



**S.F. 1417**  
(Pogemiller)

**H.F. 1327**  
(Murphy, M.)

**Executive Summary of Commission Staff Materials**

Affected Pension Plan(s): Various statewide and major local retirement plans  
Relevant Provisions of Law: Minnesota Statutes, Section 356.351  
General Nature of Proposal: Extends the 2006-2009 early retirement incentive to 2010  
Date of Summary: September 16, 2009

**Specific Proposed Changes**

- The 2006-2009 early retirement incentive, which expired on July 15, 2009, would be extended to October 1, 2010, and the incentive amount is increased from \$17,000 to \$43,564.

**Policy Issues Raised by the Proposed Legislation**

1. Appropriateness of early retirement incentives.
2. Appropriateness of a short duration extension of early retirement incentive.
3. Appropriateness of the entities permitted to offer the early retirement incentive.
4. Appropriateness of the increased early retirement incentive amount.
5. Lack of clarity in the incentive amount basis.
6. Appropriateness of early retirement incentive extension in light of limited interest 2006-2009.
7. Unclear support from state and local government employers.
8. The early retirement incentive is poorly targeted to produce useful results.
9. Proposed revitalized early retirement incentive could double up incentives for MnSCU.
10. Incentive may provide a windfall to some retirees.
11. The incentive is unclear on the nature of the annuity available to be purchased.

**Potential Amendments**

- S1417-1A *(technical)* updates Section 2 to reflect a 2009 amendment to M.S., Sec. 356.351, Subd. 2.
- S1417-2A *(substantive)* replaces the October 1, 2010, incentive termination date with a date to be specified.
- S1417-3A *(clarification)* clarifies that the health insurance related component of the incentive amount is the employer-paid portion of coverage for a full-time single employee of the employer.
- S1417-4A *(substantive)* specifies that the measure of 72 weeks of unemployment compensation is the particular person receiving the incentive.
- S1417-5A *(substantive)* specifies that the measure of 72 weeks of unemployment compensation is the maximum amount payable under state law.
- S1417-6A *(substantive)* replaces the revised incentive amount references with a specific dollar amount to be specified.
- S1417-7A *(substantive)* replaces the measure of employed time to qualify for the incentive with an employment records measure rather than pension plan service credit.
- S1417-8A *(substantive)* sets an upper-end age limit by restricting the incentive to persons who have not been eligible to retire for more than ten years.
- S1417-9A *(substantive)* excludes MnSCU employees from the incentive.
- S1418-10A *(substantive)* utilizes the MSRS-Unclassified Program and the MSRS-General Retirement Plan for any annuity purchase.



TO: Members of the Legislative Commission on Pensions and Retirement  
FROM: Lawrence A. Martin, Executive Director *LAM*  
RE: S.F. 1417 (Pogemiller); H.F. 1327 (Murphy, M.): Various Retirement Plans;  
Extension and Modification of Early Retirement Incentive  
DATE: September 16, 2009

Summary of S.F. 1417 (Pogemiller); H.F. 1327 (Murphy, M.)

S.F. 1417 (Pogemiller); H.F. 1327 (Murphy, M.) amends Minnesota Statutes, Section 356.351, Subdivisions 1 and 2, the eligibility and incentive provisions of the 2006-2009 early retirement incentive, by extending the termination date of the early retirement incentive from July 15, 2009, until October 1, 2010, and by increasing the incentive from \$17,000 to an amount equal to the total of six months health insurance premiums and 72 weeks of unemployment compensation.

Background Information

1. Previously Enacted Early Retirement Incentive Programs. Background information on early retirement incentive programs previously enacted by the Legislature is set forth as Attachment A.
2. 2006-2009 Early Retirement Incentive Program. Specific background information on the early retirement incentive program enacted as Laws 2006, Chapter 271, Article 3, Section 43, and extended by Laws 2007, Chapter 134, Article 11, Section 11, is set forth as Attachment B.

Technical Amendment S1417-1A

Amendment S1417-1A updates section 2 of the proposed legislation to reflect a 2009 Session amendment to Minnesota Statutes, Section 356.351, Subdivision 2.

Discussion and Analysis

S.F. 1417 (Pogemiller); H.F. 1327 (Murphy, M.) extends the 2006-2009 early retirement incentive, which provides an amount for deposit into the health care savings account, for use in purchasing pension plan service credit or for funding an additional life or term-certain annuity, from a July 15, 2009, termination date until October 1, 2010, and increases the incentive amount from \$17,000 to a combined figure equal to six months of employer-paid health insurance premiums plus 72 weeks of unemployment compensation.

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

1. Appropriateness of Early Retirement Incentives. The policy issue is the appropriateness of early retirement incentives as a public pension plan practice or as a public personnel practice. The argument for this early retirement incentive made by its proponents has been framed in terms of public personnel practice and is based on the proponents' preference for coaxing a smaller number of public employees who are eligible to retire and who are not subject to a pending layoff to in fact retire rather than for the employer to require the layoff of a larger number of less senior and less well compensated public employees in order to meet budget objectives if the early retirement incentive has the same cost as the layoffs. Inducing retirements at an age earlier than would occur without the incentive will increase pension liabilities and pension funding requirements as well as causing a change in the composition of the public employer's workforce and in the public pension plan active membership. The pension plan cost from an early retirement incentive will be delayed until recognized in a future actuarial valuation, thereby masking some of the cost of the incentive and potentially shifting the incentive cost between employers if the public pension plan is a multiple employer public pension plan, as most of the pension plans covered by the early retirement incentive are.
2. Appropriateness of a Short Duration Extension of Early Retirement Incentive. The policy issue is the appropriateness of extending a currently expired early retirement incentive for less than one year, until October 1, 2010. If state budget problems are part or all of the rationale for utilizing an early retirement incentive, the state's budget problems are not necessarily worse than those that were

apparent in 2009, when the proposed legislation was introduced but was not enacted, and the state's budget problems are not likely to be resolved by October 1, 2020, the proposed new expiration date for the renewed early retirement incentive. If the state's budget circumstances are unchanged from 2009 and unlikely to correct themselves in the short run, the early retirement incentive as a budget resolution tool may not be appropriate or useful if the incentive is to be in force, as a practical matter, for less than six months.

- If a very short duration period is not the current intent of the early retirement incentive's proponents or is not deemed by the Commission to be in the best interests of the state and its employer, **Amendment S1417-2A** would extend the expiration date of the early retirement incentive to a yet-to-be specified expiration date different than October 1, 2010.

3. Appropriateness of the Entities Permitted to Offer the Early Retirement Incentive. The policy issue is the appropriateness of the entities that would be permitted to offer early retirement incentives under the extended early retirement incentive provision. The 2006 early retirement incentive applied to the executive branch of state government, the legislative branch of state government, the Board of Public Defense, the Minnesota Historical Society, the Minnesota State Colleges and Universities System, or any school district. The 2007-2009 early retirement incentive applied to any governmental employer that employs one or more public employee covered by the Combined Service Annuity portability provision, Minnesota Statutes, Section 356.30. The intent appears to have a comprehensively applicable early retirement incentive for all Minnesota government. It is unclear whether the current early retirement incentive specification allows quasi governmental employers, such as the Minnesota Historical Society, the various local Minnesota public retirement plan administrations, the League of Minnesota Cities, the Association of Minnesota Counties, or any public employee labor organizations with respect to its employees, all with Minnesota public pension plan coverage, to utilize the early retirement incentive payment authority. Additionally, not all governmental employers are funded from state general fund resources or from other revenue sources affected by the recent economic downturn. For instance, State Board of Investment is largely or totally funded from deductions taken from investment returns and the statewide retirement plans are funded from the applicable retirement funds, where inducing an early retirement incentive will not have the same budgetary impact as early retirements from a line agency in state government. If the Commission wishes to clarify the applicability of the extended early retirement incentive or to restrict it, those clarifications or restrictions should be made to section 1 of the bill.
4. Appropriateness of the Increased Early Retirement Incentive Amount. The policy issue is the appropriateness of substantially increasing the amount of the early retirement incentive from \$17,000 to a larger amount. The new early retirement incentive amount, described rather than specified, is the combination of the health insurance cost for six months and the cost of unemployment compensation for 72 weeks. The State of Minnesota medical insurance premium payment for single person coverage is \$447.28 per month, or \$2,683.68 for six months. The state dental insurance premium payment for single person coverage is \$21.40 per month, or \$128.40 for six months. Unemployment compensation in Minnesota is one-half of a person's average weekly wage up to \$566, or a maximum for 72 weeks of \$40,752. Thus, the revised incentive amount would be as much as \$43,564.08, or more than two and one-half times greater than the 2006-2009 incentive amount. While this represents the likely current cost of laying off some or many public employees during this recession, for as long as the federal government provided extended unemployment compensation benefits, the premise for the incentive, the increase is substantial and the dollar outlay by any employing unit seeking to utilize the incentive is very considerable, especially for state agencies that will have roughly one year to recover the cost during the remainder of the FY2010-FY2011 biennium.
5. Lack of Clarity in the Incentive Amount Basis. The policy issue is a lack of clarity in the description of the two parts that set the amount of the early retirement incentive, which are "the cost of purchasing an additional six months of health insurance plus the amount that would be received for 72 weeks of unemployment compensation." If the cost of purchasing an additional six months of health insurance means the applicable employer-paid health and dental insurance monthly premium amount for a full-time single employee, rather than the full monthly health and dental insurance premium amount for the family coverage attributable to an employee, it would be better policy to include a more specific reference. If the unemployment compensation equivalent amount is intended to be the amount payable to the particular employee offered the early retirement incentive rather than the average unemployment compensation for all of the employees who would have been laid off but for the early retirement incentive or is intended to be the maximum unemployment compensation amount payable, it would be better policy to be specific.
  - **Amendment S1417-3A** revises the health insurance component to mean the applicable employer-paid monthly health and dental insurance premium amount for a full-time single employee.

- **Amendment S1417-4A** revises the unemployment compensation component to the unemployment compensation amount applicable to the particular employee offered the incentive.
- **Amendment S1417-5A** alternatively revises the unemployment compensation component to be the maximum unemployment compensation amount currently payable.
- **Amendment S1417-6A** replaces the 2006-2009 incentive amount with a yet-to-be specified new dollar amount.

6. Appropriateness of Early Retirement Incentive Extension in Light of Limited Interest 2006-2009. The policy issue is the appropriateness of the proposed extension and expansion of the early retirement incentive when the incentive appears to be little used when it was in force from 2006 to July 15, 2009. Information is available on the utilization of the early retirement incentive by the executive branch of the State of Minnesota, where the incentive was used once in fiscal year 2008 (Employee A) and three times (Employees B, C, and D) in fiscal year 2009, as follows:

<u>Employee</u>	<u>Age</u>	<u>Salary Savings</u>	<u>Length of Service</u>	<u>Incentive Amount Paid</u>	<u>Amount of Other Financial Impact</u>
Employee A	Undisclosed	\$14,117.31	29.5 years	\$7,100.00	None reported
Employee B	65	Approx. \$47,000	28+ years	\$12,628.50	None
Employee C	61	Approx. \$41,700	28 years, 9 mo.	\$2,698.78	None
Employee D	67	\$36,300	19 years	\$16,580.41	None

With the limited utilization by the largest State of Minnesota employing unit, the executive branch, a real question about its effectiveness and usefulness as a budget tool should be addressed by the proponents.

7. Unclear Support from State and Local Government Employers. The policy issue is the advisability of the extension and enhancement of the 2006-2009 early retirement incentive authority if support for that extension and enhancement by the applicable state and local government employing units is unclear or is lacking. When the early retirement incentive was enacted in 2006, it was not supported by the Pawlenty administration or any other applicable employing unit other than the State Board of Public Defense. When the early retirement incentive was extended in time to July 2009, and extended to cover essentially all Minnesota public employers, no employing unit representatives testified before the Commission in support of the applicable legislation. If the early retirement incentive is a valuable tool for employing units to manage reductions in force through retirements rather than layoffs rather than a benefit for plan members seeking to retire early, the Commission could expect support from and even excitement by public employers. Without substantial interest by public employers for the extension and expansion of the early retirement incentive provision, perhaps the provision is not as valuable as tool in a budget crisis as it may be portrayed. The Commission should consider providing an opportunity for representatives of public employers to testify for or against the early retirement incentive.
8. The Early Retirement Incentive is Poorly Targeted to Produce Useful Results. The policy issue is the appropriateness of the targeting of the early retirement incentive in order to produce useful results. The recently expired early retirement incentive is poorly targeted because it is not necessarily restricted to long-term higher-paid employees and because it is available to employees who are not retiring early because they are already past the normal retirement age. The usual rationale for an early retirement incentive program is that inducing early retirements by long-service employees who are higher on the salary ladder and who are closer to retirement produces a more positive budget balancing impact than layoffs, which target the least senior and least well-paid employees. However, the proposed legislation conditions the incentive on a minimum of five years of service credit in any of Minnesota's statewide or major local pension plans. A better measure to limit the program to long-term employees would be to focus the qualifications to the length of employment with the employing unit. Minnesota Management and Budget (formerly the Department of Employee Relations) maintains records of state employment for seniority, vacation leave accrual, and sick leave accrual purposes and could be used as an appropriate mechanism for verifying the employment duration requirement. The personnel departments of other public employers maintain similar records. These employment records, related to the actual employing unit offering the incentive, may be a better mechanism for targeting the incentive to improve the fiscal impact of the program.
- **Amendment S1417-7A** shifts the eligibility service requirement to employment records rather than retirement service credit records.

The proposed legislation sets a minimum age of 55 by requiring immediate retirement eligibility, but has no upper-end age limitation or surrogate condition. If an employee already is eligible to receive

an unreduced normal retirement annuity, their continuation in employment likely has some other rationale and they consequently would be less likely or unlikely to utilize the incentive. Any incentive offered to these employees could simply become a windfall for them, especially if future changes in working conditions and workload overtime could easily lead them to retire without an incentive.

- If the Commission desires to exclude employees from eligibility who are continuing employment into a more advanced age, where continued employment motivations are less clear and where windfalls from the incentive are more likely, **Amendment S1417-8A** would add that exclusion.

9. Proposed Revitalized Early Retirement Incentive Could Double Up Incentives for MnSCU. The policy issue is the appropriateness of including the Minnesota State Colleges and Universities System (MnSCU) in the extended and expanded early retirement incentive when MnSCU has other early retirement incentive authority and could attempt to stack incentives. In 2009 (Laws 2009, Chapter 169, Article 6, Section 1), MnSCU received authority to fashion an early retirement incentive. That authority, coded as Minnesota Statutes, Section 136F.481, continues until June 30, 2014, and permits MnSCU institution presidents (or the Chancellor for the Chancellor's Office) to induce early retirements with a cash incentive limited to one-year of base salary, employer contributions to the post-retirement healthcare savings program under Minnesota Statutes, Section 352.98, without any limit, or both. The MnSCU early retirement incentive was required to be funded from the budget of the institution employing the early retiree. If the early retirement incentive enacted in 2009 is added to the proposed extended and enhanced 2006-2009 early retirement incentive for one potential retiree, the stacking of incentive amounts would make any incentive limit more difficult to determine and could be considered to be an excessive incentive.

- If the Commission wants to avoid this potential early retirement incentive doubling-up and stacking, **Amendment S1418-9A** would exclude MnSCU as an employing unit and MnSCU employees from the proposed revamped 2006-2009 early retirement incentive.

10. Incentive May Provide a Windfall to Some Retirees. The policy issue is the potential that the proposed early retirement incentive may be offered to some employees who would have terminated public employment in the near term anyway, without the incentive, thereby providing them with a windfall and reducing the actual net savings that the employing unit would receive. The windfall potential can only be countered by careful targeting by the affected employing unit, where the employer has a good sense of the future plans of its employees to avoid offering the incentive to those employees who will retire in the near term anyway, induced by increasing workloads or other changing employment conditions, and to identify its employees for whom up to \$43,564.08 would provide the necessary nudge into a premature retirement and adjusts accordingly.

11. The Incentive is Unclear on the Nature of the Annuity Available to be Purchased. The policy issue is the need to more clearly specify what kind of annuity is available to be purchased. Most annuities in public retirement plans are single life annuities. Optional annuity forms include term certain and for life annuities. Term certain annuities not for life may be more appropriate than term certain and for life annuities. Using a term certain annuity that is also not payable for life as part of the incentive, with a consequent shorter average payout period, will permit the incentive annuity to be used as a bridging device between employment and a regular retirement annuity at a later age. If the term certain annuity is the usual term certain annuity currently provided by Minnesota public pension plans (i.e., for a period of years and for life) the \$17,000 incentive amount likely will produce too small a monthly amount (about \$100 per month at age 65, about \$95 per month at age 60, and about \$90 per month at age 58) to permit this bridging. The Minnesota State Retirement System (MSRS) currently provides some term-certain and for-life optional annuities, but does not provide relative short-term term-certain and not-for-life optional annuities currently. Annuities from the Unclassified State Employees Retirement Program of the Minnesota State Retirement System (MSRS-Unclassified) currently are limited to the small number of MSRS-Unclassified participants who do not elect a transfer to the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) or who do not elect to take the MSRS-Unclassified account balance in a lump sum and purchase an annuity from an insurance company. Conversion of a dollar amount into an annuity under the MSRS-Unclassified Program is done at the MSRS-General factors for transfers to the Minnesota Post Retirement Investment Fund. If MSRS-Unclassified Program retirees do not differ significantly from MSRS-General in their retired life mortality and if the MSRS-Unclassified Program retirement annuity purchasers under this legislation also do not differ considerably, the provision does not expose MSRS-General to too great a risk exposure from this practice.

- If the Commission is troubled by the ambiguity in the annuity purchase provision, **Amendment S1418-10A** is an attempt by Commission staff to better structure the annuity conversion process.

## Background Information on Previously Enacted Early Retirement Incentive Programs

Minnesota has utilized several early retirement incentives in connection with its public employee workforce over the past several years. Prior to 1982, there was little systematic legislative experience with early retirement incentives for Minnesota public employees other than the teacher mobility provisions of the mid-1970s. Since 1982, the following early retirement incentives have been enacted to apply to Minnesota public employees:

Year	Citation	Coverage Group(s)	Retirement Plan Based Early Retirement Incentive	Other Employment Benefit Early Retirement Incentive
1982	Laws 1982, Ch. 522, Sec. 1-2	State employees and University of Minnesota employees	None	Pre-age 65 state paid health insurance coverage.
1984-1987	M.S., Sec. 356.70	Members of MSRS-General, PERA-General, TRA, 1 <sup>st</sup> Class Teachers	Full accrued benefit without reduction when "Rule of 85" reached	N/A
1990	Laws 1990, Ch. 591, Art. 2, Sec. 6	MSRS-General, MSRS-Correctional, State Patrol	N/A	Pre-age 65 state paid health insurance coverage.
1991	Laws 1991, Ch. 345, Art. 1, Sec. 112	Various state and retirement plan employees	N/A	Pre-age 65 state paid health insurance coverage.
1992	Laws 1992, Ch. 499, Art. 7, Sec. 12 and 13	Teachers	N/A	Pre-age 65 employer paid health insurance coverage.
1992	Laws 1992, Ch. 513, Art. 4, Sec. 58 and 59	Various state, retirement plan, and public employees, teachers	N/A	Pre-age 65 employer paid health insurance coverage
1993	Laws 1993, Ch. 192, Sec. 108	Members of MSRS-General, PERA-General, or MERF	Additional benefit of 0.25% of final average salary for each year of service up to 30 years	Alternative benefit of pre-age 65 employer-paid health insurance coverage.
1993	Laws 1993, Ch. 224, Art. 8, Sec. 17 and 18	Members of TRA or First Class City Teachers	Additional benefit of 0.10% of final average salary for each year of service up to 30 years	Additional benefit of pre-age 65 employer-paid health insurance coverage.
1994	M.S., Sec. 122.23, Subd. 20	Teachers in consolidating school districts	Purchase of up to five additional years of service credit	Pre-age 65 employer-paid health insurance coverage, extended leaves of absence, or severance payment.
1994	Laws 1994, Ch. 518	Various local government employees	Same as Laws 1993, Ch. 192, Sec. 108	Same as Laws 1993, Ch. 192, Sec. 108
1994	Laws 1994, Ch. 572, Sec. 3	Displaced higher education employees	Purchase of up to two additional years of service credit	Pre-age 65 employer-paid health insurance coverage.
1995	Laws 1995, Ch. 262, Art. 1, Sec. 17-25	Metropolitan Council employees; Minnesota Historical Society employees	Additional benefit of 0.25% of final average salary for each year of service up to 30 years for MSRS-General, PERA-General, or MERF members and additional benefit of 0.10% of final average salary for each year of service up to 30 years for TRA or first class city teacher retirement fund association members	Alternative benefit of pre-age 65 employer-paid health insurance coverage.
1999	Laws 1999, Ch. 222, Art. 7	Employees of the Metropolitan Council	Additional benefit of 0.25% of final average salary for each year of service up to 30 years	None.
2002	Laws 2002, Ch. 392, Art. 14, Sec. 1	State employees	N/A	Permits voluntary leaves up to 320 hours of leave without losing seniority rights, insurance, and pension and other benefits for the period ending June 30, 2003.
2003	Laws 2003, 1 <sup>st</sup> SS, Ch. 1, Art. 2, Sec. 130	State employees	N/A	State government appointing authorities may allow employees to take leaves without pay for up to 1040 hours prior to June 30, 2005. Vacation, sick leave, seniority, and health care benefits continue to accrue during the leave period in the applicable pension plan; employee and employer contributions must be made to the applicable plan. An appointing authority may, at its discretion, pay the employee contributions on behalf of the employee.

Year	Citation	Coverage Group(s)	Retirement Plan Based Early Retirement Incentive	Other Employment Benefit Early Retirement Incentive
2003	Laws 2003, 1st SS, Ch. 12, Art. 1	PERA-General, PERA-P&F, PERA-Correctional	N/A	Public employees who previously worked at least half time may enter into an agreement with the employer to reduce work hour to less than half time. Contributions may be made to the applicable PERA plan as though the individual had not reduced hours. Thus, the employment reduction does not harm the individual's eventual retirement annuity. The second program involves voluntary leaves. If the individual makes the employee contribution to the applicable retirement plan during the leave, the employer must make the applicable employer contribution. Under both programs, all other benefits including health care coverage as provided under the collective bargaining agreement are retained. The programs apply to the period ending June 30, 2005. Inclusion in either program requires an agreement between the employee and employer, and the employer is authorized to designate job classifications or positions that qualify for each option.
2003	Laws 2003, 1st SS, Ch. 12, Art. 3	TRA; First Class City Teacher Retirement Fund Associations	For TRA-covered districts only, the employer may enter into agreements with the exclusive bargaining representative of the teachers in the district to cover, for specific individual teachers, all or a portion of the employee contribution to the retirement plan while the teacher is on an extended leave of absence.	School districts may enter into agreements with the exclusive bargaining representative of the teachers in the district to cover, for specific individual teachers, all or a portion of health care coverage premiums while the teacher is on an extended leave of absence.
2005	Laws 2005, Ch. 156, Art. 3, Sec. 3	State employees	N/A	State employees who previously worked at least half time may enter into an agreement with the employer to reduce work hours to less than half time. Contributions may be made to the applicable MSRS plan as though the individual had not reduced hours. Thus, the employment reduction does not harm the individual's eventual retirement annuity. Expires June 30, 2007.
2005	Laws 2005, Ch. 156, Art. 3, Sec. 4	State government appointing authorities	N/A	State government appointing authorities may allow employees to take leaves without pay for up to 1040 hours prior to June 30, 2005. Vacation, sick leave, seniority, and health care benefits continue to accrue during the leave period in the applicable pension plan; employee and employer contributions must be made to the applicable plan. An appointing authority may, at its discretion, pay the employee contributions on behalf of the employee. Expires June 30, 2007.
2005	Laws 2005, Ch. 156, Art. 3, Sec. 2	Employees of the Executive branch of state government; MSRS staff, Legislative Auditor staff, Metropolitan Council	N/A	An eligible employee who retires with at least five years of covered employment from a half-time or greater position, and who is eligible for an unreduced retirement annuity can accept a post-retirement employment, not to exceed half-time and representing at least a 25% reduction from previous work hours. The arrangement can be renewed annually up to five years. Post-retirement annuity reduction provisions are waived while in the position. Payments are made toward healthcare coverage, not to exceed 75% of employee-only full time employment coverage.

Year	Citation	Coverage Group(s)	Retirement Plan Based Early Retirement Incentive	Other Employment Benefit Early Retirement Incentive
2005	Laws 2005, 1 <sup>st</sup> SS, Ch. 1, Art. 4, Sec. 98	IRRRB	N/A	IRRB employees age 60 or more or any age with 30 years of service can be eligible for paid health care to age 65 or cash incentives. Expires June 30, 2006.
2006	Laws 2006, Ch. 271, Art. 3, Sec. 43	Executive branch or legislative branch of state government; Board of Public Defense; Minnesota Historical Society; Minnesota State Colleges and Universities System; school districts.	\$17,000 payment, which could be used to purchase additional service credit to qualify for a "Rule of 90" retirement or to purchase an additional annuity from the MSRS Unclassified State Employees Retirement Program.	\$17,000 payment alternatively could be deposited in the Minnesota Healthcare Savings Plan.
2007	Laws 2007, Ch. 134, Art. 11, Sec. 11	Any Minnesota governmental employing unit with one or more employee covered by a plan listed in M.S., Sec. 356.30	\$17,000 payment, which could be used to purchase additional service credit to qualify for a "Rule of 90" retirement or to purchase an additional annuity from the respective retirement plan.	\$17,000 payment alternatively could be deposited in the Minnesota Healthcare Savings Plan.
2009	Laws 2009, Ch. 169, Art. 6, Sec. 1	MnSCU employees	N/A	Up to one year's base salary, unlimited amount of employer-paid medical insurance coverage, or a combination of the two.
--	Collective Bargaining Agreement	Patrol, BCA, Conservation Officers	N/A	Employer-paid health and dental insurance premiums.
--	Collective Bargaining Agreement	State University Faculty	N/A	Severance payment; employer-paid health insurance premium for one year.
--	Collective Bargaining Agreement	State University Administrative Personnel	N/A	Severance payment; employer-paid health insurance premium for one year.
--	Collective Bargaining Agreement	Community College Faculty	N/A	Severance payment; employer-paid health insurance premium for one year.
--	Personnel Policy	Displaced Higher Ed Board Excluded Administrators	N/A	Severance payment.
--	Personnel Policy	Community College Unrepresented Administrators	N/A	Severance payment; employer-paid health insurance premium for one year.

The various early retirement incentives have been enacted or implemented for a variety of reasons. Most of the early retirement incentives were apparently implemented to assist in resolving state budget difficulties by encouraging retirements instead of layoffs or other involuntary terminations. Those early retirement incentives were enacted not primarily to benefit public employees, but to use a potentially advantageous benefit to induce higher-paid, longer-service employees to terminate active public employment at an earlier age than they otherwise would retire. The savings that potentially will accrue to the public employer in this circumstance are dependent on the employer not filling the employment position with another employee or on the employer filling the employment position with another employee at a much smaller salary.

When a public pension plan provides an early retirement incentive, the public pension plan is fulfilling its prescribed function within the overall personnel compensation and benefit system. Public employee pension plans exist primarily to assist the public employer's personnel system by aiding in the recruitment of new public employees, the retention of existing trained and productive public employees, and the predictable systematic out-transitioning of public employees who have reached the end of their regularly expected productive working career. This is done by adopting a retirement plan that provides a sufficient post-retirement income (adequate based on pre-retirement earnings) and that is competitive with other potential employers. In providing an early retirement incentive, the public employee pension plan is emphasizing the out-transitioning function and is attempting to speed up its timing. Other employment benefit coverage, such as severance pay or employer-paid early retirement health insurance premiums, can also assist in this out-transitioning function.



**Background Information on the  
2006-2009 Early Retirement Incentive Program**

*Laws 2006, Chapter 271, Article 3, Section 43, and  
Laws 2007, Chapter 134, Article 11, Section 11*

Laws 2006, Chapter 271, Article 3, Section 43

The early retirement incentive ultimately enacted by the Legislature as Laws 2006, Chapter 271, Article 3, Section 43, was first introduced as proposed legislation in 2005 as S.F. 1057 (Pogemiller); H.F. 1120 (Powell). S.F. 1057 (Pogemiller), as introduced on February 17, 2005, reflected a proposal assembled by the Middle Management Association, the state's third largest labor union, and provided for four programs packaged and self-identified as early retirement incentives, as follows:

- a. Temporary Targeted Early Retirement Incentive. A temporary targeted early retirement incentive program would be established, applicable to the period following final enactment to September 1, 2005, for a state employee who has at least five years of service, who is immediately eligible to a retirement annuity upon retirement, who terminates state service between final enactment and September 1, 2005, and who is offered the incentive by the state employee's employing unit. The incentive is a dollar amount up to \$17,000, which may be used only as follows:
  - (1) If the employee retires before July 15, 2005, the amount is for deposit in the employee's healthcare savings plan under Minnesota Statutes, Section 352.98;
  - (2) If the employee retires between July 15, 2005, and September 1, 2005, the amount is for the purchase of allowable service credit for future unperformed employment sufficient in combination with proceeds from the person's deferred compensation program account to qualify for the "Rule of 90" early normal retirement age provision if employment terminates after July 15, 2005, or the amount is for the purchase of an additional annuity under the Minnesota State Retirement System Unclassified State Employees Retirement Program (MSRS-Unclassified).
- b. Phased Retirement/Reduced Employment and Retirement Annuity Receipt. Additionally, a state employee covered under the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the State Correctional Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional), or the Unclassified State Employees Retirement Program of the Minnesota State Retirement System (MSRS-Unclassified) who is employed for at least half time, who agrees to a reduction of 25 percent in their regularly scheduled work hours, and who is eligible for an immediate unreduced retirement annuity from the applicable plan is permitted to continue active employment as agreed, without earning additional service credit, and to receive a retirement annuity without any reemployed retirement annuity limitation. The employee would be eligible for health insurance coverage as collectively bargained for state employees. Severance pay is not payable until the person actually terminates state employment. The assignment of work hours would be an employer determination. Once the phased retirement position is vacated by the termination of the employee, the employer cannot continue the position as part-time employment. The phased retirement option is exclusive of all other options.
- c. Reduction in Employment to Half-Time. Also, a state employee is permitted to reduce their work hours to half-time and continue to make full member contributions to a state retirement plan, have full employer contributions made on their behalf to a state retirement plan, and receive full allowable service from a state retirement plan.
- d. 1,040 Hour Voluntary Leave. In addition, a state government employer may allow state employees to take a voluntary leave of 1,040 hours during the fiscal years 2006-2007 biennium and continue to make the balance of full member and employer contributions during the leave.

The initial version of S.F. 1057 (Pogemiller) applied only to state executive branch or legislative branch employees, not to the state judicial branch, to quasi-state agencies, or to local government.

S.F. 1057 (Pogemiller) was initially heard by the Senate State and Local Governmental Operations Committee in mid-March 2005, prior to its review by the Legislative Commission on Pensions and Retirement. It was amended by the Senate State and Local Governmental Operations Committee to expand the coverage of the early retirement incentive window portion of the bill to include employees of the State Board of Public Defense, at the request of that agency's legislative representative, and to increase the amount of the lump sum amount to \$17,000, at the request of the Middle Management Association representative. The bill was re-referred to the Senate Finance Committee.

S.F. 1057 (Pogemiller) was reviewed by the Legislative Commission on Pensions and Retirement on May 12, 2005, was designated to be the vehicle bill for the Senate version of the second (substantive) 2005 Omnibus Retirement Bill, and had a number of significant retirement provisions added in addition to the Middle Management Association early retirement incentive, including the consolidation of the Minneapolis Teachers Retirement Fund

Association (MTRFA) into the statewide Teachers Retirement Association (TRA). At the request of legislative representatives of Education Minnesota, the lump sum amount temporary window early retirement incentive was amended to expand its coverage to include school districts. The incentive eligibility group was also expanded to include the Minnesota Historical Society, presumably at the request of Society representatives. The bill was amended with the May 12, 2005, Senate Commission member amendment by the Senate Finance Committee on May 16, 2005. The bill was further amended on the Special Orders Calendar on May 19, 2005, but those amendments did not relate to the early retirement incentive window, and S.F. 1057 (Pogemiller) was passed by the Senate on May 19, 2005, on a 54-9 vote.

Subsequently, the half-time employment reduction and 1044 hour voluntary leave portions of S.F. 1057 (Pogemiller), as introduced, were included in the State Departments Appropriations bill, enacted as Laws 2005, Chapter 156, Article 3, Sections 3 and 4.

In 2006, the legislative representative of the Middle Management Association appeared before the House Governmental Operations and Veterans Affairs Committee in mid-March 2006 on H.F. 2362 (Smith), and successfully requested that committee to add the temporary window early retirement incentive provision to the first 2006 Omnibus Retirement Bill amendment previously assembled by the Legislative Commission on Pensions and Retirement, with some modification relating to targeting safeguards and with an expansion of the coverage group to include employees of the Minnesota State Colleges and Universities System (MnSCU), and the bill was re-referred to the House State Government Finance Committee on March 23, 2006. The provision was included, unchanged, when the contents of H.F. 2362 (Smith) was amended to S.F. 2239 (Pogemiller) by the House State Government Finance Committee and in subsequent considerations by the House State Government Finance Committee, the House Rules and Legislative Administration Committee, and the House Ways and Means Committee. An immediate effective date was added to the provision when the bill was considered by the full House on May 20, 2006, and was approved 104-27. The Senate concurred in the House amendments to S.F. 2239 (Pogemiller) on May 20, 2006, with a 63-3 vote.

#### Laws 2007, Chapter 134, Article 11, Section 11

In 2007, Laws 2006, Chapter 271, Article 3, Section 43, was amended, extended in time, and was codified in Minnesota Statutes, by H.F. 2079 (Murphy, M.); S.F. 1841 (Pogemiller), incorporated into the 2007 Omnibus Retirement Bill. H.F. 2079 (Murphy, M.); S.F. 1841 (Pogemiller) was heard by the Commission on May 8, 2008, was amended, and was recommended for incorporation into the 2007 Omnibus Retirement Bill, H.F. 1978 (Murphy, M.); S.F. 430 (Betzold), on May 8, 2007, was approved by the House Committee on Governmental Operations, Reform, Technology, and Elections on May 10, 2007, was approved by the Senate State and Local Government Operations and Oversight Committee on May 11, 2007, was approved by the full Senate on May 17, 2007, was approved by the full House of Representatives on May 20, 2007, and was signed by the Governor on May 25, 2007.

Laws 2007, Chapter 134, Article 11, Section 11, codified the 2006 early retirement incentive as Minnesota Statutes, Section 356.351, and was extended to 2009, with certain eligibility and other provision changes. Rather than being limited to executive and legislative branch state employees, MnSCU and school districts, the program was expanded to include employers with employees (other than elected officials) covered by any plan included in the combined service annuity provision (the MSRS-Unclassified Program, plus all Minnesota public defined benefit plans that base benefits on the high-five average salary). An eligible employing unit was one that was experiencing layoffs or reorganization. Approval to provide an incentive, which was an amount not to exceed \$17,000, must be obtained from the Department of Finance or applicable governing board. If offered, the incentive amounts must have been used in a manner authorized by the employer, which included making a deposit in the MSRS Health Care Savings Plan account or purchasing service credit in the plan that provides coverage for the eligible individual. Individuals who accept an incentive and retire under this program were prohibited from being rehired as an employee or consultant for three years, although service as a substitute teacher was exempted. The Commissioner of Employee Relations, the Commissioner of Education, and the Chancellor of MnSCU were required to report by August 1, 2008, and annually thereafter, to the Legislative Commission on Pensions and Retirement and various legislative committees on program utilization and salary savings.

#### Laws 2008, Chapter 204, Section 42

Laws 2008, Chapter 204, Section 42, replaced references to the Department of Employee Relations with references to the Department of Finance in the early retirement incentive program.

#### Laws 2009, Chapter 169, Article 1, Section 72

Laws 2009, Chapter 169, Article 1, Section 72, revised the service credit purchase provision of the early retirement incentives to replace a reference to the Minnesota Post Retirement Investment Fund reserve transfer factors with appropriate alternative language following the dissolution of the Minnesota Post Retirement Investment Fund.

1.1 ..... moves to amend S.F. No. 1417; H.F. No. 1327, as follows:

1.2 Page 1, delete section 2 and insert:

1.3 "Sec. 2. Minnesota Statutes 2008, section 356.351, subdivision 2, as amended by Laws  
1.4 2009, chapter 169, article 1, section 72, is amended to read:

1.5 Subd. 2. **Incentive.** (a) For an employee eligible under subdivision 1, if approved  
1.6 under paragraph (b), the employer may provide an amount up to ~~\$17,000~~ the cost of  
1.7 purchasing an additional six months of health insurance plus the amount that would be  
1.8 received for 72 weeks of unemployment compensation, to an employee who terminates  
1.9 service, to be used:

1.10 (1) unless the appointing authority has designated the use under clause (2) or the use  
1.11 under clause (3) for the initial retirement incentive applicable to that employing entity  
1.12 under Laws 2007, chapter 134, after May 26, 2007, for deposit in the employee's account  
1.13 in the health care savings plan established by section 352.98;

1.14 (2) notwithstanding section 352.01, subdivision 11, or 354.05, subdivision 13,  
1.15 whichever applies, if the appointing authority has designated the use under this clause  
1.16 for the initial retirement incentive applicable to that employing entity under Laws 2007,  
1.17 chapter 134, after May 26, 2007, for purchase of service credit for unperformed service  
1.18 sufficient to enable the employee to retire under section 352.116, subdivision 1, paragraph  
1.19 (b); 353.30; 354.44, subdivision 6, paragraph (b), or 354A.31, subdivision 6, paragraph  
1.20 (b), whichever applies; or

1.21 (3) if the appointing authority has designated the use under this clause for the initial  
1.22 retirement incentive applicable to the employing entity under Laws 2007, chapter 134,  
1.23 after May 26, 2007, for purchase of a lifetime annuity or an annuity for a specific number  
1.24 of years from the applicable retirement plan to provide additional benefits, as provided in  
1.25 paragraph (d).

1.26 (b) Approval to provide the incentive must be obtained from the commissioner  
1.27 of finance if the eligible employee is a state employee and must be obtained from the  
1.28 applicable governing board with respect to any other employing entity. An employee is  
1.29 eligible for the payment under paragraph (a), clause (2), if the employee uses money from  
1.30 a deferred compensation account that, combined with the payment under paragraph (a),  
1.31 clause (2), would be sufficient to purchase enough service credit to qualify for retirement  
1.32 under section 352.116, subdivision 1, paragraph (b); 353.30, subdivision 1a; 354.44,  
1.33 subdivision 6, paragraph (b), or 354A.31, subdivision 6, paragraph (b), whichever applies.

1.34 (c) The cost to purchase service credit under paragraph (a), clause (2), must be  
1.35 made in accordance with section 356.551.

2.1 (d) The annuity purchase under paragraph (a), clause (3), must be made using  
2.2 annuity factors, as determined by the actuary retained under section 356.214, derived from  
2.3 the applicable factors used by the applicable retirement plan to calculate optional annuity  
2.4 forms. The purchased annuity must be the actuarial equivalent of the incentive amount."

2.5 Amend the title accordingly

1.1 ..... moves to amend S.F. No. 1417; H.F. No. 1327, as follows:

1.2 Page 1, line 13, delete "October 1, 2010" and insert "....."

1.1 ..... moves to amend S.F. No. 1417; H.F. No. 1327, as follows:

1.2 Page 2, line 1, delete everything before "plus" and insert "the applicable  
1.3 employer-paid monthly health and dental insurance premium amount for a full-time single  
1.4 employee for six months"

1.1 ..... moves to amend S.F. No. 1417; H.F. No. 1327, as follows:

1.2 Page 2, line 1, delete everything after "plus" and insert "the unemployment  
1.3 compensation amount for 72 weeks that the particular person offered the incentive could  
1.4 be expected to receive if laid off"

1.5 Page 2, line 2, delete the new language

1.1 ..... moves to amend S.F. No. 1417; H.F. No. 1327, as follows:

1.2 Page 2, line 1, delete everything after "plus" and insert "the maximum unemployment  
1.3 compensation amount payable under state law for 72 weeks"

1.4 Page 2, line 2, delete the new language



- 1.1 ..... moves to amend S.F. No. 1417; H.F. No. 1327, as follows:
- 1.2 Page 1, line 23, delete the new language and insert "\$......"
- 1.3 Page 2, delete line 1
- 1.4 Page 2, line 2, delete the new language

1.1 ..... moves to amend S.F. No. 1417; H.F. No. 1327, as follows:

1.2 Page 1, line 8, strike everything after the first "of"

1.3 Page 1, strike line 9

1.4 Page 1, line 10, strike everything before "and" and insert "employment as indicated  
1.5 in the personnel records of the applicable employing unit"

1.6 Page 1, line 11, strike "of these funds" and insert "retirement plan governed by  
1.7 Minnesota Statutes, chapter 354B, or Minnesota Statutes, section 356.30"

- 1.1 ..... moves to amend S.F. No. 1417; H.F. No. 1327, as follows:
- 1.2 Page 1, line 13, strike "and"
- 1.3 Page 1, line 16, strike the period and insert "; and"
- 1.4 Page 1, after line 16, insert:
- 1.5 "(4) has not been eligible to receive a retirement annuity for a period longer than
- 1.6 10 years."

- 1.1 ..... moves to amend S.F. No. 1417; H.F. No. 1327, as follows:
- 1.2 Page 1, line 9, strike everything after the second comma
- 1.3 Page 1, line 10, delete everything before "and"
- 1.4 Page 1, line 17, after "unit" insert ", other than the Minnesota State Colleges and
- 1.5 Universities System, "

1.1 ..... moves to amend the S1417-1A amendment to S.F. No. 1417; H.F.  
1.2 No. 1327, as follows:

1.3 Page 2, strike lines 1 to 4 and insert:

1.4 "(d) An annuity purchase under paragraph (c), clause (3), must be made from the  
1.5 general state employees retirement plan under section 352D.06, subdivision 1, as if the  
1.6 eligible employee was a member of the unclassified state employees retirement program  
1.7 and must be the actuarial equivalent of the offered incentive amount."

Senators Pogemiller, Rosen and Lynch introduced—

S.F. No. 1417: Referred to the Committee on State and Local Government Operations and Oversight.

1.1 A bill for an act  
1.2 relating to retirement; modifying early retirement initiative; amending Minnesota  
1.3 Statutes 2008, section 356.351, subdivisions 1, 2.

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

1.5 Section 1. Minnesota Statutes 2008, section 356.351, subdivision 1, is amended to read:

1.6 Subdivision 1. **Eligibility.** (a) An eligible appointing authority may offer the early  
1.7 retirement incentive in this section to an employee who:

1.8 (1) has at least 15 years of allowable service in one or more of the funds listed  
1.9 in section 356.30, subdivision 3, or has at least 15 years of coverage by the individual  
1.10 retirement account plan governed by chapter 354B and upon retirement is immediately  
1.11 eligible for a retirement annuity or benefit from one or more of these funds;

1.12 (2) terminates service after the effective date of this section, and before ~~July 15,~~  
1.13 ~~2009~~ October 1, 2010; and

1.14 (3) is not in receipt of a public retirement plan retirement annuity, retirement  
1.15 allowance, or service pension during the month preceding the termination of qualified  
1.16 employment.

1.17 (b) An eligible appointing authority is any Minnesota governmental employing unit  
1.18 which employs one or more employees with retirement coverage by a retirement plan  
1.19 listed in section 356.30 by virtue of that employment.

1.20 (c) An elected official is not eligible to receive an incentive under this section.

1.21 Sec. 2. Minnesota Statutes 2008, section 356.351, subdivision 2, is amended to read:

1.22 Subd. 2. **Incentive.** (a) For an employee eligible under subdivision 1, if approved  
1.23 under paragraph (b), the employer may provide an amount up to ~~\$17,000~~ the cost of

2.1 purchasing an additional six months of health insurance plus the amount that would be  
2.2 received for 72 weeks of unemployment compensation, to an employee who terminates  
2.3 service, to be used:

2.4 (1) unless the appointing authority has designated the use under clause (2) or the use  
2.5 under clause (3) for the initial retirement incentive applicable to that employing entity  
2.6 under Laws 2007, chapter 134, after May 26, 2007, for deposit in the employee's account  
2.7 in the health care savings plan established by section 352.98;

2.8 (2) notwithstanding section 352.01, subdivision 11, or 354.05, subdivision 13,  
2.9 whichever applies, if the appointing authority has designated the use under this clause  
2.10 for the initial retirement incentive applicable to that employing entity under Laws 2007,  
2.11 chapter 134, after May 26, 2007, for purchase of service credit for unperformed service  
2.12 sufficient to enable the employee to retire under section 352.116, subdivision 1, paragraph  
2.13 (b); 353.30; 354.44, subdivision 6, paragraph (b), or 354A.31, subdivision 6, paragraph  
2.14 (b), whichever applies; or

2.15 (3) if the appointing authority has designated the use under this clause for the initial  
2.16 retirement incentive applicable to the employing entity under Laws 2007, chapter 134,  
2.17 after May 26, 2007, for purchase of a lifetime annuity or an annuity for a specific number  
2.18 of years from the applicable retirement plan to provide additional benefits, as provided in  
2.19 paragraph (d).

2.20 (b) Approval to provide the incentive must be obtained from the commissioner  
2.21 of finance if the eligible employee is a state employee and must be obtained from the  
2.22 applicable governing board with respect to any other employing entity. An employee is  
2.23 eligible for the payment under paragraph (a), clause (2), if the employee uses money from  
2.24 a deferred compensation account that, combined with the payment under paragraph (a),  
2.25 clause (2), would be sufficient to purchase enough service credit to qualify for retirement  
2.26 under section 352.116, subdivision 1, paragraph (b); 353.30, subdivision 1a; 354.44,  
2.27 subdivision 6, paragraph (b), or 354A.31, subdivision 6, paragraph (b), whichever applies.

2.28 (c) The cost to purchase service credit under paragraph (a), clause (2), must be  
2.29 made in accordance with section 356.551.

2.30 (d) The annuity purchase under paragraph (a), clause (3), must be made using  
2.31 annuity factors derived from the applicable factors used by the applicable retirement plan  
2.32 to transfer amounts to the Minnesota postretirement investment fund and to calculate  
2.33 optional annuity forms. The purchased annuity must be the actuarial equivalent of the  
2.34 incentive amount.

2.35 Sec. 3. EFFECTIVE DATE.

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