



S.F. XXX (LCPR09-071)

H.F. xxx

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): Statewide and major local Minnesota public retirement plans
Relevant Provisions of Law: Minnesota Statutes, 356.215, Subdivision 3
General Nature of Proposal: Actuarial valuation and experience study reporting deadlines
Date of Summary: November 6, 2009

Specific Proposed Changes

- The bill reinstates a December 1 deadline for actuarial valuation reports and resets the quadrennial experience study reporting deadline to May 1.

Policy Issues Raised by the Proposed Legislation

1. Appropriateness of reinstating a reporting deadline for actuarial valuations.
2. Appropriateness of setting a December 1 actuarial valuation reporting deadline.

Potential Amendments

Substantive amendments:

- LCPR09-071-1A resets actuarial valuation deadlines from December 1 to November 1
- LCPR09-071-2A resets actuarial valuation deadline from December 1 to a yet-to-be-specified date (alternative to -1A)
- LCPR09-071-3A retains June 1 experience study deadline
- LCPR09-071-4A adds reporting enforcement provision of a fine payable by the retirement plan administrator
- LCPR09-071-5A adds reporting enforcement provision of a fine payable by the actuarial consulting firm (alternative to -4A)



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Lawrence A. Martin, Executive Director *LAM*
RE: S.F. xxx; H.F. xxx: Statewide and Major Local Retirement Plans; Deadlines for Filing Annual Actuarial Valuations and Quadrennial Experience Studies
DATE: November 6, 2009

Summary of S.F. xxx; H.F. xxx (Document LCPR09-071)

S.F. xxx; H.F. xxx (Document LCPR09-071) amends Minnesota Statutes, Section 356.215, Subdivision 3, the report filing requirements of the actuarial valuation and quadrennial experience study law, by reinstating a deadline for the filing of annual actuarial valuation reports with the Legislative Commission on Pensions and Retirement, the Minnesota Management and Budget Department, and the Legislative Reference Library, by setting the actuarial valuation reporting deadline at the first day of the sixth month following the end of the most recent fiscal year and by resetting the quadrennial experience study reporting deadline from the first day of the 11th month following the end of the period covered by the study to the first day of the tenth month following the end of the period covered by the study.

Background Information on Minnesota Public Pension Plan Actuarial Reporting

- A. Attachment A provides background information on the role and function of Minnesota public pension plan actuarial reporting.
- B. Attachment B provides background information on the provision of actuarial services to the Legislature and to the various Minnesota public retirement plans.
- C. Attachment C provides background information on the historical development of Minnesota public pension plan actuarial reporting requirements.

Analysis and Discussion

S.F. xxx; H.F. xxx (LCPR09-071) reinstates the deadline for the filing with the Legislative Commission on Pensions and Retirement the actuarial valuation reports of the statewide and major local Minnesota public employee retirement plans, which was eliminated at the request of the retirement plans in 2008, and resets the current deadline for the filing with the Legislative Commission on Pensions and Retirement the quadrennial experience studies of the three largest statewide Minnesota public employee retirement plans.

The proposed pension legislation raises several pension and related public policy issues for Commission identification and potential Commission discussion, as follows:

1. Appropriateness of Reinstating a Reporting Deadline for Actuarial Valuations. The policy issue is the appropriateness of reinstating the requirement that the actuarial valuations of the statewide and major local Minnesota public retirement plans be filed with the Legislative Commission on Pensions and Retirement, the Legislative Reference Library, and the Minnesota Management and Budget Department by a date certain. As Attachment A indicates, there has been an actuarial valuation filing deadline since 1957. When the filing deadline was eliminated in 2008, the Commission staff raised an issue about the appropriateness of that elimination, but the retirement plan representatives proposing the deadline elimination did not address the issue and did not provide any policy argument for the elimination. Subsequent to the 2008 Legislative Session, some retirement plan administrators have made the argument to the commission staff that the actuarial valuations for the statewide and major local retirement plans would be prepared in a timely fashion because the retirement plans actively seek the Government Finance Officers Association (GFOA) award for financial reporting annually. The GFOA award requirements established a de facto actuarial reporting deadline because actuarial exhibits are required for comprehensive annual financial reports to comply with generally accepted accounting principles (GAAP) as established by the Government Accounting Standards Board (GASB) and the annual financial reports must be filed with GFOA before the end of December annually. For a document as important to the Commission, governmental employers, pension plan members, and the general public as the actuarial valuations are, to rely on a de facto deadline date set by a government representation and issue advocacy organization for a voluntary award program with little visibility does not appear on its face to be appropriate policy. With the 2008 deadline elimination, if any of the statewide or local

Minnesota public employee retirement plans decide to forgo the Government Finance Officers Association (GFOA) award, the Commission may never receive any subsequent actuarial reporting.

2. Appropriateness of Setting a December 1 Actuarial Valuation Reporting Deadline. The policy issue is the appropriateness of setting the deadline for filing actuarial valuations with the Legislative Commission on Pensions and Retirement at the first day of the sixth month following the close of the previous fiscal year, or December 1 for the statewide and major local Minnesota public pension plans. The December 1 date for most Minnesota public pension plans was the deadline from 1981 until 2008. Between 1965 and 1981, the deadline date was five months after the beginning of each fiscal year, or effectively December 1. When the Legislative Commission on Pensions and Retirement retained the consulting actuary that produced the regular official actuarial valuation of the statewide and major local Minnesota public employees retirement plans, from 1985 until 2004, the Commission-retained actuary was obligated by contract to produce each actuarial valuation by December 1 or 10 weeks after the retirement plan provided complete demographic and financial data for the valuation, whichever is later. During that 1985-2004 period, however, the various retirement plans persistently complained about the timing of actuarial valuations, always wanting the valuations to be completed earlier than December 1 annually.

If the Commission wishes to establish an earlier report filing date, **Amendment LCPR09-071-1A** moves the deadline up one month, to November 1, annually.

Alternatively, if the Commission wishes to establish an earlier report filing date, **Amendment LCPR09-071-2A** sets a date other than December 1 to be specified by the Commission.

3. Appropriateness of Setting a May 1 Experience Study Reporting Deadline. The policy issue is the appropriateness of setting forward the experience study deadline from the current statutory deadline date of June 1 to May 1 every four years. The most recent set of experience studies from the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General), and the Teachers Retirement Association (TRA) were due on June 1, 2009. None of the experience studies was filed in a timely fashion, with the MSRS-General and the PERA-General experience studies for the period 2004-2008 dated August 31, 2009, filed with the Commission office on September 9, 2009, and with the TRA experience study for the period 2004-2008 filed on November 1, 2009. No explanation has been provided by any of the three retirement plan administrators for the failure to comply with the reporting deadlines. The timing for experience studies was shifted to the Spring every four years in 1987 in order to allow more time for the preparation of the reports and to still allow the Legislature to take action on any statutory actuarial assumption change (interest, salary increase, and payroll increase) when the Legislature was still in session. Timely filing of experience studies under the current statutory deadline makes that legislative consideration narrowly impossible and late filings further string out the process. Resetting the deadline to May 1 would permit legislative action closely following the date of the experience study when necessary.

If the Commission wishes to retain the current June 1 deadline, **Amendment LCPR09-071-3A** would eliminate the proposed change and restore the current deadline.

4. Need for an Enforcement Mechanism for Actuarial Reporting Deadlines. The policy issue is the appropriateness of adding an enforcement mechanism to the actuarial reporting deadlines. Historically, when the Legislature confronts noncompliance with statutory requirements, it adds some sort of enforcement mechanism to ensure that a requirement is followed. The enforcement mechanisms usually are the addition of fines for noncompliance (see Minnesota Statutes, Section 354.52, Subdivision 6, which is a \$5 per calendar day fine for failures by employing units to comply with membership and payroll reporting requirements), the loss of state aid or some other state-provided benefit for non-compliance (see Minnesota Statutes, Section 69.77, disallowing police or fire state aid for municipal underfunding of local police or paid firefighter relief associations), the imposition of a greater financial liability for non-compliance (see Minnesota Statutes, Section 352.04, Subdivision 8, requiring employing units which fail to deduct member contributions for salary for more than 60 days to pay the omitted member contribution amount), or the imposition of criminal penalties for non-compliance (see Minnesota Statutes, Section 353.19, making the provision of false information or the refusal to discharge a duty imposed by laws a gross misdemeanor).

If the Commission believes that compliance with the actuarial reporting laws is important enough to merit an enforcement mechanism, **Amendment LCPR09-071-4A** would add a yet-to-be specified dollar amount per day of noncompliance fine payable by the chief administrative officer of the retirement plan or **Amendment LCPR09-071-5A** would add a yet-to-be specified dollar amount per day of noncompliance fine payable by the actuarial consulting firm that missed a deadline.

Background Information on Minnesota Public Pension Plan Actuarial Reporting Requirements

With the creation of defined benefit public pension plan liabilities, there arises a need to provide financing to match the liabilities and to create a trust fund for the accumulated assets. The method of financing depends primarily on the nature of the benefit plan as either a defined contribution plan or a defined benefit plan and the liability which is undertaken as a consequence. Since the obligation undertaken with a defined benefit plan is to provide a benefit of a predetermined amount at and after the time of retirement, the financing method will be more complex and will allow more variations. There are a number of possible financing budget estimation methods which have been developed by actuaries which can be utilized.

The actual or ultimate cost of a pension plan is the total amount of any retirement annuities, disability benefits and survivor benefits eventually paid plus the total amount of any administrative costs eventually paid. The actual or ultimate cost will result no matter what method of financing is employed to fund pension benefits. The financing or actuarial funding method merely separates out the portion of the actual or ultimate cost that will be paid from investment returns from the portion to be funded from periodic contributions and affects the timing of the financing and the amount of the financing burden which will be borne by the pension plan employer or employers.

Virtually every public pension plan is required to make annual financial and actuarial reports under Minnesota Statutes, Sections 356.20 and 356.215. The Standards for Actuarial Work, issued by the Commission, specify the detailed contents and format requirements for both the actuarial valuation reports and the experience studies. The public pension plans which are included in this requirement are the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the Correctional State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional), the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General), the Public Employees Police and Fire Retirement Plan (PERA-P&F), the Teachers Retirement Association (TRA), the State Patrol Retirement Plan, the Minneapolis Teachers Retirement Fund Association (MTRFA), the St. Paul Teachers Retirement Fund Association (SPTRFA), the Duluth Teachers Retirement Fund Association (DTRFA), the Minneapolis Employees Retirement Fund (MERF), the University of Minnesota Faculty Retirement Plan and Supplemental Retirement Plan, the Judges Retirement Plan, and the various local police and firefighters relief associations.

The annual actuarial valuation is required to include the determination of normal cost as a percentage of salary and accrued liability of the fund calculated according to the entry age normal cost method, with a prescribed pre- and post-retirement interest assumption, a prescribed salary assumption, and other assumptions as to mortality, disability, retirement, and withdrawal which are appropriate to the experience of the plan. A statement of administrative cost of the fund as a gross amount and as a percent of payroll is required. The actuary must also present an actuarial balance sheet, setting forth the accrued assets, the accrued liabilities (reserves for active members, deferred annuitants, inactive members without vested rights, and annuitants) and the unfunded actuarial accrued liability. The valuation is also to include a calculation of the additional rate of support required to amortize the unfunded accrued liability by the end of the applicable target full funding year. The actuary is required to provide an analysis of the increase or decrease in the unfunded accrued liability from changes in benefits, changes in actuarial assumptions, gains and losses from actual deviations from actuarial assumptions, amortization contribution, and changes in membership. An exhibit setting forth total active membership, additions and separations from active service during the year, total benefit recipients, additions to and separations from the annuity payroll, and a breakdown of benefit recipients into service annuitants, disabilitants, surviving spouses and children, and deferred annuitants is also required.

The quadrennial experience study periodically prepared for MSRS-General, PERA-General, and TRA is required to furnish experience data and an actuarial analysis which substantiates the actuarial assumptions upon which the annual valuations are based. The quadrennial experience study is required to contain an actuarial analysis of the experience of the largest retirement plans and a comparison of that plan experience with the actuarial assumptions in force for the most recent annual actuarial experience.

The purpose of the quadrennial experience studies is to provide the Commission and the retirement plan administrations with a periodic opportunity to review the accuracy of the current actuarial assumptions of the three largest retirement plans, compared to the experience for the most recent period and to revise those actuarial assumptions based on the recommendation of the retained consulting actuary and on input from plan administrators, their actuarial consultants, and others. The actuarial valuation process, as corrected or refined by the quadrennial experience process, is intended to provide policymakers and

others with an accurate picture of the funded condition and financial requirements of a public pension plan and the process is not aided if it relies on incorrect or inadequate assumptions. If a trend line is established in recent experience, that trend line should be reflected in a plan's actuarial assumptions, even if those assumptions make the financing position of the plan appear worse than it would under different assumptions.

Minnesota public pension plan actuarial assumptions are specified in part in statute (the economic assumptions, interest/investment return, individual salary increase, and payroll growth) and are determined in part by other parties, with Commission approval (the balance of all actuarial assumptions, generally, the demographic assumptions). Economic assumptions are required to project the amount of benefits that will be payable. Demographic assumptions are required to project when benefits will be payable. Demographic assumptions are used to project the development of the population covered by the pension plan and hence when the benefits to be provided will be paid. The demographic assumptions project when a member is likely to progress between the various categories of membership (active, deferred, or retired) and how long the person stays in each category. The types of economic assumptions used to measure obligations under a defined benefit pension plan include the following:

- i. inflation;
- ii. investment return (sometimes referred to as the valuation interest rate);
- iii. compensation progression schedule; and
- iv. other economic factors (e.g., Social Security, cost-of-living adjustments, growth of individual account balances, and variable conversion factors).

The types of demographic assumptions used to measure pension obligations include, but are not necessarily limited to, the following:

- i. retirement;
- ii. mortality;
- iii. termination of employment;
- iv. disability and disability recovery;
- v. election of optional forms of benefits; and
- vi. other assumptions, such as administrative expenses; household composition; marriage, divorce, and remarriage; open group assumptions; transfers; hours worked; and assumptions regarding missing or incomplete data.

The actuarial assumption selection process should result in actuarial assumptions that are reasonable in light of the particular characteristics of the defined benefit plan that is the subject of the measurement. A reasonable actuarial assumption is one that is expected to appropriately model the contingency being measured and is not anticipated to produce significant cumulative actuarial gains or losses over the measurement period. For any given measurement, two or more reasonable actuarial assumptions may be identified for the same contingency.

Background Information on the Provision of Actuarial Services to the Legislature and the Various Retirement Plans

Since the creation of the Legislative Commission on Pensions and Retirement as an interim commission in 1955, the Commission has retained a consulting actuary to provide necessary actuarial consulting services. In 1955, the various retirement plans only had infrequent actuarial valuations or had no previous actuarial valuations at all and the retirement plans had unclear or irregular relationships with consulting actuarial firms.

For the period 1955-1984, the consulting actuary retained by the Commission functioned chiefly as the actuarial advisor to the Commission, presenting information on actuarial procedures, techniques and principles, recommending improvements in regulation or procedure of an actuarial nature and reviewing actuarial valuations, benefit increase actuarial cost estimates and experience studies for consistency, accuracy and conformance to sound actuarial technique.

Before 1965, actuarial valuations were irregular or infrequent and were frequently limited to total actuarial accrued liability calculations without actuarial contribution requirement determinations (e.g. Minnesota State Retirement System (MSRS) valuations in 1957, 1958, 1959, 1962, 1963, and 1964; Public Employees Retirement Association (PERA) valuations in 1955, 1958, and 1963; Teachers Retirement Association (TRA) valuations in 1958, 1959, and 1964). The first class city general employee retirement plans have been required by statute to prepare annual actuarial valuations only since 1969, with infrequent and sometimes incomplete actuarial valuations before 1969 (e.g. Minneapolis Employees Retirement Fund (MERF) 1958, 1967 and 1968; Duluth Teachers Retirement Fund Association (DTRFA) valuations in 1952 and 1955; Minneapolis Teachers Retirement Fund Association (MTRFA) valuations in 1957 and 1964; and St. Paul Teachers Retirement Fund Association (SPTRFA) valuations in 1958). The Commission, by a special law it recommended, first required the preparation of actuarial valuations by the various statewide retirement plans and their consulting actuaries in 1957. The 1957 special law was not explicit about the actuarial method or assumptions for the preparation of the actuarial valuations, allowing for considerable latitude in interpretation on the part of the retirement fund and its consulting actuary and producing results that were not considered fully appropriate by the 1957 Commission. In 1965, the Commission recommended and the Legislature enacted a statutory actuarial reporting law that specified numerous actuarial procedure elements to address the perceived deficiencies in the 1957 special law.

From 1965 to 1984, the various Minnesota public pension plans were required to have prepared annual actuarial valuations meeting the requirements of Minnesota Statutes, Section 356.215, and they retained consulting actuaries to perform these valuations (the statewide plans in 1965 and the first class city retirement plans in 1969). The consulting actuaries were required to be approved actuaries, meaning that the actuary had minimum credentials (fellowship in the Society of Actuaries) or had a minimum length of experience. The various public pension plans also were required to have prepared experience studies meeting the requirements of Minnesota Statutes, Section 356.215, every four years, covering the prior five year period, which task was also performed by the retained consulting actuaries. The consulting actuaries retained by the various public pension plans each operated under contract with the particular pension plan, with the contract's duration, specific requirements, and compensation unregulated by the Commission or state law.

In 1984, apparently in reaction to various irreconcilable actuarial cost estimates for the "Rule of 85" temporary normal retirement provision proposal supplied by the various actuaries of the various pension plans, and after the Commission apparently considered the possibility of the retention of an actuary as a member of the Commission staff, and with the concurrence of the state Department of Finance, the procedure for the provision of regular actuarial services for the statewide and major local pension plans was changed. Under Minnesota Statutes 1984, Section 3.85, Subdivision 11, the Commission was required to retain a consulting actuarial firm to provide annual actuarial valuations, periodic experience study and periodic benefit increase costing services related to the various statewide and major Minnesota public pension plans. The Commission was also required to establish standards for the preparation of any required actuarial work. The various public pension plans were permitted, but not required, to retain a consulting actuary for the review of the work of the Commission-retained actuary and for other actuarial services.

Following the 1984 Legislative Session, the Commission held a competitive bidding process to select its consulting actuarial firm. A five member (three House members, two Senate members) Commission subcommittee, chaired by Representative John Sarna, undertook the process. A Request for Proposal was prepared and was provided to 17 actuarial firms on July 30, 1984. Ten actuarial firms submitted

proposals to the Commission subcommittee by the September 7, 1984 deadline date. The Commission subcommittee directed the Commission staff and actuary (then James Bordewick) to make the initial evaluation of the written proposals. Four finalists were selected to make in-person presentations to the Commission subcommittee, which occurred on November 8, 9 and 13, 1984. The four finalists were Milliman & Robertson, Inc., Peat, Marwick, Mitchell & Co., Towers, Perrin, Forster & Crosby, and The Wyatt Company. The Commission subcommittee recommended The Wyatt Company to the full Commission following evaluation of the in-person presentations and the Commission selected The Wyatt Company as the Commission retained actuary on a unanimous vote. On December 31, 1984, a contract for the provision of actuarial services between The Wyatt Company and the Commission was executed by Representative John Sarna and Mr. Allen Grosh. The contract provided for the development and updating of standards for actuarial work, the preparation of annual actuarial valuations, the preparation of annual cash flow projections and the provision of other consulting. Karen Dudley, the Commission Executive director, drafted the initial contract in 1984, with the assistance of Joel Michael of the House Research Department and John Asmussen of the Office of the Legislative Auditor. The contract was potentially effective for a three-year period if the arrangement was reaffirmed by the Commission during each of the second and third option years. The Commission exercised its option to continue the contract with The Wyatt Company for Fiscal Year 1987 and Fiscal Year 1988 respectively.

In 1987, as part of that year's State Departments appropriation bill, the cost of the annual actuarial valuations and periodic experience studies, previously borne almost entirely by the Commission out of its budget, was assessed against the various retirement funds on the basis of proportional membership.

In 1988, the Commission considered the question of the contract for the provision of actuarial services in light of the expiration of the contract with The Wyatt Company on June 30, 1988 and the Commission approved a recommendation by Representative Wayne Simoneau that the contract with The Wyatt Company, due for expiration on June 30, 1988, be extended to June 30, 1990, with a substantial redrafting of the contract language and a resetting of some actuarial compensation rates as recommended by Representative Simoneau.

In 1990, after a controversy over the actuarial services fees charged by the Wyatt Company that was raised by Jim Hacking, the Executive Director of the Public Employees Retirement Association (PERA) and after a request from Representative Wayne Simoneau to the Legislative Audit Commission for an audit of the Wyatt Company's contract with the Legislative Commission on Pensions and Retirement, the Commission rebid the actuarial services contract and the actuarial consulting firm of Milliman & Robertson, Inc., was retained by the Commission chosen from a group of seven bidders (four finalists). The actuarial services contract with Milliman & Robertson, Inc., was extended for one year in 1993 and in 1994, was renewed for two years after rebidding with one competitor in 1995, was extended for one year in 1997, was renewed for four years after rebidding without any other bidder competing in 1998, and was renewed for two years after rebidding with one competitor in 2002. In 2000 (Laws 200, Chapter 461, Article 1, Section 1), the method for computing the recoupment amount for the Legislative Commission on Pensions and Retirement from the various retirement plans, eliminating the 1988 formula based on system status, plan status, and relative membership size in favor of an allocation based on the actuarial firm's records on the time spent on each plan's valuation.

In 2002, an issue arose between Milliman USA, the renamed actuarial firm of Milliman & Robertson, Inc., and the Commission over liability limitations, third-party reliance on actuarial work, and mandatory dispute arbitration. The issue limited the 2002 contract with Milliman USA to the two years that Milliman USA was willing to commit to without a positive resolution of the liability limitation and related issues. In 2004 (Laws 2004, Chapter 223), the actuarial services issues from 2002 and reductions in appropriations to the Commission resulted in the Executive committee of the Commission recommending and the Commission approving legislation, subsequently enacted, providing for a replacement of a consulting actuarial firm retained by the Commission by a consulting actuarial firm retained jointly by the seven largest retirement system administrators, acting jointly, with the ratification of the choice by the Commission. The joint retirement administrators retained The Segal Company as the consulting actuarial firm.

Background Information on the Historical Development of Actuarial Reporting Requirements

Since the creation of the Legislative Commission on Pensions and Retirement as an interim commission in 1955, data has been required to be provided to the state by the various public pension plans in the state, as follows:

- Laws 1957, Special Session, Chapter 11. The initial actuarial reporting law enacted by the Minnesota Legislature was Laws 1957, Special Session, Chapter 11. The 1957 actuarial reporting law was an uncoded temporary law that was applicable only to actuarial valuations prepared as of January 1, 1958. No prior generally applicable law required specific actuarial reporting to the Legislature or to any other public office or official. The 1957 actuarial reporting law required census tabulations of active members and benefit recipients, an actuarial balance sheet disclosing assets, liabilities and the actuarial full funding deficit, a statement of actuarial assumptions, an indication of the normal support rate for currently accruing liabilities and an indication of the 1997 target date amortization requirement. The 1957 actuarial reporting law was unspecific on the manner in which the actuarial calculation was to be prepared, leading to disputes when some funds prepared valuations on a basis other than the entry age normal actuarial method. The 1957 actuarial reporting law was broadly applicable to all statewide general and public safety pension plans, all local general employee plans, all local police relief associations and all local salaried firefighter relief associations. Problems with the 1957 actuarial reporting law led the Commission to refine the actuarial reporting requirements and procedures and to recommend a general ongoing actuarial reporting law in the years between 1958 and 1965. The actuarial reporting under the 1957 special law was due by January 6, 1959.
- Laws 1965, Chapters 359 and 751. Laws 1965, Chapter 359, was the initial codification of the general employee pension plan actuarial reporting law. Laws 1965, Chapter 751, was an uncoded temporary law applicable to local police and paid firefighters relief association actuarial valuations prepared as of December 31, 1964. The general employee pension plan actuarial reporting law required an indication of the level normal cost, an actuarial balance sheet disclosing assets, accrued liabilities and unfunded accrued liability as well as specific required reserve figures and an indication of the 1997 target date amortization requirement. The general employee pension plan actuarial reporting law required that the actuarial valuation normal cost and accrued liabilities to be prepared using the Entry Age Normal Cost (Level Normal Cost) Method, that the actuarial method be used to value all aspects of the benefit plan and known future benefit changes, that the actuarial valuation be prepared on the basis of a three percent interest assumption and other appropriate assumptions and that assets not include any present value of future amortization contributions. The general employee pension plan actuarial reporting law required annual actuarial valuations for the State Employees Retirement Fund, the Public Employees Retirement Fund, and the State Police Officers Retirement Fund. The general employee pension plan actuarial reporting law also required the preparation of an experience study validating the actuarial assumptions used in the valuation. The local police and paid fire actuarial reporting law was based on the 1957 actuarial reporting law with the additional clarification of a three percent interest rate assumption, the requirement of normal cost and accrued liabilities calculated on the basis of the entry age normal cost method and the reporting of the amount for the amortization of the unfunded accrued liability by the 1997 target date. The local police and paid fire actuarial reporting law was applicable to all police and paid firefighters relief associations. The actuarial reporting under the 1965 general law was due five months after the close of the fiscal year covered by the valuation. No experience studies were required by the 1965 general law.
- Laws 1967, Chapter 729, was a revision in the 1965 local police and paid fire actuarial reporting law. The 1967 local police and paid fire actuarial reporting law was a coded general statute requiring actuarial valuations as of December 31, 1967, and each four years thereafter. It was also made applicable volunteer firefighters relief associations and very small active membership police and paid firefighters relief associations. A three percent salary rate assumption was added. A 2007 target date amortization requirement replaced the prior 1997 target date amortization requirement for police and paid fire plans, leaving the 1997 requirement for volunteer and smaller active membership police and paid fire relief associations. An addition of a requirement to the calculated normal cost for amortizing net actuarial experience gains or losses was also added.
- Laws 1969, Chapter 289, revised the 1965 general employee pension plan actuarial reporting law by making the requirement applicable to the Minneapolis Employees Retirement Fund and to the three first class city teacher retirement fund associations. It also provided for an interest rate assumption to 3.5 percent as well as 3.0 percent for comparison purposes and added a salary assumption of 3.5 percent for funds with a final salary based benefit plan.

- Laws 1973, Chapter 653, Section 45, modified the general employee pension plan actuarial reporting law by increasing the interest assumptions from 3.5 percent to 5 percent.
- Laws 1975, Chapter 192, recodified the general employee pension plan actuarial reporting law, previously coded as Minnesota Statutes 1974, Sections 356.21, 356.211, and 356.212, as Minnesota Statutes, Section 356.215. The actuarial valuation reports under the 1975 general law were due five months after the close of the fiscal year covered by the valuation. The experience studies under the 1975 general law were also due five months after the period covered by the experience study.
- Laws 1978, Chapter 563, Sections 9, 10, 11, and 31, repealed the separate local police and fire relief association actuarial reporting law, Minnesota Statutes 1976, Sections 69.71 to 69.76, and required the local police and fire relief associations to report under the general employee pension plan actuarial reporting law with specific adaptations, coded as Minnesota Statutes, Section 356.216. It also amended the actuarial reporting law by requiring specific reporting of entry age and retirement age assumptions and the provision of a summary of the benefit plan provisions on which the actuarial valuation is based.
- Laws 1979, Chapter 184, modified the actuarial reporting law by replacing the 1997 amortization target date with a 2009 amortization target date and establishing a procedure for extending that target date in the event of substantial unfunded actuarial accrued liabilities resulting from benefit increases, actuarial cost method changes or actuarial assumption changes.
- Laws 1981, Chapter 224, Sections 169 and 170. Laws 1981, Chapter 224, Section 169, largely revised the language usage and style of the actuarial reporting law. The 1981 general law also clarified that actuarial valuation reports and experience studies were due on the first day of the sixth month occurring after the end of the previous fiscal year. It also provided that actuarial valuations and experience studies were to be filed with the Legislative Reference Library rather than with the Secretary of the Minnesota Senate and with the Chief Clerk of the Minnesota House of Representatives. Additionally, the 1981 law clarified that amortization contribution requirements were required to be calculated on a level dollar basis.
- Laws 1984, Chapter 564, Section 43, substantially modified the actuarial reporting law. Actuarial valuations are required to comply with the Standards for Actuarial Work adopted by the Commission. The interest rate assumption was modified, with a post-retirement interest rate of five percent and a pre-retirement interest rate of eight percent for the major, statewide plans. The actuarial balance sheet requirement was also substantially modified, and was expanded to include reporting of current and expected future benefit obligations, current and expected future assets and current and expected future unfunded liabilities. The amortization contribution requirement was also modified, with a change from a level dollar annual amortization procedure to a level percentage of future covered payroll amortization procedure for the major, statewide and local general employee plans other than MERF.
- Laws 1987, Chapter 259, Section 55, revised the language and style of the actuarial reporting provision, specified the particular interest and salary increase actuarial assumptions for the legislators retirement plan and elected state officers retirement plan, set the amortization target date for the Minneapolis Employees Retirement Fund (MERF) at 2017 and exempted MERF from the process for automatically revising the target date upon benefit increases or assumption changes, required approval by the Legislative Commission on Pensions and Retirement for any demographic actuarial assumption changes, and reset the deadline date for experience studies from December 1 to June 1.
- Laws 1989, Chapter 319, Article 13, Sections 90 and 91, increased the interest rate actuarial assumption from 8.0 percent to 8.5 percent for all statewide and major local retirement plans other than the Minneapolis Employees Retirement Fund (MERF) and extended the amortization full funding target date from 2009 to 2020 for all statewide and major local retirement plans other than MERF.
- Laws 1991, Chapter 269, Article 3, Sections 3 to 19, updated the actuarial valuation reporting requirements to accommodate governmental pension plan generally accepted accounting changes, required actuarial valuations or experience studies prepared by an actuary other than the actuary retained by the Legislative Commission on Pensions and Retirement to submit the document to the Commission, and modified some of the services performed by the Commission-retained actuary to reduce the cost of retirement plan-reimbursed actuarial services compensation.

- Laws 1991, Chapter 345, Article 4, Sections 3 and 4, reset the interest and salary actuarial assumptions for the Minneapolis Employees Retirement Fund (MERF) at six percent and four percent respectively and extended the MERF amortization target date from 2017 to 2020.
- Laws 1993, Chapter 336, Article 4, Section 1, defines administrative expenses for purposes of inclusion of administrative expenses as part of actuarial cost calculations.
- Laws 1993, Chapter 352, Section 7, provided, for the Public Employees Police and Fire Plan (PERA-P&F), for the reverse amortization of the amount of assets in excess of the plan's actuarial accrued liability.
- Laws 1995, Chapter 141, Article 3, Sections 14 and 15, implemented an age-related salary increase assumption for the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General), and the Teachers Retirement Association (TRA), and set fund-specific payroll growth actuarial assumption rates for MSRS-General, PERA-General, and TRA.
- Laws 1997, Chapter 233, Article 1, Sections 2 and 57, required, two years after the quadrennial experience studies, that the actuary retained by the Legislative Commission on Pensions and Retirement conduct quadrennial projection valuations for MSRS-General, PERA-General, TRA, and for any other plans for which the Commission determines a study of this type would be beneficial. These quadrennial projection valuations were required to be conducted in consultation with the Commission's executive director, the retirement fund directors, the state economist, the state demographer, the Commissioner of Finance, and the Commissioner of Employee Relations. The results were required to be reported in the same manner as the quadrennial experience studies. The quadrennial projection valuation cost was required to be paid by retirement plans, with the costs allocated among all plans for which the actuary retained by the Commission performs annual actuarial valuations.
- Laws 1997, Chapter 241, Article 4, Section 1, revised the salary increase assumption for the State Patrol Retirement Plan, the Correctional Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional), Public Employees Police and Fire Plan (PERA-P&F), and the first class city teacher retirement plans, and added a payroll growth assumption to the MSRS-General, MSRS-Correctional, State Patrol, Legislators, Elected State Officers, and Judges Plans; to PERA-General and PERA-P&F; to TRA; and to the first class city teacher retirement plans.
- Laws 1998, Chapter 390, Article 8, Section 2, changed the requirement for a quadrennial projection valuation from the three major statewide retirement plans to one of the statewide or major local retirement plans.
- Laws 1999, Chapter 222, Article 4, Section 14, set the calculated overfunding credit for the Public Employees Police and Fire Plan (PERA-P&F) if the plan has assets in excess of its actuarial accrued liability at the 30-year level percentage of covered pay amortization requirement applicable if the excess assets were an unfunded liability and reset as a new 30-year period for each valuation year.
- Laws 2000, Chapter 461, Article 1, again substantially modified the actuarial reporting law. Salary assumptions and post-retirement interest rate assumptions were reset, and the actuarial value of assets also was changed to an approach that approaches, but smoothes, market values.
- First Special Session Laws 2001, Chapter 10, Article 11, Section 18, exempted the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) from the automatic amortization target date resetting provisions of Minnesota Statutes, Section 356.215, and sets a 2031 amortization target date for PERA-General.
- Laws 2003, Chapter 392, Articles 9 and 11, the select and ultimate salary increase assumptions (i.e., rates varying based on both age and length of service) for the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General), the Teachers Retirement Association (TRA), the Duluth Teachers Retirement Fund Association (DTRFA), the Minneapolis Teachers Retirement Fund Association (MTRFA) and the St. Paul Teachers Retirement Fund Association (SPTRFA) were revised based on the 2000 experience studies. The structure of Minnesota Statutes, Section 356.215, also was reorganized and revised as part of a recodification of Minnesota Statutes, Chapter 356.

- Laws 2004, Chapter 223, Section 7, replaced a single contracting consulting actuary retained by the Legislative Commission on Pensions and Retirement to prepare the annual actuarial valuations of the various statewide and major local retirement plans with a single contracting consulting actuary retained jointly by the administrators of the seven retirement systems with Commission ratification.
- First Special Session Laws 2005, Chapter 8, Article 11, Section 2, set the interest and salary actuarial assumptions for the Bloomington Fire Department Relief Association at six percent and four percent respectively.
- Laws 2008, Chapter 349, Article 10, Sections 7 to 15.
 - The requirement that the pension funds to jointly retain an actuary to provide actuarial reports for the pension plans was revised by removing the requirement of having a joint actuary and the governing board of each pension plan system was authorized to retain its own actuary.
 - The Commission was authorized to contract with an actuarial firm to audit or review the actuarial valuations, experience studies, and actuarial cost analysis prepared by the actuaries retained by the various pension plan governing boards, with a \$140,000 initial appropriation provided to cover the cost of the contract.
 - The definition of approved actuary, for purposes of retaining and providing actuarial valuations, was revised by removing authority to be retained if the individual had 15 years of experience serving major public retirement plans in lieu of being a fellow in the Society of Actuaries. Obsolete language in the actuarial value of assets provision was removed.
 - The provision which had required actuarial valuations to be filed with the Legislative Commission on Pensions and Retirement, Commissioner of Finance, and Legislative Reference Library no later than six months after the end of the fiscal year was revised by removing valuation reporting deadlines.
 - The salary assumption and payroll growth assumption for the Elective State Officers Retirement Plan was removed (because the plan is closed and has no active members).
 - The salary growth assumptions for other plans were revised by reducing the MSRS-General select period to five years rather than ten; by revising the select calculation for DTRFA to 8 percent per year in years one to seven, 7.25 percent per year for years seven and eight, and 6.5 percent for years eight and nine; by increasing the percentage rate from 0.3 percent to 0.6 percent for MSRS-General and PERA-General; and by reducing the ultimate salary increase assumptions for the plans, at least in some age ranges, except for the State Patrol Retirement Plan, PERA-Correctional, and SPTRFA.
 - The payroll growth assumptions were decreased from 5.0 percent to 4.5 percent for MSRS-General, MSRS-Correctional, the State Patrol Retirement Plan, the Legislators Retirement Plan, TRA, and DTRFA; and from 5.0 percent to 4.0 percent for the Judges Retirement Plan; and from 6.0 to 4.5 percent for PERA-General, PERA-P&F, and PERA-Correctional.
 - After July 1, 2010, the salary and payroll growth assumptions were permitted to be revised by the governing boards of the applicable plan and become effective if the Legislative Commission on Pensions and Retirement does not take action to overrule the plan proposed change within one year.
 - The full funding dates for MSRS-Correctional, the Judges Retirement Plan, and PERA-P&F were reset to June 30, 2038. The full funding date for SPTRFA was reset as a rolling period 25 years from the year of the valuation, and the annual actuarial valuation was required to contain an exhibit indicating the SPTRFA funding ratio and contribution deficiency/sufficiency based on market value.
 - The MERF actuarial valuation, with respect to its Retirement Benefit Fund, and MSRS, PERA, and TRA plan actuarial valuations with respect to the Minnesota Post Retirement Investment Fund (Post Fund), must include an exhibit indicating the contribution necessary to amortize the unfunded liability of the Retirement Benefit Fund or the Post Fund, as applicable.

- 1.1 moves to amend S.F. No.; H.F. No., Document LCPR09-071,
- 1.2 as follows:

- 1.3 Page 1, line 14, delete "sixth" and insert "fifth"

- 1.1 moves to amend S.F. No.; H.F. No., Document LCPR09-071,
- 1.2 as follows:

- 1.3 Page 1, line 14, delete "sixth" and insert "....."

- 1.1 moves to amend S.F. No.; H.F. No., Document LCPR09-071,
- 1.2 as follows:

- 1.3 Page1, line 19, delete the new language and reinstate the stricken language

1.1 moves to amend S.F. No.; H.F. No., Document LCPR09-071,
1.2 as follows:

1.3 Page 1, after line 24, insert:

1.4 "(e) If a report under this section is not filed with the Legislative Commission
1.5 on Pensions and Retirement in a timely fashion, the chief administrative officer of the
1.6 applicable retirement plan shall pay a fine of \$..... per calendar day until the report is
1.7 filed. A fine under this paragraph is payable to the general fund."

1.1 moves to amend S.F. No.; H.F. No., Document LCPR09-071,
1.2 as follows:

1.3 Page 1, after line 24, insert:

1.4 "(e) If a report under this section is not filed with the Legislative Commission on
1.5 Pensions and Retirement in a timely fashion, the actuarial consulting firm retained by the
1.6 applicable retirement plan shall pay a fine of \$..... per calendar day until the report
1.7 is filed. A fine under this paragraph is payable to the general fund. A failure to pay a
1.8 fine under this paragraph disqualifies the consulting actuarial firm from entering into a
1.9 consulting contract with a retirement plan listed in section 356.30, subdivision 3, for a
1.10 period of one year from the date on which the fine is paid."

1.11 Page 2, line 1, before "This" insert "(a)"

1.12 Page 2, after line 1, insert:

1.13 "(b) The continuation of the performance of actuarial consulting services for the
1.14 Minnesota public employee retirement plan under contract after the effective date of this
1.15 section constitutes agreement to this provision."

1.1 A bill for an act

1.2 relating to retirement; statewide and major local retirement plans; establishing
1.3 deadline dates for filing actuarial valuations and experience studies amending
1.4 Minnesota Statutes 2008, section 356.215, subdivision 3.

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

1.6 Section 1. Minnesota Statutes 2008, section 356.215, subdivision 3, is amended to read:

1.7 Subd. 3. **Reports.** (a) The actuarial valuations required annually must be made as of
1.8 the beginning of each fiscal year.

1.9 (b) Two copies of the completed valuation must be delivered to the executive
1.10 director of the Legislative Commission on Pensions and Retirement, to the commissioner
1.11 of management and budget, and to the Legislative Reference Library. The copies of the
1.12 actuarial valuation must be filed with the executive director of the Legislative Commission
1.13 on Pensions and Retirement, the commissioner of management and budget, and the
1.14 Legislative Reference Library no later than the first day of the sixth month occurring
1.15 after the end of the previous fiscal year.

1.16 (c) Two copies of a quadrennial experience study must be filed with the
1.17 executive director of the Legislative Commission on Pensions and Retirement, with the
1.18 commissioner of management and budget, and with the Legislative Reference Library, not
1.19 later than the first day of the ~~11th~~ tenth month occurring after the end of the last fiscal year
1.20 of the four-year period which the experience study covers.

1.21 (d) For actuarial valuations and experience studies prepared at the direction of
1.22 the Legislative Commission on Pensions and Retirement, ~~two copies~~ one copy of the
1.23 document must be delivered to the governing or managing board or administrative officials
1.24 of the applicable public pension and retirement fund or plan.

2.1 **EFFECTIVE DATE.** This section is effective July 1, 2010.