State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

S.F. 1803 (Pappas) **H.F. 1951** (Murphy, M.)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s):	Duluth Teachers Retirement Fund Association; Teachers Retirement Association
Relevant Provisions of Law:	Minnesota Statutes, Chapters 354, 354A, and 356
General Nature of Proposal:	Full consolidation of DTRFA into TRA.
Date of Summary:	March 7, 2014

Specific Proposed Changes

- Mandates a full consolidation of the Duluth Teachers Retirement Fund Association (DTRFA) into the Teachers Retirement Association (TRA) over the period 2014-2015, to be completed on June 30, 2015, if approved by the DTRFA board of trustees and membership and by the TRA board of directors, and revises statutory references to the DTRFA upon consolidation.

Policy Issues Raised by the Proposed Legislation

1. Actuarial condition and extent of funding problems of the DTRFA.
2. Precedent for the consolidation of defined benefit Minnesota public employee retirement plans.
3. Actuarial cost of the potential DTRFA/TRA consolidation.
4. Amount and duration of special additional state aid.
5. Lack of Independent School District No. 709 (Duluth) additional funding burden.
6. Appropriateness of the one-year delay in fully implementing the consolidation with TRA.
7. Appropriate disposition of DTRFA real estate investment, illiquid assets, and tax-shelter investment program.
8. Appropriateness of TRA indemnification of the DTRA board of trustees and chief administrative officer.
9. Appropriate disposition of current DTRFA employees.
10. Appropriateness of approval process in consolidation effective date; omission of the governmental subdivision.
11. Unclear consolidation status for the SPTRFA.
12. Appropriateness of ending the actuarial value of assets in actuarial valuations.

Potential Amendments

Technical Amendments:

S1803-1A resets the termination date of the former MTRFA special state aid and the new DTRFA special state aid from the single date when the plan becomes fully funded and has a big enough contribution sufficiency to produce a recommendation for contribution rate reductions under the TRA statutory contribution stabilizer provision to the later of the two dates on which these occurrences happen.

S1803-2A repositions a clause relating to the disposition of DTRFA employees, making it clearer that the subsequent reemployment by TRA is elective with the employee, not the termination of DTRFA employment.

S1803-3A includes the Revisor of Statutes in the notification of consolidation approvals for purposes of publishing the 2015 Supplement to Minnesota Statutes

Amendment requested by TRA and the State Board of Investment:

S1803-4A revises the process for the transfer of assets by the DTRFA to the State Board of Investment for crediting to the TRA fund.

Substantive Amendments:

S1803-5A extends the TRA amortization date from 2037 to 2044, likely reducing the total TRA amortization contribution in the initial year of the period by an amount that is greater than the proposed special aid.

S1803-6A resets the special state aid at 0.25% of covered pay, payable each October 1, in a lump sum, based on retirement plan covered payroll for the immediately preceding fiscal year, which would reduce the initial year special state aid to $10,496,000, although the dollar amount would be greater in out years.

S1803-7A retains the special state aid termination provision under current law of the achievement of actuarial value full funding or the TRA full funding target date, whichever occurs earlier.

S1803-8A requires ISD No. 709 (Duluth) to make its historically applicable rate of an additional 0.29% of pay employer contribution.

S1803-9A requires ISD No. 709 (Duluth) to make an additional employer contribution at a percentage of pay rate to be set by the Commission.

S1803-10A resets the consolidation effective date to 2014.

S1803-11A removes the indemnification of any former fiduciary of DTRFA provision.

S1803-12A replicates the 2006 MTRFA consolidation date-specific protections against potential late-date DTRFA staff expansions and transfers and adds specific protections against late-date compensation increases that would become salary guarantees.

S1803-13A specifies a narrow eligibility for membership voting and sets the decision margin as a majority of all eligible members who cast a vote.

S1803-14A specifies a broad eligibility for membership voting and sets the decision margin as a majority of all eligible members voting or not voting.

S1803-15A provides for conventional local approval of the consolidation by requiring Duluth Public Schools approval.

S1803-16A would replace the actuarial value of assets with market value of assets for all actuarial reporting purposes.

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director

RE: S.F. 1803 (Pappas); H.F. 1951 (Murphy, M.): DTRFA/TRA; Full Consolidation of the Duluth Teachers Retirement Fund Association

DATE: March 7, 2014

General Summary of S.F. 1803 (Pappas); H.F. 1951 (Murphy, M.)

S.F. 1803 (Pappas); H.F. 1951 (Murphy, M.) amends various provisions of Minnesota Statutes, principally portions of Minnesota Statutes, Chapters 354, 354A, and 356, relating successively to the Teachers Retirement Association (TRA), the first class city teacher retirement fund associations, and retirement generally, by mandating a full consolidation of the Duluth Teachers Retirement Fund Association (DTRFA) into the TRA over the period 2014-2015, to be completed on June 30, 2015, if the consolidation legislation is approved by the DTRFA board of trustees, by the DTRFA membership, and by the TRA board of directors, and by revising statutory references to the DTRFA upon consolidation.

Section-by-Section Summary

A section-by-section summary of S.F. 1803 (Pappas); H.F. 1951 (Murphy, M.) is attached.

Background Information on Relevant Topics

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

- **Attachment A**: Duluth Teachers Retirement Fund Association.
- **Attachment B**: Teachers Retirement Association.
- **Attachment C**: Minnesota pension plan consolidations.
- **Attachment D**: Minneapolis Teachers /Teachers Retirement Association consolidation and the MTRFA liquidating trust.
- **Attachment E**: Minnesota teacher plans, history of funding and funded conditions.

Discussion and Analysis

S.F. 1803 (Pappas); H.F. 1951 (Murphy, M.) provides, if approved by the Duluth Teachers Retirement Fund Association (DTRFA) board of trustees, the DTRFA membership, and the Teachers Retirement Association (TRA) board of trustees, for the total consolidation of the DTRFA into the TRA over the period of Fiscal Year 2015, with an increase of state aid to TRA to account for the unfunded actuarial accrued liability of the DTRFA of $14,701,000 over the pre-2013 level of DTRFA state aid and $7,701,000 over the 2013-2014 level of DTRFA state aid.

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

1. Actuarial Condition and Extent of Funding Problems of the DTRFA. The policy issue is whether or not the current actuarial condition of the Duluth Teachers Retirement Fund Association (DTRFA) and the extent of its current and future funding problems portend a future default and make the continuation of the retirement plan on a free-standing basis impossible or improbable. The following compares the DTRFA actuarial condition for the period 2010-2013:

Duluth Teachers Retirement Fund Association

	FY2010	FY2011	FY2012	FY2013
Membership				
Active Members	1,054	1,006	919	873
Service Retirees	1,171	1,216	1,254	1,311
Disabilitants	19	19	19	19
Survivors	105	109	113	115
Deferred Retirees	301	290	284	268
Nonvested Former Members	721	735	766	757
Total Membership	3,371	3,375	3,355	3,343

Duluth Teachers Retirement Fund Association	FY2010		FY2011		FY2012		FY2013	
Funded Status								
Accrued Liability		$312,649,572		$321,065,000		$326,243,873		$352,143,396
Current Assets		$255,308,913		$235,071,975		$206,833,425		$190,116,720
Unfunded Accrued Liability		$57,340,659		$85,993,025		$119,410,448		$162,026,676
Funding Ratio	81.66%		73.22%		63.40%		53.99%	
Financing Requirements								
Covered Payroll		$56,152,078		$54,279,300		$50,973,110		$49,019,537
Benefits Payable		$23,596,191		$24,067,915		$24,806,357		$25,430,230
Normal Cost	5.85%	$3,287,998	6.08%	$3,298,919	6.48%	$3,305,213	7.75%	$3,799,107
Administrative Expenses	0.91%	$510,984	0.89%	$483,086	1.16%	$591,288	1.05%	$514,705
Amortization	6.46%	$3,627,424	10.27%	$5,574,484	15.36%	$7,829,470	21.74%	$10,656,847
Total Requirements	13.22%	$7,426,406	17.24%	$9,356,489	23.00%	$11,725,971	30.54%	$14,970,659
Employee Contributions	5.50%	$3,088,365	6.00%	$3,256,758	6.50%	$3,313,252	7.00%	$3,431,368
Employer Contributions	5.79%	$3,251,205	6.29%	$3,414,168	6.79%	$3,461,075	7.29%	$3,573,524
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	1.19%	$666,361	1.21%	$658,535	1.23%	$626,202	13.37%	$6,555,402
Other Govt. Funding	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Administrative Assessment	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	12.48%	$7,005,931	13.50%	$7,329,461	14.52%	$7,400,529	27.66%	$13,560,294
Total Requirements	13.22%	$7,426,406	17.24%	$9,356,489	23.00%	$11,725,971	30.54%	$14,970,659
Total Contributions	12.48%	$7,005,931	13.50%	$7,329,461	14.52%	$7,400,529	27.66%	$13,560,294
Deficiency (Surplus)	0.74%	$420,475	3.73%	$2,027,028	8.49%	$4,325,442	2.88%	$1,410,365

Over the period of five years, the DTRFA active membership has declined by almost one-fifth, the number of its age and service retirees has increased by almost one-fifth, its actuarial accrued liability has increased by almost one-sixth, its assets have declined by almost one-quarter, its unfunded actuarial accrued liability has almost tripled, its total covered payroll has declined by 10%, its normal cost as a percentage of covered pay has increased by almost one-third, its administrative expenses as a percentage of covered pay have increased by 10%, its amortization requirement as a percentage of covered pay has more than tripled, and its deficiency in contributions compared to actuarial requirements has almost quadrupled, notwithstanding a significant temporary increase in state aid.

The following compares pertinent DTRFA demographic information for the period 1985-2013:

Plan	1985	1990	1995	2000	2005	2010	2013
Active Members:							
Number	1,182	1,553	1,512	1,441	1,164	1,054	873
Average Covered Salary	$26,415	$26,109	$32,054	$36,851	$48,314	$52,275	56,151
Average Age	43.5	43.2	43.9	44.1	46.4	47.2	47.8
Average Years of Service	12.0	10.2	10.5	10.5	12.4	12.4	12.9
Average Member Contribution	$1,188	$1,175	$1,763	$2,027	$2,657	$2,930	3,835
Age and Service Retired Members:							
Number	562	634	788	937	1,164	1,171	1,311
Average Benefit Amount	$4,044	$5,027	$9,581	$13,853	$16,740	$18,876	$18,369
Survivor Benefit Recipients:							
Number	23	29	46	53	94	105	115
Average Benefit Amount	$2,638	$3,308	$7,521	$11,528	$13,068	$16,593	$16,325
Disabilitants:							
Number	8	11	7	6	16	19	19
Average Benefit Amount	$3,956	$6,478	$11,925	$11,024	$15,168	$13,812	$14,058
Number of Deferred Members:	50	42	122	172	313	301	268
Number of Inactive Non-Vested Former Members:	0	435	561	575	638	721	757

Over a 28-year period, the drop in active members was negligible until the 2010-2013 period, when it declined by almost one-fifth, its average active member age increased decidedly, although the average length of active member service credit has not increased very dramatically, the age and service retiree number has more than doubled, the average age and service pension amount has more than quadrupled, the number of survivors has increased sizably, the average survivor benefit has increased more than six-fold, the number of disabilitants increased almost 2.5 times, the average disability benefit more than tripled, the number of deferred retirees increased around five-fold, and the number of non-vested former members increased sizably from no one in the category.

The following compares the student enrollment (Minnesota Department of Education Adjusted Average Daily Membership counts) for Independent School District No. 709 (Duluth) and the enrollment count divided by the number of active DTRFA members for the same school year:

Duluth Public Schools

School Year	Enrollment* Adj. ADM	DTRFA Actives to Students	School Year	Enrollment* Adj. ADM	DTRFA Actives to Students
2000-2001	12,078	8.51	2007-2008	9,567	8.39
2001-2002	11,823	9.27	2008-2009	9,472	9.32
2002-2003	11,404	8.31	2009-2010	9,258	8.78
2003-2004	10,880	9.24	2010-2011	9,004	8.95
2004-2005	10,499	9.02	2011-2012	8,779	9.55
2005-2006	10,096	8.60	2012-2013	8,566	9.81
2006-2007	9,793	8.52	2013-2014	8,396	--

** Minnesota Department of Education Adjusted Average Daily Membership counts*

Over the 14-year period, Duluth Public Schools have experience a steady decline in enrollment, with the current enrollment equal to only 69.5% of the 2000-2001 school year enrollment. While constituting a less smooth line than the enrollment counts, the number of active DTRFA members has varied between one DTRFA active member for a low of 8.31 students, occurring in 2002-2003, to a high of 9.81 students, occurring in 2012-2013.

2. <u>Precedent for the Consolidation of Defined Benefit Minnesota Public Employee Retirement Plans</u>. The policy issue is whether or not there is a sufficient precedent for the proposed consolidation of the Duluth Teachers Retirement Fund Association (DTRFA) into the Teachers Retirement Association (TRA). As set forth in Attachments C and D, there have been numerous Minnesota defined benefit public employee retirement plan consolidations previously, including the Minneapolis Teachers Retirement Fund Association (MTRFA) consolidation into TRA. That 2006 consolidation salvaged a retirement plan that was in considerable financial difficulty, akin to DTRFA, and was accomplished without underfunding TRA. The primary downside with the 2006 MTRFA/TRA consolidation was the post-legislation activities of the MTRFA board of trustees and administrative staff, with the creation of a liquidating trust with a portion of MTRFA assets, contrary to legislatively mandated transfer of the entirety of the MTRFA assets, with consequent legal and administrative expenses that reduced the ultimate asset transfer.

3. <u>Actuarial Cost of the Potential DTRFA/TRA Consolidation</u>. The policy issue is the magnitude of the actuarial cost of the total consolidation of the Duluth Teachers Retirement Fund Association (DTRFA) into the Teachers Retirement Association (TRA). As part of the report on potential consolidations into TRA of DTRFA and the St. Paul Teachers Retirement Fund Association (SPTRFA) mandated by the 2013 Legislature (Laws 2013, Ch. 111, Art. 13, Sec. 22), the consulting actuarial firm retained by TRA, Cavanaugh Macdonald Consulting, LLC, in conjunction with the consulting actuarial firm retained by the St. Paul Teachers Retirement Fund Association (SPTRFA), Gabriel, Roeder, Smith & Company, prepared an actuarial estimate of the actuarial cost of the potential DTRFA/TRA consolidation. The following summarizes the February 19, 2014, revision (attached) of the December 13, 2013, actuarial cost estimate included in the TRA-DTRFA-SPTRFA consolidation report, using the July 1, 2013, actuarial valuation results rather than a projection of the July 1, 2012, actuarial valuation results to July 1, 2013:

	(1) TRA FY2013		(2) TRA FY2013 Adj. for Asset Mkt. Value; Contribution Increase		(3) DTRFA FY2013		(4) DTRFA FY2013 Adj. for TRA Benefits & TRA Act. Assumptions; Mkt. Value Assets; Contrib. Incr.		(5) ((2) + (4)) TRA/DTRFA Consolidation	
<u>Membership</u>										
Active Members		76,765		--		873		--		77,638
Service Retirees		52,331		--		1,311		--		53,642
Disabilitants		568		--		19		--		587
Survivors		4,269		--		115		--		4,384
Deferred Retirees		12,614		--		268		--		12,882
Nonvested Former Members		28,881		--		757		--		29,638
Total Membership		175,428		--		3,343		--		178,771
<u>Funded Status</u>										
Accrued Liability		$23,418,629,000		$23,418,629,000		$352,143,396		$376,371,000		$23,795,000,000
Current Assets		$16,774,626,000		$18,015,194,000		$190,116,720		$205,301,000		$18,220,495,000
Unfunded Accrued Liability		$6,644,003,000		$5,403,435,000		$162,026,676		$171,070,000		$5,574,505,000
Funding Ratio	71.63%		76.93%		53.99%		54.55%		76.57%	
<u>Financing Requirements</u>										
Covered Payroll		$4,205,399,000		--		$49,019,537		--		$4,254,626,000
Benefits Payable		$1,521,477,000		--		$25,430,230		--		$1,546,907,230
Normal Cost	8.40%	$353,335,000	8.40%	$353,335,000	7.75%	$3,799,107	9.34%	$4,578,425	8.41%	$357,814,000
Administrative Expenses	0.23%	$9,672,000	0.23%	$9,672,000	1.05%	$514,705	1.05%	$514,705	0.23%	$9,786,000
Amortization	10.78%	$453,342,000	8.77%	$368,813,000	21.74%	$10,656,847	22.95%	$11,251,633	8.67%	$368,876,000
Total Requirements	19.41%	$816,349,000	17.40%	$731,820,000	30.54%	$14,970,659	33.34%	$16,344,763	17.31%	$736,276,000

	(1)		(2)		(3)		(4)		(5)	
	TRA FY2013		TRA FY2013 Adj. for Asset Mkt. Value; Contribution Increase		DTRFA FY2013		DTRFA FY2013 Adj. for TRA Benefits & TRA Act. Assumptions; Mkt. Value Assets; Contrib. Incr.		((2) + (4)) TRA/DTRFA Consolidation	
Employee Contributions	7.00%	$294,416,000	7.50%	$315,405,000	7.00%	$3,431,368	7.50%	$3,676,000	7.50%	$319,097,000
Employer Contributions	7.19%	$302,454,000	7.69%	$323,395,000	7.29%	$3,573,524	7.50%	$3,697,000	7.69%	$327,135,000
Employer Add'l Cont.	0.00%	$0	--	--	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	0.47%	$19,954,000	0.47%	$19,954,000	13.37%	$6,555,402	42.00%	$20,586,000	0.95%	$40,540,000
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	14.67%	$616,824,000	15.66%	$658,754,000	27.66%	$13,560,294	57.00%	$27,979,000	16.14%	$686,772,000
Total Requirements	19.41%	$816,349,000	17.40%	$731,820,000	30.54%	$14,970,659	33.34%	$16,344,763	17.31%	$736,276,000
Total Contributions	14.67%	$616,824,000	15.66%	$658,754,000	27.66%	$13,560,294	52.00%	$27,979,000	16.14%	$686,772,000
Deficiency (Surplus)	4.74%	$199,525,000	1.74%	$73,066,000	2.88%	$1,410,365	(18.66%)	($11,634,237)	1.17%	$49,504,000

4. Amount and Duration of Special Additional State Aid.

a. Issue in General. The policy issue is the question of the affordability of the amount, the adequacy of the amount, and the duration of the amount of the proposed additional state aid to the Teachers Retirement Association (TRA) on account of the proposed Duluth Teachers Retirement Fund Association (DTRFA) total consolidation with TRA. The TRA-DTRFA-SPTRFA consolidation report and the proposed legislation provide for an increase in the annual state aid to TRA related to the DTRFA consolidation of $14,031,000, to $40,540,000 when added to the current ongoing state aid for the former Minneapolis Teachers Retirement Fund Association (MTRFA) redirected to TRA and the current ongoing state aid for DTRFA, proposed to be redirected to TRA in the legislation. The additional state aid for the DTRFA consolidation would be an annual lump sum State General Fund appropriation made directly to TRA, payable annually each October 1. The DTRFA consolidation state aid is proposed to continue in the same dollar amount until the October 1 next following the date on which two events occur, which are that TRA becomes fully funded (i.e., actuarial value of assets equal actuarial accrued liability) and that TRA member and employer contributions are determined eligible for a rate reduction under the statutory contribution stabilizer provision (Minn. Stat. Sec. 354.42, Subd. 4a, 4b, 4c, and 4d). TRA, under Minnesota Statutes, Section 356.215, Subdivision 11, has a target date to be fully funded on June 30, 2037.

b. Unfunded Actuarial Accrued Liability Amount. The amount of the proposed DTRFA consolidation state aid is calculated as the level dollar amount amortization contribution sufficient to retire an unfunded actuarial accrued liability figure of $161,168,000 on a level dollar basis over a 24-year amortization period calculated using an 8.0% interest rate actuarial assumption until 2017 and 8.5% interest rate actuarial assumption thereafter. The new DTRFA consolidation state aid would be a different annual amount if the target unfunded actuarial accrued liability figure was different. The unfunded actuarial accrued liability figure calculated by the TRA actuary, $153,825,000, was calculated in a variant manner than other pension unfunded actuarial accrued liability amounts are calculated under Minnesota Statutes, Section 356.215, and the Commission's Standards for Actuarial Work, by virtue of including deductions of the present values of the Fiscal Year 2014/Fiscal Year 2015 temporary special DTRFA state aid, the 1996 state aid reallocation under Minnesota Statutes, Section 423A.02, Subdivision 3, and the 1997 state aid under Minnesota Statutes, Section 354A.12, Subdivision 3a. In a non-variant Entry Age Actuarial Method calculation of a pension plan's unfunded actuarial accrued liability, only the retirement plan's current assets and the present value of the retirement plan's future normal costs are deducted. If consolidated with TRA, included in the TRA post-retirement adjustment mechanism, and valued using the TRA actuarial assumptions, DTRFA would bring an unfunded actuarial accrued liability of $186,253,720. To arrive at the consolidation report target unfunded actuarial accrued liability of $153,825,000, the following adjustments were made by the TRA actuary:

DTRFA unfunded actuarial accrued liability under TRA assumptions and benefits	$186,254,000
Deducted Difference Market Value/Actuarial Value	15,184,000
Revised unfunded actuarial accrued liability	$171,070,000
Additional deductions: FY14/FY15 aid	$11,335,000
Min. Stat. Sec. 423A.02, Subd. 3, aid	2,193,000
Min. Stat. Sec. 423A.12, Subd. 3a, aid	3,717,000
Calculated target unfunded actuarial accrued liability	$153,825,000

These figures are all calculated as if the consolidation occurred on June 30, 2013. Of the various numbers, only the Minnesota Statutes, Section 354A.12, Subdivision 3a, state aid number is an unchanging number over time.

c. Amortization Date. The amortization target date used in the TRA-DTRFA-SPTRFA consolidation report was 2037, a 24-year amortization period from the July 1, 2013, actuarial valuation results summarized above and a 23-year amortization period from June 30, 2014, starting date for the consolidation process, and a 22-year amortization period from the actual full consolidation. The 2037 amortization target date was set as part of the 2006 Minneapolis Teachers Retirement Fund Association (MTRFA) consolidation into TRA. In most past recent consolidations, a new 30-year amortization period was generally utilized for the post-consolidation retirement plan. Lengthening the amortization period does not change the unfunded actuarial accrued liability figure to be amortized, but would reduce the annual dollar outlay of the amortization contribution, although more interest as part of the debt would be payable. Although the rationale was not disclosed in the consolidation report, TRA representatives apparently have declined to reset the TRA amortization target date because of uncertainties over future retirement plan funding, especially a potential future reduction in the interest rate actuarial assumption and potential mortality or other actuarial losses.

- If the Commission desires to utilize a new 30-year amortization period rather than a 23-year amortization period, **Amendment S1803-5A** would extend the TRA amortization date from 2037 to 2044, which would likely reduce the total TRA amortization contribution in the initial year of the period by an amount that is greater than the proposed special aid.

d. Level Dollar or Percentage of Pay Amortization. Unfunded actuarial accrued liability amounts can be amortized either on a level annual dollar basis (the procedure used for most consumer debt) or on a level percentage of an increasing payroll basis (the procedure used fairly commonly in public employee retirement plans). The proposed $14,081,000 special state aid is calculated under law on a level annual dollar basis, although the pre-DTRFA consolidation TRA amortization requirement is calculated on a level percentage of an increasing payroll basis. The level annual dollar amortization procedure produces a pattern, by design, that is level as a dollar amount over time, but works out as a decreasing percentage of payroll amount over time. The level percentage of an increasing payroll amortization procedure produces a pattern, by design, that is level as a percentage of payroll, mirroring the retirement plan normal cost, but works out to be a significantly increasing dollar amount over time, and does not even pay full interest on the unfunded actuarial accrued liability until roughly halfway through the amortization period. Although the rationale is not disclosed in the consolidation report, TRA representatives selected the level annual dollar amortization procedure for this portion of the post-DTRFA consolidation unfunded actuarial accrued liability because of uncertainties with respect to potential changes in the interest rate actuarial assumption and the potential for future actuarial experience losses.

- If the Commission wishes to amortize the unfunded actuarial accrued liability attributable to the DTRFA consolidation into TRA on a level percentage of covered payroll basis rather than as a level annual dollar basis, **Amendment S1803-6A** would reset the special state aid at 0.25% of covered pay, payable each October 1, in a lump sum, based on retirement plan covered payroll for the immediately preceding fiscal year, which would reduce the initial year special state aid to $10,496,000, although the dollar amount would be greater in out years.

e. Duration. The proposed legislation provides that the special amortization state aid and the 1997 DTRFA aid and redirected MTRFA state aid would terminate when both TRA becomes fully funded (i.e., no unfunded actuarial accrued liability) on an actuarial value of assets basis and TRA members and employees are eligible for a contribution rate reduction under the statutory contribution stabilizer provision. Although both occurrences could take place at the same time, they could occur at different times. Current law would end the former MTRFA state aid redirection to TRA solely when TRA becomes fully funded on an actuarial value of assets basis, which would likely lag by almost five years the date on which the plan would be fully funded on a market value of assets due to the delay built into that smoothing procedure. The proposed provision would terminate the former MTRFA state aid and the new special state aid with respect to DTRFA on the October 1 next following the determination of the two factors, full funding and a contribution rate sufficiency of a magnitude that would generate a member and employer contribution rate reduction recommendation under the statutory contribution stabilizer provision, which would depend on an actuarial valuation that typically is not finalized until the December or the January next following its preparation as of date of July 1. Whenever the two factors would occur, the determination of those conditions would not be filed until after a pair of additional special state aid payments would occur, which probably would provide TRA with an extra perceived cushion or protection against future unknown events and potential opposition from the current TRA membership.

- If the Commission is troubled by the additional condition of a determined sizable contribution rate sufficiency, **Amendment S1803-7A** would retain the special state aid termination provision under current law of the achievement of actuarial value full funding or the TRA full funding target date, whichever occurs earlier.

5. Lack of Independent School District No. 709 (Duluth) Additional Funding Burden. The policy issue is the question of the appropriateness of placing the full burden of the additional post-consolidation funding on the state without requiring any specific additional funding burden to be borne by Independent School District No. 709 (Duluth). Although Independent School District No. 709 had an employer contribution rate that was modestly greater than the Teachers Retirement Association (TRA) employer contribution rate (0.29% greater) for the period 1997-2013, it was smaller for decades before 1997 and would be identical to other school districts under current law after July 1, 2014. When the Minneapolis Teachers Retirement Fund Association (MTRFA) consolidated with TRA in 2006, the existing greater employer contribution rate by Special School District No 1 (Minneapolis) was continued indefinitely. The proposed consolidation legislation would require not special additional burden on Independent School District No. 709 to help resolve the circumstance now occurring in DTRFA and are being shifted, with the addition of a greater future post-retirement adjustment rate and its attendant additional pension liability and funding costs, to TRA through the consolidation. Any additional employer contribution requirement imposed on Independent School District No. 709 would reduce the special state aid amount payable by the state.

   - If the Commission believes that the Duluth Public School District should bear some specific additional employer funding requirement, **Amendment S1803-8A** would require Independent School District No. 709 (Duluth) to make its historically applicable rate of an additional 0.29% of pay employer contribution; and
   - Alternative **Amendment S1803-9A** would require Independent School District No. 709 (Duluth) to make an additional employer contribution at a percentage of pay rate to be set by the Commission.

6. Appropriateness of the One-Year Delay in Fully Implementing the Consolidation with TRA. The policy issue is the appropriateness of the proposed one-year delay in fully consolidating the Duluth Teachers Retirement Fund Association (DTRFA) with the Teachers Retirement Association (TRA). The one-year delay reflects the recommendations of the DTRFA and TRA boards of trustees. In the most recent consolidation report, the two boards indicate that a full year delay is needed, indicating that "sufficient time is needed to ensure that consolidation is achieved in an orderly, planned manner sot that services to TRA and DTRFA members are not disrupted and so that accurate, timely benefit and service calculations can be made." The report attempts to delineate the complexity of the task of making the investment, reporting and administrative transfer. However, DTRFA consists of only 3,343 members, a fifth of whom are non-vested former members, compared to 13,578 members of the former Minneapolis Teachers Retirement Fund Association (MTRFA), which consolidated into TRA in 2006 in less than 45 days after the legislative session ended and which actively obstructed the process by establishing a liquidating trust, and compared to 4,588 members of the former Minneapolis Employees Retirement Fund (MERF), which consolidated administratively into PERA-General in 2010 in less than 45 days. No prior consolidation in the 68 consolidations reviewed by the Commission staff has been given or taken a year after the consolidation decision was made.

   - If the Commission believes that the DTRFA consolidation can be accomplished in line with all past legislated consolidations, **Amendment S1803-10A** resets the consolidation effective date to 2014.

7. Appropriate Disposition of DTRFA Real Estate Investment, Illiquid Assets, and Tax-Shelter Investment Program. The policy issue is the nature of portions of the DTRFA investment portfolios and their disposition in the event of a consolidation. It is reported that DTRFA owns two buildings in Duluth, has private equity and other illiquid investments, and operates a tax-sheltered savings program for its members. All of these investments either are outside the authorized investment securities for the State Board of Investment or could be contrary to the State Board of Investment's current investment policies and portfolio mix. The tax-sheltered annuity program has investment operation features of the State Board of Investment's Supplemental Investment Fund, but has the administrative complexities of the Minnesota Deferred Compensation Program. Current or former DTRFA personnel should be requested to provide at least a brief summary of this potentially problematic investment operation, the intended successor to manage the operation, and what steps have been put into play to smooth the investment transfer related to a consolidation.

8. Appropriateness of TRA Indemnification of the DTRA Board of Trustees and Chief Administrative Officer. The issue is the appropriateness of the provision, in Section 10, Subdivision 2, Clause (4), requiring TRA to indemnify any former fiduciary of DTRFA as part of the consolidation. The same provision was included in the 2006 MTRFA consolidation, but does not appear to have been included in the 2010 Minneapolis Employees Retirement Fund (MERF) administrative consolidation. In the case of MTRFA, the retirement plan was likely involved in some investment-related litigation at the time of consolidation and the MTRFA board and administrator had been identified by the then State Auditor as having engaged in potentially improper or inappropriate deeds and activities. Similar to the MERF consolidation, the 1997 local police and paid fire relief association consolidation law did not include an

indemnification provision, nor did the 2011 Minneapolis Police and Fire consolidation law or the 2012 Virginia Fire or Fairmont Police consolidation laws. In the case of MERF, a late executive director was creditably identified as having engaged in questionable activities, but his death occurred many years before the consolidation, and his successors appear to have avoided replicating his bad behavior.

- If the Commission believes that the indemnification requirement is unnecessary, **Amendment S1803-11A** would remove the indemnification provision.

9. Appropriate Disposition of Current DTRFA Employees. The policy issue is the appropriateness of the absorption of the current Duluth Teachers Retirement Fund Association (DTRFA) employees, other than the DTRFA executive director, into Teachers Retirement Association (TRA) employment upon the consolidation of DTRFA into TRA. The reemployment is without undergoing any examination, is required to be compensated at their hourly salary rate upon transfer, is required to have accumulated vacation leave transferred, and is required to bring full group insurance benefits. The DTRFA employee transfer provision replicates the 2006 MTRFA employee transfer provision, but varies from the 2010 MERF employee transfer provision, where one classification of employee was transferred to Minneapolis city employment and another was transferred to the Public Employees Retirement Association (PERA), but the transfer did not come with a guarantee of no compensation loss, the transfer did not include sick leave accumulations, and the transfer was framed with "employed before" and "employed on" language that eliminated any potential for late employment additions to the transferred employee group. Under the proposed language (Sec. 46 on page 4), DTRFA could expand its employee group by any number it would desire and could increase employee compensation that it selected, with TRA obligated to retain all of those employees at whatever compensation rate that was in effect on the date of consolidation. The Commission may wish to inquire about the comparability of employment benefit practices of DTRFA compared to state employment and about the TRA need for additional employees on July 1, 2015.

   - If the Commission wants to replicate the date specific protections against potential late date DTRFA staff expansions and transfers and to add specific protections against late date compensation increases that would become salary guarantees, **Amendment S1803-12A** attempts to add those protections.

10. Appropriateness of Approval Process in Consolidation Effective Date. The policy issue is the question of the appropriateness of the consolidation effective date process, empowering a nonprofit corporation board of trustees, a nonprofit corporation membership, and a statewide retirement plan board in the approval process, but omitting the applicable governmental subdivision. The proposed legislation, for the consolidation to be effective, requires the approval of the DTRFA board of trustees, the approval of the DTRFA membership (without specification if that membership includes benefit recipients, deferred members, and inactive unvested former members), and the approval of the TRA board of trustees. Local laws, following a requirement of the Minnesota Constitution, require approval by the governing body of the affected local governmental unit before becoming effective. That obligation, however, is not extended by the state constitution to governmental instrumentalities or nonprofit corporations such as the DTRFA or TRA. When local police and paid fire relief associations were authorized to consolidate with the Public Employees Police and Fire Retirement Plan (PERA-P&F) in 1987 (and again for the Minneapolis Firefighters and Minneapolis Police relief associations in 2011), the relief association board of trustees and the relief association membership were required to approve any consolidation because of perceived or real political considerations, but not because of any requirement of the state constitution. The 1987 and 2011 consolidation laws, however, also required approval by the city council of the applicable city to be effective. No consolidation legislation has ever required relief association board or membership approval without also requiring governmental subdivision approval. Neither the 2006 Minneapolis Teachers Retirement Fund Association (MTRFA) consolidation into TRA nor the 2010 MERF administrative consolidation into PERA required approval by either retirement plan governing body, the retirement plan membership, or the governmental subdivision with which the retirement plan was associated. If the DTRFA membership is to be accorded the right to approve or disapprove the consolidation, it would save future controversy if the proposed legislation specified who is and who is not eligible to vote in the referendum and if the decisive margin (i.e., majority of all votes actually cast or a majority of all members whether voting or not voting) was specified. The DTRFA articles of incorporation and bylaws appear to lack clarity as to membership, appearing to limit membership to active teachers, but not discontinuing that membership status until the person receives all benefits to which the person is entitled, leaving the group empowered to act on the consolidation question uncertain.

    - **Amendment S1803-13A** specifies a narrow eligibility for membership voting on this issue and sets the decision margin as a majority of all eligible members who cast a vote.

    - **Amendment S1803-14A** specifies a broad eligibility for membership voting on this issue and sets the decision margin as a majority of all eligible members voting or not voting.

- If the Commission decides to follow the 1997 and 2011 local police and fire relief association consolidation legislation model in this instance, or if the Commission is interested in imposing a greater employer contribution requirement on Independent School District No. 709 (Duluth), requiring approval of the consolidation by the Duluth Public Schools would be appropriate and **Amendment S1803-15A** provides for conventional local approval of the consolidation.

11. Unclear Consolidation Status for the SPTRFA. The policy issue is the question of the future of the St. Paul Teachers Retirement Fund Association (SPTRFA) as an ongoing Minnesota public employee retirement plan. Because the SPTRFA board of trustees has officially declined to consolidate with TRA at this time, that retirement plan is not included in the proposed legislation. The financial and actuarial situation of SPTRFA is akin to that of the Duluth Teachers Retirement Fund Association (DTRFA), as indicated below:

	SPTRFA				DTRFA			
	FY2008		FY2013		FY2008		FY2013	
Membership								
Active Members		4,142		4,061		1,140		873
Service Retirees		2,514		3,047		1,128		1,311
Disabilitants		26		30		17		19
Survivors		290		327		98		115
Deferred Retirees		1,695		1,788		310		268
Nonvested Former Members		1,403		1,435		676		757
Total Membership		10,070		10,688		3,369		3,343
Funded Status								
Accrued Liability		$1,432,040,000		$1,467,350,000		$363,044,284		$352,143,396
Current Assets		$1,075,951,000		$886,296,000		$298,067,085		$190,116,720
Unfunded Accrued Liability		$356,089,000		$581,054,000		$64,977,199		$162,026,676
Funding Ratio	75.13%		60.40%		82.10%		53.99%	
Financing Requirements								
Covered Payroll		$247,291,000		$270,395,000		$59,548,231		$49,019,537
Benefits Payable		$88,272,000		$103,238,000		$21,579,521		$25,430,230
Normal Cost	8.66%	$21,396,000	7.83%	$21,168,000	8.43%	$5,022,602	7.75%	$3,799,107
Administrative Expenses	0.29%	$717,000	0.29%	$784,000	0.83%	$494,250	1.05%	$514,705
Amortization	8.68%	$21,465,000	14.01%	$37,882,000	6.60%	$3,930,183	21.74%	$10,656,847
Total Requirements	17.63%	$43,578,000	22.13%	$59,834,000	15.86%	$9,447,035	30.54%	$14,970,659
Employee Contributions	5.61%	$13,864,000	6.27%	$16,947,000	5.50%	$3,275,153	7.00%	$3,431,368
Employer Contributions	8.48%	$20,972,000	9.11%	$24,641,000	5.79%	$3,447,843	7.29%	$3,573,524
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	1.64%	$4,057,000	3.94%	$10,665,000	0.58%	$346,000	13.37%	$6,555,402
Other Govt. Funding	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Administrative Assessment	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	15.73%	$38,893,000	19.33%	$52,253,000	11.87%	$7,068,996	27.66%	$13,560,294
Total Requirements	17.63%	$43,578,000	22.13%	$59,834,000	15.86%	$9,447,035	30.54%	$14,970,659
Total Contributions	15.73%	$38,893,000	19.33%	$52,253,000	11.87%	$7,068,996	27.66%	$13,560,294
Deficiency (Surplus)	1.90%	$4,685,000	2.80%	$7,581,000	3.99%	$2,378,039	2.88%	$1,410,365
Amortization Target Date	2033		2038		2032		2040	
Actuary	Gabriel Roeder Smith		Gabriel Roeder Smith		Segal		Segal	

The SPTRFA uses, at its request in 2008, a rolling 25-year level percentage of increasing covered payroll amortization procedure rather than a date specific amortization target date, which resets to a new amortization period with each valuation, pays only about three-quarters of the interest charge on the unfunded actuarial accrued liability, and means that the plan will never amortize its current unfunded actuarial accrued liability, which will increase every year with unpaid interest even if there was not contribution deficiency. If SPTRFA is financially troubled, continuing to rely on the fiscal resources of one financially-strapped school district, with a very small comparative risk pool of the retirement plan membership, the situation is unlikely to improve and will likely require future state action to resolve. It may be appropriate to treat SPTRFA the same way as it did the Minneapolis Employees Retirement Fund (MERF) and engineer an administrative consolidation with the Teachers Retirement Association (TRA).

12. Appropriateness of Ending the Actuarial Value of Assets in Actuarial Valuations. The policy issue is the appropriateness of the current practice of using the actuarial value of assets for some purposes in annual actuarial valuations of Minnesota defined benefit public employee retirement plans and the value of replacing the actuarial value of assets with the market value of assets. Minnesota went to the current actuarial value of assets, which is a five-year smoothing procedure, in 2001, replacing the prior asset valuation procedure of book value plus one-third of the difference between book value and market value of assets. The current actuarial value of assets procedure is used for most purposes in annual actuarial valuations, but the retirement plans also must utilize a second valuation procedure, the market value of assets, to determine funding ratios to determine whether or not lower or higher

post-retirement adjustment rates will be used. In "up" investment markets, the actuarial value of assets lags the market value of assets, indicating less well-funded retirement plans, and in "down" investment markets, the actuarial value of assets overstates the value of assets compared to the market value, indicating better-funded retirement plans.

- If the Commission believes that keeping double books for its public pension plans, using a smoothing method that is difficult to explain to the average Minnesota taxpayer, is not beneficial, **Amendment S1803-16A** would utilize the market value of assets for all actuarial reporting purposes.

<u>Technical Amendments</u>

- **Amendment S1803-1A** relates to the date on which the former Minneapolis Teachers Retirement Fund Association (MTRFA) special state aid and the new Duluth Teachers Retirement Fund Association (DTRFA) special state aid will terminate, resetting the termination from the single date when the plan becomes fully funded and has a big enough contribution sufficiency to produce a recommendation for member and employer contribution rate reductions under the Teachers Retirement Association (TRA) statutory contribution stabilizer provision to the later of the two dates on which these occurrences happen, since the events are not guaranteed to occur simultaneously.

- **Amendment S1803-2A** repositions a clause relating to the disposition of DTRFA employees, making it clearer that the subsequent reemployment by TRA is elective with the employee, not the termination of employment by DTRFA.

- **Amendment S1803-3A** includes the Revisor of Statutes in the notification of consolidation approvals so that office is promptly informed whether or not the consolidation legislation is approved or disapproved for purposes of publishing the 2015 Supplement to Minnesota Statutes.

<u>Amendment Requested by TRA and the State Board of Investment</u>

- **Amendment S1803-4A**, which revises the process for the transfer of assets by the Duluth Teachers Retirement Fund Association (DTRFA) to the State Board of Investment for crediting to the Teachers Retirement Association (TRA) fund, was requested by TRA and by the State Board of Investment.

Section-by-Section Summary of S.F. 1803 (Pappas); H.F. 1951 (Murphy, M.)

Sec.	Pg.Ln	Stat. Provision	Plan/Topic	Summary
1	1.21	13.632	Data Privacy	Eliminates DTRFA reference.
2	1.26	122A.18, Subd. 7a	Substitute teaching provision	Eliminates MTRFA and DTRFA references.
3	2.19	353.01, Subd. 2b	PERA Membership	Eliminates DTRFA reference from the membership inclusion provision.
4	5.28	354.05, Subd. 2	TRA Membership	Eliminates Duluth teacher exclusion from the membership inclusion provision.
5	6.29	354.05, Subd. 13	TRA Allowable service credit	Adds service credited by DTRFA before 7/1/2015 to TRA allowable service definition and updates the language usage and style of the provision.
6	8.14	354.42, Subd. 2	TRA Member contribution	Consolidates TRA Basic Program and TRA Coordinated Program member contribution paragraphs and eliminates obsolete percentage specifications.
7	9.4	354.42, Subd. 3	TRA Employer contribution	Eliminates duplicative former MTRFA member employer contribution percentage rates, adds former DTRFA member employer contribution percentage requirement, and updates the language usage and style of the provision.
8	10.1	354.436	TRA Direct state aid	Adds the a $15,047,000 annual appropriation as the DTRFA consolidation state aid amount to the former MTRFA state aid provision in TRA law and revises the TRA state aid expiration provision, setting the expiration date as the October 1 next following the date on which TRA becomes fully funded and when the TRA contribution rates are first subject to a reduction under the statutory contribution rate stabilizer provision.
9	10.21	354.44, Subd. 6	TRA Annuity computation	Adds an appropriate effective date provision for former DTRFA members for the 1.9% per year of service credit benefit accrual rate.
10	13.21	New 354.73	TRA/DTRFA Consolidation	With Section 45, provides for a 7/1/2015 full consolidation of the Duluth Teachers Retirement Fund Association into the Teachers Retirement Association, with a transfer of members, service credit, pension liability, records, and assets on 6/30/2015, or 7/1/2015, as appropriate, clarifies the calculation of pre-7/1/2015 benefits for former DTRFA members and future post-retirement adjustments, and terminates the DTRFA as a retirement fund.
11	14.27	354A.011, Subd. 11	1st class city teachers, Member definition	Removes DTRFA from "coordinated member" definition.
12	15.3	354A.011, Subd. 15a	1st class city teachers, Normal retirement definition	Removes DTRA from "normal retirement age" definition.
13	15.20	354A.011, Subd. 27	1st class city teachers, Teacher definition	Limits "teacher" definition to SPTRFA.
14	16.20	354A.021, Subd. 1	1st class city teachers, Establishment	Eliminates DTRA from authorization.
15	16.28	354A.092	1st class city teachers, Sabbatical leave	Eliminates DTRFA from the provision and updates the language usage and style of the provision.
16	17.23	354A.093, Subd. 1	1st class city teachers, Uniformed leave	Eliminates DTRFA from the provision and updates the language usage and style of the provision.
17	18.1	354A.096	1st class city teachers, Medical leave	Eliminates DTRFA from the provision.
18	18.22	354A.12, Subd. 1	1st class city teachers, Member contributions	Eliminates DTRFA from the provision and updates the language usage and style of the provision.
19	19.15	354A.12, Subd. 2	1st class city teachers, Tax levy disallowed	Eliminates DTRFA from the provision and updates the language usage and style of the provision.
20	19.22	354A.12, Subd. 2a	1st class city teachers, Employer contributions	Eliminates DTRFA from the provision and updates the language usage and style of the provision.
21	20.34	354A.12, Subd. 3a	1st class city teachers, State aid	Eliminates the DTRFA state aid redirected to TRA in Section 8.
22	21.9	354A.31, Subd. 1	1st class city teachers, State aid	Eliminates DTRFA from the provision and updates the language usage and style of the provision.
23	21.17	354A.32, Subd. 1	1st class city teachers, Optional annuity	Eliminates DTRFA from the provision and updates the language usage and style of the provision.
24	21.31	354A.35, Subd. 1	1st class city teachers, Death refund	Eliminates DTRFA from the provision and updates the language usage and style of the provision.
25	22.13	354A.37, Subd. 3	1st class city teachers, Refund amount	Eliminates DTRFA from the provision and updates the language usage and style of the provision.
26	22.21	354A.37, Subd. 4	1st class city teachers, Normal retirement age refund	Eliminates DTRFA from the provision and updates the language usage and style of the provision.

Sec.	Pg.Ln	Stat. Provision	Plan/Topic	Summary
27	22.31	354A.39	1st class city teachers, Retirement annuity portability	Eliminates DTRFA from the provision.
28	23.20	354A.41	1st class city teachers, Administrative provisions	Eliminates DTRFA from the provision, effective 6/30/2015.
29	24.11	354B.21, Subd. 3a	Higher Education IRAP, Coverage election	Replaces DTRFA reference with a reference to the former Duluth Teachers Retirement Fund Association.
30	24.29	355.01, Subd. 2c	Social Security, Duluth teacher definition	Revises a cross-reference for Duluth teachers from the first class city teacher law to TRA law.
31	25.1	356.20, Subd. 2	Annual financial reporting requirement	Eliminates DTRFA from the provision.
32	25.25	356.214, Subd. 1	Consulting actuary retention	Eliminates DTRFA from the provision.
33	27.11	356.215, Subd. 8	Interest and salary actuarial assumptions	Eliminates DTRFA from the provision.
34	32.8	3586.219, Subd. 8	Local pension fund investment reporting	Eliminates DTRFA from the provision and updates the language usage and style of the provision.
35	32.27	356.30, Subd. 3	Combined service annuity	Eliminates DTRFA from the provision.
36	33.17	356.302, Subd. 7	Combined service disability benefit	Eliminates DTRFA from the provision.
37	34.4	356.303, Subd. 4	Combined service survivor benefit	Eliminates DTRFA from the provision.
38	34.27	356.32, Subd. 2	Age 65 proportionate annuity	Eliminates DTRFA from the provision.
39	35.11	356.401, Subd. 3	Exemption from legal process	Eliminates DTRFA from the provision.
40	36.7	356.42, Subd. 3	Special post-retirement adjustments	Eliminates DTRFA from the provision.
41	36.22	356.465, Subd. 3	Supplemental needs trust	Eliminates DTRFA from the provision.
42	37.10	356.47, Subd. 3	Reemployed annuitant earnings limit	Eliminates DTRFA from the provision.
43	38.8	356.99, Subd. 1	Erroneous coverage correction	Eliminates DTRFA from the provision.
44	38.21	423A.02, Subd. 3	Amortization state aid reallocation	Folds the 10% reallocation aid currently payable to DTRFA into the aid payable to TRA and eliminates DTRFA reference.
45	39.9	Uncoded	DTRFA consolidation	Provides, with Section 10, for the retirement plan consolidation, containing all of the temporary/transitional portions of the consolidation. Fiscal Year end 2015 audit services are required to be provided under contract with TRA by the Legislative Auditor's Office and any additional audit services are to be provided by either the State Auditor or the Legislative Auditor as determined by the TRA board.
46	41.11	Uncoded	DTRFA employees	Provides for the post-consolidation employment of the employees, other than the DTRFA executive director, by TRA without the loss of pay rate or employment benefits.
47	42.7	Repealer	--	Repeals the following sections of Minnesota Statutes: – 354A.021, Subd. 5, the tax-sheltered annuity authorization only used by DTRFA – 354A.108, the DTRFA salary credit for Workers Compensation payments provision – 354A.24, the DTRFA Coordinated Programs authorization. – 354A.27, Subd. 5, 6a, and 7, the DTRFA post-retirement adjustment provision – 354A.31, Subd. 4a, the DTRFA normal retirement annuity computation provision
48	42.12	Effective Date	--	Effective June 30, 2015, if the governing body of the DTRFA, the membership of the DTRFA, and the governing body of the TRA approve the legislation before January 1, 2015.

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February 28, 2014

Ms. Laurie Hacking
Executive Director
Teacher Retirement Association of Minnesota
60 Empire Drive, Suite 400
St. Paul, MN 55103

Re: Revised Consolidation Study Results Using 2013 Data

Dear Laurie:

Earlier this month, we prepared a letter, dated February 19, 2014, that updated the financial results of the consolidation study using actual membership data as of July 1, 2013. It recently came to our attention that the normal cost rate in column (3) of Exhibit A is incorrect. This change flows through the calculations and impacts the 2013 Total Required Contribution Rate and the Contribution Deficiency in column (3) as well. <u>All other numbers in Exhibit A are unchanged, including all state aid amounts.</u> This letter, including the revised Exhibit A, should replace the February 19, 2014 letter.

The 2013 Omnibus Pension Bill included a provision which required that a study be completed and a report prepared regarding the consolidation of the Duluth Teachers Retirement Fund Association (DTRFA) and the St. Paul Teachers Retirement Fund Association (SPTRFA) into the Teachers Retirement Association (TRA). The statutory language mandating this consolidation report requires the report to include:

> "… detailed actuarial analysis that will define the financial requirements for consolidating with the Teachers Retirement Association in a manner, consistent with past practice that assures that the assets of the Teachers Retirement Association are protected, that the merging funds are fully funded, and that the Teachers Retirement Association is not subsidizing the merged funds."

In our report dated December 13, 2013, we provided TRA with the evaluation of the actuarial impact of the consolidation of DTRFA and SPTRFA into TRA. At the time the work was performed, the July 1, 2013 actuarial valuations for the three systems had not been prepared, so the July 1, 2012 results were projected to July 1, 2013 using standard actuarial techniques. We first replicated the July 1, 2012 valuations prepared by the DTRFA and SPTRFA actuaries to ensure key results were within a reasonable threshold, and then our software programs were modified to reflect the benefit changes made by the 2013 Minnesota Legislature and the assumption changes for SPTRFA. The preliminary market values of assets as of July 1, 2013 for each system were used in the original consolidation study report. However, the actuarial measurements presented were <u>estimated</u> July 1, 2013 valuation results because the liabilities were projected to that date.

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You recently asked Cavanaugh Macdonald to update the financial results of the consolidation study using the actual July 1, 2013 member data from DTRFA and SPTRFA to directly produce the July 1, 2013 actuarial liabilities and costs. In addition, the July 1, 2013 actuarial valuation results for TRA were also used. The final market values of assets are also reflected in the attached exhibit. Please note that the results in the attached exhibit reflect the TRA benefit structure along with the TRA actuarial assumptions and methods.

Updated July 1, 2013 Consolidation Study Results

The attached exhibit (Exhibit A) shows the results of our calculations under a consolidation scenario where the UAAL of TRA does not increase. The July 1, 2013 valuation results are shown in columns (1) for TRA. Columns (2) and (4) reflect the July 1, 2013 valuation results for DTRFA and SPTRFA using the TRA assumptions, methods, and benefit provisions, including the 2% COLA. Columns (3) and (5) show the results if DTRFA alone or both DTRFA and SPTRFA are consolidated into TRA.

The format of this exhibit is generally the same as the exhibit attached to our letter regarding the consolidation results, dated December 13, 2013. Section 1 summarizes the membership counts used in the actuarial calculations for each of the systems as well as the total following consolidation. These membership counts are as of July 1, 2013 since that is the data upon which this updated study was based.

Subsection (a) of Section 2 shows valuation results as of July 1, 2013, using the market value of assets rather than the actuarial value and ignoring the value of any future State aid contributions. This is similar to the reporting that occurs in the annual valuation report. The present value of future State aid contributions to DTRFA and SPTRFA for the remainder of the amortization period (24 years) are calculated and reported in subsection (b). In addition, for SPTRFA the total employer contribution rate is scheduled to increase and will ultimately reach 10.34% on July 1, 2017. This rate is higher than the employer contribution rate of 7.50% that applies to participating TRA employers (except the Minneapolis School District which will contribute 11.14%, effective July 1, 2014). As a result, the difference in the SPTRFA employer contribution rate of 10.34% and the TRA employer contribution rate of 7.50% was projected to continue over the remaining amortization period and the resulting present value was also treated as a receivable asset for SPTRFA.

Subsection (c) develops the preliminary UAAL for each System and the corresponding funded ratio reflecting the items included in subsection (b). On that basis, a determination is made of the additional amount of state aid that would be required to prevent the UAAL for TRA from increasing as a result of the consolidation. The lump sum amounts, along with the equivalent annual amounts, determined as a level dollar payment over the remaining 24 years in TRA's amortization period, are shown in the following table:

Required Amounts to Prevent an Increase in TRA UAAL ($ thousands)		
	DTRFA	SPTRFA
Total Present Value (Lump sum amount)	$153,825	$495,789
Annual Level Dollar Payment (24 Years)	14,031	45,224

Section 3 includes the required contribution rate for TRA as well as the results under the two consolidated scenarios (columns (3) and (5)). Statutory contribution rates at July 1, 2013 are also shown. Subsection (c) of Section 3 indicates the current contribution deficiency reflecting any contribution increases scheduled to be implemented in the future for TRA along with the resulting deficiency under the two consolidation scenarios, columns (3) and (5).

The results in the exhibit attached to this letter reflect a lump value of additional state aid that is lower than the amounts shown in the original consolidation study for both DTRFA and SPTRFA. The lump sum value of additional State aid for the DTRFA dropped from $161.168 million to $153.825 and the corresponding annual state aid amounts dropped from $14.701 million to $14.031 million. For SPTRFA, the lump sum value of additional State aid was $509.054 million in the original consolidation study and $495.789 million in the updated study. Annual amounts of state aid for SPTRFA were $46.434 million in the original consolidation study and $45.224 million in the updated consolidation study. Although the market value of assets for each system changed slightly, the key differences in the state aid amounts are due to the favorable demographic experience from July 1, 2012 to July 1, 2013 for DTRFA and SPTRFA which resulted in lower actuarial liabilities than estimated in the projected July 1, 2013 results.

Please refer to the original consolidation study document, dated December 13, 2013, for a complete explanation of the items in the exhibit, along with a full disclosure of the plan provisions, actuarial assumptions and actuarial methods used in determining the consolidation results.

We are available to answer any questions on the material contained in this study or to provide explanations or further details upon request. We, Patrice A. Beckham and Brent A. Banister, are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. We also meet the requirements of "approved actuary" under Minnesota Statutes, Section 356.215, Subdivision 1, Paragraph (c).

Sincerely,

Patrice Beckham

Patrice A. Beckham, FSA, EA, FCA, MAAA
Principal and Consulting Actuary

Brent A. Banister, PhD, FSA, EA, FCA, MAAA
Chief Pension Actuary

cc: John Wicklund
Luther Thompson
Jay Stoffel

EXHIBIT A (Revised 2/28/14)

REQUIRING DULUTH AND ST PAUL TO MERGE WITH SUFFICIENT RESOURCES TO BE 100.00% FUNDED

Assumed Return: 8% Select & 8.5% Ultimate

Summary of Actuarial Results of the Consolidation Study
Calculations Use Valuation Results as of July 1, 2013. Amortization Period: 24 Years
(Dollar amounts in thousands)

	(1)	(2)	(3)	(4)	(5)
	TRA Results	DTRFA using TRA benefits and actuarial assumptions	TRA and DTRFA (1) + (2)	SPTRFA using TRA benefits and actuarial assumptions	TRA, DTRFA, and SPTRFA Combined Results
1. Membership (July 1, 2013)					
a. Active members	76,765	873	77,638	4,061	81,699
b. Service Retirees	52,331	1,311	53,642	3,047	56,689
c. Disabilitants	568	19	587	30	617
d. Survivors	4,269	115	4,384	327	4,711
e. Deferred Retirees	12,614	268	12,882	1,788	14,670
f. Nonvested Former	28,881	757	29,638	1,435	31,073
g. TOTAL	175,428	3,343	178,771	10,688	189,459
2. Calculated July 1, 2013 Results					
a.Pre-merger Funded Status					
(1) Actuarial Accrued Liability (AAL)	$23,418,629	$376,371	$23,795,000	$1,591,286	$25,386,286
(2) Market Value of Assets	18,015,194	205,301	18,220,495	933,082	19,153,577
b. Present Value of Current State Aid:					
(1) 2013 Pension Bill (FY 14 and 15 contributions)		11,335	11,335	13,225	24,560
(2) Current Special Direct State Aid*		2,193	2,193	8,496	10,689
(3) Current Amortization State Aid**		3,717	3,717	30,367	34,083
(4) Present value of Employer Contr > 7.50%				110,328	110,328
c. Adjusted July 1, 2013 Results					
(1) Preliminary Unfunded AAL	$5,403,435	$153,825	$5,557,260	$495,789	$6,053,049
(2) Preliminary Funded Ratio	76.93%	59.13%	76.65%	68.84%	76.16%
(3) Target Funded Ratio		100.00%	100.00%	100.00%	100.00%
(4) Lump sum value of New State Aid		$153,825	$153,825	$495,789	$649,614
(5) Unfunded AAL after merger	$5,403,435	$0	$5,403,435	$0	$5,403,435
(6) Funded Ratio after merger	76.93%	100.00%	77.29%	100.00%	78.72%
(7) Years to Contribute New State Aid		24	24	24	24
(8) Annual New State Aid - paid 7/1 - level $		14,031	14,031	45,224	59,255
3. Financing Requirements					
a. 2013 Required Contribution Rate:					
(1) Covered Payroll	$4,205,399	$49,227	$4,254,626	$269,027	$4,523,653
(2) Normal Cost Rate	8.40%		8.41%		8.41%
(3) Administrative Expense	0.23%		0.23%		0.23%
(4) Amortization Payment	8.77%		8.67%		8.15%
(5) Total	17.40%		17.31%		16.79%
b. 2013 Statutory Contribution Rate:					
(1) Employee Contributions	7.00%		7.00%		7.00%
(2) Employer Contributions	7.00%		7.00%		7.00%
(3) Employer Additional Contributions	0.70%		0.69%		0.65%
(4) Total Contributions	14.70%		14.69%		14.65%
c. Sufficiency/(Deficiency)					
(1) Total Requirements	17.40%		17.31%		16.79%
(2) Total Contributions (including future increases)	15.70%		15.69%		15.65%
(3) Sufficiency/(Deficiency)	(1.70)%		(1.62)%		(1.14)%

* Annual amounts: DTRFA: $200,000, SPTRFA: $775,000
** Annual amounts: DTRFA: $346,000, SPTRFA: $2,827,000

Background Information on the
Duluth Teachers Retirement Fund Association

The Duluth Teachers Retirement Fund Association (DTRFA) was created in 1910, under Laws 1909, Chapter 343 (currently Minn. Stat. Ch. 354A). The plan covers teachers employed by Independent School District No. 709, Duluth, and some faculty members at the Lake Superior College.

The initial assets of the plan were invested in municipal bonds. In 1921, DTRFA was partially invested in individual home mortgages made by the plan (the fund discontinued its home mortgage program for members in 1965). The plan did not invest in corporate equities until 1943, when the first stock investments were made.

In 1919, the initial DTRFA retirement annuity formula was established with a benefit accrual rate of 1.42% of the highest ten years' average salary per year of allowable service, with the retirement annuity payable in full at age 55. The normal retirement age was increased from age 55 to age 60 on a phased-in basis between 1948 and 1953.

DTRFA coordinated with Social Security in 1957 on a total plan basis, meaning that all DTRFA members since 1957 have been coordinated program members. Also in 1957, the DTRFA retirement annuity formula was revised with the benefit accrual rate reset from 1.42% of the highest ten years' average salary per year of allowable service to 0.71% of the highest ten years' average salary per year of allowable service. The plan was also modified in 1957 to permit additional member contributions to produce a larger pension benefit.

In 1964, the plan added a tax-sheltered annuity program under Section 403(b) of the Internal Revenue Code and received a qualification determination from the Internal Revenue System.

The plan granted several ad hoc post-retirement adjustments during the period 1966-1981, with a 10% adjustment in 1966, a 9% adjustment in 1968, a 4% adjustment in 1969, a 5% adjustment in 1971, a 9.5% adjustment in 1975, a 3% adjustment in 1976, and an 8.7% adjustment in 1981.

In 1971, the DTRFA retirement annuity formula was again revised, with the benefit accrual rate reset to 1.15% of the highest five years' average salary per year of allowable service and the normal retirement age was set at age 60.

In 1973, the DTRFA tax-sheltered annuity program was expanded with the addition of the Variable Fund for equity investments.

In 1978, DTRFA coverage and Social Security coverage was extended to part-time and hourly Independent School District No. 709 educators.

In 1981, the DTRFA retirement annuity formula was further revised, with the benefit accrual rate reset to 1.25% of the highest five years' average salary per year of allowable service, and the member contribution was increased to 4.5% of covered salary.

In 1983, member contributions to the fund became pre-tax contributions under the federal Internal Revenue Code.

In 1985, member contributions to the fund became pre-tax contributions under state income tax law.

Also in 1985, a DTRFA 13th check post-retirement adjustment mechanism was established, based on investment returns in excess of the post-retirement actuarial interest rate assumption rate and allocated as a particular dollar amount (unit value) per number of years of service credit plus the number of years on retirement. The unit value over time was:

Year	Unit Value	Year	Unit Value
1985	$34	1991	$52
1986	$44	1992	$50
1987	$48	1993	$55
1988	--	1994	$52
1989	$46	1995	$55
1990	$50		

In 1995, the DTRFA 13th check provision was replaced by the same system then used by the Minneapolis Teachers Retirement Fund Association (MTRFA): Annuity payments were increased by 2% annually and benefit recipients could receive an additional investment-related post-retirement adjustment based on the five-year annualized return above 8.5%, with a minor adjustment for the contribution deficiency.

In 1989, the DTRFA retirement annuity was further modified with the creation of two benefit tiers. The first benefit tier included the Rule of 90 early retirement provision, applicable to teachers first employed before July 1, 1989, while the second benefit tier, applicable to those first hired after June 30, 1989 or to those hired before that date if the level benefit approach, with actuarial reduction if retiring early, provided a higher benefit. In 1995, the DTRFA benefit accrual rate was increased by 0.13% of the highest five years' average salary per year of allowable service credit, and the member contribution rate was increased from 4.5% of covered salary to 5.5%. In 1997, the DTRFA benefit accrual rate was increased by 0.07% of the highest five years' average salary, to 1.45% of average salary per year of service credit for the Old Law (pre-1981) plan, 1.20% of average salary for the first ten years of service and 1.70% of average salary for all subsequent years of service for the Tier I (Rule of 90) New Law (post-1981) plan, and 1.70% of average salary for all years of service for the Tier II (Level Benefit) New Law (post-1981) plan.

Also in 1997, direct annual state aid, initially $486,000 annually, was established. This was redirected to the MTRFA and the St. Paul Teachers Retirement Fund Association (SPTRFA) in 2001, when the DTRFA became fully funded. In 2003 the DTRFA funding ratio fell below 100%, and in 2008, aid was restarted to the DTRFA.

In 2002, coverage for teachers in charter schools located in Duluth was changed from DTRFA to the statewide Teachers Retirement Association (TRA).

In 2010, post-retirement adjustment procedures were again revised. The procedure adopted in 1995 was replaced with a procedure consisting of a transitional system followed by a move to an inflation match not to exceed 5%, after funding ratios improve considerably. Under the transition method, no increase is provided to DTRFA pensioners (retirees, disabilitants, and survivors) if the funding ratio, based on comparison of the market value of assets compared to accrued liability, is less than 80%. A 1% increase will be paid if the market-value funding ratio is at least 80% but less than 90%, and a 2% increase will be paid if the ratio is at least 90%. Also, when the funding ratio, when actuarial asset value rather than market is used, is at least 90%, the transition method ends and a new system is put in place which will match inflation up to 5%. However, if the funding ratio based on actuarial value falls below 80%, no increase will be paid. Also in 2010, numerous changes were made to the DTRFA to address its deteriorating financial condition. These changes included increasing the employee and employer contribution rates by 0.5% each, revising post-retirement adjustment procedures as described earlier, increasing vesting from three years to five years, reducing the refund interest rate from 6% to 4%, reducing the deferred annuities augmentation rate to 2%, and eliminating interest payments on reemployed annuitant savings accounts.

In 2011, the 2010 vesting requirement change was made applicable to all DTRFA benefits and benefit programs.

In 2012, the DTRFA member and employer contribution rates were increased, the Duluth School District was required to make full employer contributions on the salaries paid to reemployed DTRFA annuitants, the DTRFA deferral of annuity amounts in excess of the reemployed annuitant earnings limits was eliminated in favor of forfeiture after June 30, 2013, the DTRFA early retirement reduction rate for ages under age 62 was increased beyond the full actuarial value requirement and was reduced below the full actuarial value requirement for ages in excess of age 61, additional state aid for DTRFA was appropriated for Fiscal Years 2014 and 2015, and the 2010 DTRFA post-retirement adjustment changes were modified to permit future 1% annual post-retirement adjustments.

In 2013, the DTRFA member and employer contribution rates were increased to match the Teachers Retirement Association (TRA) member and employer contribution rates, the Duluth School District was required to make employer contributions on reemployed DTRFA annuitants, a one-percent annual post-retirement adjustment was provided until the plan becomes 90% funded, future retirement annuity amounts withheld because reemployed DTRFA annuitant earnings limitations are exceeded are shifted from deferred to forfeited, full actuarial early retirement reduct5ion factors were made less severe, and $7 million in additional state aid for the 2014 and 2015 fiscal years was appropriated.

The DTRFA is managed by a governing board of nine members, including one school board representative, one designee of the school district superintendent, five active member-elected representatives, and two retired member-elected representatives. In addition to maintaining member records and determining benefit eligibility and amounts, the DTRFA governing board is the investment authority for the assets of the retirement fund.

Background Information on the
Teachers Retirement Association

The Teachers Retirement Association (TRA) was created in 1931 (Laws 1931, Ch. 406), to replace an earlier statewide teacher retirement program, the Teachers Insurance and Retirement Fund, that was created in 1915 and that was dissolved after it defaulted on benefit payments. Initially, TRA provided a money purchase retirement annuity as its only retirement benefit. A money purchase benefit is a defined contribution benefit, meaning that the benefit is determined by the amount of contributions that were accumulated and the investment income earned on those amassed contributions. The other two statewide pension plans, the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) and the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) were defined benefit plans from their inceptions, 1929 and 1931 respectively. Defined benefit plans provide a benefit based on a formula with each year of service producing an increment of the total benefit, typically based on a percentage of covered salary.

After the 1915 Law Teacher Insurance and Retirement Fund defaulted on benefit payments during the Great Depression, and when it was replaced in 1935 by TRA, optional memberships in the form of exemptions were enacted. Participants in the defunct 1915 Law Teacher Insurance and Retirement Fund were allowed to elect to be permanently exempt from TRA coverage. Newly hired teachers after 1931 who were under age 25 were also allowed to elect to be exempt from TRA coverage until reaching age 25. The permanent exempt status and the limited exempt status provisions of TRA were altered in 1957, with the elimination of the limited exempt status authority.

During its early history, TRA was not coordinated with Social Security. In 1957, a TRA Social Security referendum was held on an all-or-nothing basis and was rejected by the TRA membership, except for state college faculty which voted as a separate unit. In 1959, federal law was revised to allow individual Social Security elections, permitting those who wanted Social Security coverage to have that coverage, while those existing TRA members who did not want that coverage remained as TRA Basic members. Following that federal law change, a second TRA Social Security election was conducted in 1959, which led to the creation of the separate Basic programs and Coordinated program, with the TRA Coordinated Plan covering all new hires and existing employees who elected the Social Security coverage.

The 1957 Legislature (Extra Sess. Laws 1957, Ch. 15) revised TRA law to create a new plan which had the effect of providing coverage to post-1959 new hires and for existing TRA members who elected Social Security coverage under the 1959 election as the TRA Coordinated Money Purchase Plan.

The resulting TRA Basic and Coordinated Plans were money purchase plans. There were improvements in these money purchase plans through 1968, but by 1969, the general approach was deemed inadequate, and the Legislature revised TRA by creating other benefit options for TRA members. The employee contribution rate to the 1957 TRA Coordinated money Purchase Plan was set at 3% of salary, up to a maximum salary of $4,800. The employer provided a matching contribution, plus a separate amortization contribution. The retirement benefit was the account value at the time of retirement of all contributions credited to the account plus investment earnings, given the rate of return on TRA assets. This value was then annuitized and paid to the individual in monthly checks throughout the individual’s retirement. The contributions included the member contributions made or credited to the account during the individual’s TRA-covered career (including those prior to July 1, 1957), plus the employer contributions made after the Social Security effective date. Each account was also credited with a portion of any gains created due to the lesser disability or survivor benefits provided under new TRA Coordinated law, since Social Security was now expected to provide some income to TRA disabilitants or survivors.

A savings clause specified that any TRA member who had at least ten years of covered TRA service by July 1, 1957, was entitled to a total benefit at least as large as that provided under prior law. If the total benefit provided by the new TRA Coordinated money purchase program plus the Social Security benefit payment was less than the benefit the individual would have received under prior TRA law, TRA had to increase the TRA benefit payment.

In addition to the employer contribution mentioned above, the employer also made employer additional contributions to amortize any unfunded liability in TRA. Unfunded liability would not exist in a pure defined contribution plan, but the money purchase plan was not a pure defined contribution plan. The cost of providing the savings clause may have been one source of unfunded liability. Disability benefit provisions were another. The new plan promised to pay a disability benefit of $90 per month in addition to a disability benefit based on the individual’s account value. Other miscellaneous benefits not based on account values might also create unfunded liability.

The revised TRA Basic member money purchase plan, coinciding with the creation of the Coordinated Plan just described, was specified in Extra Session Laws 1957, Chapter 16. The employee contribution rate was 6% of salary, not to exceed a salary of $4,800. The employer contribution was 3% until June 30, 1959, and 6% thereafter, plus an amortization requirement. The benefit amount was set at twice the terminal value of the employee contributions plus investment earnings.

Several changes occurred in the TRA money purchase plan since 1957. Key changes were that the $4,800 salary cap on contributions had been removed, and teachers were authorized to make retroactive contributions to the plan based on these excess salary amounts back to 1957. In addition, for purposes of crediting employee contributions to the account, any employee contributions for service after July 1, 1957, plus investment earnings on those contributions were multiplied by 120% prior to computing the account's value for purposes of computing the annuity. For basic members, the annuity value continued to be described in law as twice the terminal value of the employee contributions plus investment earnings, but "employee contributions" had in effect been redefined to include the retroactive payments on salary in excess of $4,800, and the effect of multiplying the post-June 30, 1957, employee contributions plus investment earnings by 120%. Multiplying the post-June 30, 1957, employee contributions plus attributed investment earnings by 120% in the Basic and Coordinated Money Purchase Plans, and the retroactive excess salary payments, added unfunded liability to TRA. In addition, various supplemental benefits had been created for both coordinated members and basic members, with special provisions for higher education faculty, further adding to the TRA unfunded liability. The June 30, 1967, TRA actuarial valuation indicates that TRA's funding ratio was 72%.

In 1969, in response to complaints from the teacher unions and others about the inadequacy of TRA retirement benefits, the Legislature created three alternative benefit programs. These alternative benefit programs were the Improved Money Purchase Program, to replace the prior money purchase program, the Career Average Salary Formula Program, to parallel the MSRS-General and PERA defined benefit plans, and the Variable Annuity Program, another defined contribution program that was invested wholly in equity (stock) investments.

TRA members (both basic and coordinated) who rendered service during the 1968-69 school year and any member who had at least 20 years of service credit as of July 1, 1969, were allowed to elect coverage by one of the above programs or a combination of these programs. The Improved Money Purchase Program was the default option. Teachers in this eligibility group were instructed to complete the election form only if they wished to have coverage other than the Improved Money Purchase Program. The options were as follows:

a. <u>Improved Money Purchase Program</u>. Teachers in this group would be covered by this option unless they elected other options as specified below.

b. <u>Career Average Salary Formula Program</u>.

c. <u>Variable Annuity Program</u>. This option was open to coordinated members only.

d. <u>Combined Improved Money Purchase Program and Variable Annuity Program</u>. Under this option, the employee and employer contributions would be divided between these two defined contribution programs. Four-sevenths of the contributions were placed in the Improved Money Purchase Program, and the remaining contributions were directed to the Variable Annuity Program.

e. <u>Combination Career Average Salary Formula Program and Variable Annuity Program</u>. This option combined a defined contribution program and a defined benefit program, with four-sevenths of the contributions going to the formula program and the remainder to the Variable Annuity Program.

Because TRA coordinated with Social Security on an individual basis in 1959, all new TRA hires after that date were coordinated members. The legislative changes in 1969 created somewhat different options for the post-1969 hires than for existing employees. The Improved Money Purchase Program was closed to post 1969 hires. The default option for the post 1969 hires was the Career Average Salary Formula Program. These hires were asked to complete an election form only if they wished to have some other available option. The available options for this group were as follows:

a. <u>Career Average Salary Formula Program</u>. This defined benefit plan was the default option.

b. <u>Variable Annuity Program</u>.

c. <u>Combination Career Average Salary Formula Program and Variable Annuity Program</u>. This option combined a defined contribution program invested entirely in stock with a defined benefit program, with four-sevenths of the contributions going to the formula program and the remainder to the Variable Annuity Program.

In 1973, the TRA Formula Program had the basis for its retirement annuity calculations changed from a career average salary to a highest five consecutive years' average salary, with a simplification of its benefit accrual rates and a rate increase. TRA members previously covered under the IMP Program and who performed teaching service after June 30, 1972, were transferred to the High-Five Formula Program as of July 1, 1973. These transferred members retained rights, under a savings clause, to an IMP Program benefit calculation if that produced a larger benefit. This Improved Money Purchase Program savings clause applies only to TRA members who taught during the 1968-1969 school year or were on an approved leave of absence.

In 1987, the TRA vesting requirement was reduced from 10 years to five years. In 1989, TRA was included in major benefit increases, primarily the creation of the Rule of 90 benefit tier, and the vesting requirement was reduced from five years until three years. In 1994, the TRA benefit accrual rate was increased based wholly on an additional member contribution. In 1997, as part of “uniformity” legislation, similar benefit accrual rate increases and other benefit increases were extended to other general employee retirement plans. In 2006, when the MTRFA was consolidated into TRA, the TRA benefit accrual rates were increased by 0.2% for each year of post-2006 service credit.

In 2010, in conjunction with downsizings that were enacted for the other statewide retirement plans:

- The TRA member and employer contribution rates were increased;
- The scheduled TRA post-retirement adjustments were suspended for two years and thereafter reduced by 0.5% until the plan is at least 90% funded on a market value of assets basis;
- The TRA interest rate on contributions was reduced by 2.0% after June 30, 2011;
- The TRA deferred annuities augmentation was reduced in all cases to 2.0% annually after June 30, 2012; and
- The TRA reemployed annuitant earnings limitation deferral account interest was eliminated after January 1, 2011.

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Background Information on
Minnesota Pension Plan Consolidations

Minnesota, with the second-largest number of public employee retirement plans of the 50 states, has considerable experience in consolidating public pension plans and funds.

Consolidations have been legislative authorized or mandated for a number of expressed or apparent reasons, including as a means to avoid a pension fund default, as a mechanism for achieving more consistent and professional plan administration, as a means to equalize or standardize retirement benefit levels, as a mechanism for improving investment returns, and as a means to improve and rationalize the public pension structure and public pension plan oversight.

The consolidations and the year that the applicable legislation was enacted are as follows:

- Attorney General/State Auditor Plans consolidated into the Constitutional Officers Retirement Plan (1967)
- Game Wardens Retirement Plan/State Police Retirement Plan consolidated into the Highway Patrolmen Retirement Plan/State Patrol Retirement Plan (1969)
- Various judicial retirement plans consolidated into the Uniform Judges Retirement Plan (1973 and 1978)
- St. Paul Bureau of Health Relief Association consolidated into the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) (1973)
- Fridley Paid Firefighters Relief Association consolidated into the Public Employees Police and Fire Retirement Plan (PERA-P&F) (1973)
- Cloquet Firefighters Relief Association consolidated into PERA-P&F (1973)
- Eveleth paid firefighter and police relief associations active memberships consolidated into PERA-P&F (1977)
- Metropolitan Transit Commission-Transit Operating Division Retirement Plan consolidated into the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) (1978)
- Thief River Falls Police Relief Association Active Membership consolidated into PERA-P&F (1978)
- Brooklyn Center Police Relief Association consolidated into PERA-P&F (1978)
- University of Minnesota Police Retirement Plan consolidated into PERA-P&F (1978)
- Minneapolis Employees Retirement Fund (MERF) Coordinated Program consolidated into PERA-General (1979)
- Moorhead Firefighters Relief Association and the Moorhead Police Relief Association consolidated into PERA-P&F (1985)
- 1987 consolidation legislation; consolidation under general law procedures. Given past consolidations of local police and fire relief associations into PERA P&F under plan-specific legislation, and the interest of other relief associations in pursuing consolidations into the statewide plan, the 1987 Legislature passed a procedure permitting an administrative consolidation with PERA-P&F (Minn. Stat. Ch. 353A). Under that legislation, 44 local police and paid firefighters relief associations chose to consolidate with PERA-P&F. Under the 1987 legislation, an account was created for each consolidating relief association containing its assets and liabilities.

  The relief associations and the year in which the consolidation occurred were:

Consolidation Account	Year	Consolidation Account	Year	Consolidation Account	Year
Buhl Police	1987	St. Louis Park Fire	1989	Winona Police	1990
Duluth Police	1987	Winona Fire	1989	Albert Lea Police	1991
West St. Paul Police	1988	Chisholm Fire	1990	Faribault Fire	1991
Anoka Police	1989	Chisholm Police	1990	Richfield Police	1991
Hibbing Fire	1989	Crookston Fire	1990	Crystal Police	1992
Hibbing Police	1989	Mankato Fire	1990	Duluth Fire	1992
Red Wing Fire	1989	Red Wing Police	1990	St. Paul Fire	1992
Rochester Police	1989	Rochester Fire	1990	Albert Lea Fire	1993
St. Cloud Fire	1989	St. Louis Park Police	1990	Austin Police	1993

Consolidation Account	Year	Consolidation Account	Year	Consolidation Account	Year
Bloomington Police	1993	St. Paul Police	1994	Richfield Fire	1997
Fridley Police	1993	South St. Paul Fire	1994	South St. Paul Police	1997
West St. Paul Police	1993	Brainerd Police	1996	Austin Fire	1998
Columbia Heights Fire	1994	Faribault Police	1996	Crookston Police	1998
Columbia Heights Police	1994	Virginia Police	1996	St. Cloud Police	1998
New Ulm Police	1994	Mankato Police	1997		

In 1999, legislation was passed formally merging these consolidation accounts into PERA-P&F proper unless the applicable municipality elected otherwise, which none did.

- Minneapolis Teachers Retirement Fund Association (MTRFA) consolidated into the Teachers Retirement Association (TRA) (2006)
- Minneapolis Employees Retirement Fund (MERF) administrative consolidation into PERA (2010)
- Minneapolis Firefighters and Minneapolis Police relief associations consolidation into PERA-P&F
- Virginia Fire Department Consolidation Account merged into PERA-P&F (2011, 2012)
- Fairmont Police Relief Association consolidated into PERA-P&F (2012)

Background Information on the
2006 Minneapolis Teachers/Teachers Retirement Association
Consolidation and the MTRFA Liquidating Trust

a. Laws 2006, Chapter 277, Article 3: MTRFA Consolidation into TRA. In 2006, the former Minneapolis Teachers Retirement Fund Association (MTRFA) was consolidated into the Teachers Retirement Association (TRA).

- The TRA definition of "teacher" for pension plan purposes was revised to include Minneapolis public school teachers and the TRA definition of allowable service credit was revised to include service provided by Minneapolis teachers which was credited as allowable MTRFA service prior to the merger of the MTRFA into TRA on July 1, 2006.

- Starting July 1, 2006, the employee contribution rate for coordinated TRA members was increased to 5.5% of pay. Any basic members who enter TRA from the MTRFA had their member contribution rate increased to 9.0% of pay. For Special School District No. 1, Minneapolis, after July 1, 2007, the employer contribution rates increased to 5.5% for coordinated members and 9.5% for basic members. In addition, Special School District No. 1, Minneapolis, shall continue to pay an employer additional contribution of 3.64% of pay on behalf of both coordinated and basic members. For employing units other than Special School District No. 1, after June 30, 2007, the employer contribution rate increased from 5.0% of pay to 5.5% of pay on behalf of coordinated members and from 9.0 to 9.5% on behalf of basic members.

- For coordinated TRA members, including those transferred into TRA from MTRFA, the accrual rate used to compute the high-five annuity was increased for service provided after June 30, 2006, from 1.2% to 1.4% for each of the first ten years of service and from 1.7 to 1.9% for each year thereafter. If a level benefit computation is applicable for a coordinated member, the rate used for post June 30, 2006 service was increased from 1.7% to 1.9%. There is no change in the formula for computing basic member benefits. Any basic member who was an MTRFA basic member on June 30, 2006, continued to have the person's annuity computed under the annuity formula specified in the MTRFA articles of incorporation.

- All active, inactive, and retired MTRFA members were transferred to TRA as of July 1, 2006, along with all records, service credit, and liabilities. Any newly hired Minneapolis teacher after June 30, 2006, also became a TRA member.

- On or before June 30, 2006, all MTRFA retirement fund assets were required to be transferred to TRA and are invested by the State Board of Investment although the MTRFA board of trustees established a liquidating trust prior to the consolidation and deposited in that trust a portion of MTRFA assets. MTRFA ceased to exist on June 30, 2006.

- On behalf of MTRFA retired members or other benefit recipients of that organization, the TRA transferred to the State Board of Investment Post Fund assets consistent with the funding ratio of the Post Fund, leaving the funding ratio of Post Fund assets to be unchanged by the transfer.

- The benefits of all retired, disabled, deferred or inactive members of the former MTRFA were required to be computed as specified under applicable law, bylaw, or articles of incorporation in effect when the former MTRFA member terminated service.

- All post-retirement adjustments paid to former MTRFA members after December 31, 2006, were those under the State Board of Investment Post Fund rather than under any prior MTRFA procedure.

- TRA became the successor in interest to all claims against the MTRFA, except that TRA is not liable for any breach of fiduciary duty where the acts constituting the claimed breach were not done in good faith.

- A special audit of the MTRFA as of June 30, 2006, was performed by the State Auditor.

- TRA's full funding date was reset to June 30, 2037.

- MTRFA employees were made TRA employees until December 31, 2007, and were appointed without examination at their current hourly rate and have employment benefits comparable to other TRA employees.

- Because of the merger of MTRFA into TRA, the provisions in the first class city teacher plan chapter and elsewhere relating to the normal retirement age definition, the teacher definition, the pension plan establishment provision, the sabbatical leave provision, the military leave/break in service, the parental and maternity leave provision, the medical leave, the employee contribution rate provision, the retirement contribution levy prohibition, the employer contribution rate provision, the supplemental administrative expense assessment, the coordinated program establishment provision, the coordinated program annuity computation provision, the optional annuity forms provision, the service-in-more-than-one-fund provision, the annuity computation for combined coordinated/basic service provision, the coordinated program administration provision, the financial reporting provision governing Minnesota public plans, the joint actuary retention provision, the economic actuarial assumption provision, the combined service annuity provision, the combined service disability provision, the combined service survivor provision, the pre-1973 retiree increase provision, and the supplemental needs trust provision were revised to move any reference to the MTRFA.

- The MTRFA bylaws were repealed, except that the bylaws must be used for computing the benefits applicable to former basic MTRFA members.

- The MTRFA union business agent provision, the MTRFA purchase of out-of-state teaching service, the MTRFA basic program establishment provision, and the MTRFA post-retirement adjustment provision, were repealed.

From the actuarial estimates prepared by the jointly retained consulting actuary, The Segal Company, the consolidation of the MTRFA into the TRA, the increase in the TRA benefit accrual rate, the increase in the TRA amortization period, and the contribution rate increases had the following actuarial impact on TRA, based on the July 1, 2005, TRA actuarial valuation:

	7/1/2005 Actuarial Condition of TRA		MTRFA Consolidation		MTRFA Under TRA Actuarial Assumptions*	TRA Benefit Increase*	30-Year Amortization Period	2006 Projected Condition of TRA		2006 Actual TRA Actuarial Results	
Membership											
Active Members		74,552		4,756	--	--	--		79,308		79,164
Service Retirees		35,779		3,537	--	--	--		39,316		41,009
Disabilitants		581		25	--	--	--		606		630
Survivors		2,597		277	--	--	--		2,874		3,044
Deferred Retirees		9,880		1,377	--	--	--		11,257		11,773
Nonvested Former		19,151		3,604	--	--	--		22,755		21,956
Total Membership		142,540		13,576	--	--	--		156,116		157,576
Funded Status	%	$	%	$	$	$	$	%	$	%	$
Accrued Liability		18,021,410,061		1,755,912,975	90,507,852	82,359,973	--		19,950,190,861		20,679,110,879
Current Assets		17,752,917,313		783,354,138	0	0	--		18,536,271,451		19,035,611,839
Unfund. Accr. Liability		268,492,748		972,558,837	90,507,852	82,359,973	--		1,413,919,410		1,643,499,040
Funding Ratio	98.51		44.61					92.91		92.05	
Financing Requirements											
Covered Payroll		3,389,066,754		231,208,456	--	--	--		3,620,275,210		3,707,900,584
Benefits Payable		1,048,440,524		123,031,355	--	--	--		1,171,471,879		1,224,212,024
Normal Cost	8.02	271,801,325	9.51	21,981,273	--	42,902,997	--	9.30	336,685,595	9.43	349,678,399
Administrative Exp.	0.34	11,522,827	0.29	670,505	--	--	--	0.34	12,193,332	0.33	12,236,072
Amortization	0.69	23,384,561	36.50	84,391,086	7,853,547	7,173,200	(43,518,367)	2.19	79,284,027	2.34	86,764,874
Total Requirements	9.05	306,708,713	46.30	107,042,864	7,853,547	50,076,197	(43,518,367)	11.83	428,162,954	12.10	448,679,345
Employee Contrib.	5.00	169,453,338	5.74	13,266,140	--	18,101,376	--	5.52	199,839,191	5.51	204,456,479
Employer Contrib.	5.00	169,453,338	8.46	19,553,269	--	19,257,148	--	5.72	207,079,742	5.23	193,832,020
Employer Add'l Cont.	0.00	0	0.00	0	--	--	--	0.00	0	0.00	0
Direct State Funding	0.00	0	7.70	17,814,000	--	--	--	0.49	17,814,000	0.51	18,819,111
Other Govt. Funding	0.00	0	1.08	2,500,000	--	--	--	0.07	2,500,000	0.07	2,500,000
Admin. Assessment	0.00	0	0.00	0	--	--	--	0.00	0	0.00	0
Total Contributions	10.00	338,906,676	22.99	53,133,409	--	37,358,524	--	11.80	427,232,933	11.31	419,607,609
Total Requirements	9.05	306,708,713	46.30	107,042,864	7,853,547	50,076,197	(43,518,367)	11.83	428,162,954	12.10	448,679,345
Total Contributions	10.00	338,906,676	22.99	53,133,409	--	37,358,524	--	11.80	427,232,933	11.31	419,607,609
Deficiency (Surplus)	(0.95)	(32,197,963)	23.31	53,909,455	7,853,547	87,434,721	(43,518,367)	0.03	930,021	0.79	29,071,736

* *The Segal actuarial cost estimate did not allocate the impact of the benefit increase or the actuarial assumption change clearly, so the allocation was estimated by the Commission staff. The allocation is an approximation, but the total combined impact reflects the Segal estimate.*

b. <u>2006 MTRFA Liquidating Trust Preceding TRA Consolidation</u>. Although not provided for in Laws 2006, Chapter 277, Article 3, the Minneapolis Teachers Retirement Fund Association (MTRFA)/ Teachers Retirement Association (TRA) consolidation legislation, on May 8, 2006, the MTRFA board authorized the creation of a liquidating trust at a special meeting held for that purpose, with the liquidating trust agreement executed on behalf of MTRFA as grantor on May 18, 2006, and with the liquidating trust agreement executed on behalf of the trust by its trustee, Harry Haynesworth IV, on May 22, 2006. On May 26, 2006, MTRFA transferred $1.532 million to the liquidating trust, based on an estimate of the trust requirements prepared by a third party advisor.

Liquidating trusts are primarily creased for the purpose of liquidating and distributing the assets of a failing or troubled corporation, partnership, or other business entity by holding title to some of the entity's assets while waiting for some business-related contingency to be resolved. The contingencies that frequently give rise to the creation of a liquidating trust would be the settlement of third part contract or tort claims or the disposition of hard to sell property or assets. Liquidating trusts are a staple tool of federal and state tax practice in corporate dissolution and are used by a troubled business to avoid the tax burden that would otherwise be borne by the business.

The MTRFA liquidating trust was funded from the MTRFA special retirement fund and had three sets of beneficiaries, with the initial beneficiaries being the MTRFA board of trustees and the MTRFA executive director, with the secondary beneficiaries being any MTRFA creditors, and with the tertiary beneficiary being TRA. The MTRFA liquidating trust agreement specified potential liabilities and obligations that MTRFA may lack assets to cover, which were:

- Contracts and expenses to conduct a membership election to authorize MTRFA's transfer of assets to TRA;
- Indemnification of the fiduciaries for past, present, and future obligations;
- Premiums for fiduciary liability "tail coverage";
- Any contracts, debts, obligations, or liabilities to third parties;
- General and administrative operating expenses and costs of the liquidating trust;
- Severance obligations to employees;
- Amounts due to the executive director under her employment contract;
- Liquidating trust trustee fees and costs;
- Professional fees and costs incurred prior to, and subsequent to, consolidation; and
- A reasonable additional amount for unanticipated fees, costs, and expenses.

The MTRFA liquidating trust trustee was empowered with sole and absolute discretion in deciding which claims and obligations may be paid and what indemnification against claims would be provided to the MTRFA board of trustee members and the MTRFA executive director.

On June 19, 2006, MTRFA, the MTRFA board of trustees, the MTRFA executive director, the MTRFA liquidating trust, and the MTRFA liquidating trust trustee initiated a declaratory judgment action in Hennepin County District Court against TRA and the State Attorney General for a ruling that the liquidating trust was lawfully established, that MTRFA took lawful actions under the Minnesota Nonprofit Corporation Act, and that TRA must indemnify the MTRFA board of trustees and the MTRFA executive director under the Minnesota Nonprofit Corporation Act. The TRA counterclaimed and sought a temporary restraining order again the MTRFA liquidating trust, which was denied by district court judge Harry Crump on June 26, 2006. TRA's motion that the venue of the action be transferred to the Ramsey County District Court under Minnesota Statutes, Section 354.07, Subdivision 3, was also denied by Judge Crump.

In a special accounting report required by the MTRFA/TRA consolidation law, the State Auditor's Office determined seven items of legal noncompliance with respect to the MTRFA liquidating trust, which were:

1. The creation of the MTRFA liquidating trust constituted an illegal diversion of money from the MTRFA special retirement fund;

2. The placement of MTRFA pension plan assets with a third-party trustee violated the applicable legal title to assets provision of the Minnesota Public Pension Plan Fiduciary Responsibility law;

3. The creation of the MTRFA liquidating trust constituted a violation of the Minnesota public pension plan exclusive membership benefit law;

4. The transfer of MTRFA assets to the liquidating trust constituted a violation of the prohibited transaction under the Minnesota Public Pension Plan Fiduciary Responsibility law;

5. The failure to transfer full MTRFA assets to TRA violated the MTRFA/TRA consolidation law;

6. The MTRFA liquidating trust agreement was an illegal attempt to perpetuate the MTRFA beyond its consolidation into TRA; and

7. The empowerment of the MTRFA liquidating trust trustee to pay lawful obligations of MTRFA as he determines them contravenes TRA's status as the successor in interest of MTRFA under the MTRFA/TRA consolidation law.

The State Auditor's Office also determined that 90.2% of the assets transferred by MTRFA to the MTRFA liquidating trust were administrative expenses that had been paid by MTRFA prior to the creation of the MTRFA liquidating trust, that had been specifically assumed by TRA or that had been paid by TRA. The only administrative expenses payable by the MTRFA liquidating trust that were not previously paid or assumed by TRA as determined by the office of the State Auditor were the MTRFA liquidating trust attorney fees and trustee fees, which were expenses that would not have been incurred without the creation of a liquidating trust.

Eventually, the MTRFA liquidating trust was dissolved and its assets were transferred to TRA, although neither the 2006 Comprehensive Annual Financial Report or the 2007 TRA Comprehensive Annual Financial Report specifically accounts for the assets that MTRFA deposited in the liquidating trust on the eve of the passage of the MTRFA/TRA consolidation legislation in 2006 or indicates the ultimate disposition of the former MTRFA liquidating trust.

Background Information on Minnesota Teacher Plans, History of Funding and Funded Condition, 2008-2013

	DTRFA FY2013		SPTRFA FY2013		TRA FY2013	
Membership						
Active Members		873		4,061		76,765
Service Retirees		1,311		3,047		52,331
Disabilitants		19		30		568
Survivors		115		327		4,269
Deferred Retirees		268		1,788		12,614
Nonvested Former Members		757		1,435		28,881
Total Membership		3,343		10,688		175,428
Funded Status						
Accrued Liability		$352,143,396		$1,467,350,000		$23,418,629,000
Current Assets		$190,116,720		$886,296,000		$16,774,626,000
Unfunded Accrued Liability		$162,026,676		$581,054,000		$6,644,003,000
Funding Ratio	53.99%		60.40%		71.63%	
Financing Requirements						
Covered Payroll		$49,019,537		$270,395,000		$4,205,399,000
Benefits Payable		$25,430,230		$103,238,000		$1,521,477,000
Normal Cost	7.75%	$3,799,107	7.83%	$21,168,000	8.40%	$353,335,000
Administrative Expenses	1.05%	$514,705	0.29%	$784,000	0.23%	$9,672,000
Amortization	21.74%	$10,656,847	14.01%	$37,882,000	10.78%	$453,342,000
Total Requirements	30.54%	$14,970,659	22.13%	$59,834,000	19.41%	$816,349,000
Employee Contributions	7.00%	$3,431,368	6.27%	$16,947,000	7.00%	$294,416,000
Employer Contributions	7.29%	$3,573,524	9.11%	$24,641,000	7.19%	$302,454,000
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	13.37%	$6,555,402	3.94%	$10,665,000	0.47%	$19,954,000
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	27.66%	$13,560,294	19.33%	$52,253,000	14.67%	$616,824,000
Total Requirements	30.54%	$14,970,659	22.13%	$59,834,000	19.41%	$816,349,000
Total Contributions	27.66%	$13,560,294	19.33%	$52,253,000	14.67%	$616,824,000
Deficiency (Surplus)	2.88%	$1,410,365	2.80%	$7,581,000	4.74%	$199,525,000

	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	0.06%	$2,500,000
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

	DTRFA FY2011		SPTRFA FY2011		TRA FY2011	
Membership						
Active Members		1,006		3,578		76,755
Service Retirees		1,216		2,864		49,079
Disabilitants		19		29		602
Survivors		109		319		3,856
Deferred Retirees		290		1,880		13,237
Nonvested Former Members		735		1,698		25,196
Total Membership		3,375		10,368		168,725
Funded Status						
Accrued Liability		$321,065,000		$1,389,875,000		$22,171,493,000
Current Assets		$235,071,975		$972,718,000		$17,132,383,000
Unfunded Accrued Liability		$85,993,025		$417,157,000		$5,039,110,000
Funding Ratio	73.22%		69.99%		77.27%	
Financing Requirements						
Covered Payroll		$54,279,300		$239,501,000		$4,106,922,000
Benefits Payable		$24,067,915		$97,287,000		$1,459,550,000
Normal Cost	6.08%	$3,298,919	7.59%	$18,165,000	8.17%	$335,649,000
Administrative Expenses	0.89%	$483,086	0.29%	$694,000	0.24%	$9,857,000
Amortization	10.27%	$5,574,484	10.49%	$25,124,000	8.16%	$335,125,000
Total Requirements	17.24%	$9,356,489	18.37%	$43,983,000	16.57%	$680,631,000
Employee Contributions	6.00%	$3,256,758	5.78%	$13,838,000	6.00%	$246,490,000
Employer Contributions	6.29%	$3,414,168	8.63%	$20,661,000	6.16%	$252,854,000
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	1.21%	$658,535	1.69%	$4,057,000	0.53%	$21,510,000
Other Govt. Funding	0.00%	$0	0.00%	$0	0.06%	$2,500,000
Administrative Assessment	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	13.50%	$7,329,461	16.10%	$38,556,000	12.69%	$520,854,000
Total Requirements	17.24%	$9,356,489	18.37%	$43,983,000	16.57%	$680,631,000
Total Contributions	13.50%	$7,329,461	16.10%	$38,556,000	12.69%	$520,854,000
Deficiency (Surplus)	3.73%	$2,027,028	2.27%	$5,427,000	3.88%	$159,777,000

	DTRFA FY2010		SPTRFA FY2010		TRA FY2010	
Membership						
Active Members		1,054		3,837		77,356
Service Retirees		1,171		2,721		47,517
Disabilitants		19		23		654
Survivors		105		300		3,682
Deferred Retirees		301		1,863		12,756
Nonvested Former Members		721		1,419		23,651
Total Membership		3,371		10,163		165,616
Funded Status						
Accrued Liability		$312,649,572		$1,471,630,000		$22,081,634,000
Current Assets		$255,308,913		$1,001,444,000		$17,323,146,000
Unfunded Accrued Liability		$57,340,659		$470,186,000		$4,758,488,000
Funding Ratio	81.66%		68.05%		78.45%	
Financing Requirements						
Covered Payroll		$56,152,078		$250,225,000		$4,047,547,000
Benefits Payable		$23,596,191		$95,300,000		$1,421,382,000
Normal Cost	5.85%	$3,287,998	8.28%	$20,735,000	8.36%	$338,474,000
Administrative Expenses	0.91%	$510,984	0.24%	$601,000	0.24%	$9,714,000
Amortization	6.46%	$3,627,424	11.32%	$28,325,000	7.11%	$287,781,000
Total Requirements	13.22%	$7,426,406	19.84%	$49,661,000	15.71%	$635,969,000
Employee Contributions	5.50%	$3,088,365	5.56%	$13,917,000	5.50%	$222,737,000
Employer Contributions	5.79%	$3,251,205	8.42%	$21,072,000	5.68%	$229,799,000
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	1.19%	$666,361	1.62%	$4,057,000	0.47%	$19,049,000
Other Govt. Funding	0.00%	$0	0.00%	$0	0.06%	$2,500,000
Administrative Assessment	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	12.48%	$7,005,931	15.60%	$39,046,000	11.71%	$474,085,000
Total Requirements	13.22%	$7,426,406	19.84%	$49,661,000	15.71%	$635,969,000
Total Contributions	12.48%	$7,005,931	15.60%	$39,046,000	11.71%	$474,085,000
Deficiency (Surplus)	0.74%	$420,475	4.24%	$10,615,000	4.00%	$161,884,000

	DTRFA FY2009		SPTRFA FY2009		TRA FY2009	
Membership						
Active Members		1,016		3,962		77,786
Service Retirees		1,151		2,593		46,108
Disabilitants		17		25		624
Survivors		96		293		3,476
Deferred Retirees		348		1,823		12,490
Nonvested Former Members		750		1,451		23,073
Total Membership		3,378		10,147		163,557
Funded Status						
Accrued Liability		$364,811,453		$1,454,314,000		$23,114,802,000
Current Assets		$279,255,559		$1,049,954,000		$17,882,408,000
Unfunded Accrued Liability		$85,555,894		$404,360,000		$5,232,394,000
Funding Ratio	76.55%		72.20%		77.36%	
Financing Requirements						
Covered Payroll		$55,344,873		$252,726,000		$4,049,217,000
Benefits Payable		$22,704,163		$95,137,000		$1,381,366,000
Normal Cost	7.42%	$4,108,948	8.52%	$21,558,000	8.88%	$359,579,000
Administrative Expenses	0.85%	$470,431	0.24%	$607,000	0.28%	$11,338,000
Amortization	9.55%	$5,285,435	9.64%	$24,363,000	7.66%	$310,170,000
Total Requirements	17.82%	$9,864,814	18.40%	$46,528,000	16.82%	$681,087,000
Employee Contributions	5.50%	$3,043,968	5.58%	$14,108,000	5.50%	$222,860,000
Employer Contributions	5.79%	$3,204,468	8.45%	$21,351,000	5.69%	$230,325,000
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	0.63%	$346,000	1.61%	$4,057,000	0.44%	$17,948,000
Other Govt. Funding	0.00%	$0	0.00%	$0	0.06%	$2,500,000
Administrative Assessment	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	11.92%	$6,594,436	15.64%	$39,516,000	11.70%	$473,633,000
Total Requirements	17.82%	$9,864,814	18.40%	$46,528,000	16.82%	$681,087,000
Total Contributions	11.92%	$6,594,436	15.64%	$39,516,000	11.70%	$473,633,000
Deficiency (Surplus)	5.90%	$3,270,378	2.76%	$7,012,000	5.12%	$207,454,000

	DTRFA FY2008		SPTRFA FY2008		TRA FY2008	
Membership						
Active Members		1,140		4,142		76,515
Service Retirees		1,128		2,514		43,041
Disabilitants		17		26		641
Survivors		98		290		3,299
Deferred Retirees		310		1,695		12,168
Nonvested Former Members		676		1,403		22,115
Total Membership		3,369		10,070		157,779
Funded Status						
Accrued Liability		$363,044,284		$1,432,040,000		$22,230,841,000
Current Assets		$298,067,085		$1,075,951,000		$18,226,985,000
Unfunded Accrued Liability		$64,977,199		$356,089,000		$4,003,856,000
Funding Ratio	82.10%		75.13%		81.99%	
Financing Requirements						
Covered Payroll		$59,548,231		$247,291,000		$3,846,190,000
Benefits Payable		$21,579,521		$88,272,000		$1,330,837,000
Normal Cost	8.43%	$5,022,602	8.66%	$21,396,000	8.77%	$337,281,000
Administrative Expenses	0.83%	$494,250	0.29%	$717,000	0.27%	$10,385,000
Amortization	6.60%	$3,930,183	8.68%	$21,465,000	6.04%	$232,310,000
Total Requirements	15.86%	$9,447,035	17.63%	$43,578,000	15.08%	$579,976,000
Employee Contributions	5.50%	$3,275,153	5.61%	$13,864,000	5.50%	$211,704,000
Employer Contributions	5.79%	$3,447,843	8.48%	$20,972,000	5.69%	$218,752,000
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	0.58%	$346,000	1.64%	$4,057,000	0.50%	$19,170,000
Other Govt. Funding	0.00%	$0	0.00%	$0	0.06%	$2,500,000
Administrative Assessment	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	11.87%	$7,068,996	15.73%	$38,893,000	11.75%	$452,126,000
Total Requirements	15.86%	$9,447,035	17.63%	$43,578,000	15.08%	$579,976,000
Total Contributions	11.87%	$7,068,996	15.73%	$38,893,000	11.75%	$452,126,000
Deficiency (Surplus)	3.99%	$2,378,039	1.90%	$4,685,000	3.33%	$127,850,000

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.... moves to amend S.F. No. 1803; H.F. No. 1951, as follows:

Page 10, line 14, delete "date" and insert "later of the following dates"

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.... moves to amend S.F. No. 1803; H.F. No. 1951, as follows:

Page 41, line 13, delete "unless the employee elects otherwise,"

Page 41, line 15, after "2015," insert " unless the former employee elects otherwise,"

Page 41, lines 18 and 35, before "management" insert "Minnesota "

Page 42, line 3, before "management" insert "Minnesota "

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.... moves to amend S.F. No. 1803; H.F. No. 1951, as follows:

Page 42, line 20, delete "and" and before " by" insert ", and the revisor of statutes"

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.... moves to amend S.F. No. 1803; H.F. No. 1951, as follows:

Page 8, after line 13, insert:

"Sec. 6. **[354A.022] AUTHORIZATION TO CERTIFY FUNDS TO STATE BOARD OF INVESTMENT.**

Subdivision 1. **Certification of funds to State Board of Investment.** The chief administrative officer of the Duluth Teachers Retirement Fund Association, from time to time, may certify to the State Board of Investment those portions of the assets of the retirement plan that are not needed for administrative expenses or benefit payments. Assets certified to the State Board of Investment must be invested under sections 11A.14 and 11A.23. The chief administrative officer of the Duluth Teachers Retirement Fund Association may certify assets for withdrawal from the State Board of Investment only to make benefit payments or to pay administrative expenses or investment expenses of existing direct real estate holdings or assets that are noncompliant with State Board of Investment objectives or limitations.

Subd. 2. **Investment of certified funds.** Assets certified to the State Board of Investment are deemed to be from a covered retirement fund required to be invested by the State Board of Investment under section 11A.23."

Page 39, delete lines 31 to 35

Page 40, delete lines 1 to 22 and insert:

"Subd. 5. **Transfer of assets.** (a) On or before December 31, 2014, the chief administrative officer of the Duluth Teachers Retirement Fund Association shall transfer to the State Board of Investment for investment under section 11A.14, the entire assets of the special retirement fund, except for direct real estate holdings, of the Duluth Teachers Retirement Fund Association.

(b) By August 1, 2014, the chief administrative officer of the Duluth Teachers Retirement Fund Association must provide to the State Board of Investment a list of assets that are intended to be transferred.

(c) The executive director of the State Board of Investment shall review the assets and determine which assets are not in compliance with the requirements and limitations set forth in 11A.09, 11A.14, 11A.23 and 11A.24 or are not appropriate for retention under the established investment objectives of the State Board of Investment. Within 30 days of the date on which the asset transfer occurred, the executive director of the State Board of Investment shall provide the chief administrative officer of the Duluth Teachers Retirement Fund Association with a list of assets that are acceptable for transfer and a list of assets that are noncompliant or inappropriate. Acceptable assets, including cash, must be transferred at market value, and transfers may begin upon the transfer of legal title and notification by the chief administrative officer of the Duluth Teachers Retirement Fund Association to the State Board of Investment.

(d) Assets deemed to be noncompliant or inappropriate must be retained by the Duluth Teachers Retirement Fund Association. Within 30 days of receipt of the list of noncompliant or inappropriate assets, the chief administrative officer of the Duluth Teachers Retirement Fund Association must provide the executive director of the State Board of Investment with evidence that the chief administrative officer of the Duluth Teachers Retirement Fund Association is taking action to convert noncompliant or inappropriate assets to acceptable assets.

(e) Beginning January 1, 2015, the executive director of the State Board of Investment is authorized to direct the process of transferring legal title of assets for which such change is deemed necessary.

(f) On June 30, 2015, the remaining assets of the special retirement fund of the Duluth Teachers Retirement Fund Association are transferred to the State Board of Investment at market values determined by the executive director of the State Board of Investment. Legal title to transferred assets vests with the State Board of Investment on behalf of the Teachers Retirement Association. The transfer of the assets of the Duluth Teachers Retirement Fund Association special retirement fund must include any investment related accounts receivable that are determined by the executive director of the State Board of Investment as reasonably capable of being collected and any non-investment related accounts receivable that are determined by the executive director of Teachers Retirement Association as reasonably capable of being collected. Legal title to accounts receivable that are determined as not reasonably capable of being collected transfers to Independent School District No. 709, Duluth, as of the date of the determination of the executive director of the State Board of Investment and the executive director of Teachers Retirement Association. If the accounts receivable transferred to Independent School District No. 709, Duluth, are subsequently recovered by the school district, the superintendent of Independent School District No. 709, Duluth, shall transfer the recovered amount to the executive director of Teachers Retirement Association, in cash, for deposit in the teachers retirement fund, less the reasonable expenses of the school district related to the recovery. If the board of trustees of the Duluth Teachers Retirement Fund Association establishes a liquidating trust and deposits any of the retirement fund association assets in that trust or if the legislative auditor determines that the transferred assets were in an amount less than the full assets of the retirement fund association other than assets in the tax sheltered annuity program on the date of transfer as specified in paragraph (g), the amount of any untransferred assets are a claim against the state aid otherwise payable to Independent

School District No. 709, Duluth, payable by the commissioner of management and budget upon request by the executive director of the Teachers Retirement Association.

(g) As of June 30, 2015, assets of the special retirement fund, except for direct real estate holdings, of the Duluth Teachers Retirement Fund Association are assets of the Teachers Retirement Association to be invested by the State Board of Investment under Minnesota Statutes, section 354.07, subdivision 4."

Page 42, line 13, after "(a)" insert "Section 45, subdivision 5, is effective October 1, 2014." and after "to" insert "44, 45, subdivisions 1 to 4 and 6, 46, and "

Page 42, line 14, delete "January 1, 2015:" and insert "October 1, 2014."

Renumber the sections in sequence

Amend the title accordingly

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.... moves to amend S.F. No. 1803; H.F. No. 1951, as follows:

Page 32, after line 7, insert:

"Sec. 34. Minnesota Statutes 2012, section 356.215, subdivision 11, is amended to read:

Subd. 11. **Amortization contributions.** (a) In addition to the exhibit indicating the level normal cost, the actuarial valuation of the retirement plan must contain an exhibit for financial reporting purposes indicating the additional annual contribution sufficient to amortize the unfunded actuarial accrued liability and must contain an exhibit for contribution determination purposes indicating the additional contribution sufficient to amortize the unfunded actuarial accrued liability. For the retirement plans listed in subdivision 8, paragraph (c), but excluding the MERF division of the Public Employees Retirement Association and the legislators retirement plan, the additional contribution must be calculated on a level percentage of covered payroll basis by the established date for full funding in effect when the valuation is prepared, assuming annual payroll growth at the applicable percentage rate set forth in subdivision 8, paragraph (c). For all other retirement plans and for the MERF division of the Public Employees Retirement Association and the legislators retirement plan, the additional annual contribution must be calculated on a level annual dollar amount basis.

(b) For any retirement plan other than the general state employees retirement plan of the Minnesota State Retirement System or a retirement plan governed by paragraph (d), (e), (f), (g), (h), (i), or (j), if there has not been a change in the actuarial assumptions used for calculating the actuarial accrued liability of the fund, a change in the benefit plan governing annuities and benefits payable from the fund, a change in the actuarial cost method used in calculating the actuarial accrued liability of all or a portion of the fund, or a combination of the three, which change or changes by itself or by themselves without inclusion of any other items of increase or decrease produce a net increase in the unfunded actuarial accrued liability of the fund, the established date for full funding is the first actuarial valuation date occurring after June 1, 2020.

(c) For any retirement plan other than the general employees retirement plan of the Public Employees Retirement Association, if there has been a change in any or all of the actuarial assumptions used for calculating the actuarial accrued liability of the fund, a change in the benefit plan governing annuities and benefits payable from the fund, a change in the actuarial cost method used in calculating the actuarial accrued liability of all or a portion of the fund, or a combination of the three, and the change or changes, by itself or by themselves and without inclusion of any other items of increase or decrease, produce a net increase in the unfunded actuarial accrued liability in the fund, the established date for full funding must be determined using the following procedure:

(i) the unfunded actuarial accrued liability of the fund must be determined in accordance with the plan provisions governing annuities and retirement benefits and the actuarial assumptions in effect before an applicable change;

(ii) the level annual dollar contribution or level percentage, whichever is applicable, needed to amortize the unfunded actuarial accrued liability amount determined under item (i) by the established date for full funding in effect before the change must be calculated using the interest assumption specified in subdivision 8 in effect before the change;

(iii) the unfunded actuarial accrued liability of the fund must be determined in accordance with any new plan provisions governing annuities and benefits payable from the fund and any new actuarial assumptions and the remaining plan provisions governing annuities and benefits payable from the fund and actuarial assumptions in effect before the change;

(iv) the level annual dollar contribution or level percentage, whichever is applicable, needed to amortize the difference between the unfunded actuarial accrued liability amount calculated under item (i) and the unfunded actuarial accrued liability amount calculated under item (iii) over a period of 30 years from the end of the plan year in which the applicable change is effective must be calculated using the applicable interest assumption specified in subdivision 8 in effect after any applicable change;

(v) the level annual dollar or level percentage amortization contribution under item (iv) must be added to the level annual dollar amortization contribution or level percentage calculated under item (ii);

(vi) the period in which the unfunded actuarial accrued liability amount determined in item (iii) is amortized by the total level annual dollar or level percentage amortization contribution computed under item (v) must be calculated using the interest assumption specified in subdivision 8 in effect after any applicable change, rounded to the nearest integral number of years, but not to exceed 30 years from the end of the plan year in which the determination of the established date for full funding using the procedure set forth in this clause is made and not to be less than the period of years beginning in the plan year in which the determination of the established date for full funding using the procedure set forth in this clause is made and ending by the date for full funding in effect before the change; and

(vii) the period determined under item (vi) must be added to the date as of which the actuarial valuation was prepared and the date obtained is the new established date for full funding.

(d) For the MERF division of the Public Employees Retirement Association, the established date for full funding is June 30, 2031.

(e) For the general employees retirement plan of the Public Employees Retirement Association, the established date for full funding is June 30, 2031.

(f) For the Teachers Retirement Association, the established date for full funding is June 30, ~~2037~~ 2044.

(g) For the correctional state employees retirement plan of the Minnesota State Retirement System, the established date for full funding is June 30, 2038.

(h) For the judges retirement plan, the established date for full funding is June 30, 2038.

(i) For the public employees police and fire retirement plan, the established date for full funding is June 30, 2038.

(j) For the St. Paul Teachers Retirement Fund Association, the established date for full funding is June 30 of the 25th year from the valuation date. In addition to other requirements of this chapter, the annual actuarial valuation must contain an exhibit indicating the funded ratio and the deficiency or sufficiency in annual contributions when comparing liabilities to the market value of the assets of the fund as of the close of the most recent fiscal year.

(k) For the general state employees retirement plan of the Minnesota State Retirement System, the established date for full funding is June 30, 2040.

(l) For the retirement plans for which the annual actuarial valuation indicates an excess of valuation assets over the actuarial accrued liability, the valuation assets in excess of the actuarial accrued liability must be recognized as a reduction in the current contribution requirements by an amount equal to the amortization of the excess expressed as a level percentage of pay over a 30-year period beginning anew with each annual actuarial valuation of the plan.

EFFECTIVE DATE. This section is effective June 30, 2014, and applies to actuarial valuations of the Teachers Retirement Association as of and after July 1, 2014."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

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.... moves to amend S.F. No. 1803; H.F. No. 1951, as follows:

Page 10, delete Subdivision 1 and insert:

"Subdivision 1. **Aid authorization.** The state shall pay the following amounts:

(1) $12,954,000 to the Teachers Retirement Association on behalf of the former Minneapolis Teachers Retirement Fund Association; and

(2) an amount equal to 0.25 percent of the covered salary of the Teachers Retirement Association for the immediately preceding fiscal year on behalf of the former Duluth Teachers Retirement Fund Association."

Page 10, line 10, strike "amount" and insert "amounts"

Page 10, line 11, strike "is" and insert " are"

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.... moves to amend S.F. No. 1803; H.F. No. 1951, as follows:

Page 10, line 14, delete ": (1)"

Page 10, lines 17 and 18, reinstate the stricken language

Page 10, line 19, reinstate the stricken language and delete the new language

Page 10, line 20, delete the new language

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.... moves to amend S.F. No. 1803; H.F. No. 1951, as follows:

Page 9, line 19, delete "equal to" and insert "that is 0.29 percent of salary greater than"

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.... moves to amend S.F. No. 1803; H.F. No. 1951, as follows:

Page 9, line 19, delete "equal to" and insert "that is .... percent of salary greater than"

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.... moves to amend S.F. No. 1803; H.F. No. 1951, as follows:

Page 13, line 29, delete "2015" and insert "2014"

Page 14, lines 11, 17, 20, 25, and 26,, delete "2015" and insert "2014"

Page 24, line 2, delete "2015" and insert "2014"

Page 39, lines 14, 16, 21, and 26, delete "2015" and insert "2014"

Page 39, line 31, delete "December 31" and insert "June 29"

Page 40, lines 19 and 24, delete "2015" and insert "2014"

Page 41, lines 2, 13, 15, 22, 29, and 33, delete "2015" and insert "2014"

Page 41, line 7, delete "April 1, 2015, and June 30, 2015" and insert "May 1 and June 30, 2014"

Page 42, line 13, delete "2015" and insert "2014"

Page 42, line 14, delete "January 1, 2015" and insert "June 15, 2014"

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.... moves to amend S.F. No. 1803; H.F. No. 1951, as follows:

Page 14, line 3, after "assert;" and insert " and"

Page 14, line 5, delete "; and" and insert a period

Page 14, delete lines 6 to 7

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.... moves to amend S.F. No. 1803; H.F. No. 1951, as follows:

Page 41, line 16, after "employees" insert "who were first so employed before June 30, 2012, and who were so employed full-time on June 29, 2014"

Page 41, line 21, after the first "their" insert "hourly salary rate in effect on May 1, 2013, plus an increase of ... percent, or their " and before ". Employees" insert ", whichever is less"

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.... moves to amend S.F. No. 1803; H.F. No. 1951, as follows:

Page 42, before line 18, insert:

"(b) A member of the Duluth Teachers Retirement Fund Association for purposes of the consolidation referendum is a person who was an active teacher covered by the association on February 25, 2014, and on the date of the referendum. Approval of the consolidation requires a majority of all eligible votes cast."

Page 42, line 18, delete "(b)" and insert "(c)"

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.... moves to amend S.F. No. 1803; H.F. No. 1951, as follows:

Page 42, before line 18, insert:

"(b) A member of the Duluth Teachers Retirement Fund Association for purposes of the consolidation referendum is a person who is an active teacher covered by the association, a person who received a benefit from the association on the first of the month in which the referendum is held, a person who is entitled to receive a retirement annuity in the future under Minnesota Statutes, section 354A.37, subdivision 2, or 356.30, or a person who has member contributions in the member's account in the association. Approval of the consolidation requires a at least 1,672 affirmative votes."

Page 42, line 18, delete "(b)" and insert "(c)"

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.... moves to amend S.F. No. 1803; H.F. No. 1951, as follows:

Page 42, line 16, delete " and"

Page 42, after line 16, insert

"(3) the board of education of Independent School District No. 709, Duluth; and"

Page 42, line 17, delete "(3)" and insert "(4)"

Page 42, line 23, before " and" insert ", by the chief administrative officer of the board of education of Independent School District No. 709, Duluth, for an approval under paragraph (a) by Independent School District No. 709, Duluth, "

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.... moves to amend S.F. No. 1803; H.F. No. 1951, as follows:

Page 25, after line 24, insert:

"Sec. 32. Minnesota Statutes 2013 Supplement, section 356.20, subdivision 4, is amended to read:

Subd. 4. **Contents of financial report.** (a) The financial report required by this section must contain financial statements and disclosures that indicate the financial operations and position of the retirement plan and fund. The report must conform with generally accepted governmental accounting principles, applied on a consistent basis. The report must be audited.

(b) The report must include a statement that the actuarial valuation calculations prepared by the actuary retained under section 356.214 or by the actuary retained by the retirement fund or plan, whichever applies, comply with applicable actuarial requirements enumerated in section 356.215, and specified in the most recent standards for actuarial work adopted by the Legislative Commission on Pensions and Retirement. The ~~actuarial~~ market value of assets, the actuarial accrued liabilities, and the unfunded actuarial accrued liability of the fund or plan must be disclosed. The report must contain a certification by the actuary retained under section 356.214 or the actuary retained by the fund or plan, whichever applies, specifying that normal cost and the actuarial accrued liabilities for all benefits are computed in accordance with the entry age actuarial cost method and in accordance with the most recent applicable standards for actuarial work adopted by the Legislative Commission on Pensions and Retirement.

(c) The report must contain an itemized exhibit describing the administrative expenses of the plan, including, but not limited to, the following items, classified on a consistent basis from year to year, and with any further meaningful detail:

(1) personnel expenses;

(2) communication-related expenses;

(3) office building and maintenance expenses;

(4) professional services fees; and

(5) other expenses.

(d) The report must contain an itemized exhibit describing the investment expenses of the plan, including, but not limited to, the following items, classified on a consistent basis from year to year, and with any further meaningful detail:

(1) internal investment-related expenses; and

(2) external investment-related expenses.

(e) Any additional statements or exhibits or more detailed or subdivided itemization of a disclosure item that will enable the management of the plan to portray a true interpretation of the plan's financial condition must be included in the additional statements or exhibits."

Page 27, after line 10, insert:

"Sec. 34. Minnesota Statutes 2013 Supplement, section 356.215, subdivision 1, is amended to read:

Subdivision 1. **Definitions.** (a) For the purposes of sections 3.85 and 356.20 to 356.23, each of the terms in the following paragraphs has the meaning given.

(b) "Actuarial valuation" means a set of calculations prepared by an actuary retained under section 356.214 if so required under section 3.85, or otherwise, by an approved actuary, to determine the normal cost and the accrued actuarial liabilities of a benefit plan, according to the entry age actuarial cost method and based upon stated assumptions including, but not limited to rates of interest, mortality, salary increase, disability, withdrawal, and retirement and to determine the payment necessary to amortize over a stated period any unfunded accrued actuarial liability disclosed as a result of the actuarial valuation of the benefit plan.

(c) "Approved actuary" means a person who is regularly engaged in the business of providing actuarial services and who is a fellow in the Society of Actuaries.

(d) "Entry age actuarial cost method" means an actuarial cost method under which the actuarial present value of the projected benefits of each individual currently covered by the benefit plan and included in the actuarial valuation is allocated on a level basis over the service of the individual, if the benefit plan is governed by section 424A.093, or over the earnings of the individual, if the benefit plan is governed by any other law, between the entry age and the assumed exit age, with the portion of the actuarial present value which is allocated to the valuation year to be the normal cost and the portion of the actuarial present value not provided for at the valuation date by the actuarial present value of future normal costs to be the actuarial accrued liability, with aggregation in the calculation process to be the sum of the calculated result for each covered individual and with recognition given to any different benefit formulas which may apply to various periods of service.

(e) "Experience study" means a report providing experience data and an actuarial analysis of the adequacy of the actuarial assumptions on which actuarial valuations are based.

(f) "~~Actuarial~~ Market value of assets" means the fair market value of all assets as of the preceding June 30~~, reduced by:~~.

~~(1) 20 percent of the difference between the actual net change in the market value of total assets between the June 30 that occurred three years earlier and the June 30 that occurred four years earlier and the computed increase in the market value of total assets~~

~~over that fiscal year period if the assets had earned a rate of return on assets equal to the annual percentage preretirement interest rate assumption used in the actuarial valuation for the July 1 that occurred four years earlier;~~

~~(2) 40 percent of the difference between the actual net change in the market value of total assets between the June 30 that occurred two years earlier and the June 30 that occurred three years earlier and the computed increase in the market value of total assets over that fiscal year period if the assets had earned a rate of return on assets equal to the annual percentage preretirement interest rate assumption used in the actuarial valuation for the July 1 that occurred three years earlier;~~

~~(3) 60 percent of the difference between the actual net change in the market value of total assets between the June 30 that occurred one year earlier and the June 30 that occurred two years earlier and the computed increase in the market value of total assets over that fiscal year period if the assets had earned a rate of return on assets equal to the annual percentage preretirement interest rate assumption used in the actuarial valuation for the July 1 that occurred two years earlier; and~~

~~(4) 80 percent of the difference between the actual net change in the market value of total assets between the most recent June 30 and the June 30 that occurred one year earlier and the computed increase in the market value of total assets over that fiscal year period if the assets had earned a rate of return on assets equal to the annual percentage preretirement interest rate assumption used in the actuarial valuation for the July 1 that occurred one year earlier.~~

(g) "Unfunded actuarial accrued liability" means the total current and expected future benefit obligations, reduced by the sum of the ~~actuarial~~ <u>market</u> value of assets and the present value of future normal costs.

(h) "Pension benefit obligation" means the actuarial present value of credited projected benefits, determined as the actuarial present value of benefits estimated to be payable in the future as a result of employee service attributing an equal benefit amount, including the effect of projected salary increases and any step rate benefit accrual rate differences, to each year of credited and expected future employee service."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly