S.F. 2404, as amended by author's amendment S2404-11A
(Pappas)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s):	St. Paul Teachers Retirement Fund Association (SPTRFA)
Relevant Provisions of Law:	Minnesota Statutes, Section 127A.50, and sections in Chapter 354A
General Nature of Proposal:	Increasing contributions, benefit accrual rates, and state aid
Date of Summary:	March 3, 2010

Specific Proposed Changes

- Increases SPTRFA benefits similar to those provided to the Teachers Retirement Association (TRA) in 2006.
- Increases the coordinated employee contribution rate from 5.5 to 6.0 percent of pay, and the regular employer contribution rate for coordinated employees from 4.50 percent of pay to 5.0 percent of pay.
- Increases direct state aid to the SPTRFA from $2.8 million to $8 million annually, and continues aids to SPTRFA indefinitely.
- Increases the school aid to the St. Paul School District is by approximately $1,327,000

Policy Issues Raised by the Proposed Legislation

1. The need for benefit improvement based on labor force needs.
2. The need for benefit improvement when extensive ability exists to use supplemental defined contribution savings plans.
3. Funding a benefit improvement in light of current recession; difficulty of finding resources to provide the requested aid.
4. Alternative of consolidating the SPTRFA into the Teachers Retirement Association (TRA).
5. Cost.
6. Added long-term cost of using rolling amortization period.
7. Inconsistency between aid request drafting and use of rolling amortization.

Potential Amendments

S2404-2A merges SPTRFA into TRA effective July 1, 2011.

S2404-15A replaces the rolling 25-year amortization used by SPTRFA with a fixed amortization date of 25 years, and can be used if -2A is not used. The amortization date would be June 30, 2035.

S2404-16A revises the state aid amount to an amount to be specified by the Commission.

S2404-17A, an alternative to the -16A amendment, would remove all of the proposed additional state aid from the bill and shift that funding impact to the employee/employer contribution rates. The employee contribution rate would increase from 5.5 percent of pay under current law to 7.35 percent. Similarly, the 4.5 percent of pay employer regular contribution would increase to 6.35 percent.

A motion to delete Section 5, an alternative to the -17A amendment, would leave the aid redirection provision unchanged from current law.

S2404-18A, an alternative to deleting Section 5, clarifies that aids would continue to go to the SPTRFA indefinitely (until the SPTRFA is fully funded).

S2404-19A would add a further 0.33 percent of pay contribution requirement to the employee and employer contributions, in addition to that added by the author's amendment, to eliminate the final 0.67 percent of pay deficiency suggested by the actuarial work.

S2404-20A would delay the school aid adjustment until July 1, 2011.

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Ed Burek, Deputy Director EB

RE: Author's Amendment S2404-11A to S.F. 2404 (Pappas): SPTRFA: Increasing Benefits and State Aid, Revising Fiduciary Provisions and Large Plan Investment Authority

DATE: March 3, 2010

Introduction

Senator Pappas has requested that S.F. 2404 (Pappas) be heard as amended by Amendment S2404-11A. Amendment S2404-11A and a draft engrossment of S.F. 2404 incorporating the amendment are attached.

Summary of Amendment S2404-11A

Amendment S2404-11A makes the following changes to S.F. 2404:

1. Removes all provisions that would have revised or eliminated fiduciary provisions applicable to all public pension plans in the state.
2. Removes the revision of the large plan investment authority provision, which applies to first class city teacher plans, the Minneapolis Employees Retirement Fund (MERF), all remaining local police and paid fire plans, and as many as several hundred volunteer fire plans.
3. Specifies the proposed increase in St. Paul Teachers Retirement Fund Association (SPTRFA) employee and employer contribution rates. The employee coordinated program contribution rate will increase on June 30, 2011, from 5.5 percent of pay to 6.0 percent, and the employer regular contribution for coordinated members will also increase on the same date from 4.50 percent of pay to 5.0 percent of pay.
4. Permanently increases state school aid to the St. Paul school district by approximately $1,327,000 (0.5 percent of Fiscal Year 2011 SPTRFA-covered salaries).

Summary of Draft Engrossment S2404-E1: S.F. 2404 (Pappas), as Amended by S2404-11A

Document S2404-E1 is a draft engrossment of the bill as amended by author's amendment S2404-11A. Draft engrossment S2404-E1 does the following:

- Contribution Rate Increase. Starting June 30, 2011, the SPTRFA coordinated employee contribution rate will increase from 5.5 to 6.0 percent of pay, and the regular employer contribution rate for SPTRFA coordinated employees will increase from 4.50 percent of pay to 5.0 percent of pay.
- Direct State Aid Increase to SPTRFA. Special direct state aid to the SPTRFA will increase from $2.8 million to $8 million annually.
- Aids to Continue Indefinitely. SPTRFA special direct state aid, and any amortization aid and supplemental amortization aid redirected to SPTRFA, will end when the SPTRFA is fully funded (or in 2037, whichever is earlier), rather than when the SPTRFA funding ratio equals or exceeds that of TRA; and the requirement, that SPTRFA special state aid be redirected to TRA when the SPTRFA is no longer eligible to receive it, is stricken.
- Increase in School Aid to St. Paul School District. School aid to the St. Paul school district is increased by approximately $1,327,000 (0.5 percent of fiscal year 2011 SPTRFA covered salaries).
- Benefit Improvement: Increase in Accrual Rates. A benefit improvement is provided comparable to the TRA 2006 benefit increases. For SPTRFA coordinated members, for pre-July 1, 1989, hires who retire early (Rule of 90 or other early retirement) for service after July 1, 2011, the accrual rate for the first ten years of service will be 1.4 percent rather than 1.2 percent per year, and for service in excess of ten years the accrual rate will be 1.9 percent rather than 1.7 percent. For all others (post-June 30, 1989, hires and for pre-July 1, 1989, hires taking a level benefit) the level benefit formula will use an accrual rate of 1.9 percent for post-July 1, 2011, service, rather than 1.7 percent (with an actuarial reduction for early retirement).

Discussion and Analysis

S2404-E1 raises several policy issues for Commission consideration and discussion, as follows:

1. Issue of Need for Benefit Improvement Based on Labor Force Needs. The issue is whether any benefit improvement in the SPTRFA, 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 from the SPTRFA, the St. Paul school system, 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, which would suggest that further enhancement is not needed to retain existing employees. If the concern is that the St. Paul school district would be at a competitive disadvantage compared to TRA-covered districts in attracting and retaining capable teachers, that concern 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.

2. Issue of Need for Benefit Improvement; Extensive Ability to Use Supplemental Defined Contribution Savings Plans. The issue is whether a benefit improvement in the SPTRFA 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.

3. Difficulty of Funding a Benefit Improvement in Current Recession. The issue is whether the state, school district, or teachers can afford a benefit improvement given the depressed state of the economy, large budget deficits, and other pressing needs of state and local governments. It will be a challenge for the state to provide the requested direct state aid increase to the SPTRFA to boost direct state aid to $8 million annually, but the amendment also added another $1.3 million annually in school aids payable to the school district to offset the cost of the employer contribution increase. That helps the school district cover its additional cost, but it is at the expense of additional burden to the state. Also, the additional aid is fixed in dollar terms. As salaries increase over time, the district will be required to provide an increasing amount from other resources.

4. Alternative of Consolidating into the Teachers Retirement Association (TRA). The benefit improvement request is to provide benefits similar, although not quite identical, 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, lobbying costs and other expenses.

5. Cost. The issue is the cost of the benefit improvements. Below is a presentation of the cost of the proposal, compiled from actuarial work provided by the SPTRFA actuary, Gabriel Roeder Smith and Company.

	July 1, 2009 SPTRFA Actuarial Valuation (Baseline Valuation Results)		Change in Baseline Valuation Due to Additional Direct State Aid and Add'l. Contributions		Actuarial Valuation with the Additional Direct State Aid and Additional Contributions		Change in Baseline Valuation Due to Increase in Accrual Rates for Coordinated members		Actuarial Valuation with Accrued Rate Increase for Coordinated Members		Actuarial Valuation with Accrual Rate Increase for Coordinated Members, Add'l. Direct State Aid	
	% of Pay	$ Amt.	% of Pay	$ Amt.	% of Pay	$ Amt.	% of Pay	$ Amt.	% of Pay	$ Amt.	% of Pay	$ Amt.
A. Statutory Contributions – Chapter 354A												
1. Employee contrib.	5.58	14,108	0.5	1,264	6.08	15,371	0.00	--	5.58	14,108	6.08	15,371
2. Employer contrib.	8.45	21,351	0.5	1,264	8.95	22,615	0.00	--	8.45	21,351	8.95	22,615
3. Supplemental contrib.												
(a) 1996 legislation	0.49	1,230	0.00	--	0.49	1,230	0.00	--	0.49	1,230	0.49	1,230
(b) 1997 legislation plus proposed direct state aid increase	1.12	2,827	2.05	5,173	3.17	8,000	0.00	--	1.12	2,827	3.17	8,000
4. Admin. exp. assessment	--	--	--	--	--	--	--	--	--	--	--	--
5. Total	15.64	39,516	3.05	6,437	18.69	47,216	0.00	--	15.64	39,516	18.69	47,216
B. Required Contributions – Chapter 356												
1. Normal Cost:												
(a) Retirement Benefits	7.11	17,980	0.00	--	7.11	17,980	0.50	1,264	7.61	19,244	7.61	19,244
(b) Disability Benefits	0.13	337	0.00	--	0.13	337	0.01	21	0.14	358	0.14	358
(c) Surviving Spouse and Child Benefits	0.16	406	0.00	--	0.16	406	0.01	27	0.17	433	0.17	433
(d) Withdrawals	1.12	2,835	0.00	--	1.12	2,835	0.03	62	1.15	2,897	1.15	2,897
(e) Total	8.52	21,558	0.00	--	8.52	21,558	0.55	1,374	9.07	22,932	9.07	22,932
2. Supplemental contrib. amortization*	9.64	24,363	0.00	--	9.64	24,363	0.41	1,036	10.05	25,399	10.05	25,399
3. Allowance for administrative expenses	0.24	607	0.00	--	0.24	607	0.00	--	0.24	607	0.24	607
4. Total	18.40	46,528	0.00	--	18.40	46,528	0.96	2,410	19.36	48,938	19.36	48,938
C. Contribution Excess/ (Deficiency): (A.5) – B.4)	(2.76)	(7,012)	3.05	6,437	0.29	688	(0.96)	(2,410)	(3.72)	(9,422)	(0.67)	(1,722)
Projected annual payroll for fiscal year following the valuation date		252,726										

The proposed increase in direct SPTRFA state aid is included above under supplemental contributions. The additional state school aid proposed in the author's amendment and also included in the draft engrossment is not shown. That would not increase the contributions to the fund. Rather, it would relieve some of the employer contribution burden by providing the employer with additional dollars to cover the employer contribution depicted above.

The above presentation would suggest that after all the aid changes, the contribution rate increase, and the cost of the benefit improvement, the fund would still be 0.67 percent of payroll deficient. When a benefit increase is provided, the Commission usually takes action to remedy any address the full contribution deficiency. This would suggest that the Commission needs to consider either more state aid, or a further increase in employee and employer contribution rates to eliminate the 0.67 percent of payroll deficiency expected under the bill with the author's amendment. One option would be to further increase the employee and employer contributions by another 0.33 percent of pay, in addition to the increase proposed under the author's amendment.

6. Added Long-Term Cost of Using Rolling Amortization Period. The issue is the long-term added cost of financing this plan given the use of rolling amortization periods. The SPTRFA is the only major plan

that has rolling amortization periods. At the request of SPTRFA in 2008 (Laws 2008, Chapter 349, Article 10, Section 14), the SPTRFA amortization date was revised from a July 1, 2021, to a rolling 25-year amortization period. Under this system, the amortization period for the SPTRFA is revised each year to be 25 years from the current July 1 actuarial valuation date. In the last actuarial valuation prior to this 2008 change, the July 1, 2007, SPTRFA actuarial valuation, the contribution deficiency for this plan had reached 8.03 percent of payroll, or $18.7 million. Following the change to the rolling amortization period, a year later the reported contribution deficiency was only 1.9 percent of pay, or $4.7 million. Little had actually changed, other than appearance. Kicking the amortization date out a few years and making the amortization period a rolling period rather than a fixed period acted to mask the weak condition of SPTRFA, reducing pressure to consolidate this pension fund into TRA.

Use of rolling amortization periods increases the cost over time of meeting the actual liabilities of the pension fund. Paying off unfunded liabilities is similar to a house mortgage. A home owner with a 25-year mortgage will pay considerable interest on the loan over time, but after 25 years the debt is paid off. If instead the terms of the loan were constantly revised so that the homeowner always had 25 years left on the loan, the amount paid in interest in any given year is lowered but the total interest paid overtime will be much greater than with a straightforward 25-year loan. With the rolling 25-year period, the loan is never paid off.

Similarly, with the SPTRFA and its rolling 25-year amortization, the unfunded liability is unlikely to ever be retired. While the use of this approach creates a lower computed annual contribution requirement for the fund, at least in the short term, compared to continuing to use the pre-July 1, 2008, amortization date of 2021, the need is likely to never end. And this constant burden of unfunded liability leads to costly, inefficient financing of the pension plan. The actuarial work for the pension plan uses an 8.5 percent investment return assumption. In other words, even if a plan were fully funded, the plan's assets need to earn an 8.5 percent return each year to remain fully funded. If instead of a dollar of assets we have a dollar of unfunded liability, because we failed to add sufficient assets to retire that dollar of unfunded liability, we will have in the following year $1.085 of unfunded liability. Alternatively, consider that in a well-functioning pension plan about 70 percent of the assets needed to pay the liabilities created by the plan come from investment returns. If, instead of getting assets into the pension fund so that investment returns can be generated by those assets, we allow unfunded liabilities to remain or build up, over the long term the contributions and aid going to the plan will need to be greater, to make up for the forgone investment returns the fund did not earn. Rather than investment returns covering 70 percent of all liabilities generated by the plan, investment returns may cover 60 percent, or 50 percent, or less, with the remainder required to be made up by additional contributions or aid. Thus, while rolling 25-year amortization may have had some short-term appeal, the approach will over time place a greater burden on contributors and taxpayer than if a fixed amortization date had been retained.

7. <u>Inconsistency Between Aid Request Drafting and Use of Rolling Amortization</u>. The issue is the rather misleading revisions in the aid provision, Section 5 of the draft engrossment. Under that section, redirected amortization and supplemental amortization aid that the SPTRFA may receive, the direct state aid to the SPTRFA must continue until the SPTRFA is fully funded or until 2037, whichever is earlier, rather than until the SPTRFA funding ratio matches that of TRA. With rolling amortization periods it is very unlikely that the SPTRA will ever be fully funded. A more straightforward request would be to revise this section so that aid goes to the SPTRFA indefinitely, with no cutoff. Why the year 2037 appears in the draft language (on page 4, line 14) is unclear. That happens to be the current full funding date for TRA, but that seems to be irrelevant to the SPTRFA's situation. In any event, that date is decades into the future. If the SPTRFA continues to exist as a freestanding entity and that date approaches, there will be legislative proposals to revise it. The 2008 SPTRFA proposal which created the rolling 25-year amortization should have included changes needed long-term in aid or contribution provisions to support that change in amortization policy, rather than requesting it piecemeal over the course of a few legislative sessions. The Legislature would have had a better understanding of the drawbacks of the rolling amortization period proposal.

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

Amendment SF2404-2A merges the St. Paul Teachers Retirement Fund Association (SPTRFA) into the Teachers Retirement Association (TRA), effective July 1, 2011. If amendment SF2404-2A is not used, the Commission may wish to consider the following amendments to the draft engrossment:

Amendment SF2404-15A replaces the rolling 25-year amortization used by SPTRFA with a fixed amortization date of 25 years. The amortization date would be June 30, 2035. If the Commission so chooses, a different date could chosen through an oral amendment to page 2, line 7, of the amendment.

Amendment SF2404-16A revises the new direct state aid amount from $8 million to an amount to be specified by the Commission by filling in the blank in the amendment.

Amendment S2404-17A, an alternative to the -16A amendment, can be used if the Commission wishes to remove all of the proposed aid provisions from the bill and shift that impact to the employee/employer contribution rates. The employee contribution rate will increase from 5.5 percent of pay under current law to 7.35 percent. Similarly, the 4.5 percent of pay employer regular contribution will increase to 6.35 percent.

A motion to delete Section 5, an alternative to the -17A amendment, would leave the aid redirection provision unchanged from current law.

Amendment SF2404-18A, an alternative to deleting Section 5, clarifies that aids would continue to go to the SPTRFA indefinitely (until the SPTRFA is fully funded).

Amendment S2404-19A would add a further 0.33 percent of pay contribution requirement to the employee and employer contributions to eliminate the final 0.67 percent of pay deficiency suggested by the actuarial work.

Amendment S2404-20A would delay the aid adjustment until July 1, 2011. If the St. Paul school aid increase remains in the draft engrossment, there may be a need for further revision to ensure that increased aid is not provided before the employer contribution increase first occurs. Under the draft engrossment, the employer contribution increase occurs on July 1, 2011, but the aid increase is effective July 1, 2010.

.... moves to amend S.F. No. 2404; H.F. No. ...., as follows:

Page 1, after line 10, insert:

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

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

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

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

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

(4) an increase equal to 0.5 percent of the salaries paid to members of the Teachers Retirement Association in fiscal year 2007~~.~~<u>; and</u>

<u>(5) an increase equal to 0.5 percent of the salaries paid to members of the St. Paul Teachers Retirement Fund Association in fiscal year 2011.</u>"

Page 1, line 23, delete "<u>...</u>"and insert "<u>6.0</u>"

Page 2, line 17, delete "<u>...</u>"and insert "<u>5.0</u>"

Pages 5 to 12, delete sections 6 to 13

Page 12, line 23, delete "<u>13</u>" and insert "<u>6</u>"

Renumber the sections in sequence

Amend the title accordingly

.... moves to amend S.F. No. 2404; H.F. No. ...., as follows:

Delete everything after the enacting clause and insert:

"Section 1. **MERGER OF THE ST. PAUL 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 St. Paul Teachers Retirement Fund Association is abolished on July 1, 2011. All active, deferred, inactive, disabled, survivor, and retired members of the St. Paul Teachers Retirement Fund Association on July 1, 2011, are transferred to the Teachers Retirement Association and are no longer members of the St. Paul 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. 625, St. Paul, after June 30, 2011, or who under law in effect immediately prior to that date would be required to be a member of the St. Paul 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 St. Paul 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 St. Paul Teachers Retirement Fund Association laws or bylaws that applied to the person on the date of termination of service covered by the St. Paul Teachers Retirement Fund Association. Upon commencement of the annuity, postretirement adjustments must be determined under laws applicable to the Teachers Retirement Association.

Subd. 7. **Asset and liability transfer.** (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.

(b) No later than July 1, 2011, the executive director of the St. Paul 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.

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

Subd. 9. **Effect on aid.** Any aid amounts payable to the St. Paul Teachers Retirement Fund Association under law in effect immediately prior to July 1, 2011, must be paid to the Teachers Retirement Association."

Amend the title accordingly

.... moves to amend S.F. No. 2404; H.F. No. ...., the draft engrossment (S2404-E1), as follows:

Page 5, after line 35, insert:

"Sec. 7. 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 of the plan is ~~the first actuarial valuation date occurring after June 1, 2020.~~ as follows:

plan	established date for full funding: the first actuarial valuation date occurring after
Minneapolis Employees Retirement Fund	June 30, 2020
general employees retirement plan of the Public Employees Retirement Association	June 30, 2031
public employees police and fire plan	June 30, 2038
general employees retirement plan of the Minnesota State Retirement System	June 30, 2020
local government correctional service plan	June 30, 2023
correctional state employees retirement plan of the Minnesota State Retirement System	June 30, 2038

judges retirement plan	June 30, 2038
legislators retirement plan	June 30, 2021
elected state officers plan	June 30, 2017
State Patrol retirement plan	June 30, 2036
Teachers Retirement Association	June 30, 2037
Duluth Teachers Retirement Fund Association	June 30, 2035
St. Paul Teachers Retirement Fund Association	June 30, 2035
all other plans	June 1, 2020

(c) Except as specified in paragraph (d), 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~~ Paragraph (c) does not apply to the elected state officers plan or to 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.~~ (e) In addition to other requirements of this chapter, for the St. Paul Teachers Retirement Fund Association 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)~~ (f) 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.

EFFECTIVE DATE. This section is effective the day following final enactment."

Amend the title accordingly

.... moves to amend S.F. No. 2404; H.F. No. ...., the draft engrossment (S2404-E1), as follows:

Page 3, line 33, delete "$8,000,000" and insert "$.........."

.... moves to amend S.F. No. 2404; H.F. No. ...., the draft engrossment (S2404-E1), as follows:

Page 1, delete section 1

Page 2, line 17, delete "6.0" and insert "7.35"

Page 3, line 8, delete "5.0" and insert "6.35"

Page 3, delete section 4

Page 4, delete section 5

Renumber the sections in sequence

Amend the title accordingly

.... moves to amend S.F. No. 2404; H.F. No. ...., the draft engrossment (S2404-E1), as follows:

Page 4, line 22, delete "<u> or until 2037, whichever occurs earlier</u>"

.... moves to amend S.F. No. 2404; H.F. No. ...., the draft engrossment (S2404-E1), as follows:

Page 2, line 17, delete "6.0" and insert "6.33"

Page 3, line 8, delete "5.0" and insert "5.33"

.... moves to amend S.F. No. 2404; H.F. No. ...., the draft engrossment (S2404-E1), as follows:

Page 2, line 5, delete "2010" and insert "2011"

A bill for an act

relating to retirement; regulating certain teachers retirement funds; adjusting contribution rates; adjusting state aid amounts; adjusting annuity formulas; appropriating money; amending Minnesota Statutes 2008, sections 127A.50, subdivision 1; 354A.12, subdivisions 1, 3a, 3c; 354A.31, subdivision 4; Minnesota Statutes 2009 Supplement, section 354A.12, subdivision 2a.

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

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

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

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

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

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

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

(5) an increase equal to 0.5 percent of the salaries paid to members of the St. Paul Teachers Retirement Fund Association in fiscal year 2011.

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

Association and Program	Percentage of Total Salary
Duluth Teachers Retirement Fund Association	
old law and new law coordinated programs	5.5 percent
St. Paul Teachers Retirement Fund Association	
basic program	8 percent
coordinated program before July 1, 2011	5.5 percent
coordinated program after June 30, 2011	6.0 percent

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

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
St. Paul Teachers Retirement Fund Association before July 1, 2011	4.50 percent
St. Paul Teachers Retirement Fund Association after June 30, 2011	5.0 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 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.

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

Sec. 4. Minnesota Statutes 2008, section 354A.12, subdivision 3a, is amended to read:

Subd. 3a. **Special direct state aid to first class city teachers retirement fund associations.** (a) The state shall pay $346,000 to the Duluth Teachers Retirement Fund Association, ~~$2,827,000~~ $8,000,000 to the St. Paul Teachers Retirement Fund Association and, for the former Minneapolis Teachers Retirement Fund Association, $12,954,000 to the Teachers Retirement Association.

(b) The direct state aids under this subdivision are payable October 1 annually. The commissioner of management and budget shall pay the direct state aid. The amount required under this subdivision is appropriated annually from the general fund to the commissioner of management and budget.

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

Sec. 5. Minnesota Statutes 2008, section 354A.12, subdivision 3c, is amended to read:

Subd. 3c. **Termination of supplemental contributions and direct matching and state aid.** (a) The supplemental contributions payable to the Minneapolis Teachers Retirement Fund Association by Special School District No. 1 and the city of Minneapolis under section 423A.02, subdivision 3, must be paid to the Teachers Retirement Association and must continue until the current assets of the fund equal or exceed the actuarial accrued liability of the fund as determined in the most recent actuarial report for the fund by the actuary retained under section 356.214, or 2037, whichever occurs earlier. The supplemental contributions payable to the St. Paul Teachers Retirement Fund Association by Independent School District No. 625 under section 423A.02, subdivision 3, or the direct state aid under subdivision 3a to the St. Paul Teachers Retirement Fund Association ~~terminate at the end of the fiscal year in which the accrued liability funding ratio for that fund, as determined in the most recent actuarial report for that fund by the actuary retained under section 356.214, equals or exceeds the accrued liability funding ratio for the Teachers Retirement Association, as determined in the most recent actuarial report for the Teachers Retirement Association by the actuary retained under section 356.214.~~ must continue until the current assets of the fund equal or exceed the actuarial accrued liability of the fund as determined in the most recent actuarial report for the fund by the actuary retained under section 356.214 or until 2037, whichever occurs earlier.

~~(b) If the St. Paul Teachers Retirement Fund Association is funded at an amount equal to or greater than the funding ratio applicable to the Teachers Retirement Association, then any future state aid under subdivision 3a is payable to the Teachers Retirement Association.~~

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

Sec. 6. Minnesota Statutes 2008, section 354A.31, subdivision 4, is amended to read:

Subd. 4. **Computation of normal coordinated retirement annuity; St. Paul fund.** (a) This subdivision applies to the coordinated program of the St. Paul 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) will apply. ~~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 year of coordinated service thereafter.~~ The average salary multiplied by the following retirement annuity formula percentage per year of allowable service determines the amount of the annuity to which the member is entitled for service rendered before July 1, 2011:

Each year of service during first ten years	the percentage specified in section 356.315, subdivision 1, per year
Each year of service after ten years	the percentage specified in section 356.315, subdivision 2, per year

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

Each year of service during first ten years	the percentage specified in section 356.315, subdivision 1a, per year
Each year of service after ten years	the percentage specified in section 356.315, subdivision 2b, per year

(d) This paragraph applies to a person who has become at least 55 years old and who first becomes a member after June 30, 1989, and to any other member who has become 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 the provisions of 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 before July 1, 2011, and the percentage specified in section 356.315, subdivision 2b, for each year of service rendered after June 30, 2011. If the member has 30 or more years of service credit, the minimum age requirement of this paragraph does not apply.

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