



S.F. 669
(Betzold)

H.F. 741
(Kahn)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): PERA, MFRA, MPRA
Relevant Provisions of Law: Minnesota Statutes, 353.01, Subdivisions 2, 2a, and 6
General Nature of Proposal: Provides PERA-General Pension Coverage for Staff of Minneapolis Firefighters Relief Association and Minneapolis Police Relief Association
Date of Summary: February 23, 2009

Specific Proposed Changes

- Places staff of MFRA and MPRA in PERA-General, if not covered by local relief association plan.

Policy Issues Raised by the Proposed Legislation

1. Need for change.
2. Potential additional requests to shift pension coverage.
3. Mandatory coverage or election.
4. Cost implications for PERA.
5. Purchases of service credit issue.
6. Local approval.

Potential Amendments

The following amendments are drawn to delete-everything amendment S0669-1A:

S0669-2A adds a local approval clause.

S0669-3A is an alternative to S0669-2A and can be used if the Commission does not support a local approval clause but does want to revise the effective date section to specify an effective date other than the first day of the first full pay period after final enactment. The Commission would need to put a date in the blank

S0669-4A allows an election of PERA-General coverage rather than having that coverage be mandatory.

S0669-5A permits full actuarial value purchases of service credit in PERA-General for all or part of prior relief association employment.



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Ed Burek, Deputy Director *EB*
RE: S.F. 669 (Betzold); H.F. 741 (Kahn), in the Form of Delete-Everything Amendment S0669-1A: PERA-General; Providing PERA-General Pension Coverage for Staff of Minneapolis Firefighters Relief Association and Minneapolis Police Relief Association
DATE: February 19, 2009

Summary of Delete-Everything Amendment S0669-1A to S.F. 669 (Betzold); H.F. 741 (Kahn)

The delete-everything amendment S0669-1A to S.F. 669 (Betzold); H.F. 741 (Kahn) gives staff of the Minneapolis Firefighters Retirement Association (MFRA) and the Minneapolis Police Retirement Association (MPRA) coverage by the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) on a prospective basis and terminates continued coverage in any prior primary pension plan.

Discussion

Original bills S.F. 669 (Betzold); H.F. 741 (Kahn) created pension coverage in PERA-General for staff of the MFRA and MPRA by adding the two Minneapolis relief associations to PERA's definition of "government subdivision." Under PERA law, employees of a government subdivision are covered by PERA unless specific law requires coverage by another plan.

The delete-everything amendment provides greater clarification by doing the following, in addition to adding the relief associations to PERA's government subdivision definition:

- adds employees of the Minneapolis relief associations, who are not covered by the relief association plans, to PERA's included employee definition;
- clarifies that any employee of these relief associations who is covered by the relief association pension plan is not eligible for the PERA coverage;
- to avoid potential double coverage, specifies that contributions to the plan or plans that previously provided primary pension coverage must end when PERA coverage commences; and
- makes the provisions effective with the first full payroll period beginning after final enactment.

This delete-everything amendment also moves existing law language which provides PERA-General coverage for full-time Dakota County Agricultural Society employees from PERA's "public employee" definition to a more logical place in PERA's "included employee" definition.

Background Materials Attached

- Background information on the Minneapolis Firefighters Relief Association and Minneapolis Police Relief Association appears in **Attachments A and B**.
- Background on the differences between defined benefit plans and defined contribution plans appears in **Attachment C**.

Minneapolis Relief Association Staff

According to the Annual Financial Report for the year ended December 31, 2007, for the Minneapolis Police Relief Association (MPRA), that association had two staff members, Executive Director Renee Tessier and a second staff member, Sharyn North, not identified by title. Presumably, these two individuals are not members of relief association. Commission staff is not aware of the specific pension coverage currently provided to these two individuals.

The corresponding Minneapolis Firefighters Retirement Association (MFRA) report lists one staff member, Kathy Morkrid, who is employed as an administrative assistant. Commission staff is not aware of the specific pension coverage currently provided to this person. MFRA Executive Secretary Walter Schirmer is a member of the association covered by the relief association plan, and is also paid a considerable salary, although he is not specifically listed as staff in the report. Under MFRA law (Minnesota Statutes, Section 423C.03), if the executive director is an active plan member firefighter, he or she receives a salary as executive secretary not to exceed 50 percent of the salary of top grade firefighter. If the executive secretary is not an active plan member the salary cannot exceed the salary paid to the

executive directors of the Minnesota State Retirement System (MSRS), the Public Employees Retirement Association (PERA), or the Teachers Retirement Association (TRA).

The MFRA law specifying salary for the executive secretary also indicates that the plan provides salary, in lesser amounts, to the board president and all other elected board members. The president and elected board members are all either active or retired relief association members.

Discussion and Analysis

The delete-everything amendment to S.F. 669 (Betzold); H.F. 741 (Kahn) creates PERA-General pension coverage for staff of the Minneapolis fire and police relief associations who are not covered by the respective relief association pension plans, and terminates continued coverage for those placed in PERA-General from any prior primary pension plan, if any.

The proposed legislation raises a number of pension and related public policy issues that merit consideration and potential discussion by the Commission, as follows:

1. Need for Change. The issue is why this change is being proposed. MFRA has existed since 1868 and MPRA since 1890. Whatever pension coverage that was provided to the staff of these organizations was deemed acceptable and appropriate since these organizations were founded. What recent event or events create a sufficient need to revise or create PERA-General pension coverage for these relief association staff?

The Commission may wish to inquire about the current pension coverage provided to the individuals who would be covered by these bills. If they were covered by Minnesota public plans, logical plans would be PERA or the Minneapolis Employees Retirement Fund (MERF), but they are not currently covered by PERA and are unlikely to have MERF coverage because that plan closed to new members in 1979. If they had had MERF coverage, there is no justification for moving just a few MERF members to PERA.

2. Potential Additional Requests to Shift Pension Coverage. If the current coverage is of a defined contribution nature, the request to change pension coverage may stem in whole or part from the serious impact recent market declines have had on the value of defined contribution plans. Providing defined benefit pension coverage, through PERA-General, creates some certainty for these individuals, but it creates liability in PERA and shifts all investment risk to the plan and its employing units.

If these bills reflect a desire to shift from defined contribution to defined benefit plan coverage, the Commission may choose to be concerned that passage of these bills may lead to many more requests to revise coverage. There are Individual Retirement Account Plans (IRAP), covering various employees of the State Arts Board, Minnesota Humanities Commission, and Minnesota Historical Society under Minnesota Statutes, Chapter 354D, and many employees of the Minnesota State Colleges and Universities System (MnSCU), under Minnesota Statutes, Chapter 354B. These are defined contribution plans. The individuals covered by those plans have suffered large losses in recent markets. If these individuals were permitted to transfer to the TRA or MSRS defined benefit plans for prospective coverage, this may have a considerable adverse impact on the plan's cost structure because of the age of the entrants (normal cost tends to increase with age), and it shifts all investment risk to the plan contributing units.

3. Mandatory Coverage or Election. The issue is whether the PERA-General coverage should be mandatory as in these bills, or whether the bills should be revised to allow the individuals to elect this coverage. The individuals may wish to hear testimony from individuals who would be covered by these bills, and also from the employing units. A related issue is whether they have received sufficient information and counseling regarding this coverage, to reduce the chance of a later claim that the coverage harmed the individuals. If the likely years of continued employment are few, it is possible that the PERA coverage would have little value.
4. Cost Implications for PERA. The issue is the cost implications for PERA-General. PERA-General's actuarial condition as specified in the July 1, 2008, actuarial report appears below. The individuals who will be commencing PERA-General coverage under these bills are older than typical new hires first entering PERA-General coverage, having already provided a decade or two of service, according to information provided in the MPRA and MFRA financial reports. Older individuals entering a plan tend to increase a plan's normal cost compared to younger entrants. In the case presented by these bill, however, the impact on the fund will be immaterial because so few individuals are involved. The Commission may choose to be concerned, however, if this bill leads to additional requests to revise or transfer pension coverage.

PERA

2008*

<u>Membership</u>		
Active Members		145,238
Service Retirees		54,855
Disabilitants		2,046
Survivors		6,979
Deferred Retirees		42,308
Nonvested Former Members		<u>116,805</u>
Total Membership		368,231
<u>Funded Status</u>		
Accrued Liability		\$17,729,847,000
Current Assets		<u>\$13,048,970,000</u>
Unfunded Accrued Liability		\$4,680,877,000
Funding Ratio	73.60%	
<u>Financing Requirements</u>		
Covered Payroll		\$4,952,751,000
Benefits Payable		\$824,372,000
Normal Cost	7.74%	\$383,111,000
Administrative Expenses	<u>0.19%</u>	<u>\$9,410,000</u>
Normal Cost & Expense	7.93%	\$392,521,000
Normal Cost & Expense	7.93%	\$392,521,000
Amortization	<u>6.29%</u>	<u>\$311,528,000</u>
Total Requirements	14.22%	\$704,049,000
Employee Contributions	6.00%	\$297,220,000
Employer Contributions	6.63%	\$328,211,000
Employer Add'l Cont.	0.00%	\$0
Direct State Funding	0.00%	\$0
Other Govt. Funding	0.00%	\$0
Administrative Assessment	<u>0.00%</u>	<u>\$0</u>
Total Contributions	12.63%	\$625,431,000
Total Requirements	14.22%	\$704,049,000
Total Contributions	<u>12.63%</u>	<u>\$625,431,000</u>
Deficiency (Surplus)	1.59%	\$78,618,000

5. Purchases of Service Credit. The question is whether the bills should be revised to allow purchases of service credit at full actuarial value for prior periods of relief association employment. These individuals have provided many years of service to these relief associations, and are likely to want, either now or in the near future, to purchase service credit in PERA-General for some or all of the past service. There is risk to PERA if the Commission and Legislature authorize any service credit purchase, even if they are intended to be a full actuarial value purchase. A full actuarial value service credit purchase, which has become the Commission's standard approach when service credit purchases are permitted, does not provide a subsidy to the purchaser *if the pension fund earns a consistent 8.5 percent annual return* from the date the individual makes the purchase until the date of the individual's death. In the present investment market, there is considerable chance that the fund will be unable to achieve an 8.5 percent return. A sizable unintended subsidy may occur.
6. Local Approval. The issue is whether this act should have a local approval clause. Because the individuals covered by these bills are relief association employees, the employer contribution requirements to PERA-General will be a relief association expense. The City of Minneapolis is responsible for funding these relief associations, including their administrative expenses, although in these two relief associations administrative expenses are amortized rather than treated as an immediate expense.

Amendments for Consideration

The following amendments are drawn to delete-everything amendment S0669-1A.

- Amendment S0669-2A adds a local approval clause.
- Amendment S0669-3A is an alternative to Amendment S0669-2A and can be used if the Commission does not support a local approval clause but does want to revise the effective date section to specify an effective date other than the first day of the first full pay period after final enactment. The Commission would need to put a date in the blank.

- Amendment S0669-4A could be used to allow an election of PERA-General coverage rather than having that coverage be mandatory. Individuals would be given three months to make an irrevocable election. If an individual does not elect PERA-General or fails to make an election, present coverage continues.
- Amendment S0669-5A would permit full actuarial value purchases of service credit in PERA-General for all or part of prior relief association employment.

Attachment A

Background Information on the Minneapolis Firefighters Relief Association

- a. MFRA Establishment and Operation. The Minneapolis Firefighters Relief Association (MRFA) was established as an organization in 1868, initially to provide relief to disabled firefighters and to their families, when the Minneapolis Firefighters was a volunteer fire department, and was incorporated under Minnesota law in 1886, after the Minneapolis Fire Department became a paid fire department, in 1879. MFRA began paying service pensions to retiring firefighters in 1897. Membership in the MFRA was closed to new firefighters as of June 15, 1980, when pension coverage for newly hired Minneapolis firefighters shifted to the statewide Public Employees Police and Fire Plan (PERA-P&F). Prior to 2001, the relief association was named the Minneapolis Fire Department Relief Association and changed its name when its governing law was codified as Minnesota Statutes, Chapter 423C.

The MFRA is managed by a governing board of 12 members, of which two are active firefighters, eight are retired firefighters or surviving spouses, and two are appointed representatives of the City of Minneapolis. In addition to maintaining records and determining benefit amounts, the MFRA governing board is the investment authority for the assets of the special (pension) and general (non-pension) funds of the relief association.

In calendar year 2005, MFRA received total contributions of almost \$6.7 million (28.72 percent from the State of Minnesota, 71.10 percent from the City of Minneapolis, and 0.18 percent from the members), received net investment income of \$15.5 million, paid total retirement benefits of almost \$21.1 million, and paid administrative expenses of \$668,000 (28 percent for personnel, 48 percent for professional services, and 23 percent for conferences, communications, office rent, and other items).

- b. Nature of the Benefit Plan; Benefit Coverage. MFRA provides from its special fund a salary-related service pension to firefighters retiring at age 50 or older with at least five years of service, a disability benefit to temporarily or permanently disabled firefighters, a survivor benefit to the surviving family of a deceased active, retired, or disabled firefighter, and a return of contributions to the estate of deceased active, retired, or disabled firefighters on whose behalf no survivor benefit is payable. Pensions and benefits are based on the salary of a first grade firefighter, irrespective of the actual rank of the firefighter. Under Laws 1997, Chapter 233, Article 4, a joint-and-survivor optional annuity form can be elected in lieu of the automatic survivorship coverage otherwise provided by the fund.

Since 1990, the contributions by any member (eight percent of the pay of a first-grade firefighter) who has 25 or more years of service are not deposited in the special fund but into a health insurance account set up for the member. After retirement, in addition to the pension benefit paid from the association's special fund, the retiree also receives distributions from the health insurance account, which the retiree can use toward healthcare costs or other expenses of the retiree.

When a Minneapolis firefighter retires and begins drawing a service pension from the association's special fund, those benefits are eligible for increases annually through three different post-retirement increase mechanisms, which are:

1. Active Salary-Related Escalator. The first post-retirement adjustment is a standard escalator tied to increases in the salary of a first-grade firefighter. This escalator increases retirement benefits by the same percentage increase as the percentage increase in first-grade firefighter pay negotiated between the City of Minneapolis and the Minneapolis Firefighters Union.
2. 13th Check Adjustment. A second increase provision is based on the investment performance of the special fund of the relief association, and is referred to as the 13th check post-retirement adjustment. The 13th check post-retirement adjustment was enacted in 1989.
3. Additional Post-Retirement Adjustment. A third post-retirement increase mechanism was added to law in 2000. If the funding ratio (percentage of plan pension liabilities covered by plan assets) of the relief association exceeds 110 percent, the association is authorized to distribute a portion of the funding in excess of 110 percent of its liabilities to its benefit recipients.

Additionally, from its general fund, the MFRA provides a \$1,200 lump sum death benefit to the survivors or the estate of a deceased active or former firefighter and a \$102 per year of service lump sum retirement benefit to a retiring firefighter.

- c. Actuarial and Financial Reporting. The MFRA is required to prepare actuarial reporting under Minnesota Statutes, Sections 69.77, 356.215, 356.216, and 423C.15. The relief association is required to make financial reports under Minnesota Statutes, Sections 69.051 and 356.20.

Minnesota Statutes, Section 69.77, initially enacted in 1969 (Laws 1969, Chapter 223), and amended periodically thereafter, requires municipalities to fund their local relief associations on an actuarial basis. The basic provisions of the 1969 Local Police and Salaried Firefighters Relief Associations Financial Guidelines Act, adjusted for the MFRA, are as follows:

1. Each member of a local association is required to contribute at least eight percent of the salary used for calculating retirement benefits, with the contribution to be made by salary deduction.
2. The financial requirements of the associations must be calculated annually based on the most recent actuarial valuation. The financial requirements are to include normal cost and amortization of the unfunded accrued liability by the year 2010 or 15 years from the recognition date of a net new unfunded actuarial accrued liability, whichever is later, but not to exceed the average remaining life expectancy of its remaining members. The minimum obligation of the municipality to be raised by taxes each year is the financial requirements of the association, less member contribution amounts received under the fire state aid program, amounts received under the fire insurance premium surcharge, and amounts received under the relief association amortization aid programs for that year. If MFRA assets exceed 110 percent of the relief association actuarial accrued liability, the city is not obligated to make a normal cost contribution.
3. The levy required to meet the municipality's minimum obligation is outside statutory or charter levy limitations.
4. If a municipality fails to include an amount sufficient to meet the minimum obligation to the association, the relief association has the authority to certify the amount required to the county auditor for inclusion in the municipality's tax levy.
5. Investments of local associations must be in securities which are authorized investments under Minnesota Statutes, Chapter 356A.
6. Local associations are authorized to contract with outside investment advisors and are authorized to certify funds for investment by the State Board of Investment in the Minnesota Supplemental Investment Fund.
7. Actuarial valuations must be filed by the association with the State Auditor, the Legislative Commission on Pensions and Retirement, the Legislative Reference Library, and the municipality.
8. All articles of incorporation or bylaw amendments affecting benefits for a local relief association must be ratified by the municipality prior to becoming effective.
9. The penalty for a violation of the act is to make the transfer of funds received under the various state aid programs or the levying of taxes by the municipality unlawful.

Minnesota Statutes, Sections 356.215 and 356.215, require the preparation of actuarial valuations under the entry age normal cost actuarial method, using specified interest and salary rate actuarial assumptions, and calculating the actuarial requirements based on a specified amortization target date. Minnesota Statutes, Section 423C.15, provides for an adjustment to the city normal cost contribution, suspends city normal cost contributions in certain instances, provides 15-year amortization periods for actuarial losses after 2001, and limits the amortization target date revisions to the end of the average life expectancy of the relief association membership.

Minnesota Statutes, Section 69.051, a portion of the fire and police state aid programs, requires the preparation of a financial report and audit for qualification for fire and police state aid, with the report filed with the State Auditor and with the Legislative Commission on Pensions and Retirement. Minnesota Statutes, Section 356.20, requires annual financial reporting by various Minnesota public pension plans, but grandparents financial reporting under Minnesota Statutes, Section 69.051, by local fire and police relief associations.

Attachment B

Background Information on the Minneapolis Police Relief Association

- a. MPRA Establishment and Operation. The Minneapolis Police Retirement Association (MPRA) was established as an organization in 1890, initially to provide relief to disabled police officers and to the families of deceased police officers. The relief association was incorporated under Minnesota law in 1905. Membership in MPRA was closed to newly employed police officers as of June 15, 1980, when pension coverage for new hires shifted to the statewide Public Employees Police and Fire Plan (PERA-P&F).

The MPRA is managed by a governing board of nine members, of which seven are elected by the relief association membership and two are representatives of the City of Minneapolis. In addition to maintaining records and determining benefit amounts, the MPRA governing board is the investment authority for the assets of the special (pension) funds of the relief association.

In calendar year 2005, MPRA received total contributions of \$31.6 million (79.2 percent from the city and 20.8 percent from the state), received net investment income of \$20.1 million, paid total retirement benefits of \$33.8 million, and paid administrative expenses of \$590,000 (for which the relief association provided no itemization in its annual financial report).

- b. Nature of the Benefit Plan; Benefit Coverage. The MPRA provides from its special fund a salary-related service pension to police officers retiring at age 50 or older with at least five years of service, a disability benefit to temporarily or permanently disabled police officers, a survivor benefit to the surviving family of a deceased active, retired, or disabled police officer, and a return of contributions to the estate of deceased active, retired, or disabled police officers on whose behalf no survivor benefit is payable. Pensions and benefits are based on the salary of a top-grade police officer, irrespective of the actual rank of the police officer, and these pensions and benefits increase after retirement as the salary of a top-grade police officer increases (the “escalator” post-retirement adjustment mechanism) and also increase based on the investment performance of the special fund (the “13th check” post-retirement adjustment). Under Laws 1997, Chapter 233, Article 4, a joint-and-survivor optional annuity form can be elected in lieu of the automatic survivorship coverage otherwise provided by the fund.

Since 1992 (Laws 1992, Chapter 471, Article 1, Section 14), the contributions by any member (eight percent of the pay of a top-grade police officer) who has 25 or more years of service are not deposited in the special fund; but rather, the contribution is deposited in a health insurance account set up for the member. After retirement, in addition to the pension benefit paid from the association’s special fund, the retiree receives distributions from the health insurance account, which the retiree can use toward health care costs or other expenses of the retiree.

When a Minneapolis police officer retires and begins drawing a service pension from the association’s special fund, those benefits are eligible for increases annually through three different post-retirement increase mechanisms. Individually and as a package, these adjustment provisions are poorly designed and can produce increases which bear no relationship to inflation, and can produce erratic changes in the benefits over time. The post-retirement increase mechanisms are:

1. Active Salary-Related Escalator. The first post-retirement adjustment is a standard escalator tied to increases in the salary of a top-grade police officer. This escalator increases retirement benefits by the same percentage increase as the percentage increase in top-grade police officer pay negotiated between the city and the Minneapolis Police Federation.
2. 13th Check Adjustment. A second increase provision is based on the investment performance of the special fund of the relief association, and is referred to as the 13th check post-retirement adjustment. The 13th check post-retirement adjustment was enacted in 1989.
3. Additional Post-Retirement Adjustment. A third post-retirement increase mechanism was added to law in 2000 (Laws 2000, Chapter 461, Article 17). If the funding ratio (percentage of plan pension liabilities covered by plan assets) of the relief association exceeds 110 percent, the association is authorized to distribute a portion of the funding in excess of 110 percent of its liabilities to its benefit recipients.

- c. Actuarial and Financial Reporting. The MPRA is required to prepare actuarial reporting under Minnesota Statutes, Sections 69.77, 356.215, 356.216, and 423B.15. The relief association is required to make financial reports under Minnesota Statutes, Sections 69.051 and 356.20.

Minnesota Statutes, Section 69.77, initially enacted in 1969 (Laws 1969, Chapter 223), and amended periodically thereafter, requires municipalities to fund their local relief associations on an actuarial basis. The basic provisions of the 1969 Local Police and Salaried Firefighters Relief Associations Financial Guidelines Act are as follows:

1. Each member of a local association is required to contribute at least eight percent of the salary used for calculating retirement benefits, with the contribution to be made by salary deduction.
2. The financial requirements of the associations must be calculated annually based on the most recent actuarial valuation. The financial requirements are to include normal cost and amortization of the unfunded accrued liability by the year 2010. The minimum obligation of the municipality to be raised by taxes each year is the financial requirements of the association, less member contribution amounts received under the police or fire state aid program, and amounts received under the local police and salaried firefighter relief associations' amortization aid programs for that year.
3. The levy required to meet the municipality's minimum obligation is outside statutory or charter levy limitations.
4. If a municipality fails to include an amount sufficient to meet the minimum obligation to the association, the relief association has the authority to certify the amount required to the county auditor for inclusion in the municipality's tax levy.
5. Investments of local associations must be in securities which are authorized investments under Minnesota Statutes, Chapter 356A.
6. Local associations are authorized to contract with outside investment advisors and are authorized to certify funds for investment by the State Board of Investment in the Minnesota Supplemental Investment Fund.
7. Actuarial valuations must be filed by the association with the State Auditor, the Legislative Commission on Pensions and Retirement, the Legislative Reference Library, and the municipality.
8. All articles of incorporation or bylaw amendments affecting benefits for a local relief association must be ratified by the municipality prior to becoming effective.
9. The penalty for a violation of the act is to make the transfer of funds received under the various state aid programs or the levying of taxes by the municipality unlawful.

Minnesota Statutes, Sections 356.215 and 356.215, require the preparation of actuarial valuations under the entry age normal cost actuarial method, using specified interest and salary rate actuarial assumptions, and calculating the actuarial requirements based on a specified amortization target date. Minnesota Statutes, Section 423C.15, provides for an adjustment to the city normal cost contribution, suspends city normal cost contributions in certain instances, provides 15-year amortization periods for actuarial losses after 2001, and limits the amortization target date revisions to the end of the average life expectancy of the relief association membership.

Minnesota Statutes, Section 69.051, a portion of the police state aid program, requires the preparation of a financial report and audit for qualification for police state aid, with the report filed with the State Auditor and with the Legislative Commission on Pensions and Retirement. Minnesota Statutes, Section 356.20, requires annual financial reporting by various Minnesota public pension plans, but grandparents financial reporting under Minnesota Statutes, Section 69.051, by local fire and police relief associations.

- d. MPRA Funding Problems. Although not as poorly funded as the Minneapolis Firefighters Relief Association (MFRA) in the 1960s, the MPRA was a poorly funded retirement plan historically, with a funding ratio (assets divided by accrued liability) of two percent in 1967, of almost 11 percent in 1972, and of just under 29 percent in 1982. The MPRA was funded on a current disbursements/pay-as-you-go basis for almost a century, which greatly contributed to its general poor funding situation in the 1960s. Actuarial funding was phased in for the MPRA in 1969 under the Local Police and Paid Fire Relief Associations Guidelines Act and the 1969 legislation caused the improved funding ratios in the 1970s. In 1980, the MPRA was closed to new active members, a requirement to amortize the

unfunded actuarial accrued liability by 2010 was added, and an amortization state aid program was created, with the MPRA receiving about one-sixth of the \$6.5 million annual aid amount.

The 1969 and 1980 actuarial funding requirements, the addition of direct state aid programs in 1980, 1984, and 1996, combined with periodically strong investment markets since 1980, have produced consistently improving funded ratios during the period 1982 to 1999, with the MPRA becoming 50 percent funded in 1986, 75 percent funded in 1990, and 95 percent funded in 1999. The improved funding condition of the MPRA over the period 1982-1999 caused the employer requirement to drop from a high of \$15 million in 1985 to a low of \$3.5 million in 1999. Various circumstances caused erosion in the MPRA funded ratio since 1999, with a 2005 funded ratio of 77 percent. The circumstances causing the funded ratio to erode were the cumulative effect of various benefit increases, general investment underperformance, a significant loss in the relief association's large venture capital investment in Technomar, a board-driven redefinition of the salary level on which benefits are based, and the recent investment market decline. The funded ratio erosion has caused the employer contribution requirement to increase to \$32 million annually. The actuary for MPRA is currently recommending a strengthening of the post-retirement mortality assumption which, if approved by the Legislative Commission on Pensions and Retirement, will increase the actuarial accrued liability and unfunded actuarial accrued liability of the plan, will further reduce the plan's funded ratio, and will increase the employer contribution requirement.

Since 1969, when MPRA was first required to begin being funded on an actuarial basis, the MPRA has sought and received numerous benefit increases, including a service pension and disability benefit change in 1969 (Laws 1969, Chapter 560), a medical insurance authorization in 1975 (Laws 1975, Chapter 428), the addition of a health and welfare benefit in 1980 (Laws 1980, Chapter 607, Article XV), a service pension vesting change in 1987 (Laws 1987, Chapter 372, Article 2), the addition of a second post-retirement adjustment in 1989 (Laws 1989, Chapter 319, Article 19), a survivor benefit change and the addition of a health insurance benefit in 1990 (Laws 1990, Chapter 589, Article 1), a survivor benefit change in 1993 (Laws 1993, Chapter 124), a survivor benefit change in 1994 (Laws 1994, Chapter 590), the addition of optional survivor benefit forms and a post-retirement adjustment change in 1997 (Laws 1997, Chapter 233, Article 4), and the addition of a third post-retirement adjustment in 2000 (Laws 2000, Chapter 461, Article 17). The Minneapolis City Council approved all of these benefit increases and the benefit increases increased the MPRA actuarial accrued liability. Additionally, in 1994, without legislative action and without city approval, the MPRA board of trustees unilaterally redefined the salary of a top-grade patrol officer, on which benefit amounts are based, to include additional compensation items (i.e., overtime pay, shift differentials, dog handler compensation, etc.). The 1994 salary redefinition produced an increase in the MPRA actuarial accrued liability and unfunded actuarial accrued liability. The City of Minneapolis and MPRA again are litigating the issue of the proper determination of its covered salary figure.

During the period 1987-2004, the MPRA also declined to consolidate with the Public Employees Police and Fire Plan (PERA-P&F) under Minnesota Statutes, Chapter 353A, as 44 other local police and paid firefighter relief associations have done. The general thrust of the post-1987 benefit changes appears to have been to dissuade MPRA membership from pursuing a potential consolidation with PERA-P&F.

Attachment C

Background Information on Defined Contribution Pension Plans and Defined Benefit Pension Plans

Pension plans, whether in the public sector or in the private sector, are classified as being of one of two types, either a defined contribution plan or a defined benefit plan. The question is whether the pension plan is focused on the certainty of inputs or outputs. An Individual Retirement Account (IRA) or an Internal Revenue Code Section 403(b) tax-sheltered annuity is a defined contribution plan. The General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) is a defined benefit plan.

A defined contribution plan is a pension plan where the funding for the pension plan is fixed as a dollar amount or as a percentage of payroll and the fixed element of funding leaves a variable element, which is the benefit amount that is ultimately payable. Under a defined contribution plan, the plan member bears the inflation and investment risks. If there is poor investment performance, the plan member's pension assets will be depressed. If inflation impacts the immediate pre-retirement standard of living, the plan member's benefit will be less adequate in meeting the person's pre-retirement standard of living. The employer loses any turnover gain potential, where past plan funding becomes more concentrated on a subgroup of total plan membership. A defined contribution plan favors employees who are very employment mobile, where employment changes beyond a single employer or a multiple-employer group. It also favors short-term employees in comparison to defined benefit plans. It also favors employees with very stable and modestly increasing salary histories and employees who work considerably beyond the plan's normal retirement age.

A defined benefit plan is a pension plan where the pension benefit amount that is ultimately payable is pre-determinable or fixed using a formula or comparable arrangement. The fixed element of the benefit amount leaves a variable element, which is the funding required to provide that benefit. As a defined benefit plan, PERA-General and the employing units covered by the plan have the inflation and investment risks. If the investment return on plan assets is poor or if inflation produces ever-increasing final salaries and benefit payouts, that risk is borne by the plan and its associated employers. The member has the turnover risks. If a plan member terminates with modest service having been rendered or at an early age, the member will receive either no benefit or an inadequate benefit. A defined benefit plan favors long-term or long-service employees. It also favors employees who receive regular promotions and sizable salary increases throughout their careers or who achieve substantial salary increases in their compensation at the end of their career. It also favors employees who retire at or before the plan's normal retirement age.

Defined contribution pension plans predominate in the private sector, while defined benefit pension plans predominate in the public sector. The U.S. Department of Labor, in a study by the Bureau of Labor Statistics entitled National Compensation Survey: Employee Benefits in Private Industry in the United States, 2002, indicates that 36 percent of all private sector employees are covered by a defined contribution plan and that only 18 percent of private sector employees are covered by a defined benefit plan. In a study entitled Employee Benefits in State and Local Governments, 1998, the Bureau of Labor Statistics reports that 90 percent of public employees are covered by a defined benefit plan and only 14 percent of public employees are covered by a defined contribution plan. In both studies, the total of the percentages for the two types of plans exceeds the total number of employees covered by pension plans because some employees are covered by more than one plan.

1.1 moves to amend Document S0669-1A, the delete-everything
1.2 amendment to S.F. No. 669; H.F. No. 741, as follows:

1.3 Page 3, delete section 5 and insert:

1.4 "Sec. 5. EFFECTIVE DATE; LOCAL APPROVAL.

1.5 Sections 1 to 4 are effective on the first day of the first pay period after the date
1.6 the Minneapolis city council and the chief clerical officer of the city of Minneapolis
1.7 complete in a timely manner their compliance with Minnesota Statutes, section 645.021,
1.8 subdivisions 2 and 3."

- 1.1 moves to amend Document S0669-1A, the delete-everything
- 1.2 amendment to S.F. No. 669; H.F. No. 741, as follows:

- 1.3 Page 3, line 31, delete "final enactment" and insert "....."

1.1 moves to amend Document S0669-1A, the delete-everything
1.2 amendment to S.F. No. 669; H.F. No. 741, as follows:

1.3 Page 2, line 9, after "plan" insert "and who elect Public Employee Retirement
1.4 Association general plan coverage under section 5"

1.5 Page 3, line 28, delete "covered by this act" and insert "who elects Public Employee
1.6 Retirement Association general plan coverage under section 5"

1.7 Page 3, after line 28, insert:

1.8 "Sec. 5. **ELECTION OF COVERAGE.**

1.9 (a) An individual who is an employee of the Minneapolis Firefighters Relief
1.10 Association or the Minneapolis Police Relief Association on the effective date of this
1.11 section, and who is not excluded under section 353.01, subdivision 2b, due to coverage by
1.12 the relief association pension plan, may elect prospective Public Employees Retirement
1.13 Association general plan coverage under an election as specified in this section.

1.14 (b) An eligible individual under paragraph (a) may elect Public Employees
1.15 Retirement Association general plan coverage by making an election on a form provided
1.16 by the Public Employees Retirement Association executive director. For an election to be
1.17 valid, it must be made within 90 days of the effective date of this section and is irrevocable.

1.18 (c) The Public Employees Retirement Association must provide eligible individuals
1.19 with information and counseling regarding the Public Employees Retirement Association
1.20 general plan and the implications of electing that coverage.

1.21 (d) If an eligible individual elects not to be covered by the Public Employees
1.22 Retirement Association general plan, or if no election is made, the prior coverage, if
1.23 any, remains unchanged."

1.24 Renumber the sections in sequence and correct the internal references

1.1 moves to amend Document S0669-1A, the delete-everything
1.2 amendment to S.F. No. 669; H.F. No. 741, as follows:

1.3 Page 3, after line 28, insert:

1.4 "Sec. 5. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION; SERVICE
1.5 CREDIT PURCHASE AUTHORIZATION.

1.6 (a) Notwithstanding any provision of Minnesota Statutes, chapter 353, to the
1.7 contrary, unless the period to be purchased is credited as allowable service by another
1.8 retirement plan covered by Minnesota Statutes, section 356.30, or would be ineligible
1.9 for credit as allowable service under Minnesota Statutes, section 353.01, subdivision
1.10 16, if the service had been performed after the effective date of this section, an eligible
1.11 person described in paragraph (b) may purchase allowable service credit under Minnesota
1.12 Statutes, section 353.01, subdivision 16, from the Public Employees Retirement
1.13 Association general plan, for the period specified in paragraph (c), by making the payment
1.14 required under paragraph (d).

1.15 (b) An eligible person is a person who began employment as staff to the Minneapolis
1.16 Firefighters Relief Association or the Minneapolis Police Relief Association prior to the
1.17 effective date of this section, and due to that employment became a Public Employees
1.18 Retirement Association general plan member on the effective date of this section.

1.19 (c) The period of prior service credit available for purchase is the period of
1.20 employment with the Minneapolis Firefighters Relief Association or the Minneapolis
1.21 Police Relief Association, whichever is applicable, which would be includable service
1.22 under the Public Employees Retirement Association general plan if that service had been
1.23 performed after the effective date rather than before.

1.24 (d) Except as otherwise stated under this section, Minnesota Statutes, section
1.25 356.551, applies to this purchase.

1.26 (e) An eligible person may purchase allowable service credit for a portion of the
1.27 eligible period, resulting in prorated service credit.

1.28 (f) The election to purchase prior service credit under this section must be made in
1.29 writing and must be filed with the executive director of the Public Employees Retirement
1.30 Association.

1.31 (g) This section expires one year after the effective date of this section."

1.32 Renumber the sections in sequence and correct the internal references

1.1 moves to amend S.F. No. 669; H.F. No. 741, as follows:

1.2 Delete everything after the enacting clause and insert:

1.3 "Section 1. Minnesota Statutes 2008, section 353.01, subdivision 2, is amended to read:

1.4 Subd. 2. **Public employee.** "Public employee" means a governmental employee
1.5 performing personal services for a governmental subdivision defined in subdivision 6,
1.6 whose salary is paid, in whole or in part, from revenue derived from taxation, fees,
1.7 assessments, or from other sources. The term includes the classes of persons described or
1.8 listed in subdivision 2a. The term also includes persons who elect association membership
1.9 under subdivision 2d, paragraph (a), and persons for whom the applicable governmental
1.10 subdivision had elected association membership under subdivision 2d, paragraph (b). ~~The~~
1.11 ~~term also includes full-time employees of the Dakota County Agricultural Society.~~ The
1.12 term excludes the classes of persons listed in subdivision 2b for purposes of membership
1.13 in the association.

1.14 Sec. 2. Minnesota Statutes 2008, section 353.01, subdivision 2a, is amended to read:

1.15 Subd. 2a. **Included employees.** (a) Public employees whose salary from
1.16 employment in one or more positions within one governmental subdivision exceeds \$425
1.17 in any month shall participate as members of the association. If the salary is less than
1.18 \$425 in a subsequent month, the employee retains membership eligibility. Eligible public
1.19 employees shall participate as members of the association with retirement coverage by
1.20 the public employees retirement plan or the public employees police and fire retirement
1.21 plan under this chapter, or the local government correctional employees retirement plan
1.22 under chapter 353E, whichever applies, as a condition of their employment on the first
1.23 day of employment unless they:

1.24 (1) are specifically excluded under subdivision 2b;

1.25 (2) do not exercise their option to elect retirement coverage in the association as
1.26 provided in subdivision 2d, paragraph (a); or

1.27 (3) are employees of the governmental subdivisions listed in subdivision 2d,
1.28 paragraph (b), where the governmental subdivision has not elected to participate as a
1.29 governmental subdivision covered by the association.

1.30 (b) A public employee who was a member of the association on June 30, 2002,
1.31 based on employment that qualified for membership coverage by the public employees
1.32 retirement plan or the public employees police and fire plan under this chapter, or the
1.33 local government correctional employees retirement plan under chapter 353E as of June
1.34 30, 2002, retains that membership for the duration of the person's employment in that
1.35 position or incumbency in elected office. Except as provided in subdivision 28, the person

2.1 shall participate as a member until the employee or elected official terminates public
2.2 employment under subdivision 11a or terminates membership under subdivision 11b.

2.3 (c) Public employees under paragraph (a) include:

2.4 (1) physicians under section 353D.01, subdivision 2, who do not elect public
2.5 employees defined contribution plan coverage under section 353D.02, subdivision 2;

2.6 (2) full-time employees of the Dakota County Agricultural Society; and

2.7 (3) employees of the Minneapolis Firefighters Relief Association or Minneapolis
2.8 Police Relief Association who are not excluded employees under subdivision 2b due to
2.9 coverage by the relief association pension plan.

2.10 Sec. 3. Minnesota Statutes 2008, section 353.01, subdivision 6, is amended to read:

2.11 Subd. 6. **Governmental subdivision.** (a) "Governmental subdivision" means a
2.12 county, city, town, school district within this state, or a department, unit or instrumentality
2.13 of state or local government, or any public body established under state or local
2.14 authority that has a governmental purpose, is under public control, is responsible for the
2.15 employment and payment of the salaries of employees of the entity, and receives a major
2.16 portion of its revenues from taxation, fees, assessments or from other public sources.

2.17 (b) Governmental subdivision also means the Public Employees Retirement
2.18 Association, the League of Minnesota Cities, the Association of Metropolitan
2.19 Municipalities, charter schools formed under section 124D.10, service cooperatives
2.20 exercising retirement plan participation under section 123A.21, subdivision 5, joint powers
2.21 boards organized under section 471.59, subdivision 11, paragraph (a), family service
2.22 collaboratives and children's mental health collaboratives organized under section 471.59,
2.23 subdivision 11, paragraph (b) or (c), provided that the entities creating the collaboratives
2.24 are governmental units that otherwise qualify for retirement plan membership, public
2.25 hospitals owned or operated by, or an integral part of, a governmental subdivision or
2.26 governmental subdivisions, the Association of Minnesota Counties, the Minnesota
2.27 Inter-county Association, the Minnesota Municipal Utilities Association, the Metropolitan
2.28 Airports Commission, the University of Minnesota with respect to police officers covered
2.29 by the public employees police and fire retirement plan, the Minneapolis Employees
2.30 Retirement Fund for employment initially commenced after June 30, 1979, the Range
2.31 Association of Municipalities and Schools, soil and water conservation districts, economic
2.32 development authorities created or operating under sections 469.090 to 469.108, the Port
2.33 Authority of the city of St. Paul, the Spring Lake Park Fire Department, incorporated,
2.34 the Lake Johanna Volunteer Fire Department, incorporated, the Red Wing Environmental
2.35 Learning Center, the Dakota County Agricultural Society, ~~and~~ Hennepin Healthcare

3.1 System, Inc., and the Minneapolis Firefighters Relief Association and Minneapolis Police
3.2 Relief Association with respect to staff covered by the Public Employees Retirement
3.3 Association general plan.

3.4 (c) Governmental subdivision does not mean any municipal housing and
3.5 redevelopment authority organized under the provisions of sections 469.001 to 469.047;
3.6 or any port authority organized under sections 469.048 to 469.089 other than the Port
3.7 Authority of the city of St. Paul; or any hospital district organized or reorganized prior
3.8 to July 1, 1975, under sections 447.31 to 447.37 or the successor of the district; or the
3.9 board of a family service collaborative or children's mental health collaborative organized
3.10 under sections 124D.23, 245.491 to 245.495, or 471.59, if that board is not controlled
3.11 by representatives of governmental units.

3.12 (d) A nonprofit corporation governed by chapter 317A or organized under Internal
3.13 Revenue Code, section 501(c)(3), which is not covered by paragraph (a) or (b), is not a
3.14 governmental subdivision unless the entity has obtained a written advisory opinion from
3.15 the United States Department of Labor or a ruling from the Internal Revenue Service
3.16 declaring the entity to be an instrumentality of the state so as to provide that any future
3.17 contributions by the entity on behalf of its employees are contributions to a governmental
3.18 plan within the meaning of Internal Revenue Code, section 414(d).

3.19 (e) A public body created by state or local authority may request membership on
3.20 behalf of its employees by providing sufficient evidence that it meets the requirements in
3.21 paragraph (a).

3.22 (f) An entity determined to be a governmental subdivision is subject to the reporting
3.23 requirements of this chapter upon receipt of a written notice of eligibility from the
3.24 association.

3.25 **Sec. 4. PRIOR PENSION PLAN TERMINATION.**

3.26 As of the effective date of this section, contributions to the defined contribution or
3.27 defined benefit pension plan or plans which previously provided primary pension coverage
3.28 for any individual covered by this act must terminate and must not be resumed.

3.29 **Sec. 5. EFFECTIVE DATE.**

3.30 Sections 1 to 4 are effective on the first day of the first full payroll period
3.31 commencing after final enactment."

3.32 Amend the title accordingly

Senator Betzold introduced--

S.F. No. 669: Referred to the Committee on State and Local Government Operations and Oversight.

1.1 A bill for an act
 1.2 relating to retirement; permitting certain employees of the Minneapolis
 1.3 Firefighters Relief Association and Police Relief Association to be members of
 1.4 the Public Employees Retirement Association; amending Minnesota Statutes
 1.5 2008, section 353.01, subdivision 6.

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

1.7 Section 1. Minnesota Statutes 2008, section 353.01, subdivision 6, is amended to read:

1.8 Subd. 6. **Governmental subdivision.** (a) "Governmental subdivision" means a
 1.9 county, city, town, school district within this state, or a department, unit or instrumentality
 1.10 of state or local government, or any public body established under state or local
 1.11 authority that has a governmental purpose, is under public control, is responsible for the
 1.12 employment and payment of the salaries of employees of the entity, and receives a major
 1.13 portion of its revenues from taxation, fees, assessments or from other public sources.

1.14 (b) Governmental subdivision also means the Public Employees Retirement
 1.15 Association, the League of Minnesota Cities, the Association of Metropolitan
 1.16 Municipalities, charter schools formed under section 124D.10, service cooperatives
 1.17 exercising retirement plan participation under section 123A.21, subdivision 5, joint powers
 1.18 boards organized under section 471.59, subdivision 11, paragraph (a), family service
 1.19 collaboratives and children's mental health collaboratives organized under section 471.59,
 1.20 subdivision 11, paragraph (b) or (c), provided that the entities creating the collaboratives
 1.21 are governmental units that otherwise qualify for retirement plan membership, public
 1.22 hospitals owned or operated by, or an integral part of, a governmental subdivision or
 1.23 governmental subdivisions, the Association of Minnesota Counties, the Minnesota
 1.24 Inter-county Association, the Minnesota Municipal Utilities Association, the Metropolitan
 1.25 Airports Commission, the University of Minnesota with respect to police officers covered

2.1 by the public employees police and fire retirement plan, the Minneapolis Employees
2.2 Retirement Fund for employment initially commenced after June 30, 1979, the Range
2.3 Association of Municipalities and Schools, soil and water conservation districts, economic
2.4 development authorities created or operating under sections 469.090 to 469.108, the Port
2.5 Authority of the city of St. Paul, the Spring Lake Park Fire Department, incorporated,
2.6 the Lake Johanna Volunteer Fire Department, incorporated, the Red Wing Environmental
2.7 Learning Center, the Dakota County Agricultural Society, ~~and~~ Hennepin Healthcare
2.8 System, Inc., the Minneapolis Firefighters Relief Association, and the Minneapolis Police
2.9 Relief Association.

2.10 (c) Governmental subdivision does not mean any municipal housing and
2.11 redevelopment authority organized under the provisions of sections 469.001 to 469.047;
2.12 or any port authority organized under sections 469.048 to 469.089 other than the Port
2.13 Authority of the city of St. Paul; or any hospital district organized or reorganized prior
2.14 to July 1, 1975, under sections 447.31 to 447.37 or the successor of the district; or the
2.15 board of a family service collaborative or children's mental health collaborative organized
2.16 under sections 124D.23, 245.491 to 245.495, or 471.59, if that board is not controlled
2.17 by representatives of governmental units.

2.18 (d) A nonprofit corporation governed by chapter 317A or organized under Internal
2.19 Revenue Code, section 501(c)(3), which is not covered by paragraph (a) or (b), is not a
2.20 governmental subdivision unless the entity has obtained a written advisory opinion from
2.21 the United States Department of Labor or a ruling from the Internal Revenue Service
2.22 declaring the entity to be an instrumentality of the state so as to provide that any future
2.23 contributions by the entity on behalf of its employees are contributions to a governmental
2.24 plan within the meaning of Internal Revenue Code, section 414(d).

2.25 (e) A public body created by state or local authority may request membership on
2.26 behalf of its employees by providing sufficient evidence that it meets the requirements in
2.27 paragraph (a).

2.28 (f) An entity determined to be a governmental subdivision is subject to the reporting
2.29 requirements of this chapter upon receipt of a written notice of eligibility from the
2.30 association.

2.31 **Sec. 2. EFFECTIVE DATE.**

2.32 Section 1 is effective the day following final enactment.