigation expenses in which the relief association is a named
13.15 defendant. Administrative expenses must be accounted for using generally accepted
13.16 accounting principles and in a manner consistent with the comprehensive annual financial
13.17 report of the association for the immediately previous fiscal year under section 356.20.
13.18 (c) By December 1 of each year, the board shall request that the executive director of
13.19 the Public Employees Retirement Association certify the annual administrative expenses of
13.20 the Public Employees Retirement Association police and fire plan for the most recent prior
13.21 fiscal year, generally consistent with the definition of administrative expenses in paragraph
13.22 (b), and the average administrative expense, computed by dividing the total administrative
13.23 expense by the Public Employees Retirement Association police and fire total membership
13.24 as of the beginning of the period, including all active and deferred members, disabilitants,
13.25 service retirees, and surviving spouses receiving surviving spouse annuities.
13.26 (d) Annually, the board shall determine the average administrative expense of the
13.27 association for the calendar year, computed by dividing the total administrative expense as
13.28 defined in paragraph (b) by the total relief association membership, as of the beginning of
13.29 the period, including all active and deferred members, disabilitants, service retirees, and
13.30 surviving spouses receiving surviving spouse annuities.
13.31 (e) The amount computed under paragraph (d) shall be subtracted from the average
13.32 administrative expense under paragraph (c). This difference shall be multiplied by the
13.33 total relief association membership specified in paragraph (d). This amount, if positive,
13.34 is the total supplemental administrative expense amount.

14.1 Subd. 2. **Allocation.** (a) If a total supplemental administrative expense amount
14.2 exists under subdivision 1, paragraph (e), the board of the association shall allocate the
14.3 total dollar amount of supplemental administrative expense among the various active and
14.4 retired membership groups of the association and shall assess the various membership
14.5 groups their respective share of the supplemental administrative expenses in amounts
14.6 determined by the board. The supplemental administrative expense assessments must be
14.7 paid by the membership group in a manner determined by the board.

14.8 (b) The supplemental administrative expense assessment must be fully disclosed
14.9 to the various active and retired membership groups of the association. The chief
14.10 administrative officer of the association shall prepare a supplemental administrative
14.11 expense assessment disclosure notice, which must include the following:

14.12 (1) the total administrative expenses of the association;

14.13 (2) the amount of total administrative expenses and average administrative expenses
14.14 that the association would have if its per member expenses were equivalent to that of the
14.15 Public Employees Retirement Association police and fire plan;

14.16 (3) the total amount of supplemental administrative expenses required for assessment
14.17 calculated under paragraph (a);

14.18 (4) the portion of the total amount of the supplemental administrative expense
14.19 assessment allocated to each membership group and the rationale for that allocation;

14.20 (5) the manner of collecting the supplemental administrative expense assessment
14.21 from each membership group, the number of assessment payments required during the
14.22 year, and the amount of each payment or the procedure used to determine each payment;
14.23 and

14.24 (6) any other information that the chief administrative officer determines is necessary
14.25 to fairly portray the manner in which the supplemental administrative expense assessment
14.26 was determined and allocated.

14.27 (c) The disclosure notice must be provided annually in the annual report of the
14.28 association.

14.29 (d) The supplemental administrative expense assessments must be deposited in the
14.30 fund upon receipt.

14.31 (e) Any omitted active membership group assessments that remain undeducted and
14.32 unpaid to the association for 90 days must be paid by the city. The city may recover any
14.33 omitted active membership group assessment amounts that it has previously paid. The
14.34 association shall deduct any omitted retired membership group assessment amounts from
14.35 the benefits next payable after the discovery of the omitted amounts.

15.1 Sec. 3. **EFFECTIVE DATE.**

15.2 Sections 1 and 2 are effective on the day following final enactment.