S.F. 686 (Pappas) H.F. xxxx

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): St. Paul Teachers Retirement Fund Association (SPTRFA)
Relevant Provisions of Law: Minnesota Statutes, Section 354A.29
General Nature of Proposal: Revises SPTRFA post-retirement adjustment procedures
Date of Summary: March 4, 2009

Specific Proposed Changes

- Replaces the St. Paul Teachers Retirement Fund Association (SPTRFA) post-retirement adjustment as found in statutes and in a two-year pilot program enacted in 2007 with a post-retirement adjustment procedure presumably intended to match inflation up to five percent.

Policy Issues Raised by the Proposed Legislation

1. Need for the change.
2. Drafting issues.
3. Nature of Social Security match.
4. Implications of proposed change.
5. Deflation issue.
6. Cost.
7. Lack of consistency with TRA; fairness issues.
8. Generous proposed treatment by poorly funded plan.
9. DTRFA post-retirement adjustment issue.

Potential Amendments

Technical Amendment

S0686-1A clarifies the computation of the post-retirement adjustment and revises the language.

Substantive Amendments

S0686-2A can be used to revise SPTRFA employee and employer contribution provisions to percentages of salary to be determined by the Commission.

S0686-3A would index SPTRFA benefit adjustments to those provided by the Social Security Administration, except with a five percent cap. If this amendment is adopted, S0686-1A is not necessary since S0686-3A also includes the technical revisions.

S0686-4A, an alternative to S0686-3A, revises the bill to provide SPTRFA post-retirement adjustments which match those currently provided by law to TRA retirees, 2.5 percent per year. If this amendment is adopted, S0686-1A is not necessary.

S0686-5A, an alternative to S0686-3A or S0686-4A, revises the bill to provide SPTRFA post-retirement adjustments which match inflation up to 2.5 percent. If this amendment is adopted, S0686-1A is not necessary.

Substantive Amendments related to the Duluth Teachers Retirement Fund Association (DTRFA)

S0686-6A makes the changes provided by the bill as drafted also apply to the DTRFA.

S0686-7A is comparable to S0686-6A, but also revises DTRFA employee and employer contribution rates to percentages of salary to be determined by the Commission.

S0686-8A, an alternative to the other DTRFA amendments, indexes DTRFA post-retirement adjustments to those provided by the Social Security Administration, except with a five percent cap.

S0686-9A, an alternative to the other DTRFA amendments, would revise DTRFA post-retirement adjustments to match TRA's 2.5 percent annual increases.

S0686-10A, an alternative to the other DTRFA amendments, would revise DTRFA post-retirement adjustments to match inflation up to 2.5 percent.

State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Ed Burek, Deputy Director EB

RE: S.F. 686 (Pappas); H.F. xxxx: SPTRFA: Revising Post-Retirement Adjustment Procedures; Repealing Investment Performance Trigger; Revising Bylaws

DATE: March 4, 2009

Summary of S.F. 686 (Pappas); H.F. xxxx

S.F. 686 (Pappas); H.F. xxxx amends Minnesota Statutes 2008, Section 354A.29, Subdivision 3, the post-retirement adjustment provision for the St. Paul Teachers Retirement Fund Association (SPTRFA), replacing the post-retirement adjustment as found in statutes and in a two-year pilot program enacted in 2007 (Laws 2007, Chapter 134, Article 7, Sections 1 and 2) with a post-retirement adjustment procedure presumably intended to match inflation up to five percent.

Background Information

A. Information on the post-retirement adjustment provided by the St. Paul Teachers Retirement Fund Association (SPTRFA) and various other plans, including the plans managed by the State Board of Investment, is found in **Attachment A**.

B. Detailed information on the SPTRFA actuarial condition over time is found in **Attachment B**.

Discussion and Analysis

For many years prior to 1997, the St. Paul Teachers Retirement Fund Association (SPTRFA) had a post-retirement adjustment mechanism consisting solely of a thirteenth check. If the association's pension fund earned a level of yield (interest, dividends) exceeding a percentage specified in its law, the plan was authorized to distribute one half percent of its assets to its retirees.

This thirteenth check approach was replaced in 1997. In Laws 1997, Chapter 233, Article 3, the SPTRFA thirteenth check post-retirement adjustment mechanism was eliminated and was replaced by a post-retirement adjustment mechanism that combined an automatic annual two percent adjustment with an additional investment performance related adjustment. The recipients eligible for adjustments were those who had received a retirement annuity or benefit for at least 12 months as of the adjustment date. These individuals received an automatic two percent increase in the annuity or benefit amount, and could receive an addition investment performance based adjustment if certain conditions were met. The investment performance related adjustment was payable if the five-year annualized time-weighted total rate of return for the plan's assets exceeded the pre-retirement interest actuarial assumption rate, which for this plan in 8.5 percent. The adjustment is the amount by which the five-year annualized time-weighted rate of return exceeded 8.5 percent, after being downwardly modified by any contribution deficiency disclosed in the most recent actuarial valuation.

The post-retirement adjustment mechanism created in 1997 for SPTRFA was identical to the procedure created two years earlier for the Duluth Teachers Retirement Fund Association (DTRFA), and the Minneapolis Teachers Retirement Fund Association (MTRFA). Unfortunately, that procedure has two serious flaws. If retirees are to be kept whole, they need increases which match the inflation rate, ideally an inflation rate applicable to retirees. The adjustment procedures do not keep retirees whole. They either under compensate for inflation or overcompensate. The adjustments will match inflation only by chance. The second flaw is that the investment performance related component can create disaster for the fund, because it pays out increases based on recent rates of return without any recognition of the plan's funding level. The investment related procedure would not cause harm if the plan is fully funded. If the plan is less than fully funded, the increases paid to retirees increase the unfunded liability of the fund, which can further lower the plan funding level, creating a steadily worsening effect.

The MTRFA reached the point where its assets failed to fully cover the required reserves to the retiree annuities. Once that point is reached, it is impossible to improve the plan's financial condition through investment performance. The plan's investment performance, even if the returns were extraordinarily high, would simply be paid out to the retirees in the form of post-retirement adjustments, leaving no gain to address the funding level and unfunded liabilities. Given the MTRFA's condition, there were two ways to improve the plan's funding condition. One was to force feed it with additional assets, through additional contributions from the active employees, the employer, and the state. The second was to merge the MTRFA into a larger fund, the statewide Teachers Retirement Association (TRA). The Legislature first attempted to feed the plan additional assets. The plan was given over $17 million per year in direct state aid, and the employing units also contributed additional amounts. However, due to long standing investment problems and continued bleeding through the post-retirement adjustment mechanisms, the Legislature in 2006 merged the MTRFA into the TRA.

The SPTRFA funding condition since the plan's post-retirement provisions were revised in 1997 from a thirteenth check approach to the compounded adjustments provided by the automatic two percent increase plus the possible additional increase based on investment performance in excess of 8.5 percent is provided in **Attachment B**. The plan's funding ratio has been relatively constant over time. The plan has received direct state funding each year generally between $4 million and $5 million. The plan's contribution deficiency has been growing since 2001. As of 2007, the plan contribution deficiency was 8.03 percent of payroll, $18.7 million. That indicates the additional funding needed on an annual basis to fully fund the plan by the full funding date, which in the 2007 actuarial valuation was the year 2021. The reported contribution deficiency in 2008 was noticeably less, 1.9 percent of payroll or $4.7 million. However, that drop from a year earlier does not indicate a real improvement in the SPTRFA funding situation. Rather, it largely reflects a change to a rolling 25-year amortization period for this pension fund. This caused the computed amortization contribution requirement to change from 14.75 percent of payroll in 2007 to 8.68 percent of payroll in 2008. Because of this revised procedure even if total contributions equaled the contribution requirements, this plan is unlikely to ever reach full funding.

In 2007, the SPTRFA began to move away from the post-retirement provisions as stated in its statutes. There are several likely contributing factors. In 2006 (Laws 2006, Chapter 277, Article 1, Section 2), an uncoded provision passed which required a five percent cap on SPTRFA post-retirement adjustments after July 1, 2010. The plan administrators also recognize the dangers of its post-retirement adjustment procedures, especially given the plan's funding condition and persistent contribution deficiencies, and the inability of those procedures to match inflation. Under Laws 2007, Chapter 134, Article 7, Sections 1 and 2, the procedure in statute governing SPTRFA post-retirement adjustments was suspended for two years (2008 and 2009), replace by a move in the direction of a capped inflation match. Under these procedures, the plan matched inflation up to 2.5 percent, notwithstanding investment returns or funding levels. An inflation match up to five percent is permitted if both the one-year and five-year time weighted rate of return is at least 8.5 percent.

Since the 2007 provisions are no longer effective after 2009, at this point the SPTRFA could take no action and thus revert back to the procedure in its statutes (capped at five percent given the 2006 law), or the association can suggest another alternative. S.F. 686 (Pappas); H.F. xxxx is an effort to implement the alternative preferred by the SPTRFA. The drafting of the bill is somewhat ambiguous, a problem which the Commission may wish to address if the bill is recommended to pass in any form. It appears to be an attempt to replace the procedure in existing statutes and the 2007 temporary revisions with a procedure matching inflation up to five percent, without regard to investment results. All those in benefit status for a full year receive a full increase, while those in benefit status for at least three months as of the end of the prior calendar year receive prorated increases.

S.F. 686 (Pappas); H.F. xxxx raises several pension and related public policy issues, as follows:

1. <u>Need for the Change</u>. The issue is whether there is sufficient need for the Commission to take action. If no action is taken, SPTRFA post-retirement adjustments will be made under the provision in its statutes, Minnesota Statutes, Section 354A.29, which provides an automatic two percent increase plus possible additional increases if the five-year time weighted rate of return exceeds 8.5 percent, capped at a five percent total increase due to the 2006 uncoded law.

2. <u>Drafting Issues</u>. The issue is the drafting of the bill, specifically, the statement of the adjustment and its calculation. Since the bill will impact the benefits of retirees if it is enacted, the Commission may wish to ensure there is a clear statement specifying the annual benefit adjustment. The bill appears to provide a five percent capped inflation match, where inflation is to be measured from the third quarter of one calendar year to the next, but language on page 1, line 22, causes confusion when it refers to "quarter-to-quarter index changes."

3. <u>Nature of Social Security Match</u>. According to SPTRFA Executive Director Phil Kapler, the language in the bill measuring inflation is the same as that currently used by the Social Security Administration to revise Social Security benefit over time. The bill lays out the detail of that procedure because the SPTRFA believes it is an appropriate measure of inflation, which should match the percentage increase which coordinated plan SPTRFA retirees are receiving in the Social Security benefits, given the procedure currently used by the Social Security Administration. But the SPTRFA does not want to be tied to any future changes which the Social Security Administration may implement. An issue for the Commission is whether to revise the bill to index the SPTRFA increase to the increase paid by the Social Security Administration. If the SPTRFA is troubled by a change in procedures which the Social Security Administration implements, it could come in with legislation to revise its law.

4. Implications of Proposed Change. The issue is the advantages and disadvantages of the proposed policy change. The proposed change has the policy merit of keeping retirees whole, providing certain conditions are met. The Commission's Principles of Pensions Policy, Principle II.C.8.a., states:

> II.C.8.a. Retirement benefits should be increased during the period of retirement to offset the impact of economic inflation over time in order to maintain a retirement benefit that was adequate at the time of retirement.

The proposal is generally consistent with this policy statement, provided there is inflation rather than deflation, and provided that inflation does not exceed five percent.

5. Deflation Issue. The issue is that the provision ignores the possibility of deflation. The bill is a provision to increase benefits (see page 1, lines 17 and 21), and further declares on page 2, line 5, that the adjustment may not be less than zero. If we have a period of deflation, or periods where deflationary years are interspersed with years of inflation, this provision can overcompensate individuals. By providing an inflation match in years where inflation occurs without reducing benefits in years of deflation (or providing an increase in an inflationary year which is reduced to compensate for one or more previous deflationary years), over time the mechanism will provide benefits which more than compensation for the net change in the price level.

6. Cost. While guaranteed inflation matches have policy merit, they also impose liabilities on a plan. The issue is the unknown cost of this proposal and the lack of any provision in the bill to cover this cost, through either more aid or employee/employer contribution increases. The Commission Policy Principle II.C.8.b., states:

> II.C.8.b. The system of periodic post retirement increases should be funded on an actuarial basis.

For decades, however, the Legislature has been reluctant to provide inflation matches, due to its concern about the actuarial cost of these proposals and the resulting need to fund them, and the risk that inflation may be much higher than expected. Instead, the Legislature has relied largely on post-retirement increase mechanisms in whole or part based on investment returns, permitting post-retirement increases when they could at least partly be paid for by the investment markets rather than the taxpayer. Unfortunately, the adjustments have not matched inflation, and any system where increases depend on investment results is now seriously impaired due to the collapse of the investment markets.

Attached is a report from Gabriel Roeder Smith and Company, the actuarial consultant used by the SPTRFA, providing information about a study of the SPTRFA 2007 post-retirement provisions, comparing the expected cost of continuing those provisions compared to continuing under the provisions in that plan's statutes. However, while the study concludes that the 2007 approach is likely to provide a savings over the previous approach, the proposal before the Commission is not the 2007 approach but a revised version of it. The 2007 approach permitted inflation matches above 2.5 percent, not to exceed five percent, only if the most recent annual return and the five-year annualized return exceeded 8.5 percent. The proposal currently before the Commission is different, matching inflation up to five percent regardless of investment results. In practice, this is likely to impose more liabilities on the plan without matching assets, because there may be no investment gains to help cover those additional liabilities.

7. Lack of Consistency with TRA; Fairness Issues. The issue is the lack of consistency between this SPTRFA proposal and the statewide teachers plan regarding the treatment of retired teachers and retirees from other statewide plans. The Minnesota Post Retirement Investment Fund (Post Fund), which generated post-retirement adjustments for retirees from the plans of the Minnesota State Retirement System (MSRS), Public Employees Retirement Association (PERA), and the Teachers Retirement Association (TRA), has recently been dissolved under legislation that required the Post Fund to be dissolved if the funding ratio fell below 80 percent. Following that action, all retirees previously covered by the Post Fund will receive future adjustments of 2.5 percent per year regardless of the inflation rate. The total number of retirees and survivors in TRA exceeds 45,000. Retirees and survivors from MSRS plans exceed 25,000, and the PERA plans exceed 65,000. In contrast, there are about 2,700 benefit recipients in the SPTRFA. Consistency and fairness would suggest that the SPTRFA post-retirement adjustments should be the same as those provided to retired TRA members. Retired MSRS, PERA, and TRA members may question the appropriateness of addressing the SPTRFA post-retirement provision, providing them with full protection, provided inflation does not exceed five percent, when all pension funds, including the SPTRFA, have been devastated by the implosion of the investment markets, and state and local government lacks the resources to address the needs of the retirees from the big plans.

8. Generous Proposed Treatment by Poorly Funded Plan. The issue is that the SPTRFA is proposing a more generous post-retirement provision than the statewide plans, although the SPTRFA is in worse actuarial condition than the statewide plans. The SPTRFA proposes to match inflation up to five percent, while the statewide plans cannot provide any increase above 2.5 percent. The SPTRFA has a

much lower funding ratio TRA or MSRS-General, and considerably higher contribution deficiencies. (As discussed previously, the SPTRFA 2008 contribution deficiency is understated compared what it would be if that plan were using amortization procedures comparable to the statewide plans, because of a recent change in procedures for the SPTRFA's permitting it to use 25-year rolling amortization periods.) The 2007 and 2008 actuarial presentations for SPTRFA, MSRS-General, PERA-General, and TRA appear below.

	SPTRFA				MSRS-General			
	2008		2007		2008*		2007*	
Membership								
Active Members		4,142		3,999		48,823		48,379
Service Retirees		2,514		2,413		21,736		20,880
Disabilitants		26		24		1,620		1,547
Survivors		290		284		3,090		2,919
Deferred Retirees		1,695		1,693		14,951		14,751
Nonvested Former Members		1,403		1,538		6,865		7,007
Total Membership		10,070		9,951		97,085		95,483
Funded Status								
Accrued Liability		$1,432,040,000		$1,391,297,918		$9,994,602,000		$9,627,304,704
Current Assets		$1,075,951,000		$1,015,722,034		$9,013,456,000		$8,904,516,772
Unfunded Accrued Liability		$356,089,000		$375,575,884		$981,146,000		$722,787,932
Funding Ratio	75.13%		73.01%		90.18%		92.49%	
Financing Requirements								
Covered Payroll		$247,291,000		$233,099,133		$2,378,816,000		$2,241,738,286
Benefits Payable		$88,272,000		$82,809,201		$418,757,000		$392,058,387
Normal Cost	8.66%	$21,396,000	9.05%	$21,099,816	7.78%	$185,140,000	8.40%	$188,716,922
Administrative Expenses	0.29%	$717,000	0.30%	$699,297	0.23%	$5,471,000	0.23%	$5,155,998
Normal Cost & Expense	8.95%	$22,113,000	9.35%	$21,799,113	8.01%	$190,611,000	8.63%	$193,872,920
Normal Cost & Expense	8.95%	$22,113,000	9.35%	$21,799,113	8.01%	$190,611,000	8.63%	$193,872,920
Amortization	8.68%	$21,465,000	14.75%	$34,382,122	4.38%	$104,192,000	3.13%	$70,166,408
Total Requirements	17.63%	$43,578,000	24.10%	$56,181,235	12.39%	$294,803,000	11.76%	$264,039,328
Employee Contributions	5.61%	$13,864,000	5.64%	$13,139,595	4.50%	$107,047,000	4.25%	$95,273,877
Employer Contributions	8.48%	$20,972,000	8.52%	$19,861,736	4.50%	$107,047,000	4.25%	$95,273,877
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	1.64%	$4,057,000	1.91%	$4,451,216	0.00%	$0	0.00%	$0
Other Govt. Funding	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Administrative Assessment	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	15.73%	$38,893,000	16.07%	$37,452,547	9.00%	$214,094,000	8.50%	$190,547,754
Total Requirements	17.63%	$43,578,000	24.10%	$56,181,235	12.39%	$294,803,000	11.76%	$264,039,328
Total Contributions	15.73%	$38,893,000	16.07%	$37,452,547	9.00%	$214,094,000	8.50%	$190,547,754
Deficiency (Surplus)	1.90%	$4,685,000	8.03%	$18,728,688	3.39%	$80,709,000	3.26%	$73,491,574

	PERA-General				TRA			
	2008*		2007*		2008*		2007*	
Membership								
Active Members		145,238		146,226		76,515		77,694
Service Retirees		54,855		52,554		43,041		42,679
Disabilitants		2,046		1,988		641		636
Survivors		6,979		6,894		3,299		3,223
Deferred Retirees		42,308		39,722		12,168		12,636
Nonvested Former Members		116,805		109,599		22,115		22,914
Total Membership		368,231		356,983		157,779		159,782
Funded Status								
Accrued Liability		$17,729,847,000		$17,705,626,649		$22,230,841,000		$21,470,314,497
Current Assets		$13,048,970,000		$12,985,324,048		$18,226,985,000		$18,794,389,076
Unfunded Accrued Liability		$4,680,877,000		$4,720,302,601		$4,003,856,000		$2,675,925,421
Funding Ratio	73.60%		73.34%		81.99%		87.54%	
Financing Requirements								
Covered Payroll		$4,952,751,000		$4,957,789,826		$3,846,190,000		$3,814,373,772
Benefits Payable		$824,372,000		$784,013,433		$1,330,837,000		$1,273,093,384
Normal Cost	7.74%	$383,111,000	7.77%	$385,359,657	8.77%	$337,281,000	9.37%	$357,343,265
Administrative Expenses	0.19%	$9,410,000	0.19%	$9,419,801	0.27%	$10,385,000	0.29%	$11,061,684
Normal Cost & Expense	7.93%	$392,521,000	7.96%	$394,779,458	9.04%	$347,666,000	9.66%	$368,404,949
Normal Cost & Expense	7.93%	$392,521,000	7.96%	$394,779,458	9.04%	$347,666,000	9.66%	$368,404,949
Amortization	6.29%	$311,528,000	5.35%	$265,241,756	6.04%	$232,310,000	3.78%	$144,183,329
Total Requirements	14.22%	$704,049,000	13.31%	$660,021,214	15.08%	$579,976,000	13.44%	$512,588,278
Employee Contributions	6.00%	$297,220,000	5.88%	$291,588,497	5.50%	$211,704,000	5.51%	$210,143,378
Employer Contributions	6.63%	$328,211,000	6.38%	$316,425,146	5.69%	$218,752,000	5.72%	$218,013,895
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	0.00%	$0	0.00%	$0	0.50%	$19,170,000	0.49%	$18,819,110
Other Govt. Funding	0.00%	$0	0.00%	$0	0.06%	$2,500,000	0.07%	$2,500,000
Administrative Assessment	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	12.63%	$625,431,000	12.26%	$608,013,643	11.75%	$452,126,000	11.78%	$449,476,383
Total Requirements	14.22%	$704,049,000	13.31%	$660,021,214	15.08%	$579,976,000	13.44%	$512,588,278
Total Contributions	12.63%	$625,431,000	12.26%	$608,013,643	11.75%	$452,126,000	11.78%	$449,476,383
Deficiency (Surplus)	1.59%	$78,618,000	1.05%	$52,007,571	3.33%	$127,850,000	1.65%	$63,111,895

** Current Assets and Amortization results reflect the 2007 Asset Valuation Method change*

9. DTRFA Post-Retirement Adjustment Issue. The issue is what, if anything, should be done with the Duluth Teachers Retirement Fund Association (DTRFA) post-retirement adjustment provisions. If this SPTRFA proposal were to pass, or if the Commission and Legislature chose to revise the proposal to provide the same adjustment as TRA, or in some other manner, the DTRFA post-retirement adjustment procedure would be the only one still basing adjustments on the automatic two percent plus a possible additional increase based on five-year annualized time weighted returns in excess of 8.5 percent. That system can place a considerable drain on the fund and will cause a death spiral if the fund's assets fall below that necessary to fully fund the pensions of retirees and survivors, unless that can be offset by additional contributions or aid. No one knows what condition the DTRFA will be in when the current market meltdown finally begins to turn around. As of this writing, equity markets in 2008 and in calendar year 2009 to date are down at least 40 percent and in some cases more. Since all these funds are heavily invested in equities, the impact on pension fund assets and funding ratios (based on market value) has been enormous. The Commission may wish to decide whether to include the DTRFA, by an amendment, in whatever revisions to post-retirement adjustments the Commission concludes is appropriate in these difficult times.

Potential Amendments for Commission Consideration

- Amendment S0686-1A is a technical amendment to clarify the computation of the post-retirement adjustment and make other language revisions.

- Amendment S0686-2A can be used to revise SPTRFA employee and employer contribution provisions to percentages of salary to be determined by the Commission.

- Amendment S0686-3A would index SPTRFA benefit adjustments to those provided by the Social Security Administration, except with a five percent cap. If this amendment is adopted, Amendment S0686-1A is not necessary since Amendment S0686-3A also includes the technical revisions.

- Amendment S0686-4A, an alternative to Amendment S0686-3A, revises the bill to provide SPTRFA post-retirement adjustments which match those currently provided by law to TRA retirees, 2.5 percent per year. If this amendment is adopted, Amendment S0686-1A is not necessary.

- Amendment S0686-5A, an alternative to Amendments S0686-3A or S0686-4A, revises the bill to provide SPTRFA post-retirement adjustments which match inflation up to 2.5 percent. If this amendment is adopted, Amendment S0686-1A is not necessary.

The following amendments can be used to make revisions in the DTRFA post-retirement procedures:

- Amendment S0686-6A would make the changes provided by the bill as drafted also apply to the Duluth Teachers Retirement Fund Association (DTRFA).

- Amendment S0686-7A is comparable to Amendment S0686-6A, but also revises DTRFA employee and employer contribution rates to percentages of salary to be determined by the Commission.

- Amendment S0686-8A, an alternative to the other amendments for the DTRFA, would index DTRFA post-retirement adjustments to those provided by the Social Security Administration, except with a five percent cap.

- Amendment S0686-9A, an alternative to the other DTRFA amendments, would revise DTRFA post-retirement adjustments to match TRA's 2.5 percent annual increases.

- Amendment S0686-10A, an alternative to the other DTRFA amendments, would revise DTRFA post-retirement adjustments to match inflation up to 2.5 percent.

Attachment A

Post Retirement Increases

from the

Minnesota Post Retirement Investment Fund (MPRIF)
Minneapolis Employees Retirement Fund (MERF)
Minneapolis Teachers Retirement Fund Association (MTRFA)
Duluth Teachers Retirement Fund Association (DTRFA)
St. Paul Teachers Retirement Fund Association (SPTRFA)
and
Increases in the Consumer Price Index (CPI-W)

	Percent Increase					
Effective Date	CPI [1]	MPRIF	MERF	MTRFA [2]	DTRFA [3]	SPTRFA [4]
	%	%	%	%	%	%
1/1/09	4.1	2.500	3.50	--	2.24	2.50
1/1/08	2.9	2.500	2.66868	--	5.30	2.30
1/1/07	3.2	2.500	3.50	--	2.00	2.00
1/1/06	3.5	2.500	2.59039	2.00	2.00	2.00
1/1/05	2.6	2.500	3.17372	2.00	2.00	2.00
1/1/04	2.2	2.103	2.10347	2.00	2.00	2.00
1/1/03	1.4	0.7450	0.74456	2.00	2.00	2.00
1/1/02	2.7	4.4935	5.34299	2.31	5.25	3.70
1/1/01	3.5	9.5342	10.50999	8.81	10.2391	7.6723
1/1/00	2.2	11.1436	10.2275	9.67	9.0275	9.2619
1/1/99	1.3	9.8254	8.0432	7.33	7.0125	7.2145
1/1/98	2.3	10.0876	6.6680	7.28	6.3407	7.00
1/1/97	2.9	8.0395	3.9500	6.23	5.6315	--
1/1/96	2.9	6.3954	3.5950	3.85	4.6424	--
1/1/95	2.5	3.9850	3.1440	2.13	--	--
1/1/94	2.8	6.0170	3.8240	4.50	--	--
1/1/93	2.9	4.5530	5.9840	--	--	--
1/1/92	4.1	4.2950	0.0000	--	--	--
1/1/91	5.2	5.1000	5.0790	--	--	--
1/1/90	4.8	4.0400	6.9180	--	--	--
1/1/89	4.0	6.9180	5.93591	--	--	--
1/1/88	3.6	8.0540	9.37158	--	--	--
1/1/87	1.6	9.7920	7.5890	--	--	--
1/1/86	3.5	7.9000	8.7160	--	--	--
1/1/85	3.5	6.9050	7.3370	--	--	--
1/1/84	3.0	7.4990	10.77	--	--	--
1/1/83	6.0	6.8530	9.17	--	--	--
1/1/82	10.3	7.4360	--	--	--	--
1/1/81	13.4	3.2090	--	--	--	--
1/1/80	11.4	0	--	--	--	--
1/1/79	7.7	0	--	--	--	--
1/1/78	6.5	4.00	--	--	--	--

Note: These increases are permanent increases to retiree annuities.

[1] Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) annual average percent change
[2] MTRFA first paid a post retirement adjustment under the new system on 1/1/94. MTRFA was merged into TRA in 2006.
[3] DTRFA first paid a post retirement adjustment under the new system on 1/1/96
[4] SPTRFA first paid a post retirement adjustment under the new system on 1/1/98

GRS

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December 12, 2008

Mr. Phillip Kapler
Executive Director
St. Paul Teachers' Retirement Fund Association
1619 Dayton Avenue, Room 309
Saint Paul, MN 55104-6206

Re: Mandated Study and Report on St. Paul Teachers' Retirement Fund Association Post-retirement Adjustment Experience

Dear Phil:

We have estimated the cost impact of the post-retirement benefit adjustment provisions under the pilot project authorized by the Legislature. Unless otherwise noted, the cost impact was measured using the same methods, assumptions, and data as were used in the actuarial valuation of the St. Paul Teachers' Retirement Fund Association ("SPTRFA") as of July 1, 2008, performed by Gabriel, Roeder, Smith & Company.

Prior to the pilot project, benefits for current retirees were increased 2.0 % compounded annually. Additional ad hoc increases were given in years when the five year time-weighted rate of asset return exceeded 8.50 %. Increases occurred on January 1st of each year. To be eligible, the member must have been receiving benefits for at least 12 months at the prior fiscal year end. For purposes of this analysis this benefit provision will be referred to as the "Old COLA".

For calendar years 2008 and 2009, the post-retirement adjustment was determined under a pilot project (the "Pilot COLA") authorized by the Legislature (Laws of Minnesota 2007, Chapter 134, Article 7). Increases were to be based on the annual increase in average third quarter values of the Consumer Price Index urban wage earners and clerical workers all items index as reported by the Bureau of Labor Statistics within the United States Department of Labor.

The Pilot COLA was not to be a negative number and was not to exceed 2.5% if the rate of investment return of the retirement fund either for the most recent fiscal year or for the most recent five year period was less than 8.5%. In any case, the increase was limited to a maximum of 5.0% in any year. Partial increases were granted for new retirees in the calendar year immediately preceding the increase on the basis of whole calendar quarters that the benefit recipient had been in pay status.

The actual cost-of-living adjustments granted at January 1, 2008 and January 1, 2009, under these new provisions were 2.3% and 2.5%, respectively.

The cost impact was measured using two different methodologies.

Methodology 1 – Short-term approach:

We compared the baseline retiree liabilities at July 1, 2008, with what they would have been had the Old COLA remained in place. Had the Pilot COLA not been in place, we calculate that five year asset returns would have resulted in ad hoc increases of 6.2% and 4.5% at January 1, 2008 and 2009, respectively. We adjusted the retiree benefits payable as of July 1, 2008 to reflect the 6.2% increase that would have been granted the preceding January 1 (rather than the actual increase of 2.3%), as well as removed the more favorable eligibility conditions that would have been applied to new retirees under the pilot program. We also applied the Old COLA increase of 4.5% as of January 1, 2009, in place of the actual increase of 2.5%.

The impact of the higher increases that would have been granted under the Old COLA provisions as of January 1, 2008 and 2009 is shown below.

Current Annuitants Actuarial Accrued Liability		
Baseline Valuation Results	Old COLA Applied as of 1/1/2008 and 1/1/2009	Pilot Project Savings
$936,297,077	$983,300,612	$47,003,535

Methodology 2 – Long-term approach:

The period over which the Pilot COLA was actually in place is likely too short to draw meaningful conclusions. For a longer term perspective we examined the Fund's one and five-year rates of return over the last 20 years to determine the cost-of-living adjustments that would have been granted had the Old COLA and Pilot COLA programs been in effect during that time.

The following table shows the one and five year asset return rates and contribution rate deficiency as of June 30, as well as the annual increase in Old and Pilot COLAs for the following January 1, and the annual increase in CPI for the third quarter. SPTRFA staff provided actual COLA increases for 1998-2009, annual asset returns since June 30, 1989 and time-weighted five year average returns for 2002-2008. Five year geometric asset returns were used for periods prior to 2002, as time-weighted return data was not readily available, however we do not believe the results are materially affected by the use of geometric averages.

Fiscal Year End	Annual Asset Return	5 Year Average Return[1]	Contribution Rate Deficiency	Old COLA[2,3]	Pilot COLA[2]	CPI[4]
6/30/2008	-6.6%	11.0%	-1.9%	4.5%	2.5%	5.9%
6/30/2007	19.8%	13.1%	-8.0%	6.2%	2.3%	2.3%
6/30/2006	12.6%	8.2%	-8.7%	2.0%	2.5%	4.2%
6/30/2005	11.8%	4.9%	-7.3%	2.0%	2.5%	3.2%
6/30/2004	19.7%	4.6%	-5.0%	2.0%	2.5%	2.9%
6/30/2003	2.9%	3.1%	-3.5%	2.0%	2.1%	2.1%
6/30/2002	-3.7%	5.7%	-1.5%	2.0%	1.2%	1.2%
6/30/2001	-2.4%	10.4%	1.3%	3.7%	2.5%	2.8%
6/30/2000	10.8%	14.4%	0.7%	7.7%	3.7%	3.7%
6/30/1999	9.5%	16.0%	-0.6%	9.3%	2.2%	2.2%
6/30/1998	16.7%	14.2%	-1.2%	7.2%	1.4%	1.4%
6/30/1997	18.9%	13.6%	-1.1%	7.1%	2.1%	2.1%
6/30/1996	16.6%	12.2%	-1.1%	5.7%	2.9%	2.9%
6/30/1995	18.8%	10.8%	-2.1%	4.2%	2.8%	2.8%
6/30/1994	1.2%	9.4%	-3.1%	2.8%	2.5%	2.6%
6/30/1993	13.3%	12.0%	-3.3%	5.4%	2.7%	2.7%
6/30/1992	12.0%	8.0%	-4.6%	2.0%	2.5%	3.1%
6/30/1991	9.2%	7.8%	-3.5%	2.0%	2.5%	4.2%
6/30/1990	11.5%	11.9%	-3.3%	5.2%	4.8%	4.8%
6/30/1989	14.0%	12.5%	-3.8%	5.9%	5.0%	5.0%

Notes:

1. Time-weighted returns for 2002-2008 provided by SPTRFA. Geometric averages for 2001 and prior.

2. COLA for January 1 following fiscal year end.

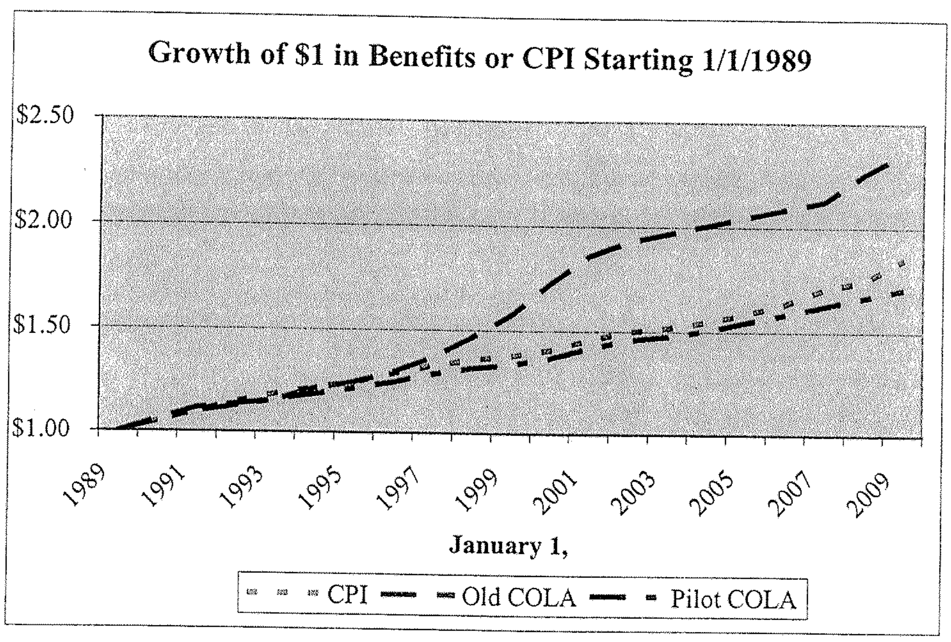
3. 2% plus the 5-year average rate of return in excess of 8.5% times one minus the contribution deficiency.

4. Annual increase in average calendar third quarter CPI.

COLAs in shaded cells are actual values as provided by SPTRFA.

Note that ad hoc increases over the fixed 2% COLA would have been paid in 13 of the previous 20 years under the Old COLA program. COLA increases under the Pilot program would have been equal to the CPI target in 12 of the past 20 years and limited to 2.5% in the remaining 8 years.

The compounding effect of the annual adjustments under the Old and Pilot COLA programs is compared to the effect of inflation (as measured by the CPI) over the past 20 years in the following graph. For purposes of this graph, the growth of $1.00 in goods or benefits is shown. The geometric average increase over this period results in an annual increase in CPI of 3.1%, Old COLA increase of 4.4%, and Pilot COLA increase of 2.7%.



The Minnesota Legislative Commission on Pensions and Retirement Standards for Actuarial Work determines, among other things, the assumptions to be used and the benefits to be recognized when preparing actuarial valuations. Current practice does not take future ad hoc increases under the Old COLA program into account for purposes of determining Fund liabilities (the base 2% annual increases is taken into account). The effect of any ad hoc increase is recognized as an actuarial loss in the year the increase is granted, and amortized over a period of years (currently 25).

Understanding that past history is not always an accurate predictor of future events, we nevertheless believe that it is useful to show what the July 1, 2008 valuation results would have been assuming the historical rates of COLA increases under the Old and Pilot programs were to continue in the future. We have provided alternative valuation results assuming a 4.4% and 2.7% annual COLA assumption (instead of 2%) for comparison. The long-term cost-of-living adjustment assumption is applied first at January 1, 2010. These valuation results are provided in Appendix I.

The date of the valuation was July 1, 2008. This means that the results included in this analysis will indicate the probable effects of what the July 1, 2008 valuation would have shown if the various provisions were in effect on that date.

Both actuaries submitting this report are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

If you have any questions or require additional information, please don't hesitate to contact us.

Sincerely,

Jim K

W. James Koss, ASA, EA, MAAA

Cathy Nagy

Cathy Nagy, FSA, EA, MAAA

WJK:CN/lr
Enclosures

cc Mr. Lawrence A. Martin, Executive Director of LCPR

St. Paul Teachers' Retirement Fund Association
Actuarial Liabilities and Supplemental Contribution Rate as of July 1, 2008
Mandated Study and Report on St. Paul Teachers' Retirement Fund Association Post-retirement Adjustment Experience
(dollars in thousands)

	Published June 30, 2008 Valuation Results Average 2% COLA	Results if Pre-Fund Estimated Full COLA: Continue Prior Provisions Average 4.4% COLA	Results if Pre-Fund Estimated Full COLA: Continue Pilot Study Provisions Average 2.7% COLA
A. DETERMINATION OF PRESENT VALUE OF PROJECTED BENEFITS			
1. Active Members			
a. Retirement Benefits*	$ 616,607	$ 765,639	$ 654,748
b. Disability Benefits	7,447	8,719	7,782
c. Surviving Spouse and Child Benefits	10,053	12,508	10,676
d. Withdrawals	28,495	33,881	29,853
e. Total	$ 662,602	$ 820,747	$ 703,059
2. Deferred Retirements	$ 42,590	$ 49,576	$ 44,599
3. Former Members Without Vested Rights	1,737	1,737	1,737
4. Annuitants	936,297	1,131,630	986,900
5. Total	$ 1,643,226	$ 2,003,690	$ 1,736,295
B. PRESENT VALUE OF FUTURE NORMAL COSTS	211,186	258,338	223,222
C. DETERMINATION OF ACTUARIAL ACCRUED LIABILITY (AAL) (A.5 - B)	1,432,040	1,745,353	1,513,073
D. DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)			
1. Actuarial Accrued Liability (C)	$ 1,432,040	$ 1,745,353	$ 1,513,073
2. Current Assets	1,075,951	1,075,951	1,075,951
3. Unfunded Actuarial Accrued Liability (D.1 - D.2)	$ 356,089	$ 669,402	$ 437,122
E. DETERMINATION OF SUPPLEMENTAL CONTRIBUTION RATE			
1. Present Value of Future Payrolls Through the Amortization Date of June 30, 2033 (25-year rolling amortization)	4,104,379	4,104,379	4,104,379
2. Supplemental Contribution Rate (D.3 / E.1)	8.68%	16.31%	10.65%

**Includes members on leave of absence.*

St. Paul Teachers' Retirement Fund Association
Contribution Sufficiency as of July 1, 2008
Mandated Study and Report on St. Paul Teachers' Retirement Fund Association Post-retirement Adjustment Experience
(dollars in thousands)

	Published June 30, 2008 Valuation Results Average 2% COLA		Results if Pre-Fund Estimated Full COLA: Continue Prior Provisions Average 4.4% COLA		Continue Pilot Study Provisions Average 2.7% COLA	
	Percent of Payroll	Dollar Amount	Percent of Payroll	Dollar Amount	Percent of Payroll	Dollar Amount
A. STATUTORY CONTRIBUTIONS - CHAPTER 354A						
1. Employee Contributions	5.61%	$ 13,864	5.61%	$ 13,864	5.61%	$ 13,864
2. Employer Contributions	8.48%	$ 20,972	8.48%	$ 20,972	8.48%	$ 20,972
3. Supplemental Contribution						
a. 1996 Legislation	0.50%	1,230	0.50%	1,230	0.50%	1,230
b. 1997 Legislation	1.14%	2,827	1.14%	2,827	1.14%	2,827
4. Total	15.73%	$ 38,893	15.73%	$ 38,893	15.73%	$ 38,893
B. REQUIRED CONTRIBUTIONS - CHAPTER 356						
1. Normal Cost						
a. Retirement Benefits	7.22%	$ 17,843	8.95%	$ 22,121	7.66%	$ 18,938
b. Disability Benefits	0.14%	336	0.16%	400	0.14%	352
c. Surviving Spouse and Child Benefits	0.16%	400	0.20%	498	0.17%	425
d. Withdrawals	1.14%	2,817	1.29%	3,198	1.18%	2,909
e. Total	8.66%	$ 21,396	10.60%	$ 26,217	9.15%	$ 22,625
2. Supplemental Contribution Amortization	8.68%	21,465	16.31%	40,333	10.65%	26,336
3. Allowance for Administrative Expenses	0.29%	717	0.29%	717	0.29%	717
4. Total	17.63%	$ 43,578	27.20%	$ 67,268	20.09%	$ 49,679
C. CONTRIBUTION SUFFICIENCY / (DEFICIENCY) (A.5 - B.4)	(1.90%)	(4,685)	(11.47%)	(28,374)	(4.36%)	(10,786)
D. FUNDED RATIOS						
1. Accrued Benefit Funded Ratio		77.72%		63.86%		73.59%
2. Projected Benefit Funded Ratio		95.26%		76.51%		89.69%
3. Accrued Liability Funded Ratio		75.13%		61.65%		71.11%
Projected Annual Payroll for Fiscal Year Beginning on the Valuation Date:		$ 247,291		$ 247,291		$ 247,291

Cost Estimate Disclaimers

This report is intended to describe the financial effect of the proposed plan changes. No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them.

The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present and proposed plan provisions that are outlined in the report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the author(s) of this report prior to relying on information in the report.

If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the author of the report prior to making such decision.

In the event that more than one plan change is being considered, it is very important to remember that the results of separate actuarial valuations cannot generally be added together to produce a correct estimate of the combined effect of all of the changes. The total can be considerably greater than the sum of the parts due to the interaction of various plan provisions with each other, and with the assumptions that must be used.

Attachment B

St. Paul Teachers Retirement Fund Association

	2008		2007		2006		2005		2004		2003	
Funded Status												
Accrued Liability		$1,432,040,000		$1,391,297,918		$1,358,619,906		$1,299,831,584		$1,251,460,084		$1,189,361,000
Current Assets		$1,075,951,000		$1,015,722,034		$938,919,005		$905,292,514		$898,859,732		$898,760,000
Unfunded Accr. Liability		$356,089,000		$375,575,884		$419,700,901		$394,539,070		$352,600,352		$290,601,000
Funding Ratio	75.13%		73.01%		69.11%		69.65%		71.82%		75.57%	
Financing Requirements												
Covered Payroll		$247,291,000		$233,099,133		$234,213,344		$227,818,794		$230,777,730		$218,898,000
Benefits Payable		$88,272,000		$82,809,201		$78,420,222		$72,438,204		$67,941,921		$63,358,000
Normal Cost	8.66%	$21,396,000	9.05%	$21,099,816	9.21%	$21,575,645	9.23%	$21,035,503	9.31%	$21,479,177	10.09%	$22,076,000
Administrative Expenses	0.29%	$717,000	0.30%	$699,297	0.26%	$608,955	0.24%	$546,765	0.24%	$553,867	0.23%	$503,000
Amortization	8.68%	$21,465,000	14.75%	$34,382,122	15.55%	$36,420,175	14.30%	$32,578,088	12.05%	$27,808,716	10.04%	$21,977,000
Total Requirements	17.63%	$43,578,000	24.10%	$56,181,235	25.02%	$58,604,775	23.77%	$54,160,356	21.60%	$49,841,760	20.36%	$44,556,000
Employee Contributions	5.61%	$13,864,000	5.64%	$13,139,595	5.69%	$13,319,540	5.73%	$13,059,350	5.80%	$13,393,204	5.87%	$12,846,000
Employer Contributions	8.48%	$20,972,000	8.52%	$19,861,736	8.59%	$20,111,296	8.65%	$19,698,785	8.74%	$20,171,429	8.83%	$19,321,000
Direct State Funding	1.64%	$4,057,000	1.91%	$4,451,216	2.05%	$4,803,000	2.11%	$4,803,000	2.08%	$4,803,000	2.19%	$4,803,000
Admin. Assessment	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	15.73%	$38,893,000	16.07%	$37,452,547	16.32%	$38,233,836	16.49%	$37,561,135	16.63%	$38,367,633	16.90%	$36,970,000
Total Requirements	17.63%	$43,578,000	24.10%	$56,181,235	25.02%	$58,604,775	23.77%	$54,160,356	21.60%	$49,841,760	20.36%	$44,556,000
Total Contributions	15.73%	$38,893,000	16.07%	$37,452,547	16.32%	$38,233,836	16.49%	$37,561,135	16.63%	$38,367,633	16.90%	$36,970,000
Deficiency (Surplus)	1.90%	$4,685,000	8.03%	$18,728,688	8.70%	$20,370,939	7.29%	$16,599,221	4.97%	$11,474,127	3.46%	$7,586,000
Amortization Target Date	2033		2021		2021		2021		2021		2021	

	2002		2001		2000		1999		1998		1997	
Funded Status												
Accrued Liability		$1,141,300,000		$1,060,931,000		$998,253,000		$938,847,000		$861,584,000		$757,589,000
Current Assets		$899,572,000		$869,045,000		$801,823,000		$704,233,000		$625,053,000		$556,406,000
Unfunded Accr. Liability		$241,728,000		$191,886,000		$196,430,000		$234,614,000		$236,531,000		$201,183,000
Funding Ratio	78.82%		81.91%		80.32%		75.01%		72.55%		73.44%	
Financing Requirements												
Covered Payroll		$214,594,000		$214,775,000		$198,974,000		$188,717,000		$178,365,000		$160,200,000
Benefits Payable		$58,739,000		$53,325,000		$47,168,000		$41,725,000		$37,852,000		$27,109,000
Normal Cost	10.16%	$21,804,000	9.05%	$19,447,000	9.35%	$18,628,000	9.37%	$17,692,000	9.83%	$17,528,000	10.12%	$16,216,000
Administrative Expenses	0.21%	$451,000	0.22%	$466,000	0.24%	$469,000	0.23%	$438,000	0.23%	$414,000	0.27%	$426,000
Amortization	8.19%	$17,575,000	6.54%	$14,056,000	6.98%	$13,880,000	8.49%	$16,020,000	8.76%	$15,626,000	8.06%	$12,905,000
Total Requirements	18.56%	$39,830,000	15.81%	$33,969,000	16.57%	$32,977,000	18.09%	$34,150,000	18.82%	$33,568,000	18.45%	$29,547,000
Employee Contributions	5.92%	$12,709,000	5.97%	$12,831,000	6.05%	$12,036,000	6.12%	$11,557,000	6.20%	$11,057,000	6.30%	$10,091,000
Employer Contributions	8.90%	$19,093,000	8.97%	$19,256,000	9.07%	$18,037,000	9.16%	$17,294,000	9.26%	$16,522,000	9.40%	$15,051,000
Direct State Funding	2.24%	$4,803,000	2.13%	$4,577,000	2.17%	$4,317,000	2.24%	$4,227,000	2.12%	$3,794,000	3.46%	$5,552,000
Admin. Assessment	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.01%	$18,000	0.08%	$128,000
Total Contributions	17.06%	$36,605,000	17.07%	$36,664,000	17.29%	$34,390,000	17.52%	$33,078,000	17.59%	$31,391,000	19.24%	$30,822,000
Total Requirements	18.56%	$39,830,000	15.81%	$33,969,000	16.57%	$32,977,000	18.09%	$34,150,000	18.82%	$33,568,000	18.45%	$29,547,000
Total Contributions	17.06%	$36,605,000	17.07%	$36,664,000	17.29%	$34,390,000	17.52%	$33,078,000	17.59%	$31,391,000	19.24%	$30,822,000
Deficiency (Surplus)	1.50%	$3,225,000	(1.26%)	($2,695,000)	(0.72%)	($1,413,000)	0.57%	$1,072,000	1.23%	$2,177,000	(0.79%)	($1,275,000)
Amortization Target Date	2021		2020		2020		2020		2020		2020	

ARTICLE 1
MINNESOTA POSTRETIREMENT INVESTMENT FUND CHANGES

Sec. 2. **[354A.42] ST. PAUL TEACHER INCREASE LIMIT.**

Notwithstanding any law to the contrary, the St. Paul Teachers Retirement Fund Association may not pay a postretirement adjustment of more than five percent in any year, effective July 1, 2010.

ARTICLE 7
FIRST CLASS CITY TEACHER
RETIREMENT FUND ASSOCIATION CHANGES

Section 1. **ST. PAUL TEACHERS RETIREMENT FUND ASSOCIATION; PILOT POSTRETIREMENT ADJUSTMENT; LIMITATIONS.**

(a) Notwithstanding any provision of Minnesota Statutes, chapter 354A, to the contrary, for calendar years 2008 and 2009 and for postretirement adjustments initially payable on January 1, 2008, or January 1, 2009, as a pilot program this section supersedes Minnesota Statutes, section 354A.29, subdivisions 3 and 4, and the applicable bylaw provisions of the St. Paul Teachers Retirement Fund Association.

(b) The postretirement adjustment under the pilot program must be determined by the executive director and approved by the board annually using the procedures under this section.

(c) On January 1, each eligible person who has accrued or received an annuity or benefit under the articles of incorporation, the bylaws, or Minnesota Statutes, chapter 354A, for at least three full calendar months as of the end of the calendar year is eligible to receive a postretirement adjustment that is payable the following January 1.

(d) A percentage adjustment must be computed and paid under this paragraph to eligible persons under paragraph (c). This adjustment is determined by reference to the Consumer Price Index for urban wage earners and clerical workers all items index as reported by the Bureau of Labor Statistics within the United States Department of Labor each year as part of the determination of annual cost-of-living adjustments to recipients of federal old-age, survivors, and disability insurance. For calculations of the cost-of-living adjustment under paragraph (e), the term "average third quarter Consumer Price Index value" means the sum of the monthly index values as initially reported by the Bureau of Labor Statistics for the months of July, August, and September, divided by 3.

(e) Before January 1 of each year, the executive director must calculate the amount of the cost-of-living adjustment by dividing the most recent average third quarter index value by the same average third quarter index value from the previous year, subtract one from the resulting quotient, and express the result as a percentage amount, which must be rounded to the nearest one-tenth of one percent. The final amount may not be a negative number and may not exceed 2.5 percent if the rate of investment return of the retirement fund either for the most recent fiscal year or for the most recent five-year period, each calculated under the formula specified in Minnesota Statutes, section 11A.04, clause (11), is less than 8.5 percent and may not exceed 5.0 percent if the rate of investment return of the retirement fund both for the most recent fiscal year and for the most recent five-year period, each calculated under the formula specified in Minnesota Statutes, section 11A.04, clause (11), are equal to or greater than 8.5 percent.

(f) The amount calculated under paragraph (e) is the full cost-of-living adjustment to be applied as a permanent increase to the regular payment of each eligible member on January 1 of the next calendar year. For any eligible member whose effective date of benefit commencement occurred during the calendar year before the cost-of-living adjustment is applied, the full increase amount must be prorated on the basis of whole calendar quarters in benefit payment status in the calendar year prior to the January 1 on which the cost-of-living adjustment is applied, calculated to the third decimal place.

(g) This pilot postretirement adjustment program does not constitute a precedent for this or any other retirement plan.

Sec. 2. **MANDATED STUDY AND REPORT ON ST. PAUL TEACHERS RETIREMENT FUND ASSOCIATION POSTRETIREMENT ADJUSTMENT EXPERIENCE.**

(a) The Legislative Commission on Pensions and Retirement shall study the experience of the St. Paul Teachers Retirement Fund Association under the temporary postretirement adjustment mechanism under section 1 and shall consider any proposals or analyses presented by other Minnesota public retirement plans regarding potential or proposed postretirement adjustment mechanism changes. Following the completion of its study, on or before January 15, 2009, the Legislative Commission on Pensions and Retirement shall report to the chair of the house of representatives Committee on Governmental Operations Reform, Technology and Elections, the chair of the house of representatives Committee on Finance, the chair of the senate Committee on State and Local Government Operations and Oversight, and the chair of the senate Committee on Finance, its findings and recommendations regarding a possible continuation, modification, or elimination of the temporary mechanism specified in section 1.

(b) For fiscal years 2007 and 2008, in addition to the regular actuarial valuation prepared under Minnesota Statutes, section 356.215, the St. Paul Teachers Retirement Fund Association shall have prepared and shall file with the Legislative Commission on Pensions and Retirement a supplemental actuarial valuation report providing comparative data on the funded status, actuarial requirements, contribution sufficiency or deficiency, and any other relevant results if the temporary postretirement adjustment mechanism under section 1 were a permanent mechanism. This report must be submitted for inclusion in the study required under paragraph (a).

354A.27 DULUTH TEACHERS RETIREMENT FUND ASSOCIATION; POSTRETIREMENT ADJUSTMENT MECHANISM.

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

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

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

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

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

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

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

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

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

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

(e) The additional percentage increase must be determined by multiplying the quantity one minus the rate of contribution deficiency, as specified in the most recent actuarial report of the actuary retained under section 356.214, times the rate of return excess as determined in paragraph (d).

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

History: 1992 c 403 s 1; 1995 c 262 art 2 s 3-5; 2006 c 271 art 3 s 47

354A.29 ST. PAUL TEACHERS RETIREMENT FUND ASSOCIATION POSTRETIREMENT ADJUSTMENT.

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

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

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

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

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

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

(c) The excess investment percentage adjustment must be determined by multiplying the quantity one minus the rate of contribution deficiency, as specified in the most recent actuarial report of the actuary retained under sections 356.214 and 356.215, by the rate of return excess as determined in paragraph (b).

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

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

Subd. 6.[Repealed, 2007 c 134 art 7 s 3]

History: 1997 c 233 art 3 s 7; 2006 c 271 art 3 s 47

.... moves to amend S.F. No. 686; H.F. No. ...., as follows:

Page 1, line 10, strike "the articles and bylaws of the St. Paul Teachers Retirement Fund Association" and insert "this section"

Page 1, line 11, after "director" insert "of the St. Paul Teachers Retirement Fund Association"

Page 1, line 12, strike "using the procedures under this section"

Page 1, line 13, delete the new language and insert "On January 1,"

Page 1, line 17, delete "equal to the Consumer Price Index for"

Page 1, delete lines 18 to 19

Page 1, line 20, delete "the previous year," and delete "under paragraph (c)" and insert "in this subdivision"

Page 1, delete lines 21 to 25

Page 2, delete lines 1 to 4 and insert:

"(c) A percentage adjustment must be computed and paid under this subdivision to eligible persons under paragraph (b). This adjustment is determined by reference to the Consumer Price Index for urban wage earners and clerical workers all items index as reported by the Bureau of Labor Statistics within the United States Department of Labor each year as part of the determination of annual cost-of-living adjustments to recipients of federal old-age, survivors, and disability insurance. For calculations of the cost-of-living adjustment under paragraph (d), the term "average third quarter Consumer Price Index value" means the sum of the monthly index values as initially reported by the Bureau of Labor Statistics for the months of July, August, and September, divided by 3.

(d) Before January 1 of each year, the executive director must calculate the amount of the cost-of-living adjustment by dividing the most recent average third quarter index value by the same average third quarter index value from the previous year, subtract one from the resulting quotient, and express the result as a percentage amount, which must be rounded to the nearest one-tenth of one percent.

(e) The amount calculated under paragraph (d) is the full cost-of-living adjustment to be applied as a permanent increase to the regular payment of each eligible member on January 1 of the next calendar year. For any eligible member whose effective date of benefit commencement occurred during the calendar year before the cost-of-living adjustment is applied, the full increase amount must be prorated on the basis of whole calendar quarters in benefit payment status in the calendar year prior to the January 1 on which the cost-of-living adjustment is applied, calculated to the third decimal place."

Page 2, line 5, delete "(3)" and insert "(f)" and delete ", and is" and insert a period

Page 2, delete lines 6 to 10

Page 2, line 14, delete "this" and after "section" insert "1"

Page 2, line 18, delete "July 1, 2009" and insert "January 1, 2010"

.... moves to amend S.F. No. 686; H.F. No. ...., as follows:

Page 1, after line 6, insert:

"Section 1. Minnesota Statutes 2008, section 354A.12, subdivision 1, is amended to read:

Subdivision 1. **Employee contributions.** The contribution required to be paid by each member of a teachers retirement fund association shall not be less than the percentage of total salary specified below for the applicable association and program:

Association and Program	Percentage of Total Salary
Duluth Teachers Retirement Fund Association	
old law and new law	
coordinated programs	5.5 percent
St. Paul Teachers Retirement Fund Association	
basic program	~~8~~ ... percent
coordinated program	~~5.5~~ ... percent

Contributions shall be made by deduction from salary and must be remitted directly to the respective teachers retirement fund association at least once each month.

Sec. 2. Minnesota Statutes 2008, section 354A.12, subdivision 2a, is amended to read:

Subd. 2a. **Employer regular and additional contribution rates.** (a) The employing units shall make the following employer contributions to teachers retirement fund associations:

(1) for any coordinated member of a teachers retirement fund association in a city of the first class, the employing unit shall pay the employer Social Security taxes;

(2) for any coordinated member of one of the following teachers retirement fund associations in a city of the first class, the employing unit shall make a regular employer contribution to the respective retirement fund association in an amount equal to the designated percentage of the salary of the coordinated member as provided below:

Duluth Teachers Retirement Fund Association	4.50 percent
St. Paul Teachers Retirement Fund Association	~~4.50~~ ... percent

(3) for any basic member of the St. Paul Teachers Retirement Fund Association, the employing unit shall make a regular employer contribution to the respective retirement fund in an amount equal to ~~8.00~~ .... percent of the salary of the basic member;

(4) for a basic member of the St. Paul Teachers Retirement Fund Association, the employing unit shall make an additional employer contribution to the respective fund in an amount equal to ~~3.64~~ .... percent of the salary of the basic member;

(5) for a coordinated member of a teachers retirement fund association in a city of the first class, the employing unit shall make an additional employer contribution to the respective fund in an amount equal to the applicable percentage of the coordinated member's salary, as provided below:

Duluth Teachers Retirement Fund Association	1.29 percent
St. Paul Teachers Retirement Fund Association	.... percent
~~July 1, 1993 - June 30, 1994~~	~~0.50 percent~~
~~July 1, 1994 - June 30, 1995~~	~~1.50 percent~~
~~July 1, 1997, and thereafter~~	~~3.84 percent~~

(b) The regular and additional employer contributions must be remitted directly to the respective teachers retirement fund association at least once each month. Delinquent amounts are payable with interest under the procedure in subdivision 1a.

(c) Payments of regular and additional employer contributions for school district or technical college employees who are paid from normal operating funds must be made from the appropriate fund of the district or technical college."

Page 2, line 18, delete "3" and insert "5" and delete "July 1, 2009" and insert " January 1, 2010"

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

.... moves to amend S.F. No. 686; H.F. No. ....., as follows:

Page 1, line 10, strike "the articles and bylaws of the St. Paul Teachers Retirement Fund Association" and insert "this section"

Page 1, line 11, after "director" insert "of the St. Paul Teachers Retirement Fund Association"

Page 1, line 12, strike "using the procedures under this section"

Page 1, line 13, delete the new language and insert "On January 1,"

Page 1, line 17, delete "equal to the Consumer Price Index for"

Page 1, delete lines 18 to 19

Page 1, line 20, delete "the previous year," and delete "under paragraph (c)" and insert "in this subdivision"

Page 1, delete lines 21 to 25

Page 2, delete lines 1 to 4 and insert:

"(c) The postretirement increase under this subdivision must match the percentage increase provided January 1 to recipients of federal old age retirement benefits provided by the Social Security Administration, unless limited by other provisions of this subdivision.

(d) The amount provided under paragraph (c) is the full cost-of-living adjustment to be applied as a permanent increase to the regular payment of each eligible member on January 1. For any eligible member whose effective date of benefit commencement occurred during the calendar year before the cost-of-living adjustment is applied, the full increase amount must be prorated on the basis of whole calendar quarters in benefit payment status in the calendar year prior to the January 1 on which the cost-of-living adjustment is applied."

Page 2, line 5, delete "(3)" and insert "(e)" and delete ", and is" and insert a period

Page 2, delete lines 6 to 10

Page 2, line 14, delete "this" and after "section" insert "1"

Page 2, line 18, delete "July 1, 2009" and insert "January 1, 2010"

.... moves to amend S.F. No. 686; H.F. No. ...., as follows:

Page 1, line 10, strike "the articles and bylaws of the St. Paul Teachers Retirement Fund Association" and insert "this section"

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Page 1, line 12, strike "using the procedures under this section"

Page 1, line 13, delete the new language and insert "On January 1,"

Page 1, line 17, delete "equal to the Consumer Price Index for"

Page 1, delete lines 18 to 19

Page 1, line 20, delete "the previous year," and delete "under paragraph (c)" and insert "in this subdivision"

Page 1, delete lines 21 to 25

Page 2, delete lines 1 to 10 and insert:

"(c) The postretirement increase under this subdivision is 2.5 percent.

(d) The amount provided under paragraph (c) is the full cost-of-living adjustment to be applied as a permanent increase to the regular payment of each eligible member on January 1. For any eligible member whose effective date of benefit commencement occurred during the calendar year before the cost-of-living adjustment is applied, the full increase amount must be prorated on the basis of whole calendar quarters in benefit payment status in the calendar year prior to the January 1 on which the cost-of-living adjustment is applied."

Page 2, line 14, delete "this" and after "section" insert "1"

Page 2, line 18, delete "July 1, 2009" and insert "January 1, 2010"

.... moves to amend S.F. No. 686; H.F. No. ...., as follows:

Page 1, line 10, strike "the articles and bylaws of the St. Paul Teachers Retirement Fund Association" and insert "this section"

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Page 1, line 13, delete the new language and insert "On January 1,"

Page 1, line 17, delete "equal to the Consumer Price Index for"

Page 1, delete lines 18 to 19

Page 1, line 20, delete "the previous year," and delete "under paragraph (c)" and insert "in this subdivision"

Page 1, delete lines 21 to 25

Page 2, delete lines 1 to 4 and insert:

"(c) A percentage adjustment must be computed and paid under this subdivision to eligible persons under paragraph (b). This adjustment is determined by reference to the Consumer Price Index for urban wage earners and clerical workers all items index as reported by the Bureau of Labor Statistics within the United States Department of Labor each year as part of the determination of annual cost-of-living adjustments to recipients of federal old-age, survivors, and disability insurance. For calculations of the cost-of-living adjustment under paragraph (d), the term "average third quarter Consumer Price Index value" means the sum of the monthly index values as initially reported by the Bureau of Labor Statistics for the months of July, August, and September, divided by 3.

(d) Before January 1 of each year, the executive director must calculate the amount of the cost-of-living adjustment by dividing the most recent average third quarter index value by the same average third quarter index value from the previous year, subtract one from the resulting quotient, and express the result as a percentage amount, which must be rounded to the nearest one-tenth of one percent.

(e) The amount calculated under paragraph (d) is the full cost-of-living adjustment to be applied as a permanent increase to the regular payment of each eligible member on January 1 of the next calendar year. For any eligible member whose effective date of benefit commencement occurred during the calendar year before the cost-of-living adjustment is applied, the full increase amount must be prorated on the basis of whole calendar quarters in benefit payment status in the calendar year prior to the January 1 on which the cost-of-living adjustment is applied, calculated to the third decimal place."

Page 2, line 5, delete "(3)" and insert "(f)" and delete "five percent , and is" and insert "2.5 percent."

Page 2, delete lines 6 to 10

Page 2, line 14, delete "this" and after "section" insert "1"

Page 2, line 18, delete "July 1, 2009" and insert "January 1, 2010"

.... moves to amend S.F. No. 686; H.F. No. ....., as follows:

Page 1, after line 6, insert:

"Section 1. Minnesota Statutes 2008, section 354A.27, is amended by adding a subdivision to read:

Subd. 7. **Postretirement adjustment.** (a) The postretirement adjustment described in this section must be determined by the executive director of the Duluth Teachers Retirement Fund Association and approved by the board annually.

(b) On January 1, each eligible person who has been receiving an annuity or benefit under the articles of incorporation, the bylaws, or this chapter for at least three calendar months as of the end of the last day of the previous calendar year is eligible to receive a postretirement increase as further specified in this subdivision.

(c) A percentage adjustment must be computed and paid under this subdivision to eligible persons under paragraph (b). This adjustment is determined by reference to the Consumer Price Index for urban wage earners and clerical workers all items index as reported by the Bureau of Labor Statistics within the United States Department of Labor each year as part of the determination of annual cost-of-living adjustments to recipients of federal old-age, survivors, and disability insurance. For calculations of the cost-of-living adjustment under paragraph (d), the term "average third quarter Consumer Price Index value" means the sum of the monthly index values as initially reported by the Bureau of Labor Statistics for the months of July, August, and September, divided by 3.

(d) Before January 1 of each year, the executive director must calculate the amount of the cost-of-living adjustment by dividing the most recent average third quarter index value by the same average third quarter index value from the previous year, subtract one from the resulting quotient, and express the result as a percentage amount, which must be rounded to the nearest one-tenth of one percent.

(e) The amount calculated under paragraph (d) is the full cost-of-living adjustment to be applied as a permanent increase to the regular payment of each eligible member on January 1 of the next calendar year. For any eligible member whose effective date of benefit commencement occurred during the calendar year before the cost-of-living adjustment is applied, the full increase amount must be prorated on the basis of whole calendar quarters in benefit payment status in the calendar year prior to the January 1 on which the cost-of-living adjustment is applied, calculated to the third decimal place.

(f) The adjustment may not be less than zero, nor greater than five percent."

Page 2, line 12, before "Consistent" insert "(a)"

Page 2, after line 14, insert:

"(b) Consistent with Minnesota Statutes, section 354A.12, subdivision 4, the board of the Duluth Teachers Retirement Fund Association shall revise the bylaws or articles of incorporation of the teachers retirement fund association to conform with section 1."

Page 2, line 16, delete "section" and insert "sections 354A.27, subdivisions 5 and 6; and"

Page 2, line 18, delete "3" and insert "4" and delete "July 1, 2009" and insert " January 1, 2010"

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

.... moves to amend S.F. No. 686; H.F. No. ....., as follows:

Page 1, after line 6, insert:

"Section 1. Minnesota Statutes 2008, section 354A.12, subdivision 1, is amended to read:

Subdivision 1. **Employee contributions.** The contribution required to be paid by each member of a teachers retirement fund association shall not be less than the percentage of total salary specified below for the applicable association and program:

Association and Program	Percentage of Total Salary
Duluth Teachers Retirement Fund Association	
old law and new law	
coordinated programs	~~5.5~~ ... percent
St. Paul Teachers Retirement Fund Association	
basic program	8 percent
coordinated program	5.5 percent

Contributions shall be made by deduction from salary and must be remitted directly to the respective teachers retirement fund association at least once each month.

Sec. 2. Minnesota Statutes 2008, section 354A.12, subdivision 2a, is amended to read:

Subd. 2a. **Employer regular and additional contribution rates.** (a) The employing units shall make the following employer contributions to teachers retirement fund associations:

(1) for any coordinated member of a teachers retirement fund association in a city of the first class, the employing unit shall pay the employer Social Security taxes;

(2) for any coordinated member of one of the following teachers retirement fund associations in a city of the first class, the employing unit shall make a regular employer contribution to the respective retirement fund association in an amount equal to the designated percentage of the salary of the coordinated member as provided below:

Duluth Teachers Retirement Fund Association	~~4.50~~ ... percent
St. Paul Teachers Retirement Fund Association	4.50 percent

(3) for any basic member of the St. Paul Teachers Retirement Fund Association, the employing unit shall make a regular employer contribution to the respective retirement fund in an amount equal to 8.00 percent of the salary of the basic member;

(4) for a basic member of the St. Paul Teachers Retirement Fund Association, the employing unit shall make an additional employer contribution to the respective fund in an amount equal to 3.64 percent of the salary of the basic member;

(5) for a coordinated member of a teachers retirement fund association in a city of the first class, the employing unit shall make an additional employer contribution to the respective fund in an amount equal to the applicable percentage of the coordinated member's salary, as provided below:

Duluth Teachers Retirement Fund Association	~~1.29~~ ... percent
St. Paul Teachers Retirement Fund Association	
July 1, 1993 - June 30, 1994	0.50 percent
July 1, 1994 - June 30, 1995	1.50 percent
July 1, 1997, and thereafter	3.84 percent

(b) The regular and additional employer contributions must be remitted directly to the respective teachers retirement fund association at least once each month. Delinquent amounts are payable with interest under the procedure in subdivision 1a.

(c) Payments of regular and additional employer contributions for school district or technical college employees who are paid from normal operating funds must be made from the appropriate fund of the district or technical college.

Sec. 3. Minnesota Statutes 2008, section 354A.27, is amended by adding a subdivision to read:

Subd. 7. **Postretirement adjustment.** (a) The postretirement adjustment described in this section must be determined by the executive director of the Duluth Teachers Retirement Fund Association and approved by the board annually.

(b) On January 1, each eligible person who has been receiving an annuity or benefit under the articles of incorporation, the bylaws, or this chapter for at least three calendar months as of the end of the last day of the previous calendar year is eligible to receive a postretirement increase as further specified in this subdivision.

(c) A percentage adjustment must be computed and paid under this subdivision to eligible persons under paragraph (b). This adjustment is determined by reference to the Consumer Price Index for urban wage earners and clerical workers all items index as reported by the Bureau of Labor Statistics within the United States Department of Labor each year as part of the determination of annual cost-of-living adjustments to recipients of federal old-age, survivors, and disability insurance. For calculations of the cost-of-living adjustment under paragraph (d), the term "average third quarter Consumer Price Index value" means the sum of the monthly index values as initially reported by the Bureau of Labor Statistics for the months of July, August, and September, divided by 3.

(d) Before January 1 of each year, the executive director must calculate the amount of the cost-of-living adjustment by dividing the most recent average third quarter index value by the same average third quarter index value from the previous year, subtract one from the resulting quotient, and express the result as a percentage amount, which must be rounded to the nearest one-tenth of one percent.

(e) The amount calculated under paragraph (d) is the full cost-of-living adjustment to be applied as a permanent increase to the regular payment of each eligible member on January 1 of the next calendar year. For any eligible member whose effective date of benefit commencement occurred during the calendar year before the cost-of-living adjustment is applied, the full increase amount must be prorated on the basis of whole calendar quarters in benefit payment status in the calendar year prior to the January 1 on which the cost-of-living adjustment is applied, calculated to the third decimal place.

(f) The adjustment may not be less than zero, nor greater than five percent."

Page 2, line 12, before "Consistent" insert "(a)"

Page 2, after line 14, insert:

"(b) Consistent with Minnesota Statutes, section 354A.12, subdivision 4, the board of the Duluth Teachers Retirement Fund Association shall revise the bylaws or articles of incorporation of the teachers retirement fund association to conform with section 3."

Page 2, line 16, delete "section" and insert "sections 354A.27, subdivisions 5 and 6; and"

Page 2, line 18, delete "3" and insert "6" and delete "July 1, 2009" and insert " January 1, 2010"

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

.... moves to amend S.F. No. 686; H.F. No. ....., as follows:

Page 1, after line 6, insert:

"Section 1. Minnesota Statutes 2008, section 354A.27, is amended by adding a subdivision to read:

Subd. 7. **Postretirement adjustment.** (a) The postretirement adjustment described in this section must be determined by the executive director of the Duluth Teachers Retirement Fund Association and approved by the board annually.

(b) On January 1, each eligible person who has been receiving an annuity or benefit under the articles of incorporation, the bylaws, or this chapter for at least three calendar months as of the end of the last day of the previous calendar year is eligible to receive a postretirement increase as further specified in this subdivision.

(c) The postretirement increase under this subdivision must match the percentage increase provided January 1 to recipients of federal old age retirement benefits provided by the Social Security Administration, unless limited by other provisions of this subdivision.

(d) The amount provided under paragraph (c) is the full cost-of-living adjustment to be applied as a permanent increase to the regular payment of each eligible member on January 1. For any eligible member whose effective date of benefit commencement occurred during the calendar year before the cost-of-living adjustment is applied, the full increase amount must be prorated on the basis of whole calendar quarters in benefit payment status in the calendar year prior to the January 1 on which the cost-of-living adjustment is applied.

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Page 2, line 12, before "Consistent" insert "(a)"

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Page 2, line 16, delete "section" and insert "sections 354A.27, subdivisions 5 and 6; and"

Page 2, line 18, delete "3" and insert "4" and delete "July 1, 2009" and insert " January 1, 2010"

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

.... moves to amend S.F. No. 686; H.F. No. ....., as follows:

Page 1, after line 6, insert:

"Section 1. Minnesota Statutes 2008, section 354A.27, is amended by adding a subdivision to read:

Subd. 7. **Postretirement adjustment.** (a) The postretirement adjustment described in this section must be determined by the executive director of the Duluth Teachers Retirement Fund Association and approved by the board annually.

(b) On January 1, each eligible person who has been receiving an annuity or benefit under the articles of incorporation, the bylaws, or this chapter for at least three calendar months as of the end of the last day of the previous calendar year is eligible to receive a postretirement increase as further specified in this subdivision.

(c) The postretirement increase under this subdivision is 2.5 percent.

(d) The amount provided under paragraph (c) is the full cost-of-living adjustment to be applied as a permanent increase to the regular payment of each eligible member on January 1. For any eligible member whose effective date of benefit commencement occurred during the calendar year before the cost-of-living adjustment is applied, the full increase amount must be prorated on the basis of whole calendar quarters in benefit payment status in the calendar year prior to the January 1 on which the cost-of-living adjustment is applied."

Page 2, line 12, before "Consistent" insert "(a)"

Page 2, after line 14, insert:

"(b) Consistent with Minnesota Statutes, section 354A.12, subdivision 4, the board of the Duluth Teachers Retirement Fund Association shall revise the bylaws or articles of incorporation of the teachers retirement fund association to conform with section 1."

Page 2, line 16, delete "section" and insert "sections 354A.27, subdivisions 5 and 6; and"

Page 2, line 18, delete "3" and insert "4" and delete "July 1, 2009" and insert " January 1, 2010"

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

.... moves to amend S.F. No. 686; H.F. No. ....., as follows:

Page 1, after line 6, insert:

"Section 1. Minnesota Statutes 2008, section 354A.27, is amended by adding a subdivision to read:

Subd. 7. **Postretirement adjustment.** (a) The postretirement adjustment described in this section must be determined by the executive director of the Duluth Teachers Retirement Fund Association and approved by the board annually.

(b) On January 1, each eligible person who has been receiving an annuity or benefit under the articles of incorporation, the bylaws, or this chapter for at least three calendar months as of the end of the last day of the previous calendar year is eligible to receive a postretirement increase as further specified in this subdivision.

(c) A percentage adjustment must be computed and paid under this subdivision to eligible persons under paragraph (b). This adjustment is determined by reference to the Consumer Price Index for urban wage earners and clerical workers all items index as reported by the Bureau of Labor Statistics within the United States Department of Labor each year as part of the determination of annual cost-of-living adjustments to recipients of federal old-age, survivors, and disability insurance. For calculations of the cost-of-living adjustment under paragraph (d), the term "average third quarter Consumer Price Index value" means the sum of the monthly index values as initially reported by the Bureau of Labor Statistics for the months of July, August, and September, divided by 3.

(d) Before January 1 of each year, the executive director must calculate the amount of the cost-of-living adjustment by dividing the most recent average third quarter index value by the same average third quarter index value from the previous year, subtract one from the resulting quotient, and express the result as a percentage amount, which must be rounded to the nearest one-tenth of one percent.

(e) The amount calculated under paragraph (d) is the full cost-of-living adjustment to be applied as a permanent increase to the regular payment of each eligible member on January 1 of the next calendar year. For any eligible member whose effective date of benefit commencement occurred during the calendar year before the cost-of-living adjustment is applied, the full increase amount must be prorated on the basis of whole calendar quarters in benefit payment status in the calendar year prior to the January 1 on which the cost-of-living adjustment is applied, calculated to the third decimal place.

(f) The adjustment may not be less than zero, nor greater than 2.5 percent."

Page 2, line 12, before "Consistent" insert "(a)"

Page 2, after line 14, insert:

"(b) Consistent with Minnesota Statutes, section 354A.12, subdivision 4, the board of the Duluth Teachers Retirement Fund Association shall revise the bylaws or articles of incorporation of the teachers retirement fund association to conform with section 1."

Page 2, line 16, delete "section" and insert "sections 354A.27, subdivisions 5 and 6; and"

Page 2, line 18, delete "3" and insert "4" and delete "July 1, 2009" and insert " January 1, 2010"

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

Senator Pappas introduced–

S.F. No. 686: Referred to the Committee on State and Local Government Operations and Oversight.

A bill for an act

relating to retirement; providing for a cost-of-living adjustment; requiring a bylaws revision; amending Minnesota Statutes 2008, section 354A.29, subdivision 3; repealing Minnesota Statutes 2008, section 354A.29, subdivisions 2, 4, 5.

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

Section 1. Minnesota Statutes 2008, section 354A.29, subdivision 3, is amended to read:

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

(b) Commencing in January 2010, and each January thereafter, each eligible person who has been receiving an annuity or benefit under the articles of incorporation, the bylaws, or this chapter for at least ~~12~~ three calendar months as of the end of the ~~fiscal~~ last day of the previous calendar year is eligible to receive a postretirement ~~adjustment of 2.0 percent that is payable each January 1~~ increase equal to the Consumer Price Index for urban wage earners and clerical workers (CPI-W) for the third calendar quarter of the most recent calendar year divided by the value of the same index in the third calendar quarter of the previous year, as further specified under paragraph (c).

(c) The postretirement increase under this section is to be calculated as follows:

(1) for each value, the average quarter-to-quarter index change shall be the sum of the monthly CPI-W index values as determined by the Bureau of Labor Statistics within the United States Department of Labor, for the months of July, August, and September for each applicable year, divided by three to derive the quarterly value in each case;

(2) the quotient of the average for the second year divided by the resulting average for the first year as determined under clause (1), minus one, rounded to the nearest one-tenth of one percent is the full, unadjusted increase to be added to payments to eligible recipients in the subsequent January payment; and

(3) the adjustment may not be less than zero, nor greater than five percent, and is to be applied as a permanent increase to the regular payment of each eligible benefit recipient. In the case of any eligible member whose effective date of retirement occurs during the calendar year before the postretirement increase is applied, the increase for that member must be prorated on the basis of whole calendar quarters as a fraction of the previous calendar year, rounded to the third decimal place.

Sec. 2. **BYLAW REVISION AUTHORIZATION.**

Consistent with Minnesota Statutes, section 354A.12, subdivision 4, the board of the St. Paul Teachers Retirement Fund Association shall revise the bylaws or articles of incorporation of the teachers retirement fund association to conform with this section.

Sec. 3. **REPEALER.**

Minnesota Statutes 2008, section 354A.29, subdivisions 2, 4, and 5, are repealed.

Sec. 4. **EFFECTIVE DATE.**

Sections 1 to 3 are effective July 1, 2009.

354A.29 ST. PAUL TEACHERS RETIREMENT FUND ASSOCIATION POSTRETIREMENT ADJUSTMENT.

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

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

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

(c) The excess investment percentage adjustment must be determined by multiplying the quantity one minus the rate of contribution deficiency, as specified in the most recent actuarial report of the actuary retained under sections 356.214 and 356.215, by the rate of return excess as determined in paragraph (b).

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

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