H.F. 2411 S.F. xxxx

(Lanning)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): TRA

Relevant Provisions of Law: Minnesota Statutes, Section 354.55, Subdivision 11

General Nature of Proposal: Eliminate deferred annuity reductions for TRA members already in deferred status as of the effective date of 2010 Financial Sustainability Provisions

Date of Summary: February 20, 2012

Specific Proposed Changes

- Eliminate, for those who were deferred TRA members before the enactment date of the 2010 Financial Sustainability Provisions, any deferred annuity reductions that would otherwise apply.

Policy Issues Raised by the Proposed Legislation

1. The sizable reduction in the eventual annuity caused by revised deferred annuity augmentation treatment under the 2010/2011 Financial Sustainability Provisions.

2. Whether those already in deferred status when the 2010/2011 reductions were enacted should have been excluded from those changes, leaving them instead subject to the treatment specified in law when the person terminated service. The previous revisions to deferred annuity augmentation policy passed in 2006 applied only to new hires.

3. The unknown cost to TRA of partially reversing the proposed reductions in deferred annuity augmentation treatment; the lack of a specified funding source to cover that cost increase; and the current relatively weak financial condition of TRA.

4. The appropriate date. The bill exempts those TRA former teachers in deferred status prior to the enactment date of the 2010 legislation. Other alternatives include use of effective date of that legislation, or July 1, 2012, which is the first date that the reduced augmentation rates will be used under the 2010/2011 legislation.

5. Tradeoff against those already retired. Any additional liabilities imposed on the plan will work against prompt return to funding ratios needed to pay higher post retirement increases.

6. Proper scope. The 2010/2011 legislation impacted deferred retirees from the Legislators Plan, MSRS-General, MSRS-Correctional, State Patrol, PERA-General, PERA-Correctional, PERA P&F, and the teacher plans, but this bill only reverses policy for TRA.

7. Question of whether the bill is supported by the TRA board and the applicable union(s).

Potential Amendments

H2411-1A would provide relief to TRA deferred annuitants who become deferred annuitants prior to July 1, 2012, rather than prior to the effective date of the 2010/2011 legislation. July 1, 2012 is the first day that lower deferred annuity augmentation rates will apply under the 2010/2011 legislation.

H2411-2A would expand the scope of the bill by expanding the treatment specified in the bill to MSRS-General, MSRS-Correctional, State Patrol Plan, Legislators Retirement Plan, PERA-General, PERA-Correctional, PERA-P&F, and the first class city teacher plans.

State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Ed Burek, Deputy Director EB

RE: H.F. 2411 (Lanning); S.F. xxxx: TRA; Eliminating Deferred Annuity Augmentation Reductions for Those Deferred Prior to 2010 Reduction Legislation Enactment Dates

DATE: February 20, 2012

Summary of H.F. 2411 (Lanning); S.F. xxxx

H.F. 2411 (Lanning); S.F. xxxx provides former teachers under the Teachers Retirement Association (TRA) in deferred retirement status prior to the enactment date of 2010 legislation which reduced deferred annuity augmentation rates after June 30, 2012, with the treatment specified in prior law, shielding them from reductions in deferred annuity augmentation that would otherwise apply

Background Information on Relevant Topics

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

- **Attachment A:** Background information on deferred annuity augmentation
- **Attachment B:** Detailed chart of the 2010 Financial Sustainability Provisions. Deferred annuity augmentation reductions were part of the package used to address that situation.

Discussion and Analysis

H.F. 2411 (Lanning); S.F. xxxx reverses the reductions to deferred annuity augmentation included in 2010 legislation (Laws 2010, Ch. 359, Art. 1, Sec. 56) for TRA deferred retirees who were in deferred status prior to the enactment date of that legislation which would have reduced their annuity. The enactment date of the legislation was May 15, 2010. For teachers who were in deferred status before the applicable enactment date, rather than having deferred annuities augment at 2% per year after June 30, 2012, the deferred annuity will continue to augment at 2.5% annually for teachers who became covered employees after June 30, 2006, and who terminated service before the applicable enactment date. For teachers who became covered employees before July 1, 2006, and who terminated service before the applicable enactment date, rather than 2% per year augmentation after June 30, 2012, augmentation will continue as specified in prior law: 3% per year to age 55 and 5% per year thereafter until the effective date of retirement.

Laws 2010, Chapter 359, Article 1, also included similar deferred annuity augmentation reductions for the Legislators Retirement Plan, the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the Correctional State Employees Retirement Plan (MSRS-Correctional), the State Patrol Retirement Plan, the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General), the Local Government Correctional Service Retirement Plan (PERA-Correctional), the Public Employees Police and Fire Retirement Plan (PERA-P&F), and the Duluth Teachers Retirement Fund Association (DTRFA). Laws 2011, First Special Session, Chapter 8, Article 2, Section 11, made similar reductions in deferred annuity augmentation for the St. Paul Teachers Retirement Fund Association (SPTRFA). H.F. 2411 (Lanning); S.F. xxxx does not address the deferred annuity augmentation reductions in these plans.

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. Recent Deferred Annuity Augmentation Rate Changes and Their Impact. The 2010 and 2011 legislation revised deferred annuity augmentation not just in TRA, but in all Minnesota public pension plans which have deferred annuity augmentation provisions (MSRS-General, MSRS-Correctional, State Patrol Plan, Legislators Plan, PERA-General, PERA-Correctional, PERA-P&F, DTRFA and SPTRFA).

   For all these plans the treatment under the 2010/2011 legislation is quite similar. For MSRS plans the treatment before and after the 2010 revisions are as described above for TRA, except that the date the revised deferred annuity augmentation rates begin is January 1, 2012, rather than July 1, 2012. For PERA plans, the dates and general approach are as described for MSRS, with a few important differences. For those who terminated service before December 31, 2011, the augmentation rate after December 31, 2011, will be 1%. And for any person who terminates after December 31, 2011, PERA plans will provide no deferred annuity augmentation.

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Under the changes enacted in 2010 and 2011, the revised deferred annuity augmentation treatment will apply not only to those who terminate after the effective date of the changes, but to those who were already in deferred status. This is unusual. Normally the presumption is that the individual's pension benefits are determined by the laws in effect on the termination-from-service date. The last time there was a meaningful change in deferred annuity augmentation procedures was in 2006. That change, however, contrasts with the 2010/2011 revisions by not impacting anyone already in deferred status, or any existing employee. The 2006 legislation applied to new hires only. Under the 2006 legislation all those hired after June 30, 2006, if they later leave service and have a deferred annuity, the augmentation rate was set at 2.5% per year rather than 3% per year to age 55 and 5% per year thereafter. The 2006 revisions applied to all plans which include deferred annuity augmentation in their laws

The changes enacted in 2010 and 2011 will have a significant impact on deferred annuitants. For illustration, some outcomes are shown in the table below assuming a TRA-covered teacher who started service before 2006 and has become a deferred annuitant. The chart shows the impact of the 2010/2011 deferred annuity augmentation rate changes assuming the teacher left employment before the 2010/2011 legislation, at age 53 or later and starts drawing the annuity at age 65. In the examples, an assumed $1,000 per month benefit at the time of termination from service is escalated to age 65 under the deferred annuity augmentation rates applicable assuming the pre-2010 or 2011 law, compared to escalation for the entire period under the 2% augmentation that will soon apply. The results would be the same for an MSRS, a DTRFA, or an SPTRFA deferred annuitant. The impact for a PERA deferred annuitant would be greater than shown, because only 1% augmentation will be used in PERA plans after December 31, 2011, assuming the person terminated prior to that date, and no augmentation at all will occur if the person terminates after December 31, 2011.

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 the teacher terminated at age 55 and delays receipt of the annuity until age 65, the deferred annuity would grow at 5% per year for ten years if prior law remained in effect, and by 2% per year under the recently enacted changes. Under prior 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.

The results in the following table are scalable. For instance, if the person terminated at age 53 and the annuity on that date would have been $2,000 per month rather than $1,000, the difference per month assuming commencement of the annuity at age 65 due to the new deferred annuity augmentation rates, would be $920 per month (2 x $460 = $920), rather than $460.

Table 1

Monthly Benefit Differences
Impact of Reduction in TRA Deferred Annuity Augmentation Rates
Due to 2010 Revision, Assuming Pre-July 1, 2006, Hires

Applicable Law	Age at Termination	Age of First Benefit Receipt	Deferred Annuity on Termination Date	Monthly Annuity When Benefit Commences	Difference Per Month
Pre-2010 Law	53	65	$1,000	$1,728	
Current Law	53	65	$1,000	$1,268	$460
Pre-2010 Law	55	65	$1,000	$1,629	
Current Law	55	65	$1,000	$1,219	$410
Pre-2010 Law	60	65	$1,000	$1,276	
Current Law	60	65	$1,000	$1,104	$172
Pre-2010 Law	64	65	$1,000	$1,050	
Current Law	64	65	$1,000	$1,020	$30

2. <u>2010 Financial Sustainability Measures</u>. The 2010/2011 deferred annuity augmentation reductions were one of many elements to reduce plan liabilities. All pension funds suffered considerable financial distress due to the market collapse of 2008 and 2009. The administrators for MSRS, PERA, TRA, and DTRFA responded with a 2010 session legislative proposal which was included in the Commission's omnibus bill and enacted as Laws 2010, Chapter 359, Article 1, entitled "Financial Sustainability Proposals." The plans covered in that article were all MSRS plans, including the Judges, Legislators, and Elected State Officer plans; all PERA plans; TRA; and DTRFA. A few changes were also included which are applicable for SPTRFA. The type of revision and applicable plans for each revision are shown in a chart as **Attachment B**. For a few plans (the State Patrol Plan, PERA-General, PERA-P&F,

TRA, and DTRFA) employee and employer contribution rate increases were included, although typically with some delay or phase in. All other changes indicated in the chart reduced plan liabilities. These changes were reductions, including in some cases elimination, of post-retirement adjustments; reduced interest rates paid on refunds of employee contributions; reduction, or in some cases elimination, of deferred annuity augmentation; elimination of paying interest on reemployed annuitant accounts; increasing the years of service required to vest; increasing the size of reductions when early retirement is taken; and (for MSRS-Correctional) reducing the benefit accrual rate.

Under the 2010 legislation, the SPTRFA took only one action to reduce its liabilities, and that action had little substance. Under the 2010 law, SPTRFA suspended the January 1, 2011, post-retirement adjustment. However, the SPTRFA post-retirement provision then in effect would have matched inflation as measured in 2010, and inflation was near zero. A minimal adjustment, if any, would have been paid if the 2011 adjustment had not been waived. For the 2011 session, the SPTRFA came back with a more substantial package to reduce liabilities, generally making changes similar to those enacted in 2010 for the DTRFA (see 1st Spec. Sess. Laws 2011, Ch. 8, Art. 2).

The post-retirement reductions for the various plans as summarized in the attachment deserve further comment. These reductions passed as requested by the plan administrators, and they have an unusual feature. The post-retirement adjustments are reduced, typically from 2.5% per year to 2% or less, and remain at the lower level until a funding ratio threshold is reached. Typically, that threshold is a 90% funding ratio, but there are some variations among the plans. Some will pay less than 2%, and a few will pay none for a year or more. The DTRFA will not provide any adjustment, possibly for an extended period. These divergent approaches are significant in several ways:

1) First, they create treatment disparities between retirees from different plans. All retirees face similar or identical inflation rates eroding the value of their benefits. Yet retirees will receive different rates of adjustment or in some cases none at all. This was a step away from established policy by creating less uniformity rather than more.
2) Second, rather than finding the resources to protect the retirees, their welfare is being dictated by funding condition.
3) Third, and important for consideration of the current bill draft, the approach pits the plan retirees against all other plan members by creating a direct tradeoff. Any effort to undo the deferred annuity augmentation reductions, refund reductions, or other cost-saving changes in the 2010/2011 legislation will increase plan liabilities. This in turn lowers the funding ratio, the ratio of assets divided by liabilities. This downward drag on the funding ratio works against the effort to get back to the funding ratio trigger needed to begin providing higher post-retirement increases.

3. <u>Cost Implication of Reversing Recently Enacted Deferred Annuity Reductions for Various Plans</u>. One implication of reversing, at least for those who terminate service before July 2012, the deferred annuity reductions imposed by the 2010 or 2011 legislation is that part of the cost savings expected to occur in the plans will be lost. Liabilities will increase. Commission staff is able to provide only a suggestion of what that impact would be. One problem is that readily available actuarial estimates for the cost savings expected under the 2010 or 2011 revisions often do not separate out the impact of the deferred annuity augmentation change. Generally, it is combined with the impact of the reduced interest rate on refunds. Another problem is that the current bill reinstates the prior deferred annuity augmentation treatment only for TRA deferred annuitants who terminate before July 1, 2012, rather than for all TRA deferred annuitants, or teachers who will someday be subject to the new treatment. Thus the bill would only partially undo the 2010/2011 deferred annuity treatment revisions, and only for TRA rather than all plans. A third problem is that any estimate would be derived from actuarial work that is a few years old, and thus is out of date.

   With the reservations stated above, Table 2 below suggests the cost savings due to revised deferred annuity augmentation policy, as a percent of covered payroll, as presented when the 2010/2011 legislation was being considered. The estimates for DTRFA, MSRS-General, and State Patrol appear to be the only plans where there is an estimate solely for the deferred annuity augmentation change. The information for the other plans includes the impact of also changing refund interest rates.

   Table 2 suggests that the deferred annuity augmentation policy, when it was enacted, was expected to save no more than 0.7% of payroll in any plan, and for many of the plans that also includes the impact of reducing the interest rate (from 6% to 4%) paid on refunds. For TRA the savings amount to about $16.4 million a year; for DTRFA and SPTRFA combined, the savings is slightly under a $1 million annually. A partial reversal of the deferred augmentation changes, as would be required by this bill draft, would add back to plan cost some portion of the estimated savings shown in the final column.

Table 2

Estimated Deferred Annuity Cost Savings
Due to 2010/2011 Plan Revisions, Based on 2011 Payroll

Plan	Normal Cost Reduction	Amortization Reduction	Total Reduction	Payroll	Current Yearly Dollar Savings
TRA [1]	0.20%	0.20%	0.40%	$4,107,000,000	$16,400,000
DTRFA	0.10%	0.27%	0.28%	$54,000,000	$150,000
SPTRFA [1]	0.15%	0.19%	0.34%	$240,000,000	$820,000
MSRS-General	0.20%	0.50%	0.70%	$2,459,000,000	$17,200,000
MSRS-Correctional [1]	0.20%	0.10%	0.30%	$206,000,000	$620,000
State Patrol	0.00%	0.10%	0.10%	$66,000,000	$70,000
PERA-General [1]	0.20%	0.50%	0.70%	$5,184,000,000	$36,300,000
PERA-P&F [1]	0.30%	0.20%	0.50%	$797,000,000	$3,990,000
PERA-Correctional [1]	0.50%	0.20%	0.70%	$173,000,000	$1,210,000

Of all the plans in Table 2, PERA-General has by far the largest cost savings, $36.3 million. This is much larger than the TRA savings of $16.4 million. Even MSRS-General, with $17.2 million, has a larger savings than TRA despite MSRS-General having a much smaller payroll, $2.459 million, than TRA's $4.107 million. Part of the reason may be that deferred annuitants are a larger portion of the membership in MSRS-General and PERA-General compared to TRA.

Table 3 shows for the general employee plans (MSRS-General, PERA-General, and the three teacher plans) the portion of the membership in each category. Table 3 indicates that, although the proposed legislation will impact only the teacher plans, there are more deferred annuitants in MSRS-General than there is in the three teacher plans combined. And PERA-General has more twice as many deferred members than MSRS-General. In MSRS-General, deferred annuitants account for 15.5% of the total membership. In PERA-General, that percentage is 12.4%. In TRA, only 7.8% of the membership is deferred. In DTRFA, that percentage is also low, 8.6% of the total membership, but the SPTRFA percent is quite high, 18.1% of the membership, higher than any other general employee plan.

Table 3

2011 General Employee Plan Membership

	MSRS-General		PERA-General		TRA		DTRFA		SPTRFA	
Active Members	48.1%	47,955	38.2%	139,952	45.5%	76,755	29.8%	1,006	34.5%	3,578
Service Retirees	25.0%	24,900	17.0%	62,198	29.1%	49,079	36.0%	1,216	27.6%	2,864
Disabilitants	1.7%	1,723	0.6%	2,334	0.4%	602	0.6%	19	0.3%	29
Survivors	3.6%	3,541	2.0%	7,289	2.3%	3,856	3.2%	109	3.1%	319
Deferred Retirees	15.5%	15,422	12.4%	45,325	7.8%	13,237	8.6%	290	18.1%	1,880
Nonvested Former Members	6.1%	6,117	29.9%	109,630	14.9%	25,196	21.8%	735	16.4%	1,698
Total Membership	100%	99,658	100%	366,728	100%	168,725	100%	3,375	100%	10,368

The numbers and percentages in Table 3 for deferred annuitants provide at least a partial explanation for the results noted in Table 2. The less generous deferred annuity treatment (unfortunately often combined in Table 2 with the savings from the refund interest rate reductions) saved 0.4% of payroll in TRA, but an estimated 0.7% of payroll in MSRS-General and PERA-General. A larger percentage of the MSRS-General and PERA-General membership is deferred compared to TRA, so a reduction in deferred annuity augmentation creates more cost savings in those MSRS and PERA plans.

4. Legal Questions. The recent post-retirement adjustment revisions were challenged in court, but the challenge was not successful. The general question was whether the pre-2010 post-retirement adjustment procedures represented an implied contract, which could not be revised by diminishing those adjustments. The court found that post-retirement adjustments had been changed several times in recent years, undermining any expectation that post-retirement adjustments specified in law represent a binding agreement or implied contract. Commission staff is not aware of any legal challenge to the recently enacted deferred annuity augmentation provisions.

5. Need for the Change. An issue is whether there is sufficient need for the change. As shown above, the deferred annuity augmentation changes enacted in 2010 and 2011 can considerably reduce the annuity which a deferred annuitant will eventually receive. The longer the person is in deferred status and subject to the new lower augmentation rates, the larger the impact on the individual. No benefit reductions were proposed for any plan members who remain active, although depending on contribution rate changes they may pay more for their benefits. No reduction in benefits paid to retirees was included, although the rate of increase in those benefits will be less. Only deferred retirees will face an actual reduction in the benefit

[1] *Includes cost savings due to a combination of revised deferred annuity augmentation and a reduced interest rate on refunds.*

amount they expected when they retire. Commission members may wish to weigh the considerable impact that the augmentation reduction will have on the individuals subject to this change against the cost of partial reversal as required under the bill draft, once that cost has been determined.

6. Appropriate Date. If the Commission concludes that relief is appropriate for those who terminated service prior to the 2010 legislation, an issue is how to define the cutoff date for the group that will receive relief. The proposed legislation requires that the person had to be a TRA deferred annuitant and had to terminate service prior to the enactment date of the legislation that reduced deferred annuity accrual rates. An alternative is the date that the particular provision became effective. Another is July 1, 2012, which is the first date stated in the provisions for use of the new reduced augmentation rates.

7. Lack of Deferred Member Representation When Boards Developed Benefit Reduction Package. The issue is the lack of input and representation by deferred retirees when pension plan administrators put together the package of reductions which contained the deferred annuity reductions. The pension plan boards have active member and retired member board representatives. However, they do not have deferred members on their boards. In some, possibly all of these plan systems, deferred members are not permitted to vote in board elections. Thus, when the package of plan benefit reductions was being developed by these boards, the interests of deferred retirees were not well represented.

8. Deferred Member Equity Arguments. Deferred members may wish to testify regarding this proposal. Deferred members who were already in deferred status when the 2010/2011 legislation was enacted may argue that they should have been excluded from the change because they assumed that the law in effect when they terminated service would apply to their pensions. In the 2006 change in deferred annuitant policy, the plans took care to exclude from the change not only those already deferred but also all existing employees. The 2006 legislation applied only to new employees.

9. Cost. The issue is the cost that the proposed legislation would impose on the plans. Commission staff is not aware of any actuarial work that has been done on this proposal. It is unclear who would be willing to pay for the needed analysis. The Commission rarely considers provisions which improve benefits, and thus increase cost, without knowing the impact on plan liabilities and contribution requirements. The Commission also typically addresses not only the added contribution or aid requirements stemming from the immediate proposal, but also addresses any existing contribution deficiency of the plan. However, once estimates are available, it is possible that the Commission might conclude that the added liabilities created by this proposal are immaterial, and no immediate revision in contributions or aid is needed.

10. Lack of Funding Source. The issue is the lack of any specified way to address the added plan cost. The proposal does not include provisions to revise contribution rates, extend amortization dates, or revise aid to address the cost issue. TRA does have a provision in its statutes (Minn. Stat. Sec. 354.42, Subd. 4a-4d) which can require contribution rates to be increased to gradually eliminate a contribution deficiency, and to be lowered to eliminate a contribution sufficiency, unless the Legislature overrules the change, but these mechanisms were recently enacted and will first be used in 2015.

11. Scope. The issue is the proper scope. The proposed legislation reverses the recently enacted deferred annuity augmentation reductions for TRA members who terminated before the enactment date of the 2010 legislation, but does nothing for similar deferred retirees in first class city teacher plans, MSRS, and PERA plans. Permitting this reversal only for some raises the issue of fairness; it would create further differences in treatment of similar individuals in general employee plans. MSRS and PERA plans, which are not covered by this proposal, have far more deferred retirees than the teacher plans. However, expanding the scope will increase the total cost.

12. Deferred Annuitant/Retiree Tradeoff. The issue is the harm that may be done to teacher plan pensioners caused by improving the deferred annuitant treatment. An unfortunate consequence of the way the plan administrators structured the 2010/2011 revisions is that a direct tradeoff now exists between the plan retirees and other members. Any action which adds to plan cost will delay the date at which post-retirement adjustments will return to more normal levels, unless the change is accompanied by an immediate injection of assets sufficient to keep the plan funding ratio from declining. Extending the full funding dates (which is not included in this proposal) would not be an ideal approach. For some plans full funding dates were recently extended by the 2010/2011 legislation, and if that approach is used again it will likely lengthen the time it takes to reach the post-retirement adjustment funding ratio triggers.

13. Weak Actuarial Condition of the Retirement Plans. The issue is the present actuarial condition of TRA, which is covered by this bill, and the various other plans with similar deferred annuity provisions but which are not covered by the bill. A presentation of the 2011 actuarial condition of the three teacher plans and also of the various MSRS and PERA plans appears below in Table 4. TRA has a 77% funding ratio, noticeably less than MSRS-General, and TRA also has a significant contribution deficiency, 3.88%

of payroll. That means that the contributions and aid received by the fund are 3.88% of payroll (about $160 million in 2011) less than the amount required to keep the plan on the intended path to full funding. If that deficiency continues, it will be difficult to increase the funding ratio, and the ratio might instead fall. Addressing that existing contribution deficiency may tax existing resources. There are provisions in TRA law which in the near future may trigger automatic contribution rate increases. DTRFA and SPTRFA have funding issues. In recent years, Commission staff has questioned whether these two organizations are financially viable. The DTRFA is 73% funded and has a 3.73% contribution deficiency. The SPTRFA funding ratio is 70%, but it has a 2.27% contribution deficiency. The SPTRFA is unusual in using a rolling amortization period (25 years) which leads to an understatement of the contribution deficiency compared to the result which would be shown if it used the same fixed amortization period approach used by the other plans.

Table 4

	MSRS-General 2011		PERA-General 2011		TRA 2011		DTRFA 2011		SPTRFA 2011	
Membership										
Active Members		47,955		139,952		76,755		1,006		3,578
Service Retirees		24,900		62,198		49,079		1,216		2,864
Disabilitants		1,723		2,334		602		19		29
Survivors		3,541		7,289		3,856		109		319
Deferred Retirees		15,422		45,325		13,237		290		1,880
Nonvest. Form. Mem.		6,117		109,630		25,196		735		1,698
Total Membership		99,658		366,728		168,725		3,375		10,368
Funded Status										
Accrued Liability		$10,576,481,000		$17,898,849,000		$22,171,493,000		$321,065,000		$1,389,875,000
Current Assets		$9,130,011,000		$13,455,753,000		$17,132,383,000		$235,071,975		$972,718,000
Unfund. Accr. Liability		$1,446,470,000		$4,443,096,000		$5,039,110,000		$85,993,025		$417,157,000
Funding Ratio	86.32%		75.18%		77.27%		73.22%		69.99%	
Financing Requirements										
Covered Payroll		$2,459,441,000		$5,183,629,000		$4,106,922,000		$54,279,300		$239,501,000
Benefits Payable		$505,573,000		$950,708,000		$1,459,550,000		$24,067,915		$97,287,000
Normal Cost	7.14%	$175,488,000	6.65%	$344,925,000	8.17%	$335,649,000	6.08%	$3,298,919	7.59%	$18,165,000
Admin. Expenses	0.19%	$4,673,000	0.19%	$9,849,000	0.24%	$9,857,000	0.89%	$483,086	0.29%	$694,000
Amortization	3.70%	$90,999,000	6.63%	$343,675,000	8.16%	$335,125,000	10.27%	$5,574,484	10.49%	$25,124,000
Total Requirements	11.03%	$271,160,000	13.47%	$698,449,000	16.57%	$680,631,000	17.23%	$9,356,489	18.37%	$43,983,000
Employee Contributions	5.00%	$122,972,000	6.25%	$323,996,000	6.00%	$246,490,000	6.00%	$3,256,758	5.78%	$13,838,000
Employer Contributions	5.00%	$122,972,000	7.25%	$375,846,000	6.16%	$252,854,000	6.29%	$3,414,168	8.63%	$20,661,000
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	0.00%	$0	0.00%	$0	0.53%	$21,510,000	1.21%	$658,535	1.69%	$4,057,000
Other Govt. Funding	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Admin. Assessment	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	10.00%	$245,944,000	13.50%	$699,842,000	12.69%	$520,854,000	13.50%	$7,329,461	16.10%	$38,556,000
Total Requirements	11.03%	$271,160,000	13.47%	$698,449,000	16.57%	$680,631,000	17.23%	$9,356,489	18.37%	$43,983,000
Total Contributions	10.00%	$245,944,000	13.50%	$699,842,000	12.69%	$520,854,000	13.50%	$7,329,461	16.10%	$38,556,000
Deficiency (Surplus)	1.03%	$25,216,000	(0.03%)	($1,393,000)	3.88%	$159,777,000	3.73%	$2,027,028	2.27%	$5,427,000

	MSRS-Correctional 2011		State Patrol 2011		PERA-P&F 2011		PERA-Correctional 2011	
Membership								
Active Members		4,322		862		10,880		3,510
Service Retirees		1,621		700		5,549		373
Disabilitants		230		48		864		133
Survivors		165		184		1,435		22
Deferred Retirees		1,035		38		1,335		1,981
Nonvest. Form. Mem.		501		15		870		1,624
Total Membership		7,874		1,847		20,933		7,643
Funded Status								
Accrued Liability		$907,012,000		$700,898,000		$6,363,546,000		$284,593,000
Current Assets		$637,027,000		$563,046,000		$5,274,602,000		$274,704,000
Unfund. Accr. Liability		$269,985,000		$137,852,000		$1,088,944,000		$9,889,000
Funding Ratio	70.23%		80.33%		82.89%		96.53%	
Financing Requirements								
Covered Payroll		$205,608,000		$66,035,000		$796,689,000		$173,157,000
Benefits Payable		$39,116,000		$47,844,000		$342,219,000		$4,026,000
Normal Cost	17.89%	$36,793,000	22.91%	$15,127,000	19.77%	$157,490,000	12.68%	$21,958,000
Admin. Expenses	0.17%	$350,000	0.14%	$92,000	0.10%	$797,000	0.13%	$229,000
Amortization	7.94%	$16,325,000	13.20%	$8,717,000	8.91%	$70,985,000	0.61%	$1,056,000
Total Requirements	26.00%	$53,468,000	36.25%	$23,936,000	28.78%	$229,272,000	13.42%	$23,243,000
Employee Contributions	8.60%	$17,682,000	12.40%	$8,188,000	9.60%	$76,482,000	5.83%	$10,095,000
Employer Contributions	12.10%	$24,879,000	18.60%	$12,283,000	14.40%	$114,723,000	8.75%	$15,151,000
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Other Govt. Funding	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Admin. Assessment	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	20.70%	$42,561,000	31.00%	$20,471,000	24.00%	$191,205,000	14.58%	$25,246,000
Total Requirements	26.00%	$53,468,000	36.25%	$23,936,000	28.78%	$229,272,000	13.42%	$23,243,000
Total Contributions	20.70%	$42,561,000	31.00%	$20,471,000	24.00%	$191,205,000	14.58%	$25,246,000
Deficiency (Surplus)	5.30%	$10,907,000	5.25%	$3,465,000	4.78%	$38,067,000	(1.16%)	($2,003,000)

14. Position of TRA Board. The issue is whether TRA supports this proposal.

15. Teacher Union Support. The issue is whether the proposal has the support of the union or unions representing teachers.

Potential Amendments for Commission Consideration

Amendment H2411-1A revises the size of the group receiving relief by providing relief to ex-teachers with TRA coverage who become deferred annuitants prior to July 1, 2012, rather than prior to the effective date of the 2010/2011 legislation. July 1, 2012 is the first day that lower deferred annuity augmentation rates will apply under the 2010 legislation.

Amendment H2411-2A expands the scope of the bill by reversing the impact of the 2010 legislation for those who were already in deferred status on the enactment date of that 2010 legislation for all plans which were not included in H.F. 2411; S.F. xxxx. Those additional plans are MSRS-General, MSRS-Correctional, MSRS State Patrol, the Legislators Retirement Plan, PERA-General, PERA-Correctional, PERA-P&F, and the two first class city teacher plans.

If the Commission wishes to include some but not all of those additional plans, that could be accomplished by verbal amendments to Amendment H2411-2A.

A motion to delete:

- Section 1 of the amendment will remove the Legislators Retirement Plan from the amendment. That verbal amendment would cause members of the Legislators Plan who were already in deferred status on the enactment date of the 2010 legislation to remain subject to the reductions in deferred annuity augmentation specified in the 2010 legislation.
- Section 2 of H2411-2A would remove MSRS-General and MSRS-Correctional.
- Section 3 of H2411-2A would remove the State Patrol Retirement Plan.
- Section 4 of H2411-2A would remove PERA-General, PERA-Correctional, and PERA-P&F.
- Section 6 of H2411-2A will remove the DTRFA and the SPTRFA.

Background Information on Deferred Annuities Augmentation

1. Definition. In Minnesota public pension plans, deferred annuity augmentation refers to increasing the amount of a deferred retirement annuity by a percentage amount over time prior to receipt. This replaces all or part of lost purchasing power in the unpaid retirement annuity due to inflation. Under current law as revised in 2010, for Teachers Retirement Association (TRA) members who were hired before July 1, 2006, if, when they defer receipt of the annuity when they terminate service, the deferred annuity increases (augments) by 3% annually until the first of the year after the individual turns age 55, and by 5% per year thereafter. However, due to 2010 legislation, after June 30, 2012, the augmentation rate will be 2% per year, regardless of the person's age. For teachers first hired after June 30, 2006, when they terminate service the deferred annuity augmentation rate is 2.5% per year, and 2% per year after June 30, 2012.

   Deferred annuity augmentation was added in 1971 to Public Employees Retirement Association (PERA) plans, Minnesota State Retirement System (MSRS) plans, TRA, and was also added to the first class city teacher plans in 1989.

   Minnesota public pension plans are relatively unique among public and private defined benefit plans in providing deferred annuities augmentation. To the best knowledge of the Commission staff, only the Oregon statewide public employee defined benefit plans also provide deferred annuity augmentation.

   The Minnesota and Oregon plans that have deferred annuities augmentation are defined benefit plans. Defined benefit plans utilize a fixed formula to determine pension benefit amounts (typically years of service multiplied by a percentage benefit accrual rate amount and applied to a final salary or final average salary base). Since the benefit is fixed or specified in law from the individual's salary and service, the variable element is the contributions needed to fund those benefits. Defined benefit plans are distinguished from defined contribution plans, such as the Higher Education Individual Retirement Account Plan (IRAP), Individual Retirement Accounts (IRAs), or Section 401(k) plans, where the fixed element is the level of contributions funding the plan, and the variable element is the benefit to be derived, which is dependent on the investment earnings over time on the stream of contributions and the age of the individual at retirement.

   When a person covered by a defined contribution plan changes employment and thus is no longer eligible for the employer's plan, the value of the account will continue to increase over time due to investment earnings on the account. Thus, the eventual retirement annuity that can be supported by the account's value will increase. Deferred annuity augmentation in a defined benefit plan provides a somewhat comparable effect. The individual's deferred retirement annuity is not locked in amount at the time the individual leaves covered service. It continues to grow over time by the percentages specified in law.

   Having deferred annuity augmentation in a defined benefit plans does add to plan cost. Because of the augmentation, the deferred annuitants receive higher benefits at the time of retirement than would be the case if the benefit were fixed at the time of termination of the covered employment.

2. Minnesota Plans with Deferred Annuity Augmentation Provisions. Several Minnesota public pension plans have deferred annuity augmentation provisions, although there are minor differences between provisions in the various plans. All these provisions were revised in 2010 to reduce deferred annuities augmentation or, in the case of PERA plans, to eliminate it entirely as of January 1, 2012. The current law deferred annuity augmentation provisions are:

Section:	Applies to:
3A.02, Subd. 4	Legislators Retirement Plan
352.72, Subd. 2	General State Employees Retirement Plan (MSRS-General) Correctional State Employees Retirement Plan (MSRS-Correctional)
352B.30, Subd. 2	State Patrol Retirement Plan
353.71, Subd.2	PERA/PERA-P&F plans, and presumably also to the Local Government Correctional Service Retirement Plan (PERA-Correctional).
354.55, Subd.11	TRA
354A.37, Subd. 2	First class city teacher retirement fund associations.

   The Judges Retirement Plan (administered by MSRS) has no deferred annuities augmentation provision, which may reflect an assumption that Judges will continue in office until retirement.

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
2. Employer	--	--	+3.0%	--	--	--	+0.25%	--	+0.3%	+2.0%	+1.00%	+1.00% C&B
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

.... moves to amend H.F. No. 2411; S.F. No. .... as follows:

Delete everything after the enacting clause and insert:

"Section 1. Minnesota Statutes 2010, section 354.55, subdivision 11, is amended to read:

Subd. 11. **Deferred annuity; augmentation.** (a) Any person covered under section 354.44, subdivision 6, who ceases to render teaching service, may leave the person's accumulated deductions in the fund for the purpose of receiving a deferred annuity at retirement.

(b) The amount of the deferred retirement annuity is determined by section 354.44, subdivision 6, and augmented as provided in this subdivision. The required reserves for the annuity which had accrued when the member ceased to render teaching service must be augmented, as further specified in this subdivision, by the applicable interest rate compounded annually 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.

(c) No augmentation is ~~not~~ creditable if the deferral period is less than three months or if deferral commenced before July 1, 1971.

(d) For persons who became ~~covered employees~~ members before July 1, 2006, and who terminated service before July 1, 2012, with a deferral period commencing after June 30, 1971, the annuity must be augmented as follows:

(1) five percent interest compounded annually until January 1, 1981;

(2) three percent interest compounded annually from January 1, 1981, until January 1 of the year following the year in which the deferred annuitant attains age 55; and

(3) five percent interest compounded annually from the date established in clause (2) to the effective date of retirement ~~or until June 30, 2012, whichever is earlier; and~~.

~~(4) two percent interest compounded annually after June 30, 2012.~~

(e) For persons who became members before July 1, 2006, and terminated service after June 30, 2012, the interest rate used to augment the deferred annuity is two percent interest compounded annually to the effective date of retirement.

(f) For persons who become ~~covered employees~~ members after June 30, 2006, and who terminated service before July 1, 2012, the interest rate used to augment the deferred annuity is 2.5 percent interest compounded annually ~~until June 30, 2012, or until~~ to the effective date of retirement~~, whichever is earlier, and~~.

(g) For persons who became members after June 30, 2006, and who terminated service after June 30, 2012, the interest rate used to augment the deferred annuity is two percent ~~interest~~ compounded annually ~~after June 30, 2012~~ to the effective date of retirement.

~~(f)~~ (h) If a person has more than one period of uninterrupted service, a separate average salary determined under section 354.44, subdivision 6, must be used for each period and the required reserves related to each period must be augmented as specified in this subdivision. The sum of the augmented required reserves is the present value of the annuity. For the purposes of this subdivision, "period of uninterrupted service" means a period of covered teaching service during which the member has not been separated from active service for more than one fiscal year.

~~(g)~~ (i) 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 allowable service credit in the Teachers Retirement Association.

~~(h)~~ (j) If a person does not render teaching service in any one fiscal year or more consecutive fiscal years and then resumes teaching service, the formula percentages used from the date of the resumption of teaching service must be those applicable to new members.

~~(i)~~ (k) The mortality table and interest rate actuarial assumption used to compute the annuity must be the applicable mortality table established by the board under section 354.07, subdivision 1, and the interest rate actuarial assumption under section 356.215 in effect when the member retires.

~~(j)~~ (l) In no case may the annuity payable under this subdivision be less than the amount of annuity payable under section 354.44, subdivision 6.

~~(k)~~ (m) The requirements and provisions for retirement before normal retirement age contained in section 354.44, subdivision 6, also apply to an employee fulfilling the requirements with a combination of service as provided in section 354.60.

~~(l)~~ (n) The augmentation provided by this subdivision also applies to the benefit provided in section 354.46, subdivision 2.

~~(m)~~ (o) 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 covered by the provisions of this chapter.

~~(n)~~ (p) The retirement annuity or disability benefit of, or the survivor benefit payable on behalf of, a former teacher who terminated service before July 1, 1997, which is not first payable until after June 30, 1997, must be increased on an actuarial equivalent basis to reflect the change in the postretirement interest rate actuarial assumption under section 356.215, subdivision 8, from five percent to six percent under a calculation procedure and tables adopted by the board as recommended by an approved actuary and approved by the actuary retained under section 356.214.

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

Amend the title accordingly

.... moves to amend H.F. No. 2411; S.F. No. .... as follows:

Page 1, after line 5, insert:

"Section 1. Minnesota Statutes 2010, section 3A.02, subdivision 4, is amended to read:

Subd. 4. **Deferred annuities augmentation.** (a) The deferred retirement allowance of any former legislator must be augmented as provided ~~herein~~ in this subdivision.

(b) The required reserves applicable to the deferred retirement allowance, determined as of the date the benefit begins to accrue using an appropriate mortality table and an interest assumption of six percent, must be augmented from the first of the month following the termination of active service, or July 1, 1973, whichever is later, to the first day of the month in which the allowance begins to accrue, at the following annually compounded rate or rates~~:~~, as specified in paragraph (c) or (d), whichever is applicable.

(c) If the legislator terminates active service after May 14, 2010, the applicable rates are:

~~(1) five percent until January 1, 1981;~~

~~(2)~~ (1) three percent from ~~January 1, 1981, or from~~ the first day of the month following the termination of active servic~~e, whichever is later,~~ until January 1 of the year in which the former legislator attains age 55 or until January 1, 2012, whichever is earlier;

~~(3)~~ (2) five percent from the period end date under clause (2) until the effective date of retirement or until January 1, 2012, whichever is earlier; and

~~(4)~~ (3) two percent after December 31, 2011, until the effective date of retirement.

(d) If the legislator terminated active service before May 15, 2010, the applicable rates are:

(1) five percent until January 1, 1981;

(2) three percent from January 1, 1981, or from the first day of the month following the termination of active service, whichever is later, until January 1 of the year in which the former legislator attains age 55; and

(3) five percent from the period end date under clause (2) until the effective date of retirement.

EFFECTIVE DATE. This section is effective retroactively from December 31, 2011.

Sec. 2. Minnesota Statutes 2010, section 352.72, subdivision 2, is amended to read:

Subd. 2. **Computation of deferred annuity.** (a) The deferred annuity, if any, accruing under subdivision 1, or section 352.22, subdivision 3, must be computed as provided in section 352.22, subdivision 3, on the basis of allowable service before termination of state service and augmented as provided ~~herein~~ in this subdivision. The required reserves applicable to a deferred annuity or to an annuity for which a former employee was eligible but had not applied or to any deferred segment of an annuity must be determined as of the date the benefit begins to accrue and augmented by interest compounded annually from the first day of the month following the month in which the employee ceased to be a state employee, or July 1, 1971, whichever is later, to the first day of the month in which the annuity begins to accrue. The rates of interest used for this purpose ~~must be five percent compounded annually until January 1, 1981, and three percent compounded annually thereafter until January 1 of the year following the year in which the former employee attains age 55 or until January 1, 2012, whichever is earlier, and from the January 1 next following the attainment of age 55 to the effective date of retirement or until January 1, 2012, whichever is earlier, five percent compounded annually if the employee became an employee before July 1, 2006, 2.5 percent compounded annually until January 1, 2012, if the employee becomes an employee after June 30, 2006, and two percent compounded annually after December 31, 2011, irrespective of when the employee became a state employee~~ are as stated in paragraphs (b), (c), (d), or (e), whichever is applicable.

(b) For persons who became members before July 1, 2006, and who terminated service before May 15, 2010, with a deferral period commencing after June 30, 1971, the annuity must be augmented as follows:

(1) five percent interest compounded annually until January 1, 1981;

(2) three percent interest compounded annually from January 1, 1981, until January 1 of the year following the year in which the deferred annuitant attains age 55; and

(3) five percent interest compounded annually from the date established in clause (2) to the effective date of retirement.

(c) For persons who became members before July 1, 2006, and who terminate service after May 14, 2010, the annuity must be augmented as follows:

(1) three percent interest compounded annually to January 1 of the year following the year in which the deferred annuitant attains age 55;

(2) five percent interest compounded annually from the date established in clause (1) to the effective date of retirement or until December 31, 2011, whichever is earlier; and

(3) two percent interest compounded annually after December 31, 2011, to the effective date of retirement.

(d) For persons who became members after June 30, 2006, and who terminated service before May 15, 2010, the interest rate used to augment the deferred annuity is 2.5 percent interest compounded annually to the effective date of retirement.

(e) For persons who become members after June 30, 2006, and who terminate service after May 14, 2010, the interest rate used to augment the deferred annuity is 2.5 percent interest compounded annually until December 31, 2011, or until the effective date of retirement, whichever is earlier, and two percent interest compounded annually after December 31, 2011, to the effective date of retirement.

(f) If a person has more than one period of uninterrupted service, the required reserves related to each period must be augmented by interest under this subdivision. The sum of the augmented required reserves so determined is the present value of the annuity. "Uninterrupted service" for the purpose of this subdivision means periods of covered employment during which the employee has not been separated from state service for more than two years.

(g) If a person repays a refund, the service restored by the repayment must be considered continuous with the next period of service for which the employee has credit with this system. The formula percentages used for each period of uninterrupted service must be those applicable to a new employee.

(h) The mortality table and interest assumption used to compute the annuity must be those in effect when the employee files application for annuity. This section does not reduce the annuity otherwise payable under this chapter.

~~(b)~~ (i) The retirement annuity or disability benefit of, or the survivor benefit payable on behalf of, a former state employee who terminated service before July 1, 1997, which is not first payable until after June 30, 1997, must be increased on an actuarial equivalent basis to reflect the change in the postretirement interest rate actuarial assumption under section 356.215, subdivision 8, from five percent to six percent under a calculation procedure and the tables adopted by the board and approved by the actuary retained under section 356.214.

EFFECTIVE DATE. This section is effective retroactively from December 31, 2011.

Sec. 3. Minnesota Statutes 2010, section 352B.30, subdivision 2, is amended to read:

Subd. 2. **Computation of deferred annuity.** (a) Deferred annuities must be computed according to this chapter on the basis of allowable service before termination of service and augmented as provided in this chapter. The required reserves applicable to a deferred annuity must be augmented by interest compounded annually from the first day of the month following the month in which the member terminated service, or July 1, 1971, whichever is later, to the first day of the month in which the annuity begins to accrue. The rates of interest used for this purpose ~~must be five percent per year compounded annually until January 1, 1981, three percent per year compounded annually after January 1, 1981, until January 1, 2012, if the employee became an employee before July 1, 2006, 2.5 percent compounded annually if the employee becomes an employee after June 30, 2006, and two percent per year compounded annually after December 31, 2011, irrespective of when the employee was first employed~~ are as stated in paragraphs (b), (c), (d), or (e), whichever is applicable.. The mortality table and interest assumption used to compute the annuity must be those in effect when the member files application for annuity.

(b) For persons who became members before July 1, 2006, and who terminated service before May 15, 2010, with a deferral period commencing after June 30, 1971, the annuity must be augmented as follows:

(1) five percent interest compounded annually until January 1, 1981;

(2) three percent interest compounded annually after that date to the effective date of retirement.

(c) For persons who became members before July 1, 2006, and who terminate service after May 14, 2010, the annuity must be augmented as follows:

(1) three percent interest compounded annually to the effective date of retirement or until December 31, 2011, whichever is earlier; and

(2) two percent interest compounded annually after December 31, 2011, to the effective date of retirement.

(d) For persons who became members after June 30, 2006, and who terminated service before May 15, 2010, the interest rate used to augment the deferred annuity is 2.5 percent interest compounded annually to the effective date of retirement.

(e) For persons who become members after June 30, 2006, and who terminate service after May 14, 2010, the interest rate used to augment the deferred annuity is 2.5 percent interest compounded annually until December 31, 2011, or until the effective date of retirement, whichever is earlier, and two percent interest compounded annually after December 31, 2011, to the effective date of retirement.

EFFECTIVE DATE. This section is effective retroactively from December 31, 2011.

Sec. 4. Minnesota Statutes 2010, section 353.71, subdivision 2, is amended to read:

Subd. 2. **Deferred annuity computation; augmentation.** (a) The deferred annuity accruing under subdivision 1, or under sections 353.34, subdivision 3, and 353.68, subdivision 4, must be computed on the basis of allowable service prior to the termination of public service and augmented as provided in this subdivision. The required reserves applicable to a deferred annuity, or to any deferred segment of an annuity must be determined as of the first day of the month following the month in which the former member ceased to be a public employee, or July 1, 1971, whichever is later.

~~(b) For a person who became a public employee before July 1, 2006, whose period of deferral began after June 30, 1971, and who terminated public employment before January 1, 2012, the required reserves of the deferred annuity must be augmented at the following applicable rate or rates:~~

~~(1) five percent annual compound interest until January 1, 1981;~~

~~(2) three percent annual compound interest after January 1, 1981, or until the earlier of December 31, 2011, or after the date of the termination of public service or the termination of membership, whichever is later, until January 1 of the year following the year in which the former member attains age 55;~~

~~(3) five percent annual compound interest from January 1 of the year following the year in which the former member attains age 55, or until December 31, 2011, whichever is earlier; and~~

~~(4) one percent annual compound interest from January 1, 2012.~~

~~(c) For a person who became a public employee after June 30, 2006, and who terminated public employment before January 1, 2012, the required reserves of the deferred annuity must be augmented at 2.5 percent annual compound interest from the date of termination of public service or termination of membership, whichever is earlier, until December 31, 2011, and one percent annual compound interest after December 31, 2011.~~

(b) For persons who became members before July 1, 2006, and who terminated service before May 15, 2010, with a deferral period commencing after June 30, 1971, the annuity must be augmented as follows:

(1) five percent interest compounded annually until January 1, 1981;

(2) three percent interest compounded annually from January 1, 1981, until January 1 of the year following the year in which the deferred annuitant attains age 55; and

(3) five percent interest compounded annually from the date established in clause (2) to the effective date of retirement.

(c) For persons who became members before July 1, 2006, and who terminate service after May 14, 2010, and before January 1, 2012, the annuity must be augmented as follows:

(1) three percent interest compounded annually to January 1 of the year following the year in which the deferred annuitant attains age 55;

(2) five percent interest compounded annually from the date established in clause (1) to the effective date of retirement or until December 31, 2011, whichever is earlier; and

(3) one percent interest compounded annually after December 31, 2011, to the effective date of retirement.

(d) For persons who became members after June 30, 2006, and who terminated service before May 15, 2010, the interest rate used to augment the deferred annuity is 2.5 percent interest compounded annually to the effective date of retirement.

(e) For persons who become members after June 30, 2006, and who terminate service after May 14, 2010, and before January 1, 2012, the interest rate used to augment the deferred annuity is 2.5 percent interest compounded annually until December 31, 2011, or until the effective date of retirement, whichever is earlier, and one percent interest compounded annually after December 31, 2011, to the effective date of retirement.

~~(d)~~ (f) For a person who terminates public employment after December 31, 2011, the required reserves of the deferred annuity must not be augmented.

~~(e)~~ (g) If a person has more than one period of uninterrupted service, the required reserves related to each period must be augmented as specified in this paragraph. The sum of the augmented required reserves is the present value of the annuity. Uninterrupted service for the purpose of this subdivision means periods of covered employment during which the employee has not been separated from public service for more than two years. If a person repays a refund, the restored service must be considered as continuous with the next period of service for which the employee has credit with this association. This section must not reduce the annuity otherwise payable under this chapter. This paragraph applies to individuals who become deferred annuitants on or after July 1, 1971. For a member who became a deferred annuitant before July 1, 1971, the paragraph applies from July 1, 1971, if the former active member applies for an annuity after July 1, 1973.

~~(f)~~ (h) The retirement annuity or disability benefit of, or the survivor benefit payable on behalf of, a former member who terminated service before July 1, 1997, or the survivor benefit payable on behalf of a basic or police and fire member who was receiving disability benefits before July 1, 1997, which is first payable after June 30, 1997, must be increased on an actuarial equivalent basis to reflect the change in the postretirement interest rate actuarial assumption under section 356.215, subdivision 8, from five percent to six percent under a calculation procedure and tables adopted by the board and approved by the actuary retained under section 356.214.

EFFECTIVE DATE. This section is effective retroactively from December 31, 2011."

Page 3, after line 18, insert:

"Sec. 6. Minnesota Statutes 2011 Supplement, section 354A.37, subdivision 2, is amended to read:

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

(c) For purposes of this subdivision, "transition date" means May 15, 2010, for the Duluth Teachers Retirement Fund Association, and July 20, 2011, for the St. Paul Teachers Retirement Fund Association.

(d) If the person became a member before July 1, 2006, and terminated service before the transition date, 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 ~~July 1, 2012, and two percent compounded annually after that date to~~ the effective date of retirement.

(e) If the ~~employee~~ person became ~~an employee~~ a member before July 1, 2006, and ~~at~~ terminates on or after the transition date, the annuity must be augmented as follows:

(1) three percent interest compounded annually to January 1 of the year following the year in which the deferred annuitant attains age 55;

(2) five percent interest compounded annually from the date established in clause (1) to the effective date of retirement or until June 30, 2012, whichever is earlier; and

(3) two percent interest compounded annually after June 30, 2012, to the effective date of retirement.

(f) If the person became a member after June 30, 2006, and terminated service before the transition date, the rate of augmentation is 2.5 percent interest compounded annually to the effective date of retirement.

(g) If the person became a member after June 30, 2006, and terminates service on or after the transition date, the rate of augmentation is 2.5 percent compounded annually to July 1, 2012, or until the effective date of retirement, whichever is earlier, and two percent compounded annually after that date to the effective date of retirement ~~if the employee became an employee after June 30, 2006~~.

(h) 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. 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. The sum of the augmented monthly annuity amounts determines the total deferred annuity payable.

(i) 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.

(j) 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)~~ (k) The augmentation provided by this subdivision also applies to the benefit provided in section 354A.35, subdivision 2.

(l) The augmentation provided by this subdivision does not apply to any period in which a person is on an approved leave of absence from an employer unit.

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

Sec. 7. **BYLAW AUTHORIZATION.**

(a) Consistent with the requirements of Minnesota Statutes, section 354A.12, subdivision 4, the board of the Duluth Teachers Retirement Fund Association is authorized to revise the bylaws and articles of incorporation so that the changes in deferred annuity augmentation under Minnesota Statutes, section 354A.37, subdivision 2, also apply to the old law plan.

(b) 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 changes in deferred annuity augmentation under Minnesota Statutes, section 354A.37, subdivision 2, also apply to the basic plan.

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

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

State of Minnesota

HOUSE OF REPRESENTATIVES

EIGHTY-SEVENTH SESSION **H. F. No. 2411**

02/20/2012 Authored by Lanning
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; Teachers Retirement Association; revising deferred annuity augmentation rates for certain deferred annuitants; amending Minnesota Statutes 2010, section 354.55, subdivision 11.

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

Section 1. Minnesota Statutes 2010, section 354.55, subdivision 11, is amended to read:

Subd. 11. **Deferred annuity; augmentation.** (a) Any person covered under section 354.44, subdivision 6, who ceases to render teaching service, may leave the person's accumulated deductions in the fund for the purpose of receiving a deferred annuity at retirement.

(b) The amount of the deferred retirement annuity is determined by section 354.44, subdivision 6, and augmented as provided in this subdivision. The required reserves for the annuity which had accrued when the member ceased to render teaching service must be augmented, as further specified in this subdivision, by the applicable interest ~~rate~~ rates compounded annually 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.

(c) No augmentation is ~~not~~ creditable if the deferral period is less than three months or if deferral commenced before July 1, 1971.

(d) For persons who became ~~covered employees~~ members before July 1, 2006, and who terminated service before May 15, 2010, with a deferral period commencing after June 30, 1971, the annuity must be augmented as follows:

(1) five percent interest compounded annually until January 1, 1981;

(2) three percent interest compounded annually from January 1, 1981, until January 1 of the year following the year in which the deferred annuitant attains age 55; and

(3) five percent interest compounded annually from the date established in clause (2) to the effective date of retirement.

(e) For persons who became members before July 1, 2006, and who terminate service after May 14, 2010, the annuity must be augmented as follows:

(1) three percent interest compounded annually to January 1 of the year following the year in which the deferred annuitant attains age 55;

(2) five percent interest compounded annually from the date established in clause (1) to the effective date of retirement or until June 30, 2012, whichever is earlier; and

~~(4)~~ (3) two percent interest compounded annually after June 30, 2012, to the effective date of retirement.

(f) For persons who became members after June 30, 2006, and who terminated service before May 15, 2010, the interest rate used to augment the deferred annuity is 2.5 percent interest compounded annually to the effective date of retirement.

~~(e)~~ (g) For persons who become covered employees after June 30, 2006, and who terminate service after May 14, 2010, the interest rate used to augment the deferred annuity is 2.5 percent interest compounded annually until June 30, 2012, or until the effective date of retirement, whichever is earlier, and two percent interest compounded annually after June 30, 2012, to the effective date of retirement.

~~(f)~~ (h) If a person has more than one period of uninterrupted service, a separate average salary determined under section 354.44, subdivision 6, must be used for each period and the required reserves related to each period must be augmented as specified in this subdivision. The sum of the augmented required reserves is the present value of the annuity. For the purposes of this subdivision, "period of uninterrupted service" means a period of covered teaching service during which the member has not been separated from active service for more than one fiscal year.

~~(g)~~ (i) 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 allowable service credit in the Teachers Retirement Association.

~~(h)~~ (j) If a person does not render teaching service in any one fiscal year or more consecutive fiscal years and then resumes teaching service, the formula percentages used from the date of the resumption of teaching service must be those applicable to new members.

~~(i)~~ (k) The mortality table and interest rate actuarial assumption used to compute the annuity must be the applicable mortality table established by the board under section 354.07, subdivision 1, and the interest rate actuarial assumption under section 356.215 in effect when the member retires.

~~(j)~~ (l) In no case may the annuity payable under this subdivision be less than the amount of annuity payable under section 354.44, subdivision 6.

~~(k)~~ (m) The requirements and provisions for retirement before normal retirement age contained in section 354.44, subdivision 6, also apply to an employee fulfilling the requirements with a combination of service as provided in section 354.60.

~~(l)~~ (n) The augmentation provided by this subdivision applies to the benefit provided in section 354.46, subdivision 2.

~~(m)~~ (o) 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 covered by the provisions of this chapter.

~~(n)~~ (p) The retirement annuity or disability benefit of, or the survivor benefit payable on behalf of, a former teacher who terminated service before July 1, 1997, which is not first payable until after June 30, 1997, must be increased on an actuarial equivalent basis to reflect the change in the postretirement interest rate actuarial assumption under section 356.215, subdivision 8, from five percent to six percent under a calculation procedure and tables adopted by the board as recommended by an approved actuary and approved by the actuary retained under section 356.214.

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