



S.F. 506

(Betzold, by request)

H.F. 592

(Thissen)

Executive Summary of Commission Staff Materials

<i>Affected Pension Plan(s):</i>	TRA, DTRFA, and SPTRA
<i>Relevant Provisions of Law:</i>	Minnesota Statutes, Chapters 354, 354A, and 356
<i>General Nature of Proposal:</i>	Benefit Accrual Rates, Member and Employer Contribution Rates, and State Education Aid Increases
<i>Date of Summary:</i>	March 17, 2009

Specific Proposed Change(s)

The proposed legislation makes the following changes:

1. **Increase in School Operating State Aid.** Starting in Fiscal Year 2012, state aid payments to school operating funds would be increased by a total of two percent of Fiscal Year 2012 covered salaries, in four equal one-half percent of salary increments, for employing units qualified to receive state aid and covered by the Teachers Retirement Association (TRA), by the Duluth Teachers Retirement Fund Association (DTRFA), and by the St. Paul Teachers Retirement Fund Association (SPTRFA) (Section 1);
2. **Reduces Normal Retirement Age From Age 66 to Age 65.** In 2011, the normal retirement age is reduced from age 66 to age 65 for those teachers who have a Social Security age 66 or age 67 full benefit receipt age and the age 62 with 30 years of service credit normal retirement age applicable to teachers hired before July 1, 1989, is extended to all teachers (Sections 2, 9, 10, 18, and 19);
3. **Increases Coordinated Program Member Contribution.** In four annual installments beginning in 2011, the Coordinated program member contribution rate is increased by two percent of covered salary (Sections 3 and 11);
4. **Increases Coordinated Program Employer Contribution.** In four annual installments beginning in 2011, the Coordinated Program employer contribution rate is increased by two percent of covered salary (Sections 4 and 12);
5. **Adds Retirement Plan Board Authority for Contribution Rate Adjustments.** If the actuarial report of the retirement plan indicates a contribution deficiency or a contribution sufficiency after 2014, the applicable retirement board has authority to adjust member and employer contribution rates by one-quarter of one percent annual increments (Sections 5 to 8 and 13 to 16); and
6. **Increases the Coordinated Program Benefit Accrual Rates.** The benefit accrual formula percentage rate for TRA and the two first class city teacher retirement plans for post-2011 service credit for the uniformity tier of benefits is increased from 1.9 percent per year to 2.1 percent per year and the benefit accrual formula percentage rates for the first class city teacher retirement fund associations' Coordinated Programs are increased to the post-2006 TRA benefit accrual formula percentage rates for the Rule-of-90 benefit tier for service rendered after July 1, 2011 (Sections 17, 18 and 20).

Policy Issues Raised by the Proposed Legislation

1. Current actuarial condition of the three teacher retirement funds.
2. Actuarial cost of benefit increase.
3. Affordability of the state education aid increase associated with the proposed employer contribution increase.
4. Conformity with Commission Pension Policy Principles in funding.
5. Conformity with Commission Pension Policy Principles – uniformity.
6. Alternate benefit increase and funding modifications – plan consolidation.

Potential Amendments

No technical or substantive amendments suggested by the Commission staff.

Commission Assumption Change Approval Motion

Resolution 09-1, a motion approving a change in the TRA retirement rate actuarial assumption, is attached.



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Lawrence A. Martin, Executive Director *LAM*
RE: S.F. 506 (Betzold, by request); H.F. 592 (Thissen): Teacher Retirement Plans;
Normal Retirement Age, Contribution Rate, and Benefit Accrual Rate Changes
DATE: March 16, 2009

General Summary of S.F. 506 (Betzold, by request); H.F. 592 (Thissen)

S.F. 506 (Betzold, by request); H.F. 592 (Thissen) amends portions of Minnesota Statutes, Chapters 127A, 354, 354A, and 356, the laws governing or affecting the Teachers Retirement Association (TRA) and the first class city teacher retirement fund associations, by making the following changes:

1. Increase in School Operating State Aid. Starting in Fiscal Year 2012, state aid payments to school operating funds would be increased by a total of two percent of Fiscal Year 2012 covered salaries, in four equal one-half percent of salary increments, for employing units qualified to received state aid and covered by the Teachers Retirement Association (TRA), by the Duluth Teachers Retirement Fund Association (DTRFA), and by the St. Paul Teachers Retirement Fund Association (SPTRFA) (Section 1);
2. Reduces Normal Retirement Age From Age 66 to Age 65. In 2011, the normal retirement age is reduced from age 66 to age 65 for those teachers who have a Social Security age 66 or age 67 full benefit receipt age and the age 62 with 30 years of service credit normal retirement age applicable to teachers hired before July 1, 1989, is extended to all teachers (Sections 2, 9, 10, 18, and 19);
3. Increases Coordinated Program Member Contribution. In four annual installments beginning in 2011, the Coordinated program member contribution rate is increased by two percent of covered salary (Sections 3 and 11);
4. Increases Coordinated Program Employer Contribution. In four annual installments beginning in 2011, the Coordinated Program employer contribution rate is increased by two percent of covered salary (Sections 4 and 12);
5. Adds Retirement Plan Board Authority for Contribution Rate Adjustments. If the actuarial report of the retirement plan indicates a contribution deficiency or a contribution sufficiency after 2014, the applicable retirement board has authority to adjust member and employer contribution rates by one-quarter of one percent annual increments (Sections 5 to 8 and 13 to 16); and
6. Increases the Coordinated Program Benefit Accrual Rates. The benefit accrual formula percentage rate for TRA and the two first class city teacher retirement plans for post-2011 service credit for the uniformity tier of benefits is increased from 1.9 percent per year to 2.1 percent per year and the benefit accrual formula percentage rates for the first class city teacher retirement fund associations' Coordinated Programs are increased to the post-2006 TRA benefit accrual formula percentage rates for the Rule-of-90 benefit tier for service rendered after July 1, 2011 (Sections 17, 18 and 20).

Relevant Background Information

- **Attachment A** contains background information on teacher retirement coverage.
- **Attachment B** contains background information on the Teachers Retirement Association (TRA).
- **Attachment C** contains background information on the history of the Duluth Teachers Retirement Fund Association (DTRFA).
- **Attachment D** contains background information on the history of the St. Paul Teachers Retirement Fund Association (SPTRFA).
- **Attachment E** contains background information on benefit accrual rates and their function within benefit calculations.

Commission Motion to Approve Assumption Changes

A potential motion for the Commission to approve the use of a revised retirement rate assumption for TRA is attached. The consulting actuary retained by TRA indicates an expectation that future retirement frequency will change as a result of the proposed legislation and has suggested a revised actuarial assumption based on that expectation.

Analysis and Discussion

S.F. 506 (Betzold, by request); H.F. 592 (Thissen), relating to the Teachers Retirement Association (TRA), the Duluth Teachers Retirement Fund Association (DTRFA), and the St. Paul Teachers Retirement Fund Association (SPTRFA), would reduce the normal retirement age for post-1989 hires covered by the applicable plan's Coordinated Program, increase the benefit accrual rate of the first class city teacher retirement fund association Coordinated Programs to match the post-2006 service credit TRA Coordinated Program benefit accrual rates for post-2011 service credit, increase the benefit accrual rate of TRA by two-tenths of one percent for post-2011 service credit, reduce the teacher Coordinated Program normal retirement ages from age 66 to age 65, extend the age 62 with 30 years of service credit early normal retirement age to post-1989 hires in the teacher retirement plans, increase member and employer contribution rates by two percent over four years after 2011, increase state education aid by two percent in four equal annual installments after 2012, and provide each retirement fund's board authority to adjust member and employer contribution rates by one-quarter of one percent increments if the most recent actuarial work indicates a contribution deficiency or contribution sufficiency.

The proposed legislation raises a number of pension or related public policy issues for Commission consideration and potential Commission discussion, as follows:

1. Current Actuarial Condition of the Three Teacher Retirement Funds. The policy issue is the current actuarial condition of the three teacher retirement funds to which the proposed legislation applies. The following sets forth the July 1, 2007, and the July 1, 2008, actuarial valuation results for the three teacher retirement funds:

	TRA				DTRFA			
	2007		2008		2007		2008	
<u>Membership</u>								
Active Members		77,694		76,515		1,150		1,140
Service Retirees		42,679		43,041		1,119		1,128
Disabilitants		636		641		15		17
Survivors		3,223		3,299		93		98
Deferred Retirees		12,636		12,168		321		310
Nonvested Former Members		<u>22,914</u>		<u>22,115</u>		<u>682</u>		<u>676</u>
Total Membership		159,782		157,779		3,380		3,369
<u>Funded Status</u>								
Accrued Liability		\$21,470,314,497		\$22,230,841,000		\$332,216,981		\$363,044,284
Current Assets		<u>\$18,794,389,076</u>		<u>\$18,226,985,000</u>		<u>\$288,264,749</u>		<u>\$298,067,085</u>
Unfunded Accrued Liability		\$2,675,925,421		\$4,003,856,000		\$43,952,232		\$64,977,199
Funding Ratio	87.54%		81.99%		86.77%		82.10%	
<u>Financing Requirements</u>								
Covered Payroll		\$3,814,373,772		\$3,846,190,000		\$58,666,809		\$59,548,231
Benefits Payable		\$1,273,093,384		\$1,330,837,000		\$20,065,048		\$21,579,521
Normal Cost	9.37%	\$357,343,265	8.77%	\$337,281,000	9.23%	\$5,416,358	8.43%	\$5,022,602
Administrative Expenses	<u>0.29%</u>	<u>\$11,061,684</u>	<u>0.27%</u>	<u>\$10,385,000</u>	<u>0.79%</u>	<u>\$463,468</u>	<u>0.83%</u>	<u>\$494,250</u>
Normal Cost & Expense	9.66%	\$368,404,949	9.04%	\$347,666,000	10.02%	\$5,879,826	9.26%	\$5,516,852
Normal Cost & Expense	9.66%	\$368,404,949	9.04%	\$347,666,000	10.02%	\$5,879,826	9.26%	\$5,516,852
Amortization	<u>3.78%</u>	<u>\$144,183,329</u>	<u>6.04%</u>	<u>\$232,310,000</u>	<u>4.51%</u>	<u>\$2,645,873</u>	<u>6.60%</u>	<u>\$3,930,183</u>
Total Requirements	13.44%	\$512,588,278	15.08%	\$579,976,000	14.53%	\$8,525,699	15.87%	\$9,447,035
Employee Contributions	5.51%	\$210,143,378	5.50%	\$211,704,000	5.50%	\$3,226,675	5.50%	\$3,275,153
Employer Contributions	5.72%	\$218,013,895	5.69%	\$218,752,000	5.79%	\$3,396,808	5.79%	\$3,447,843
Employer Add'l Cont.	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0
Direct State Funding	0.49%	\$18,819,110	0.50%	\$19,170,000	0.00%	\$0	0.58%	\$346,000
Other Govt. Funding	0.07%	\$2,500,000	0.06%	\$2,500,000	0.00%	\$0	0.00%	\$0
Administrative Assessment	<u>0.00%</u>	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>
Total Contributions	11.78%	\$449,476,383	11.75%	\$452,126,000	11.29%	\$6,623,483	11.87%	\$7,068,996
Total Requirements	13.44%	\$512,588,278	15.08%	\$579,976,000	14.53%	\$8,525,699	15.87%	\$9,447,035
Total Contributions	<u>11.78%</u>	<u>\$449,476,383</u>	<u>11.75%</u>	<u>\$452,126,000</u>	<u>11.29%</u>	<u>\$6,623,483</u>	<u>11.87%</u>	<u>\$7,068,996</u>
Deficiency (Surplus)	1.65%	\$63,111,895	3.33%	\$127,850,000	3.24%	\$1,902,216	4.00%	\$2,378,039
Amortization Target Date	2037		2037		2032		2032	
Actuary	Segal		Mercer		Segal		Segal	

SPTRFA

	2007		2008	
<u>Membership</u>				
Active Members		3,999		4,142
Service Retirees		2,413		2,514
Disabilitants		24		26
Survivors		284		290
Deferred Retirees		1,693		1,695
Nonvested Former Members		<u>1,538</u>		<u>1,403</u>
Total Membership		9,951		10,070
<u>Funded Status</u>				
Accrued Liability		\$1,391,297,918		\$1,432,040,000
Current Assets		<u>\$1,015,722,034</u>		<u>\$1,075,951,000</u>
Unfunded Accrued Liability		\$375,575,884		\$356,089,000
Funding Ratio	73.01%		75.13%	
<u>Financing Requirements</u>				
Covered Payroll		\$233,099,133		\$247,291,000
Benefits Payable		\$82,809,201		\$88,272,000
Normal Cost	9.05%	\$21,099,816	8.66%	\$21,396,000
Administrative Expenses	<u>0.30%</u>	<u>\$699,297</u>	<u>0.29%</u>	<u>\$717,000</u>
Normal Cost & Expense	9.35%	\$21,799,113	8.95%	\$22,113,000
Normal Cost & Expense	9.35%	\$21,799,113	8.95%	\$22,113,000
Amortization	<u>14.75%</u>	<u>\$34,382,122</u>	<u>8.68%</u>	<u>\$21,465,000</u>
Total Requirements	24.10%	\$56,181,235	17.63%	\$43,578,000
Employee Contributions	5.64%	\$13,139,595	5.61%	\$13,864,000
Employer Contributions	8.52%	\$19,861,736	8.48%	\$20,972,000
Employer Add'l Cont.	0.00%	\$0	0.00%	\$0
Direct State Funding	1.91%	\$4,451,216	1.64%	\$4,057,000
Other Govt. Funding	0.00%		0.00%	
Administrative Assessment	<u>0.00%</u>	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>
Total Contributions	16.07%	\$37,452,547	15.73%	\$38,893,000
Total Requirements	24.10%	\$56,181,235	17.63%	\$43,578,000
Total Contributions	<u>16.07%</u>	<u>\$37,452,547</u>	<u>15.73%</u>	<u>\$38,893,000</u>
Deficiency (Surplus)	8.03%	\$18,728,688	1.90%	\$4,685,000
Amortization Target Date	2021		2033	
Actuary	Segal		Gabriel Roeder Smith	

2. Actuarial Cost of Benefit Increase. The policy issue is the amount of the actuarial cost increase associated with the benefit increases provided by the proposed legislation and adequacy of the contribution increase provided by the proposed legislation. The following sets forth the results for the Teachers Retirement Association (TRA) of a February 2, 2009, actuarial cost benefit increase estimate by the consulting actuary retained by TRA, Mercer, the impact of the delayed statutory contribution rate increase provided in the proposed legislation, and the consequent actuarial condition of TRA:

	7/1/2008 Results		Actuarial Effect of S.F. 506; H.F. 592		Resulting TRA Actuarial Condition	
<u>Membership</u>						
Active Members		76,515				76,515
Service Retirees		43,041				43,041
Disabilitants		641				641
Survivors		3,299				3,299
Deferred Retirees		12,168				12,168
Nonvested Former Members		<u>22,115</u>				<u>22,115</u>
Total Membership		157,779				157,779
<u>Funded Status</u>						
Accrued Liability		\$22,230,841,000		\$502,000,000		\$22,732,841,000
Current Assets		<u>\$18,226,985,000</u>		---		<u>\$18,226,985,000</u>
Unfunded Accrued Liability		\$4,003,856,000		\$502,000,000		\$4,505,856,000
Funding Ratio	81.99%				80.18%	
<u>Financing Requirements</u>						
Covered Payroll		\$3,846,190,000		---		\$3,846,190,000
Benefits Payable		\$1,330,837,000		---		\$1,330,837,000
Normal Cost	8.77%	\$337,281,000	1.00%	\$41,000,000	9.77%	\$378,281,000
Administrative Expenses	<u>0.27%</u>	<u>\$10,385,000</u>		---	<u>0.27%</u>	<u>\$10,385,000</u>
Normal Cost & Expense	9.04%	\$347,666,000	1.00%	\$41,000,000	10.04%	\$388,666,000
Normal Cost & Expense	9.04%	\$347,666,000	1.00%	\$41,000,000	10.04%	\$388,666,000
Amortization	<u>6.04%</u>	<u>\$232,310,000</u>	<u>0.90%</u>	<u>\$34,616,000</u>	<u>6.94%</u>	<u>\$266,926,000</u>
Total Requirements	15.08%	\$579,976,000	1.90%	\$75,616,000	16.98%	\$655,592,000

	7/1/2008 Results		Actuarial Effect of S.F. 506; H.F. 592		Resulting TRA Actuarial Condition	
	Rate	Amount	Rate	Amount	Rate	Amount
Employee Contributions	5.50%	\$211,704,000	2.00%	\$76,924,000	7.50%	\$288,628,000
Employer Contributions	5.69%	\$218,752,000	2.00%	\$76,924,000	7.69%	\$295,676,000
Employer Add'l Cont.	0.00%	\$0	---	---	---	---
Direct State Funding	0.50%	\$19,170,000	---	---	---	---
Other Govt. Funding	0.06%	\$2,500,000	---	---	---	---
Administrative Assessment	0.00%	\$0	---	---	---	---
Total Contributions	11.75%	\$452,126,000	4.00%	\$153,848,000	15.75%	\$605,974,000
Total Requirements	15.08%	\$579,976,000	1.90%	\$75,616,000	16.98%	\$655,592,000
Total Contributions	11.75%	\$452,126,000	4.00%	\$153,848,000	15.75%	\$605,974,000
Deficiency (Surplus)	3.33%	\$127,850,000	(2.10%)	(\$78,232,000)	1.23%	\$49,618,000
Amortization Target Date	2037					

No actuarial cost estimate for the benefit increase was provided to the Commission by the Duluth Teachers Retirement Fund Association (DTRFA) or by the St. Paul Teachers Retirement Fund Association (SPTRFA) before March 16, 2009, and consequently no comparison similar to the TRA actuarial cost impact comparison is possible.

3. Affordability of the State Education Aid Increase Associated With the Proposed Employer Contribution Increase. The policy issue is the affordability of the State Education Aid increase provided for in the proposed legislation. The proposed legislation provides for four one-half of one percent Fiscal Year 2012 covered salary annual state aid increases beginning in Fiscal Year 2012 for all school districts and charter schools. Assuming that the State Education Aid increase would apply to 95 percent of the total salaries of the three teacher retirement funds (the state aid increase does not apply to Minnesota State Colleges and Universities System (MnSCU) members covered by one of the teacher retirement plans, the State Department of Education employees covered by TRA, or the staff members of the retirement plans) and assuming that the generally applicable 4.5 percent payroll growth assumption for the four-year gap between the most recent actuarial work and Fiscal Year 2012 is accurate, the covered salary figure in 2012 would be \$4.7 billion and the annual state aid increase would be \$23.5 million (or \$23.5 million additional aid for 2012, \$47.0 million additional aid for 2013, \$70.5 million additional aid for 2014, and \$94.0 million additional aid for each year after 2014). Any additional employer contribution under the special retirement board authority to adjust member and employer contribution rates if the retirement plan has a contribution deficiency after 2014 would not be accompanied by any additional state aid.
4. Conformity With Commission Pension Policy Principles in Funding. The policy issue is the extent of compliance with the Commission's Principles of Pension Policy relating to adequate pension funding. Principle III.A. provides for the following:

III. Procedural Principles of Pension Policy

A. Adequate Pension Funding

1. Pre-Existing Funding

No proposed increase in pension benefits for any public pension plan should be recommended by the Legislative Commission on Pension and Retirement until there is established adequate financing to cover the pre-increase normal cost, administrative expense, and amortization contribution requirements of the defined benefit public pension plan calculated according to the applicable actuarial reporting law.

2. Funding Increase

No proposed increase in pension benefits for any defined benefit public pension plan should be recommended by the Legislative Commission on Pensions and Retirement unless there is included, in the proposal, adequate financing to meet any resulting increase in the normal cost and amortization contribution requirements of the defined benefit public pension plan that are estimated by the applicable actuary to result from adopting the proposed benefit increase.

For the TRA, the funding for the existing benefit plan is insufficient as of July 1, 2008, contrary to Principle III.A.1., and the funding of the benefit plan after the benefit increase and the contribution rate increases is projected to be insufficient, contrary to Principle III.A.2. Although no actuarial cost estimates for the DTRFA and SPTRFA were provided to the Commission, the first class city teacher retirement fund associations currently have significant contribution deficiencies, meaning a lack of

compliance with Principle III.A.1., and could be expected to have a contribution deficiency after the benefit increases and contribution increases proposed in the legislation, contrary to Principle III.A.2.

5. Conformity With Commission Pension Policy – Uniformity. The policy issue is the lack of comparability between the three teacher retirement plans and the other general employee retirement plans coordinated with Social Security, the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), and the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General). Principle II.C.6. of the Commission’s Principles of Pension Policy provides for the following:

Uniformity and Equal Benefit Treatment Among Plans

There should be equal pension treatment in terms of the relationship between benefits and contributions among the various plans and, as nearly as practicable, within the confines of plan demographics, retirement benefits and member contributions should be uniform.

Before 1989, PERA-General had an unlimited “Rule of 90” and had it limited in 1989 to pre-1989 hires, and MSRS-General, TRA, and the first class city teacher retirement fund associations were granted in 1989 the “Rule of 90” for pre-1989 hires, placing all of the general employee pension plans on a par. In 1997 (Laws 1997, Chapter 233, Articles 1 and 3), the self-described “uniformity” pension legislation, all of the general employee retirement plans received identical benefit improvements and remained largely comparable. That comparability was disrupted in 2006, with the benefit accrual rate increase for TRA, and would be further disrupted if the 2006 TRA benefit increase was extended to the first class city teacher retirement fund associations, if an additional benefit accrual rate increase was implemented for the teacher retirement plans for post-2011 service credit, and if the teacher normal retirement age was lowered for all members to age 65 or at age 62 with 30 years of service. The Combined Service Annuity, the inter-Minnesota public pension coverage portability provision, works optimally when each pension plan includes comparable benefit eligibility provisions and identical benefit computation provisions. Differences in normal retirement ages do complicate the portability mechanism.

6. Alternate Benefit Increase and Funding Modifications – Plan Consolidation. The policy issue is whether or not a more straightforward mechanism for achieving teacher retirement benefit comparability exists in consolidating the three teacher retirement plans into a single teacher retirement plan. Attempting to replicate TRA benefit coverage within the confines of funding for two additional, very small, risk pools, DTRFA and SPTRFA, is more difficult than utilizing a single large risk pool achieved through consolidation. TRA is a huge risk pool compared to DTRFA or SPTRFA. Larger risk pools are more likely to have more predictable experience and are more likely to have accurate actuarial assumptions, especially mortality. TRA is the only one of the three retirement plans that has regular experience studies, because of its size, which also makes consolidation a potentially beneficial alternate approach to providing all teachers with comparable benefits. Because DTRFA and SPTRFA were established in 1910, five years before the establishment of the predecessor of TRA and 21 years before TRA was created, a consolidation of those plans would overturn a long history and could be expected to be opposed by the applicable plan memberships.

Teachers Retirement Association
Exhibit I - Impact of Change in Benefit Multiplier/Early Commencement Factors
(000's)

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February 2, 2009
Ms. Laurie Hacking
Minnesota Teachers Retirement Association

Results are based on 2008 financial and participant data provided by TRA. All values were determined as of July 1, 2008 using the assumptions, methods, and plan provisions (except as noted) as summarized in the 2008 valuation report dated December 9, 2008. Results are based on a full funding amortization date of June 30, 2037. The actuarial value of assets reflects the deficiency in the Post Fund.

In the above scenarios, benefits for Basic members were unchanged, as were benefits for retired and terminated members. Former Minneapolis Teachers Retirement Fund Association (MTRFA) members were included in our analysis, with the proposed changes affecting active MTRFA Coordinated members only.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details, as may be appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. In addition, the first undersigned credentialed actuary meets the requirements of "approved actuary" under Minnesota Statutes, Section 356.215, Subdivision 1, Paragraph (c).

Sincerely,

James F. Verlautz
James F. Verlautz, FSA, MAAA

Bonita J. Wurst
Bonita J. Wurst, ASA, MAAA

Enclosure

Copy: Colin Caes, Julie Thompson, Becky Wegleitner, Sheri Wroblewski - Mercer

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

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	Baseline 7/1/2008 Valuation	Study Improved Level Formula (2.1%), Actuarially Reduced from 65, or from 62 if 30 Years	Change from Baseline
Actuarial Accrued Liability	22,231,000	22,733,000	502,000
Actuarial Assets	18,227,000	18,227,000	-
Unfunded AAL	4,004,000	4,506,000	502,000
Funded Percentage	82.0%	80.2%	-1.8%
Total Normal Cost	337,000	378,000	41,000
Payroll	3,846,000	3,846,000	-

Required Contribution - Amortization period of 29 years

Normal Cost	8.8%	9.8%	1.0%
Amortization of UAAL	6.0%	6.8%	0.8%
Expense Assumption	0.3%	0.3%	0.0%
Total	15.1%	16.9%	1.8%

Required Contribution - Amortization period of 26 years*

Normal Cost	8.8%	9.8%	1.0%
Amortization of UAAL	6.0%	6.9%	0.9%
Expense Assumption	0.3%	0.3%	0.0%
Total	15.1%	17.0%	1.9%

* Assumes a level percent of pay amortization payment (before benefit improvements)

**Teachers Retirement Association
Exhibit II - Assumed Retirement Rates for Plan Study**

Age	Valuation Assumption		Tier II Members Act. Red. from 62 if 30 Years	
	Rule-90*	Non-Rule 90	>30 Years	<30 Years
55	60%	9%	9%	9%
56	50%	9%	9%	9%
57	50%	9%	9%	9%
58	50%	9%	9%	9%
59	50%	12%	12%	12%
60	50%	12%	25%	12%
61	50%	20%	25%	20%
62	50%	20%	50%	20%
63	50%	20%	50%	20%
64	50%	20%	50%	20%
65	50%	50%	50%	50%
66	35%	35%	35%	35%
67	35%	35%	35%	35%
68	35%	35%	35%	35%
69	35%	35%	35%	35%
70	35%	35%	35%	35%
71+	100%	100%	100%	100%

* Tier I Employees Only

_____ moves that the Legislative Commission on Pensions and Retirement approve the following retirement rates for the Teachers Retirement Association (TRA), effective for actuarial valuations prepared on or after July 1, 2009:

Age	Valuation Assumption		Tier II Members	
	Rule of 90*	Non Rule of 90	Act. Red. From 62 if 30 Years > 30 Years	< 30 Years
55	50%	9%	9%	9%
56	50%	9%	9%	9%
57	50%	9%	9%	9%
58	50%	9%	9%	9%
59	50%	12%	12%	12%
60	50%	12%	25%	12%
61	50%	20%	25%	20%
62	50%	20%	50%	20%
63	50%	20%	50%	20%
64	50%	20%	50%	20%
65	50%	50%	50%	50%
66	35%	35%	35%	35%
67	35%	35%	35%	35%
68	35%	35%	35%	35%
69	35%	35%	35%	35%
70	35%	35%	35%	35%
71+	100%	100%	100%	100%

* Tier I Employees Only

97.1 Employees Retirement Association, no employer contributions or payroll deductions for
97.2 the retirement fund may be made, and the provisions of section 353.37 apply.

97.3 **EFFECTIVE DATE.** This section is effective the day following final enactment
97.4 and expires on June 30, 2011. Individuals must not be appointed to a postretirement option
97.5 position after that date.

97.6 **ARTICLE 6**
97.7 **TEACHER RETIREMENT BENEFIT AND FUNDING CHANGES**

97.8 Section 1. Minnesota Statutes 2008, section 127A.50, subdivision 1, is amended to
97.9 read:

97.10 Subdivision 1. **Aid adjustment.** Beginning in fiscal year 1998 and each year
97.11 thereafter, the commissioner of education shall adjust state aid payments to school
97.12 operating funds for Independent School District No. 625 and Independent School District
97.13 No. 709 by the net amount of clauses (1) ~~and~~, (2), and (5), for Special School District
97.14 No. 1 by the net amount of clauses (1), (2), ~~and~~ (4), and (5), and for all other districts,
97.15 including charter schools, but excluding any education organizations that are prohibited
97.16 from receiving direct state aids under section 123A.26 or 125A.75, subdivision 7, by the
97.17 net amount of clauses (1), (2), (3), ~~and~~ (4), and (5):

97.18 (1) a decrease equal to each district's share of the fiscal year 1997 adjustment
97.19 effected under Minnesota Statutes 1996, section 124.2139;

97.20 (2) an increase equal to one percent of the salaries paid to members of the general
97.21 plan of the Public Employees Retirement Association in fiscal year 1997, multiplied by
97.22 0.35 for fiscal year 1998 and 0.70 each year thereafter;

97.23 (3) a decrease equal to 2.34 percent of the salaries paid to members of the Teachers
97.24 Retirement Association in fiscal year 1997; ~~and~~

97.25 (4) an increase equal to 0.5 percent of the salaries paid to members of the Teachers
97.26 Retirement Association in fiscal year 2007-; and

97.27 (5) an increase equal to the specified percentage of the salaries paid to coordinated
97.28 program members of the Teachers Retirement Association, to coordinated program
97.29 members of the St. Paul Teachers Retirement Fund Association, and to members of the
97.30 Duluth Teachers Retirement Fund Association in fiscal year 2012 as follows:

97.31 <u>fiscal year 2012</u>	<u>0.5 percent</u>
97.32 <u>fiscal year 2013</u>	<u>0.5 percent</u>
97.33 <u>fiscal year 2014</u>	<u>0.5 percent</u>
97.34 <u>fiscal year 2015</u>	<u>0.5 percent</u>

98.1 **EFFECTIVE DATE.** This section is effective July 1, 2011.

98.2 Sec. 2. Minnesota Statutes 2008, section 354.05, subdivision 38, is amended to read:

98.3 Subd. 38. **Normal retirement age.** "Normal retirement age" means age 65 for a
98.4 ~~person who first became a member of the association or a member of a pension fund listed~~
98.5 ~~in section 356.30, subdivision 3, before July 1, 1989. For a person who first becomes a~~
98.6 ~~member of the association after June 30, 1989, normal retirement age means the higher~~
98.7 ~~of age 65 or "retirement age," as defined in United States Code, title 42, section 416(1),~~
98.8 ~~as amended, but not to exceed age 66.~~ For a person with 30 years of service, normal
98.9 retirement age means age 62.

98.10 **EFFECTIVE DATE.** This section is effective July 1, 2011.

98.11 Sec. 3. Minnesota Statutes 2008, section 354.42, subdivision 2, is amended to read:

98.12 Subd. 2. **Employee.** (a) The employee contribution to the fund is an amount equal
98.13 to the following percentage of the salary of a member:

98.14 ~~(1) after July 1, 2006, for a teacher employed by Special School District No. 1,~~
98.15 ~~Minneapolis, 5.5 percent if the teacher is a coordinated member, and 9.0 percent if the~~
98.16 ~~teacher is a basic member;~~

98.17 ~~(2) for every other teacher, after July 1, 2006, 5.5 percent if the teacher is a~~
98.18 ~~coordinated member and 9.0 percent if the teacher is a basic member.~~

98.19 <u>Period</u>	<u>Coordinated Member</u>	<u>Basic Member</u>
98.20 <u>(1) before July 1, 2011</u>	<u>5.5 percent</u>	<u>9 percent</u>
98.21 <u>(2) after June 30, 2011, and before July</u>		
98.22 <u>1, 2012</u>	<u>6 percent</u>	<u>9 percent</u>
98.23 <u>(3) after June 30, 2012, and before July</u>		
98.24 <u>1, 2013</u>	<u>6.5 percent</u>	<u>9 percent</u>
98.25 <u>(4) unless paragraph (c) applies, after</u>		
98.26 <u>June 30, 2013, and before July 1, 2014</u>	<u>7 percent</u>	<u>9 percent</u>
98.27 <u>(5) unless paragraph (c) applies, after</u>		
98.28 <u>June 30, 2014</u>	<u>7.5 percent</u>	<u>9 percent</u>

98.29 (b) When an employee contribution rate changes for a fiscal year, the new
98.30 contribution rate is effective for the entire salary paid for each employer unit with the
98.31 first payroll cycle reported.

98.32 (c) After July 1, 2012, a scheduled contribution increase under paragraph (a),
98.33 clause (4) or (5), is suspended if the most recent actuarial valuation prepared under
98.34 section 356.215 indicates that there is no contribution deficiency when the total employee
98.35 contributions, employer contributions under subdivision 3, and direct state aid under

99.1 section 354A.12 and chapter 422A are compared to the actuarial required contributions of
 99.2 the retirement plan.

99.3 ~~(b)~~ (d) This contribution must be made by deduction from salary. Where any
 99.4 portion of a member's salary is paid from other than public funds, the member's employee
 99.5 contribution must be based on the entire salary received.

99.6 **EFFECTIVE DATE.** This section is effective July 1, 2011.

99.7 Sec. 4. Minnesota Statutes 2008, section 354.42, subdivision 3, is amended to read:

99.8 Subd. 3. **Employer.** (a) The regular employer contribution to the fund by Special
 99.9 School District No. 1, Minneapolis, after July 1, 2006, and before July 1, 2007, is an
 99.10 amount equal to 5.0 percent of the salary of each of its teachers who is a coordinated
 99.11 member and 9.0 percent of the salary of each of its teachers who is a basic member. After
 99.12 July 1, 2007, and before July 1, 2011, the regular employer contribution to the fund by
 99.13 Special School District No. 1, Minneapolis, is an amount equal to 5.5 percent of salary of
 99.14 each coordinated member and 9.5 percent of salary of each basic member. The additional
 99.15 employer contribution to the fund by Special School District No. 1, Minneapolis, after
 99.16 July 1, 2006, is an amount equal to 3.64 percent of the salary of each teacher who is a
 99.17 coordinated member or is a basic member. The regular employer contribution to the
 99.18 fund by Special School District No. 1, Minneapolis, is an amount equal to the following
 99.19 percentage of the salary of each teacher:

99.20 <u>Period</u>	<u>Coordinated Member</u>	<u>Basic Member</u>
99.21 <u>(1) before July 1, 2011</u>	<u>5.5 percent</u>	<u>9.5 percent</u>
99.22 <u>(2) after June 30, 2011, and before July</u> 99.23 <u>1, 2012</u>	<u>6 percent</u>	<u>9.5 percent</u>
99.24 <u>(3) after June 30, 2012, and before July</u> 99.25 <u>1, 2013</u>	<u>6.5 percent</u>	<u>9.5 percent</u>
99.26 <u>(4) unless paragraph (d) applies, after</u> 99.27 <u>June 30, 2013, and before July 1, 2014</u>	<u>7 percent</u>	<u>9.5 percent</u>
99.28 <u>(5) unless paragraph (d) applies, after</u> 99.29 <u>June 30, 2014</u>	<u>7.5 percent</u>	<u>9.5 percent</u>

99.30 (b) When an employer contribution rate changes for a fiscal year, the new
 99.31 contribution rate is effective for the entire salary paid for each employer unit with the
 99.32 first payroll cycle reported.

99.33 ~~(b)~~ (c) The employer contribution to the fund for every other employer is an amount
 99.34 equal to 5.0 percent of the salary of each coordinated member and 9.0 percent of the salary
 99.35 of each basic member before July 1, 2007, and 5.5 percent of the salary of each coordinated
 99.36 member and 9.5 percent of the salary of each basic member after June 30, 2007-, and

100.1 before July 1, 2011. The regular employer contribution to the fund by every other
 100.2 employer is an amount equal to the following percentage of the salary of each teacher:

100.3	<u>Period</u>	<u>Coordinated Member</u>	<u>Basic Member</u>
100.4	<u>(1) after June 30, 2011, and before July</u>		
100.5	<u>1, 2012</u>	<u>6 percent</u>	<u>9.5 percent</u>
100.6	<u>(2) after June 30, 2012, and before July</u>		
100.7	<u>1, 2013</u>	<u>6.5 percent</u>	<u>9.5 percent</u>
100.8	<u>(3) unless paragraph (d) applies, after</u>		
100.9	<u>June 30, 2013, and before July 1, 2014</u>	<u>7 percent</u>	<u>9.5 percent</u>
100.10	<u>(4) unless paragraph (d) applies, after</u>		
100.11	<u>June 30, 2014</u>	<u>7.5 percent</u>	<u>9.5 percent</u>

100.12 (d) After July 1, 2012, a scheduled contribution increase under paragraph (a), clause
 100.13 (4) or (5), and paragraph (c), clause (3) or (4), is suspended if the most recent actuarial
 100.14 valuation prepared under section 356.215 indicates that there is no contribution deficiency
 100.15 when the total employee contributions, employer contributions under subdivision 3, and
 100.16 direct state aid under section 354A.12 and chapter 422A are compared to the actuarial
 100.17 required contributions of the retirement plan.

100.18 **EFFECTIVE DATE.** This section is effective July 1, 2011.

100.19 Sec. 5. Minnesota Statutes 2008, section 354.42, is amended by adding a subdivision
 100.20 to read:

100.21 **Subd. 4b. Determination.** (a) For purposes of this section, a contribution
 100.22 sufficiency exists if the total of the employee contributions, the employer contributions,
 100.23 and any additional employer contributions, if applicable, exceeds the total of the normal
 100.24 cost, the administrative expenses, and the amortization contribution of the retirement
 100.25 plan as reported in the most recent actuarial valuation of the retirement plan prepared by
 100.26 the actuary retained under section 356.214 and prepared under section 356.215 and the
 100.27 standards for actuarial work of the Legislative Commission on Pensions and Retirement.

100.28 (b) For purposes of this section, a contribution deficiency exists if the total employee
 100.29 contributions, the employer contributions, and any additional employer contributions are
 100.30 less than the total of the normal cost, the administrative expenses, and the amortization
 100.31 contribution of the retirement plan as reported in the most recent actuarial valuation of the
 100.32 retirement plan prepared by the actuary retained under section 356.214 and prepared under
 100.33 section 356.215 and the standards for actuarial work of the Legislative Commission on
 100.34 Pensions and Retirement.

100.35 Sec. 6. Minnesota Statutes 2008, section 354.42, is amended by adding a subdivision
 100.36 to read:

101.1 Subd. 4c. **Contribution rate revision.** Notwithstanding the contribution rate
101.2 provisions stated in plan law, the employee and employer contribution rates must be
101.3 adjusted:

101.4 (1) if after July 1, 2014, the regular actuarial valuations of the plan under section
101.5 356.215 indicate that there is a contribution sufficiency under subdivision 2 equal to
101.6 or greater than 0.5 percent of covered payroll for two consecutive years, the employee
101.7 and employer contribution rates for the plan must be decreased as determined under
101.8 subdivision 4 to a level such that the sufficiency equals no more than 0.25 percent of
101.9 covered payroll based on the most recent actuarial valuation; or

101.10 (2) if after July 1, 2014, the regular actuarial valuations of the plan under section
101.11 356.215 indicate that there is a deficiency equal to or greater than 0.5 percent of covered
101.12 payroll for two consecutive years, the employee and employer contribution rates for
101.13 the plan must be increased as determined under subdivision 4 to a level such that no
101.14 deficiency exists based on the most recent actuarial valuation.

101.15 Sec. 7. Minnesota Statutes 2008, section 354.42, is amended by adding a subdivision
101.16 to read:

101.17 Subd. 4d. **Reporting, commission review.** (a) The contribution rate increase
101.18 or decrease must be determined by the executive director of the Teachers Retirement
101.19 Association, must be reported to the chair and the executive director of the Legislative
101.20 Commission on Pensions and Retirement on or before the next February 1, and, if the
101.21 Legislative Commission on Pensions and Retirement does not recommend against the
101.22 rate change or does not recommend a modification in the rate change, is effective on the
101.23 next July 1 following the determination by the executive director that a contribution
101.24 deficiency or sufficiency has existed for two consecutive fiscal years based on the most
101.25 recent actuarial valuations under section 356.215. If the actuarially required contribution
101.26 exceeds or is less than the total support provided by the combined employee and employer
101.27 contribution rates for the applicable plan by more than 0.5 percent of covered payroll, the
101.28 plan employee and employer contribution rates must be adjusted incrementally over one
101.29 or more years to a level such that there remains a contribution sufficiency of no more than
101.30 0.25 percent of covered payroll.

101.31 (b) No incremental adjustment may exceed 0.25 percent of payroll for either the
101.32 employee or employer contribution rates per year in which any adjustment is implemented.
101.33 A contribution rate adjustment under this section must not be made until at least two years
101.34 have passed since fully implementing a previous adjustment under this section.

101.35 **EFFECTIVE DATE.** This section is effective July 1, 2011.

102.1 Sec. 8. Minnesota Statutes 2008, section 354.44, subdivision 6, is amended to read:

102.2 Subd. 6. **Computation of formula program retirement annuity.** (a) The formula
102.3 retirement annuity must be computed in accordance with the applicable provisions of the
102.4 formulas stated in paragraph (b) or (d) on the basis of each member's average salary under
102.5 section 354.05, subdivision 13a, for the period of the member's formula service credit.

102.6 (b) This paragraph, in conjunction with paragraph (c), applies to a person who first
102.7 became a member of the association or a member of a pension fund listed in section
102.8 356.30, subdivision 3, before July 1, 1989, unless paragraph (d), in conjunction with
102.9 paragraph (e), produces a higher annuity amount, in which case paragraph (d) applies. The
102.10 average salary as defined in section 354.05, subdivision 13a, multiplied by the following
102.11 percentages per year of formula service credit ~~shall determine~~ determines the amount
102.12 of the annuity to which the member qualifying therefor is entitled for service rendered
102.13 before July 1, 2006:

	Coordinated Member	Basic Member
102.14		
102.15	Each year of service during	the percent specified
102.16	first ten	in section 356.315,
102.17		subdivision 1, per year
102.18	Each year of service	the percent specified
102.19	thereafter	in section 356.315,
102.20		subdivision 2, per year
		subdivision 3, per year
		subdivision 4, per year

102.21 For service rendered on or after July 1, 2006, the average salary as defined in section
102.22 354.05, subdivision 13a, multiplied by the following percentages per year of service credit,
102.23 determines the amount the annuity to which the member qualifying therefor is entitled:

	Coordinated Member	Basic Member
102.24		
102.25	Each year of service during	the percent specified
102.26	first ten	in section 356.315,
102.27		subdivision 1a, per year
102.28	Each year of service after	the percent specified
102.29	ten years of service	in section 356.315,
102.30		subdivision 2b, per year
		subdivision 3, per year
		subdivision 4, per year

102.31 (c)(i) This paragraph applies only to a person who first became a member of the
102.32 association or a member of a pension fund listed in section 356.30, subdivision 3, before
102.33 July 1, 1989, and whose annuity is higher when calculated under paragraph (b), in
102.34 conjunction with this paragraph than when calculated under paragraph (d), in conjunction
102.35 with paragraph (e).

102.36 (ii) Where any member retires prior to normal retirement age under a formula
102.37 annuity, the member ~~shall~~ must be paid a retirement annuity in an amount equal to the
102.38 normal annuity provided in paragraph (b) reduced by one-quarter of one percent for each

103.1 month that the member is under normal retirement age at the time of retirement except
 103.2 that for any member who has 30 or more years of allowable service credit, the reduction
 103.3 ~~shall~~ must be applied only for each month that the member is under age 62.

103.4 (iii) Any member whose attained age plus credited allowable service totals 90 years
 103.5 is entitled, upon application, to a retirement annuity in an amount equal to the normal
 103.6 annuity provided in paragraph (b), without any reduction by reason of early retirement.

103.7 (d) This paragraph applies to a member who has become at least 55 years old and
 103.8 first became a member of the association after June 30, 1989, and to any other member
 103.9 who has become at least 55 years old and whose annuity amount when calculated under
 103.10 this paragraph and in conjunction with paragraph (e), is higher than it is when calculated
 103.11 under paragraph (b), in conjunction with paragraph (c). For a basic member, the average
 103.12 salary, as defined in section 354.05, subdivision 13a, multiplied by the percent specified
 103.13 by section 356.315, subdivision 4, for each year of service for a basic member ~~shall~~
 103.14 ~~determine~~ determines the amount of the retirement annuity to which the basic member is
 103.15 entitled. The annuity of a basic member who was a member of the former Minneapolis
 103.16 Teachers Retirement Fund Association as of June 30, 2006, must be determined according
 103.17 to the annuity formula under the articles of incorporation of the former Minneapolis
 103.18 Teachers Retirement Fund Association in effect as of that date. For a coordinated member,
 103.19 the average salary, as defined in section 354.05, subdivision 13a, multiplied by the percent
 103.20 specified in section 356.315, subdivision 2, for each year of service rendered before July
 103.21 1, 2006, ~~and~~ by the percent specified in section 356.315, subdivision 2b, for each year
 103.22 of service rendered on or after July 1, 2006, and before July 1, 2011, and by the percent
 103.23 specified in section 356.315, subdivision 2c, for each year of service rendered after June
 103.24 30, 2011, determines the amount of the retirement annuity to which the coordinated
 103.25 member is entitled. For a member who has 30 or more years of allowable service credit,
 103.26 the person's normal retirement age is age 62 and the age 55 minimum early reduced benefit
 103.27 retirement age does not apply to the person.

103.28 (e) This paragraph applies to a person who has become at least 55 years old and first
 103.29 becomes a member of the association after June 30, 1989, and to any other member who
 103.30 has become at least 55 years old and whose annuity is higher when calculated under
 103.31 paragraph (d) in conjunction with this paragraph than when calculated under paragraph
 103.32 (b), in conjunction with paragraph (c). An employee who retires under the formula
 103.33 annuity before the normal retirement age ~~shall~~ as defined by section 354.05, subdivision
 103.34 38, must be paid the normal annuity provided in paragraph (d) reduced so that the reduced
 103.35 annuity is the actuarial equivalent of the annuity that would be payable to the employee if
 103.36 the employee deferred receipt of the annuity and the annuity amount were augmented at

104.1 an annual rate of three percent compounded annually from the day the annuity begins to
 104.2 accrue until the normal retirement age if the employee became an employee before July 1,
 104.3 2006, and at 2.5 percent compounded annually if the employee becomes an employee after
 104.4 June 30, 2006. For a member who has 30 or more years of allowable service credit, the
 104.5 person's normal retirement age is age 62 and the age 55 minimum early reduced benefit
 104.6 retirement age does not apply to the person.

104.7 (f) No retirement annuity is payable to a former employee with a salary that exceeds
 104.8 95 percent of the governor's salary unless and until the salary figures used in computing
 104.9 the highest five successive years average salary under paragraph (a) have been audited by
 104.10 the Teachers Retirement Association and determined by the executive director to comply
 104.11 with the requirements and limitations of section 354.05, subdivisions 35 and 35a.

104.12 **EFFECTIVE DATE.** This section is effective July 1, 2011.

104.13 Sec. 9. Minnesota Statutes 2008, section 354A.011, subdivision 15a, is amended to
 104.14 read:

104.15 Subd. 15a. **Normal retirement age.** "Normal retirement age" means age 65 for a
 104.16 ~~person who first became a member of the coordinated program of the St. Paul Teachers~~
 104.17 ~~Retirement Fund Association or the new law coordinated program of the Duluth Teachers~~
 104.18 ~~Retirement Fund Association or a member of a pension fund listed in section 356.30,~~
 104.19 ~~subdivision 3, before July 1, 1989. For a person who first became a member of the~~
 104.20 ~~coordinated program of the St. Paul Teachers Retirement Fund Association or the new law~~
 104.21 ~~coordinated program of the Duluth Teachers Retirement Fund Association after June 30,~~
 104.22 ~~1989, normal retirement age means the higher of age 65 or retirement age, as defined in~~
 104.23 ~~United States Code, title 42, section 416(1), as amended, but not to exceed age 66. For a~~
 104.24 person with 30 years of service, normal retirement age means age 62. For a person who is
 104.25 a member of the basic program of the St. Paul Teachers Retirement Fund Association or
 104.26 the old law coordinated program of the Duluth Teachers Retirement Fund Association,
 104.27 normal retirement age means the age at which a teacher becomes eligible for a normal
 104.28 retirement annuity computed upon meeting the age and service requirements specified
 104.29 in the applicable provisions of the articles of incorporation or bylaws of the respective
 104.30 teachers retirement fund association.

104.31 **EFFECTIVE DATE.** This section is effective July 1, 2011.

104.32 Sec. 10. Minnesota Statutes 2008, section 354A.12, subdivision 1, is amended to read:

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

105.4	Association and Program	Percentage of Total Salary
105.5	Duluth Teachers Retirement Fund Association	
105.6	old law and new law	
105.7	coordinated programs	5.5 percent
105.8	<u>(1) before July 1, 2011</u>	<u>5.5 percent</u>
105.9	<u>(2) after June 30, 2011, and before July 1, 2012</u>	<u>6 percent</u>
105.10	<u>(3) after June 30, 2012, and before July 1, 2013</u>	<u>6.5 percent</u>
105.11	<u>(4) unless paragraph (b) applies, after June 30,</u>	
105.12	<u>2013, and before July 1, 2014</u>	<u>7 percent</u>
105.13	<u>(5) unless paragraph (b) applies, after June 30,</u>	
105.14	<u>2014</u>	<u>7.5 percent</u>
105.15	St. Paul Teachers Retirement Fund Association	
105.16	basic program	8 percent
105.17	coordinated program	5.5 percent
105.18	<u>(6) before July 1, 2011</u>	<u>5.5 percent</u>
105.19	<u>(7) after June 30, 2011, and before July 1, 2012</u>	<u>6 percent</u>
105.20	<u>(8) after June 30, 2012, and before July 1, 2013</u>	<u>6.5 percent</u>
105.21	<u>(9) unless paragraph (b) applies, after June 30,</u>	
105.22	<u>2013, and before July 1, 2014</u>	<u>7 percent</u>
105.23	<u>(10) unless paragraph (b) applies, after June 30,</u>	
105.24	<u>2014</u>	<u>7.5 percent</u>

105.25 (b) When an employee contribution rate changes for a fiscal year, the new
 105.26 contribution rate is effective for the entire salary paid for each employer unit with the
 105.27 first payroll cycle reported.

105.28 (c) After July 1, 2012, a scheduled contribution increase under paragraph (a),
 105.29 clause (4), (5), (9), or (10), is suspended if the most recent actuarial valuation prepared
 105.30 under section 356.215 indicates that there is no contribution deficiency when the total
 105.31 employee contributions, employer contributions under subdivision 3, and direct state aid
 105.32 are compared to the actuarial required contributions of the retirement plan.

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

105.35 **EFFECTIVE DATE.** This section is effective July 1, 2011.

105.36 Sec. 11. Minnesota Statutes 2008, section 354A.12, subdivision 2a, is amended to read:

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

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

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

106.7	Duluth Teachers Retirement	
106.8	Fund Association	4.50 percent
106.9	<u>(A) before July 1, 2011</u>	<u>4.5 percent</u>
106.10	<u>(B) after June 30, 2011, and</u>	
106.11	<u>before July 1, 2012</u>	<u>5 percent</u>
106.12	<u>(C) after June 30, 2012, and</u>	
106.13	<u>before July 1, 2013</u>	<u>5.5 percent</u>
106.14	<u>(D) unless clause (3) applies,</u>	
106.15	<u>after June 30, 2013, and before</u>	
106.16	<u>July 1, 2014</u>	<u>6 percent</u>
106.17	<u>(E) unless clause (3) applies,</u>	
106.18	<u>after June 30, 2014</u>	<u>6.5 percent</u>
106.19	St. Paul Teachers Retirement	
106.20	Fund Association	4.50 percent
106.21	<u>(F) before July 1, 2011</u>	<u>4.5 percent</u>
106.22	<u>(G) after June 30, 2011, and</u>	
106.23	<u>before July 1, 2012</u>	<u>5 percent</u>
106.24	<u>(H) after June 30, 2012, and</u>	
106.25	<u>before July 1, 2013</u>	<u>5.5 percent</u>
106.26	<u>(I) unless clause (3) applies,</u>	
106.27	<u>after June 30, 2013, and before</u>	
106.28	<u>July 1, 2014</u>	<u>6 percent</u>
106.29	<u>(J) unless clause (3) applies,</u>	
106.30	<u>after June 30, 2014</u>	<u>6.5 percent</u>

106.31 (3) After July 1, 2012, a scheduled contribution increase under paragraph (a), clause
 106.32 (2), item (D), (E), (I), or (J), is suspended if the most recent actuarial valuation prepared
 106.33 under section 356.215 indicates that there is no contribution deficiency when the total
 106.34 employee contributions, employer contributions under subdivision 3, and direct state aid
 106.35 are compared to the actuarial required contributions of the retirement plan;

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

106.39 ~~(4)~~ (5) for a basic member of the St. Paul Teachers Retirement Fund Association, the
 106.40 employing unit shall make an additional employer contribution to the respective fund in
 106.41 an amount equal to 3.64 percent of the salary of the basic member;

107.1 ~~(5)~~ (6) for a coordinated member of a teachers retirement fund association in a city
 107.2 of the first class, the employing unit shall make an additional employer contribution to
 107.3 the respective fund in an amount equal to the applicable percentage of the coordinated
 107.4 member's salary, as provided below:

107.5	Duluth Teachers Retirement	
107.6	Fund Association	1.29 percent
107.7	St. Paul Teachers Retirement	
107.8	Fund Association	
107.9	July 1, 1993 - June 30, 1994	0.50 percent
107.10	July 1, 1994 - June 30, 1995	1.50 percent
107.11	July 1, 1997, and thereafter	3.84 percent

107.12 (b) When an employer contribution rate changes for a fiscal year, the new
 107.13 contribution rate is effective for the entire salary paid for each employer unit with the
 107.14 first payroll cycle reported.

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

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

107.21 **EFFECTIVE DATE.** This section is effective July 1, 2011.

107.22 Sec. 12. Minnesota Statutes 2008, section 354A.12, is amended by adding a
 107.23 subdivision to read:

107.24 **Subd. 4a. Determination.** (a) For purposes of this section, a contribution sufficiency
 107.25 exists if, for purposes of the applicable plan, the total of the employee contributions,
 107.26 the employer contributions, and any additional employer contributions, if applicable,
 107.27 exceeds the total of the normal cost, the administrative expenses, and the amortization
 107.28 contribution of the retirement plan as reported in the most recent actuarial valuation of the
 107.29 retirement plan prepared by the actuary retained under section 356.214 and prepared under
 107.30 section 356.215 and the standards for actuarial work of the Legislative Commission on
 107.31 Pensions and Retirement.

107.32 (b) For purposes of this section, a contribution deficiency exists if, for the applicable
 107.33 plan, the total employee contributions, employer contributions, and any additional
 107.34 employer contributions are less than the total of the normal cost, the administrative
 107.35 expenses, and the amortization contribution of the retirement plan as reported in the most
 107.36 recent actuarial valuation of the retirement plan prepared by the actuary retained under

108.1 section 356.214 and prepared under section 356.215 and the standards for actuarial work
108.2 of the Legislative Commission on Pensions and Retirement.

108.3 **EFFECTIVE DATE.** This section is effective July 1, 2011.

108.4 Sec. 13. Minnesota Statutes 2008, section 354A.12, is amended by adding a
108.5 subdivision to read:

108.6 **Subd. 4b. Contribution rate revision.** Notwithstanding the contribution rate
108.7 provisions stated in plan law, the employee and employer contribution rates must be
108.8 adjusted:

108.9 (1) if after July 1, 2014, the regular actuarial valuations of the applicable plan under
108.10 section 356.215 indicate that there is a contribution sufficiency under subdivision 2 equal
108.11 to or greater than 0.5 percent of covered payroll for two consecutive years, the employee
108.12 and employer contribution rates for the applicable plan must be decreased as determined
108.13 under subdivision 4 to a level such that the sufficiency equals no more than 0.25 percent of
108.14 covered payroll based on the most recent actuarial valuation; or

108.15 (2) if after July 1, 2014, the regular actuarial valuations of the applicable plan under
108.16 section 356.215 indicate that there is a deficiency equal to or greater than 0.5 percent of
108.17 covered payroll for two consecutive years, the employee and employer contribution rates
108.18 for the applicable plan must be increased as determined under subdivision 4 to a level such
108.19 that no deficiency exists based on the most recent actuarial valuation.

108.20 **EFFECTIVE DATE.** This section is effective July 1, 2011.

108.21 Sec. 14. Minnesota Statutes 2008, section 354A.12, is amended by adding a
108.22 subdivision to read:

108.23 **Subd. 4c. Reporting, commission review.** (a) The contribution rate increase or
108.24 decrease must be determined by the executive director of the Duluth Teachers Retirement
108.25 Fund Association or the St. Paul Teachers Retirement Fund Association, and must be
108.26 reported to the chair and the executive director of the Legislative Commission on Pensions
108.27 and Retirement on or before the next February 1, and, if the Legislative Commission
108.28 on Pensions and Retirement does not recommend against the rate change or does not
108.29 recommend a modification in the rate change, is effective on the next July 1 following
108.30 the determination by the executive director that a contribution deficiency or sufficiency
108.31 has existed for two consecutive fiscal years based on the most recent actuarial valuations
108.32 under section 356.215. If the actuarially required contribution exceeds or is less than
108.33 the total support provided by the combined employee and employer contribution rates

109.1 for the applicable plan by more than 0.5 percent of covered payroll, the applicable plan
 109.2 employee and employer contribution rates must be adjusted incrementally over one or
 109.3 more years to a level such that there remains a contribution sufficiency of no more than
 109.4 0.25 percent of covered payroll.

109.5 (b) No incremental adjustment may exceed 0.25 percent of payroll for either the
 109.6 employee or employer contribution rates per year in which any adjustment is implemented.
 109.7 For an applicable plan, a contribution rate adjustment under this section must not be
 109.8 made until at least two years have passed since fully implementing a previous adjustment
 109.9 under this section.

109.10 **EFFECTIVE DATE.** This section is effective July 1, 2011.

109.11 Sec. 15. Minnesota Statutes 2008, section 354A.31, subdivision 4, is amended to read:

109.12 Subd. 4. **Computation of normal coordinated retirement annuity; St. Paul**
 109.13 **fund.** (a) This subdivision applies to the coordinated program of the St. Paul Teachers
 109.14 Retirement Fund Association.

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

109.18 (c) This paragraph, in conjunction with subdivision 6, applies to a person who first
 109.19 became a member or a member in a pension fund listed in section 356.30, subdivision 3,
 109.20 before July 1, 1989, unless paragraph (d), in conjunction with subdivision 7, produces a
 109.21 higher annuity amount, in which case paragraph (d) will apply. ~~The retirement annuity~~
 109.22 ~~formula percentage for purposes of this paragraph is the percent specified in section~~
 109.23 ~~356.315, subdivision 1, per year for each year of coordinated service for the first ten years~~
 109.24 ~~and the percent specified in section 356.315, subdivision 2, for each year of coordinated~~
 109.25 ~~service thereafter.~~ The average salary multiplied by the following retirement annuity
 109.26 formula percentage per year of allowable service determines the amount of the annuity to
 109.27 which the member qualifying therefor is entitled for service rendered before July 1, 2011:

109.28	<u>Each year of service during first ten years</u>	<u>the percent specified in section 356.315,</u>
109.29		<u>subdivision 1, per year</u>
109.30	<u>Each year of service thereafter</u>	<u>the percent specified in section 356.315,</u>
109.31		<u>subdivision 2, per year</u>

109.32 For service rendered on or after July 1, 2011, the average salary multiplied by the
 109.33 following retirement annuity formula percentage per year of allowable service determines
 109.34 the amount of the annuity to which the member qualifying therefor is entitled:

110.1 Each year of service during first ten years the percent specified in section 356.315,
 110.2 subdivision 1a, per year
 110.3 Each year of service thereafter the percent specified in section 356.315,
 110.4 subdivision 2b, per year

110.5 (d) This paragraph applies to a person who has become at least 55 years old and who
 110.6 first becomes a member after June 30, 1989, and to any other member who has become
 110.7 at least 55 years old and whose annuity amount, when calculated under this paragraph
 110.8 and in conjunction with subdivision 7 is higher than it is when calculated under paragraph
 110.9 (c), in conjunction with the provisions of subdivision 6. The retirement annuity formula
 110.10 percentage for purposes of this paragraph is the percent specified in section 356.315,
 110.11 subdivision 2, for each year of coordinated service before July 1, 2011, and by the percent
 110.12 specified in section 356.315, subdivision 2c, for each year of service rendered after June
 110.13 30, 2011. For a member who has 30 or more years of allowable service credit, the person's
 110.14 normal retirement age is age 62 and the age 55 minimum early reduced benefit retirement
 110.15 age does not apply to the person.

110.16 **EFFECTIVE DATE.** This section is effective July 1, 2011.

110.17 Sec. 16. Minnesota Statutes 2008, section 354A.31, subdivision 4a, is amended to read:

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

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

110.24 (c) This paragraph, in conjunction with subdivision 6, applies to a person who first
 110.25 became a member or a member in a pension fund listed in section 356.30, subdivision 3,
 110.26 before July 1, 1989, unless paragraph (d), in conjunction with subdivision 7, produces a
 110.27 higher annuity amount, in which case paragraph (d) applies. ~~The retirement annuity~~
 110.28 ~~formula percentage for purposes of this paragraph is the percent specified in section~~
 110.29 ~~356.315, subdivision 1, per year for each year of coordinated service for the first ten years~~
 110.30 ~~and the percent specified in section 356.315, subdivision 2, for each subsequent year of~~
 110.31 ~~coordinated service.~~ The average salary multiplied by the following retirement annuity
 110.32 formula percentage per year of allowable service determines the amount of the annuity to
 110.33 which the member qualifying therefor is entitled for service rendered before July 1, 2011:

111.1	<u>Each year of service during first ten years</u>	<u>the percent specified in section 356.315,</u>
111.2		<u>subdivision 1, per year</u>
111.3	<u>Each year of service thereafter</u>	<u>the percent specified in section 356.315,</u>
111.4		<u>subdivision 2, per year</u>

111.5 For service rendered on or after July 1, 2011, the average salary multiplied by the
 111.6 following retirement annuity formula percentage per year of allowable service determines
 111.7 the amount of the annuity to which the member qualifying therefor is entitled:

111.8	<u>Each year of service during first ten years</u>	<u>the percent specified in section 356.315,</u>
111.9		<u>subdivision 1a, per year</u>
111.10	<u>Each year of service thereafter</u>	<u>the percent specified in section 356.315,</u>
111.11		<u>subdivision 2b, per year</u>

111.12 (d) This paragraph applies to a person who is at least 55 years old and who first
 111.13 becomes a member after June 30, 1989, and to any other member who is at least 55 years
 111.14 old and whose annuity amount, when calculated under this paragraph and in conjunction
 111.15 with subdivision 7, is higher than it is when calculated under paragraph (c) in conjunction
 111.16 with subdivision 6. The retirement annuity formula percentage for purposes of this
 111.17 paragraph is the percent specified in section 356.315, subdivision 2, for each year of
 111.18 coordinated service before July 1, 2011, and by the percent specified in section 356.315,
 111.19 subdivision 2c, for each year of service rendered after June 30, 2011. For a member who
 111.20 has 30 or more years of allowable service credit, the person's normal retirement age is
 111.21 age 62 and the age 55 minimum early reduced benefit retirement age does not apply
 111.22 to the person.

111.23 **EFFECTIVE DATE.** This section is effective July 1, 2011.

111.24 Sec. 17. Minnesota Statutes 2008, section 354A.31, subdivision 7, is amended to read:

111.25 Subd. 7. **Actuarial reduction for early retirement.** This subdivision applies to
 111.26 a person who has become at least 55 years old and first becomes a coordinated member
 111.27 after June 30, 1989, and to any other coordinated member who has become at least 55
 111.28 years old and whose annuity is higher when calculated using the retirement annuity
 111.29 formula percentage in subdivision 4, paragraph (d), and subdivision 4a, paragraph (d), in
 111.30 conjunction with this subdivision than when calculated under subdivision 4, paragraph
 111.31 (c), or subdivision 4a, paragraph (c), in conjunction with subdivision 6. A coordinated
 111.32 member who retires before the full benefit age ~~shall~~ as defined by section 354A.011,
 111.33 subdivision 15a, must be paid the retirement annuity calculated using the retirement
 111.34 annuity formula percentage in subdivision 4, paragraph (d), or subdivision 4a, paragraph
 111.35 (d), reduced so that the reduced annuity is the actuarial equivalent of the annuity that
 111.36 would be payable to the member if the member deferred receipt of the annuity and the

112.1 annuity amount were augmented at an annual rate of three percent compounded annually
 112.2 from the day the annuity begins to accrue until the normal retirement age if the employee
 112.3 became an employee before July 1, 2006, and at 2.5 percent compounded annually
 112.4 from the day the annuity begins to accrue until the normal retirement age if the person
 112.5 initially becomes a teacher after June 30, 2006. For a member who has 30 or more years
 112.6 of allowable service credit, the person's normal retirement age is age 62 and the age 55
 112.7 minimum early reduced benefit retirement age does not apply to the person.

112.8 **EFFECTIVE DATE.** This section is effective July 1, 2011.

112.9 Sec. 18. Minnesota Statutes 2008, section 356.315, is amended by adding a subdivision
 112.10 to read:

112.11 **Subd. 2c. Certain coordinated members.** The applicable benefit accrual rate
 112.12 is 2.1 percent.

112.13 **EFFECTIVE DATE.** This section is effective July 1, 2011.

112.14 ARTICLE 7

112.15 MNSCU RELATED RETIREMENT PROVISIONS

112.16 Section 1. **[136F.481] EARLY SEPARATION INCENTIVE PROGRAM.**

112.17 (a) Notwithstanding any provision of law to the contrary, the Board of Trustees
 112.18 of the Minnesota State Colleges and Universities may offer a targeted early separation
 112.19 incentive program for its employees.

112.20 (b) The early separation incentive program may include one or both of the following:

112.21 (1) cash incentives, not to exceed one year of base salary; or

112.22 (2) employer contributions to the postretirement healthcare savings plan established
 112.23 under section 352.98.

112.24 (c) To be eligible to receive an incentive, an employee must be at least age 55
 112.25 and must have at least five years of employment by the Minnesota State Colleges and
 112.26 Universities System. The board of trustees shall establish the eligibility requirements
 112.27 for system employees to receive an incentive. The board of trustees shall file a copy
 112.28 of its proposed eligibility requirements with the chairs and ranking members of the
 112.29 Senate Committee on Higher Education and the Higher Education Budget and Policy
 112.30 Division of the Senate Committee on Finance and with the chair and ranking members of
 112.31 the Higher Education and Workforce Development Finance and Policy Division of the
 112.32 Finance Committee of the House of Representatives at least 30 days before their final
 112.33 adoption by the board of trustees, shall post the same document on the system website at