S.F. 275 (Pappas) **H.F. 341** (Nelson)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s):	PERA
Relevant Provisions of Law:	Minnesota Statutes, Section 353.29, Subdivision 6
General Nature of Proposal:	Repeals the Social Security leveling option.
Date of Summary:	February 28, 2013

Specific Proposed Changes

- Repeals the Public Employees Retirement Association Social Security leveling option provision.

Policy Issues Raised by the Proposed Legislation

1. Impact of repeal; potential advantage of discouraging early retirements.
2. User problems; misuse, misunderstanding of the accelerated annuity option.
3. Scope: question of including all PERA plans.
4. Scope: question of expanding the repeal to include other Minnesota retirement plans.

Potential Amendments

Amendments for PERA plans:

S0275-1A permits the accelerated annuity to be continued for PERA-General coordinated members only, rather than repealing the option for all PERA plans as proposed.

S0275-2A, an alternative to S0275-1A, permits the accelerated annuity to be continued for PERA-General coordinated members and for PERA-Correctional members.

Amendments for MSRS plans:

S0275-3A eliminates the accelerated annuity option for all MSRS plans except MSRS-Correctional.

S0275-4A eliminates the accelerated annuity option for all MSRS plans.

Amendment for teacher plans:

S0275-5A eliminates the accelerated annuity option for the Teachers Retirement Plan (TRA), the Duluth Teachers Retirement Fund Association (DTRFA), and the St. Paul Teachers Retirement Fund Association (SPTRFA).

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Ed Burek, Deputy Director EB

RE: S.F. 275 (Pappas); H.F. 341 (Nelson): PERA; Repealing the Social Security Leveling Option

DATE: February 28, 2013

Summary of S.F. 275 (Pappas); H.F. 341 (Nelson)

S.F. 275 (Pappas); H.F. 341 (Nelson) repeals Minnesota Statutes, Section 353.29, Subdivision 6, the Public Employees Retirement Association (PERA) Social Security leveling option provision and removes from PERA post-retirement adjustment provisions language specifying procedures for handling the leveling option for post-retirement increase purposes.

Background Information on Relevant Topics

Attachment A: provides background information on Social Security leveling options.

Discussion and Analysis

Most teachers or other general employees hired since the 1970s and covered by a Minnesota public plan are coordinated members, meaning that in addition to coverage by the Minnesota plan, they also are covered for that employment by Social Security. In contrast, public safety employees, those covered by the Public Employees Retirement Association Police and Fire (PERA-P&F) plan or the State Patrol Retirement Plan administered by the Minnesota State Retirement System (MSRS), do not have Social Security coverage due to that employment. There are also a few individuals in the general employee plans that do not have Social Security coverage because they began employment before the general employee plans were coordinated.

For coordinated plan employees, Social Security leveling options would appear to be a useful tool to permit individuals who retire early, before Social Security benefits commence, to have additional income to bridge the gap between the retirement date from the Minnesota public pension plan and the date that Social Security benefit begins. If the proper adjustments are made, the transition can be fairly seamless. Individuals can draw Social Security benefits as early as age 62, but the benefit will be reduced. To have an unreduced Social Security benefit, the individual must wait until the Social Security normal retirement age, which is age 65 to 67, depending upon the person's birth date. Minnesota public employees covered by general plans have a Minnesota plan normal retirement age, the age at which the individual can retire from the Minnesota plan with an unreduced benefit, which can differs from that used by Social Security. Minnesota general employee plans typically have an age 65 or 66 normal retirement age, but individuals can retire as early as age 55 with reduced benefits. Thus, coordinated plan members who terminate from Minnesota public employment at age 55, or soon thereafter, could have a minimum of seven years before Social Security benefits commence, or possibly ten or more years if they chose not to take the Social Security benefit early. One MSRS plan, the Correctional State Employees Retirement Plan (MSRS-Correctional), is a hybrid plan, combining elements of both coordinated plans and public safety plans. Due to the hazardous nature of the employment and the need to maintain a vigorous workforce, the plan has a normal retirement age typical of public safety plans, age 55, but the plan is coordinated with Social Security. For this plan, even employees who retire at the MSRS-Correctional normal retirement age will have several years before Social Security benefits can commence. The PERA Local Government Correctional Service Retirement Plan (PERA-Correctional) is a similar hybrid, also with a normal retirement age of 55.

Social Security leveling options can be useful, but they can also have some serious drawbacks. For long-term employees, the Commission's Principle of Pension Policy II.A.1. states that pension benefits ought to be set at a level which, in conjunction with Social Security benefits receive due to the covered employment, is adequate at the time of retirement to avoid noticeable decrease in the standard of living. The principle also says that benefits ought to be increased during retirement by amounts necessary to maintain that benefit adequacy. Unfortunately, Social Security leveling options may lead to an undermining of benefit adequacy. The provisions encourage early retirement, before the Social Security benefits commence, and early retirement creates a lower benefit than the person would have had if she continued in public employment until normal retirement age. The total lifetime value of the benefits may not be sufficient to maintain an adequate standard of living throughout retirement. Plan administrators have mentioned complaints from some retirees who have used accelerated annuities. The retirees regret the choice, claiming they did not understand the size of reductions following commencement of Social Security benefits, and that in old age they now have inadequate income.

Pension plan administrations permit the employee to tailor the amount of the escalation, within the limits, if any, specified in law. To an extent this may be necessary, since the plan administration will be unaware of all circumstances in any given employee's case. But letting the employee tailor the amount of escalation can lead to excessive acceleration, with the payouts being used for purposes other than to support individuals after their productive years have ended. Another way of viewing this situation is that some individuals may be using this option not to level the combination of PERA and Social Security benefits received throughout retirement, but to destabilize, creating an excessive early payout at the expense of later payouts. Individuals may accelerate benefits to assist with large purchases, or to start a business. Such uses were not envisioned in the Commission's policy principles. The Teachers Retirement Association (TRA) has reviewed cases where members have used the TRA accelerated annuity option. Occasionally, the acceleration has resulted in retirees receiving benefit amounts during the accelerated phase which exceed the person's salary prior to retiring. Such high early payments conflict with Commission policy, by being well beyond amounts necessary to maintain the standard of living during retirement. The opposite problem will occur once Social Security commences and the benefit from the Minnesota plan must be reduced. The later reductions needed to offset the very high early payout amounts may leave the individual with inadequate income in later retirement.

Accelerated annuity options are likely to have an adverse impact on the pension fund. These accelerated annuity options are likely to encourage early retirement, and early retirements are generally subsidized retirements. The individuals retiring are mainly those who started covered employment before July 1, 1989, and are eligible for the Rule of 90 or other subsidized early retirement provisions. To the extent that accelerated annuities encourage early retirement, these provisions are harming the pension fund financial condition.

An additional problem is the risk of adverse selection. Individuals who have serious medical conditions and are less likely to live to advanced old age than other retirees have reason to choose an accelerated annuity. They will benefit from the higher early payouts and may not be around in the lean years. This lessens the gain to the pension fund, gains needed to offset losses incurred due to those who live longer than predicted by plan assumptions.

In PERA, Social Security leveling options have been offered to basic members of PERA-General and to members of PERA-P&F. Policy justification for this practice is lacking. These individuals are not covered by Social Security for the public employment. Given financial risks to the pension fund, allowing these individuals to alter the PERA-General or PERA-P&F benefit to coordinate with a Social Security benefit earned by other employment, or for some non-retirement purpose, is questionable.

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

1. Impact of Repeal; Discouraging Early Retirement. Repealing PERA's accelerated annuity provision may discourage early retirements. This can be helpful to the PERA pension funds, because early retirements are generally subsidized retirements. Repeal would also remove the risk of adverse selection. The Commission may wish to consider these advantages, given the actuarial condition of PERA-General, PERA-Correctional, and PERA-P&F as of July 1, 2012, which is summarized below:

	PERA-General	PERA-Correctional	PERA-P&F
Membership			
Active Members	139,330	3,460	10,865
Service Retirees	64,472	429	6,463
Disabilitants	3,638	153	1,095
Survivors	7,425	25	1,848
Deferred Retirees	44,354	2,091	1,303
Nonvested Former Members	115,287	1,727	971
Total Membership	374,506	7,885	22,545
Funded Status			
Accrued Liability	$18,598,897,000	$343,199,000	$7,403,295,000
Current Assets	$13,661,682,000	$306,454,000	$5,797,868,000
Unfunded Accrued Liability	$4,937,215,000	$36,745,000	$1,605,427,000
Funding Ratio	73.45%	89.29%	78.31%

	PERA-General		PERA-Correctional		PERA-P&F	
Financing Requirements						
Covered Payroll		$5,201,524,000		$171,043,000		$807,180,000
Benefits Payable		$1,000,644,000		$4,809,000		$386,208,000
Normal Cost	6.84%	$355,782,000	12.64%	$21,619,000	20.56%	$165,955,000
Administrative Expenses	0.19%	$9,883,000	0.13%	$222,000	0.11%	$888,000
Amortization	7.43%	$386,473,000	1.68%	$2,874,000	12.70%	$102,512,000
Total Requirements	14.46%	$752,138,000	14.45%	$24,715,000	33.37%	$269,355,000
Employee Contributions	6.25%	$325,113,000	5.83%	$9,972,000	9.60%	$77,489,000
Employer Contributions	7.25%	$377,139,000	8.75%	$14,966,000	14.40%	$116,234,000
Employer Add'l Cont.	0.00%	$0	0.00%	$0	1.43%	$11,559,000
Direct State Funding	0.00%	$0	0.00%	$0	0.00%	$0
Other Govt. Funding	0.00%	$0	0.00%	$0	0.00%	$0
Administrative Assessment	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	13.50%	$702,252,000	14.58%	$24,938,000	25.43%	$205,282,000
Total Requirements	14.46%	$752,138,000	14.45%	$24,715,000	33.37%	$269,355,000
Total Contributions	13.50%	$702,252,000	14.58%	$24,938,000	25.43%	$205,282,000
Deficiency (Surplus)	0.96%	$49,886,000	(0.13%)	($223,000)	7.94%	$64,073,000

2. User Problems; Misuse, Misunderstanding of the Accelerated Annuity Option. Complaints which PERA (and other plan systems) have received about accelerated annuity options indicate that some members did not fully comprehend the long-term financial implications of selecting this option. They did not fully understand that this option could result in considerable benefit reductions in later retirement years. Others appear to be using the options to generate payouts to be used for purposes other than retirement income. Another problem is that PERA has offered the accelerated annuity option to plan members who do not have Social Security coverage due to the Minnesota public employment.

3. Scope: Across PERA Plans. An issue is the proper scope across PERA plans. The bill will remove the Social Security option from all PERA plans. The strongest case is to prohibit use of this option by basic PERA-General members and PERA-P&F. The Commission might consider amending the bill to leave the provision in effect for PERA-General coordinated members, despite some misuse and the financial risk to the fund.

4. Scope: Other Minnesota Plans. The issue is whether the Commission wishes to consider expanding this bill by amendment or amendments to also remove the Social Security leveling option from other plan systems. PERA, MSRS, TRA, and first class city teacher plans have these provisions. All the problems these provisions create for PERA are also issues for these other plan systems. The problems may be most serious for teacher plans. Teachers can retire and find ready supplemental employment as substitute teachers. The availability of this re-employment is likely to encourage early retirement. Early retirement is further encouraged by subsidized early retirement provisions and Social Security leveling options. The early retirements harm the pension fund because they are subsidized. The fund is further harmed because no employee or employer contributions are made to the fund on behalf of these reemployed annuitants. Use of retirees as substitutes, rather than hiring more young teachers as full time teachers or as substitutes, erodes the employee base upon which pension plan contributions are assessed. The Teacher plans are in weak financial condition. TRA has a 73% funding ratio, and a 5.04% of pay contribution deficiency. The Duluth Teachers Retirement Fund Association (DTRFA) is 63% funded and has an 8.5% contribution deficiency. The St. Paul Teachers Retirement Fund Association (SPTRFA) is 62% funded and has a 6.4% of pay contribution deficiency. The SPTRFA and the DTRFA are likely to have legislation introduced this session requesting, amount other changes, considerable additional state aid to assist with their funding needs.

Potential Amendments for Commission Consideration

Amendments for PERA Plans:
- **S0275-1A** permits the accelerated annuity to be continued for PERA-General coordinated members only, rather than repealing the option for all PERA plans as provided in the bill.
- **S0275-2A,** an alternative to S0275-1A, permits the accelerated annuity to be continued for PERA-General coordinated members and for PERA-Correctional members.

Amendments for MSRS Plans:
- **S0275-3A** eliminates the accelerated annuity option for all MSRS plans except MSRS-Correctional.
- **S0275-4A**, an alternative to S0275-3A, eliminates the accelerated annuity option for all MSRS plans.

Amendment for Teacher Plans:
- **S0275-5A** eliminates the accelerated annuity option for TRA, DTRFA, and SPTRFA.

Background Information on Social Security Leveling Options

Social Security leveling options, also called accelerated annuity options were added to the Minnesota State Retirement System (MSRS), the Public Employees Retirement Association (PERA), the Teachers Retirement Association (TRA), and the first class city teacher plan laws decades ago to address the income gap that can occur when an person retires from a Minnesota public pension plan before the age at which the person will be able to receive Social Security old age insurance benefits. The MSRS provision is Minnesota Statutes, Section 352.116, Subdivision 3. The PERA provision is Section 353.29, Subdivision 6. The TRA provision is Section 354.35. The corresponding first class city teacher plan provision is Section 354A.33.

These provisions were intended to allow retiring members to retire early and make an election which will create monthly annuity benefit checks from the Minnesota public retirement plan during the early years of retirement that are increased (accelerated) above those that would otherwise occur. Later, when Social Security benefits commence, the benefit from the Minnesota public retirement plan is reduced below that which would otherwise occur, so that the monthly Social Security benefit plus the monthly Minnesota plan benefit could be approximately equal to the benefit the person received earlier from the Minnesota plan alone. This can provide a fairly seamless transition. The applicable Minnesota laws further provide that the total lifetime annuity value expected to be paid to an annuitant who elects a Social Security leveling option must be no greater than that of a comparable person who does not elect this provision. Thus, if benefits in the earlier years are increased above what would otherwise occur, the monthly benefits in later years after Social Security benefits commence must be sizably reduced to compensate.

Social Security leveling provisions or accelerated annuity options in the various Minnesota plans are not identical. There are three differences:

1) The plans differ regarding the end date for the accelerated phase. The MSRS and PERA provisions permit accelerated benefits only to age 62, which is the age at which persons can begin commencement of a reduced Social Security old age benefit. In contrast, the TRA provision permits acceleration to age 65 or 66, the normal retirement ages for that plan, depending on whether service commence before July 1, 1989, or after. The first class city teacher plan provision permits acceleration until Social Security normal retirement age, which varies between age 65 to 67, depending upon the person's date of birth.
2) Not all plans restrict the accelerated option to those who have Social Security coverage. Given the intended purpose of integrating the amount received from the Minnesota plan with the Social Security benefit, it would seems obvious that accelerated annuities ought to be limited to those who have Social Security coverage due to the Minnesota public employment (referred to as Coordinated members), but the PERA provision is not restricted. The PERA provision permits any "member" who is retiring to use the accelerated annuity option. Since it is not explicitly restricted to coordinated members in law, PERA has offered the option to members of the PERA General Employees Retirement Plan (PERA-General) who are basic members, persons who began service many decades ago and who are not covered by Social Security. It is also offered to members of the Public Employees Police and Fire Retirement Plan (PERA-P&F), all of whom do not have Social Security coverage due to the police or fire employment.
3) The plans differ regarding the percentage of the required reserves for the pension benefit which can be used to accelerate the annuity. The MSRS and TRA provisions specify that 5% of the reserves for the annuity may be used to accelerate for each year that the annuity is accelerated. For instance, if a TRA-covered teacher retires at age 64 and the benefit is accelerated to age 65, 5% of the reserves may be used to accelerate the benefit. If that person had retired at age 63, 10% of the reserves may be used. In contrast, PERA and first class city teacher plan law places no restriction on the percentage of assets that can be used for acceleration.

Accelerated annuity option provisions are generally permissive; the plan system may offer an accelerated option but is not required to do so. MSRS has chosen not to offer this option for those who retire from MSRS-General. It does, however, offer the option to retirees from the Correctional State Employees Retirement Plan (MSRS-Correctional). MSRS-Correctional is an unusual plan, a hybrid mixing features of a general employees plan with those of a public safety plan. Due to the hazardous nature of the covered employment positions and the need for a vigorous workforce, the MSRS-Correctional normal retirement age is age 55. But the plan members are also covered by Social Security for their correctional employment. For some MSRS-Correctional retirees, there is a need to cover the time between when the person retires from MSRS-Correctional and the commencement of Social Security benefits at age 62 or later. To help bridge that gap, MSRS offers the Social Security leveling option to those employees.

2012 Minnesota Statutes

352.116 ANNUITIES UPON RETIREMENT.

Subd. 3. Optional annuities. The board shall establish an optional retirement annuity in the form of a joint and survivor annuity. The board may also establish an optional annuity in the form of an annuity payable for a period certain and for life thereafter. In addition, the board may also establish an optional annuity that takes the form of an annuity calculated on the basis of the age of the retired employee at retirement and payable for the period before the retired employee becomes eligible for Social Security old age retirement benefits in a greater amount than the amount of the annuity calculated under subdivision 2 on the basis of the age of the retired employee at retirement. For each year that the retiring employee is under age 62, up to five percent of the total single life annuity required reserves may be used to accelerate the optional retirement annuity. This greater amount shall be paid until the end of the month in which the retired employee reaches age 62, at which time the annuity shall be reduced. Except as provided in subdivision 3a, the optional forms must be actuarially equivalent to the normal single life annuity forms provided in sections 352.115 and 352.116, whichever applies.

354.35 OPTIONAL ACCELERATED RETIREMENT ANNUITY BEFORE NORMAL RETIREMENT AGE.

Subdivision 1.Normal retirement age definition. For purposes of this section, "normal retirement age" means normal retirement age as defined in United States Code, title 42, section 416(1), as amended.

Subd. 2.Election of accelerated annuity. (a) Any coordinated member who retires before normal retirement age may elect to receive an optional accelerated retirement annuity from the association which provides for different annuity amounts over different periods of retirement. The optional accelerated retirement annuity must take the form of an annuity payable for the period before the member attains age 65, or normal retirement age, in a greater amount than the amount of the annuity calculated under section 354.44 on the basis of the age of the member at retirement, but the optional accelerated retirement annuity must be the actuarial equivalent of the member's annuity computed on the basis of the member's age at retirement. The greater amount must be paid until the retiree reaches age 65, or normal retirement age, and at that time the payment from the association must be reduced. For each year the retiree is under age 65, or normal retirement age, up to five percent of the total life annuity required reserves may be used to accelerate the optional retirement annuity under this section.

(b) Members who retire before age 62 may elect to have the annuity under this subdivision accelerated to age 62 rather than normal retirement age or age 65.

(c) The method of computing the optional accelerated retirement annuity provided in this subdivision is established by the board of trustees. In establishing the method of computing the optional accelerated retirement annuity or any modification of that procedure, the board of trustees must obtain the written approval of the actuary retained under section 356.214. The written approval must be a part of the permanent records of the board of trustees. The election of an optional accelerated retirement annuity is exercised by making an application on a form provided by the executive director.

Subd. 3.Postretirement adjustment eligibility. An annuity under this section is eligible for postretirement adjustments under section 356.415.

354A.33 SOCIAL SECURITY LEVELING ADJUSTMENT OPTION.

Any coordinated member who retires prior to the time the member becomes eligible for Social Security old age retirement benefits shall be entitled to elect to receive a Social Security leveling adjustment optional annuity from the teachers retirement fund association. The Social Security leveling adjustment optional annuity shall be established by the board of the teachers retirement fund association. It shall take the form of an annuity payable for the period prior to the member's becoming eligible for Social Security old age retirement benefits in an amount greater than the amount of the member's annuity calculated pursuant to section 354A.31 on the basis of the age of the member at retirement but equal insofar as possible to the Social Security old age retirement benefit and the adjusted retirement annuity amounts payable immediately subsequent to becoming eligible for Social Security old age retirement benefits in an amount less than the amount of the member's annuity calculated pursuant to section 354A.31 on the basis of the age of the member at retirement. The optional form shall be the actuarial equivalent to the normal forms provided in section 354A.31. In establishing the optional form, the board shall obtain the written recommendation of the actuary retained under section 356.214 and the recommendation shall be a part of the permanent records of the board.

.... moves to amend S.F. No. 275; H.F. No. 341, as follows:

Page 1, before line 7, insert:

"Section 1. Minnesota Statutes 2012, section 353.29, subdivision 6, is amended to read:

Subd. 6. **Retirement before eligibility for Social Security benefits.** A member or former member of the general employees retirement plan coordinated program who retires before becoming eligible for Social Security retirement benefits may elect to receive an optional retirement annuity from the association that provides for different annuity amounts over different periods of retirement. The election of this optional retirement annuity must be exercised by making application to the board of trustees. The optional annuity must take the form of an annuity payable for the period before the annuitant becomes eligible for Social Security old age retirement benefits in a greater amount than the amount of the annuity calculated under subdivisions 2 and 3 on the basis of the age of the annuitant at retirement. The optional annuity must be the actuarial equivalent of the normal retirement annuity computed on the basis of age at retirement. This greater amount must be paid until the annuitant reaches age 62, at which time the payment from the association must be reduced. The board of trustees shall establish the method of computing the optional retirement annuity under this subdivision. In establishing the method of computing the optional retirement annuity, the board of trustees shall obtain the written approval of the actuary retained under section 356.214. The recommendations must be a part of the permanent records of the board of trustees.

EFFECTIVE DATE. This section is effective January 1, 2014."

Page 1, strike line 21

Page 1, line 22, strike "(c)" and insert " (b)"

Page 2, line 1, after the stricken "(d)" insert " (c)" and reinstate "The retirement annuity payable to a person who retires before becoming eligible"

Page 2, reinstate lines 2 to 8

Page 2, lines 17 and 22, strike "January 1, 2011, and"

Page 3, reinstate lines 18 to 25

Page 3, delete section 3

Renumber the sections in sequence

Amend the title accordingly

.... moves to amend S.F. No. 275; H.F. No. 341, as follows:

Page 1, before line 7, insert:

"Section 1. Minnesota Statutes 2012, section 353.29, subdivision 6, is amended to read:

Subd. 6. **Retirement before eligibility for Social Security benefits.** A member or former member of the general employees retirement plan coordinated program or the local government correctional service retirement plan under chapter 353E who retires before becoming eligible for Social Security retirement benefits may elect to receive an optional retirement annuity from the association that provides for different annuity amounts over different periods of retirement. The election of this optional retirement annuity must be exercised by making application to the board of trustees. The optional annuity must take the form of an annuity payable for the period before the annuitant becomes eligible for Social Security old age retirement benefits in a greater amount than the amount of the annuity calculated under subdivisions 2 and 3 on the basis of the age of the annuitant at retirement. The optional annuity must be the actuarial equivalent of the normal retirement annuity computed on the basis of age at retirement. This greater amount must be paid until the annuitant reaches age 62, at which time the payment from the association must be reduced. The board of trustees shall establish the method of computing the optional retirement annuity under this subdivision. In establishing the method of computing the optional retirement annuity, the board of trustees shall obtain the written approval of the actuary retained under section 356.214. The recommendations must be a part of the permanent records of the board of trustees.

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Page 3, reinstate lines 18 to 25

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Renumber the sections in sequence

Amend the title accordingly

.... moves to amend S.F. No. 275; H.F. No. 341, as follows:

Page 1, before line 7, insert:

"Section 1. Minnesota Statutes 2012, section 352.116, subdivision 3, is amended to read:

Subd. 3. **Optional annuities.** The board shall establish an optional retirement annuity in the form of a joint and survivor annuity. The board may also establish an optional annuity in the form of an annuity payable for a period certain and for life thereafter. In addition, the board may also establish an optional annuity for the retiring members of the correctional state employees retirement plan under this chapter that takes the form of an annuity calculated on the basis of the age of the retired employee at retirement and payable for the period before the retired employee becomes eligible for Social Security old age retirement benefits in a greater amount than the amount of the annuity calculated under subdivision 2 on the basis of the age of the retired employee at retirement. For each year that the retiring employee is under age 62, up to five percent of the total single life annuity required reserves may be used to accelerate the optional retirement annuity. This greater amount shall be paid until the end of the month in which the retired employee reaches age 62, at which time the annuity shall be reduced. Except as provided in subdivision 3a, the optional forms must be actuarially equivalent to the normal single life annuity forms provided in sections 352.115 and 352.116, whichever applies.

EFFECTIVE DATE. This section is effective January 1, 2014."

Renumber the sections in sequence

Amend the title accordingly

.... moves to amend S.F. No. 275; H.F. No. 341, as follows:

Page 1, before line 7, insert:

"Section 1. Minnesota Statutes 2012, section 352.116, subdivision 3, is amended to read:

Subd. 3. **Optional annuities.** The board shall establish an optional retirement annuity in the form of a joint and survivor annuity. The board may also establish an optional annuity in the form of an annuity payable for a period certain and for life thereafter. ~~In addition, the board may also establish an optional annuity that takes the form of an annuity calculated on the basis of the age of the retired employee at retirement and payable for the period before the retired employee becomes eligible for Social Security old age retirement benefits in a greater amount than the amount of the annuity calculated under subdivision 2 on the basis of the age of the retired employee at retirement. For each year that the retiring employee is under age 62, up to five percent of the total single life annuity required reserves may be used to accelerate the optional retirement annuity. This greater amount shall be paid until the end of the month in which the retired employee reaches age 62, at which time the annuity shall be reduced.~~ Except as provided in subdivision 3a, the optional forms must be actuarially equivalent to the normal single life annuity forms provided in sections 352.115 and 352.116, whichever applies.

<u>**EFFECTIVE DATE.** This section is effective January 1, 2014.</u>"

Renumber the sections in sequence

Amend the title accordingly

.... moves to amend S.F. No. 275; H.F. No. 341, as follows:

Page 3, line 28, delete "section" and insert "sections" and after "subdivision 6" insert "; 354.35; and 354A.33" and delete "is" and insert "are"

Amend the title accordingly

SENATE
STATE OF MINNESOTA
EIGHTY-EIGHTH LEGISLATURE

S.F. No. 275

(SENATE AUTHORS: PAPPAS)

DATE	D-PG	OFFICIAL STATUS
02/06/2013	159	Introduction and first reading Referred to State and Local Government

A bill for an act

relating to retirement; Public Employees Retirement Association; repealing the Social Security leveling option; making conforming changes; amending Minnesota Statutes 2012, section 356.415, subdivisions 1, 1b; repealing Minnesota Statutes 2012, section 353.29, subdivision 6.

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

Section 1. Minnesota Statutes 2012, section 356.415, subdivision 1, is amended to read:

Subdivision 1. **Annual postretirement adjustments; generally.** (a) Except as otherwise provided in subdivision 1a, 1b, 1c, 1d, or 1e, retirement annuity, disability benefit, or survivor benefit recipients of a covered retirement plan are entitled to a postretirement adjustment annually on January 1, as follows:

(1) a postretirement increase of 2.5 percent must be applied each year, effective January 1, to the monthly annuity or benefit of each annuitant or benefit recipient who has been receiving an annuity or a benefit for at least 12 full months prior to the January 1 increase; and

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

(b) The increases provided by this subdivision commence on January 1, 2010.

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

~~(d) The retirement annuity payable to a person who retires before becoming eligible for Social Security benefits and who has elected the optional payment as provided in section 353.29, subdivision 6, must be treated as the sum of a period certain retirement annuity and a life retirement annuity for the purposes of any postretirement adjustment. The period certain retirement annuity plus the life retirement annuity must be the annuity amount payable until age 62 for section 353.29, subdivision 6. A postretirement adjustment granted on the period certain retirement annuity must terminate when the period certain retirement annuity terminates.~~

EFFECTIVE DATE. This section is effective January 1, 2014.

Sec. 2. Minnesota Statutes 2012, section 356.415, subdivision 1b, is amended to read:

Subd. 1b. **Annual postretirement adjustments; PERA; general employees retirement plan and local government correctional retirement plan.** (a) Retirement annuity, disability benefit, or survivor benefit recipients of the general employees retirement plan of the Public Employees Retirement Association and the local government correctional service retirement plan are entitled to a postretirement adjustment annually on January 1, as follows:

(1) for January 1, 2011, and each successive January 1 until funding stability is restored for the applicable retirement plan, a postretirement increase of one percent must be applied each year, effective on January 1, to the monthly annuity or benefit amount of each annuitant or benefit recipient who has been receiving an annuity or benefit for at least 12 full months as of the current June 30;

(2) for January 1, 2011, and each successive January 1 until funding stability is restored for the applicable retirement plan, for each annuitant or benefit recipient who has been receiving an annuity or a benefit for at least one full month, but less than 12 full months as of the current June 30, an annual postretirement increase of 1/12 of one percent for each month the person has been receiving an annuity or benefit must be applied;

(3) for each January 1 following the restoration of funding stability for the applicable retirement plan, a postretirement increase of 2.5 percent must be applied each year, effective January 1, to the monthly annuity or benefit amount of each annuitant or benefit recipient who has been receiving an annuity or benefit for at least 12 full months as of the current June 30; and

(4) for each January 1 following restoration of funding stability for the applicable retirement plan, for each annuity or benefit recipient who has been receiving an annuity or a benefit for at least one full month, but less than 12 full months as of the current June

30, an annual postretirement increase of 1/12 of 2.5 percent for each month the person has been receiving an annuity or benefit must be applied.

(b) Funding stability is restored when the market value of assets of the applicable retirement plan equals or exceeds 90 percent of the actuarial accrued liabilities of the applicable plan in the most recent prior actuarial valuation prepared under section 356.215 and the standards for actuarial work by the approved actuary retained by the Public Employees Retirement Association under section 356.214.

(c) If, after applying the increase as provided for in paragraph (a), clauses (3) and (4), the market value of the applicable retirement plan is determined in the next subsequent actuarial valuation prepared under section 356.215 to be less than 90 percent of the actuarial accrued liability of any of the applicable Public Employees Retirement Association plans, the increase provided in paragraph (a), clauses (1) and (2), are to be applied as of the next successive January until funding stability is again restored.

(d) An increase in annuity or benefit payments under this section must be made automatically unless written notice is filed by the annuitant or benefit recipient with the executive director of the Public Employees Retirement Association requesting that the increase not be made.

~~(e) The retirement annuity payable to a person who retires before becoming eligible for Social Security benefits and who has elected the optional payment, as provided in section 353.29, subdivision 6, must be treated as the sum of a period-certain retirement annuity and a life retirement annuity for the purposes of any postretirement adjustment. The period-certain retirement annuity plus the life retirement annuity must be the annuity amount payable until age 62 for section 353.29, subdivision 6. A postretirement adjustment granted on the period-certain retirement annuity must terminate when the period-certain retirement annuity terminates.~~

EFFECTIVE DATE. This section is effective January 1, 2014.

Sec. 3. **REPEALER.**

Minnesota Statutes 2012, section 353.29, subdivision 6, is repealed.

EFFECTIVE DATE. This section is effective January 1, 2014.

353.29 RETIREMENT ANNUITY UPON TERMINATION OF MEMBERSHIP.

Subd. 6. **Retirement before eligibility for Social Security benefits.** A member or former member who retires before becoming eligible for Social Security retirement benefits may elect to receive an optional retirement annuity from the association that provides for different annuity amounts over different periods of retirement. The election of this optional retirement annuity must be exercised by making application to the board of trustees. The optional annuity must take the form of an annuity payable for the period before the annuitant becomes eligible for Social Security old age retirement benefits in a greater amount than the amount of the annuity calculated under subdivisions 2 and 3 on the basis of the age of the annuitant at retirement. The optional annuity must be the actuarial equivalent of the normal retirement annuity computed on the basis of age at retirement. This greater amount must be paid until the annuitant reaches age 62, at which time the payment from the association must be reduced. The board of trustees shall establish the method of computing the optional retirement annuity under this subdivision. In establishing the method of computing the optional retirement annuity, the board of trustees shall obtain the written approval of the actuary retained under section 356.214. The recommendations must be a part of the permanent records of the board of trustees.