Document LCPR10-038 (Murphy, M.)

(DTRFA Financial Sustainability Bill)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s):	Duluth Teachers Retirement Fund Association (DTRFA)
Relevant Provisions of Law:	Minnesota Statutes, Chapters 354, 354A, and 356
General Nature of Proposal:	Various benefit changes and contribution increases
Date of Summary:	February 24, 2010

Specific Proposed Change(s)

1. Increases accrual rates and lowers normal retirement ages if certain funding levels are reached.
2. Increases vesting to five years.
3. Revises post-retirement adjustment procedures.
4. Reduces refund interest rate and deferred annuity augmentation rate.
5. Increases employee and employer contributions.

Policy Issues Raised by the Proposed Legislation

1. Lack of actuarial work for benefit increase.
2. Question of whether the DTRFA is viable in the long term.
3. Question of whether this proposal is in the best interest of plan members.
4. Likely need for more state aid.
5. Alternative of consolidating into the Teachers Retirement Association (TRA).
6. Issue of need for benefit improvement based on labor force needs.
7. Issue of need for benefit improvement; extensive ability to use supplemental defined contribution savings plans.
8. Support of school district.
9. Use of market value funding ratios; implications for usefulness of actuarial value.
10. Implications of proposed post-retirement adjustment procedure.

Potential Amendments

LCPR10-038-1A consolidates the Duluth Teachers Retirement Fund Association (DTRFA) into the Teachers Retirement Association (TRA).

LCPR10-038-2A, an alternative to -1A, revises the bill by deleting everything except the revised post-retirement adjustment procedure.

LCPR10-038-3A, an alternative to all previous amendments, deletes everything from the bill except the revised post-retirement adjustment procedure, and it would further revise that procedure to be fully comparable to that enacted last year for the St. Paul Teachers Retirement Fund Association (SPTRFA). If the Commission wishes to further restrict those adjustments to have a cap below a five percent inflation match increase, the Commission can adopt this amendment and then do an oral amendment to the bill.

LCPR10-038-4A adds a cash flow solvency test to DTRFA actuarial report requirements, as recommended by the Commission's reviewing actuary.

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: LCPR10-038 (Murphy, M.): DTRFA; Various Benefit Changes and Contribution Increases

DATE: February 24, 2010

General Summary of Document LCPR10-038 (Murphy, M.)

LCPR10-038 (Murphy, M.) increases the Duluth Teachers Retirement Fund Association (DTRFA) new law coordinated plan employee and employer contribution rates beginning in 2011, immediately increases vesting to five years, reduces the interest rate on refunds provided by the plan, reduces deferred annuity accrual rates, and revises or eliminates post-retirement adjustments in the short term. In the longer term, as various funding levels are attained, an inflation indexed post-retirement adjustment system is put in place, accrual rates are increased, and normal retirement ages are reduced. More specifically, the changes are:

1. Normal Retirement Age Changes. Amends Minnesota Statutes, Section 354A.011, Subdivision 15A. Beginning July 1 of the second year following the year in which the DTRFA funding ratio is at least 95 percent, (1) the normal retirement age for post June 30, 1989, hires will be age 65 rather than 66; and (2) for all DTRFA teachers, regardless of the date of hire, the normal retirement age will be age 62 if the teacher has at least 30 years of service. *(Section 1)*

2. Employee Contribution Rate Changes. Amends Minnesota Statutes, Section 354A.012, Subdivision 1. Beginning July 2011 the DTRFA coordinated member employee contribution rate increases from 5.5 percent of salary to 6.0 percent, and a year later it increases to 6.5 percent. On July 1 of the second year following the year in which the DTRFA funding ratio is at least 90 percent the employee contribution rate increases to 7.0 percent of salary. On July 1 of the second year following the year in which the DTRFA funding ratio is at least 95 percent the employee contribution rate increases to 7.5 percent of salary. *(Section 2)*

3. Employer Contribution Rate Changes. Amends Minnesota Statutes, Section 354A.012, Subdivision 2a. Beginning July 2011 the DTRFA coordinated member employer contribution rate increases from 5.79 percent of salary in total 6.29 percent, and a year later it increases to 6.79 percent. On July 1 of the second year following the year in which the DTRFA funding ratio is at least 90 percent the employee contribution rate increases to 7.29 percent of salary. On July 1 of the second year following the year in which the DTRFA funding ratio is at least 95 percent the employee contribution rate increases to 7.79 percent of salary. *(Section 3)*

4. Post-Retirement Calculation Procedure Provision Revision. Amends Minnesota Statutes, Section 354A.27, Subdivision 5. The existing calculation of the post-retirement adjustment procedure provision is revised to be a provision indicating eligibility requirements, and the existing automatic two percent increase is removed. *(Section 4)*

5. Additional Increase Post-Retirement Calculation Procedure Revision. Amends Minnesota Statutes, Section 354A.27 Subdivision 5. The existing calculation of additional post-retirement adjustments, based on five-year average returns in excess of 8.5 percent, is removed and replaced with a transitional provision providing post-retirement increases if funding ratios, computed using market values rather than actuarial asset values, permit. No increase will be paid if the funding ratio is less than 80 percent. A one percent increase is provided if the funding ratio is at least 80 percent. If the ratio is at least 90 percent a two percent increase is provided. If the funding ratio, computed using the actuarial value of assets rather than the market value, is at least 90 percent, this transitional provision expires and any subsequent post-retirement adjustments will be determined under section 6. *(Section 5)*

6. New Inflation Matching Post-Retirement Adjustment Provision. Amends Minnesota Statutes, Section 354A.27 by adding a subdivision. If section 5 expires, the DTRFA will provide post-retirement adjustments matching inflation up to five percent. No adjustment will be provided if the funding ratio is less than 80 percent. *(Section 6)*

7. Revised Vesting Requirement. Amends Minnesota Statutes, Section 354A.31, Subdivision 1. For DTRFA, the vesting requirement is changed from three years to five years. *(Section 7)*

8. Increased DTRFA Accrual Rates. Amends Minnesota Statutes, Section 354A.31, Subdivision 4a. Regarding pre-July 1, 1989, hires who retire prior to normal retirement age, for service rendered after July 1 of the year in which the employee contribution is increased to 7.0 percent the accrual rate for the first ten years of service is 1.4 percent per year rather than 1.2 percent, and for service after ten years the accrual rate is 1.9 percent of service rather than 1.7 percent. On that same July 1 date, for pre-July 1, 1989, hires who select a level benefit annuity and for all post June 30, 1989, hires, the accrual rate for prospective service is 1.9 percent per year. Beginning on the July 1 date on which employee contributions first increase to 7.5 percent, the minimum age 55 requirement does not apply to those with at least 30 years of service. *(Section 8)*

9. Actuarial Reduction for Early Retirement Provision Revision. Amends Minnesota Statutes, Section 354A.31, Subdivision 7. Beginning on the July 1 date on which employee contributions first increase to 7.5 percent, the minimum age 55 requirement in this subdivision does not apply to those with at least 30 years of service. *(Section 9)*

10. Death Refund Provision Revision. Amends Minnesota Statutes, Section 354A.35, Subdivision 1. For periods after July 1, 2010, the interest rate on DTRFA death refunds will be four percent rather than six percent. *(Section 10)*

11. Deferred Annuity Augmentation Provision. Amends Minnesota Statutes, Section 354A.37, Subdivision 2. For periods after July 1, 2010, the deferred annuity augmentation rate for any DTRFA deferred annuitant will be reduced to two percent per year. *(Section 11)*

12. Terminated Member Refund Provision Revision. Amends Minnesota Statutes, Section 354A.37, Subdivision 3. For periods after July 1, 2010, the interest rate on DTRFA terminated member refunds will be four percent rather than six percent. *(Section 12)*

13. Refund-In-Lieu-of-Annuity Provision Revision. Amends Minnesota Statutes, Section 354A.37, Subdivision 4. For periods after July 1, 2010, the interest rate on DTRFA terminated member refund-in-lieu-of-annuity refunds will be four percent rather than six percent. *(Section 13)*

14. Reemployed Annuitant Account Payment Provision Revision. Amends Minnesota Statutes, Section 356.47, Subdivision 3. For periods after July 1, 2010, the DTRFA reemployed annuitant savings account provision will pay no interest after that date, rather than six percent interest. *(Section 14)*

15. Repealer. Minnesota Statutes, Section 354A.27, Subdivision 1, an unnecessary DTRFA post-retirement adjustment modification provision, is repealed. *(Section 15)*

The effective date on all sections is July 1, 2010.

Discussion and Analysis

LCPR10-038 (Murphy, M.) increases the Duluth Teachers Retirement Fund Association (DTRFA) new law coordinated plan employee and employer contribution rates beginning in 2011, immediately increases vesting to five years, reduces the interest rate on refunds provided by the plan, reduces deferred annuity accrual rates, and revises or eliminates post-retirement adjustments in the short term. In the longer term, as various funding levels are attained, an inflation indexed post-retirement adjustment system is put in place, accrual rates are increased, and normal retirement ages are reduced.

The proposal raises numerous policy issues. Issues raised by revising deferred annuity augmentation rates, refund interest rates, and vesting are common across proposals presented by the major plans and presumably are adequately covered in the memo or memos dealing with those proposals. The policy issues noted below are at least somewhat unique to this DTRFA proposal.

1. Lack of Actuarial Work for Benefit Increase. The issue is that the Legislative Commission on Pensions and Retirement has received no actuarial work costing out the benefit changes proposed in this bill draft. Without that information there is no way to determine the overall cost of the benefit change package, or the impact of individual items in case the Commission wishes to delete portions of this proposal. What is puzzling is that the increased employee and employer contribution rates are specified, despite the lack of information on the added cost of the package of proposals. The Commission may wish to ask how these new rates were determined. If this actuarial work does become available prior to the meeting, it will be included as an attachment.

2. Question of Whether the DTRFA is a Viable Fund in the Long Term. The issue is whether the DTRFA is financially viable. The DTRFA is one of only a few funds specifically mentioned by the Commission's reviewing actuary, Milliman, Inc., in its actuarial review presentation to the Commission on February 19, 2010. Milliman's report noted that the DTRFA is a mature fund with nearly 40 percent of its membership in benefit-receipt status, and with more than 60 percent of its accrued liabilities due to those already retired. The actuaries also noted that the DTRFA is the last fund still using a flawed procedure to pay out post-retirement adjustments, the same process which helped drain the Minneapolis Teachers Retirement Fund Association (MTRFA) of its assets. That process permits the DTRFA to pay out additional post-retirement adjustments based on five-year average investment returns in excess of 8.5 percent. A significant problem with that procedure is that the mechanism does not require that fund asset values must recover from the impacts of prior recessions before those adjustments can continue. While the actuaries were not concerned about the short term, they did recommend that future DTRFA actuarial reports include a cash flow solvency test to indicate whether the fund is headed for trouble. According to the July 1, 2009, actuarial report, the DTRFA funding ratio is 76.55 percent. However, that is computed using the actuarial value of assets which, given the smoothing procedures in place and the impact of the recent recession, considerably overstates the market value of assets. When the market value of assets is compared to the fund's liability, the funding ratio is only 49 percent. This fund has slightly less than half the assets needed to cover its liabilities. It would appear that the membership would be better served by focusing solely on containing liabilities rather than seeking benefit improvements that will increase liabilities, and that a merger into TRA ought to be given careful consideration.

3. Question of Whether this Proposal is in the Best Interest of Plan Members. The issue is whether this proposal is in the best interest of plan members. The proposal is, in large part, an effort to obtain the benefit improvements that were granted to the Teachers Retirement Association (TRA) in 2006 (the use of higher accrual rates to compute annuities for prospective service). That request may not be reasonable given the financial condition of the DTRFA. Rather than seeking benefit improvements, the DTRFA might better focus on safeguarding the benefits already promised to the DTRFA membership.

   The benefit improvements in the bill draft are generally contingent on the fund first achieving improved funding ratios. While that appears prudent, it may also give the membership a false expectation. Most of the membership does not have a good understanding of the financial condition of this pension fund, or the implications that has for the benefit improvements provided under this bill, which only become available when the fund's financial condition improves considerably. The membership may believe that these improvements will occur a few years in the future, when in fact they may not occur for many years, if ever.

4. Likely Need for More State Aid. The issue is the likely need for more state aid if this association is to survive as a freestanding entity and provide the kind of benefit improvements provided in the long term under this bill. It seems likely that more state aid would be needed to make the benefit improvements provided under this bill a realistic possibility. If so, that request ought to be part of this request, if for no other reason than to give legislators a better understanding of the situation and the entire package that will be needed to finance this proposal. That would be preferable to having this bill pass and having the DTRFA come to the Legislature a few years from now requesting more aid to finance these changes.

5. Alternative of Consolidating into the Teachers Retirement Association (TRA). The benefit improvement request is to provide benefits similar to those of the TRA plan. If the Commission were to conclude that such a benefit improvement is appropriate, a simpler and more cost-efficient alternative is to provide the improvement through a consolidation into TRA. This would provide administrative savings by removing the expenses for an executive director, pension plan staff, an actuary, asset custodian, investment advisors, investment managers, and other expenses, while making the DTRFA membership better off than they are at present, or will be under this bill.

6. Issue of Need for Benefit Improvement Based on Labor Force Needs. The issue is whether any benefit improvement in the DTRFA, a defined benefit plan, can be justified based on labor force needs. What would be useful for the Commission's consideration of the benefit improvement in this bill is documentation provided by the DTRFA or some other party indicating that the school system is unable to attract and retain capable teachers. Regarding ability to attract capable workers, if there are fewer capable candidates than there are available teaching positions, then a pension benefit improvement might be part of the answer, but better pay or working conditions are likely to be a better solution. Young employees and those seeking to enter any given profession are not particularly motivated by having a pension plan. Regarding retaining existing employees, what we do know from

actuarial work and experience studies over the years is that teachers have lower turnover rates than other general plan public employees. Individuals who have been teachers for a few years tend to stay. That would suggest that further enhancement is not needed to retain existing employees. If the concern is that the Duluth school district would be at a competitive disadvantage compared to TRA-covered districts in attracting and retaining capable teachers, that is not clear. Without the accrual rate increase, money will not be spent paying for an increase, allowing the district to offer somewhat higher salaries than would otherwise be the case, giving teachers greater take-home pay which they could use for any purpose, including putting the money in a deferred compensation plan or tax-sheltered annuity if that is their preference.

The Commission may also wish to ask the DTRFA executive director about projections of the number of teachers the Duluth school system will need in the near and more distant future. Review of 2008 and 2009 membership in formation in the DTRFA actuarial reports indicate that there were 1,140 active members in 2008 and fewer in 2009, only 1,016. If the number of teachers is expected to further decline, that does not support the need to enhance the benefit program to attract teachers.

7. Issue of Need for Benefit Improvement; Extensive Ability to Use Supplemental Defined Contribution Savings Plans. The issue is whether a benefit improvement in the DTRFA plan (a defined benefit plan) can be justified given the extensive authority already in state and federal law permitting teachers to use tax-deferred savings plans to complement the main defined benefit plan to suit each teacher's personal needs. The Commission may wish to consider that teachers have extensive authority to use tax-sheltered or deferred savings vehicles to save for retirement. Any teacher with sufficient initiative who wants to create the equivalent additional benefit provided by this bill could do so, simply by saving more to create the additional value in a defined contribution account.

   Teachers have extensive access to tax-deferred savings accounts. In addition to mandatory coverage under the defined benefit plan, teachers can contribute to a 403(b) tax-sheltered annuity program. The contribution maximum is $16,500 per year, and $22,000 per year if the teacher is age 50 or older. Teachers may also contribute similar annual amounts to a Section 457 deferred compensation plan in addition to the contributions to the 403(b) plan, for a total combined maximum contribution of $33,000 per year for teacher under age 55, or $44,000 per year for teachers age 50 or above. Teachers may also receive lump sum payments from a school district for retiring prior to normal retirement age.

   Teachers, as well as other public employees, may benefit further from additional authority provided in 2008. Due to changes enacted that year, Minnesota Statutes, Section 356.24, currently permits the employer under a collective bargaining agreement to make an employer contribution to a deferred compensation plan of up to half the maximum annual contribution. For teachers, this employer-match authority would also apply to contributions to a 403(b) tax-sheltered annuity plan. This maximum is considerably in excess of the required employer contribution to the defined benefit plan, which in theory is supposed to provide the primary coverage.

   Teachers, like any taxpayer, also can use an Individual Retirement Account (IRA), for further tax-deferred savings, or they could use a Roth IRA to create tax-free withdrawals.

   Thus, any teacher, who wants to retire early or who simply wants higher benefits during retirement, has more than ample ability to create sufficient retirement assets to meet his or her goals without a further increase in benefits from the defined benefit plan. The Commission may conclude that any further benefit enhancement in the defined benefit plan is unnecessary.

8. Support of School District. The issue is whether the Duluth school district supports this bill given the added cost that will be placed on the school district, without any additional state aid. The school district will face a higher employer contribution rate starting on July 1, 2011, when the employer contribution rate will increase from 5.67 percent to 6.29 percent of pay, and the following year from 6.29 percent of pay to 6.79 percent of pay. Eventually, it will increase to 7.79 percent of pay.

9. Use of Market Value Funding Ratios; Implications for Usefulness of Actuarial Value. The issue is the implication of the DTRFA's use of funding ratios computed using market value rather than actuarial value. For example, under the new post-retirement adjustment mechanism (page 5.24 to 5.34) the adjustment to be paid is dependent upon funding ratios computed using market value rather than actuarial value. If market value should be used because the actuarial value is a fictitious, misleading number, perhaps the Commission should give consideration to doing away with the concept of actuarial value and use simply the market value.

10. Implications of Proposed Post-Retirement Adjustment Procedure. The issue is the implications of the proposed post-retirement adjustment procedure. The procedure to be used once the DTRFA reaches

90 percent funding is comparable to that provided last year to the St. Paul Teachers Retirement Fund Association (SPTRFA), an inflation match up to five percent. That procedure has the desirable feature of keeping retirees whole, providing there is no deflation and inflation does not exceed five percent. However, the DTRFA under this proposal will use a transitional procedure until the fund becomes at least 90 percent funded, and will pay no increase at all if the fund remains under 80 percent funded. Since the fund is currently 49 percent funded based on market value (as of July 1, 2009), the membership could go a long time with no increase. The Commission may wish to question the DTRFA executive director regarding how long the retired membership is expected to go without any increase. It seems realistic to assume a long delay. If that is the case, then this is another reason why the DTRFA membership would be better off consolidating into TRA. They could receive at least some post-retirement increases with no delay (if existing TRA law remains in effect) or with marginal delay if proposals by TRA are enacted, while the active DTRFA membership could receive immediate access to the benefit improvement they seek, rather than a promise through this DTRFA proposal to provide those added benefits at some distant date, and only if substantial improvements in funding occur.

<u>Potential Amendments for Commission Consideration</u>

Amendment LCPR10-038-1A consolidates the Duluth Teachers Retirement Fund Association (DTRFA) into Teachers Retirement Association (TRA).

Amendment LCPR10-038-2A, an alternative to -1A, revises the bill by deleting everything except the revised post-retirement adjustment procedure.

Amendment LCPR10-038-3A, an alternative to all previous amendments, deletes everything from the bill except the revised post-retirement adjustment procedure, and it would further revise that procedure to be fully comparable to that enacted last year for the St. Paul Teachers Retirement Fund Association (SPTRFA). The SPTRFA adjustment is payable regardless of the funding ratio, so to make the DTRFA procedure comparable the amendment includes language removing the prohibition in the proposed DTRFA provision against paying an adjustment if the funding ratio is less than 80 percent. If the Commission wishes to further restrict the DTRFA adjustments to have a cap below a five-percent inflation match increase, the Commission can adopt this amendment and then do an oral amendment to the bill, revising page 6, line 31, by deleting "<u>five</u>" and inserting a lower number.

Amendment LCPR10-038-4A, which can be used with any amendment except -1A, adds a cash flow solvency test to be included in the DTRFA actuarial report, as recommended by the Commission's reviewing actuary.

.... moves to amend S.F. No. ....; H.F. No. ...., Document LCPR10-038, as follows:

Delete everything after the enacting clause and insert:

"Section 1. **MERGER OF THE DULUTH TEACHERS RETIREMENT FUND ASSOCIATION INTO THE TEACHERS RETIREMENT ASSOCIATION.**

Subdivision 1. **Relation to other law.** This section supersedes any other law to the contrary.

Subd. 2. **Abolition; membership transfer.** The Duluth Teachers Retirement Fund Association is abolished on July 1, 2011. All active, deferred, inactive, disabled, survivor, and retired members of the Duluth Teachers Retirement Fund Association on July 1, 2011, are transferred to the Teachers Retirement Association and are no longer members of the Duluth Teachers Retirement Fund Association as of that date.

Subd. 3. **Membership coverage for new hires.** A person first hired as a teacher by Independent School District No. 709, Duluth, after June 30, 2011, or who under law in effect immediately prior to that date would be required to be a member of the Duluth Teachers Retirement Fund Association, is a member of the Teachers Retirement Association.

Subd. 4. **Membership of transferred active members.** Each active teacher transferred under subdivision 2 shall be a member of the Teachers Retirement Association for prospective service. The Teachers Retirement Association must grant allowable service and salary credit in the Teachers Retirement Association for all previous service and salary credit on the records of the Duluth Teachers Retirement Fund Association for the teacher.

Subd. 5. **Treatment of benefit recipients.** For every disabled member, retired member, or survivor transferred under subdivision 2, the monthly benefit paid to the applicable person on the date of transfer must continue to be paid by the Teachers Retirement Association. Any postretirement adjustments to those benefits after the date of transfer must be determined under law applicable to the Teachers Retirement Association.

Subd. 6. **Treatment of deferred members.** For deferred members transferred under subdivision 2, the Teachers Retirement Association must apply the Duluth Teachers Retirement Fund Association laws or bylaws that applied to the person on the date of termination of service covered by the Duluth Teachers Retirement Fund Association. Upon commencement of the annuity, postretirement adjustments must be determined under laws applicable to the Teachers Retirement Association.

<u>Subd. 7.</u> **<u>Asset and liability transfer.</u>** <u>(a) The liability to provide retirement annuities, refunds, and other retirement benefits related to the transfer in subdivision 2 is a liability of the Teachers Retirement Association. This liability must be reflected in the actuarial valuations of the Teachers Retirement Association, effective July 1, 2011.</u>

<u>(b) No later than July 1, 2011, the executive director of the Duluth Teachers Retirement Fund Association abolished in this section must transfer all assets of the association to the executive director of the Teachers Retirement Association for deposit in the teachers retirement fund.</u>

<u>Subd. 8.</u> **<u>Effect of transfer of power.</u>** <u>Minnesota Statutes, section 15.039, subdivisions 1 to 6, but not 7, apply to the transfer from the Duluth Teachers Retirement Fund Association to the Teachers Retirement Association under this section.</u>

<u>Subd. 9.</u> **<u>Effect on aid.</u>** <u>Any aid amounts payable to the Duluth Teachers Retirement Fund Association under law in effect immediately prior to July 1, 2011, must be paid to the Teachers Retirement Association.</u>

<u>Subd. 10.</u> **<u>Statutory revisions.</u>** <u>The executive director of the Duluth Teachers Retirement Fund Association shall submit draft legislation to the chair of the House state and local government operations reform, technology and elections committee and the Senate state and local government operations and oversight committee for consideration by the 2011 legislature containing all changes in statute and law necessary to implement this section.</u>"

Amend the title accordingly

.... moves to amend S.F. No. ....; H.F. No. ...., Document LCPR10-038, as follows:

Page 1, delete section 1

Page 2, delete section 2

Page 3, delete section 3

Page 7, delete sections 7 and 8

Page 8, delete section 9

Page 9, delete sections 10 and 11

Page 10, delete section 12

Page 11, delete sections 13 and 14

Renumber the sections in sequence

Amend the title accordingly

.... moves to amend S.F. No. ....; H.F. No. ...., Document LCPR10-038, as follows:

Page 1, delete section 1

Page 2, delete section 2

Page 3, delete section 3

Page 4, line 29, strike "6" and delete the new language and insert "7"

Page 5, line 1, delete "6 or" and delete "whichever is applicable,"

Page 6, line 8, delete "(a) This subdivision applies"

Page 6, delete line 9

Page 6, line 10, delete "(b)" and insert "(a)"

Page 6, lines 16 and 19, delete "(c)" and insert "(b)"

Page 6, line 24, delete "(d)" and insert "(c)"

Page 6, line 31, delete "(e)" and insert "(d)"

Page 6, delete lines 32 to 34

Page 7, delete sections 7 and 8

Page 8, delete section 9

Page 9, delete sections 10 and 11

Page 10, delete section 12

Page 11, delete sections 13 and 14

Page 12, line 16, delete "subdivision 1, is" and insert "subdivisions 1 and 6, are"

Renumber the sections in sequence

Amend the title accordingly

.... moves to amend S.F. No. ....; H.F. No. ...., Document LCPR10-038, as follows:

Page 11, after line 22, insert:

"Sec. 14. Minnesota Statutes 2009 Supplement, section 356.215, subdivision 11, is amended to read:

Subd. 11. **Amortization contributions.** (a) In addition to the exhibit indicating the level normal cost, the actuarial valuation of the retirement plan must contain an exhibit for financial reporting purposes indicating the additional annual contribution sufficient to amortize the unfunded actuarial accrued liability and must contain an exhibit for contribution determination purposes indicating the additional contribution sufficient to amortize the unfunded actuarial accrued liability. For the retirement plans listed in subdivision 8, paragraph (c), the additional contribution must be calculated on a level percentage of covered payroll basis by the established date for full funding in effect when the valuation is prepared, assuming annual payroll growth at the applicable percentage rate set forth in subdivision 8, paragraph (c). For all other retirement plans, the additional annual contribution must be calculated on a level annual dollar amount basis.

(b) For any retirement plan other than the Minneapolis Employees Retirement Fund, the general employees retirement plan of the Public Employees Retirement Association, and the St. Paul Teachers Retirement Fund Association, if there has not been a change in the actuarial assumptions used for calculating the actuarial accrued liability of the fund, a change in the benefit plan governing annuities and benefits payable from the fund, a change in the actuarial cost method used in calculating the actuarial accrued liability of all or a portion of the fund, or a combination of the three, which change or changes by itself or by themselves without inclusion of any other items of increase or decrease produce a net increase in the unfunded actuarial accrued liability of the fund, the established date for full funding is the first actuarial valuation date occurring after June 1, 2020.

(c) For any retirement plan other than the Minneapolis Employees Retirement Fund and the general employees retirement plan of the Public Employees Retirement Association, if there has been a change in any or all of the actuarial assumptions used for calculating the actuarial accrued liability of the fund, a change in the benefit plan governing annuities and benefits payable from the fund, a change in the actuarial cost method used in calculating the actuarial accrued liability of all or a portion of the fund, or a combination of the three, and the change or changes, by itself or by themselves and without inclusion of any other items of increase or decrease, produce a net increase in the unfunded actuarial accrued liability in the fund, the established date for full funding must be determined using the following procedure:

(i) the unfunded actuarial accrued liability of the fund must be determined in accordance with the plan provisions governing annuities and retirement benefits and the actuarial assumptions in effect before an applicable change;

(ii) the level annual dollar contribution or level percentage, whichever is applicable, needed to amortize the unfunded actuarial accrued liability amount determined under item (i) by the established date for full funding in effect before the change must be calculated using the interest assumption specified in subdivision 8 in effect before the change;

(iii) the unfunded actuarial accrued liability of the fund must be determined in accordance with any new plan provisions governing annuities and benefits payable from the fund and any new actuarial assumptions and the remaining plan provisions governing annuities and benefits payable from the fund and actuarial assumptions in effect before the change;

(iv) the level annual dollar contribution or level percentage, whichever is applicable, needed to amortize the difference between the unfunded actuarial accrued liability amount calculated under item (i) and the unfunded actuarial accrued liability amount calculated under item (iii) over a period of 30 years from the end of the plan year in which the applicable change is effective must be calculated using the applicable interest assumption specified in subdivision 8 in effect after any applicable change;

(v) the level annual dollar or level percentage amortization contribution under item (iv) must be added to the level annual dollar amortization contribution or level percentage calculated under item (ii);

(vi) the period in which the unfunded actuarial accrued liability amount determined in item (iii) is amortized by the total level annual dollar or level percentage amortization contribution computed under item (v) must be calculated using the interest assumption specified in subdivision 8 in effect after any applicable change, rounded to the nearest integral number of years, but not to exceed 30 years from the end of the plan year in which the determination of the established date for full funding using the procedure set forth in this clause is made and not to be less than the period of years beginning in the plan year in which the determination of the established date for full funding using the procedure set forth in this clause is made and ending by the date for full funding in effect before the change; and

(vii) the period determined under item (vi) must be added to the date as of which the actuarial valuation was prepared and the date obtained is the new established date for full funding.

(d) For the Minneapolis Employees Retirement Fund, the established date for full funding is June 30, 2020.

(e) For the general employees retirement plan of the Public Employees Retirement Association, the established date for full funding is June 30, 2031.

(f) For the Teachers Retirement Association, the established date for full funding is June 30, 2037.

(g) For the correctional state employees retirement plan of the Minnesota State Retirement System, the established date for full funding is June 30, 2038.

(h) For the judges retirement plan, the established date for full funding is June 30, 2038.

(i) For the public employees police and fire retirement plan, the established date for full funding is June 30, 2038.

(j) For the St. Paul Teachers Retirement Fund Association, the established date for full funding is June 30 of the 25th year from the valuation date. In addition to other requirements of this chapter, the annual actuarial valuation shall contain an exhibit indicating the funded ratio and the deficiency or sufficiency in annual contributions when comparing liabilities to the market value of the assets of the fund as of the close of the most recent fiscal year.

(k) For the retirement plans for which the annual actuarial valuation indicates an excess of valuation assets over the actuarial accrued liability, the valuation assets in excess of the actuarial accrued liability must be recognized as a reduction in the current contribution requirements by an amount equal to the amortization of the excess expressed as a level percentage of pay over a 30-year period beginning anew with each annual actuarial valuation of the plan.

(l) For the Duluth Teachers Retirement Fund Association, in addition to other requirements of this chapter, the annual actuarial valuation must contain a cash flow solvency test, projecting at least ten years into the future, using relevant actuarial assumptions and data applicable to the Duluth Teachers Retirement Fund Association.

EFFECTIVE DATE. This section is effective July 1, 2010."

Renumber the sections in sequence

Amend the title accordingly

A bill for an act

relating to retirement; Duluth Teachers Retirement Fund Association; increasing accrual rates and contributions; lowering normal retirement ages; revising post-retirement adjustment procedures; reducing deferred annuity augmentation; eliminating interest on reemployed annuitant accounts; amending Minnesota Statutes 2008, sections 354A.011, subdivision 15a; 354A.12, subdivision 1; 354A.27, subdivisions 5, 6, by adding a subdivision; 354A.31, subdivisions 1, 4a, 7; 354A.35, subdivision 1; 354A.37, subdivisions 2, 3, 4; 356.47, subdivision 3; Minnesota Statutes 2009 Supplement, section 354A.12, subdivision 2a; repealing Minnesota Statutes 2008, section 354A.27, subdivision 1.

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

Section 1. Minnesota Statutes 2008, section 354A.011, subdivision 15a, is amended to read:

Subd. 15a. **Normal retirement age.** (a) "Normal retirement age" means age 65 for a person who first became a member of the coordinated program of the St. Paul Teachers Retirement Fund Association or the new law coordinated program of the Duluth Teachers Retirement Fund Association or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989. ~~For a person who first became a member of the coordinated program of the St. Paul Teachers Retirement Fund Association or the new law coordinated program of the Duluth Teachers Retirement Fund Association after June 30, 1989, normal retirement age means the higher of age 65 or retirement age, as defined in United States Code, title 42, section 416(l), as amended, but not to exceed age 66.~~

(b) For a person who is a member of the basic program of the St. Paul Teachers Retirement Fund Association or the old law coordinated program of the Duluth Teachers Retirement Fund Association, normal retirement age means the age at which a teacher becomes eligible for a normal retirement annuity computed upon meeting the age and service requirements specified in the applicable provisions of the articles of incorporation or bylaws of the respective teachers retirement fund association.

(c) Unless paragraph (d) applies, for a person who first became a member of the coordinated program of the St. Paul Teachers Retirement Fund Association or the new law coordinated program of the Duluth Teachers Retirement Fund Association after June 30, 1989, normal retirement age means the higher of age 65 or normal retirement age as defined in United States Code, title 42, section 416(l), as amended, but not to exceed age 66.

(d) Commencing on the date employee contributions are first payable under section 354A.12, subdivision 1, paragraph (c), for a person who first became a member of the new law coordinated program of the Duluth Teachers Retirement Fund Association after June 30, 1989, normal retirement age means age 65, and for a person who is a member of the Duluth Teachers Retirement Fund Association, regardless of the date of hire, the normal retirement age is age 62 if the person has at least 30 years of service.

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

Sec. 2. Minnesota Statutes 2008, section 354A.12, subdivision 1, is amended to read:

Subdivision 1. **Employee contributions.** (a) The contribution required to be paid by each member of a teachers retirement fund association ~~shall not be less than~~ is 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~~
before July 1, 2011	5.5 percent
from July 1, 2011, until June 30, 2012	6.0 percent
from July 1, 2012, until either paragraph (b) or (c) is first applicable	6.5 percent
St. Paul Teachers Retirement Fund Association	
basic program	8 percent
coordinated program	5.5 percent

(b) The contribution required to be paid by each member of the Duluth Teachers Retirement Fund Association old law and new law coordinated programs is 7.0 percent of that salary, beginning July 1 of the second year following the year the actuarial accrued liability funding ratio of the plan, according to the official actuarial valuation prepared under sections 356.214 and 356.215, is at least 90 percent but less than 95 percent.

(c) The contribution required to be paid by each member of the Duluth Teachers Retirement Fund Association old law and new law coordinated programs is 7.5 percent of that salary, beginning July 1 of the second year following the year the actuarial accrued liability funding ratio of the plan, according to the official actuarial valuation prepared under sections 356.214 and 356.215, is at least 95 percent. Beginning on the date contributions are first paid under this paragraph, authority to make contributions under paragraph (b) is voided.

(d) 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.

(e) When an employee contribution rate changes for a fiscal year, the new contribution rate is effective for the entire salary paid by the employer with the first payroll cycle reported.

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

Sec. 3. Minnesota Statutes 2009 Supplement, section 354A.12, subdivision 2a, is amended to read:

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

(1) 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~~
before July 1, 2011	5.79 percent
from July 1, 2011, until June 30, 2012	6.29 percent
from July 1, 2012, until the date employee contributions are determined under subdivision 1, paragraph (b) or (c)	6.79 percent
beginning on the date employee contributions are payable under subdivision 1, paragraph (b)	7.29 percent
beginning on the date employee contributions are payable under subdivision 1, paragraph (c)	7.79 percent
St. Paul Teachers Retirement Fund Association	4.50 percent

(2) 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;

(3) 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;

(4) for a coordinated member of ~~a teachers retirement fund association in a city of the first class~~ 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 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	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.

(d) When an employer contribution rate changes for a fiscal year, the new contribution rate is effective for the entire salary paid by the employer with the first payroll cycle reported.

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

Sec. 4. Minnesota Statutes 2008, section 354A.27, subdivision 5, is amended to read:

Subd. 5. ~~**Calculation**~~ **Eligibility for and payment of postretirement adjustments.** (a) Annually, after June 30, the board of trustees of the Duluth Teachers Retirement Fund Association determines the amount of any postretirement adjustment using the procedures in this subdivision and subdivision 6 or 7, whichever is applicable.

(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~~ a permanent percentage increase as specified under subdivision 6 or 7, whichever is applicable, applied to the annuity or benefit to which the person is entitled one month prior to the payment of the postretirement adjustment.

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

Sec. 5. Minnesota Statutes 2008, section 354A.27, subdivision 6, is amended to read:

Subd. 6. ~~**Additional increase**~~ **Calculation of postretirement adjustments; transitional provision.** ~~(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.~~

(a) For purposes of computing postretirement adjustments after the effective date of this section for eligible benefit recipients of the Duluth Teachers Retirement Fund Association, the funding ratio of the plan, as determined by dividing the market value of assets by the actuarial accrued liability as reported in the most recent actuarial valuation prepared under sections 356.214 and 356.215, determines the postretirement increase as follows:

Funding Ratio	Postretirement Increase
less than 80 percent	0 percent
at least 80 percent but less than 90 percent	1 percent
at least 90 percent	2 percent

(b) If the funding ratio of the plan based on actuarial value, rather than market value, is at least 90 percent as reported in the most recent actuarial valuation prepared under sections 356.214 and 356.215, this subdivision expires and subsequent postretirement increases must be paid as specified under subdivision 7.

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

Sec. 6. Minnesota Statutes 2008, section 354A.27, is amended by adding a subdivision to read:

Subd. 7. **Calculation of postretirement adjustments.** (a) This subdivision applies if subdivision 6 has expired.

(b) A percentage adjustment must be computed and paid under this subdivision to eligible persons in subdivision 5. 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 cost-of-living adjustments under paragraph (c), 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.

(c) 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.

(d) The amount calculated 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 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.

(e) The adjustment must not be less than zero nor greater than five percent.

(f) If the funding ratio of the plan as determined in the most recent actuarial valuation using the actuarial value of assets is less than 80 percent there will be no postretirement adjustment the following January 1.

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

Sec. 7. Minnesota Statutes 2008, section 354A.31, subdivision 1, is amended to read:

Subdivision 1. **Age and service requirements.** Any coordinated member or former coordinated member of the St. Paul Teachers Retirement Fund Association who has ceased to render teaching service for the school district in which the teachers retirement fund association exists and who has either attained the age of at least 55 years with not less than three years of allowable service credit or received credit for not less than 30 years of allowable service regardless of age, shall be entitled upon written application to a retirement annuity. Any coordinated member or former coordinated member of the Duluth Teachers Retirement Fund Association who has ceased to render teaching service for the school district in which the teacher retirement fund association exists and who has either attained the age of at least 55 years with not less than three years of allowable service credit if the member became an employee before July 1, 2010, or not less than five years of allowable service credit if the member became an employee after June 30, 2010, or received service credit for not less than 30 years of allowable service regardless of age, shall be entitled upon written application to a retirement annuity.

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

Sec. 8. Minnesota Statutes 2008, section 354A.31, subdivision 4a, is amended to read:

Subd. 4a. **Computation of normal coordinated retirement annuity; Duluth fund.** (a) This subdivision applies to the new law coordinated program of the Duluth Teachers Retirement Fund Association.

(b) The normal coordinated retirement annuity is an amount equal to a retiring coordinated member's average salary under section 354A.011, subdivision 7a, multiplied by the retirement annuity formula percentage.

(c) This paragraph, in conjunction with subdivision 6, applies to a person who first became a member or a member in a pension fund listed in section 356.30, subdivision 3, before July 1, 1989, unless paragraph (d), in conjunction with subdivision 7, produces a higher annuity amount, in which case paragraph (d) applies. The retirement annuity formula percentage for purposes of this paragraph is the percent specified in section 356.315, subdivision 1, per year for each year of coordinated service for the first ten years and the percent specified in section 356.315, subdivision 2, for each subsequent year of coordinated service. For service rendered after July 1 of the year in which employee contributions are first determined under section 354A.12, subdivision 1, paragraph (b), the retirement annuity formula percent for purposes of this paragraph is the percent specified in section 356.315, subdivision 1a, per year for each year of coordinated service for the first ten years and the percent specified in section 356.315, subdivision 2b, for each subsequent year of coordinated service.

(d) This paragraph applies to a person who is at least 55 years old and who first becomes a member after June 30, 1989, and to any other member who is at least 55 years old and whose annuity amount, when calculated under this paragraph and in conjunction with subdivision 7, is higher than it is when calculated under paragraph (c) in conjunction with subdivision 6. The retirement annuity formula percentage for purposes of this paragraph is the percent specified in section 356.315, subdivision 2, for each year of coordinated service. For service rendered after July 1 of the year in which employee contributions are first determined under section 354A.12, subdivision 1, paragraph (b), the retirement annuity formula percentage for purposes of this paragraph is the percent specified in section 356.315, subdivision 2b, for each year of service. Beginning on the date employee contributions are first determined under section 354A.12, subdivision 1, paragraph (c), the minimum age requirement of this paragraph does not apply if the member has 30 or more years of service.

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

Sec. 9. Minnesota Statutes 2008, section 354A.31, subdivision 7, is amended to read:

Subd. 7. **Actuarial reduction for early retirement.** (a) This subdivision applies to a person who has become at least 55 years old and first becomes a coordinated member after June 30, 1989, and to any other coordinated member who has become at least 55 years old and whose annuity is higher when calculated using the retirement annuity formula percentage in subdivision 4, paragraph (d), and subdivision 4a, paragraph (d), in conjunction with this subdivision than when calculated under subdivision 4, paragraph (c), or subdivision 4a, paragraph (c), in conjunction with subdivision 6.

(b) A coordinated member who retires before the full benefit age as defined by section 354A.011, subdivision 15a, shall be paid the retirement annuity calculated using the retirement annuity formula percentage in subdivision 4, paragraph (d), or subdivision 4a, paragraph (d), reduced so that the reduced annuity is the actuarial equivalent of the annuity that would be payable to the member if the member deferred receipt of the annuity and the annuity amount were augmented at an annual rate of three percent compounded annually from the day the annuity begins to accrue until the normal retirement age if the employee became an employee before July 1, 2006, and at 2.5 percent compounded annually from the day the annuity begins to accrue until the normal retirement age if the person initially becomes a teacher after June 30, 2006.

(c) Beginning on the date employee contributions are first determined under section 354A.12, subdivision 1, paragraph (c), if a member of the Duluth Teachers Retirement Fund Association has 30 or more years of service credit, the minimum age requirement of this subdivision does not apply.

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

Sec. 10. Minnesota Statutes 2008, section 354A.35, subdivision 1, is amended to read:

Subdivision 1. **Death before retirement; refund.** If a coordinated member or former coordinated member dies prior to retirement or prior to the receipt of any retirement annuity or other benefit payment which is or may be payable and a surviving spouse optional annuity is not payable pursuant to subdivision 2, a refund shall be paid to the person's surviving spouse, or if there is none, to the person's designated beneficiary, or if there is none, to the legal representative of the person's estate. For a coordinated member or former coordinated member of the St. Paul Teachers Retirement Fund Association, the refund shall be in an amount equal to the person's accumulated employee contributions plus interest at the rate of six percent per annum compounded annually. For a coordinated member or former coordinated member of the Duluth Teachers Retirement Fund Association, the refund shall be in an amount equal to the person's accumulated employee contributions plus interest at the rate of six percent per annum compounded annually to July 1, 2010, and four percent per annum compounded annually thereafter.

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

Sec. 11. Minnesota Statutes 2008, section 354A.37, subdivision 2, is amended to read:

Subd. 2. **Eligibility for deferred retirement annuity.** (a) Any coordinated member who ceases to render teaching services for the school district in which the teachers retirement fund association is located, with sufficient allowable service credit to meet the minimum service requirements specified in section 354A.31, subdivision 1, shall be entitled to a deferred retirement annuity in lieu of a refund pursuant to subdivision 1. The deferred retirement annuity shall be computed pursuant to section 354A.31 and shall be augmented as provided in this subdivision. The deferred annuity shall commence upon application after the person on deferred status attains at least the minimum age specified in section 354A.31, subdivision 1.

(b) The monthly annuity amount that had accrued when the member ceased to render teaching service must be augmented from the first day of the month following the month during which the member ceased to render teaching service to the effective date of retirement. There is no augmentation if this period is less than three months. For a member of the St. Paul Teachers Retirement Fund Association, the rate of augmentation is three percent compounded annually until January 1 of the year following the year in which the former member attains age 55, and five percent compounded annually after that date to the effective date of retirement if the employee became an employee before July 1, 2006, and at 2.5 percent compounded annually if the employee becomes an employee after June 30, 2006. For a member of the Duluth Teachers Retirement Fund Association, the rate of augmentation is three percent compounded annually until January 1 of the year following the year in which the former member attains age 55, five percent compounded annually after that date to July 1, 2010, and two percent compounded annually after that date to the effective date of retirement if the employee became an employee before July 1, 2006, and at 2.5 percent compounded annually to July 1, 2010, and two percent compounded annually after that date to the effective date of retirement if the employee becomes an employee after June 30, 2006. If a person has more than one period of uninterrupted service, a separate average salary determined under section 354A.31 must be used for each period, and the monthly annuity amount related to each period must be augmented as provided in this subdivision. The sum of the augmented monthly annuity amounts determines the total deferred annuity payable. If a person repays a refund, the service restored by the repayment must be considered as continuous with the next period of service for which the person has credit with the fund. If a person does not render teaching services in any one fiscal year or more consecutive fiscal years and then resumes teaching service, the formula percentages used from the date of resumption of teaching service are those applicable to new members. The mortality table and interest assumption used to compute the annuity are the table established by the fund to compute other annuities, and the interest assumption under section 356.215 in effect when the member retires. A period of uninterrupted service for the purpose of this subdivision means a period of covered teaching service during which the member has not been separated from active service for more than one fiscal year.

(c) The augmentation provided by this subdivision applies to the benefit provided in section 354A.35, subdivision 2. The augmentation provided by this subdivision does not apply to any period in which a person is on an approved leave of absence from an employer unit.

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

Sec. 12. Minnesota Statutes 2008, section 354A.37, subdivision 3, is amended to read:

Subd. 3. **Computation of refund amount.** A former coordinated member of the St. Paul Teachers Retirement Fund Association who qualifies for a refund ~~pursuant to~~ under subdivision 1 shall receive a refund equal to the amount of the former coordinated member's accumulated employee contributions with interest at the rate of six percent per annum compounded annually. A former coordinated member of the Duluth Teachers Retirement Fund Association who qualifies for a refund under subdivision 1 shall receive a refund equal to the amount of the former coordinated member's accumulated employee contributions with interest at the rate of six percent per annum compounded annually to July 1, 2010, and four percent per annum compounded annually thereafter.

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

Sec. 13. Minnesota Statutes 2008, section 354A.37, subdivision 4, is amended to read:

Subd. 4. **Certain refunds at normal retirement age.** Any coordinated member who has attained the normal retirement age with less than ten years of allowable service credit and has terminated active teaching service shall be entitled to a refund in lieu of a proportionate annuity pursuant to section 356.32. The refund for a member of the St. Paul Teachers Retirement Fund Association shall be equal to the coordinated member's accumulated employee contributions plus interest at the rate of six percent compounded annually. The refund for a member of the Duluth Teachers Retirement Fund Association shall be equal to the coordinated member's accumulated employee contributions plus interest at the rate of six percent compounded annually to July 1, 2010, and four percent per annum compounded annually thereafter.

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

Sec. 14. Minnesota Statutes 2008, section 356.47, subdivision 3, is amended to read:

Subd. 3. **Payment.** (a) Beginning one year after the reemployment withholding period ends relating to the reemployment that gave rise to the limitation, and the filing of a written application, the retired member is entitled to the payment, in a lump sum, of the value of the person's amount under subdivision 2, plus interest at the compound annual rate of six percent from the date that the amount was deducted from the retirement annuity to the date of payment. For a retired member of the Duluth Teachers Retirement Fund Association, there shall be no interest accrual on the value of the person's account under subdivision 2 after June 30, 2010.

(b) The written application must be on a form prescribed by the chief administrative officer of the applicable retirement plan.

(c) If the retired member dies before the payment provided for in paragraph (a) is made, the amount is payable, upon written application, to the deceased person's surviving spouse, or if none, to the deceased person's designated beneficiary, or if none, to the deceased person's estate.

(d) In lieu of the direct payment of the person's amount under subdivision 2, on or after the payment date under paragraph (a), if the federal Internal Revenue Code so permits, the retired member may elect to have all or any portion of the payment amount under this section paid in the form of a direct rollover to an eligible retirement plan as defined in section 402(c) of the federal Internal Revenue Code that is specified by the retired member. If the retired member dies with a balance remaining payable under this section, the surviving spouse of the retired member, or if none, the deceased person's designated beneficiary, or if none, the administrator of the deceased person's estate may elect a direct rollover under this paragraph.

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

Sec. 15. **REPEALER.**

Minnesota Statutes 2008, section 354A.27, subdivision 1, is repealed.

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