



H.F. 2360
(O'Driscoll)

S.F. xxxx

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): PERA
Relevant Provisions of Law: Minnesota Statutes 2010, Section 353.01; Minnesota Statutes 2011 Supp., Section 353.01
General Nature of Proposal: Increasing minimum monthly salary amount for defined benefit plan coverage eligibility
Date of Summary: February 20, 2012

Specific Proposed Changes

- Defines "public employee" for determining defined benefit retirement plan membership inclusions and exclusions by replacing the current \$425 monthly salary minimum threshold amount with a revised monthly salary amount. The statutory change is effective on July 1, 2012.

Policy Issues Raised by the Proposed Legislation

1. Appropriateness of the current and proposed enhancement of the differential treatment of membership requirements between PERA and other retirement plans.
2. Appropriateness of deviating from the general Commission and legislative policy of mandatory retirement plan membership.
3. Appropriateness of the continuation of the historical dispute with public hospitals and other public employers with part-time workforces.
4. Likely actuarial funding impact on the PERA-General Retirement Plan with an increase in the minimum salary threshold.
5. Lack of effect on existing PERA members.
6. Likely consequence of increased future allowable service credit purchase demands.
7. Increased governmental unit and PERA burden in checking membership exclusions.

Potential Amendments

None.



TO: Members of the Legislative Commission on Pensions and Retirement
FROM: Lawrence A. Martin, Executive Director *LAM*
RE: H.F. 2360 (O'Driscoll); S.F. xxxx: PERA; Increasing the Minimum Salary Threshold for Mandatory Membership
DATE: February 20, 2012

Summary of H.F. 2360 (O'Driscoll); S.F. xxxx

H.F. 2360 (O'Driscoll); S.F. xxxx amends Minnesota Statutes, Section 353.01, Subdivisions 2a and 2b, the portion of the PERA law defining "public employee" for determining defined benefit retirement plan membership inclusions and exclusions, by replacing the current \$425 monthly salary minimum threshold amount with a revised monthly salary amount, set at \$773 per month for Fiscal Year 2013 (reflecting the federal Consumer Price Index-All Urban Consumers (CPI-U) increase from December 1988, the year of the last increase in the threshold amount, to December 2011) and reset annually for each subsequent fiscal year by adding an amount rounded up or down to the nearest full dollar, determined by applying the percentage increase in the federal CPI-U from December 2011 to the most recent December, calculated and promulgated by the PERA executive director. The statutory change is effective on July 1, 2012.

Background Information on Relevant Topics

The following attachments provide background information on topics relevant to the proposed legislation:

- **Attachment A:** Background information on PERA-General membership inclusions and exclusions.
- **Attachment B:** Background information on the Consumer Price Index.

Discussion and Analysis

H.F. 2360 (O'Driscoll); S.F. xxxx would increase, effective July 1, 2011, the minimum salary threshold amount for membership in the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General), the Public Employees Police and Fire Retirement Plan (PERA-P&F), and the Local Government Correctional Service Retirement Plan (PERA-Correctional) from \$425 in any month, with mandatory membership in that month and all succeeding months, to \$773 in any month for Fiscal Year 2013, representing the 1988-2011 CPI-U increase, and to a CPI-U-adjusted (full dollar rounded) figure in any month for subsequent fiscal years.

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

1. Appropriateness of the Current and Proposed Enhancement of the Differential Treatment of Membership Requirements between PERA and Other Retirement Plans. The policy issue is the appropriateness of the difference in the treatment of mandated memberships between the retirement plans administered by PERA and the other Minnesota public retirement plans under current law and under the expansion in the draft proposed legislation. The proposed legislation would almost double the minimum salary threshold for mandatory PERA membership. PERA is the only retirement system in Minnesota with a minimum salary threshold for membership. For all other Minnesota defined benefit retirement plans that are open to new members, the retirement coverage (and contribution obligation) begins with the initial dollar of public sector compensation paid. Under the Pension Commission's Principles of Pension Policy, Principle II.C.6., uniformity in retirement benefit coverage is a goal of the Commission and the current differential treatment between PERA and the other statewide and major local retirement plans and the potential enhanced differential treatment is at odds with that goal. The uniformity in pension treatment between retirement plans goal is the oldest expressed goal of the Commission, being the first Principle in the first statement of Pension Principles by the Commission as an interim Commission in January 1961.
2. Appropriateness of the Deviation from the General Commission and Legislative Policy of Mandatory Retirement Plan Membership. The policy issue is the appropriateness from the expressed general policy of the Legislative Commission on Pensions and Retirement favoring mandatory public retirement plan membership and favoring mandatory retirement coverage. The Commission's Pension Policy Principle II.B.2. provides that,

...[t]o the extent possible, membership in a public pension plan should be mandatory for the personnel employed on a recurring or regular basis.

Although the individuals to be excluded under the proposed legislation will be limited to part-time employees, the magnitude of the new compensation level is still consistent with regular substantial part-time employment. The mandatory membership policy principle of the Commission was added to the Commission's Principles in 1996 because it insures that the retirement plan maintains its optimal risk pooling by avoiding opportunities for employees with low probabilities of receiving eventual retirement benefits to elect not to be members, thereby leaving only employees with high probabilities of receiving eventual retirement benefits as plan members, eliminates the mistakes that many new and younger public employees might make in attempting to maximum take-home compensation at the expense of future pension benefit coverage, and eliminates potential future purchase of prior service credit requests from employees who initially elect not to be members and then later reassess their situation.

3. Appropriateness of the Continuation of the Historical Dispute with Public Hospitals and Other Public Employers with Part-Time Workforces. The policy issue is the appropriateness of the Commission and the Legislature reentering the historically contentious dispute involving public hospitals and other public employers with large part-time workforces, principally with respect to PERA-General. PERA-General, before 1955, was optional for public employers, which had to opt into retirement coverage before their employees became members, and became mandatory for all local government employees after July 1, 1955 (see Laws 1955, Ch. 815, Sec. 1, 2, 11). From the mid-1950s until the mid-1970s, public hospital districts and other public employers with significant part-time workforces sought to exclude their employees, arguing that Social Security coverage was sufficient retirement coverage for those employees and that few of their employees ever continue in their employment until retirement age and actually retire from PERA-General. The Legislature attempted to accommodate these employing unit demands in 1965 (Laws 1965, Ch. 880, Sec. 1) by excluding part-time employees earning less than \$75 per month from PERA-General retirement coverage, with increases in the salary threshold figure to \$150 per month in 1974 (Laws 1974, Ch. 229, Sec. 1), to \$250 per month in 1978 (Laws 1978, Ch. 471, Sec. 1), to \$325 per month in 1981 (Laws 1981, Ch. 68, Sec. 15), and to \$425 per month in 1988 (Laws 1988, Ch. 709, Art. 5, Sec. 1). The provision has been unadjusted for the past 14 years, seemingly putting an end to the historic dispute over pension coverage for part-time employees.
4. Likely Actuarial Funding Impact on PERA-General Retirement Plan with an Increase in the Minimum Salary Threshold. The policy issue is the appropriateness of the potential impact on the actuarial funding requirements of PERA-General of a potential increase in the PERA-General salary threshold figure to \$773 per month and indexed annually thereafter. By increasing the salary threshold figure, there eventually would be fewer short service members of PERA-General, which have the highest potential for turning over without a deferred retirement annuity right, with a loss of future turnover actuarial gains that will increase the retirement plan's actuarial accrued liability and normal cost. Although unaffected by the proposed change (see Issue #5), but indicative of the extent of short service employees among the active PERA-General membership, as of July 1, 2011, there were 29,939 active members with less than three years of service credit (21 percent of the total active PERA-General membership), of which 13,572 are under age 35 (10 percent of the total active PERA-General membership). In 2010 (Laws 2010, Ch. 359, Art. 1, Sec. 23), the vesting requirement was increased from three years of service credit to five years of service credit for new PERA members hired after July 1, 2010. To gain a sense of the potential actuarial impact, although no actuarial cost estimate has been provided to the Commission staff, the withdrawal/turnover assumption over time can be compared, as follows:

Selected Assumed PERA-General Withdrawal Rates¹

Age/Yr.	1985		1989		1992		1996		2000		2003		2008		2011	
	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F
20	27.5%	38.32%	27.5%	38.32%	25.42%	29.13%	25.42%	29.13%	3.7%	4.0%	8.4%	8.4%	8.4%	8.4%	8.4%	8.4%
25	21.6%	33.56%	21.6%	33.56%	15.36%	19.42%	15.36%	19.42%	3.5%	3.9%	6.9%	6.9%	6.9%	6.9%	6.9%	6.9%
30	16.1%	28.05%	16.1%	28.05%	10.18%	13.94%	10.18%	13.94%	2.6%	3.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%
35	11.7%	21.6%	11.7%	21.6%	7.19%	10.53%	7.19%	10.53%	2.1%	2.9%	3.9%	4.2%	3.9%	4.2%	3.9%	4.2%
40	8.18%	13.4%	8.18%	13.4%	5.32%	8.26%	5.32%	8.26%	1.62%	2.4%	3.0%	3.5%	3.0%	3.5%	3.0%	3.5%
45	5.8%	9.0%	5.8%	9.0%	4.08%	6.67%	4.08%	6.67%	1.32%	1.9%	2.5%	3.0%	2.5%	3.0%	2.5%	3.0%
50	3.85%	6.63%	3.85%	6.63%	3.21%	5.5%	3.21%	5.5%	1.12%	1.66%	2.0%	2.5%	2.0%	2.5%	2.0%	2.5%
55	1.95%	4.78%	1.95%	4.78%	1.95%	4.78%	1.95%	4.78%	0.96%	1.46%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
60	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
65	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
70	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Normal Cost ²	5.68%		5.85%		6.91%		6.85%		9.33%		8.61%		8.38%		6.50%	

Source: PERA-General actuarial valuations.

The turnover assumptions set forth above, which are adjusted periodically based on actuarial experience monitored through quadrennial experience studies, indicate the precipitous drop in the expected liability release from membership turnover that accompanied the reduction in the vesting requirement for PERA-General from ten years of service credit in 1985, to five years of service credit

¹ Rates expressed are the percentage of the total number of members in that age and service cohort.

² Rate is expressed as a percentage of PERA-General covered salary.

in 1989, to three years of service credit in 1997. Reducing the number of future covered part-time public employees would also reduce potential future turnover and will undoubtedly increase the PERA-General Retirement Plan normal cost and actuarial accrued liability. If this potential is of concern to the Commission, it would be appropriate for the Commission to request an actuarial cost estimate for the change from the consulting actuary retained by PERA.

5. Lack of Effect on Existing PERA Members. The policy issue is a question of which local governmental employees the proposed legislation will apply to and any potential governmental subdivision savings that will accrue. As drafted, the legislation only applies to part-time local governmental employees who were first employed after July 1, 2011, with a monthly salary consistently between \$425 per month and \$773 per month. If the intent for the proposed legislation was to have the provision apply to persons who are currently active PERA members with a monthly salary between \$425 and \$773, the effective date of the provision would need to be amended. Commission Pension Policy Principle II.C.22.a., however, provides that:

...[i]n recommending benefit plan modifications, the imposition of reductions in overall benefit coverage for existing pension plan members should not be recommended.

In addition to Commission policy, the Minnesota Supreme Court has decided that at least some benefit plan change legislation is impermissible because it constitutes a benefit reduction that violates a quasi-contractual relationship under Christensen v. MERF, 331 NW2d 740 (Minnesota 1983), which characterized the relationship between public pension plan members and the retirement plan and the Legislature as that of a quasi-contract arising from a promissory estoppel theory. Legislated reductions applicable to retirees made by the 2010 Legislature are currently being challenged by some current retirees under the promissory estoppel theory in Ramsey County District Court. If it is the intent to have the exclusion apply retroactively to cover some portion of the current PERA-covered public employees with monthly salaries between \$425 per month and \$773 per month, a decision would have to be made about whether to exclude only those employees with less than \$773 in month salaries who have not yet vested (i.e. under three years of allowable service credit) or all employees with less than \$773 in monthly salaries, vested or unvested, and whether to exclude the applicable set of employees either from their date of hire, with a refund of prior member contributions, or only from the effective date of the potential legislation. The greater the number of the current plan members excluded and the more retroactive the exclusion extends, the greater chance that the change will be litigated.

6. Likely Consequence of Increased Future Allowable Service Credit Purchase Demands. The policy issue is the consequences of an increased exclusion of low-paid part-time employees from PERA because it will quite likely result in increased future demands for the purchase of allowable service credit. The current level of low-salary part-time employee exclusions from PERA is involved in many of the requests for authority to purchase prior PERA allowable service credit during the last decade, even though the number of part-time employees who have been subject to the salary threshold should have been getting smaller in number over time because the salary threshold level was not indexed for inflation. Municipalities on occasion mistakenly or inattentively have been excluding employees who are eligible for PERA membership, with the person's only recourse, if the exclusion occurred more than three years prior, to seek special legislation, which consumes valuable legislative time, and then obtain allowable service credit with a very dear full actuarial value service credit purchase payment.
7. Increased Governmental Unit and PERA Burden in Checking Membership Exclusions. The policy issue is the burden that an increased salary threshold will place on local governmental employers to correctly implement PERA membership inclusions and exclusions, with the minimum salary threshold resetting upward each year, and on PERA to promulgate the minimum salary threshold calculation effectively to all 2,100 governmental units and to check periodic payroll abstracts for membership qualifications and to conduct membership audits. The proposed legislation would reset the minimum salary threshold for PERA membership every Spring, based on the Consumer Price Index increase, which is required to be calculated by and promulgated by the PERA executive director. Minnesota Statutes, Section 353.27, Subdivision 4, requires the employing unit to submit a salary deduction report for each pay period with specific member information, to submit a new or reinstated employee report for each new or reinstated employee qualifying for PERA membership, and to submit an employment status change report for PERA members who change status because of a leave, termination, or death. Minnesota Statutes, Section 353.27, Subdivision 10, requires an annual exclusion report by employing units with respect to all employees who had been determined as ineligible for PERA membership and requires PERA to check those exclusion reports for any omitted members and authorizes PERA to conduct a field audit to review the payroll records of a governmental subdivision. Varying eligibility requirements over time will undoubtedly increase the number of errors and omissions in required reporting and will undoubtedly increase the amount of verification and audit duties to be expended by PERA, with increased administrative expenses by all entities.

Background Information on PERA-General Retirement Plan Membership Inclusions and Exclusions

1. Current Membership Inclusions. The General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) includes in its retirement coverage employees of governmental subdivisions and public officers performing personal services for a governmental subdivision where salary is paid in whole or in part from revenue derived from taxation, fees, assessments, or other sources, with some specific inclusions, with some optional memberships exercised either by the governmental entity or by the individual employee, and with some specific exclusions.

Specific inclusions are governmental subdivision employees with salary that exceeds \$425 in any month from either one subdivision position or a number of subdivision positions, employees with governmental functions such as town or city clerks or treasurers, county auditors, treasurers or recorders, city managers, or emergency management directors, physicians in public employment, full-time employees of the Dakota county Agricultural Society, and Minneapolis Police Relief Association or Minneapolis Firefighters Relief Association employees.
2. Current Optional Memberships. Optional PERA-General membership by action of the individual are employees of public sector labor organizations, persons in elected or appointed positions other than local governing body positions, PERA-General members appointed by the governor as a state department head who decline coverage by the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), city managers, and pre-2003 St. Paul Port Authority employees who were over age 44 in 2003. Optional PERA-General membership by action of the employing entity are employees of the Minnesota Association of Townships, county historical societies, or Hennepin Healthcare Systems, Inc. employees.
3. Current Membership Exclusions. Exclusions from PERA-General membership are persons with salary from a governmental subdivision that never exceeds \$425 in any month, public officers on the governing body of a governmental subdivision, election judges and officers, patient or inmate personnel, temporary employees, fire, flood, storm, or disaster emergency employees of a governmental subdivision, persons required by law to be a member of another Minnesota retirement plan by virtue of their governmental subdivision employment, religion order members, employees under age 23 who are full-time students, physician residents, medical interns, and pharmacy residents, part-time technical college instructors with a part-time adult supplementary technical college license, foreign citizens with short-term work permits or visas, public hospital employees electing not to participate before 1972 and in 1988, volunteer ambulance personnel, volunteer firefighters, various local government trades personnel, seasonal employees, supported employment employees, work study employees, independent contractors and their employees, reemployed annuitants, and governmental subdivision board or commission members.
4. Historical Development of PERA-General Inclusions and Exclusions.
 - In 1931 (Laws 1931, Ch. 307, Sec. 1-2), when the Public Employees Retirement Association (PERA) was established, the term “public employee” was defined as any person holding an elective or appointive position as an employee or officer of a county, as an employee or officer of any city of the first class, city of the second class, or city of the third class, whether governed by home rule charter or otherwise, as an employee or officer of any village with a population of more than 7,000, or public school employee or officer with a salary paid from taxation or from public revenues. The term excluded temporary employees and employees with an average period of employment under six months, with membership optional for public employees having that status on April 24, 1931, to be elected before July 1, 1933, and with membership mandatory for public employees accepting public employment after April 23, 1931.
 - In 1933 (Laws 1933, Ch. 374, Sec. 1-2), the definition of the term “public employee” was revised to apply to any person who holds a position by election, appointment, or contract with a county, a city, a village, or a school district if the salary is paid in whole or in part through taxation, fees, assessments, or governmental subdivision revenue. The term was defined to also mean a person appointed as a district court reporter, but was indicated that it did not include persons by employment were required to contribute to another retirement fund established under law and did not include temporary employees. The definition of “public employee” was extended to include any incorporated city and any incorporated village with a population of more than 5,000. The definition distinguished between “present public employees” (a public employee who was receiving salary from a governmental subdivision which accepted coverage by PERA on the date of that acceptance) and “new public employees” (a public employee who entered public employment by a governmental subdivision which accepted PERA coverage after the date of that

- acceptance). Present public employees in governmental subdivisions accepting PERA coverage were permitted to elect PERA membership until July 1, 1935, with the membership of an elected official who elected coverage remaining binding during the person's future incumbency, and with the membership in the retirement plan not terminated by resignation or termination of governmental subdivision employment.
- In 1935 (Laws 1935, Ch. 106, Sec. 1), the retirement plan membership provision was modified to accommodate employees of governmental subdivisions at the time of its accepting plan coverage after May 1, 1935, and were given the option of becoming plan members during the two years following the acceptance.
 - In 1937 (Ch. 466, Sec. 1-2), the definition of "public employee" was augmented to exclude any period of time for coverage when the person was eligible for membership or was a member of another Minnesota public retirement plan. The covered governmental subdivisions provision was expanded to include any common school district or special school district. The plan membership provision was amended to provide that any person who is appointed to fill an elective office vacancy may exercise a membership option under the same terms and condition as apply to the admission of elective officers.
 - In 1941 (Laws 1941, Ch. 285, Sec. 1-2), the definition of "public employee" was modified to exclude temporary employees, and was further refined in excluding individuals for periods of employment when they were covered by a Minnesota public retirement plan and specifically included district court reporters. "Temporary employee" was defined to mean persons who are employed by a governmental subdivision for a period that did not exceed six months in any 12-month period, was a substitute for another employee on a leave of absence, was considered temporary in character, but not seasonal, or is employed part time with annual compensation under \$301 unless the person is in the classified civil service of the employing unit.
 - In 1947 (Laws 1947, Ch. 18, Sec. 1-2), the definition of "present public employee" was redefined as employees of governmental subdivisions as of June 1, 1947, for subdivisions which became subject to the retirement plan effective on June 1, 1947. The definition of "new public employee" was redefined as persons who become employees of governmental subdivisions becoming subject to the retirement plan after June 1, 1947. The plan membership provision was separated into subdivisions, with new subdivisions governing the membership process for employees and elected public officials becoming such after June 1, 1947, with a two-year deadline for the exercise of the option back to June 1, 1947.
 - In 1949 (Laws 1949, Ch. 84, Sec. 1), the language of the prior exclusion of persons who are members of another public retirement plan was simplified.
 - In 1951 (Laws 1951, Ch. 22, Sec. 1-7, 10-13), the definition of "public employee" was substantially revised, newly set as any person performing personal services for a governmental subdivision as an officer or employee whose salary is paid wholly or partially through taxation, fees, assessments, or other public revenue, as a district court reporter, or as an officer or employee of PERA, the definition of "governmental subdivision" was expanded to include boroughs and towns. The term "non-employee member" was defined as a person who continues PERA membership after ceasing to be a public employee. The term "contributory membership" was defined as membership during which contributions are made by salary deduction. The term "new public employee" was redefined as a person who becomes a public employee after the date on which the governmental subdivision accepted PERA coverage. The specification of membership eligibility was totally revised, requiring every public employee who is not already covered by PERA on or after July 1, 1951, to become a PERA member by accepting or continuing in public employment unless an elected official or an appointee to an elected official position, is already age 60, is required to contribute to another public retirement plan by virtue of employment, or is an employee of a governmental subdivision that had not adopted PERA coverage. The public officers membership provision was totally revised, made optional, and continuing during the incumbency of the person in office. A provision specifying optional membership for employees at or over age 60 on July 1, 1951, was added, and a provision governing the commencement of membership on July 1, 1951, was added.
 - In 1955 (Laws 1955, Ch. 815, Sec. 1, 2, 11), the membership provisions were modified to add elected members of the Legislature as members and to make PERA membership mandatory for non-member public employees on July 1, 1955, and for newly employed public employees after June 30, 1955, by virtue of the continuation in employment or the acceptance of employment.

- In 1957 (Laws 1957, Ch. 815, Sec. 1; and Ch. 935, Sec. 1, 6), the plan membership provisions were amended to include in coverage the chief clerk of the Minnesota House of Representatives, the Secretary of the Minnesota Senate, and any employee of the League of Minnesota Municipalities. Plan membership provisions were amended to add or clarify exceptions from coverage, set as:
 - persons rendering professional duties and compensation is on a per diem basis;
 - election officers;
 - persons who are employed by contractors under an authorized contract;
 - patient and inmate help rendered to governmental unit;
 - members of boards, commissions, volunteer fire departments, bands, and others employed in intermittent governmental subdivision service and paid on a per diem or for-free basis;
 - temporary, emergency, and seasonal employees as defined by PERA board rule; and
 - public employees required to contribute by virtue of employment to another Minnesota public retirement plan.

Plan membership provisions were amended to also exclude:

- persons over age 60 with less than six years of allowable service credit as of June 30, 1957, and any post-June 30, 1957, hire unless the person has allowable service credit equal to the number of years in excess of age 55;
 - elected public officials and appointees to elected positions had the option to be covered by the retirement plan within six months of taking office, continuing for the duration of incumbency in the office held when membership was elected; and
 - any public employee who was not eligible for PERA coverage but who was not eligible for federal Social Security coverage, was made eligible for PERA coverage, retroactive to July 1, 1957.
- In 1959 (Laws 1959, Ch. 650, Sec. 1-3, 30, 56), employees of a public elected officer or of governmental subdivision departments were made eligible for PERA coverage. Municipal housing and redevelopment authority employees, seaway port authority employees, soil conservation district employees, and certain hospital district employees were excluded from PERA coverage. PERA membership was limited to periods while engaged in public employee services, and PERA membership was specified to include leaves of absence of less than six months, temporary layoffs of less than six months, authorized sick leaves, and authorized job training leave. Nonemployee PERA membership was abolished as of August 1, 1959, with refunds paid to any former nonemployee PERA member. Former PERA members who are elected officials or employees of a municipality that is not covered by PERA were permitted to continue in PERA membership.
 - In 1961 (Laws 1961, Ch. 482, Sec. 1; and Ch. 746, Sec. 1), police matrons who were transferred to county correctional facilities were excluded from PERA coverage and the prior seaway port authority exclusion was corrected as a port authority exclusion from PERA.
 - In 1963 (Laws 1963, Ch. 641, Sec. 3-4, 16-17), the independent contractor exclusion from PERA coverage was clarified. The prior other retirement plan or relief association contributor exclusion was modified to not apply to local police or fire relief association members with dues but no pension contributions less than \$13 in any calendar year. The prior extension of membership to leave of absence periods limited to an aggregate of 12 months during the person's entire coverage period rather than six months and the prior extension of membership to temporary layoff or authorized job training leave was limited to periods authorized by the employer transmitted promptly to PERA and not to exceed 3.5 months in any calendar year.
 - In 1965 (Laws 1965, Ch. 880, Sec. 1), employees of probate judges or municipal judges were included in PERA coverage. The prior temporary, emergency, and seasonal employee exclusion from PERA membership was replaced by an exclusion of employees in essentially temporary or seasonal positions that do not continue beyond 90 working days in any calendar year and the exemption expires if a former temporary or seasonal employee continues beyond 90 days and earns in excess of \$75 in any calendar month. Part-time employees with less than \$75 in monthly compensation were excluded from PERA membership, along with emergency employees hired by reason of fire, flood, storm, or disaster and with students occasionally employed part time by a governmental subdivision in any capacity.
 - In 1967 (Extra Sess. Laws 1967, Ch. 37, Sec. 1), the prior exclusion for part-time employees with earnings under \$75 per month was clarified by eliminating the prior exception for probationary employees with civil service merit system rights. The prior student part-time employee exclusion was expanded to include full-time school or college students.

- In 1969 (Laws 1969, Ch. 940, Sec. 1), the inclusion in PERA membership of persons employed by probate judges was eliminated, and a grammatical error relating to the exclusion of election officers was corrected. The exclusion of public employees covered by another public retirement fund by virtue of their public employment was modified to not apply to volunteer fire relief association members if the relief association does not determine benefits or contributions based on a firefighter's compensation or salary, and the religious organization exemption was modified with respect to the required annuity or benefit waiver.
- In 1971 (Laws 1971, Ch. 106, Sec. 1, 39; and Ch. 503, Sec. 1), the inclusion in PERA membership of the secretary of the Minnesota Senate and the chief clerk of the Minnesota House of Representatives was eliminated, and the inclusion in PERA coverage of Minnesota legislators was limited to persons first elected before December 31, 1969. The broad exclusion from PERA coverage of volunteer fire department members was eliminated, and the exclusion from PERA membership of temporary or seasonal employees was modified as to its continuation from more than 90 working days to 120 working days. The exclusion from PERA coverage of persons with other retirement plan coverage was modified to not apply where legislation specifically authorized supplemental plan coverage, and the exclusion from PERA membership was modified with respect to medical interns and resident physicians to apply only if they are full-time graduate degree candidates.
- In 1973 (Laws 1973, Ch. 753, Sec. 3-5, 79), the PERA membership inclusion was modified to eliminate employees of elected or appointed officers or municipal judges and to eliminate state legislators.

Specific PERA membership inclusions were added, indicated as:

- elected or appointed officers and their employees,
- district court reporters,
- PERA officers and employees,
- League of Minnesota Municipalities employees,
- public hospital officers and employees, and
- school district employees who drive their own buses.

Fifteen specific PERA membership exclusions were added, indicated as:

- persons employed for their regular professional duties,
 - election officers,
 - independent contractors,
 - patient and inmate help in charitable, penal, and correctional institutions,
 - boards, commissions, and band with intermittent service,
 - temporary or seasonal employees up to 120 working days annually and earning less than \$75 per month,
 - part-time employees with monthly compensation under \$75 or annual compensation stipulated under \$900 annually,
 - post-February 1, 1969, elected officials with compensation under \$75 per month,
 - emergency fire, flood, storm, or disaster employees,
 - persons required to be a member of another primary retirement plan by virtue of their employment,
 - public matrons,
 - persons applying for exemption based on religious organization membership,
 - students who are occasional part-time employees and full-time students,
 - resident physicians, medical interns, and pharmacist interns, and
 - appointed or elected officers paid on a fee basis who were not members on June 30, 1971.
- In 1974 (Laws 1974, Ch. 229, Sec. 1), the earnings threshold for membership for temporary employees, seasonal employees, part-time employees, and elected officials was increased from \$75 per month to \$150 per month (or \$1,800 annually if stipulated for part-time employees).
 - In 1976 (Laws 1976, Ch. 329, Sec. 12), the religious organization exemption from PERA membership was amended to require the religious organization to confirm that public retirement membership is forbidden by its religious beliefs, customs, or rites. The student exemption from PERA membership was amended to make it inapplicable to full-time public employees for all applicable personnel effective July 1, 1976.
 - In 1977 (Laws 1977, Ch. 347, Sec. 52; and Ch. 429, Sec. 19-20), the name for the League of Minnesota Cities was corrected and employees of the Association of Minnesota Counties, the Metropolitan Inter-County Council, and the Minnesota Municipal Utilities Association were added

to the PERA membership inclusion provision. The temporary, seasonal, and part-time employee minimum salary threshold for inclusion in PERA coverage was increased from \$150 per month to \$250 per month (or from \$1,800 to \$3,000 if stipulated in advance for part-time employees). The religious organization exclusion from PERA membership was replaced by an exclusion for chaplains and nuns taking a vow of poverty as a religious order member, and the occasionally employed part-time exclusion from PERA membership for students was eliminated.

- In 1978 (Laws 1978, Ch. 471, Sec. 1; Ch. 720, Sec. 6; and Ch. 796, Sec. 23), the PERA membership exclusion provision was modified by:
 - increasing the salary threshold figure from \$150 per month to \$250 per month for elected officials after March 1, 1978,
 - adding an exclusion for participants in the federal Comprehensive Employment and Training Act,
 - clarifying that the other pension plan coverage exclusion applied only if the other plan coverage was coincidental with the potential PERA membership, and
 - excluding from PERA membership town, city, or county assessors if their salary or compensation from any one employer did not exceed \$250 per month or if the employment contract sets the total compensation in advance and specifies in advance that the service will not exceed three months in duration.
- In 1979 (Laws 1979, Ch. 216, Sec. 1; and Ch. 303, Art. 6, Sec. 5), the PERA membership inclusion provision was expanded to include post-1979 Minneapolis city officers and employees, post-1979 Metropolitan Airports Commission employees, post-1979 Minneapolis Employees Retirement Fund employees, and post-1979 Special School District No. 1 employees, and the PERA membership exclusion provision was modified by clarifying that the part-time employee exclusion does not apply to firefighters, by excluding volunteer firefighters who are stipulated in advance and who do not receive compensation greater than \$3,000 annually, by clarifying that the full-time student exclusion does not apply to full-time employees of governmental subdivisions, and by removing an obsolete effective date.
- In 1980 (Laws 1980, Ch. 609, Art. 5, Sec. 20), the PERA membership exclusion provision was expanded by adding persons with part-time adult supplementary vocational-technical school licenses rendering incidental service up to 300 hours annually, and by adding area vocational technical school instructors rendering less than six hours of teaching service per quarter.
- In 1981 (Laws 1981, Ch. 68, Sec. 15), the PERA coverage inclusion provision was expanded with the addition of Range Association of Municipalities and Schools employees and Soil and Water Conservation District employees. The PERA coverage exclusion provision was modified by an increase in the salary threshold for membership for temporary or seasonal employees, part-time employees, and elected officials from \$250 per month to \$325 per month (or from \$3,000 to \$3,900 per annum for part-time employees if stipulated in advance).
- In 1982 (Laws 1982, Ch. 404, Sec. 1, 2, 10; and Ch. 424, Sec. 115), the PERA membership inclusion provision was amended to eliminate the specific inclusions of Minneapolis city elected officials and employees and Minneapolis public schools employees, and to correct the name of the Metropolitan Inter-County Association. The PERA membership exclusion provision was amended to remove the exception of firefighters in the part-time employees with monthly compensation under \$325 exclusion and the specific volunteer firefighter exclusion. The specific definition of a volunteer firefighter was repealed.
- In 1985 (Laws 1985, Ch. 261, Sec. 3), the PERA coverage inclusion provision was expanded with the addition of a specific inclusion for employees of a county historical society.
- In 1986 (Laws 1986, Ch. 399, Art. 2, Sec. 9; Ch. 400, Sec. 9; and Ch. 458, Sec. 11; and 1st Spec. Sess. Laws 1986, Ch. 3, Art. 2, Sec. 41), the PERA membership inclusion provision was expanded to specifically include employees of economic development authorities and was amended by modifying the 1985 inclusion of county historical society employees by specifying that those employees also must be county employees.

- In 1987 (Laws 1987, Ch. 49, Sec. 9; Ch. 284, Art. 5, Sec. 1; Ch. 296, Sec. 1; and Ch. 372, Art. 1, Sec. 5), the PERA coverage inclusion provision was expanded to specifically include full-time firefighters who are employed by the Minnesota Department of Military Affairs.

The PERA coverage exclusion provision was modified by:

- defining incidental service by persons rendering professional services as less than 25% of total gross annual earnings,
 - including alternatively a school year for a calendar year for the exclusion of temporary or seasonable school district employees or part-time school district employees, with a threshold maximum salary of prorated portion of \$3,900 written stipulated earnings,
 - eliminating the federal Comprehensive Employment and Training Act exclusion,
 - specifying the other retirement plans that trigger an exclusion rather than a more generic exclusion, and
 - replacing the chaplain and nun exclusion with an exclusion indexed to the federal Social Security law religious organization exemption law.
- In 1988 (Laws 1988, Ch. 709, Art. 2, Sec. 1; and Art. 5, Sec. 1), the PERA membership inclusion provision was expanded by including county historical society employees located in a county that certifies the employees as its employees for retirement purposes.

The PERA membership exclusion provision was modified by:

- reorganizing the provision into paragraphs and clauses,
 - revising the language style of the incidental service determination for professional service employees,
 - replacing the former temporary or seasonal employee exclusion with an exclusion for employment not expected to continue for more than six consecutive months,
 - increasing the threshold compensation figure for part-time employees and elected officials from \$325 per month to \$425 per month (from \$3,900 to \$5,100 annually if stipulated in advance),
 - moving to a separate paragraph the exception in the other retirement plan membership exclusion for multiple plan coverage for different service during the same time period,
 - eliminating a 1963 savings clause relating to membership option exercises, and
 - eliminating the modestly compensation town, city, or county assessor exclusion.
- In 1989 (Laws 1989, Ch. 209, Art. 2, Sec. 36; Ch. 319, Art. 3, Sec. 1-2, and Art. 5, Sec. 1; and Ch. 335, Art. 3, Sec. 5), the PERA coverage inclusion provision was expanded:
 - with the addition of Association of Metropolitan Municipalities employees and of Minnesota Association of Townships employees if the association certifies its exercise of the coverage option for all permanent employees,
 - the continuation in membership of pre-July 1, 1988, employees who met the compensation threshold based on total salary from all positions held in multiple governmental subdivisions and court employees who became state employees and elected a continuation of coverage, and
 - correcting statutory cross-references for economic development authority employees.

The PERA coverage exclusion provision was modified to:

- update without apparent substantive change the language style and usage of several provisions,
- provide an exception to the under-six-months employment exclusion for probationary periods preceding a permanent position, and by repositioning procedures applicable to employees who continue beyond six months or hold concurrent part-time positions and earn more than \$425 monthly,
- clarify the other retirement plan membership exclusion based on the plan administrative system,
- to except from the other retirement plan exclusion concurrent membership based on different employment occurring at the same time,
- add exclusions for pharmacist residents serving in a degree or residency program and for students serving in an internship or residency sponsored by an accredited educational institution,
- simplify the part-time adult supplementary technical institute license exemption,
- exclude volunteer ambulance service personnel unless they render compensated service other than as ambulance personnel,
- exclude volunteer firefighters unless they render compensated service other than service covered by the volunteer fire relief association, and
- exclude Minneapolis Community Development Agency employees.

- In 1990 (Laws 1990, Ch. 570, Art. 11, Sec. 1), the PERA coverage exclusion provision was modified to exempt from the board and commission member exclusion individuals where membership was a result of public employment by the same employer. The under-six-consecutive-month employment exclusion was revised to clarify that the person must be hired for a position of less than six months in duration and to except from the exclusion employees hired to an unlimited period employment position with a probationary period. The exclusion provision was modified to revise the part time under the threshold salary exclusion as applicable to any employment under \$425 per month (or \$5,100 annually stipulated in advance).
- In 1991 (Laws 1991, Ch. 341, Sec. 1), the PERA membership exclusion for members of religious orders was modified with the inclusion of a statutory cross-reference for a Social Security coverage election option.
- In 1992 (Laws 1992, Ch. 432, Art. 2, Sec. 2), the PERA coverage exclusion provision was amended to make various apparently non-substantive language style and usage modifications.
- In 1993 (Laws 1993, Ch. 307, Art. 4, Sec. 1-3, 5-6, 11), the general definition of “public employee” was modified to specify that independent contractors and their employees are not eligible for PERA coverage. The PERA membership inclusion provision:
 - was reconfigured and revised to specify that exceeding the \$425 per month salary threshold in any month requires membership in the association for all subsequent months,
 - clarified the inclusion of employees in concurrent non-temporary positions with one governmental subdivision that exceeds the salary threshold,
 - clarified that the elected official inclusion applies to officials elected by the public at large or appointed to fill an elective office vacancy who elected to be a member and who met the salary threshold,
 - added governor-appointed state department heads who elected not to be covered by MSRS, and
 - eliminated a number of specific former inclusions for employing units included in the definition of the term “governmental subdivision.”

The PERA membership exclusion provision was revised by:

- adding elected public officers who did not elect PERA coverage, replacing the prior membership election procedure contained in the definition of the term “member,”
 - eliminating the exclusion of professional service personnel,
 - eliminating the board and commission intermittent service exclusion,
 - adding an exclusion for non-temporary employees who resign that position and accept a temporary position within 30 days in the same governmental subdivision,
 - eliminating the exclusion for certain police matrons,
 - eliminating the exclusion of fee-basis paid officers,
 - eliminating the exclusion for technical college instructors with teaching license exemptions for teaching less than 61 hours per year,
 - eliminating the exclusion for Minneapolis Community Development Agency,
 - adding an exclusion for foreign citizens working under a short-term work permit or visa, and
 - adding exclusion for public hospital employees who failed to elect PERA coverage before 1972 and again in 1988.
- In 1994 (Laws 1994, Ch. 572, Sec. 5), the PERA coverage inclusion provision was expanded to include former area vocational technical college employees who became MnSCU employees and elected to retain PERA membership.
 - In 1997 (Laws 1997, Ch. 241, Art. 2, Sec. 1), the PERA membership exclusion provision was amended to clarify that it applied to both PERA-General and PERA-P&F and to exclude St. Paul public school pipefitters and associated trades personnel hired after May 1, 1997, or who elected exclusion if employed before May 2, 1997.
 - In 1998 (Laws 1998, Ch. 254, Art. 1, Sec. 87), the 1994 inclusion of former area vocational technical college employees in MnSCU employment who elected to retain PERA membership by statutory cross-reference was eliminated following the 1995 repeal of the cited statute in a Revisor’s bill.
 - In 1999 (Laws 1999, Ch. 222, Art. 4, Sec. 4), the local police and fire relief association membership exclusion from PERA coverage was modified to accommodate the former police and fire consolidation account members who were covered by the consolidation account merger into PERA-P&F.

- In 2000 (Laws 2000, Ch. 461, Art. 3, Sec. 7; and Art. 7, Sec. 1), the general definition of the term “public employee” was modified with the addition that reemployed annuitants are not included in coverage by virtue of the reemployment and the PERA membership exclusion provision was expanded with the exclusion of various electrical workers, plumbers, carpenters, and associated trades personnel employed by the St. Paul School District or the City of St. Paul employed after May 1, 2000, or who elect to be excluded if employed before May 2, 2000.
- In 2001 (1st Spec. Sess. Laws 2001, Ch. 10, Art. 10, Sec. 1-2; and Art. 11, Sec. 2-5), the general definition of the term “public employee” was revised to include an optional membership provision and the specific exclusions of independent contractors and reemployed annuitants were removed. The PERA membership inclusion provision was expanded by adding full-time Dakota County Agricultural Society employees and was totally revised by requiring all persons meeting the general definition of “public employee” to be a member of the applicable PERA-administered retirement plan as a condition of employment from the first day of employment unless specifically excluded, or do not exercise an individual option for coverage when applicable, or was employed by a governmental subdivision that did not exercise a group option for coverage when applicable and continuing all members having that status as of June 30, 2002, as members.

The PERA membership exclusions provision was revised by:

- excluding all elected public officials first taking office after July 1, 2002, other than county sheriffs,
- excluding election judges,
- eliminating patient or inmate personnel for all government subdivisions, not just charitable, penal, or correctional institutions,
- limiting the temporary position employees to persons other than temporary employees filling permanent positions or unspecified period positions,
- eliminating the under \$425 per month salary threshold exclusion,
- clarifying the full-time student exclusion as any education exclusion if the employment is predicated on the individual’s student status, by adding an exclusion for post-2002 employees limited in duration to 185 calendar days or less,
- adding an exclusion for supported employment or work study positions limited to less than three years’ duration,
- adding an exemption for independent contractors, and
- adding reemployed PERA annuitants.

A PERA optional membership provision was added, with an individual option for labor organization employees, elected officials, state department heads appointed by the governor, and city managers and with a group-basis election by the applicable governmental subdivision for the Minnesota Association of Townships and county historical society employees.

- In 2002 (Laws 2002, Ch. 392, Art. 3, Sec. 1-2), the PERA coverage inclusion provision was amended to add a \$425 per month minimum salary threshold for PERA membership. The PERA coverage exclusion provision was amended by adding an under \$425 per month salary threshold exclusion, by adding an age 23 limit on the full-time student exclusion, by excepting Hennepin County employees from the under-three-year student exclusion, and by excepting Hennepin County employees from the under-three-year work permit or visa foreign citizen exclusion.
- In 2003 (1st Spec. Sess. Laws 2003, Ch. 12, Art. 4, Sec. 1), the PERA optional membership provision was amended to add an individual option for the St. Paul Port Authority.
- In 2004 (Laws 2004, Ch. 267, Art. 1, Sec. 2), the PERA membership exclusion provision was modified to eliminate the \$425 per month salary threshold for temporary employees.
- In 2005 (Laws 2005, Ch. 10, Art. 5, Sec. 1; and Ch. 125, Art. 3, Sec. 1-2), the general definition of the term “public employee” was augmented by providing that it includes full-time Dakota County Agricultural Society. The PERA membership exclusion provision was modified to except the Hennepin Healthcare System from the under-three-year work permit or visa foreign citizen exclusions. The optional PERA membership provision was amended with respect to the group option for the Hennepin Healthcare, Inc., for employees other than paramedics, emergency medical technicians, and protection officers if the corporation establishes an alternative retirement plan.
- In 2006 (Laws 2006, Ch. 271, Art. 3, Sec. 5-6), the PERA coverage inclusion provision was amended to also include physicians employed by governmental subdivisions who did not elect coverage under the PERA Defined Contribution Plan. The PERA optional membership provision was amended to clarify the maximum age on the Port Authority of St. Paul optional membership

individual election and to clarify the conditions on the optional membership for the three group election provisions.

- In 2007 (Laws 2007, Ch. 134, Art. 1, Sec. 4; and Art. 2, Sec. 13-14), the PERA membership inclusion provision was amended to clarify that the \$425 per year minimum salary threshold applies to one or multiple public employment positions and clarifies the participation duration for pre-2002 PERA members is until incumbency ends for elected officials and until termination of public employment broadly. The PERA membership exclusion provision was amended to eliminate the pre-2002 elected official membership grandparent duration language moved to the inclusion provision and the other retirement plan coverage exclusion provision was amended to eliminate an obsolete reference to the Minneapolis Teachers Retirement Fund Association.
- In 2008 (Laws 2008, Ch. 349, Art. 5, Sec. 14), the PERA coverage exclusion provision was amended by expanding the resident physician, medical intern, and pharmacist resident and intern exception to apply to clinics as well as hospitals.
- In 2009 (Laws 2009, Ch. 169, Art. 12, Sec. 4-5), the general definition of the term “public employee” and the PERA membership inclusion provision were amended by moving the Dakota County Agricultural Society full-time employee inclusion from the general definition of the term “public employee.” The PERA membership inclusion provision was amended by moving the Dakota County Agricultural Society full-time employee inclusion from the general definition to the inclusion provision and by adding Minneapolis Firefighters Retirement Association (MFRA) and Minneapolis Police Retirement Association (MPRA) employees not otherwise excluded by law.
- In 2010 (Laws 2010, Ch. 359, Art. 5, Sec. 1-4; and Art. 11, Sec. 1-2), the general definition of the term “public employee” had a reference to “public officer” added and the language style and usage of the provision were modified in an apparent non-substantive nature. The PERA coverage inclusion provision was modified by:
 - clarification of the mandatory nature of membership for included employees and a specification of the date on which membership commences,
 - setting forth three additional specific inclusions, persons meeting the salary threshold from one or more positions in a governmental subdivision, persons performing the functions of town or city clerk or treasurer, county auditor, treasure or recorder, city manager, or emergency management director, and elected county sheriffs,
 - specifically providing that membership continues for all months of public service once the threshold is first met,
 - including pre-2003 elected officials in the 2002 PERA member grandparenting provision,
 - including MERF members in membership of the MERF Division of PERA, and
 - making various language style and usage changes.

The PERA coverage exclusion provision was modified by:

- clarifying that employees who never exceed the minimum salary threshold are never eligible for membership,
 - clarifying the application of the public office holder exclusion applying to city mayors and not applying to county sheriffs,
 - simplifying the language usage and style of the short-term work permit or visa foreign citizen exclusion,
 - specifically excluding board or commission appointees,
 - not excluding from membership as independent contractors persons performing clerk, treasurer, recorder, city manager, or emergency management director functions under a contract, and
 - making various language style and usage updates.
- In 2011 (1st Spec. Sess. Laws 2011, Ch. 8, Art. 1, Sec. 1-2), employees of the Red Wing Port Authority who were first employed by the port authority before May 1, 2011, were included in coverage.

Background Information on the Consumer Price Index

The Consumer Price Index is calculated by the Division of Consumer Prices and Price Indexes of the U.S. Bureau of Labor Statistics of the U. S. Department of Labor. The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services. The initial Consumer Price Index by the U.S. federal government was calculated in 1919 because of price increases resulting from World War I.

Consumer Price Indexes are available for two population groups:

1. A Consumer Price Index for All Urban Consumers (CPI-U), which covers approximately 87% of the total population; and
2. A Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), which covers 32% of the population.

The CPI represents changes in prices of all goods and services purchased for consumption by urban households. It is based on the expenditures of almost all residents of urban or metropolitan areas, including professionals, the self-employed, the poor, the unemployed, and retired people, as well as urban wage earners and clerical workers. Not included in the CPI are the spending patterns of people living in rural nonmetropolitan areas, farm families, people in the Armed Forces, and those in various institutions, such as prisons and mental hospitals. User fees (such as water and sewer service,) sales taxes, and excise taxes paid by the consumer are also included in computing the Consumer Price Index. Income taxes and investment items (like stocks, bonds, and life insurance) are not included.

The CPI-U includes expenditures by urban wage earners and clerical workers, professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, retirees and others not in the labor force. The CPI-W includes only expenditures by those in hourly wage earning or clerical jobs.

Prices for the goods and services used to calculate the Consumer Price Index are collected in 87 urban areas throughout the country and from about 23,000 retail and service establishments. Data on rents are collected from about 50,000 landlords and tenants. The weight for an item is derived from reported expenditures on that item as estimated by the Consumer Expenditure Survey. Prices are taken throughout the month.

The Consumer Price Index is used as an economic indicator, as a deflator of other economic series, and as a means for adjusting income payments. As the most widely used measure of inflation, the Consumer Price Index is an indicator of the effectiveness of government policy. In addition, business executives, labor leaders and other private citizens use the index as a guide in making economic decisions. Also, the Consumer Price Index and its components are used to adjust other published economic series for price change and to translate the results of these series into inflation-free dollars. Additionally, over 2 million workers are covered by collective bargaining agreements which tie wages to the Consumer Price Index. The index affects the income of almost 80 million people as a result of statutory action: 47.8 million Social Security beneficiaries, about 4.1 million military and Federal Civil Service retirees and survivors, and about 22.4 million food stamp recipients. Changes in the Consumer Price Index also affect the cost of lunches for the 26.7 million children who eat lunch at school. Some private firms and individuals use the Consumer Price Index to keep rents, royalties, alimony payments and child support payments in line with changing prices. Since 1985, the Consumer Price Index also has been used to adjust the Federal income tax structure to prevent inflation-induced increases in taxes.

The Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) is based on the expenditures of households included in the CPI-U definition that also meet the additional requirements that more than one-half of the household's income must come from clerical or wage occupations, and that at least one of the household's earners must have been employed for at least 37 weeks during the previous 12 months. The CPI-W population is a subset of the CPI-U population.

The Consumer Price Index frequently is called a cost-of-living index, but it differs from a complete cost-of-living measure in important ways. A cost-of-living index is a conceptual measurement goal and would measure changes over time in the amount that consumers need to spend to reach a certain utility level or standard of living. Both the CPI and a cost-of-living index would reflect changes in the prices of goods and services, such as food and clothing, which are directly purchased in the marketplace; but a complete cost-of-living index would go beyond this role to also take into account changes in other governmental or environmental factors that affect consumers' well-being. It is very difficult to determine the proper treatment of public goods, such as safety and education, and other broad concerns, such as health, water quality, and crime, that would constitute a complete cost-of-living framework.

The Consumer Price Index market basket is developed from detailed expenditure information provided by families and individuals on what they actually bought. For the current Consumer Price Index, this

information was collected from the Consumer Expenditure Surveys for 2007 and 2008. In each of those years, about 7,000 families from around the country provided information each quarter on their spending habits in the interview survey. To collect information on frequently purchased items, such as food and personal care products, another 7,000 families in each of these years kept diaries listing everything they bought during a 2-week period.

Over the two-year period, then, expenditure information came from approximately 28,000 weekly diaries and 60,000 quarterly interviews used to determine the weight of the more than 200 item categories in the index structure of the Consumer Price Index.

The Consumer Price Index represents all goods and services purchased for consumption by the reference population. More than 200 categories of expenditure items, arranged into eight major groups are used in computing the Consumer Price Index. The eight major groups and examples of expenditure items are:

- food and beverages (breakfast cereal, milk, coffee, chicken, wine, full service meals, snacks);
- housing (rent of primary residence, owners' equivalent rent, fuel oil, bedroom furniture);
- apparel (shirts, sweaters, women's dresses, jewelry);
- transportation (new vehicles, airline fares, gasoline, motor vehicle insurance);
- medical care (prescription drugs, medical supplies, physicians' services, eyeglasses, eye care, hospital services);
- recreation (televisions, toys, pets, pet products, sports equipment, admissions);
- education and communication (college tuition, postage, telephone services, computer software, computer accessories); and
- other goods and services (tobacco, smoking products, haircuts, other personal services, funeral expenses).

Also included within these major groups are various government-charged user fees, such as water and sewerage charges, auto registration fees, and vehicle tolls and some government taxes (such as sales and excise taxes) that are directly associated with the prices of specific goods and services, but excludes taxes (such as income and Social Security taxes) that are not directly associated with the purchase of consumer goods and services.

The Consumer Price Index does not include investment items, such as stocks, bonds, real estate, and life insurance, because these items relate to savings and are not day-to-day consumption expenses.)

For each of the more than 200 item categories, using scientific statistical procedures, samples of several hundred specific items within selected business establishments frequented by consumers are collected to represent the thousands of varieties available in the marketplace.

The Consumer Price Index is subject to both limitations in application and limitations in measurement. With respect to application limitations, the Consumer Price Index may not be applicable to all population groups. The CPI-U is designed to measure inflation for the U.S. urban population and may not accurately reflect the experience of people living in rural areas. The Consumer Price Index does not produce official estimates for the rate of inflation experienced by subgroups of the population, such as the elderly or the poor. The Consumer Price Index cannot be used to measure differences in price levels or living costs between one place and another because it measures only time-to-time changes in each place and a higher index for one area does not necessarily mean that prices are higher there than in another area with a lower index. The Consumer Price Index cannot be used as a measure of total change in living costs because these costs are affected by social and environmental changes and changes in income taxes that are beyond the definitional scope of the index. The Consumer Price Index also does not take into account changes in taxes, health care, consumer safety, crime levels, water quality, air quality, and educational quality.

Limitations in measurement can be grouped into two basic types, which are sampling errors and non-sampling errors. With respect to sampling errors, because the Consumer Price Index measures price changes based on a sample of items, the published indexes differ somewhat from what the results would be if actual records of all retail purchases by everyone in the index population were used to compile the index. These estimating or sampling errors are limitations on the accuracy of the index, not mistakes in calculating the index. The Consumer Price Index program has developed measurements of sampling error. The Consumer Price Index sample design allocates the sample in a way that maximizes the accuracy of the index, given the funds available. With respect to non-sampling errors, errors can occur from a variety of sources and can cause a persistent bias in measurements of the index. Non-sampling errors are caused by problems of price data collection, logistical lags in conducting surveys, difficulties in defining basic concepts and their operational implementation, and difficulties in handling the problems of quality change. Non-sampling errors can be far more hazardous to the accuracy of a price index than sampling errors. The CPI program has an ongoing research and evaluation program in order to identify and implement improvements in the index.

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State of Minnesota

HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH SESSION

H. F. No. 2360

02/20/2012 Authored by O'Driscoll, Murray, Peppin and LeMieur
The bill was read for the first time and referred to the Committee on Government Operations and Elections

1.1 A bill for an act
1.2 relating to retirement; defined benefit retirement plans administered by the Public
1.3 Employees Retirement Association; increasing minimum monthly salary amount
1.4 for plan coverage eligibility; amending Minnesota Statutes 2010, section 353.01,
1.5 subdivision 2b, by adding a subdivision; Minnesota Statutes 2011 Supplement,
1.6 section 353.01, subdivision 2a.

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

1.8 Section 1. Minnesota Statutes 2011 Supplement, section 353.01, subdivision 2a,
1.9 is amended to read:

1.10 Subd. 2a. **Included employees; mandatory membership.** (a) Public employees
1.11 whose salary exceeds ~~\$425 in any month~~ the minimum monthly salary figure under
1.12 subdivision 2e and who are not specifically excluded under subdivision 2b or who have
1.13 not been provided an option to participate under subdivision 2d, whether individually or
1.14 by action of the governmental subdivision, must participate as members of the association
1.15 with retirement coverage by the general employees retirement plan under this chapter,
1.16 the public employees police and fire retirement plan under this chapter, or the local
1.17 government correctional employees retirement plan under chapter 353E, whichever
1.18 applies. Membership commences as a condition of their employment on the first day of
1.19 their employment or on the first day that the eligibility criteria are met, whichever is later.

1.20 Public employees include but are not limited to:

- 1.21 (1) persons whose salary meets the threshold in this paragraph from employment in
- 1.22 one or more positions within one governmental subdivision;
- 1.23 (2) elected county sheriffs;

2.1 (3) persons who are appointed, employed, or contracted to perform governmental
 2.2 functions that by law or local ordinance are required of a public officer, including, but
 2.3 not limited to:

2.4 (i) town and city clerk or treasurer;

2.5 (ii) county auditor, treasurer, or recorder;

2.6 (iii) city manager as defined in section 353.028 who does not exercise the option
 2.7 provided under subdivision 2d; or

2.8 (iv) emergency management director, as provided under section 12.25;

2.9 (4) physicians under section 353D.01, subdivision 2, who do not elect public
 2.10 employees defined contribution plan coverage under section 353D.02, subdivision 2;

2.11 (5) full-time employees of the Dakota County Agricultural Society;

2.12 (6) employees of the Minneapolis Firefighters Relief Association or Minneapolis
 2.13 Police Relief Association who are not excluded employees under subdivision 2b due
 2.14 to coverage by the relief association pension plan and who elected general employee
 2.15 retirement plan coverage before August 20, 2009; and

2.16 (7) employees of the Red Wing Port Authority who were first employed by the
 2.17 Red Wing Port Authority before May 1, 2011, and who are not excluded employees
 2.18 under subdivision 2b.

2.19 (b) A public employee or elected official who was a member of the association on
 2.20 June 30, 2002, based on employment that qualified for membership coverage by the public
 2.21 employees retirement plan or the public employees police and fire plan under this chapter,
 2.22 or the local government correctional employees retirement plan under chapter 353E as of
 2.23 June 30, 2002, retains that membership for the duration of the person's employment in that
 2.24 position or incumbency in elected office. Except as provided in subdivision 28, the person
 2.25 shall participate as a member until the employee or elected official terminates public
 2.26 employment under subdivision 11a or terminates membership under subdivision 11b.

2.27 (c) If the salary of an included public employee is less than ~~\$425~~ the minimum
 2.28 monthly salary figure under subdivision 2e in any subsequent month, the member retains
 2.29 membership eligibility.

2.30 (d) For the purpose of participation in the MERF division of the general employees
 2.31 retirement plan, public employees include employees who were members of the former
 2.32 Minneapolis Employees Retirement Fund on June 29, 2010, and who participate as
 2.33 members of the MERF division of the association.

2.34 **EFFECTIVE DATE.** This section is effective July 1, 2012.

2.35 Sec. 2. Minnesota Statutes 2010, section 353.01, subdivision 2b, is amended to read:

3.1 Subd. 2b. **Excluded employees.** (a) The following public employees are not eligible
3.2 to participate as members of the association with retirement coverage by the general
3.3 employees retirement plan, the local government correctional employees retirement plan
3.4 under chapter 353E, or the public employees police and fire retirement plan:

3.5 (1) persons whose salary from one governmental subdivision never exceeds ~~\$425~~
3.6 the minimum monthly salary figure under subdivision 2e in a month;

3.7 (2) public officers who are elected to a governing body, city mayors, or persons who
3.8 are appointed to fill a vacancy in an elective office of a governing body, whose term of
3.9 office commences on or after July 1, 2002, for the service to be rendered in that elective
3.10 position;

3.11 (3) election officers or election judges;

3.12 (4) patient and inmate personnel who perform services for a governmental
3.13 subdivision;

3.14 (5) except as otherwise specified in subdivision 12a, employees who are hired for
3.15 a temporary position as defined under subdivision 12a, and employees who resign from
3.16 a nontemporary position and accept a temporary position within 30 days in the same
3.17 governmental subdivision;

3.18 (6) employees who are employed by reason of work emergency caused by fire,
3.19 flood, storm, or similar disaster;

3.20 (7) employees who by virtue of their employment in one governmental subdivision
3.21 are required by law to be a member of and to contribute to any of the plans or funds
3.22 administered by the Minnesota State Retirement System, the Teachers Retirement
3.23 Association, the Duluth Teachers Retirement Fund Association, the St. Paul Teachers
3.24 Retirement Fund Association, or any police or firefighters relief association governed by
3.25 section 69.77 that has not consolidated with the Public Employees Retirement Association,
3.26 or any local police or firefighters consolidation account who have not elected the type of
3.27 benefit coverage provided by the public employees police and fire fund under sections
3.28 353A.01 to 353A.10, or any persons covered by section 353.665, subdivision 4, 5, or 6,
3.29 who have not elected public employees police and fire plan benefit coverage. This clause
3.30 must not be construed to prevent a person from being a member of and contributing to
3.31 the Public Employees Retirement Association and also belonging to and contributing to
3.32 another public pension plan or fund for other service occurring during the same period
3.33 of time. A person who meets the definition of "public employee" in subdivision 2 by
3.34 virtue of other service occurring during the same period of time becomes a member of the
3.35 association unless contributions are made to another public retirement fund on the salary

4.1 based on the other service or to the Teachers Retirement Association by a teacher as
4.2 defined in section 354.05, subdivision 2;

4.3 (8) persons who are members of a religious order and are excluded from coverage
4.4 under the federal Old Age, Survivors, Disability, and Health Insurance Program for the
4.5 performance of service as specified in United States Code, title 42, section 410(a)(8)(A),
4.6 as amended through January 1, 1987, if no irrevocable election of coverage has been made
4.7 under section 3121(r) of the Internal Revenue Code of 1954, as amended;

4.8 (9) employees of a governmental subdivision who have not reached the age of
4.9 23 and are enrolled on a full-time basis to attend or are attending classes on a full-time
4.10 basis at an accredited school, college, or university in an undergraduate, graduate, or
4.11 professional-technical program, or a public or charter high school;

4.12 (10) resident physicians, medical interns, and pharmacist residents and pharmacist
4.13 interns who are serving in a degree or residency program in public hospitals or clinics;

4.14 (11) students who are serving in an internship or residency program sponsored
4.15 by an accredited educational institution;

4.16 (12) persons who hold a part-time adult supplementary technical college license who
4.17 render part-time teaching service in a technical college;

4.18 (13) except for employees of Hennepin County or Hennepin Healthcare System, Inc.,
4.19 foreign citizens who are employed by a governmental subdivision under a work permit, or
4.20 an H-1b visa initially issued or extended for a combined period less than three years of
4.21 employment. Upon extension of the employment beyond the three-year period, the foreign
4.22 citizens must be reported for membership beginning the first of the month thereafter
4.23 provided the monthly earnings threshold as provided under subdivision 2a is met;

4.24 (14) public hospital employees who elected not to participate as members of the
4.25 association before 1972 and who did not elect to participate from July 1, 1988, to October
4.26 1, 1988;

4.27 (15) except as provided in section 353.86, volunteer ambulance service personnel, as
4.28 defined in subdivision 35, but persons who serve as volunteer ambulance service personnel
4.29 may still qualify as public employees under subdivision 2 and may be members of the
4.30 Public Employees Retirement Association and participants in the general employees
4.31 retirement plan or the public employees police and fire plan, whichever applies, on the
4.32 basis of compensation received from public employment service other than service as
4.33 volunteer ambulance service personnel;

4.34 (16) except as provided in section 353.87, volunteer firefighters, as defined in
4.35 subdivision 36, engaging in activities undertaken as part of volunteer firefighter duties,
4.36 but a person who is a volunteer firefighter may still qualify as a public employee under

5.1 subdivision 2 and may be a member of the Public Employees Retirement Association and
5.2 a participant in the general employees retirement plan or the public employees police
5.3 and fire plan, whichever applies, on the basis of compensation received from public
5.4 employment activities other than those as a volunteer firefighter;

5.5 (17) pipefitters and associated trades personnel employed by Independent School
5.6 District No. 625, St. Paul, with coverage under a collective bargaining agreement by the
5.7 pipefitters local 455 pension plan who were either first employed after May 1, 1997, or,
5.8 if first employed before May 2, 1997, elected to be excluded under Laws 1997, chapter
5.9 241, article 2, section 12;

5.10 (18) electrical workers, plumbers, carpenters, and associated trades personnel who
5.11 are employed by Independent School District No. 625, St. Paul, or the city of St. Paul,
5.12 who have retirement coverage under a collective bargaining agreement by the Electrical
5.13 Workers Local 110 pension plan, the United Association Plumbers Local 34 pension plan,
5.14 or the pension plan applicable to Carpenters Local 87 who were either first employed after
5.15 May 1, 2000, or, if first employed before May 2, 2000, elected to be excluded under
5.16 Laws 2000, chapter 461, article 7, section 5;

5.17 (19) bricklayers, allied craftworkers, cement masons, glaziers, glassworkers,
5.18 painters, allied tradesworkers, and plasterers who are employed by the city of St. Paul
5.19 or Independent School District No. 625, St. Paul, with coverage under a collective
5.20 bargaining agreement by the Bricklayers and Allied Craftworkers Local 1 pension plan,
5.21 the Cement Masons Local 633 pension plan, the Glaziers and Glassworkers Local L-1324
5.22 pension plan, the Painters and Allied Trades Local 61 pension plan, or the Twin Cities
5.23 Plasterers Local 265 pension plan who were either first employed after May 1, 2001, or if
5.24 first employed before May 2, 2001, elected to be excluded under Laws 2001, First Special
5.25 Session chapter 10, article 10, section 6;

5.26 (20) plumbers who are employed by the Metropolitan Airports Commission, with
5.27 coverage under a collective bargaining agreement by the Plumbers Local 34 pension plan,
5.28 who either were first employed after May 1, 2001, or if first employed before May 2,
5.29 2001, elected to be excluded under Laws 2001, First Special Session chapter 10, article
5.30 10, section 6;

5.31 (21) employees who are hired after June 30, 2002, to fill seasonal positions under
5.32 subdivision 12b which are limited in duration by the employer to 185 consecutive calendar
5.33 days or less in each year of employment with the governmental subdivision;

5.34 (22) persons who are provided supported employment or work-study positions
5.35 by a governmental subdivision and who participate in an employment or industries
5.36 program maintained for the benefit of these persons where the governmental subdivision

6.1 limits the position's duration to three years or less, including persons participating in a
 6.2 federal or state subsidized on-the-job training, work experience, senior citizen, youth, or
 6.3 unemployment relief program where the training or work experience is not provided as a
 6.4 part of, or for, future permanent public employment;

6.5 (23) independent contractors and the employees of independent contractors;

6.6 (24) reemployed annuitants of the association during the course of that
 6.7 reemployment; and

6.8 (25) persons appointed to serve on a board or commission of a governmental
 6.9 subdivision or an instrumentality thereof.

6.10 (b) Any person performing the duties of a public officer in a position defined in
 6.11 subdivision 2a, paragraph (a), clause (3), is not an independent contractor and is not an
 6.12 employee of an independent contractor.

6.13 **EFFECTIVE DATE.** This section is effective July 1, 2012.

6.14 Sec. 3. Minnesota Statutes 2010, section 353.01, is amended by adding a subdivision
 6.15 to read:

6.16 **Subd. 2e. Minimum monthly salary amount requirement.** The minimum
 6.17 monthly salary amount required for membership under subdivision 2a is:

6.18 (1) \$425 in any month before July 1, 2012;

6.19 (2) \$773 in any month from July 1, 2012, to June 30, 2013; and

6.20 (3) \$773 plus an amount, rounded up or down to the nearest full dollar amount,
 6.21 representing the percentage change in the Consumer Price Index-All Urban Consumers
 6.22 reported by the Bureau of Labor Statistics of the United States Department of Labor from
 6.23 December 2011 to the most recent prior December, as determined and published by the
 6.24 executive director annually after June 30, 2013.

6.25 **EFFECTIVE DATE.** This section is effective July 1, 2012.