State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

S.F. 1249 (Pappas) — **H.F. 1433** (Nelson)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s):	St. Paul Teachers Retirement Fund Association (SPTRFA)
Relevant Provisions of Law:	Minnesota Statutes, Chapters 354A and 356
General Nature of Proposal:	Benefit improvements and revisions, request for state aid.
Date of Summary:	March 11, 2013

Specific Proposed Changes

- Creates a new state aid program for SPTRFA, up to $10 million annually.
- Increases SPTRFA employee and employer contribution rates by 1% each in half-step increments.
- Requires the school district to pay employer contributions on SPTRFA reemployed annuitants.
- Establishes a 180-day separation requirement to qualify for a SPTRFA retirement annuity.
- Requires benefit forfeiture rather than creation of a reemployed annuitant earnings account for SPTRFA members who retire after June 30, 2013, and are reemployed by the school district.
- Increases accrual rates for service rendered after 6/30/2014 for SPTRFA teachers from 1.7% to 1.9% on level benefit computations, and from 1.2% to 1.4% for the first ten years of service and 1.9% rather than 1.7% per year thereafter on step computations.
- Requires a more than actuarial reduction at younger ages and a less than actuarial reduction at older ages for SPTRFA and for the Duluth Teachers Retirement Fund Association (DTRFA).
- Terminates aid programs to first class city teacher plans after full funding is reached.

Policy Issues Raised by the Proposed Legislation

1. Appropriate action given current actuarial condition: the option to consolidate into TRA.
2. Concerns about the accuracy of bill cost information.
3. Overstatement of state aid needed.
4. Unusual incentives created by proposed state aid provision: aid is higher if plan earns low returns.
5. Implications of new 180-day separation from service requirement to qualify for annuity; possibility of considerable benefit forfeitures.
6. Whether the contribution rate increases should be higher rather than relying excessively on state aid.
7. Commission supports for requiring employer contributions on behalf of reemployed annuitants and benefit forfeitures rather than reemployed annuitant holding accounts for post-2013 SPTRFA retirees.
8. Justification for increased accrual rates to match those of the TRA given large amount of unfunded liability, large current contribution deficiencies, and request for considerable state aid.
9. Problematic nature of proposed change in early retirement provision, lack of any proposals to effectively curtail subsidized early retirements.
10. Whether school district supports the bill.

Potential Amendments

S1249-1A corrects and updates the statutory actuarial assumption specifications of 356.215, Subd. 8.

S1249-2A revises the proposed 180-day separation requirement to a number of days to be determined.

S1249-3A revises the employee and employer contribution provisions by moving up the proposed contribution increases to begin in 2014 at the same time as the accrual rate benefit increase.

S1249-4A requires a reemployed annuitant to make the equivalent of employee contributions for the reemployment; with no accrual of service credit and the amounts are not refundable.

S1249-5A revises the new state aid for SPTRFA to a fixed rather than variable amount.

S1249-6A, an alternative aid amendment to amendment S1249-5A, if the Commission prefers to use the proposed variable aid approach but chooses to provide amounts that differ from the proposed $10,000,000 maximum and $3,000,000 minimum annual new aid.

S1249-7A removes the Duluth Teachers Retirement Fund Association (DTRFA) from the supplemental contributions and direct matching and state aid termination provision.

S1249-8A adds an interest requirement to the repayment of improper benefits provision (Section 8).

S1249-9A delays the increase in accrual rates by replacing 2014 with a year to be determined.

S1249-10A, which applies to both DTRFA and SPTRFA, would discourage subsidized early retirements by revising 354A.31, Subd. 6, the early retirement provision with application to pre-1989 hires, regarding its application to first class city teacher plan retirees. The reduction of 0.25% per month for each year under normal retirement age (3% per year) is increased to 0.4% for each month (4.8% per year), and use of the Rule of 90 is ended for new retirees after 6/30/2014.

S1249-11A, requested by the SPTRFA actuary, revises the augmentation rate in Sec. 12 from 3% to 2.5% to be consistent with the Sec. 11 reduction factors computation rate and to indicate that factors for normal retirement ages between exact ages 65 and 66 will be determined by linear interpolation.

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Ed Burek, Deputy Director EB

RE: S.F. 1249 (Pappas); H.F. 1433 (Nelson): SPTRFA; Creating an Additional State Aid Program; Increasing Employee and Employer Contributions; Revising Plan Benefits

DATE: March 11, 2013

General Summary of S.F. 1249 (Pappas); H.F. 1433 (Nelson)

S.F. 1249 (Pappas); H.F. 1433 (Nelson) amends various provisions of statute applicable to the St. Paul Teachers Retirement Fund Association (SPTRFA), as follows:

1. Creates a new state aid program for the SPTRFA providing the association with between $3 and $10 million annually.
2. Increases SPTRFA employee and employer contribution rates by 1% each in half-step increments.
3. Requires the school district to pay employer contributions on SPTRFA reemployed annuitants.
4. Establishes a 180-day separation requirement to qualify for a SPTRFA retirement annuity.
5. Requires benefit forfeiture rather than the creation of a reemployed annuitant earnings account for SPTRFA members who retire after June 30, 2013, and are reemployed by the school district.
6. Increases accrual rates for service rendered after June 30, 2014, for SPTRFA teachers from 1.7% to 1.9% on level benefit computations, and from 1.2% to 1.4% for the first ten years of service and 1.9% rather than 1.7% per year thereafter on step computations.
7. Revises the full actuarial reduction provision to require more than an actuarial reduction at younger ages and less than an actuarial reduction at older ages for the Duluth Teachers Retirement Fund Association (DTRFA) and SPTRFA.
8. Terminates aid programs to first class city teacher plans after full funding is reached.

Section-by-Section Summary

A section-by-section summary of S.F. 1249 (Pappas); H.F. 1433 (Nelson) is attached.

Background Information on Relevant Topics

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

- **Attachment A**: Background information on teacher retirement plans.
- **Attachment B**: Background information on reemployed annuitant exempt earnings limits.
- **Attachment C**: Background information on the TRA return-to-work provision.
- **Attachment D**: 2010-2011 Financial Sustainability Provisions.

Discussion and Analysis

S.F. 1249 (Pappas); H.F. 1433 (Nelson) creates a new state aid program for the St. Paul Teachers Retirement Fund Association (SPTRFA) providing the association with between $3 and $10 million annually, increases SPTRFA employee and employer contribution rates by 1% each in half-step increments, requires the school district to pay employer contributions on SPTRFA reemployed annuitants, establishes a 180-day separation requirement to qualify for a SPTRFA retirement annuity, requires benefit forfeiture rather than creation of a reemployed annuitant earnings account for SPTRFA members who retire after June 30, 2013, and are reemployed by the school district, increases accrual rates for SPTRFA service rendered after June 30, 2014, revises the full actuarial reduction provision to require more than an actuarial reduction at younger ages and less than an actuarial reduction at older ages for the Duluth Teachers Retirement Fund Association (DTRFA) and SPTRFA, and terminates aid programs to first class city teacher plans after full funding is reached.

A significant component of S.F. 1249 (Pappas); H.F. 1433 (Nelson) is new state aid to the St. Paul Teachers Retirement Fund Association (SPTRFA). Teacher plans have a long history of receiving state aid. TRA or its predecessor has received state aid since 1915. From 1915 until 1967, the state aid was the result of a statewide property tax levy based on the retirement annuities payable from TRA (ranging from $66,000 in total in 1932 to $16.9 million in 1966). In 1967, an open and standing general fund appropriation to TRA replaced the statewide property tax levy (initially $20 million in 1967 and increasing to $103 million in 1984). In 1985, the open and standing appropriation was converted to a categorical education aid amount (initially $125 million in 1985 to $149 million in 1988). In 1989, the categorical education aid was folded into the overall general education aid program.

The Duluth Teachers Retirement Fund Association (DTRFA) and the SPTRFA have received state aid since 1967, receiving the equivalent of the TRA funding. Also, DTRFA and SPTRFA receive additional state aids. The additional state aid programs began in 1997 and 1993 respectively, and these have been expended and revised several times since. Any aids applicable to the former Minneapolis Teachers Retirement Fund Association (MTRFA) have been redirected to TRA.

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. Appropriate Action Given Current Actuarial Condition: The Option to Consolidate into TRA. The issue is the appropriate action by the state and the SPTRFA pension fund administration, given the actuarial condition of this plan. The SPTRFA is proposing some minor benefit reductions, a sizable benefit increase in the form of an accrual rate increase to match that currently provided by TRA, and a considerable amount of new state aid in order to continue as a separate plan administration. Another alternative is to consolidate this plan into the Teachers Retirement Association (TRA), either into TRA in its entirety or into a separate account within TRA. This is a more straightforward and efficient way to provide SPTRFA active members and retirees with more security and with benefits comparable to TRA.

   The SPTRFA actuarial condition as of the most recent actuarial valuation is shown below. The summarized actuarial presentation indicates that that the plan is 62% funded and has a 6.4% of pay contribution deficiency. This is a serious contribution shortfall. The plan is well below the combination of contributions and state aid needed to place the plan on a course toward full funding. This presentation actually creates a more optimistic impression than if standard procedures were used to monitor this fund. The SPTRFA has a 25-year rolling amortization period, a procedure put in place several years ago at the request of the SPTRFA board. If all assumptions are met, the SPTRFA will never get to full funding. It will never get to full funding because the amortization date is revised yearly to a new 25-year period, and the amortization contribution is always computed as though the plan has 25 more years to pay off any unfunded liability. The situation is like having a mortgage on a house and having the mortgage retirement date reset each year as though you always had 25 years to go. No other Minnesota public plan has a rolling amortization period. Instead, a fixed full funding date is used by these other plans, although it may be revised over time. If a fixed date had been left in place for the SPTRFA plan, its condition as measured by the actuary would be considerably worse, because the necessary amortization contribution would be considerably higher. The SPTRFA is proposing a combination of benefit cuts, increases in employee and employer contributions, and a sizable increase in state aid to get the plan on a better funding course. The SPTRFA is also including a benefit increase, an increase in accrual rates to match that provided under current law by the Teachers Retirement Association (TRA). This benefit increase might put the SPTRFA more on a par with TRA, but the increase adds to plan cost, working against the effort to improve plan funding. A more straightforward approach, and one that would add more security for SPTRFA active members and retirees, would be a merger into TRA.

	FY2012
Membership	
Active Members	3,880
Service Retirees	2,942
Disabilitants	29
Survivors	321
Deferred Retirees	1,833
Nonvested Former Members	1,427
Total Membership	10,432
Funded Status	
Accrued Liability	$1,471,216,000
Current Assets	$911,930,000
Unfunded Accrued Liability	$559,286,000
Funding Ratio	61.98%

		FY2012
Financing Requirements		
Covered Payroll		$256,509,000
Benefits Payable		$101,788,000
Normal Cost	8.39%	$21,503,000
Administrative Expenses	0.31%	$795,000
Amortization	14.17%	$36,347,000
Total Requirements	22.87%	$58,645,000
Employee Contributions	6.02%	$15,449,000
Employer Contributions	8.87%	$22,753,000
Employer Add'l Cont.	0.00%	$0
Direct State Funding	1.58%	$4,057,000
Other Govt. Funding	0.00%	$0
Administrative Assessment	0.00%	$0
Total Contributions	16.47%	$42,259,000
Total Requirements	22.87%	$58,645,000
Total Contributions	16.47%	$42,259,000
Deficiency (Surplus)	6.40%	$16,386,000

The Commission and Legislature may wish to consider that past efforts to feed state aid to local general public employee plans so they could remain freestanding have not been successful. Over the course of several decades, the Legislature provided more than $150 million in state aid to the Minneapolis Employees Retirement Fund (MERF). The executive director of that fund and the MERF Board hoped to get the fund at or near full funding and to remain free standing, at least to the point where all or nearly all of the membership had retired (the plan was closed to new members in 1978). In 2008, with most of the membership retired and the annuities for MERF retirees nearly fully funded, the market and MERF's portfolio asset value collapsed. MERF was left with the liabilities for the retirement annuities with only a fraction of the assets needed to cover those liabilities. With the membership nearly all retired, there was no practical way to rebuild the asset base through employee and employer contributions. In 2010, MERF was merged with the Public Employees Retirement Association (PERA), through a MERF account in that plan, with a considerable continuing burden on the City of Minneapolis and the state to help rebuild the account's asset value. Similarly, the state created several aid programs for the Minneapolis Teachers Retirement Fund Association (MTRFA) trying to reverse that fund's downward slide. Due to poor investment performance by the MTRFA fund administration, the MTRFA often lost more through poor investment performance relative to comparable pension funds than it was receiving in state aid. In essence, the state aid was wasted. The MTRFA was merged into TRA in 2007 and considerable state aid continues to be paid to TRA on behalf of the MTRFA.

2. Actuarial Work Issues; Lack of Information on Some Bill Provisions. The issue is the extent to which the Commission can be confident that the actuarial cost impact of this bill, as claimed by the SPTRFA, is firmly based on actuarial work performed by the SPTRFA actuary. The Commission needs to know the cost or savings impact of the various provisions in the bill to determine whether proposed contribution increases and proposed new state aid are sufficient to cover the support needs of this fund as computed by the actuary.

   The actuary did not provide cost estimates on some provisions in the bill which are expected to impact the plan's funding needs, while with other provisions (the accrual rate increase and the revised early retirement adjustment factors) the proposal as reviewed by the actuary differs somewhat from the proposal in the bill. LCPR staff has attached portions of the actuarial report from Gabriel Roeder Smith and Company (GRS), the SPTRFA actuary, which is most closely related to the proposals that appear in the bill. The SPTRFA had GRS develop actuarial cost estimates for many different possible changes (increased accrual rates to match levels provided by TRA, several possible revisions in early retirement provisions, revised minimum early retirement dates, revised normal retirement ages). SPTRFA chose not to include most of these options in the bill. The SPTRFA did include in the bill the proposal to match TRA accrual rates. However, the actuary's cost estimate assumes that the increase commences July 1, 2012. In the bill, the SPTRFA has chosen to delay that increase until July 2014. The Commission may wish to hear testimony from the SPTRFA actuary on whether that delay will materially change the cost estimate for that provision (0.85% of payroll in added cost). The actuary also provided a cost estimate on the impact of revising early retirement adjustment factors. The factors on which the actuary's cost estimate is based appeared in an earlier draft of this bill, but the SPTRFA later chose to go with a different set of factors in the final bill (these final factors are shown in Section 11 of the bill). Again, the Commission may wish to inquire whether there may be a material difference between the impact of the factors reviewed by the actuary and those which appear in the bill. The actuary's email states that GRS did not analyze any of the provisions in the bill which impact reemployed annuitants (the 120-day separation requirement in Section 2, employer contribution requirements for reemployed annuitants in Section 5, new procedures for recapturing payments made to retirees who return to work before meeting the 180 day separation requirement in Section 8, and the forfeiture of amounts that would otherwise go to reemployed annuitant accounts in Section 9), but materials used by the SPTRFA to describe the impact of its proposal claim that those elements will contribute a tenth of one percent of payroll in additional support. It is unclear where that estimate came from, since it does not appear to have been provided by the SPTRFA actuary.

Given these issues, Commission staff has not attempted to provide our usual presentation of the cost impact of the bill. Instead, the following chart or table is provided based on a summary of materials provided by the SPTRFA to explain its proposal. The starting point is the SPTRFA funding deficiency as indicated by the SPTRFA July 1, 2012, actuarial valuation. The funding deficiency was \$16.4 million, which is equivalent to 6.4% of covered payroll. Several events which either have occurred or are expected to occur before the next actuarial valuation act to lower that deficiency. The Commission's reviewing actuary, Milliman, recently performed a replication actuarial valuation of the SPTRFA and made several recommendations to revise procedures used by the SPTRFA actuary. Presumably, those changes are summarized as "annualize pay for new hires in actuarial work." Those procedural changes are expected to reduce the computed deficiency by .4% of payroll. Increases in employee and employer contributions which were enacted in 2010, but which have not yet fully phased in, will add another one percent of pay support by July 1, 2014. Finally, a revised salary growth assumption will reduce contribution requirements by 1.20% of pay. These past actions will reduce the deficiency to 3.8% of pay, or \$9.88 million. That is the real starting point for assessing the impact of the current proposal.

In viewing the impact of the current proposal, presumably there are only a few elements which have a substantive impact on the actuarial condition of this plan. Assuming that there is no material difference between the cost of the accrual rate increase assumed by the actuary to commence in July 2012, and proposed to begin in July 2014 in this bill, that benefit improvement will increase plan contribution requirements by somewhat less than one percent of payroll. The claimed impact of the revised early retirement reduction procedure is almost too small to measure, amounting to only 0.07% of payroll, but again, what is in the bill is a somewhat different set of factors than those used in the actuary's cost analysis.

Hopefully, the remaining benefit-related provisions in the proposal can be considered window dressing from the standpoint of added cost or savings. The handout used by the SPTRFA claims that the combination of the 180-day separation requirement, the forfeiture of amounts that would otherwise be allocated to reemployed annuitant accounts by post-June 30, 2013, SPTRFA retirees, and the required employer contributions for reemployed retirees will only amount to 0.1% of payroll. But as noted above, it is unclear where that estimate came from and whether it is valid. The GRS e-mail stated that the actuary provided no estimate on those elements in the bill. The Commission may wish to determine through testimony who made that estimate, how it was derived, and whether it can be considered valid.

To the extent that there is uncertainty regarding the impact of the bill on plan funding requirements, there is uncertainty regarding the amount of additional contributions and state aid that will be needed to cover the plan's revised funding needs. The SPTRFA is proposing significant employee and employer contribution increases, an additional two percent of payroll support for the plan, although the most significant source of new revenue is the proposed new state aid.

According to the SPTRFA, it expects the state aid to be equivalent to 3% of payroll, or \$7.8 million. There are two issues with this aid. The first is the uncertainty regarding how much will be needed. The second is that the \$7.8 million in aid used in the SPTRFA materials seriously underestimates the amount of new annual aid that the SPTRFA will receive under this bill. The proposal (Section 6 of the bill) is \$10 million annually, reduced by 0.5 million for every 1% of SPTRFA rate of return in excess of the actuarial assumed rate of return. The actuarial assumed rate of return currently is 8.0%, but is scheduled to increase back to 8.5% in a few years. For this process to create aid of only \$7.8 million on average, the SPTRFA will need to exceed the rate of return assumption by four to five percentage points annually. In other words, it would require sustained annual rates of return of 12% to 13% annually. That is absurdly optimistic. No Minnesota pension plan has ever sustained that level of long-term results. The most likely result under this bill as drafted is that the state should expect to pay \$9.5 million or \$10 million annually. That much aid will result in a considerably higher sufficiency than shown in this table, because the table assumed only \$7.8 million per year in new aid. If the material as assembled in the following table has any validity, the level of proposed new state aid in this bill cannot be justified. If the aid provision is enacted as proposed, the SPTRFA may then come back to the Legislature in future years with a proposal to reduce employee and employer contributions, leaving the state to provide an increased portion of the total support to this fund as the employees and employer back away from their commitments.

SPTRFA Legislative Proposal

	Percent of payroll	$ in millions
Target: Elimination of SPTRFA funding deficiency	6.4%	$16.4
Reductions in funding needs due to recent actions:		
1) annualize pay for new hires in actuarial work	0.4%	$1.0
2) impact of prior approved contribution increases (July 1, 2013, and July 1, 2014)	1.0%	$2.6
3) impact of revised salary growth assumptions approved by the Legislature	1.2%	$3.12
Remaining deficiency	3.8%	$9.88
Current SPTRFA proposal:		
1) Modify annuitant return-to-work program:	0.1%	$0.26
a) forfeiture rather than deferral of excess reemployed annuitant earnings		
b) require employer contributions on reemployed annuitant salaries		
c) extend required separation from service to 180 days		
2) Revised early retirement reduction procedures	0.07%	$0.18
3) Increase employee and employer contributions by 1% of pay each, in two steps	2.00%	$5.2
4) Additional state aid, maximum of $10 million annually, reduced by 0.5 million for each percent of return in excess of the assumed rate of return, until maximum of $3 million annually in aid	3.00%	$7.8
5) Increase accrual rates prospectively	-0.85%	-$2.21
Final sufficiency	0.52%	$1.4

3. <u>Design of the New State Aid: Unusual and Unclear Incentives.</u> The proposed aid program, $10 million annually with reductions for investment returns exceeding long-term expectations, creates unusual incentives and pressures. The pressure for the state is that the state is most likely to pay the full aid in years when the state is least able. Most often, stock markets provide healthy returns in years when the economy is also healthy; and when the economy is healthy tax revenues are high. So the state is more likely to be contributing less than the $10 million maximum amount when the state is most able to pay. The SPTRFA is likely to earn less than the actuarial rate of return in bad times for the economy. So when tax revenues are likely to be down, the state is most likely to have to contribute the full $10 million.

   From the standpoint of the pension plan administration, it is unclear how the SPTRFA will react to incentives created by the aid program. The structure of the proposed aid program creates some of the same counterproductive incentives that were in place when local police and paid fire relief associations were still free standing organizations. Those aid programs, such as the various amortization aid programs, rewarded incompetent investing. Those organizations with strong investment programs were most likely to get to full funding, and when they did, they no longer qualified for aid. The freed up aid was then redirected at those organizations which remained less than fully funded. In some cases there were legitimate reasons why some of these organizations continued to struggle financially, but the aid programs did not attempt to weed out good reasons from bad. Relief associations with incompetent investment programs were rewarded with more state aid. There is an element of that here in the current proposal. If the SPTRFA fails to at least match the actuarial return because of mistakes it might make in its investment program, it is rewarded with the full $10 million in aid.

   The design of the aid program somewhat distorts the risk/return profile the fund faces. The investment risk that a pension fund administration, or any investor, is willing to assume depends on whether the investor must live with the consequences. If another party, in this case the state is willing to step in and provide support, and particularly if the support is greater if returns are low, the investor is likely to respond in some way to this new support structure. The SPTRFA might respond by taking less care in its investment activities, or by adopting a somewhat more conservative portfolio. Whether the lower returns that would result are due in part in investment errors or simply the conservative portfolio, the receipt of the full state aid will lessen the impact. On the other hand, the SPTRFA might respond by adopting a more aggressive portfolio. If this more aggressive posture results in higher returns, that helps the fund move toward a higher funding ratio and reduce the need for contributions, although that will be somewhat offset by receiving reduced state aid. But in years where the aggressive investment posture causes them to underperform most funds, that loss is mitigated by receiving the full state aid.

   Providing state aid to a local pension fund, whether that aid is variable or fixed, lessens the contribution burden that would otherwise need to be placed on the employees and the employing unit. In some ways that is positive. One drawback, though, is that it keeps the employees and employing unit from being aware of the full cost of maintaining their plan and distorts the degree to which the plan membership and school district might otherwise support an effort to consolidate the fund into TRA.

4. <u>Appropriate Amount of State Aid.</u> In addition to the question of whether state aid should be fixed or variable, a further issue is the appropriate amount of additional state aid, if any. If the state is going to provide any aid, it might be better to provide a fixed amount per year without the investment rate of return comparisons in this bill that may reduce that aid. Providing a fixed aid annually will eliminate

at least some perverse incentives from the standpoint of the pension fund, and removes variability from state budgeting process. It might also lead to revising the bill to provide a lower amount of aid. Rather than aid varying between $3 million and $10 million annually, a fixed amount annually somewhere between these two figures might be preferable.

As discussed previously, material provided by the SPTRFA suggests that $10 million per year in additional aid, the amount the fund is most likely to receive annually under this bill, is considerably in excess of the needs of the fund. Given the other changes being made in this bill, material provided by the SPTRFA indicates that if the state were to provide an additional $7.8 million annually, the plan should have a sufficiency of $1.4 million or 0.52% of payroll. With new state aid of $6.4 million, ($7.8 million minus $1.4 million), the SPTRFA ought to be able to just meet its required contributions. If the state were to remove the benefit increase (the increase in the accrual rates), that would reduce the fund's needs by $2.3 million. So without that benefit improvement, the plan should meet its support needs with $4.1 million in aid. This is without considering placing more burden on the school district and employees than is proposed in the bill. The Commission might wish to consider $6.4 million annually, if the benefit increase is provided, and $4.1 million, if it is not, as the upper limit on new state aid. Also, the Commission may wish to consider providing additional aid only if the proposal is revised to include a consolidation into TRA, or if the employer and employees are willing to cover a greater share of the burden than proposed in this bill.

5. Separation Requirements. An issue is whether or not the Commission concludes that the new 180-day separation requirement (Section 2 on page 2), to meet the definition of "retirement" and thus to qualify for an annuity, is appropriate. Commission staff is not aware of any current statement in first class city teacher retirement plan law specifying a length of separation requirement. The SPTRFA intention is to discourage early retirements (which are often subsidized) by requiring a reasonably long separation before an individual can be reemployed by the district. If the separation is for less than 180 days, the SPTRA will terminate the annuity and require the individual to repay any amounts received. Section 8 of the bill on page 6 includes a requirement that if an individual fails to separate for a full 180 days, the SPTRFA will recover the benefit payments by requiring direct repayment. What is not specified is whether interest will be charged. Given that SPTRFA teachers who have their annuities terminated may bring their complaints to the Legislature, the Commission may wish to carefully consider this proposed policy. Some teachers could forfeit nearly a half-year of monthly benefit payments.

   If the Commission does conclude that this policy is appropriate, another issue is the proper scope of the change. As drafted, this change only applies to the SPTRFA. Some other funds use only a 30-day break-in-service requirement. TRA, in some situations, has no specified break period. A TRA member who is at least age 62 can terminate service for purposes of creating a termination date for commencing the annuity, then immediately return to employment.

6. Status of Individuals Who Break the 180-Day Separation Rule. The issue is whether the language proposed in this bill is adequate to specify the treatment of individuals who fail to separate for a full 180 days. The status of someone who violates the rule is confusing. If the person violates the 180-day rule, any benefits received must be repaid. Since the retirement is deemed not to be valid, presumably the person must be treated as a continuing active member for purposes of the reemployment. Employee contributions should have been made. But the school district may have assumed the person is a reemployed annuitant and failed to deduct employee contributions from pay. The Commission may wish to ask during testimony how these cases will be handled and how the school district and pension plan administrators intend to work together to enforce this new provision.

7. Alternative to Change in Separation Requirement: Lowering the Exempt Earning Limit or Percentage Deferred. If the SPTRFA wishes to discourage early retirements, an alternative to a new 180-day separation requirement, or an additional action which can be added to the separation requirement, is to considerably lower the $46,000 exempt earnings limit in SPTRFA law. A TRA or first class city teacher plan retiree can be reemployed by the district and earn up to $46,000 annually through that reemployment without any action being taking to reduce or divert any portion of the annuity payments being received. Lowering that exempt amount to a level applicable to the PERA and MSRS general employee plans (typically in the range of $14,000 annually), could be more effective at discouraging early retirement than a 180-day break-in-service requirement. Also, for a reemployed SPTRFA teacher who hits the earnings limit, the portion of the annuity deferred is equal to one-third of the salary in excess of the limit. Changing that to one-half or to the full amount of the excess salary might have a noticeable effect. The discouraging effect would be much stronger if the deferral is replaced with a forfeiture, as is proposed in Section 9, but Section 9 as drafted will apply only to new retirees.

8. SPTRFA Employee and Employer Contribution Rate Issues. There are at least three issues with the proposed employee and employer contribution rate increase provisions in the bill.

   One issue is the appropriate size of the increase. The employee and employer coordinated and basic contributions are increased by one percent each, in half percent increments over two years. So the total combined increase eventually is 2% of pay. This covers the benefit increases in the bill, but makes only a minor dent in the overall contribution needs of this fund. Much of the burden is thrown onto a third party, the State of Minnesota, through the state aid request in the bill. A question, given the desire by the SPTRFA board to remain freestanding, is whether the school district and plan membership should bear more of that burden by a much higher contribution increase than is proposed.

A second issue is the timing of these new proposed contribution rate increases, which begin on July1, 2015. But the benefit changes in the form of reduced early retirement penalties for at least some individuals under Section 11 (pages 9-10), begin in July 2013 while the other benefit improvement, the higher accrual rates (Section 10, pages 8-9) begin in July 2014. The Commission may wish to consider whether those benefit improvements should begin a year or more before the employer or any teacher have begun making any contributions toward those benefits. Those who retire soon will receive a windfall by receiving higher benefits without making any contributions toward those higher benefits.

Finally, the bill includes contribution increases for basic members, but the basic members are not included in the provision increasing accrual rates, and there is no language authorizing SPTRFA to amendment its bylaws to provide that increase to basic members. Thus an issue is whether the basic member employee and employer increases in the bill are fair to basic members and can be justified.

9. Employer Contributions on Behalf of Reemployed Annuitants. The issue is the inclusion of a new provision requiring the St. Paul school district to make employer contributions on behalf of reemployed annuitants. The proposal has some merit. It helps to fund the SPTRFA, an organization in need of funding from all available sources, and it levels the playing field. Currently, if the school district hires a teacher who is not retired as a substitute, the school district must pay employer contributions to the retirement fund on behalf of that individual. If the school district hires a retiree instead, the district avoids the employer contributions requirement. Thus, the school district has a financial incentive to hire a retiree rather than a teacher who is not retired. The proposal to require the district to pay employer contributions to the pension fund will eliminate that financial incentive. The Commission and Legislature may wish to consider, though, that there may be school district opposition to this proposal because it will add to school district cost.

   If the Commission does conclude that the reemployed annuitant employer contribution requirement has merit, the Commission may wish to consider that no other Minnesota public plan has a comparable provision. The Commission may wish to consider expanding the concept to other teacher plans, and possibly to other plans in general.

10. Termination of Aid. This issue is inclusion in the termination of aid provision (Section 7 on page 5) of the Duluth Teachers Retirement Fund Association (DTRFA). It does seem appropriate to terminate aids, which were intended to help plans toward full funding, once full funding is achieved.

11. Recovery of Benefit Overpayments; Issue of Interest Charges. The issue is whether the benefit recovery from those who violate the 180-day rule will include interest. If no interest is charged, the fund is providing an interest-free loan. Section 8, on page 6, requires direct repayment but nothing is stated regarding interest charges.

12. Reemployed Annuitant Treatment. In Section 9, the SPTRFA is proposing to end the practice of reemployed annuitant accounts for any SPTRFA retiree who retires after June 30, 2013. The issue is whether the Commission agrees with that treatment. Under this proposal, reemployed annuitants who under prior law would have a portion of their annuity deferred and placed in a reemployed annuitant account, because of reemployment earnings in excess of $46,000, will instead forfeit those amounts.

13. Benefit Accrual Rate Increases: Issues. Section 10 includes an increase in the benefit accrual rates applicable to post-June 30, 2014, service. The increased accrual rates will match those currently provided by TRA. The benefit increase raises several issues:

    First, there is the issue of whether any benefit increase should be proposed by a fund which is in poor actuarial funding condition and which is asking for considerable additional state aid to help remedy its finances.

    A second issue is one of fairness. The Commission may conclude that if any benefit enhancement action is to be taken, it would be more fair and appropriate to first reverse some of the harm imposed on SPTRFA retirees and terminated members by 2011 legislation. In 2011, the SPTRFA proposed and the Legislature passed, provisions which caused considerable harm to plan retirees, deferred members, and short-service terminating members. These changes were patterned after the 2010 financial sustainability provisions enacted in for the Minnesota State Retirement System (MSRS), the Public Employee Retirement Association (PERA), the Teachers Retirement Association (TRA), and the Duluth Teachers Retirement Fund Association (DTRFA). Under the 2011 provisions, SPTRFA reduced the size of post-retirement adjustments, reduced the interest rate paid on refunds, and reduced deferred annuity augmentation, including the deferred annuity augmentation for those who terminated before the passage of the 2011 legislation. Depending upon the length of time a person is in deferred status prior to commencing an annuity, the deferred annuity augmentation reductions lowered the benefit these members will receive at retirement by a few percent for those who waited only a year or two before starting the annuity, to 20% or more for those with long deferral periods. The Commission may wish to consider whether actions should be taken to reduce or remove that harm before any benefit improvement is considered for another portion of SPTRFA membership. The Commission may also wish to consider that the active membership would be best served not by the proposed modest increases in the accrual rates, but by better protection from the eroding effect of inflation on their annuity when they eventually retire.

A third issue is one noted earlier. The proposed increase in the accrual rates begins a year or more before any increase in contribution rates. Those who will retire soon will see a modest increase in their annuity without making any contributions toward those higher benefits.

14. Early Retirement Revision Issues. The early retirement reduction changes in Section 11 raise a few issues (it is revising Minnesota Statutes, Section 354A.31, Subdivision 7).

First, the proposal revises what under current law is an actuarial reduction applied to early retirements. As revised, the SPTRFA will apply a reduction that is in excess of an actuarial reduction for those retiring at early ages and with shorter service, but is less than an actuarial reduction for those who retire closer to normal retirement age. Thus, this early retirement reduction proposal is a combination of a benefit reduction for some, those further from normal retirement age, and a benefit improvement for those closer to normal retirement age. Overall, the SPTRFA has indicated that the proposed change will result in a slight cost savings to the fund, but that estimate was made by the SPTRFA actuary for a different set of factors than those that appear in this bill. The Commission might wish to consider that the savings could be enhanced by leaving an actuarial reduction in place for those near retirement age while imposing a reduction in excess of an actuarial reduction at younger ages.

A second issue is that the provision being revised is not one that is used much by those who will be retiring in the near future, teachers who started service before July 1989. Its main application is for teacher who started after June 1989, so most of the individuals to which this provision is applicable are too young to retire. While the proposal might appear to have some substance, its impact will not be felt until many years in the future; thus its actuarial impact is minimal. The SPTRFA is proposing no change in the primary early retirement provision applicable to teachers who started service before July 1, 1989 (Minn. Stat. Sec. 354A.31, Subd. 6), which provides subsidized early retirements. More substantial savings could occur if that provision were amended in a meaningful way.

A third issue with this provision is the nature of the drafting, specifically, the use of specific stated factors. Each of the factors shown at the top of page 10 is a function of the mortality assumptions currently in effect for the plan. Any time the Commission adopts revised mortality assumptions for this plan, legislation ought to be offered to revise these factors. There is no need for that action under existing law. The current law specifies that an actuarial reduction will be applied. The precise factor needed to make that actuarial reduction would vary if mortality assumptions are changed, but there would be no need to revise the law. The SPTRA's actuary would simply need to provide the SPTRFA with the revised factors which represent an actuarial reduction.

Finally, late in the process the DTRFA asked to be given the same treatment as specified for the SPTRFA, so the DTRFA was included in Section 11. All of the concerns mentioned for the SPTRFA also apply to the DTRFA. In addition, there are two issues specific to the DTRFA. First, it is not clear that these specific factors are relevant for the DTRFA. These factors were developed by the SPTRFA actuary based on mortality assumptions applicable to the SPTRFA. Based on descriptions in the July 1, 2012, actuarial studies for these two plans, the DTRFA and SPTRFA may have somewhat different mortality assumptions. The SPTRFA mortality assumptions are described in its actuarial valuation as, for healthy males, as the "RP-2000 Combined Mortality Table for males projected with Scale AA to 2020 set back 1 year." In the DTRFA actuarial valuation the male mortality assumption is described as "RP-2000 Mortality Table for males, set back 3 years, and projected with generational improvement from 2012." The descriptions also appear to differ regarding female mortality. The Commission may wish to hear from an actuary representing the SPTRFA or DTRFA, or both, on whether the mortality assumptions in these plans at the current time are comparable. If not, then the factors which appear in Section 11 should not be applied to the DTRFA. The second issue is that the DTRFA has not provided the Commission with any actuarial work regarding the application of these factors to the DTRFA.

15. Need to Revise Salary Scale Assumption. The Commission was unable to take action to revise statutes regarding SPTRFA salary assumptions at a meeting several months ago when actuarial assumption changes as recommended the actuary were being considered. The proper changes were not included in the material then provided to the Commission. An amendment is recommended to revise assumptions that appear in statute.

Potential Amendments for Commission Consideration

S1249-1A corrects and updates the statutory actuarial assumption specifications of the Minnesota Statutes, Section 356.215, Subdivision 8, by implementing the individual salary scale assumption of the SPTRFA that was recommended by that association's consulting actuary in its most recent actuarial experience study, but was incorrectly processed by the Commission during the 2012-2013 interim because of a clerical error in the experience study, and by updating the applicable DTRFA and SPTRFA payroll growth assumption and the DTRFA individual salary scale assumption as approved by the Commission administratively during the 2012-2013 Interim.

S1249-2A revises the length of separation requirement from the proposed 180 days to a different number of days to be determined by the Commission.

A motion to delete Section 2 would leave the current law length of separation requirement in place.

S1249-3A revises the employee and employer contribution provisions by moving up the proposed contribution increases to begin in 2014, the same date that the accrual rate benefit increase occurs.

S1249-4A adds a requirement that a reemployed annuitant must make the equivalent of employee contributions for the reemployment. The reemployed annuitant will accrue no service credit and the amounts are not refundable.

A motion to delete Section 5 may be offered if the Commission prefers not to require employer contributions on behalf of reemployed annuitants and does not adopt **S1249-4A**.

S1249-5A revises the new state aid for SPTRFA. This amendment can be used if the Commission prefers to give new aid to the SPTRFA but prefers that the aid be a fixed amount rather than a variable amount. The Commission would need to fill in the aid amount by adding the current aid, $2,827, 000, to the additional new aid the Commission and Legislature chooses to provide.

A motion to delete Section 6 may be offered if the Commission prefers instead to provide no new aid.

S1249-6A, another alternative aid amendment, can be used instead of deleting Section 6 or amendment S1249-5A, if the Commission prefers to use the proposed variable aid approach but chooses to provide amounts that differ from the proposed $10,000,000 maximum and $3,000,000 minimum annual new aid. The Commission would need to fill in the amounts in the amendment.

S1249-7A removes the Duluth Teachers Retirement Fund Association (DTRFA) from the supplemental contributions and direct matching and state aid termination provision.

S1249-8A adds an interest requirement to the repayment of improper benefits provision (Section 8). The interest rate specified in the amendment is the monthly equivalent of 8.5% annual interest.

A motion to delete Sections 9 and 13 may be offered if the Commission does not support the proposed new requirement for SPTRFA teachers who retire after June 30, 2013, that annuity amounts which, due to reemployment in the school district, will be forfeited to the SPTRFA instead of being deferred to a reemployed annuitant account.

S1249-9A would delay the increase in the SPTRFA accrual rates in Section 10 by deleting the 2014 date and inserting a different later year. The Commission can use this to better align the timing of the benefit increase and the contribution increases.

S1249-10A, which applies to both the DTRFA and the SPTRFA, would discourage subsidized early retirements by revising 354A.31, Subd. 6, the early retirement provision with application to pre-1989 hires, regarding its application to first class city teacher plan retirees. The reduction of 0.25% per month for each year under normal retirement age (3% per year) is increased to 0.4% for each month (4.8% per year), and use of the Rule of 90 is ended for new retirees after June 30, 2014. This amendment could be used along with Section 11 of the bill, or the Commission might wish to remove Section 11 from the bill, because Section 11 will have little impact and has a problematic structure, and because of a need for the Legislature to revise that provision whenever mortality assumptions are revised for the plan.

S1249-11A was requested by the SPTRFA actuary and revises the augmentation rate in Section 12 from 3% to 2.5% to be consistent with the rate used to compute the reduction factors in Section 11, and to indicate in Section 11 that factors for normal retirement ages between exact ages 65 and 66 will be determined by linear interpolation.

Sec.	Pg.Ln	Stat. Provision	Plan	Summary
1	1.15	New 354.436	TRA	The appropriation paid to TRA on behalf of the Minneapolis Teachers Retirement Fund Association is move from the first class city teacher chapter to a new section in the TRA chapter.
2	2.2	354A.011, Subd. 11	SPTRFA	The "retirement" definition is revised by requiring a 180-day separation from service for those who terminate employment and are covered by SPTRFA.
3	2.14	354A.12, Subd. 1	SPTRFA	The SPTRFA coordinated and basic member contribution rates are increased by 1% of pay in half-percent increments starting in 2015.
4	3.9	354A.12, Subd. 2a	SPTRFA	The SPTRFA coordinated and basic employer contributions are increased by 1% of pay in half-percent increments starting in 2015.
5	4.21	354A.12, new Subd. 2c	SPTRFA	The SPTRFA contribution provision is amended by adding a new subdivision requiring employer and employer additional contributions on behalf of any SPTRFA annuitant reemployed by the St. Paul school district.
6	4.30	354A.12, Subd. 3a	SPTRFA	A state aid subdivision is revised by creating a new aid to the SPTRFA of $10 million annually, with reductions of $.5 million for each one percent return in excess of the actuarial assumed return, with a minimum aid of $3 million.
7	5.27	354A.12, Subd. 3c	SPTRFA, DTRFA	An aid termination date provision is amended to include eventual termination of the new aid specified in Section 6 and other provisions, and by clarifying the provision.
8	6.9	354A.12, Subd. 7	SPTRFA	The SPTRFA is authorized to recover by direct repayment any annuity amounts which should not have been paid due to the member failing to remain separated from St. Paul school district employment for at least 180 days prior to the reemployment.
9	7.11	354A.31, Subd. 3	SPTRFA	The first class city teacher plan reemployed annuitant holding account provision is revised by stating that for SPTRFA members who retire after June 30, 2013, amounts which under prior law were deferred and placed in an account will instead by forfeited to the SPTRFA.
10	8.17	354A.31, Subd. 4	SPTRFA	The SPTRFA retirement annuity computation provision is revised by increasing accrual rates on service rendered after 6/30/2014 from 1.2% to 1.4% for the first ten years of service and from 1.7% to 1.9% on later years of service for step formula annuities, and from 1.7% to 1.9% on level formula annuities.
11	9.11	354A.31, Subd. 7	SPTRFA, DTRFA	The first class city teacher plan actuarial reduction for early retirement provision is amended by revising reductions to require less than an actuarial reduction for retirements after age 60, and more than an actuarial reduction for earlier retirements.
12	10.12	354A.35, Subd. 2	SPTRFA	A death while under age 55 provision is amended by revising the reduction procedures used to compute the survivor annuity.
13	11.17	356.47, Subd. 1	SPTRFA	A reemployed annuitant account application provision in Chapter 356 is revised by clarifying that regarding its application to SPTRFA annuitants; the section will apply only to pre-71/2013 SPTRFA retirees.
14	11.27	423A.02, Subd. 5	SPTRFA	An amortization aid termination of aid provision in Chapter 423A applicable to the SPTRFA is revised by clarifying termination dates.
15	12.1	Uncoded	SPTRFA	Bylaw amendment authorization. The SPTRFA Board is authorized to revise its bylaws to revise the reduction factors used for early retirements, consistent with Section 11.

Background Information on Teacher Retirement Plans

1. Creation of Teacher Retirement Plans. After police officers and firefighters in some of the larger cities in the state, teachers were the first group of public employees in Minnesota to achieve public pension coverage. Teacher retirement funds in cities with a population greater than 10,000 (first, second, or third class cities) were authorized by the Legislature in 1909 (Laws 1909, Ch. 343, Sec. 1), but no cities other than the first class cities created teacher retirement funds. A statewide teachers' retirement plan, the Teachers Insurance and Retirement Fund, was created by the Legislature in 1915. The three first class city teacher retirement funds that had been established a few years earlier were left as freestanding organizations, while the Teachers Insurance and Retirement Fund provided coverage for teachers outside of the first class cities. The Teachers Insurance and Retirement Fund was replaced by the Teachers Retirement Association (TRA) in 1931. In 2006, the Minneapolis Teachers Retirement Fund Association (MTRFA) was merged into TRA. Currently, public pension plan coverage for K-12 public school teachers is provided by teacher retirement fund associations for teachers employed in Duluth (the Duluth Teachers Retirement Fund Association (DTRFA)) and in St. Paul (the St. Paul Teachers Retirement Fund Association (SPTRFA)), and by TRA for all Minnesota public school teachers outside of those two cities.

2. Organization. The remaining first class city teacher fund associations are nonprofit corporations. As Minnesota nonprofit corporations, these associations are governed by articles of incorporation and corporate bylaws. However, in recent decades, when coordinated employee plans (discussed below) were created in the first class city teacher fund associations, these provisions were created in state law and coded in statute. Board responsibilities, fiduciary responsibilities, and investment authority are also specified in law. Increasingly, these associations are becoming governed by state law.

   The benefit provisions of the early first class city teacher fund association pension plans, which are referred to as basic plans, were specified in the bylaws. Amendments to the articles of incorporation or bylaws require membership approval at an annual meeting. Each retirement fund association has a separate board. These boards tend to be composed of active teacher representatives, retired teacher representatives, and probably school district representatives, but there is no state representative on the remaining first class city teacher fund association boards, despite receiving considerable state aid. The activities of each association are handled by an executive secretary or an executive director and a separate administrative staff, all hired by the board or its agent, the executive secretary or executive director. These boards, through their executive directors and staff, are responsible for all administrative activities, which includes the proper determination of benefits, and for the investment of all retirement fund assets.

   In the 1970s or earlier, coordinated programs (plans in which the individual has Social Security coverage in retirement in addition to the benefit provided by the teacher pension fund plan) were established in many Minnesota public pension systems, including the first class city teacher fund associations and TRA. These coordinated plans pay a lower benefit than a basic plan (one in which the individual is not covered under the Social Security system due to the current covered employment) in recognition that the individual also receives Social Security monthly benefits in retirement, but the coordinated teacher plan contribution rates are correspondingly lower. The coordinated plan benefits provided by DTRFA, SPTRFA, and TRA are specified in statute, rather than in bylaws. In recent decades, the Legislature has also placed controls on the basic plans, by not permitting changes in the applicable bylaws specifying those benefits unless authorized by the Legislature.

   While the remaining first class city teacher fund associations are nonprofit corporations, TRA's status in unclear. It is not a nonprofit corporation, but we also find no language to indicate that it is a state agency. TRA's board composition is similar to those of the first class city teacher fund associations, except that TRA's board does have state representatives, the Commissioner of Education and the Commissioner of Management and Budget, or their designees. TRA's board functions similarly to those of the first class city teacher fund association boards, except that TRA does not invest its own fund assets. These are invested by the State Board of Investment.

3. Teacher Plan Retirement and Post-Retirement Benefits. When coordinated plans were first established in the then-existing three local teacher plans, the legislation was patterned closely after TRA coordinated plan law. Over the years, at times the coordinated plans of the local teacher plans and TRA departed slightly, due to benefits initially enacted for one plan but not others. At the current time, benefits at retirement are slightly higher in TRA than in the two first class city teacher plans.

The benefit to a member at retirement is determined by a formula, with the retiring teacher receiving an annual benefit which is a fraction of the high-five average salary. (Typically, the high-five average salary is defined as the average salary over a five-year period that produces the highest average.) For each year of service, a retiring DTRFA or SPTRFA member retiring at approximately age 65 receives 1.7% of the high-five average salary for each year of service, assuming the member is a coordinated member. TRA's benefit is slightly higher because TRA coordinated members were granted a benefit improvement when the MTRFA merged into TRA. For TRA, if the individual retires at approximately age 65 the individual receives 1.9% of the high-five average salary for each year of service provided after June 30, 2006, and 1.7% for prior years of service.

Basic members of teacher plans receive a somewhat higher percentage than those of coordinated members, because basic members do not accrue credit toward Social Security benefits due to the teaching service. However, very few active basic members remain in these plans. The DTRFA has no basic members. As of the July 1, 2010, actuarial valuation, SPTRFA had 69 basic members, compared to 3,768 coordinated members. TRA has over 77,000 active members in total, and no remaining long-term TRA basic members. It does have some basic members who transferred into TRA from the MTRFA merger.

Post-retirement adjustment procedures for all benefit recipients from these plans were recently revised, following worsening financial condition due to the market collapse of 2008 and early 2009. TRA had provided a 2.5% annual increase. Instead, in 2011 and 2012 TRA will provide no increase. In 2013 and thereafter, a 2.0% increase will be provided until financial stability is achieved, defined as when the fund's market value is at least 90% of the fund's accrued liabilities. The previous DTRFA procedure, payment of an annual 2.0% increase plus additional amounts if the fund's five-year return exceeded 8.5%, is replaced with no increase at all until the DTRFA funding ratio, based on market value, is at least 80%. A 1.0% increase will be provided when the funding ratio is at least 80% but less than 90%. After a 90% ratio is achieved, the plan's post-retirement adjustments will match inflation up to 5%. The SPTRFA waived any increase in 2011. After that, a 2.0% increase will be paid.

4. Benefit Differences between General Employee Plans. Longstanding legislative policy sought consistency between plans covering similar employees. Consistency reflects notions of fairness. Similar employees should be treated comparably.

The current situation is at odds with longstanding policy. Public retirement plans can be divided into two broad groups, public safety plans and general employee plans. Currently there are differences in benefits at retirement and post-retirement between plans, particularly in general employee plans. Public safety plans currently differ regarding post-retirement adjustments. General employee plans differ both in benefits at retirement and post-retirement. General employee plans include teacher plans; the Minnesota State Retirement System General Plan (MSRS-General), which covers most state employees; and the Public Employees Retirement Association General Plan (PERA-General), which covers local and county nonpublic safety employees including non-teacher school district employees (janitors, cafeteria staff, school bus drivers, and similar employees). Regarding the general employee plans, MSRS-General, PERA-General, and the two first class city teacher plans provide benefits at retirement that generally are comparable across these plans. The exception is TRA. The TRA accrual rate benefit increase at the time of the 2006 merger of MTRFA into TRA placed that plan out in front of the other general employee plans.

In the past, a benefit improvement in a general employee plan has lead to comparable changes in the remaining general employee plans. The situation has been similar in the public safety plan group. If differences in teacher plans or other general employee plans remain, this may be an important legislative consideration in any potential proposal to merge one or both of the remaining first class city teacher plans into TRA. The Legislature may need to consider the cost and other implications of providing those comparable benefits to the members of merged local teacher plans, and also to MSRS-General and PERA-General.

Long term, the Legislature also may need to address differences in post-retirement adjustments in these plans. Inflation impacts all Minnesota retirees, but at the current time PERA, MSRS, and each teacher plan have different post-retirement adjustment procedures. In part this current situation is due to the Financial Sustainability Provisions passed as Laws 2010, Chapter 359, Article 1, which the pension plan administrations had proposed to address the harm done to the plans by the Great Recession of 2008-2009. Reducing liabilities was the overriding concern of the plan administrations, which resulted in a considerable tradeoff against the objectives of consist, fair treatment.

5. Coverage Groups. The primary group covered by TRA and the two teacher retirement fund associations is the teaching and certificated administrative personnel of the applicable school districts. Membership is generally mandatory. The administrative staff of TRA and the first class city teacher retirement fund associations also is included in the membership of the respective retirement fund association. Other school district administrative personnel who do not require state Department of Education certification are covered by PERA-General.

6. State Role in Funding Local Teacher Plans. The state plays a significant role in financing all teacher retirement organizations. A few decades ago, the state directly covered all or part of the employer cost of the local teacher pension fund, either through direct payments to cover the local employer pension cost or by adding additional amounts to the basic state education aids. During the 1990s, the state has further increased its financial commitment to local teacher plans by creating new additional state aids above amounts provided through the education aids system. Details of these trends since the late 1960s are outlined in the remainder of this section.

   - In 1967, with the initial passage of a state sales tax, the state's employer contribution to the statewide TRA shifted from a statewide property tax levy (on all taxable property outside the first class cities) to direct general fund financing. The state paid a portion of the employer pension costs. At the same time, the state also began to directly participate in the funding of the first class city teacher retirement funds. The initial state funding of the first class city teacher retirement funds was a specified dollar amount per member, set to equal the proportional state funding provided to TRA.

   - In 1969, the aid procedures were changed to provide the first class city teacher funds with the same percentage of payroll amount as provided to TRA-covered employers. The balance of any required employer contributions to the first class city teacher retirement fund associations remained payable from property taxes levied by the respective school district.

   - In 1975, legislation abolished the authority for Special School District No. 1, Minneapolis, Independent School District No. 625, St. Paul, and Independent School District No. 709, Duluth, to levy local property taxes for their respective first class city teacher retirement fund associations, provided that the state would bear the total responsibility for funding the employer contribution requirement of the first class city teacher retirement fund associations.

   - In 1979, state funding of all teacher retirement plans was increased modestly and the state aid for these local teacher plans was specified for each teacher retirement fund association and each retirement program (basic or coordinated) as a percentage of covered payroll.

   - Under 1985 legislation, responsibility for the payment of employer contributions to teachers retirement plans and employer Social Security contributions for TRA and the first class city teacher retirement fund associations was shifted from direct general fund financing to the employing units, effective for the July 1, 1986—June 30, 1987, fiscal year. The responsibility shift was accompanied by the creation of a teacher retirement cost state aid formula, based on the historical retirement costs per pupil. This formula provided employer retirement financing sufficient to cover the same percentage increase in per-pupil retirement costs in each district, with the school district being required to pay from other revenue sources any retirement costs not covered by the aid as the result of higher-than-average compensation levels or salary increases beyond the aid inflation factor, or higher staff-to-pupil ratios than the average.

   - In 1993 and 1994, in response to growing recognition that contribution deficiencies in MTRFA and SPTRFA needed to be addressed, statutory contribution rates were revised, various assessments were created, and new state aids were authorized for MTRFA and SPTRFA. The new program was called special direct state aid. Regarding the SPTRFA, the employer additional rates were revised to create, for the 1995-1996 school year and after, a 3.64% of pay employer additional contribution on behalf of all SPTRFA members, identical to that of the statewide TRA. Under the new special direct state aid program, the state would give SPTRFA $500,000 in 1994, increasing by the rate of increase in the general education revenue formula thereafter. No local match was required. SPTRFA members are also required to make an additional member payment to offset a portion of the administrative expenses of SPTRFA that are proportionally greater than those of the statewide TRA.

   - The 1996 Legislature added a further state aid program to assist MTRFA and SPTRFA. Beginning with the 1996 aid payments, 70% of any unallocated amortization or supplemental amortization state aid not used for police and paid fire relief associations and consolidation accounts was to be redirected to MTRFA and SPTRFA. Of the redirected aid channeled to these two teacher associations, MTRFA would receive 70% and SPTRFA would receive 30% of the allocation. No local match was required for 1996 and 1997, but additional local contributions were required in 1998 and thereafter. For SPTRFA, the St. Paul school district must make a contribution to the fund of $200,000 in fiscal 1998, $400,000 in fiscal 1999, $600,000 in fiscal 2000, and $800,000 in fiscal 2001 and thereafter.

- The 1997 Legislature, as part of a major benefit improvement bill, again revised SPTRFA and MTRFA state aid. Rather than continued receipt of $500,000 in annual state direct aid annually, escalated over time with increases in general education aids, the SPTRFA will receive $4.827 million in fiscal 1998, and $2.827 million annually thereafter, without any local match.

- The 1999 Legislature, as part of legislation merging PERA consolidation accounts into the Public Employees Police and Fire Retirement Plan (PERA-P&F), revised procedures for reallocating additional amortization aid. If aid is released or unallocated because the Minneapolis police and fire relief associations and Virginia Fire Department Relief Association have no unfunded liability, 49% of any reduction is to be allocated to MTRFA and 21% to SPTRFA, if these two teacher funds had investment performance at least matching a conservatively managed index total portfolio. The 2000 Legislature revised amortization aid provisions to continue these aids until MTRFA and SPTRFA are fully funded.

- In 2006 the MTRFA was merged into TRA, and any aids that under prior law are payable to the MTRFA were redirected to TRA. Any state aid to the Minneapolis Employees Retirement Fund (MERF) not required, given MERF funding procedures, was instead allocated toward MTRFA unfunded liabilities. Also, state aid to all school districts, including Minneapolis, was increased by one-half percent.

- The 2008 Legislature revised direct state aids to teacher plans. $346,000 was allocated to DTRFA, restarting aid to that association which had terminated when that association became fully funded in 2002. The TRA direct aids on behalf of MTRFA were reduced by that same amount. The SPTRFA aid was reduced by $140,000. Supplemental contributions, which Special School District No. 1, Minneapolis, and the City of Minneapolis must pay to be eligible to receive amortization and supplemental amortization aid not used for local police and paid fire relief associations, must continue to be paid to TRA until TRA is fully funded or until 2037, whichever is earlier, rather than until 2037. Once the SPTRFA funding ratio equals or exceeds that of TRA, the special direct state aid payment to that organization is redirected to TRA.

- In 2009, amortization and supplemental amortization aid to the teacher plans was readjusted. DTRFA is newly added to the reallocation, to receive 10% of any reallocated aid. Reallocations to TRA on behalf of the MTRFA and to SPTRFA are reduced.

7. Historic Funding Concerns. Since 1970, or earlier, the MTRFA had a history of funding problems. Causes included investment performance which often lagged the index returns used as performance benchmarks, and underperformance relative to the returns earned by the State Board of Investment, which invests the assets of TRA and other statewide public pension funds. A key contributor to funding problems was a faulty post-retirement adjustment procedure, enacted in 1993 at the request of the MTRFA, which paid out more than could be sustained by the fund. MTRFA assets fell below the amount necessary to fully fund the pensions of its then-existing pensioners. Given the structure of the post-retirement adjustment procedure, once assets fell below that level, it became impossible to improve the plan's funding condition through investment performance. Any investment returns above the plan's assumed actuarial return, 8.5%, flowed out of the fund to the retirees as post-retirement adjustments. Funding ratios continued to deteriorate and contribution deficiencies widened. Faced with eventual default, the MTRFA was merged into TRA in 2006.

   The faulty post-retirement adjustment procedure enacted in 1993 for the former MTRFA was extended to DTRFA in 1995 and to SPTRFA in 1997, at the request of these plan administrations. In recent years both of the two remaining first class city teacher plans have moved away from the problematic post-retirement adjustment procedure. In response to legislative concerns about deterioration of the SPTRFA funding condition, in 2006 a 5% increase cap was placed on SPTRFA post-retirement adjustments, but this was not to be effective until 2010. This cap was due to an amendment by the House State Government Finance Committee. In 2007, the SPTRFA post-retirement adjustment procedure was revised by implementing a temporary two-year procedure under which the post-retirement adjustment would match inflation up to 2.5%, or up to 5.0% if the fund's investment returns were at least 8.5%. In 2009, the SPTRFA post-retirement adjustment provision was again revised, for a two-year period, to provide an inflation match up to 5.0% regardless of investment performance.

The investment markets collapsed in 2008 and 2009, a period referred to as the Great Recession, which sharply reduced the asset values of all pension funds. In response to this strong downturn, the 2010 Legislature was presented with a proposal from the various pension fund administrations (the Minnesota State Retirement System (MSRS), the Public Employees Retirement Association (PERA), TRA, and the first class city teacher plans) revising various plan benefit and funding provisions to reduce plan liabilities and improve plan funding. These were enacted as Laws 2010, Chapter 359, Article 1, and titled "Financial Sustainability Provisions." Several changes were include in that article for the DTRFA, including replacement of its problematic post-retirement adjustment procedure with procedure which pays no adjustment until the plan's funding ratio, based on market divided by liabilities, is at least 80%; a 1% adjustment when the ratio is at least 80% but less than 90%. After a 90% ratio is achieved, the DTRFA post-retirement adjustment will match inflation up to 5%. The Financial Sustainability Provisions included only one SPTRFA revision, a one-year waiver of any post-retirement adjustment.

8. Current Funding Condition. The current funding condition of TRA, DTRFA, and the SPTRFA is shown below.

	DTRFA FY2012		SPTRFA FY2012		TRA FY2012	
Membership						
Active Members		919		3,880		76,649
Service Retirees		1,254		2,942		50,780
Disabilitants		19		29		591
Survivors		113		321		4,054
Deferred Retirees		284		1,833		12,201
Nonvested Former Members		766		1,427		27,591
Total Membership		3,355		10,432		171,866
Funded Status						
Accrued Liability		$326,243,873		$1,471,216,000		$23,024,505,000
Current Assets		$206,833,425		$911,930,000		$16,805,077,000
Unfunded Accrued Liability		$119,410,448		$559,286,000		$6,219,428,000
Funding Ratio	63.40%		61.98%		72.99%	
Financing Requirements						
Covered Payroll		$50,973,110		$256,509,000		$4,146,325,000
Benefits Payable		$24,806,357		$101,788,000		$1,485,527,000
Normal Cost	6.48%	$3,305,213	8.39%	$21,503,000	8.53%	$353,796,000
Administrative Expenses	1.16%	$591,288	0.31%	$795,000	0.24%	$9,951,000
Amortization	15.36%	$7,829,470	14.17%	$36,347,000	9.98%	$413,803,000
Total Requirements	23.00%	$11,725,971	22.87%	$58,645,000	18.75%	$777,550,000
Employee Contributions	6.50%	$3,313,252	6.02%	$15,449,000	6.50%	$269,572,000
Employer Contributions	6.79%	$3,461,075	8.87%	$22,753,000	6.69%	$277,520,000
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	1.23%	$626,202	1.58%	$4,057,000	0.52%	$21,727,000
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	14.52%	$7,400,529	16.47%	$42,259,000	13.71%	$568,819,000
Total Requirements	23.00%	$11,725,971	22.87%	$58,645,000	18.75%	$777,550,000
Total Contributions	14.52%	$7,400,529	16.47%	$42,259,000	13.71%	$568,819,000
Deficiency (Surplus)	8.49%	$4,325,442	6.40%	$16,386,000	5.04%	$208,731,000

Background Information on Reemployed Annuitant Exempt Earnings Limits

1. Reemployed Annuitant Earnings Limitations under Social Security. Since the creation of the Old Age and Survivors Insurance Program (Social Security) in the 1930s, Social Security benefits have been subject to an employment earnings limitation, known as the earnings test. The Social Security Administration maximum salary earnings limitations for continued receipt of full benefit amounts under the federal Old Age, Survivors and Disability Insurance Program are used by the Social Security Administration to determine whether Social Security benefits must be reduced because the individual has salary or self-employment income in excess of the maximums permitted under federal law for continued full receipt of those benefits.

   The following table summarizes the annual maximum earnings permissible by Social Security benefit recipients for each year from 1985 onward, which a benefit recipient may receive without incurring a reduction in Social Security benefits. In the table these maximums are referred to as exempt amounts, since they indicate the highest salary earnings, which are exempt from a penalty—a reduction in the Social Security benefits that otherwise would be received. Under Social Security law, the exempt amount differs with the age of the individual. If an individual is under the Social Security full retirement age, once 65 and now between age 65 and age 67, depending on the person's year of birth, but drawing Social Security Old Age Insurance benefits, the maximums are fairly low. The exempt amount for the year in which the Social Security full retirement age is reached is notably higher. The following table has three columns, which are the applicable year, the maximum (exempt) amount under age 65 (before 2000) or under the full normal retirement age (after 1999), and the maximum amount for age 65-69 (before 2000) or for the full normal retirement age year (after 1999):

Year	Under Age 65	Age 65-69
1985	$5,400	$7,320
1986	$5,760	$7,800
1987	$6,000	$8,160
1988	$6,120	$8,400
1989	$6,480	$8,880
1990	$6,840	$9,360
1991	$7,080	$9,720
1992	$7,440	$10,200
1993	$7,680	$10,560
1994	$8,040	$11,160
1995	$8,160	$11,280
1996	$8,280	$12,500
1997	$8,640	$13,500
1998	$9,120	$14,500
1999	$9,600	$15,500

Year	Prior to Year of Full Retirement Age	Year of Full Retirement Age
2000	$10,080	$17,000
2001	$10,680	$25,000
2002	$11,280	$30,000
2003	$11,520	$30,720
2004	$11,640	$31,080
2005	$12,000	$31,800
2006	$12,480	$33,240
2007	$12,960	$34,440
2008	$13,560	$36,120
2009	$14,160	$37,680
2010	$14,160	$37,680
2011	$14,160	$37,680

   If the Social Security benefit recipient is under the full retirement age, the reduction is one dollar of Social Security benefits for each two dollars of earnings in excess of the maximum amount earned. For the year in which the full retirement age is attained, the reduction is one dollar for each three dollars of earnings in excess of the maximum amount earned. After full retirement age is reached, no reduction applies.

2. Reemployed Annuitant Earnings Limitations under the Minnesota Public Pension Plans. Among Minnesota public pension plans, but unlike Social Security, the public employee must terminate from active public employment with the employing unit to initially qualify to receive the public employee retirement annuity. If the individual's public pension plan has a reemployed annuitant earnings limit provision, the individual often (but not always) will be subject to that reemployed earnings limit if the individual returns to public employment with pension coverage in the same public pension system.

   These reemployed annuitant provisions in Minnesota public pension plans bear a great similarity to the Social Security System but are far less global in scope. Under Social Security, the benefit reductions would be applied to any Social Security benefit recipient under the full retirement age who exceeded the maximum permissible exempt salary earnings, regardless of the employer, applicable for the individual's age. In contrast, if a Minnesota public pension plan has a reemployed annuitant earnings provision, reductions or suspension of the annuity by the plan will occur for those with salary income in excess of exempt amounts only from employment covered by the same pension plan or system. An annuitant from the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) who becomes reemployed in a position covered by the Minnesota State Retirement System (MSRS), the Teachers Retirement Association (TRA), or any other public pension system, would not be subject to the reemployed annuitant provisions in PERA law. Also, no Minnesota public pension plan benefit reductions would occur if the annuitant becomes employed by a governmental employer in another state, by the federal government, or in the private sector.

Even within the same public pension system, reemployed annuitant reductions may not apply if the individual becomes employed in a position covered by another plan within the system. Typically, the laws have been constructed or interpreted in a way that applies reemployed annuitant earnings provisions if an annuitant from one plan in a system becomes employed by another plan in that same system providing that both plans were originally created within that system. A Public Employees Police and Fire Retirement Plan (PERA-P&F) annuitant who becomes employed in PERA-General covered employment will be subject to PERA's reemployed annuitant provision because PERA-P&F was spun out of PERA-General in 1959. However, a retiree from the State Patrol Retirement Plan who becomes reemployed in an MSRS-General covered position faces no reemployed annuitant penalties because the State Patrol Plan was originally not administered by MSRS, but was moved into MSRS for administrative purposes in 1969. The State Patrol Retirement Plan has no reemployed annuitant earnings provision in the plan, and the provision in MSRS-General law has been interpreted as not applying to State Patrol annuitants.

Reemployed annuitant earnings limitations in Minnesota law support the requirement that a public employee must terminate the employment relationship in order to receive a retirement benefit. The limitations ensure that politically connected public employees cannot manipulate the personnel system and also maximize their income by drawing a full retirement benefit along with a full salary. In doing this, the reemployed annuitant earnings limitations follow one of the traditional purposes for a retirement plan, which is to assist the personnel system in producing an orderly and systematic outtransitioning of senior employees who have reached the end of their normal working lifetime.

However, when reemployed annuitant earnings limitations do not apply uniformly, when some plans have no limits, when the limitations impact differently when applicable, or when no limitations apply to most reemployed annuitant situations (i.e., a public plan annuitant employed by a private sector employer or by a public sector employer of a different level or branch of government), the basic fairness of the limitations can be questioned.

The following chart provides information on the reemployed annuitant earnings limitation laws in Minnesota's public plans:

Retirement Plan	Applicable Compensation	Limit Threshold	Effect After Threshold Exceeded	Reemployment Period Retire-ment Coverage	Exceptions
General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General)	Salary or wages from state of from employer of MSRS-General members.	Social Security maximums ($14,160 annually if under the Social Security normal retirement age; $37,680 in year in which Social Security normal retirement age is reached; no limit thereafter).	Suspension of annuity for the balance of the calendar year or until reemployment termination, with the suspended annuity amounts deposited in a separate account, earning 6% compound annual interest prior to January 1, 2011, payable one year after the reemployment ends.	No retirement coverage.	No application to service as temporary legislative employee. Suspension lifted during any sick leave.
MSRS Correctional State Employees Retirement Plan (MSRS-Corr.)	Same as MSRS-General.	Same as MSRS-General.	Same as MSRS-General.	Same as MSRS-General.	Same as MSRS-General.
State Patrol Retirement Plan	No provision.	No provision.	No provision.	No provision.	No provision.
Legislators Retirement Plan	No provision.	No provision.	No provision.	No provision.	No provision.
Elective State Officers Retirement Plan	No provision.	No provision.	No provision.	No provision.	No provision.
Judges Retirement Plan	No provision.	No provision.	No provision.	No provision.	No provision.

Retirement Plan	Applicable Compensation	Limit Threshold	Effect After Threshold Exceeded	Reemployment Period Retire-ment Coverage	Exceptions
MSRS Unclassified State Employees Retirement Program (MSRS-Unclassified)	No provision.	No provision.	No provision.	No provision.	No provision.
Public Employees Retirement Association (PERA)	Salary from governmental subdivision employment or public employee labor union employment.	Social Security maximums ($14,160 annually if under the Social Security normal retirement age; $37,680 in year in which Social Security normal retirement age is reached; no limit thereafter).	Suspension or reduction, whichever produces higher annual amount. Suspension of amount is for the balance of the calendar year or until reemployment termination. Reduction is one-half of the excess over the maximum if under the Social Security full retirement age and one-third of the excess over the maximum if at the Social Security full retirement age. The reduction or suspended amount is deposited in a separate account, earning 6% compound annual interest prior to January 1, 2011, payable one year after the reemployment ends.	No retirement coverage.	No application to service as a local government elected official.
Public Employees Police & Fire Fund (PERA-P&F)	Same as PERA.	Same as PERA.	Same as PERA.	Same as PERA.	Same as PERA.
Teachers Retirement Association (TRA)	Income from teaching for employing unit covered by TRA, income from consultant or independent contractor teaching services for employing unit covered by TRA, or income received by comparable position if greater than actual income received.	$46,000 annually until Social Security normal retirement age; no limit thereafter.	Reduction in following calendar year annuity of one-half of the excess over the maximum, with the annuity reduction amount deposited in a separate account earning 6% compound annual interest prior to January 1, 2011, payable one year after the reemployment ends.	No retirement coverage.	No application to interim superintendents during a lifetime limit of three 90-day exemption periods or to reemployed retired Minnesota State Colleges and Universities faculty working between 33.3% and 66.7% of full time with salary under $46,000.
First Class City Teacher Retirement Fund Associations	Same as TRA, except for applicable employers.	Same as TRA.	Same as TRA, except reduction is one-third of excess over the maximum; and for the DTRFA payment of interest ends June 30, 2010; for the SPTRFA, 6% interest continues until paid.	Same as TRA.	Same as TRA.
Minneapolis Employees Retirement Fund (MERF)	No provision.	No provision.	No provision.	No provision.	No provision.
Local Police or Salaried Firefighter Relief Associations	Typically no provision.	Typically no provision.	Typically no provision.	Typically no provision.	Typically no provision.

3. <u>Example of MSRS Reemployed Annuitant Earnings Limitation Provision</u>. The current Minnesota State Retirement System (MSRS) limit, Minnesota Statutes, Section 352.112, Subdivision 10, provides for a suspension of the year's annuity when earnings exceed the Social Security limitation, which is $14,160 annually ($1,180 monthly) in 2011 for retirees before the year in which Social Security normal retirement age is reached (between age 65 and age 66 for retirees with birth years between 1937 and 1955) and is $37,680 annually for the year of attaining the Social Security full retirement age.

MSRS Annuitant Retiring at Age 63 with 30 Years Service

Final Five Years' Salary

Year 1 48,430
Year 2 50,850
Year 3 53,390
Year 4 56,060
Year 5 58,858

Highest Five Successive Years Average Salary	$53,517.65
Benefit Accrual Percentage (30 Years x 1.7)	x .51
	$27,294 ($2,274.50/month) [1]

	Situation 1 MSRS Annuitant without any Reemployment		Situation 2 MSRS Annuitant with $25,000 Reemployment Income	
Year 1			Reemployed Earnings	$25,000
	MSRS Annuity	$27,294	MSRS Annuity	$27,294
	Total	$27,294	Total	$52,294
Year 2	MSRS Annuity	$27,294	Exempt Earnings Limit	$14,160
			Portion of Annuity Received	$15,925
			Portion of Annuity Deferred	$11,369
			Reemployed Earnings	$25,000
			Portion of Annuity Received	$15,925
	Total	$27,294	Reemployed Earnings Plus Portion of Annuity Currently Received	$40,925

$25,000 in annual earnings is equal to $2,083 per month. At that monthly rate the reemployed annuitant will exceed the exempt earnings limit in the seventh month, by which time the individual will have received $15,925 in monthly annuity payments for the year. The remaining annual annuity amount, $11,369, will be placed in a reemployed annuitant account and be released to the individual upon application one year after the reemployment ends. If the individual were older, in the year in which Social Security retirement age is reached, the exempt earnings limit would be $37,680, which exceeds the reemployment earnings, so the individual would receive the full annuity with no deferral. After attaining Social Security retirement age, the individual is exempt from any exempt earnings limits.

[1] *Does not include any reduction due to early receipt of the annuity.*

Background Information on the TRA Return to Work Provision

The 2008 Legislature enacted a provision permitting in-service distributions in the Teachers Retirement Association (TRA) by passing Laws 2008, Chapter 349, Article 3, Section 9, which was coded as Minnesota Statutes, Section 354.444, Return to Work Agreement. The title of the provision is misleading, because there is nothing in the law which requires that there be a true break in service prior to returning to work, or that the arrangement not be prearranged.

Under the TRA provision, if the employer and employee enter into a written agreement, TRA members who are at least age 62, other than those employed by the Minnesota State Colleges and Universities System (MnSCU), may begin receiving a TRA annuity although no true termination of service has occurred. No limit is stated on the length of the work period under the agreement. Employment under the agreement could be full time or part time, and there is no prohibition against the individual simply continuing on in the same employment capacity as existed prior to the agreement. No employee or employer contributions are made for the continuing service.

The TRA provision is consistent with federal requirements. Federal legislation in 2006 revised pension plan qualified status requirements. A pension plan must conform to federal plan qualification requirements or it risks losing its qualified plan status, which can cause all assets and contributions to be immediately taxable. One of the requirements in federal code is a general prohibition against in-service distributions (the distribution of plan assets to active employees). However, the 2006 federal code revisions created an exception. In-service distributions will not cause a pension plan to lose qualified plan status if the individuals receiving the in-service distributions are at least age 62.

While the change which TRA proposed in 2008 was consistent with revised federal code, the general issue presented to the Legislative Commission on Pensions and Retirement was whether the proposed TRA revision made sense within Minnesota systems and reflected good pension policy.

Some of the policy issues raised by the 2008 TRA proposal, which the Commission and Legislature did choose to pass, were:

1. Conflict with Longstanding Policy and Plan Structure. There had been a general presumption that retirement benefits are intended to support individuals during retirement, individuals who had withdrawn from the workforce. The proposal muddied the intended purpose of the plan by permitting assets intended for retirement to be received by individuals who remained as active employees, including some who remain in full-time active employment.

2. Appropriateness of Employers and State Bearing Investment Risk. TRA is a defined benefit plan. Due to the nature of the plan, employing units and ultimately the state bear the TRA fund's investment risk because employers and the state are responsible for ensuring that plan assets are sufficient to cover the defined benefits provided in law by the plan. An issue was whether it made sense to bear that risk on behalf of employees who were drawing benefits prior to withdrawing from employment.

3. Clouded Notion of Benefit Adequacy. Defined benefit plans presumably are designed to provide long-service employees with a benefit during retirement that is adequate to maintain a reasonable standard of living, when supplemented by Social Security and savings. By providing benefits to some who were not yet retired, TRA's proposal clouded the purpose of retirement benefits and the notion of the benefit adequacy.

4. Unclear Purpose; Design Problem. The purpose or objective for the TRA proposal was not clear. If intended as a transition-to-retirement provision, by permitting individuals to transition from full-time employment to part-time employment and eventually to full retirement, the provision was not well targeted. Under the TRA provision individuals could remain fully employed as teachers or administrators while commencing receipt of TRA retirement benefits. That is not transitioning into retirement in the usual sense.

5. Plan Cost Issues. The provision could impact the cost of providing benefits under the TRA plan and necessary contribution requirements. In TRA some early retirements are subsidized. The provision might cause a larger portion of individuals applying for TRA annuities to be getting subsidized benefits. The provision also directly impacts TRA contributions. An individual who uses this provision continues in employment but no longer makes contributions to the plan. Similarly, the employer no longer makes employer contributions to TRA on behalf of the employee. In contrast, employee and employer contributions to TRA continue for any similar individual who simply continues in TRA-covered employment and does not use this program.

Comparison of MSRS, PERA, TRA, and First Class City Teacher Retirement Fund Association 2010-2011 Financial Sustainability Provisions Contained in

2010 S.F. 2918, 4th Engr., Article 1 (Laws 2010, Chapter 359) and 2011 1st SS H.F. 14, Article 2 (Laws 2011, Chapter 8)

	MSRS-General	MSRS-Correct.	State Patrol	Judges	Legislators	ESO	PERA-General	PERA- Correct.	PERA-P&F	TRA	DTRFA	SPTRFA
a. Contributions 1. Member	--	--	+2.0%	--	--	--	+0.25%	--	+0.2%	+2.0%	+1.00%	+1.00% Coord; +1.00% Basic +1.00% C&B
2. Employer	--	--	+3.0%	--	--	--	+0.25%	--	+0.3%	+2.0%	+1.00%	
3. Contribution rate stabilizer	--	--	--	--	--	--	Modified	--	--	Added	--	--
b. Post-retirement adjustments	Reduced from 2.5% to 2.0%, restored when 90% funded on MVB;* 6-mo. waiting period imposed for initial increase	Reduced from 2.5% to 2.0%, restored when 90% funded on MVB;* 6-mo. waiting period imposed for initial increase	Reduced from 2.5% to 1.5%, restored when 90% funded on MVB;* 6-mo. waiting period imposed for initial increase	Reduced from 2.5% to 2.0%, restored when 90% funded on MVB;* 6-mo. waiting period imposed for initial increase	Reduced from 2.5% to 2.0%, restored once MSRS-General is 90% funded on MVB;* 6-mo. waiting period for initial increase	Reduced from 2.5% to 2.0%, restored once MSRS-General is 90% funded on MVB;* 6-mo. waiting period for initial increase	Reduced from 2.5% to 1.0%, restored when 90% funded on MVB,* rate reduced if fund later declines from 90% funded	Reduced from 2.5% to 1.0%, restored when 90% funded on MVB,* rate reduced if fund later declines from 90% funded	Reduced from 2.5% to 1.0% for 1/1/2011 and 1/1/2012, then equal to the CPI % for the preceding fiscal year, not to exceed 1.5% until 90% funded on MVB,* then not to exceed 2.5%, 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%	2010: Automatic 2% inc. suspended for 1/1/2011 2011: 1% when less than 80% funded on AVB** 2% until 90% AVB; when 90% funded on AVB moves to inflation match up to 5%
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	2010: no chg. 2011: Reduced from 6% to 4% after 7/1/2011
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	2010: no chg. 2011: 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	2010: no chg 2011: Eliminated after 6/30/2011
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	--	2010: For new members after 6/30/2010, increased from 3 years to 5 years 2011: 5-year vesting clarified to apply to all benefits and programs for post-2010 hires.	--
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%	--	--	--	--	--	--	--	--	--	--

Legislative Commission on Pensions and Retirement *MVB = Market Value Basis **AVB = Actuarial Value Basis 2010-2011 Financial Sustainability Provisions

Ed Burek

From: bonnie.wurst@gabrielroeder.com
Sent: Friday, March 01, 2013 8:17 AM
To: pdoane@sptrfa.org; Ed Burek
Cc: bonnie.wurst@gabrielroeder.com; sheri.wroblewski@gabrielroeder.com; C1990@gabrielroeder.com
Subject: RE: SPTRFA bill
Attachments: Proposal12122012Final.pdf; 2013-05-02 Cost Estimates for Proposed Early Retirement Factors.pdf

Ed,

Attached are actuarial cost studies covering two components of the proposed legislation for St. Paul Teachers:

1) Increase multiplier from 1.7% to 1.9% (and from 1.2% to 1.4% if applicable)
2) Revised early retirement factors

Note that the early retirement factors are still under discussion (as you know). The factors used in the actuarial cost study are consistent with the factors in the first draft of the bill (provided on February 19, 2013).

The provisions applicable to re-employed annuitants were not analyzed by GRS. The actuarial valuation assumes that annuitants do not return to employment.

Please feel free to contact me with any questions. Thanks,

Bonnie

Circular 230 Notice: Pursuant to regulations issued by the IRS, to the extent this communication (or any attachment) concerns tax matters, it is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) marketing or recommending to another party any tax-related matter addressed within. Each taxpayer should seek advice based on the individual's circumstances from an independent tax advisor.

Bonnie Wurst, ASA, EA, MAAA
Gabriel, Roeder, Smith & Company
100 South Fifth Street
Suite 1900
Minneapolis, Minnesota 55402-1267

Telephone: 612-605-6197 Fax: 612-605-6203
bonnie.wurst@gabrielroeder.com

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries
100 South Fifth Street
Suite 1900
Minneapolis, MN 55402-1267
612.605.6200 phone
612.605.6203 fax
www.gabrielroeder.com

December 20, 2012

Mr. Paul Doane
Executive Director
St. Paul Teachers' Retirement Fund Association
1619 Dayton Avenue, Room 309
Saint Paul, MN 55104-6206

Re: Cost Estimates for Proposed Benefit Changes

Dear Mr. Doane:

Enclosed are four supplemental actuarial valuations for possible benefit changes to the St. Paul Teachers' Retirement Fund Association (SPTRFA). To the best of our knowledge and belief, the calculations were completed in accordance with the requirements of Minnesota Statutes, Section 356.215, and the requirements of the Standards for Actuarial Work established by the Legislative Commission on Pensions and Retirement.

The date of the valuation was June 30, 2012. This means that the results of the supplemental valuations indicate what the June 30, 2012 valuation would have shown if the proposed benefit changes had been in effect on that date. Unless noted otherwise, the cost impact was measured using the same methods, assumptions, and data as were used in the actuarial valuation of the SPTRFA as of July 1, 2012, performed by Gabriel, Roeder, Smith & Company.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to limited scope of the actuary's assignment, the actuary did not perform an analysis of the potential range of such future measurements.

This report should not be relied on for any purpose other than the purpose described in the primary communication. Determinations of the financial results associated with the benefits described in this report in a manner other than the intended purpose may produce significantly different results.

The valuation was based upon information furnished by SPTRFA, concerning Retirement Association benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries.

Study 1: Cap Cost-of-Living-Adjustments (COLA)

Current Benefits Provided
If the Accrued Liability Funding Ratio based on the Actuarial Value of Assets, as determined by the most recent actuarial valuation is:

Less than 80 percent, the COLA: 1.00 percent
At least 80 percent, but less than 90 percent, the COLA: 2.00 percent
If at least 90 percent, then the subdivisions for the 1 percent and 2 percent provisions above will expire and COLAs will be based on actual inflation.

The July 1, 2012 valuation assumed annual 1.0% COLA increases will be paid indefinitely.

Proposed Benefits Provided
Social Security benefit recipients are subject to reductions in their Social Security benefits if they are younger than Social Security Full Retirement Age and if they earn more than a defined limit ($15,120 in 2013). Under the proposal, future COLA's are subject to a maximum of 1.0% of three times this Social Security earnings limit. In 2013, three times this Social Security earnings limit will equal $45,360 and the maximum annual SPTRFA COLA would be $453.60.

For the purpose of this study, we assumed that the Social Security earnings limit for benefit recipients (and the SPTRFA maximum COLA) will increase at an annual rate of 4.00% in the future (wage inflation assumption).

The impact of this change is summarized in Attachments One and Two. The Funded Ratio increases from 62.0% to 62.2%, and the Required Contribution decreases by 0.15% of payroll, from 22.87% of payroll to 22.72% of payroll.

Study 2: Match Normal Retirement Age with Social Security Normal Retirement Age

Current Benefits Provided
The normal retirement age is 65 for those hired before July 1, 1989, and the eligibility age for full Social Security retirement benefits to a maximum of age 66 for those hired on or after July 1, 1989. A Proportionate Retirement Annuity is available at Normal Retirement Age with one year of Allowable Service.

Proposed Benefits Provided
Under the proposal, the age 66 maximum normal retirement age for those hired on or after July 1, 1989 is eliminated, so that normal retirement age extends to age 67. The normal retirement age is 65 for those hired before July 1, 1989, and the eligibility age for full Social Security retirement benefits for those hired on or after July 1, 1989. A Proportionate Retirement Annuity is available at Normal Retirement Age with one year of Allowable Service.

It is our understanding that benefits for current inactive or retired members would not be affected by the proposed changes. They were excluded from this portion of the study.

The actual cost impact will depend on actual retirement experience. For this study, we assumed no change in retirement rates.

The impact of this change is summarized in Attachments Three and Four. The Funded Ratio increases from 62.0% to 62.4%, and the Required Contribution decreases by 0.47% of payroll, from 22.87% of payroll to 22.40% of payroll.

Study 3: Change Early Retirement Eligibility Age from age 55 to age 57

Current Benefits Provided
Members are currently eligible for early retirement upon attainment of age 55 and 3 years of Allowable Service. Members hired before July 1, 1989 are eligible for unreduced benefits if age plus years of service totals at least 90.

Proposed Benefits Provided
Under the proposal, members not eligible for unreduced Rule of 90 benefits are eligible for early retirement upon attainment of age 57 and 3 years of Allowable Service. Members hired before July 1, 1989 are eligible for unreduced benefits if age plus years of service totals at least 90 and age is at least 55.

It is our understanding that benefits for current inactive or retired members would not be affected by the proposed changes. They were excluded from this portion of the study.

The actual cost impact will depend on actual retirement experience. For this study, we assumed no change in retirement rates, other than recognition of the delayed eligibility for early retirement.

This change is essentially cost neutral. The delay in eligibility is offset by additional benefits earned between ages 55 and 57.

The impact of this change is summarized in Attachments Five and Six. The Funded Ratio decreases from 62.0% to 61.9%, and the Required Contribution increases by 0.05% of payroll, from 22.87% of payroll to 22.92% of payroll.

Study 4: Increase Multiplier from 1.7% to 1.9% (and from 1.2% to 1.4% if applicable)

Current Benefits Provided
Members hired before July 1, 1989, are eligible for the greater of the following benefits. Members hired after July 1, 1989, are eligible for the benefits shown in item (b):

a) 1.20 percent of Average Salary for each of the first ten years of Allowable Service plus 1.70 percent of Average Salary for each subsequent year of Allowable Service. There is a reduction of 0.25 percent for each month the member is under age 65, or under age 62 with 30 years of Allowable Service. No reduction applies if the age plus years of service totals at least 90.

b) 1.70 percent of Average Salary per year of Allowable Service augmented at 3.00 percent compounded annually from the age at retirement until Normal Retirement Age and then actuarially reduced for each month the member is under the Normal Retirement Age.

Proposed Benefits Provided
Under the proposal, the benefit multiplier for service rendered on or after July 1, 2012, would be increased by 0.2%, as follows:

i. For benefits defined under item a) above, the following multipliers would apply:
   - 1.20% for each of the first ten years of Allowable Service rendered prior to July 1, 2012
   - 1.40% for each of the first ten years of Allowable Service rendered on or after July 1, 2012
   - 1.70% for each subsequent year in excess of 10 of Allowable Service rendered prior to July 1, 2012
   - 1.90% for each subsequent year in excess of 10 of Allowable Service rendered on or after July 1, 2012

ii. For benefits defined under item b) above, the following multipliers would apply:
   - 1.70% for each year of allowable service rendered prior to July 1, 2012
   - 1.90% for each year of allowable service rendered on or after July 1, 2012

It is our understanding that benefits for current inactive or retired members would not be affected by the proposed changes. They were excluded from this portion of the study.

The impact of this change is summarized in Attachments Seven and Eight. The Funded Ratio decreases from 62.0% to 61.2%, and the Required Contribution increases by 0.85% of payroll, from 22.87% of payroll to 23.72% of payroll. The Association intends to seek an increase in member contribution rates to offset the cost of this benefit improvement.

The impact of the proposed changes on contributions and liabilities are shown separately on Attachments One to Eight.

The signing actuaries are independent of the plan sponsor.

Please call if you have any questions regarding the calculations enclosed.

Sincerely,

Bonita J. Wurst

Bonita J. Wurst, ASA, MAAA

Dana Woolfrey

Dana Woolfrey, FSA, MAAA

BJW/DW:sc
Enclosures

St. Paul Teachers' Retirement Fund Association   Attachment Seven

Actuarial Liabilities and Supplemental Contribution Rate as of July 1, 2012

Study 4: Increase Multiplier from 1.7% to 1.9% (and from 1.2% to 1.4% if applicable)

(dollars in thousands)

	Baseline Valuation	Increase Multiplier to 1.90%	Change
A. DETERMINATION OF ACTUARIAL ACCRUED LIABILITY (AAL)			
1. Active Members*			
a. Retirement Benefits	$ 422,762	$ 439,910	$ 17,148
b. Disability Benefits	7,004	7,324	320
c. Surviving Spouse and Child Benefits	5,236	5,475	239
d. Vested Withdrawals	(2,006)	(1,566)	440
e. Refunds	(9,562)	(9,562)	-
f. Total	$ 423,434	$ 441,581	$ 18,147
2. Deferred Retirements	$ 64,410	$ 64,410	$ -
3. Former Members Without Vested Rights	3,506	3,506	-
4. Annuitants	979,866	979,866	-
5. Total	$ 1,471,216	$ 1,489,363	$ 18,147
			-
B. DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)			-
			-
1. Actuarial Accrued Liability (A.5)	$ 1,471,216	$ 1,489,363	$ 18,147
2. Current Assets	$ 911,930	$ 911,930	$ -
3. Unfunded Actuarial Accrued Liability (B.1 - B.2)	$ 559,286	$ 577,433	$ 18,147
4. Funded Ratio (B.2/B.1)	62.0%	61.2%	-0.8%
C. DETERMINATION OF SUPPLEMENTAL CONTRIBUTION RATE			
1. Present Value of Future Payrolls Through the Amortization Date of June 30, 2037 (25-year rolling amortization)	$ 3,948,324	$ 3,948,324	-
2. Supplemental Contribution Rate (B.3/C.1)	14.17%	14.62%	0.45%

* *Includes members on leave of absence.*

St. Paul Teachers' Retirement Fund Association
Actuarial Liabilities and Supplemental Contribution Rate as of July 1, 2012
Study 4: Increase Multiplier from 1.7% to 1.9% (and from 1.2% to 1.4% if applicable)
(dollars in thousands)

Attachment Eight

	Baseline Valuation		Increase Multiplier to 1.90%		Change	
	Percent of Payroll	Dollar Amount	Percent of Payroll	Dollar Amount	Percent of Payroll	Dollar Amount
A. STATUTORY CONTRIBUTIONS - CHAPTER 354A						
1. Employee Contributions	6.02%	$ 15,449	6.02%	$ 15,449		
2. Employer Contributions	8.87%	$ 22,753	8.87%	$ 22,753		
3. Supplemental Contribution						
a. 1996 Legislation	0.48%	1,230	0.48%	1,230		
b. 1997 Legislation	1.10%	2,827	1.10%	2,827		
4. Total	16.47%	$ 42,259	16.47%	$ 42,259		
B. REQUIRED CONTRIBUTIONS - CHAPTER 356						
1. Normal Cost						
a. Retirement Benefits	6.47%	$ 16,602	6.85%	$ 17,566	0.38%	$ 964
b. Disability Benefits	0.18%	455	0.19%	477	0.01%	22
c. Surviving Spouse and Child Benefits	0.12%	296	0.12%	312	0.00%	16
d. Vested Withdrawals	1.12%	2,868	1.13%	2,905	0.01%	37
e. Refunds	0.50%	1,282	0.50%	1,282	0.00%	-
f. Total	8.39%	$ 21,503	8.79%	$ 22,542	0.40%	$ 1,039
2. Supplemental Contribution Amortization	14.17%	36,347	14.62%	37,502	0.45%	1,155
3. Allowance for Administrative Expenses	0.31%	795	0.31%	795	0.00%	-
4. Total	22.87%	$ 58,645	23.72%	$ 60,839	0.85%	$ 2,194
C. CONTRIBUTION SUFFICIENCY/(DEFICIENCY) (A.4 - B.4)	(6.40)%	(16,386)	(7.25)%	(18,580)	(0.85)%	(2,194)
Projected Annual Payroll for Fiscal Year Beginning on the Valuation Date:		$ 256,509		$ 256,509		$ -

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
100 South Fifth Street
Suite 1900
Minneapolis, MN 55402-1267
612.605.6200 phone
612.605.6203 fax
www.gabrielroeder.com

February 5, 2013

Mr. Paul Doane
Executive Director
St. Paul Teachers' Retirement Fund Association
1619 Dayton Avenue, Room 309
Saint Paul, MN 55104-6206

Re: Cost Estimates for Proposed Early Retirement Factors

Dear Mr. Doane:

Enclosed is an actuarial valuation for possible early retirement factor changes for the St. Paul Teachers' Retirement Fund Association (SPTRFA). To the best of our knowledge and belief, the calculations were completed in accordance with the requirements of Minnesota Statutes, Section 356.215, and the requirements of the Standards for Actuarial Work established by the Legislative Commission on Pensions and Retirement.

The date of the valuation was July 1, 2012. This means that the results of the supplemental valuation indicate what the July 1, 2012 valuation would have shown if the proposed early retirement factors had been in effect on that date. Unless noted otherwise, the cost impact was measured using the same methods, assumptions, and data as were used in the actuarial valuation of the SPTRFA as of July 1, 2012, performed by Gabriel, Roeder, Smith & Company.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to limited scope of the actuary's assignment, the actuary did not perform an analysis of the potential range of such future measurements.

This report should not be relied on for any purpose other than the purpose described in the primary communication. Determinations of the financial results associated with the benefits described in this report in a manner other than the intended purpose may produce significantly different results.

The valuation was based upon information furnished by SPTRFA, concerning Retirement Association benefits, financial transactions, plan provisions and active members, terminated members, retirees and beneficiaries.

Current Benefits Provided

Basic Members:

The greater of the following benefits:

a) 2.00 percent of Average Salary per year of Accredited Service, subject to a maximum of 40 years with a 0.25% reduction for each month the member is under age 65. If the member has 25 years of Accredited Service, the reduction is taken from age 60, therefore no reduction is required if the member is age 60 or older. No reduction is taken if age plus years of Accredited Service totals at least 90.

b) 2.50 percent of Average Salary per year of Accredited Service, subject to a maximum of 40 years, augmented at 3.00 percent compounded annually from the age at retirement until age 65 and then actuarially reduced for each month the member is under age 65.

Coordinated Members:

Members hired before July 1, 1989, are eligible for the greater of the following benefits. Members hired after July 1, 1989, are eligible for the benefits shown in item (b):

a) 1.20 percent of Average Salary for each of the first ten years of Allowable Service plus 1.70 percent of Average Salary for each subsequent year of Allowable Service. There is a reduction of 0.25 percent for each month the member is under age 65, or under age 62 with 30 years of Allowable Service. No reduction applies if the age plus years of service totals at least 90.

b) 1.70 percent of Average Salary per year of Allowable Service augmented at 3.00 percent compounded annually from the age at retirement until Normal Retirement Age and then actuarially reduced for each month the member is under the Normal Retirement Age.

Proposed Benefits Provided

Basic and Coordinated Members:

For those benefits stated in (b) above that are actuarially reduced for commencement prior to Normal Retirement Age, the benefit will be reduced by the proposed factors listed below. If commencement is after age 62 with 30 years of service, benefits are reduced according to a different schedule (also shown below). For comparison purposes, we have also provided SPTRFA's current early retirement factors.

	Current Early Retirement Factors		Proposed Early Retirement Factors: Under Age 62 or less than 30 Years of Service		Proposed Early Retirement Factors: Meets age 62 with 30 Years of Service	
Normal Retirement Age:	**65**	**66**	**65**	**66**	**65**	**66**
Age At Retirement						
55	0.6038	0.5699	0.5644	0.4845		
56	0.6320	0.5965	0.6002	0.5241		
57	0.6622	0.6250	0.6334	0.5611		
58	0.6944	0.6554	0.6641	0.5954		
59	0.7289	0.6880	0.6926	0.6272		
60	0.7659	0.7229	0.7535	0.6926		
61	0.8058	0.7605	0.8104	0.7535		
62	0.8487	0.8011	0.8633	0.8104	0.8960	0.8554
63	0.8951	0.8449	0.9124	0.8633	0.9336	0.8960
64	0.9454	0.8923	0.9579	0.9124	0.9682	0.9336
65	1.0000	0.9438	1.0000	0.9579	1.0000	0.9682
66		1.0000		1.0000		1.0000

For purposes of this study the proposed change in early retirement factors was only applied to retirement benefits. Additional modest savings could be realized if this change were applied to death in service benefits too.

It is our understanding that benefits for current inactive or retired members would not be affected by the proposed changes. They were excluded from this portion of the study.

The impact of the proposed changes on contributions and liabilities is shown separately on Attachments One and Two. The Funded Ratio is unchanged, and the Required Contribution decreases by 0.07% of payroll, from 22.87% of payroll to 22.80% of payroll. The actual cost savings will ultimately depend on actual retirement experience. For this study, we assumed no change in retirement behavior. If members retire differently, as a result of this benefit change, then the savings or cost due to this benefit change will be different.

For comparison purposes, we have provided a summary of early retirement factors, including the updated actuarial equivalent factors previously provided to SPTRFA, in Attachment Three of this report.

The signing actuaries are independent of the plan sponsor.

Please call if you have any questions regarding the calculations enclosed.

Sincerely,

Bonita J. Wurst

Bonita J. Wurst, ASA, MAAA

Dana Woolfrey

Dana Woolfrey, FSA, MAAA

BJW/DW:sc
Enclosures

St. Paul Teachers' Retirement Fund Association
Actuarial Liabilities and Supplemental Contribution Rate as of July 1, 2012
Update Early Retirement Factors
(dollars in thousands)

	Baseline Valuation	Change Early Retirement Factors	Change
A. DETERMINATION OF ACTUARIAL ACCRUED LIABILITY (AAL)			
1. Active Members*			
a. Retirement Benefits	$ 422,762	$ 422,050	$ (712)
b. Disability Benefits	7,004	7,004	-
c. Surviving Spouse and Child Benefits	5,236	5,236	-
d. Vested Withdrawals	(2,006)	(2,006)	-
e. Refunds	(9,562)	(9,562)	-
f. Total	$ 423,434	$ 422,722	$ (712)
2. Deferred Retirements	$ 64,410	$ 64,410	$ -
3. Former Members Without Vested Rights	3,506	3,506	-
4. Annuitants	979,866	979,866	-
5. Total	$ 1,471,216	$ 1,470,504	$ (712)
B. DETERMINATION OF UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)			
1. Actuarial Accrued Liability (A.5)	$ 1,471,216	$ 1,470,504	$ (712)
2. Current Assets	$ 911,930	$ 911,930	$ -
3. Unfunded Actuarial Accrued Liability (B.1 - B.2)	$ 559,286	$ 558,574	$ (712)
4. Funded Ratio (B.2/B.1)	62.0%	62.0%	0.0%
C. DETERMINATION OF SUPPLEMENTAL CONTRIBUTION RATE			
1. Present Value of Future Payrolls Through the Amortization Date of June 30, 2037 (25-year rolling amortization)	$ 3,948,324	$ 3,948,324	-
2. Supplemental Contribution Rate (B.3/C.1)	14.17%	14.15%	(0.02)%

* *Includes members on leave of absence.*

St. Paul Teachers' Retirement Fund Association
Actuarial Liabilities and Supplemental Contribution Rate as of July 1, 2012
Update Early Retirement Factors
(dollars in thousands)

	Baseline Valuation		Change Early Retirement Factors		Change	
	Percent of Payroll	Dollar Amount	Percent of Payroll	Dollar Amount	Percent of Payroll	Dollar Amount
A. STATUTORY CONTRIBUTIONS - CHAPTER 354A						
1. Employee Contributions	6.02%	$ 15,449	6.02%	$ 15,449		
2. Employer Contributions	8.87%	$ 22,753	8.87%	$ 22,753		
3. Supplemental Contribution						
a. 1996 Legislation	0.48%	1,230	0.48%	1,230		
b. 1997 Legislation	1.10%	2,827	1.10%	2,827		
4. Total	16.47%	$ 42,259	16.47%	$ 42,259		
B. REQUIRED CONTRIBUTIONS - CHAPTER 356						
1. Normal Cost						
a. Retirement Benefits	6.47%	$ 16,602	6.42%	$ 16,472	(0.05)%	$ (130)
b. Disability Benefits	0.18%	455	0.18%	455	0.00 %	-
c. Surviving Spouse and Child Benefits	0.12%	296	0.12%	296	0.00 %	-
d. Vested Withdrawals	1.12%	2,868	1.12%	2,868	0.00 %	-
e. Refunds	0.50%	1,282	0.50%	1,282	0.00 %	-
f. Total	8.39%	$ 21,503	8.34%	$ 21,373	(0.05)%	$ (130)
2. Supplemental Contribution Amortization	14.17%	36,347	14.15%	36,296	(0.02)%	(51)
3. Allowance for Administrative Expenses	0.31%	795	0.31%	795	0.00 %	-
4. Total	22.87%	$ 58,645	22.80%	$ 58,464	(0.07)%	$ (181)
C. CONTRIBUTION SUFFICIENCY/(DEFICIENCY) (A.4 - B.4)	(6.40)%	(16,386)	(6.33)%	(16,205)	0.07%	181
Projected Annual Payroll for Fiscal Year Beginning on the Valuation Date:		$ 256,509		$ 256,509		$ -

	Current Actuarial Equivalent Factors	Updated Actuarial Equivalent Factors	Updated Actuarial Equivalent Factors	Proposed Factors	
		3% Augmentation	2% Augmentation	Under Age 62 or less than 30 Years of Service	Meets age 62 with 30 Years of Service
Age 65 Normal Retirement Age					
- Age 55	0.6038	0.5012	0.4546	0.5644	
- Age 56	0.6320	0.5344	0.4894	0.6002	
- Age 57	0.6622	0.5702	0.5274	0.6334	
- Age 58	0.6944	0.6091	0.5689	0.6641	
- Age 59	0.7289	0.6514	0.6143	0.6926	
- Age 60	0.7659	0.6973	0.6641	0.7535	
- Age 61	0.8058	0.7474	0.7188	0.8104	
- Age 62	0.8487	0.8021	0.7789	0.8633	0.8960
- Age 63	0.8951	0.8620	0.8453	0.9124	0.9336
- Age 64	0.9454	0.9277	0.9187	0.9579	0.9682
- Age 65	1.0000	1.0000	1.0000	1.0000	1.0000
Age 66 Normal Retirement Age					
- Age 55	0.5699	0.4641	0.4169	0.4845	
- Age 56	0.5965	0.4949	0.4489	0.5241	
- Age 57	0.6250	0.5281	0.4837	0.5611	
- Age 58	0.6554	0.5641	0.5218	0.5954	
- Age 59	0.6880	0.6033	0.5634	0.6272	
- Age 60	0.7229	0.6458	0.6091	0.6926	
- Age 61	0.7605	0.6922	0.6592	0.7535	
- Age 62	0.8011	0.7428	0.7144	0.8104	0.8554
- Age 63	0.8449	0.7983	0.7753	0.8633	0.8960
- Age 64	0.8923	0.8592	0.8425	0.9124	0.9336
- Age 65	0.9438	0.9261	0.9171	0.9579	0.9682
- Age 66	1.0000	1.0000	1.0000	1.0000	1.0000

Updated Basis:

- RP-2000 combined mortality table, projected to 2020, set back 1 year for males and 3 years for females, weighted 25% male rates and 75% female rates for members, weighted 75% male rates and 25% female rates for beneficiaries, 7.43% post-retirement interest, 8.50% pre-retirement interest.
- See GRS' letters dated December 12 and December 28, 2012 for additional information.

This report is intended to describe the financial effect of the proposed plan changes. No statement in this report is intended to be interpreted as a recommendation in favor of the changes, or in opposition to them.

The calculations are based upon assumptions regarding future events, which may or may not materialize. They are also based upon present and proposed plan provisions that are outlined in the report. If you have reason to believe that the assumptions that were used are unreasonable, that the plan provisions are incorrectly described, that important plan provisions relevant to this proposal are not described, or that conditions have changed since the calculations were made, you should contact the author(s) of this report prior to relying on information in the report.

If you have reason to believe that the information provided in this report is inaccurate, or is in any way incomplete, or if you need further information in order to make an informed decision on the subject matter of this report, please contact the author(s) of the report prior to making such decision.

.... moves to amend S.F. No. 1249; H.F. No. ...., as follows:

Page 11, after line 16, insert:

"Sec. 13. Minnesota Statutes 2012, section 356.215, subdivision 8, is amended to read:

Subd. 8. **Interest and salary assumptions.** (a) The actuarial valuation must use the applicable following preretirement interest assumption and the applicable following postretirement interest assumption:

(1) select and ultimate interest rate assumption

plan	ultimate preretirement interest rate assumption	ultimate postretirement interest rate assumption
general state employees retirement plan	8.5%	6.0%
correctional state employees retirement plan	8.5	6.0
State Patrol retirement plan	8.5	6.0
legislators retirement plan	0.0	-2.0 until June 30, 2040, and -2.5 after June 30, 2040
elective state officers retirement plan	0.0	-2.0 until June 30, 2040, and -2.5 after June 30, 2040
judges retirement plan	8.5	6.0
general public employees retirement plan	8.5	6.0
public employees police and fire retirement plan	8.5	6.0
local government correctional service retirement plan	8.5	6.0
teachers retirement plan	8.5	6.0
Duluth teachers retirement plan	8.5	8.5
St. Paul teachers retirement plan	8.5	8.5

Except for the legislators retirement plan and the elective state officers retirement plan, the select preretirement interest rate assumption for the period after June 30, 2012, through June 30, 2017, is 8.0 percent. Except for the legislators retirement plan and the elective state officers retirement plan, the select postretirement interest rate assumption for the period after June 30, 2012, through June 30, 2017, is 5.5 percent, except for the Duluth teachers retirement plan and the St. Paul teachers retirement plan, each with a select postretirement interest rate assumption for the period after June 30, 2012, through June 30, 2017, of 8.0 percent.

(2) single rate preretirement and postretirement interest rate assumption

plan	interest rate assumption
Bloomington Fire Department Relief Association	6.0
local monthly benefit volunteer firefighters relief associations	5.0

(b) The actuarial valuation must use the applicable following single rate future salary increase assumption, the applicable following modified single rate future salary increase assumption, or the applicable following graded rate future salary increase assumption:

(1) single rate future salary increase assumption

plan	future salary increase assumption
legislators retirement plan	5.0%
judges retirement plan	3.0
Bloomington Fire Department Relief Association	4.0

(2) age-related future salary increase age-related select and ultimate future salary increase assumption or graded rate future salary increase assumption

plan	future salary increase assumption
local government correctional service retirement plan	assumption C
Duluth teachers retirement plan	assumption A
St. Paul teachers retirement plan	assumption B

For plans other than the Duluth teachers retirement plan, the select calculation is: during the designated select period, a designated percentage rate is multiplied by the result of the designated integer minus T, where T is the number of completed years of service, and is added to the applicable future salary increase assumption. The designated select period is ten years and the designated integer is ten for ~~all retirement plans covered by this clause~~ the Duluth Teachers Retirement Fund Association and for the local government correctional service retirement plan and 15 for the St. Paul Teachers Retirement Fund Association. The designated percentage rate is ~~0.3~~ 0.2 percent for the St. Paul Teachers Retirement

Fund Association. The select calculation for the Duluth Teachers Retirement Fund Association is 8.00 percent per year for service years one through seven, 7.25 percent per year for service years seven and eight, and 6.50 percent per year for service years eight and nine.

The ultimate future salary increase assumption is:

age	A	B	C
16	~~8.00%~~ 6.00%	~~6.90%~~ 5.90%	9.00%
17	~~8.00~~ 6.00	~~6.90~~ 5.90	9.00
18	~~8.00~~ 6.00	~~6.90~~ 5.90	9.00
19	~~8.00~~ 6.00	~~6.90~~ 5.90	9.00
20	~~6.90~~ 6.00	~~6.90~~ 5.90	9.00
21	~~6.90~~ 6.00	~~6.90~~ 5.90	8.75
22	~~6.90~~ 6.00	~~6.90~~ 5.90	8.50
23	~~6.85~~ 6.00	~~6.85~~ 5.85	8.25
24	~~6.80~~ 6.00	~~6.80~~ 5.80	8.00
25	~~6.75~~ 6.00	~~6.75~~ 5.75	7.75
26	~~6.70~~ 6.00	~~6.70~~ 5.70	7.50
27	~~6.65~~ 6.00	~~6.65~~ 5.65	7.25
28	~~6.60~~ 6.00	~~6.60~~ 5.60	7.00
29	~~6.55~~ 6.00	~~6.55~~ 5.55	6.75
30	~~6.50~~ 6.00	~~6.50~~ 5.50	6.75
31	~~6.45~~ 6.00	~~6.45~~ 5.45	6.50
32	~~6.40~~ 6.00	~~6.40~~ 5.40	6.50
33	~~6.35~~ 6.00	~~6.35~~ 5.35	6.50
34	~~6.30~~ 6.00	~~6.30~~ 5.30	6.25
35	~~6.25~~ 6.00	~~6.25~~ 5.25	6.25
36	~~6.20~~ 5.86	~~6.20~~ 5.20	6.00
37	~~6.15~~ 5.73	~~6.15~~ 5.15	6.00
38	~~6.10~~ 5.59	~~6.10~~ 5.10	6.00
39	~~6.05~~ 5.45	~~6.05~~ 5.05	5.75
40	~~6.00~~ 5.31	~~6.00~~ 5.00	5.75
41	~~5.90~~ 5.18	~~5.95~~ 4.95	5.75
42	~~5.80~~ 5.04	~~5.90~~ 4.90	5.50
43	~~5.70~~ 4.90	~~5.85~~ 4.85	5.25
44	~~5.60~~ 4.76	~~5.80~~ 4.80	5.25
45	~~5.50~~ 4.63	~~5.75~~ 4.75	5.00
46	~~5.40~~ 4.49	~~5.70~~ 4.70	5.00
47	~~5.30~~ 4.35	~~5.65~~ 4.65	5.00
48	~~5.20~~ 4.21	~~5.60~~ 4.60	5.00

49	~~5.10~~ 4.08	~~5.55~~ 4.55	5.00
50	~~5.00~~ 3.94	~~5.50~~ 4.50	5.00
51	~~4.90~~ 3.80	~~5.45~~ 4.45	5.00
52	~~4.80~~ 3.66	~~5.40~~ 4.40	5.00
53	~~4.70~~ 3.53	~~5.35~~ 4.35	5.00
54	~~4.60~~ 3.39	~~5.30~~ 4.30	5.00
55	~~4.50~~ 3.25	~~5.25~~ 4.25	4.75
56	~~4.40~~ 3.25	~~5.20~~ 4.20	4.75
57	~~4.30~~ 3.25	~~5.15~~ 4.15	4.50
58	~~4.20~~ 3.25	~~5.10~~ 4.10	4.25
59	~~4.10~~ 3.25	~~5.05~~ 4.05	4.25
60	~~4.00~~ 3.25	~~5.00~~ 4.00	4.25
61	~~3.90~~ 3.25	~~5.00~~ 4.00	4.25
62	~~3.80~~ 3.25	~~5.00~~ 4.00	4.25
63	~~3.70~~ 3.25	~~5.00~~ 4.00	4.25
64	~~3.60~~ 3.25	~~5.00~~ 4.00	4.25
65	~~3.50~~ 3.25	~~5.00~~ 4.00	4.00
66	~~3.50~~ 3.25	~~5.00~~ 4.00	4.00
67	~~3.50~~ 3.25	~~5.00~~ 4.00	4.00
68	~~3.50~~ 3.25	~~5.00~~ 4.00	4.00
69	~~3.50~~ 3.25	~~5.00~~ 4.00	4.00
70	~~3.50~~ 3.25	~~5.00~~ 4.00	4.00

(3) service-related ultimate future salary increase assumption

general state employees retirement plan of the Minnesota State Retirement System	assumption A
general employees retirement plan of the Public Employees Retirement Association	assumption B
Teachers Retirement Association	assumption C
public employees police and fire retirement plan	assumption D
State Patrol retirement plan	assumption E
correctional state employees retirement plan of the Minnesota State Retirement System	assumption F

service length	A	B	C	D	E	F
1	10.50%	12.03%	12.00%	13.00%	8.00%	6.00%
2	8.10	8.90	9.00	11.00	7.50	5.85
3	6.90	7.46	8.00	9.00	7.00	5.70
4	6.20	6.58	7.50	8.00	6.75	5.55
5	5.70	5.97	7.25	6.50	6.50	5.40
6	5.30	5.52	7.00	6.10	6.25	5.25
7	5.00	5.16	6.85	5.80	6.00	5.10
8	4.70	4.87	6.70	5.60	5.85	4.95
9	4.50	4.63	6.55	5.40	5.70	4.80

10	4.40	4.42	6.40	5.30	5.55	4.65
11	4.20	4.24	6.25	5.20	5.40	4.55
12	4.10	4.08	6.00	5.10	5.25	4.45
13	4.00	3.94	5.75	5.00	5.10	4.35
14	3.80	3.82	5.50	4.90	4.95	4.25
15	3.70	3.70	5.25	4.80	4.80	4.15
16	3.60	3.60	5.00	4.80	4.65	4.05
17	3.50	3.51	4.75	4.80	4.50	3.95
18	3.50	3.50	4.50	4.80	4.35	3.85
19	3.50	3.50	4.25	4.80	4.20	3.75
20	3.50	3.50	4.00	4.80	4.05	3.75
21	3.50	3.50	3.90	4.70	4.00	3.75
22	3.50	3.50	3.80	4.60	4.00	3.75
23	3.50	3.50	3.70	4.50	4.00	3.75
24	3.50	3.50	3.60	4.50	4.00	3.75
25	3.50	3.50	3.50	4.50	4.00	3.75
26	3.50	3.50	3.50	4.50	4.00	3.75
27	3.50	3.50	3.50	4.50	4.00	3.75
28	3.50	3.50	3.50	4.50	4.00	3.75
29	3.50	3.50	3.50	4.50	4.00	3.75
30 or more	3.50	3.50	3.50	4.50	4.00	3.75

(c) The actuarial valuation must use the applicable following payroll growth assumption for calculating the amortization requirement for the unfunded actuarial accrued liability where the amortization retirement is calculated as a level percentage of an increasing payroll:

plan	payroll growth assumption
general state employees retirement plan of the Minnesota State Retirement System	3.75%
correctional state employees retirement plan	3.75
State Patrol retirement plan	3.75
judges retirement plan	3.00
general employees retirement plan of the Public Employees Retirement Association	3.75
public employees police and fire retirement plan	3.75
local government correctional service retirement plan	3.75
teachers retirement plan	3.75
Duluth teachers retirement plan	~~4.50~~ 3.50
St. Paul teachers retirement plan	~~5.00~~ 4.00

(d) The assumptions set forth in paragraphs (b) and (c) continue to apply, unless a different salary assumption or a different payroll increase assumption:

(1) has been proposed by the governing board of the applicable retirement plan;

(2) is accompanied by the concurring recommendation of the actuary retained under section 356.214, subdivision 1, if applicable, or by the approved actuary preparing the most recent actuarial valuation report if section 356.214 does not apply; and

(3) has been approved or deemed approved under subdivision 18.

<u>**EFFECTIVE DATE.** This section is effective the day following final enactment.</u>"

Renumber the sections in sequence

Amend the title accordingly

.... moves to amend S.F. No. 1249; H.F. No. ...., as follows:

Page 2, line 10, delete "180" and insert "....."

.... moves to amend S.F. No. 1249; H.F. No. ...., as follows:

Page 2, line 30, strike "9.0" and insert "9.5"

Page 2, line 31, delete "9.5" and insert "10.0"

Page 2, delete line 32

Page 2, line 37, strike "6.50" and insert "7.0"

Page 3, line 1, delete "7.0" and insert "7.5"

Page 3, delete line 2

Page 3, line 26, strike "5.5" and insert "6.0"

Page 3, line 27, delete "6.0" and insert "6.5"

Page 3, delete line 28

Page 3, line 36, strike "9.0" and insert "9.5"

Page 4, line 1, delete "9.5" and insert "10.0"

Page 4, delete line 2

.... moves to amend S.F. No. 1249; H.F. No. ....., as follows:

Page 4, line 23, before "employer" insert "employee and"

Page 4, line 28, after the period insert " The reemployed annuitant shall make a contribution to the fund equivalent to the employee contribution determined under subdivision 1. The reemployed annuitant shall accrue no service credit and these amounts are not refundable."

Amend the title accordingly

.... moves to amend S.F. No. 1249; H.F. No. ...., as follows:

Page 4, line 33, strike "$2,827,000" and insert "$........................"

Page 5, reinstate lines 3 to 6

Page 5, delete lines 7 to 22

Page 5, delete lines 24 to 26

.... moves to amend S.F. No. 1249; H.F. No. ...., as follows:

Page 5, line 14, delete "$10,000,000" and insert " $........................."

Page 5, line 18, delete "$3,000,000" and insert " $........................."

.... moves to amend S.F. No. 1249; H.F. No. ...., as follows:

Page 5, line 29, delete "(a)"

Page 6, delete lines 1 to 7

Amend the title accordingly

.... moves to amend S.F. No. 1249; H.F. No. ....., as follows:

Page 6, line 22, after the period insert " The repayment must include interest at the rate of 0.71 percent per month from the first of the month in which a monthly benefit amount was paid to the end of the month in which the amount is repaid, with annual compounding."

.... moves to amend S.F. No. 1249; H.F. No. ...., as follows:

Page 8, lines 28 and 32, delete "2014" and insert "...."

Page 9, lines 7 and 10, delete "2014" and insert "...."

.... moves to amend S.F. No. 1249; H.F. No. ....., as follows:

Page 9, after line 10, insert:

"Sec. 11. Minnesota Statutes 2012, section 354A.31, subdivision 6, is amended to read:

Subd. 6. **Reduced retirement annuity.** <u>(a)</u> This subdivision applies only to a person who first became a coordinated member or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989, and whose annuity is higher when calculated using the retirement annuity formula percentage in subdivision 4, paragraph (c), or subdivision 4a, paragraph (c), in conjunction with this subdivision than when calculated under subdivision 4, paragraph (d), or subdivision 4a, paragraph (d), in conjunction with subdivision 7.

~~(a)~~ <u>(b)</u> Upon retirement at an age before normal retirement age or prior to age 62 with at least 30 years of service credit, a vested coordinated member shall be entitled to a retirement annuity in an amount equal to the normal retirement annuity calculated using the retirement annuity formula percentage in subdivision 4, paragraph (c), or subdivision 4a, paragraph (c), reduced by ~~one-quarter of one~~ <u>0.4</u> percent for each month that the coordinated member is under normal retirement age if the coordinated member has less than 30 years of service credit or is under the age of 62 if the coordinated member has at least 30 years of service credit.

~~(b)~~ <u>(c)</u> Any coordinated member whose attained age plus credited allowable service totals 90 years is entitled, upon application, to a retirement annuity in an amount equal to the normal retirement annuity calculated using the retirement annuity formula percentage in subdivision 4, paragraph (c), or subdivision 4a, paragraph (c), without any reduction by reason of early retirement. <u>This paragraph does not apply to any member whose effective date of retirement is after June 30, 2014.</u>

<u>**EFFECTIVE DATE.** This section is effective the day following final enactment.</u>"

Renumber the sections in sequence

Amend the title accordingly

.... moves to amend S.F. No. 1249; H.F. No. ....., as follows:

Page 10, after line 10, insert:

"For normal retirement ages between ages 65 and 66, the early retirement factors will be determined by linear interpolation between the early retirement factors applicable for normal retirement ages 65 and 66."

Page 11, line 9, delete "three" and insert "2.5"

SENATE
STATE OF MINNESOTA
EIGHTY-EIGHTH LEGISLATURE

S.F. No. 1249

(SENATE AUTHORS: PAPPAS)

DATE	D-PG	OFFICIAL STATUS
03/11/2013		Introduction and first reading Referred to State and Local Government

A bill for an act

relating to retirement; St. Paul Teachers Retirement Fund Association; increasing state aid by up to $10,000,000 annually; increasing employee and employer contributions; requiring employer contributions for reemployed annuitants; requiring a 180-day separation to qualify for a retirement annuity; requiring forfeiture of reemployed annuitant accounts by post-June 30, 2013, retirees; increasing accrual rates on post-June 30, 2014, service; revising early retirement factors; moving the Teachers Retirement Association aid authorization to a new section; appropriating money; amending Minnesota Statutes 2012, sections 354A.011, subdivision 21; 354A.12, subdivisions 1, 2a, 3a, 3c, 7, by adding a subdivision; 354A.31, subdivisions 3, 4, 7; 354A.35, subdivision 2; 356.47, subdivision 1; 423A.02, subdivision 5; proposing coding for new law in Minnesota Statutes, chapter 354.

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

Section 1. **[354.436] DIRECT STATE AID ON BEHALF OF THE FORMER MINNEAPOLIS TEACHERS RETIREMENT FUND ASSOCIATION.**

Subdivision 1. **Aid authorization.** The state shall pay $12,954,000 to the Teachers Retirement Association on behalf of the former Minneapolis Teachers Retirement Fund Association.

Subd. 2. **Aid appropriation.** The commissioner of management and budget shall pay the aid. The amount required is appropriated annually from the general fund to the commissioner of management and budget.

Subd. 3. **Aid expiration.** The aid specified in this section terminates and this section expires when the current assets of the Teachers Retirement Association fund equal or exceed the actuarial accrued liabilities of the fund as determined in the most recent actuarial valuation report for the Teachers Retirement Association fund by the actuary retained under section 356.214, or on the established date for full funding under section 356.215, subdivision 11, whichever occurs earlier.

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

Sec. 2. Minnesota Statutes 2012, section 354A.011, subdivision 21, is amended to read:

Subd. 21. **Retirement.** (a) "Retirement" means the time after the date of cessation of active teaching service by a teacher who is ~~thereafter~~ then entitled to an accrued retirement annuity ~~commencing~~ beginning as designated by the board of trustees and payable ~~pursuant to an~~ upon filing a valid application for an annuity ~~filed~~ with the board. The applicable provisions of law, articles of incorporation and bylaws in effect on the date of cessation of active teaching service thereafter determine the rights of the person.

(b) For members of the St. Paul Teachers Retirement Fund Association, a right to a retirement annuity requires a complete and continuous separation for 180 days from employment in any form with Independent School District No. 625, including service as an independent contractor or as an employee of an independent contractor.

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

Sec. 3. Minnesota Statutes 2012, section 354A.12, subdivision 1, is amended to read:

Subdivision 1. **Employee contributions.** (a) The contribution required to be paid by each member of a teachers retirement fund association is the percentage of total salary specified below for the applicable association and program:

Association and Program	Percentage of Total Salary
Duluth Teachers Retirement Fund Association	
old law and new law	
coordinated programs	
~~before July 1, 2011~~	~~5.5 percent~~
~~effective July 1, 2011~~	~~6.0 percent~~
~~effective July 1, 2012~~	6.5 percent
St. Paul Teachers Retirement Fund Association	
~~basic program before July 1, 2011~~	~~8 percent~~
~~basic program after June 30, 2011~~	~~8.25 percent~~
basic program after June 30, 2012	8.5 percent
basic program after June 30, 2013	8.75 percent
basic program after June 30, 2014	9.0 percent
basic program after June 30, 2015	9.5 percent
basic program after June 30, 2016	10.0 percent
~~coordinated program before July 1, 2011~~	~~5.5 percent~~
~~coordinated program after June 30, 2011~~	~~5.75 percent~~
coordinated program after June 30, 2012	6.0 percent
coordinated program after June 30, 2013	6.25 percent
coordinated program after June 30, 2014	6.50 percent

coordinated program after June 30, 2015	7.0 percent
coordinated program after June 30, 2016	7.50 percent

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

(c) When an employee contribution rate changes for a fiscal year, the new contribution rate is effective for the entire salary paid by the employer with the first payroll cycle reported.

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

Sec. 4. Minnesota Statutes 2012, section 354A.12, subdivision 2a, is amended to read:

Subd. 2a. **Employer regular and additional contributions.** (a) The employing units shall make the following employer contributions to teachers retirement fund associations:

(1) for any coordinated member of one of the following teachers retirement fund associations in a city of the first class, the employing unit shall make a regular employer contribution to the respective retirement fund association in an amount equal to the designated percentage of the salary of the coordinated member as provided below:

Duluth Teachers Retirement Fund Association	
~~before July 1, 2011~~	~~5.79 percent~~
~~effective July 1, 2011~~	~~6.29 percent~~
~~effective July 1, 2012~~	6.79 percent
St. Paul Teachers Retirement Fund Association	
~~before July 1, 2011~~	~~4.50 percent~~
~~after June 30, 2011~~	~~4.75 percent~~
after June 30, 2012	5.0 percent
after June 30, 2013	5.25 percent
after June 30, 2014	5.5 percent
after June 30, 2015	6.0 percent
after June 30, 2016	6.5 percent

(2) for any basic member of the St. Paul Teachers Retirement Fund Association, the employing unit shall make a regular employer contribution to the respective retirement fund in an amount according to the schedule below:

~~before July 1, 2011~~	~~8.0 percent of salary~~
~~after June 30, 2011~~	~~8.25 percent of salary~~
after June 30, 2012	8.5 percent of salary
after June 30, 2013	8.75 percent of salary
after June 30, 2014	9.0 percent of salary

after June 30, 2015	9.5 percent of salary
after June 30, 2016	10.0 percent of salary

(3) for a basic member of the St. Paul Teachers Retirement Fund Association, the employing unit shall make an additional employer contribution to the respective fund in an amount equal to 3.64 percent of the salary of the basic member;

(4) for a coordinated member of the St. Paul Teachers Retirement Fund Association, the employing unit shall make an additional employer contribution to the respective fund in an amount equal to the applicable percentage of the coordinated member's salary, as provided below:

St. Paul Teachers Retirement Fund Association	3.84 percent

(b) The regular and additional employer contributions must be remitted directly to the respective teachers retirement fund association at least once each month. Delinquent amounts are payable with interest under the procedure in subdivision 1a.

(c) Payments of regular and additional employer contributions for school district or technical college employees who are paid from normal operating funds must be made from the appropriate fund of the district or technical college.

(d) When an employer contribution rate changes for a fiscal year, the new contribution rate is effective for the entire salary paid by the employer with the first payroll cycle reported.

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

Sec. 5. Minnesota Statutes 2012, section 354A.12, is amended by adding a subdivision to read:

Subd. 2c. **St. Paul Teachers Retirement Fund Association; employer contributions for reemployed annuitants.** The school district shall make the regular employer contributions and additional employer contributions specified in subdivision 2a on behalf of any retired member of the St. Paul Teachers Retirement Fund Association who is reemployed by Independent School District No. 625, including providing service as an independent contractor or as an employee of an independent contractor.

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

Sec. 6. Minnesota Statutes 2012, section 354A.12, subdivision 3a, is amended to read:

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

Retirement Fund Association ~~and, for the former Minneapolis Teachers Retirement Fund Association, $12,954,000 to the Teachers Retirement Association~~.

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

(b) In addition to the aid specified in paragraph (a), the state shall pay to the St. Paul Teachers Retirement Fund Association additional aid which varies depending upon the relationship of the net annual calendar time-weighted total portfolio rate of return of the St. Paul Teachers Retirement Fund Association, as computed by the Office of the State Auditor and included in the most recent investment disclosure report under section 356.219, subdivision 6, and the preretirement interest rate assumption for the same year for the St. Paul Teachers Retirement Fund Association under section 356.215, subdivision 8. The aid provided under this paragraph is $10,000,000 annually before adjustments. If the applicable St. Paul Teachers Retirement Fund Association rate of return exceeds the preretirement interest rate assumption, the aid under this paragraph is reduced by $500,000 for every one percent of return in excess of the preretirement interest rate assumption. The net aid payable under this paragraph must not be less than $3,000,000 annually.

(c) The aids under this subdivision are payable annually October 1. The commissioner of management and budget shall pay the aids specified in this subdivision. The amounts required are appropriated annually from the general fund to the commissioner of management and budget.

EFFECTIVE DATE. This section is effective the day following final enactment. The first aid payment under paragraph (b) is payable on October 1, 2013, based on results in the Office of the State Auditor report referred to in that paragraph for the calendar year ending December 31, 2011.

Sec. 7. Minnesota Statutes 2012, section 354A.12, subdivision 3c, is amended to read:

Subd. 3c. **Termination of supplemental contributions and direct matching and state aid.** (a) The supplemental contributions payable to the St. Paul Teachers Retirement Fund Association by Independent School District No. 625 under section 423A.02, subdivision 3, ~~or the direct~~ and all forms of state aid under subdivision 3a to the St. Paul Teachers Retirement Fund Association must continue until the current assets of the fund equal or exceed the actuarial accrued liability of the fund as determined in the most recent actuarial report for the fund by the actuary retained under section 356.214 or until June 30, 2037, whichever occurs earlier.

(b) The aid to the Duluth Teachers Retirement Fund Association under section 423A.02, subdivision 3, and all forms of state aid under subdivision 3a to the Duluth Teachers Retirement Fund Association must continue until the current assets of the fund equal or exceed the actuarial accrued liability of the fund as determined in the most recent actuarial report for the fund by the actuary retained under section 356.214 or until the established date for full funding under section 356.215, subdivision 11, whichever occurs earlier.

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

Sec. 8. Minnesota Statutes 2012, section 354A.12, subdivision 7, is amended to read:

Subd. 7. **Recovery of benefit overpayments.** (a) If the executive director discovers, within the time period specified in subdivision 8 following the payment of a refund or the accrual date of any retirement annuity, survivor benefit, or disability benefit, that benefit overpayment has occurred due to using invalid service or salary, or due to any erroneous calculation procedure, the executive director must recalculate the annuity or benefit payable and recover any overpayment. The executive director shall recover the overpayment by requiring direct repayment or by suspending or reducing the payment of a retirement annuity or other benefit payable under this chapter to the applicable person or the person's estate, whichever applies, until all outstanding amounts have been recovered. If a benefit overpayment or improper payment of benefits occurred caused by a failure of the person to satisfy length of separation requirements for retirement under section 354A.011, subdivision 21, the executive director shall recover the improper payments by requiring direct repayment.

(b) In the event the executive director determines that an overpaid annuity or benefit that is the result of invalid salary included in the average salary used to calculate the payment amount must be recovered, the executive director must determine the amount of the employee deductions taken in error on the invalid salary, with interest as determined under 354A.37, subdivision 3, and must subtract that amount from the total annuity or benefit overpayment, and the remaining balance of the overpaid annuity or benefit, if any, must be recovered.

(c) If the invalid employee deductions plus interest exceed the amount of the overpaid benefits, the balance must be refunded to the person to whom the benefit or annuity is being paid.

(d) Any invalid employer contributions reported on the invalid salary must be credited against future contributions payable by the employer.

(e) If a member or former member, who is receiving a retirement annuity or disability benefit for which an overpayment is being recovered, dies before recovery of the overpayment is completed and an optional annuity or refund is payable, the remaining balance of the overpaid annuity or benefit must continue to be recovered from the payment to the optional annuity beneficiary or refund recipient.

(f) The board of trustees shall adopt policies directing the period of time and manner for the collection of any overpaid retirement or optional annuity, and survivor or disability benefit, or a refund that the executive director determines must be recovered as provided under this section.

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

Sec. 9. Minnesota Statutes 2012, section 354A.31, subdivision 3, is amended to read:

Subd. 3. **Resumption of teaching after commencement of a retirement annuity.** (a) Any person who retired and is receiving a coordinated program retirement annuity under the provisions of sections 354A.31 to 354A.41 or any person receiving a basic program retirement annuity under the governing sections in the articles of incorporation or bylaws and who has resumed teaching service for the school district in which the teachers retirement fund association exists is entitled to continue to receive retirement annuity payments, except that all or a portion of the annuity payments must be deferred during the calendar year immediately following the calendar year in which the person's salary from the teaching service is in an amount greater than $46,000. The amount of the annuity deferral is one-third the salary amount in excess of $46,000 and must be deducted from the annuity payable for the calendar year immediately following the calendar year in which the excess amount was earned.

(b) If the person is retired for only a fractional part of the calendar year during the initial year of retirement, the maximum reemployment salary exempt from triggering a deferral as specified in this subdivision must be prorated for that calendar year.

(c) After a person has reached the Social Security normal retirement age, no deferral requirement is applicable regardless of the amount of any compensation received for teaching service for the school district in which the teachers retirement fund association exists.

(d) The amount of the retirement annuity deferral must be handled or disposed of as provided in section 356.47.

(e) Notwithstanding other paragraphs of this subdivision, for any retired St. Paul Teachers Retirement Fund Association basic or coordinated program member whose effective date of retirement is after June 30, 2013, amounts specified as deferred under this subdivision must instead be forfeited to the St. Paul Teachers Retirement Fund Association fund.

~~(e)~~ (f) For the purpose of this subdivision, salary from teaching service includes: (i) all income for services performed as a consultant or independent contractor; or income resulting from working with the school district in any capacity; and (ii) the greater of either the income received or an amount based on the rate paid with respect to an administrative position, consultant, or independent contractor in the school district in which the teachers retirement fund association exists and at the same level as the position occupied by the person who resumes teaching service.

~~(f)~~ (g) On or before February 15 of each year, each applicable employing unit shall report to the teachers retirement fund association the amount of postretirement salary as defined in this subdivision, earned as a teacher, consultant, or independent contractor during the previous calendar year by each retiree of the teachers retirement fund association for teaching service performed after retirement. The report must be in a format approved by the executive secretary or director.

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

Sec. 10. Minnesota Statutes 2012, section 354A.31, subdivision 4, is amended to read:

Subd. 4. **Computation of normal coordinated retirement annuity; St. Paul fund.** (a) This subdivision applies to the coordinated program of the St. Paul Teachers Retirement Fund Association.

(b) The normal coordinated retirement annuity is an amount equal to a retiring coordinated member's average salary under section 354A.011, subdivision 7a, multiplied by the retirement annuity formula percentage.

(c) This paragraph, in conjunction with subdivision 6, applies to a person who first became a member or a member in a pension fund listed in section 356.30, subdivision 3, before July 1, 1989, unless paragraph (d), in conjunction with subdivision 7, produces a higher annuity amount, in which case paragraph (d) will apply. For service rendered before July 1, 2014, the retirement annuity formula percentage for purposes of this paragraph is the percent specified in section 356.315, subdivision 1, per year for each year of coordinated service for the first ten years and the percent specified in section 356.315, subdivision 2, for each year of coordinated service thereafter. For service rendered after June 30, 2014, the retirement annuity formula percentage for purposes of this paragraph is the percent specified in section 356.315, subdivision 1a, per year for each year of coordinated service for the first ten years and the percent specified in section 356.315, subdivision 2b, for each year of coordinated service thereafter.

(d) This paragraph applies to a person who has become at least 55 years old and who first becomes a member after June 30, 1989, and to any other member who has become at least 55 years old and whose annuity amount, when calculated under this paragraph and in conjunction with subdivision 7 is higher than it is when calculated under paragraph (c), in conjunction with the provisions of subdivision 6. The retirement annuity formula percentage for purposes of this paragraph is the percent specified in section 356.315, subdivision 2, for each year of coordinated service rendered before July 1, 2014, and the percent specified in section 356.215, subdivision 2b, for each year of coordinated service thereafter.

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

Sec. 11. Minnesota Statutes 2012, section 354A.31, subdivision 7, is amended to read:

Subd. 7. **Actuarial reduction for early retirement.** (a) This subdivision applies to a person who has become at least 55 years old and first becomes a coordinated member after June 30, 1989, and to any other coordinated member who has become at least 55 years old and whose annuity is higher when calculated using the retirement annuity formula percentage in subdivision 4, paragraph (d), ~~and~~ or subdivision 4a, paragraph (d), as applicable, in conjunction with this subdivision than when calculated under subdivision 4, paragraph (c), or subdivision 4a, paragraph (c), in conjunction with subdivision 6.

(b) A coordinated member who retires before the ~~full benefit~~ normal retirement age shall be paid the retirement annuity calculated using the retirement annuity formula percentage in subdivision 4, paragraph (d), or subdivision 4a, paragraph (d), ~~reduced so that the reduced annuity is the actuarial equivalent of the annuity that would be payable to the member if the member deferred receipt of the annuity and the annuity amount were augmented at an annual rate of three percent compounded annually from the day the annuity begins to accrue until the normal retirement age if the employee became an employee before July 1, 2006, and at 2.5 percent compounded annually from the day the annuity begins to accrue until the normal retirement age if the person initially becomes a teacher after June 30, 2006.~~ whichever is applicable, multiplied by the applicable early retirement factor specified below:

	Under age 62 or less than 30 years of service		Age 62 or older with 30 years of service	
Normal retirement age:	65	66	65	66
Age at retirement				
55	0.5376	0.4592		
56	0.5745	0.4992		

57	0.6092	0.5370		
58	0.6419	0.5726		
59	0.6726	0.6062		
60	0.7354	0.6726		
61	0.7947	0.7354		
62	0.8507	0.7947	0.8831	0.8389
63	0.9035	0.8507	0.9246	0.8831
64	0.9533	0.9035	0.9635	0.9246
65	1.0000	0.9533	1.0000	0.9635
66		1.0000		1.0000

EFFECTIVE DATE. This section is effective July 1, 2013.

Sec. 12. Minnesota Statutes 2012, section 354A.35, subdivision 2, is amended to read:

Subd. 2. **Death while eligible to retire; surviving spouse optional annuity.** (a) The surviving spouse of a vested coordinated member who dies prior to retirement may elect to receive, instead of a refund with interest under subdivision 1, an annuity equal to the 100 percent joint and survivor annuity the member could have qualified for had the member terminated service on the date of death. The surviving spouse eligible for a surviving spouse benefit under this paragraph may apply for the annuity at any time after the date on which the deceased employee would have attained the required age for retirement based on the employee's allowable service. A surviving spouse eligible for surviving spouse benefits under paragraph (b) or (c) may apply for an annuity at any time after the member's death. The member's surviving spouse shall be paid a joint and survivor annuity under section 354A.32 and computed under section 354A.31.

(b) If the member was under age 55 and has credit for at least 30 years of allowable service on the date of death, the surviving spouse may elect to receive a 100 percent joint and survivor annuity based on the age of the member and surviving spouse on the date of death. The annuity is payable using the full early retirement reduction under section 354A.31, subdivision 6, paragraph (a), to age 55 and one-half of the early retirement reduction from age 55 to the age payment begins.

(c) If a vested member of the Duluth Teachers Retirement Fund Association was under age 55 on the date of death but did not yet qualify for retirement, the surviving spouse may elect to receive the 100 percent joint and survivor annuity based on the age of the member and the survivor at the time of death. The annuity is payable using the full early retirement reduction under section 354A.31, subdivision 6 or 7, to age 55 and one-half of the early retirement reduction from age 55 to the date payment begins.

(d) If a vested member of the St. Paul Teachers Retirement Fund Association was under age 55 on the date of death but did not yet qualify for retirement, the surviving spouse may elect to receive the 100 percent joint and survivor annuity based on the age of the member and the survivor at the time of death. The annuity is payable using the full early retirement reduction under section 354A.31, subdivision 6 or 7, to age 55 and one-half of the actuarial equivalent reduction from age 55 to the date payment begins. The actuarial equivalent reduction is calculated so that the reduced annuity is the actuarial equivalent of the annuity that would be payable to the member if the member deferred receipt of the annuity and the annuity amount were augmented at an annual rate of three percent compounded annually from the day the annuity begins to accrue until the normal retirement age.

~~(d)~~ (e) Sections 354A.37, subdivision 2, and 354A.39 apply to a deferred annuity or surviving spouse benefit payable under this section. The benefits are payable for the life of the surviving spouse, or upon expiration of the term certain benefit payment under subdivision 2b.

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

Sec. 13. Minnesota Statutes 2012, section 356.47, subdivision 1, is amended to read:

Subdivision 1. **Application.** This section applies to the balance of annual retirement annuities on the amount of retirement annuity reductions after reemployed annuitant earnings limitations for retirement plans governed by section 352.115, subdivision 10; 353.37; 354.44, subdivision 5; or 354A.31, subdivision 3, for the Duluth Teachers Retirement Fund Association. This section also applies to the balance of annual retirement annuities on the amount of retirement annuity reductions under section 354A.31, subdivision 3, for members of the St. Paul Teachers Retirement Fund Association whose effective date of retirement is before July 1, 2013.

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

Sec. 14. Minnesota Statutes 2012, section 423A.02, subdivision 5, is amended to read:

Subd. 5. **Termination of state aid programs.** The amortization state aid, supplemental amortization state aid, and additional amortization state aid programs terminate as of the December 31, next following the date of the actuarial valuation when the assets of the St. Paul Teachers Retirement Fund Association equal the actuarial accrued liability of that plan or ~~December 31, 2009~~ June 30, 2037, whichever is ~~later~~ earlier.

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

Sec. 15. **ST. PAUL TEACHERS RETIREMENT FUND ASSOCIATION BYLAW AMENDMENT AUTHORIZATION.**

Consistent with Minnesota Statutes, section 354A.12, subdivision 4, the St. Paul Teachers Retirement Fund Association is authorized to amend its articles of incorporation or its bylaws to apply the reduction factors stated in section 11 rather than the actuarial reduction factors previously authorized.

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