H.F. 1354
(Lesch)

S.F. 1088
(Pappas)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s):	St. Paul Teachers Retirement Fund Association (SPTRFA)
Relevant Provisions of Law:	Minnesota Statutes, Sections 354A.29, 354A.37, and 354A.47
General Nature of Proposal:	Revises Post-Retirement Adjustment Procedures
Date of Summary:	May 6, 2011

Specific Proposed Changes

- Revises post-retirement adjustment procedures;
- reduces the refund interest rate;
- reduces deferred annuities augmentation; and
- removes any interest paid on reemployed annuitant savings accounts.

Policy Issues Raised by the Proposed Legislation

1. Question of SPTRFA long-term viability and whether it would be better off consolidating with TRA.
2. Irrelevance of proposed post-retirement adjustment procedure because the SPTRFA may be stuck indefinitely in the transitional phase.
3. Further post-retirement adjustment procedure issues; lack of consistency with DTRFA and TRA procedures.
4. Fairness of deferred annuity augmentation changes.
5. Possible legal concerns due to proposed post-retirement adjustment and deferred annuity augmentation procedures.
6. Lack of vesting changes.
7. Cost savings.

Potential Amendments

Amendment H1354-1A	replaces the proposed SPTRFA post-retirement adjustment with the same system used by the DTRFA, which was reviewed by the Commission last year, was recommended to pass, and was enacted in Laws 2010, Chapter 359, Article 1, Sections 60 to 62.
Amendment H1354-2A	makes the DTRFA post-retirement adjustment system the same as the proposed SPTRFA post-retirement adjustment system.
Amendment H1354-3A	makes the SPTRFA subject to the TRA post-retirement adjustment provision.
Amendment H1354-4A	makes the SPTRFA and the DTRFA subject to the TRA post-retirement adjustment provision.
Amendment H1354-5A	does not revise post-retirement adjustment procedures beyond adding a shutoff to the proposed SPTRFA procedure.
Amendment H1354-6A	eliminates the revisions to the SPTRFA deferred annuity augmentation procedures.

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Ed Burek, Deputy Director EB

RE: H.F. 1354 (Lesch); S.F. 1088 (Pappas): SPTRFA; Additional Financial Sustainability Provisions

DATE: April 4, 2011

Summary

H.F. 1354 (Lesch); S.F. 1088 (Pappas) revises St. Paul Teachers Retirement Fund Association (SPTRFA) provisions by revising post-retirement adjustment procedures, reducing the refund interest rate, reducing deferred annuities augmentation, and removing any interest paid on reemployed annuitant savings accounts, as follows:

1. Revised Post-Retirement Increase Procedures. Rather than an automatic 2% annual post-retirement increase under current law, a new approach consisting of a transitional system followed by a move to an inflation match up to 5% will be used. Under the transition method, a 1% increase will be paid if the funding ratio (based on actuarial value) is less than 80%, and a 2% increase will be paid if the ratio is at least 80% and less than 90%. After a 90% funding ratio is first achieved, the transition method ends and a new system is put in place which will match inflation up to 5%. *(Sections 1, 2, and 3)*
2. Reduced Refund Interest Rate. The interest rate used to compute death refunds, terminated employee refunds, and refunds in lieu of an annuity will be 4% rather than 6% after July 1, 2011. *(Section 4)*
3. Reduced Deferred Annuity Augmentation. The deferred annuities augmentation rate will be 2% per year in all cases for periods occurring after July 1, 2012, rather than 2.5% per year for post-June 30, 2006, hires, or 3% per year until age 55 and 5% per year thereafter for those first hired before that date. *(Section 4)*
4. Elimination of Interest on Reemployed Annuitant Savings Accounts. Beginning July 1, 2011, reemployed annuitant savings accounts (created when a SPTRFA annuitant is reemployed by the school district and the person exceeds the permissible maximum in reemployment income, causing a portion of the annuity to be withheld and placed in a savings account for the individual, payable after terminating the reemployment) will provide no interest rather than 6% interest. *(Section 5)*
5. Bylaw Authorization. The SPTRFA board is authorized to revise its bylaws to make the benefit revisions in this act apply to its basic program. *(Section 6)*
6. Repeal of Current Post-Retirement Adjustment Provision. The current law SPTRFA post-retirement adjustment procedure (Minn. Stat., Sec. 354A.29, Subd. 3), which would have provided a 2% annual post-retirement adjustment, is repealed. *(Section 7)*

Background Information

The market crash of 2008 and early 2009, which accompanied the major economic downturn that has been called the Great Recession, had a considerable impact on the funding status of all defined benefit plans. Funding ratios for Minnesota public pension plans (assets divided by liabilities) noticeably decreased because of the fall in pension plan asset values, which also increased unfunded liabilities (the amount by which liabilities exceed assets). To address this situation, the 2010 Legislature passed legislation recommended by the executive directors of the Public Employees Retirement Association (PERA), the Minnesota State Retirement System (MSRS), the Teachers Retirement Association (TRA), the Duluth Teachers Retirement Fund Association (DTRFA), and the SPTRFA. These changes (shown in more detail in **Attachment A**) were enacted as Laws 2010, Chapter 359, Article 1, and entitled Financial Sustainability Measures. The specific changes varied by plan. Some plans will have contribution rate increases (generally phased in over several years), and many plans will reduce benefits to reign in liabilities. Plan benefit changes include:

- reduced post-retirement increases, including temporary suspensions of any increase in TRA, DTRFA, and SPTRFA;
- reduced interest on refunds;
- reductions in deferred annuity augmentation;
- elimination of interest payments on reemployed annuitant savings accounts;
- increased vesting requirements for several plans;

- less generous early retirement reduction factors for the Correctional Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional) and the State Patrol Plan; and
- a lower benefit accrual rate for MSRS-Correctional.

The SPTRFA chose not to be included in most of these broad changes, except for a one-year suspension in its cost of living adjustment for its retirees and an adjustment in its contribution rates. It is unclear if the one-year suspension of a post-retirement adjustment had any real impact. The SPTRFA post-retirement adjustment procedure would have matched inflation. Since inflation was minimal over the applicable period, the procedure may not have provided any increase even if the process had not been suspended.

SPTRFA now is seeking to make more of the changes enacted for the other plan systems last session, including revising its post-retirement adjustment procedures. Given the SPTRFA proposal, it is useful to discuss the implications of some of the 2010 changes adopted for other plans, particularly revisions in post-retirement increases and deferred augmentation reductions, since they have generated controversy and SPTRFA is seeking similar revisions.

The 2010 revisions and the current SPTRFA proposal include revisions in post-retirement adjustments and deferred annuity augmentation. These changes apply to existing employees, but they also apply to those who have already left employment. Thus, these changes violate the general concept of an implied contract wherein the applicable law governing a person's pension is the law in effect when the person terminated covered public employment.

The 2010 legislative reductions in post-retirement adjustments by Minnesota major public pension systems have been challenged in court, although it may be a few years before that process is complete. No lawsuit has been filed regarding the deferred annuity augmentation rate changes, although the issues are similar. Deferred annuity augmentation rates were previously revised for these pension plans, including the SPTRFA, in 2006 (Laws 2006, Ch. 277, Art. 2). But unlike the 2010 laws or the current proposal, those changes were for new hires only, thus avoiding any implied contract issues.

Recent History of SPTRFA Post-Retirement Adjustment Procedures

A few decades ago, starting in 1979, the SPTRFA had a post-retirement adjustment procedure which did not provide an equal percentage adjustment to all its retirees, and did not compound. Rather, retirees received a lump sum 13th check post-retirement adjustment. The 1979 law (Laws 1979, Ch. 109) permitted the SPTRFA to distribute one-half of 1% of the fund's asset value at the end of the prior fiscal year to eligible annuitants if the SPTRFA investment income (yield) during the preceding fiscal year exceeded 5.5%. Each recipient received a proportion of the total distributed amount based on each eligible recipient's credited years of service relative to the total years of service credit of all eligible recipients. Thus, the amount any given recipient received was not based on their prior salary or on the amount of their monthly annuity. Rather, the larger share went to those with the longest service. The procedure was later revised to base distribution on years of service and years in receipt of a benefit, to give older retirees a larger share, but the process remained a 13th check mechanism not tied to the person's monthly benefit amount or to inflation.

In 1997 (Laws 1997, Ch. 233, Art. 3, Sec. 7), the prior SPTRFA 13th check post-retirement adjustment mechanism was eliminated and replaced by a new post-retirement adjustment mechanism combining an automatic annual 2% adjustment with an investment performance-related adjustment. Any increases were permanent and compounded over time. The investment performance-related adjustment was payable if the five-year annualized total time-weighted rate of return of the plan assets exceeds the post-retirement interest actuarial assumption rate. The adjustment was a percentage adjustment in the annuity amount equal to the amount by which the five-year investment performance rate exceeded the post-retirement interest assumption (8.5%) after being downwardly modified by any contribution deficiency disclosed in the most recent actuarial valuation.

The SPTRFA procedure, a flat percentage increase plus an investment-performance based component, lacked any tie to inflation. It might provide an increase larger or smaller than needed to maintain the purchasing power of retirees in a given year.

In 2007 (Laws 2007, Ch. 134, Art. 7, Secs. 1 & 2), the SPTRFA began to move to an inflation based procedure. During a two-year demonstration project period, if investment returns met certain standards (both the one-year and five-year annualized returns met or exceeded the 8.5% investment return assumption) the plan would provide an increase matching inflation up to 5%, rather than any increase as provided under prior law.

In 2009 (Laws 2009, Ch. 169, Art. 7), this procedure was extended until June 30, 2011, and the rate of return requirements were dropped.

In 2010 (Laws 2010, Ch. 359, Art. 1, Sec. 88), due to the economic turmoil and the impact on the pension fund, the SPTRFA post-retirement adjustment procedure was suspended for one year.

The SPTRFA is now proposing a post-retirement adjustment procedure composed of a transitional component fixed percentage component and a permanent component which would match inflation. If the SPTRFA funding ratio is less than 80% the plan will provide a 1% increase, and a 2% increase will be provided if the funding ratio is between 80% and 90%. Once a 90% funding ratio is achieved, the SPTRFA will return to paying an inflation match up to 5%. Under the plan's most recent actuarial valuation (July 1, 2010) the SPTRFA funding ratio is 68%.

Proposal to Reduce Deferred Annuity Augmentation Rates

Under current law, for a SPTRFA teacher first hired before July1, 2006, if a vested teacher terminates service and delays receipt of the annuity, the annuity increases in value (is augmented) by 3% per year through the year in which the person turns age 55, and by 5% per year thereafter until the date of retirement. For a similar teacher hired after June 30, 2006, the annuity would augment at 2.5% per year until retirement. Under the proposal, regardless of when the SPTRFA teacher was first hired, the annuity will augment at a 2% annual rate after July 1, 2012, until retirement. This change was enacted for DTRFA last session and the SPTRFA is now seeking identical treatment.

For illustration, the impact of this change under a variety of circumstances can be reviewed. Some outcomes are shown in the table below. The impact in all cases is to reduce the amount of the annuity which a deferred retiree will receive when the person applies for the annuity and commences receipt. The impact on the amount the person will receive will depend on how long he or she is subject to the new lower rate. If it is just one year, the impact will not be great because for a single year the deferred annuity will increase by 2% rather than by 5%, assuming a pre-2006 hire. But the longer the period, the larger the impact. If a teacher terminates after July 1, 2012, at age 55 and delays receipt of the annuity until age 65, that deferred annuity would grow at 5% per year for ten years if current law remains in effect, and by 2% per year if the proposal is enacted. Under existing law, if the person had a $1,000 per month annuity value at age 55, the person would commence receipt of a $1,629 monthly annuity age 65. In contrast, if the deferred annuity instead compounds at a 2% rate until retirement, the monthly annuity will be $1,219 per month, a difference of $410 per month.

Monthly Benefit Differences
Impact of Proposed Reduction in SPTRFA Deferred Annuity Augmentation Rates,
Assuming Pre-July 1, 2008, Hires

Applicable Law	Age at Termination	Age of First Benefit Receipt	Deferred Annuity on Termination Date	Monthly Annuity When Benefit Commences	Difference Per Month
Current Law	53	65	$1,000	$1,728	
Proposed Law	53	65	$1,000	$1,268	$460
Current Law	55	65	$1,000	$1,629	
Proposed Law	55	65	$1,000	$1,219	$410
Current Law	60	65	$1,000	$1,276	
Proposed Law	60	65	$1,000	$1,104	$172
Current Law	64	65	$1,000	$1,050	
Proposed Law	64	65	$1,000	$1,020	$30

Discussion and Analysis

H.F. 1354 (Lesch); S.F. 1088 (Pappas) revises SPTRFA provisions by revising post-retirement adjustment procedures, reducing the refund interest rate, reducing deferred annuities augmentation, and removing any interest paid on reemployed annuitant savings accounts.

The proposal raises numerous policy issues for Commission consideration and discussion, as follows.

1. Question of SPTRFA Long-Term Viability; Alternative of Consolidation with TRA. The policy issue is whether it is practical to maintain the SPTRFA as a separate organization, or whether it would be better for this organization to seek a merger into TRA instead of pursuing the current proposal. Below is a summary of the most recent actuarial valuations for TRA, DTRFA, and SPTRFA, showing

funding ratios and required contributions based on both the actuarial value of assets and on market value. The actuarial value of assets is intended to provide smoothing, so the full extent of the market value decline of a few years ago is not fully reflected in the actuarial value. TRA is 78% funded on an actuarial basis, and 68% funded based on market value. The SPTRFA is 68% funded based on actuarial value, and only 55% funded based on market. Regarding contribution deficiencies, the excess of the contribution requirements computed by the actuary compared to the contributions that will be made under statute, TRA's deficiency is 4.0% based on actuarial value of assets, and 7.6% based on market. The corresponding numbers for SPTRFA is 4.2% based on actuarial value, and 8.72% based on market value. The SPTRFA contribution deficiencies would be worse if computed using the same approach as applies to TRA. TRA has a fixed amortization date. The SPTRFA, in contrast, uses a rolling 25-year amortization period. That approach tends to understate amortization requirements because it always assumes the plan will have 25 additional years to retire the unfunded liability.

	DTRFA 2010		SPTRFA 2010		TRA 2010	
Membership						
Active Members		1,054		3,837		77,356
Service Retirees		1,171		2,721		47,517
Disabilitants		19		23		654
Survivors		105		300		3,682
Deferred Retirees		301		1,863		12,756
Nonvested Former Members		721		1,419		23,651
Total Membership		3,371		10,163		165,616
Funding and Financing						
Covered Payroll		$56,152,078		$250,225,000		$4,047,547,000
Benefits Payable		$23,596,191		$95,300,000		$1,421,382,000
Normal Cost	5.85%	$3,287,998	8.28%	$20,735,000	8.36%	$338,474,000
Administrative Expenses	0.91%	$510,984	0.24%	$601,000	0.24%	$9,714,000
Normal Cost & Expense	6.76%	$3,798,982	8.52%	$21,336,000	8.60%	$348,188,000
Employee Contributions	5.50%	$3,088,365	5.56%	$13,917,000	5.50%	$222,737,000
Employer Contributions	5.79%	$3,251,205	8.42%	$21,072,000	5.68%	$229,799,000
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	1.19%	$666,361	1.62%	$4,057,000	0.47%	$19,049,000
Other Govt. Funding	0.00%	$0	0.00%	$0	0.06%	$2,500,000
Administrative Assessment	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	12.48%	$7,005,931	15.60%	$39,046,000	11.71%	$474,085,000
Actuarial Value of Assets:	Actuarial Value of Assets		Actuarial Value of Assets		Actuarial Value of Assets	
Accrued Liability		$312,649,572		$1,471,630,000		$22,081,634,000
Current Assets (AVA)		$255,308,913		$1,001,444,000		$17,323,146,000
Unfunded Accr. Liability (AVA)		$57,340,659		$470,186,000		$4,758,488,000
Funding Ratio (AVA)	81.66%		68.05%		78.45%	
Normal Cost & Expense	6.76%	$3,798,982	8.52%	$21,336,000	8.60%	$348,188,000
Amortization (AVA)	6.46%	$3,627,424	11.32%	$28,325,000	7.11%	$287,781,000
Total Requirements (AVA)	13.22%	$7,426,406	19.84%	$49,661,000	15.71%	$635,969,000
Total Requirements (AVA)	13.22%	$7,426,406	19.84%	$49,661,000	15.71%	$635,969,000
Total Contributions	12.48%	$7,005,931	15.60%	$39,046,000	11.71%	$474,085,000
Deficiency/(Surplus) (AVA)	0.74%	$420,475	4.24%	$10,615,000	4.00%	$161,884,000
Market Value of Assets:	Market Value of Assets		Market Value of Assets		Market Value of Assets	
Accrued Liability		$312,649,572		$1,471,630,000		$22,081,634,000
Current Assets (MVA)		$192,402,546		$815,307,000		$14,917,240,000
Unfunded Accr. Liability (MVA)		$120,247,026		$656,323,000		$7,164,394,000
Funding Ratio (MVA)	61.54%		55.40%		67.55%	
Normal Cost & Expense	6.76%	$3,798,982	8.52%	$21,336,000	8.60%	$348,188,000
Amortization (MVA)	13.55%	$7,606,940	15.80%	$39,538,000	10.70%	$433,060,000
Total Requirements (MVA)	20.31%	$11,405,922	24.32%	$60,874,000	19.30%	$781,248,000
Total Requirements (MVA)	20.31%	$11,405,922	24.32%	$60,874,000	19.30%	$781,248,000
Total Contributions	12.48%	$7,005,931	15.60%	$39,046,000	11.71%	$474,085,000
Deficiency/(Surplus) (MVA)	7.83%	$4,399,991	8.72%	$21,828,000	7.59%	$307,163,000

2. Irrelevance of Proposed Post-Retirement Adjustment Procedure; Viability of SPTRFA. The policy issue is that much of the proposed SPTRFA post-retirement adjustment procedure may in practice be irrelevant. Rather than being a practical course of action, this is likely to be a theoretical exercise. According to the SPTRFA actuary, unless there are considerable asset gains due to rates of return considerably in excess of 8.5%, the SPTRFA will be stuck on the first step of this process for at least 40 years, because the actuary predicts it will take the fund that long to get to an 80% funding ratio. If

the actuary is correct and if this proposal were to pass, the only increase that existing retirees are likely to see during their lifetime is a 1% annual increase. This again suggests that a more practical alternative to the current proposal would be for the SPTRFA to seek a merger into TRA. Last year, when the Commission reviewed the DTRFA provisions that were eventually enacted into law, we raised similar concerns about the long-term viability of the DTRFA.

3. Further Post-Retirement Adjustment Procedure Issues. In addition to the policy issues raised above regarding whether the proposed SPTRFA post-retirement provision is practical given the weak funding condition of the fund, there are other issues dealing with differences between the post-retirement adjustment procedures used by the different teacher plans. The Commission and Legislature have usually tried to treat comparable employees in an identical manner, if practical. The proposal is not comparable to the procedures in current law for either DTRFA or TRA, although it bears some similarity to the current law DTRFA procedures.

   The current law DTRFA procedure and this SPTRFA proposal both have a transitional phase, and once sufficient funding levels are met both would provide an inflation match up to 5%. But they differ in several respects, as follows:

   (1) *Nature of Trigger Mechanisms.* For triggers to move to successive stages and eventually to an inflation-match procedure, the DTRFA must meet certain funding ratio levels based on market value, while the SPTRFA triggers are funding ratio levels based on actuarial value.

   (2) *Threshold for Providing 1% Adjustment.* Under the procedure enacted in 2010 for DTRFA, it will provide no increase at all until the DTRFA funding ratio based on market value reaches 80%. Then it will provide a 1% adjustment. In contrast, the SPTRFA proposes to pay a minimum 1% increase regardless of its funding level. The SPTRFA proposal is more generous than the DTRFA law, although the SPTRFA proposal will save money compared to following current law. Under current law the SPTRFA will pay a 2% annual post-retirement adjustment.

   (3) *Threshold for Transition to 2% Adjustment.* When the SPTRFA hits an 80% ratio (based on actuarial value) it will begin paying a 2% increase, while the DTRFA must hit a 90% ratio (based on market value) before it will pay a 2% increase.

   (4) *Shutoff if Funding Levels Fall.* Under the DTRFA procedures, after it transitions to an inflation-match procedure no adjustment will be paid if the funding ratio falls back below 80%, while the SPTRFA procedure lacks any shutoff.

   (5) *Not Comparable to TRA Post-Retirement Adjustment Procedure.* Neither the DTRFA law nor the SPTRFA proposal is comparable to TRA's post-retirement adjustment procedure. Due to 2010 session revisions (Laws 2010, Ch. 359, Art. 1, Sec. 80), TRA will pay no post-retirement increase in 2011 or 2012, and then will begin paying 2% per year increases. When the TRA funding ratio based on market value hits 90%, 2.5% annual increases will be provided.

   Given the differences between the TRA, DTRFA, and proposed SPTRFA procedures, if the Commission concludes that the proposed SPTRFA post-retirement adjustment procedure should be amended, the Commission may need to decide whether it should be modified to be more comparable to the procedure used by the DTRFA, or to that of TRA. Matching the DTRFA procedure may entail more sacrifice by the SPTRFA, but it could ultimately lead to a procedure which has considerable policy merit, a procedure that matches inflation up to 5% (although it could take decades to get to that point). However, if the Commission were to conclude that SPTRFA should eventually be merged into TRA, perhaps having a post-retirement procedure identical to TRA would ease that process, and SPTRFA retirees would be treated the same, prospectively, as TRA retirees. TRA covers the vast majority of retired K-12 teachers in this state.

4. Deferred Annuity Augmentation Changes. The policy issue is whether the proposed reduction in deferred annuity augmentation is deemed fair and appropriate, particularly for those who have already terminated service. However, comparable changes were made last year in MSRS, TRA, and the DTRFA plans. Thus, this would add consistency but, as noted below, the deferred annuity augmentation changes might be challenged in court under a contention that the benefits as stated in law at the time of termination represent a binding contract.

5. Possible Legal Concerns. Given the current lawsuit involving the major pension plans regarding the changes made last year to post-retirement adjustment procedures, and the possibility of a similar challenge from deferred annuitants due to revisions made in deferred annuity augmentation, the

Commission may wish to have testimony from the SPTRFA regarding whether proposed SPTRFA changes any trigger court challenges.

6. Lack of Vesting Changes. The policy issue is the lack of any changes in this proposal in the years of service needed to vest for plan annuities, given that vesting was changed for some plans last session. The MSRS and PERA plans revised vesting provisions to qualify for annuities from three years of service to five years of service. TRA did not revise vesting, remaining at three years. The DTRFA did change vesting from three years to five, although it appears that due to an oversight not all of the DTRFA vesting provisions were revised. Since this SPTRFA proposal does not revise vesting, this is consistent with what TRA did last year, but it is inconsistent with DTRFA. The Commission may wish to consider that consistency in vesting across plans is not a priority, since a vesting change would have virtually no impact on plan costs. Under the DTRFA proposal last session, its actuary estimated that going from three-year to five-year vesting reduced plan costs by only one one-hundreth of 1% (.01%). From a cost standpoint, the issue is miniscule.

7. Cost Savings. The 2010 actuarial work provided by the SPTRFA actuary, Gabriel Roeder Smith and Company, is summarized below. If all the proposed changes were to be enacted, the plan's contribution rate deficiency, currently 4.24% of payroll, would decrease considerably to .84% of payroll. The most significant cause of the reduction is the proposed post-retirement adjustment (referred to in the table as a 1% cost of living adjustment (COLA)). For purposes of determining the cost of the proposal, the actuary assumed that a 1% COLA would continue indefinitely (because the actuary is projecting that it will take over 40 years to reach the trigger that would permit payment of a 2% increase). Under current law, if no changes are made, the SPTRFA will pay a 2% COLA. Therefore, paying only a 1% COLA reduces the plan liabilities. The revised COLA is estimated to reduce normal cost by .56% of payroll, and the amortization requirement will decline by 2.50% of payroll, for a total reduction due to that change of 3.06% of payroll. The actuary also estimated the impact of reducing the refund interest rate from 6% to 4% and going to a 2% deferred annuities augmentation rate. The impact of those changes is shown in the second and third columns. The actuary did not provide separate information on the change in refunds and augmentation. Instead, these two are lumped together. Their combined effect is not large, but neither is it insignificant, reducing the contribution requirements and the contribution deficiency by .34% of payroll. The actuary did not provide any estimate for the proposed change in policy on reemployed annuitant savings accounts, paying no interest on those accounts after June 30, 2100. The actuary concluded that the effect would have a de minimis impact if estimated.

Cost Estimate SPTRFA
as Provided by Fund Actuary, Gabriel Roeder Smith and Company

	SPTRFA 2010		Change due to 4% interest on refunds and 2% augmentation		Valuation with 4% interest on refunds and 2% augmentation		Change due to 1% COLA rather than 2% COLA		Valuation after all changes	
Membership										
Active Members		3,837								
Service Retirees		2,721								
Disabilitants		23								
Survivors		300								
Deferred Retirees		1,863								
Nonvested Former Memb.		1,419								
Total Membership		10,163								
Funded Status										
Accrued Liability		$1,471,630,000		($7,771,000)		$1,463,858,000		($103,864)		$1,359,994,000
Current Assets		$1,001,444,000				$1,001,444,000				$1,001,444,000
Unfunded Accrued Liab.		$470,186,000		($7,771,000)		$462,414,000		($103,864)		$358,550,000
Funding Ratio	68.05%		.36%		68.41%		5.23%		73.64%	
Financing Requirements										
Covered Payroll		$250,225,000								
Benefits Payable		$95,300,000								
Normal Cost	8.28%	$20,735,000	(.15%)	($395,000)	8.13%	$20,340,000	(.56%)	($1,386,000)	7.57%	$18,954,000
Administrative Exp.	0.24%	$601,000			.24%	$601,000			.24%	$601,000
Normal Cost & Exp.	8.52%	$21,336,000	(.15%)	($395,000)	8.37%	$20,941,000	(.56%)	($1,386,000)	7.81%	$19,555,000
Normal Cost & Expense	8.52%	$21,336,000	(.15%)	($395,000)	8.37%	$20,941,000			7.81%	$19,555,000
Amortization	11.32%	$28,325,000	(.19%)	($475,000)	11.13%	$27,850,000	(2.50%)	($6,256,000)	8.63%	$21,594,000
Total Requirements	19.84%	$49,661,000	(.34%)	($870,000)	19.50%	$48,791,000	(3.06%)	($7,642,000)	16.44%	$41,149,000

	SPTRFA 2010		Change due to 4% interest on refunds and 2% augmentation		Valuation with 4% interest on refunds and 2% augmentation		Change due to 1% COLA rather than 2% COLA		Valuation after all changes	
Employee Contributions	5.56%	$13,917,000								
Employer Contributions	8.42%	$21,072,000								
Employer Add'l Cont.	0.00%	$0								
Direct State Funding	1.62%	$4,057,000								
Other Govt. Funding	0.00%	$0								
Admin. Assessment	0.00%	$0								
Total Contributions	15.60%	$39,046,000								
Total Requirements	19.84%	$49,661,000	(.34%)	($870,000)	19.50%	$48,791,000	(3.06%)	($7,642,000)	16.44%	$41,149,000
Total Contributions	15.60%	$39,046,000			15.60%	$39,046,000			15.60%	$39,046,000
Deficiency (Surplus)	4.24%	$10,615,000	(.34%)	($870,000)	3.90%	$9,745,000	(3.06%)	($7,642,000)	.84%	$2,103,000

Amendments

The Commission may wish to consider the following amendments. The first five amendments are alternative way for handling post-retirement adjustments.

- **Amendment H1354-1A** replaces the proposed SPTRFA post-retirement adjustment with the same system used by the DTRFA, which was reviewed by the Commission last year, was recommended to pass, and was enacted in Laws 2010, Chapter 359, Article 1, Sections 60 to 62. This would foster consistency between the SPTRFA and DTRFA. It would also mean that the SPTRFA, like the DTRFA, is unlikely to pay any post-retirement adjustment for the foreseeable future, since under the DTRFA legislation passed last session no adjustment is paid if the funding ratio based on market value is less than 80%. This would help improve the SPTRFA funded condition, but at the expense of the SPTRFA retirees who would lose further purchasing power to inflation.

- **Amendment H1354-2A** makes the DTRFA post-retirement adjustment system the same as the proposed SPTRFA post-retirement adjustment system. A drawback is that it revises recent Commission-approved policy by doing away with the existing DTRFA system which was just put in place last year. However, this would foster consistency between the SPTRFA and DTRFA, and would permit the DTRFA to at least pay a 1% annual increase to its retirees, although this adds to the DTRFA liabilities.

- **Amendment H1354-3A** makes the SPTRFA subject to the TRA post-retirement adjustment provision. No adjustment will be paid in 2012, and a 2.0% adjustment will be paid thereafter until the SPTRFA achieves a 90% funding ratio based on market value. Once this is attained, a 2.5% annual adjustment will be paid thereafter. This creates uniformity in post-retirement adjustments between the SPTRFA and TRA, but increases SPTRFA liabilities.

- **Amendment H1354-4A** makes the SPTRFA and the DTRFA subject to the TRA post-retirement adjustment provision. No adjustment will be paid in 2012, and a 2.0% adjustment will be paid thereafter until the SPTRFA achieves a 90% funding ratio based on market value. Once this is attained, a 2.5% annual adjustment will be paid thereafter. This creates uniformity in post-retirement adjustments between the first class city teacher retirement fund associations and TRA, but increases DTRFA and SPTRFA liabilities.

- **Amendment H1354-5A** does not revise post-retirement adjustment procedures beyond adding a shutoff to the proposed SPTRFA procedure. After the plan transitions to the inflation-match procedure, if the funding ratio falls below 80%, no adjustment is payable the following January 1. This is the same shutoff that currently exists in the DTRFA procedure.

- **Amendment H1354-6A** eliminates the revisions to the SPTRFA deferred annuity augmentation procedures. This amendment may be justified if the Commission concludes that the proposed reduced augmentation does not produce much savings for the plan, while being quite harmful to those who would be impacted by the change. However, the Legislature did pass changes last year in deferred annuities augmentation for MSRS, PERA, TRA, and DTRFA which are identical to the treatment that the SPTRFA is now proposing for its plan. Thus, adopting this amendment would leave the SPTRFA out of step with the other plans.

Comparison of MSRS, PERA, TRA, and First Class City Teacher Retirement Fund Association Financial Sustainability Proposals

Financial Sustainability Provisions Contained in the Omnibus Retirement Bill
S.F. 2918, 4th Engrossment, Article 1 (Laws 2010, Chapter 359)

	MSRS-General	MSRS-Correct.	State Patrol	Judges	Legislators	ESO	PERA-General	PERA- Correct.	PERA-P&F	TRA	DTRFA	SPTRFA
a. Contributions												
1. Member	--	--	+2.0%	--	--	--	+0.25%	--	+0.2%	+2.0%	+1.00%	+1.00% Coord; +1.00% Basic +1.00% C&B
2. Employer	--	--	+3.0%	--	--	--	+0.25%	--	+0.3%	+2.0%	+1.00%	
3. Contribution rate stabilizer	--	--	--	--	--	--	Modified	--	--	Added	--	--
b. Post-retirement adjustments	Reduced from 2.5% to 2.0%, restored when 90% funded on MVB;* 6-mo. waiting period imposed for initial increase	Reduced from 2.5% to 2.0%, restored when 90% funded on MVB;* 6-mo. waiting period imposed for initial increase	Reduced from 2.5% to 1.5%, restored when 90% funded on MVB;* 6-mo. waiting period imposed for initial increase	Reduced from 2.5% to 2.0%, restored when 90% funded on MVB;* 6-mo. waiting period imposed for initial increase	Reduced from 2.5% to 2.0%, restored once MSRS-General is 90% funded on MVB;* 6-mo. waiting period for initial increase	Reduced from 2.5% to 2.0%, restored once MSRS-General is 90% funded on MVB;* 6-mo. waiting period for initial increase	Reduced from 2.5% to 1.0%, restored when 90% funded on MVB,* rate reduced if fund later declines from 90% funded	Reduced from 2.5% to 1.0%, restored when 90% funded on MVB,* rate reduced if fund later declines from 90% funded	Reduced from 2.5% to 1.0% for 1/1/2011 and 1/1/2012, then equal to the CPI percentage for the preceding fiscal year, not to exceed 1.5% until 90% funded on MVB,* then not to exceed 2.5%, but rate reduced if fund later declines from 90% funded	Suspended for 1/1/2011 & 1/1/2012; starting 1/1/2013, reduced from 2.5% to 2.0%, restored when 90% funded on MVB;* 6-mo. waiting period for initial increase	0% when less than 80% funded on MVB,* 1% when 80%-90% funded on MVB,* and 2% when more than 90% funded on MVB;* when 90% funded on AVB** moves to inflation match up to 5%	Suspended for 1/1/ 2011
c. Interest on refunds	Reduced from 6% to 4% after 6/30/2011	Reduced from 6% to 4% after 6/30/2011	Reduced from 6% to 4% after 6/30/2011	Reduced from 6% to 4% after 6/30/2011	Reduced from 6% to 4% after 6/30/2011	--	Reduced from 6% to 4% after 6/30/2011	Reduced from 6% to 4% after 6/30/2011	Reduced from 6% to 4% after 6/30/2011	Reduced from 6% to 4% after 6/30/2011	Reduced from 6% to 4% after 6/30/2010	--
d. Deferred annuities augmentation	Reduced from 5, 3, or 2.5% to 2% after 12/31/2011	Reduced from 5, 3, or 2.5% to 2% after 12/31/2011	Reduced from 5, 3, or 2.5% to 2% after 12/31/2011	--	Reduced from 5, 3, or 2.5% to 2% after 12/31/2011	--	Reduced from 5, 3, or 2.5% to 1% for plan members terminating before 1/1/2012, and eliminated for plan members terminating after 12/31/2011	Reduced from 5, 3, or 2.5% to 1% for plan members terminating before 1/1/2012, and eliminated for plan members terminating after 12/31/2011	Reduced from 5, 3, or 2.5% to 1% for plan members terminating before 1/1/2012, and eliminated for plan members terminating after 12/31/2011	Reduced from 5, 3, or 2.5% to 2% after 6/30/2012	Reduced from 5, 3, or 2.5% to 2% after 7/1/2012	--
e. Reemployed annuitant earnings limitation deferral account interest	Eliminated after 1/1/2011	Eliminated after 1/1/2011	--	--	--	--	Eliminated after 1/1/2011	Eliminated after 1/1/2011	Eliminated after 1/1/2011	Eliminated after 1/1/2011	Eliminated after 6/30/2010	--
f. Vesting service requirement	For new members after 6/30/2010, increased from 3 years to 5 years	For new members after 6/30/2010, increased from 3 years to 50% vested w/5 years-100% w/10 years	For new members after 6/30/2010, increased from 3 years to 5 years	--	--	--	For new members after 6/30/2010, increased from 3 years to 5 years	For new members after 6/30/2010, increased from 3 years to 50% vested w/5 years-100% w/10 years	For new members after 6/30/2010, incr. from 3 yrs to 50% vested w/ 5 yrs-100% w/10 yrs	--	For new members after 6/30/2010, increased from 3 years to 5 years	--
g. Early retirement reduction factor, per year under age 55	--	For pre-6/30/2010 members retiring after 6/30/2015 and for new members after 6/30/2010, increased from 2.4% to 5.0%	For new members after 6/30/2010, increased from 1.2% to 2.4%	--	--	--	--	--	--	--	--	--
h. Benefit accrual rate percentage, per year of high-5 average salary	--	For new members after 6/30/2010, reduced from 2.4% to 2.2%	--	--	--	--	--	--	--	--	--	--

*MVB = Market Value Basis **AVB = Actuarial Value Basis

Attachment A

.... moves to amend H.F. No. 1354; S.F. No. 1088, as follows:

Page 1, delete sections 1 and 2

Page 2, delete section 3 and insert:

"Section 1. Minnesota Statutes 2010, section 354A.27, is amended to read:

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

Subd. 5. **Application; eligibility for and payment of postretirement adjustments.** (a) This section applies to the Duluth Teachers Retirement Fund Association and the St. Paul Teachers Retirement Fund Association.

(b) Annually, after June 30, the board of trustees of the ~~Duluth Teachers Retirement Fund~~ applicable association determines the amount of any postretirement adjustment using the procedures in this subdivision and subdivision 6 or 7, whichever is applicable.

~~(b)~~ (c) Each person who has been receiving an annuity or benefit under the articles of incorporation, bylaws, or under this section for at least 12 months as of the date of the postretirement adjustment shall be eligible for a postretirement adjustment. The postretirement adjustment shall be payable each January 1. The postretirement adjustment shall be a permanent percentage increase as specified under subdivision 6 or 7, whichever is applicable, applied to the annuity or benefit to which the person is entitled one month prior to the payment of the postretirement adjustment.

Subd. 6. **Calculation of postretirement adjustments; transitional provision.** (a) For purposes of computing postretirement adjustments ~~after July 1, 2010,~~ for eligible benefit recipients of the ~~Duluth Teachers Retirement Fund~~ applicable association, the funding ratio of the applicable plan, as determined by dividing the market value of assets by the actuarial accrued liability as reported in the most recent actuarial valuation prepared under sections 356.214 and 356.215, determines the postretirement increase as follows:

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

(b) If the funding ratio of the plan based on actuarial value, rather than market value, is at least 90 percent as reported in the most recent actuarial valuation prepared under sections 356.214 and 356.215, this subdivision ~~expires~~ no longer applies to that association and subsequent postretirement increases must be paid as specified under subdivision 7.

Subd. 7. **Calculation of postretirement adjustments.** (a) This subdivision applies if subdivision 6 ~~has expired~~ no longer applies to the applicable association.

(b) A percentage adjustment must be computed and paid under this subdivision to eligible persons under subdivision 5. This adjustment is determined by reference to the Consumer Price Index for urban wage earners and clerical workers all items index as reported by the Bureau of Labor Statistics within the United States Department of Labor each year as part of the determination of annual cost-of-living adjustments to recipients of federal old-age, survivors, and disability insurance. For calculations of cost-of-living adjustments under paragraph (c), the term "average third quarter Consumer Price Index value" means the sum of the monthly index values as initially reported by the Bureau of Labor Statistics for the months of July, August, and September, divided by 3.

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

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

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

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

EFFECTIVE DATE. This section is effective July 1, 2011, and applies to postretirement adjustments payable after that date."

Page 7, line 11, delete "subdivision 3,"

Renumber the sections in sequence

Amend the title accordingly

.... moves to amend H.F. No. 1354; S.F. No. 1088, as follows:

Page 1, delete sections 1 and 2

Page 2, delete section 3 and insert:

"Section 1. **[354A.275] POSTRETIREMENT ADJUSTMENT.**

Subdivision 1. **Application.** This section applies to the Duluth Teachers Retirement Fund Association and the St. Paul Teachers Retirement Fund Association.

Subd. 2. **Eligibility for payment of postretirement adjustments.** (a) Annually, after June 30, the board of trustees of the applicable association must determine the amount of any postretirement adjustment using the procedures in this subdivision and subdivision 3 or 4, whichever is applicable.

(b) On January 1, each eligible person who has been receiving an annuity or benefit under the articles of incorporation, the bylaws, or this chapter for at least three calendar months as of the end of the last day of the previous calendar year is eligible to receive a postretirement increase as specified in subdivision 3 or 4.

Subd. 3. **Calculation of postretirement adjustments; transitional provision.** (a) For purposes of computing postretirement adjustments for eligible benefit recipients of the applicable association, the accrued liability funding ratio based on the actuarial value of assets of the plan as determined by the most recent actuarial valuation prepared under sections 356.214 and 356.215 determines the postretirement increase, as follows:

Funding ratio	Postretirement increase
Less than 80 percent	1 percent
at least 80 percent but less than 90 percent	2 percent

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

(c) If the accrued liability funding ratio based on the actuarial value of assets is at least 90 percent, this subdivision no longer applies to that association and subsequent postretirement increases must be paid as specified in subdivision 4.

Subd. 4. **Calculation of postretirement adjustments.** (a) This subdivision applies if subdivision 3 no longer applies to the applicable association.

(b) A percentage adjustment must be computed and paid under this subdivision to eligible persons under subdivision 7. This adjustment is determined by reference to the Consumer Price Index for urban wage earners and clerical workers all items index as reported by the Bureau of Labor Statistics within the United States Department of Labor each year as part of the determination of annual cost-of-living adjustments to recipients of federal old-age, survivors, and disability insurance. For calculations of postretirement adjustments under paragraph (c), the term "average third quarter Consumer Price Index value" means the sum of the monthly index values as initially reported by the Bureau of Labor Statistics for the months of July, August, and September, divided by 3.

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

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

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

EFFECTIVE DATE. This section is effective July 1, 2011, and applies to postretirement adjustments payable after that date."

Page 7, line 5, before "Consistent" insert "(a)"

Page 7, after line 8, insert:

"(b) Consistent with the requirements of Minnesota Statutes, section 354A.12, subdivision 4, the board of the Duluth Teachers Retirement Association is authorized to

<u>revise the bylaws and articles of incorporation so that the requirements of section 1 apply to the Duluth Teachers Retirement Fund Association old law program.</u>"

Page 7, line 11, delete "<u>section 354A.29, subdivision 3, is</u>" and insert "<u>sections 354A.27 and 354A.29, are</u>"

Renumber the sections in sequence

Amend the title accordingly

.... moves to amend H.F. No. 1354; S.F. No. 1088, as follows:

Page 1, delete sections 1 and 2

Page 2, delete section 3

Page 6, after line 3, insert:

"Sec. 2. Minnesota Statutes 2010, section 356.415, subdivision 1d, is amended to read:

Subd. 1d. **Teachers Retirement Association and St. Paul Teachers Retirement Fund Association annual postretirement adjustments.** (a) Retirement annuity, disability benefit, or survivor benefit recipients of the Teachers Retirement Association and the St. Paul Teachers Retirement Fund Association are entitled to a postretirement adjustment annually on January 1, as follows:

(1) for January 1, 2011, and January 1, 2012, no postretirement increase is payable;

(2) for January 1, 2013, and each successive January 1 until funding stability is restored, a postretirement increase of two percent must be applied each year, effective on January 1, to the monthly annuity or benefit amount of each annuitant or benefit recipient who has been receiving an annuity or a benefit for at least 18 full months prior to the January 1 increase;

(3) for January 1, 2013, and each successive January 1 until funding stability is restored, for each annuitant or benefit recipient who has been receiving an annuity or a benefit for at least six full months, an annual postretirement increase of 1/12 of two percent for each month the person has been receiving an annuity or benefit must be applied, effective January 1, following the year in which the person has been retired for less than 12 months;

(4) for each January 1 following the restoration of funding stability, a postretirement increase of 2.5 percent must be applied each year, effective January 1, to the monthly annuity or benefit amount of each annuitant or benefit recipient who has been receiving an annuity or a benefit for at least 18 full months prior to the January 1 increase; and

(5) for each January 1 following the restoration of funding stability, for each annuitant or benefit recipient who has been receiving an annuity or a benefit for at least six full months, an annual postretirement increase of 1/12 of 2.5 percent for each month the person has been receiving an annuity or benefit must be applied, effective January 1, following the year in which the person has been retired for less than 12 months.

(b) For the applicable association, funding stability is restored when the market value of that association's assets ~~of the Teachers Retirement Association~~ equals or exceeds 90 percent of ~~the~~ that association's actuarial accrued liabilities ~~of the Teachers Retirement Association~~ in the most recent prior actuarial valuation prepared under section 356.215 and the standards for actuarial work by the approved actuary retained by the ~~Teachers Retirement~~ applicable association under section 356.214.

(c) An increase in annuity or benefit payments under this section must be made automatically unless written notice is filed by the annuitant or benefit recipient with the executive director of the ~~Teachers Retirement~~ applicable association requesting that the increase not be made.

(d) The retirement annuity payable to a person who retires before becoming eligible for Social Security benefits and who has elected the optional payment as provided in section 354.35 or 354A.33 must be treated as the sum of a period-certain retirement annuity and a life retirement annuity for the purposes of any postretirement adjustment. ~~The period-certain retirement annuity plus the life retirement annuity must be the annuity amount payable until age 62, 65, or normal retirement age, as selected by the member at retirement, for an annuity amount payable under section 354.35.~~ A postretirement adjustment granted on the period-certain retirement annuity must terminate when the period-certain retirement annuity terminates.

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

Sec. 3. Minnesota Statutes 2010, section 356.415, subdivision 2, is amended to read:

Subd. 2. **Covered retirement plans.** The provisions of this section apply to the following retirement plans:

(1) the legislators retirement plan established under chapter 3A;

(2) the correctional state employees retirement plan of the Minnesota State Retirement System established under chapter 352;

(3) the general state employees retirement plan of the Minnesota State Retirement System established under chapter 352;

(4) the State Patrol retirement plan established under chapter 352B;

(5) the elective state officers retirement plan established under chapter 352C;

(6) the general employees retirement plan of the Public Employees Retirement Association established under chapter 353, including the MERF division of the Public Employees Retirement Association;

(7) the public employees police and fire retirement plan of the Public Employees Retirement Association established under chapter 353;

(8) the local government correctional employees retirement plan of the Public Employees Retirement Association established under chapter 353E;

(9) the teachers retirement plan established under chapter 354;~~ and~~

(10) the St. Paul Teachers Retirement Fund Association established under chapter 354A; and

~~(10)~~ (11) the judges retirement plan established under chapter 490.

EFFECTIVE DATE. This section is effective July 1, 2011."

Page 7, line 11, delete "subdivision 3,"

Renumber the sections in sequence

Amend the title accordingly

.... moves to amend H.F. No. 1354; S.F. No. 1088, as follows:

Page 1, delete sections 1 and 2

Page 2, delete section 3

Page 6, after line 3, insert:

"Sec. 2. Minnesota Statutes 2010, section 356.415, subdivision 1d, is amended to read:

Subd. 1d. **Teachers Retirement Association, Duluth Teachers Retirement Fund Association, and St. Paul Teachers Retirement Fund Association annual postretirement adjustments.** (a) Retirement annuity, disability benefit, or survivor benefit recipients of the Teachers Retirement Association, the Duluth Teachers Retirement Fund Association, and the St. Paul Teachers Retirement Fund Association are entitled to a postretirement adjustment annually on January 1, as follows:

(1) for January 1, 2011, and January 1, 2012, no postretirement increase is payable;

(2) for January 1, 2013, and each successive January 1 until funding stability is restored, a postretirement increase of two percent must be applied each year, effective on January 1, to the monthly annuity or benefit amount of each annuitant or benefit recipient who has been receiving an annuity or a benefit for at least 18 full months prior to the January 1 increase;

(3) for January 1, 2013, and each successive January 1 until funding stability is restored, for each annuitant or benefit recipient who has been receiving an annuity or a benefit for at least six full months, an annual postretirement increase of 1/12 of two percent for each month the person has been receiving an annuity or benefit must be applied, effective January 1, following the year in which the person has been retired for less than 12 months;

(4) for each January 1 following the restoration of funding stability, a postretirement increase of 2.5 percent must be applied each year, effective January 1, to the monthly annuity or benefit amount of each annuitant or benefit recipient who has been receiving an annuity or a benefit for at least 18 full months prior to the January 1 increase; and

(5) for each January 1 following the restoration of funding stability, for each annuitant or benefit recipient who has been receiving an annuity or a benefit for at least six full months, an annual postretirement increase of 1/12 of 2.5 percent for each month the person has been receiving an annuity or benefit must be applied, effective January 1, following the year in which the person has been retired for less than 12 months.

(b) For the applicable association, funding stability is restored when the market value of that association's assets ~~of the Teachers Retirement Association~~ equals or exceeds 90 percent of ~~the~~ that association's actuarial accrued liabilities ~~of the Teachers Retirement Association~~ in the most recent prior actuarial valuation prepared under section 356.215 and the standards for actuarial work by the approved actuary retained by the ~~Teachers Retirement~~ applicable association under section 356.214.

(c) An increase in annuity or benefit payments under this section must be made automatically unless written notice is filed by the annuitant or benefit recipient with the executive director of the ~~Teachers Retirement~~ applicable association requesting that the increase not be made.

(d) The retirement annuity payable to a person who retires before becoming eligible for Social Security benefits and who has elected the optional payment as provided in section 354.35 or 354A.33 must be treated as the sum of a period-certain retirement annuity and a life retirement annuity for the purposes of any postretirement adjustment. ~~The period-certain retirement annuity plus the life retirement annuity must be the annuity amount payable until age 62, 65, or normal retirement age, as selected by the member at retirement, for an annuity amount payable under section 354.35.~~ A postretirement adjustment granted on the period-certain retirement annuity must terminate when the period-certain retirement annuity terminates.

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

Sec. 3. Minnesota Statutes 2010, section 356.415, subdivision 2, is amended to read:

Subd. 2. **Covered retirement plans.** The provisions of this section apply to the following retirement plans:

(1) the legislators retirement plan established under chapter 3A;

(2) the correctional state employees retirement plan of the Minnesota State Retirement System established under chapter 352;

(3) the general state employees retirement plan of the Minnesota State Retirement System established under chapter 352;

(4) the State Patrol retirement plan established under chapter 352B;

(5) the elective state officers retirement plan established under chapter 352C;

(6) the general employees retirement plan of the Public Employees Retirement Association established under chapter 353, including the MERF division of the Public Employees Retirement Association;

(7) the public employees police and fire retirement plan of the Public Employees Retirement Association established under chapter 353;

(8) the local government correctional employees retirement plan of the Public Employees Retirement Association established under chapter 353E;

(9) the teachers retirement plan established under chapter 354;~~ and~~

(10) the St. Paul Teachers Retirement Fund Association established under chapter 354A;

(11) the Duluth Teachers Retirement Fund Association established under chapter 354A; and

~~(10)~~ (12) the judges retirement plan established under chapter 490.

EFFECTIVE DATE. This section is effective July 1, 2011."

Page 7, line 5, before "Consistent" insert "(a)"

Page 7, after line 8, insert:

"(b) Consistent with the requirements of Minnesota Statutes, section 354A.12, subdivision 4, the board of the Duluth Teachers Retirement Association is authorized to revise the bylaws and articles of incorporation so that the revisions in postretirement adjustment procedures specified in this act apply to the Duluth Teachers Retirement Fund Association old law program."

Page 7, line 11, delete "section 354A.29, subdivision 3, is" and insert "sections 354A.27 and 354A.29, are"

Renumber the sections in sequence

Amend the title accordingly

.... moves to amend H.F. No. 1354; S.F. No. 1088, as follows:

Page 3, after line 10, insert:

"(f) If the funding ratio of the plan as determined in the most recent actuarial valuation prepared under sections 356.214 and 356.215, using the actuarial value of assets, is less than 80 percent there will be no postretirement adjustment the following January 1."

.... moves to amend H.F. No. 1354; S.F. No. 1088, as follows:

Page 4, lines 2 to 8, reinstate the stricken language

Amend the title accordingly

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State of Minnesota

HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH SESSION

HOUSE FILE NO. 1354

April 4, 2011
Authored by Lesch; Murphy, M.; Lanning; Kahn and Smith
The bill was read for the first time and referred to the Committee on Government Operations and Elections

A bill for an act

relating to retirement; St. Paul Teachers Retirement Fund Association; revising postretirement adjustment procedures; reducing refund interest rate; terminating interest payments on reemployed annuitant savings accounts; lowering deferred annuity augmentation rate; amending Minnesota Statutes 2010, sections 354A.29, by adding subdivisions; 354A.37; 356.47, subdivision 3; repealing Minnesota Statutes 2010, section 354A.29, subdivision 3.

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

Section 1. Minnesota Statutes 2010, section 354A.29, is amended by adding a subdivision to read:

Subd. 7. **Eligibility for payment of postretirement adjustments.** (a) Annually, after June 30, the board of trustees of the St. Paul Teachers Retirement Fund Association must determine the amount of any postretirement adjustment using the procedures in this subdivision and subdivision 8 or 9, whichever is applicable.

(b) On January 1, each eligible person who has been receiving an annuity or benefit under the articles of incorporation, the bylaws, or this chapter for at least three calendar months as of the end of the last day of the previous calendar year is eligible to receive a postretirement increase as specified in subdivision 8 or 9.

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

Sec. 2. Minnesota Statutes 2010, section 354A.29, is amended by adding a subdivision to read:

Subd. 8. **Calculation of postretirement adjustments; transitional provision.** (a) For purposes of computing postretirement adjustments for eligible benefit recipients of the St. Paul Teachers Retirement Fund Association, the accrued liability funding ratio based on the actuarial value of assets of the plan as determined by the most recent actuarial valuation prepared under sections 356.214 and 356.215 determines the postretirement increase, as follows:

Funding ratio	Postretirement increase
Less than 80 percent	1 percent
At least 80 percent but less than 90 percent	2 percent

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

(c) If the accrued liability funding ratio based on the actuarial value of assets is at least 90 percent, this subdivision expires and subsequent postretirement increases must be paid as specified in subdivision 9.

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

Sec. 3. Minnesota Statutes 2010, section 354A.29, is amended by adding a subdivision to read:

Subd. 9. **Calculation of postretirement adjustments.** (a) This subdivision applies if subdivision 8 has expired.

(b) A percentage adjustment must be computed and paid under this subdivision to eligible persons under subdivision 7. This adjustment is determined by reference to the Consumer Price Index for urban wage earners and clerical workers all items index as reported by the Bureau of Labor Statistics within the United States Department of Labor each year as part of the determination of annual cost-of-living adjustments to recipients of federal old-age, survivors, and disability insurance. For calculations of postretirement adjustments under paragraph (c), the term "average third quarter Consumer Price Index value" means the sum of the monthly index values as initially reported by the Bureau of Labor Statistics for the months of July, August, and September, divided by three.

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

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

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

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

Sec. 4. Minnesota Statutes 2010, section 354A.37, is amended to read:

354A.37 REFUNDS; DEFERRED ANNUITY.

Subdivision 1. **Eligibility for refund.** Any coordinated member who ceases to render teaching service for the school district in which the teachers retirement fund association is located shall be entitled to a refund in lieu of any other annuity or benefit from the teachers retirement fund association, other than an annuity from a tax shelter annuity program and fund as authorized ~~pursuant to~~ under section 354A.021, subdivision 5. The amount of the refund ~~shall~~ must be calculated ~~pursuant to~~ under subdivision 3. The application for the refund ~~shall~~ must not be made prior to 30 days after the cessation of teaching services if the coordinated member has not resumed active teaching services for the district. Payment of the refund ~~shall~~ must be made within 90 days after receipt of the refund application by the board.

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

(b) The monthly annuity amount that had accrued when the member ceased to render teaching service must be augmented from the first day of the month following the month during which the member ceased to render teaching service to the effective date of retirement. There is no augmentation if this period is less than three months. ~~For a member of the St. Paul Teachers Retirement Fund Association, the rate of augmentation is three percent compounded annually until January 1 of the year following the year in which the former member attains age 55, and five percent compounded annually after that date to the effective date of retirement if the employee became an employee before July 1, 2006, and at 2.5 percent compounded annually if the employee becomes an employee after June 30, 2006. For a member of the Duluth Teachers Retirement Fund Association,~~ The rate of augmentation is three percent compounded annually until January 1 of the year following the year in which the former member attains age 55, five percent compounded annually after that date to July 1, 2012, and two percent compounded annually after that date to the effective date of retirement if the employee became an employee before July 1, 2006, and at 2.5 percent compounded annually to July 1, 2012, and two percent compounded annually after that date to the effective date of retirement if the employee ~~becomes~~ became an employee after June 30, 2006. If a person has more than one period of uninterrupted service, a separate average salary determined under section 354A.31 must be used for each period, and the monthly annuity amount related to each period must be augmented as provided in this subdivision. The sum of the augmented monthly annuity amounts determines the total deferred annuity payable. If a person repays a refund, the service restored by the repayment must be considered as continuous with the next period of service for which the person has credit with the fund. If a person does not render teaching services in any one fiscal year or more consecutive fiscal years and then resumes teaching service, the formula percentages used from the date of resumption of teaching service are those applicable to new members. The mortality table and interest assumption used to compute the annuity are the table established by the fund to compute other annuities, and the interest assumption under section 356.215 in effect when the member retires. A period of uninterrupted service for the purpose of this subdivision means a period of covered teaching service during which the member has not been separated from active service for more than one fiscal year.

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

Subd. 3. **Computation of refund amount.** A former coordinated member ~~of the St. Paul Teachers Retirement Fund Association who qualifies for a refund under subdivision 1 shall receive a refund equal to the amount of the former coordinated member's accumulated~~

~~employee contributions with interest at the rate of six percent per annum compounded annually. A former coordinated member of the Duluth Teachers Retirement Fund Association~~ who qualifies for a refund under subdivision 1 shall receive a refund equal to the amount of the former coordinated member's accumulated employee contributions with interest at the rate of six percent per annum compounded annually to July 1, 2010, if the person is a former member of the Duluth Teachers Retirement Fund Association, or to July 1, 2011, if the person is a former member of the St. Paul Teachers Retirement Fund Association, and four percent per annum compounded annually thereafter.

Subd. 4. **Certain refunds at normal retirement age.** Any coordinated member who has attained the normal retirement age with less than ten years of allowable service credit and has terminated active teaching service shall be entitled to a refund in lieu of a proportionate annuity ~~pursuant to~~ under section 356.32. The refund ~~for a member of the St. Paul Teachers Retirement Fund Association shall be equal to the coordinated member's accumulated employee contributions plus interest at the rate of six percent compounded annually. The refund for a member of the Duluth Teachers Retirement Fund Association shall~~ must be equal to the coordinated member's accumulated employee contributions plus interest at the rate of six percent compounded annually to July 1, 2010, if the person is a former member of the Duluth Teachers Retirement Fund Association, or to July 1, 2011, if the person is a former member of the St. Paul Teachers Retirement Fund Association, and four percent per annum compounded annually thereafter.

Subd. 5. **Unclaimed minimal refund amounts; disposition.** If a coordinated member ceases to render teaching services for the school district in which the teachers retirement fund association is located but does not apply for a refund ~~pursuant to~~ under subdivision 1 within five years after the end of the plan year next following the cessation of teaching services and if the amount of the refund that the former coordinated member would have been entitled to ~~pursuant to~~ under subdivision 3 is $500 or less, then the amount of the refund and any accumulated interest ~~shall~~ must be credited to and become a part of the retirement fund. If the former coordinated member subsequently renders teaching services for the school district in which the teachers retirement fund association is located and the amount of the refund that the former coordinated member would have previously been entitled to ~~pursuant to~~ under subdivision 3 is at least $5, then the amount of the refund and any accumulated interest ~~shall be~~ must be restored to the member's individual account. If the amount of the refund that the former coordinated member would have previously been entitled to ~~pursuant to~~ under subdivision 3 is at least $5 and the former coordinated member applies for a refund ~~pursuant to~~ under subdivision 1 or for an annuity ~~pursuant to~~ under sections 354A.31 and 354A.32 or section 356.30, the amount of the refund and any accumulated interest ~~shall~~ must be restored to the member's individual account.

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

Sec. 5. Minnesota Statutes 2010, section 356.47, subdivision 3, is amended to read:

Subd. 3. **Payment.** (a) Beginning one year after the reemployment withholding period ends relating to the reemployment that gave rise to the limitation, and the filing of a written application, the retired member is entitled to the payment, in a lump sum, of the value of the person's amount under subdivision 2, plus annual compound interest. For the general state employees retirement plan, the correctional state employees retirement plan, the general employees retirement plan of the Public Employees Retirement Association, the public employees police and fire retirement plan, the local government correctional employees retirement plan, and the teachers retirement plan, the annual interest rate is six percent from the date on which the amount was deducted from the retirement annuity to the date of payment or until January 1, 2011, whichever is earlier, and no interest after January 1, 2011. For the Duluth Teachers Retirement Fund Association, the annual interest is six percent from the date on which the amount was deducted from the retirement annuity to the date of payment or until June 30, 2010, whichever is earlier, and with no interest accrual after June 30, 2010. For the St. Paul Teachers Retirement Fund Association, the annual interest is the rate of six percent from the date that the amount was deducted from the retirement annuity to the date of payment or June 30, 2011, whichever is earlier, and with no interest accrual after June 30, 2011.

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

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

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

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

Sec. 6. **BYLAW AUTHORIZATION.**

Consistent with the requirements of Minnesota Statutes, section 354A.12, subdivision 4, the board of the St. Paul Teachers Retirement Fund Association is authorized to revise the bylaws and articles of incorporation so that the requirements of this act, where applicable, apply to the basic program.

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

Sec. 7. **REPEALER.**

Minnesota Statutes 2010, section 354A.29, subdivision 3, is repealed.

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

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

Subd. 3. **Postretirement adjustment.** (a) The postretirement adjustment described in this section must be determined by the executive director of the St. Paul Teachers Retirement Fund Association and approved by the board annually.

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

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

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

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

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