S.F. 1802	**H.F. 2520**
(Pappas)	(Lesch)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s):	St. Paul Teachers Retirement Fund Association
Relevant Provisions of Law:	Minnesota Statutes, Sections 354A.12 and 356.215
General Nature of Proposal:	$7 million per year in additional state aid; revises full funding date
Date of Summary:	March 5, 2014

Specific Proposed Changes

- Provides $7 million per year in additional state aid through 2042 to SPTRFA.
- Replaces the current 25-year rolling amortization with a July 1, 2042, full funding date.

Policy Issues Raised by the Proposed Legislation

1. Whether it is best to provide financial support to maintain SPTRFA as a free-standing organization, as proposed in this bill, rather than consolidating the SPTRFA into TRA.
2. State aid issues:
   a) Appropriateness of changing the 2013 temporary additional state aid of $7 million per year for two years to a permanent annual state aid, committing the state to pay an additional $180 million through 2042;
   b) Requested state aid amount may be in excess of SPTRFA needs; and
   c) Lack of any offer of additional local support to accompany the state aid request.
3. The SPTRFA funding condition; actuarial work supporting the bill.
4. Problems estimating proper funding needs due to funding-ratio-contingent post-retirement adjustment changes.
5. Appropriateness of replace rolling 25-year amortization with fixed full funding date.
6. Implications of the full funding date chosen, July 1, 2042: lowers annual support needs compared to an earlier date, but delays increases in post-retirement adjustments because funding ratios may improve more slowly.
7. Whether SPTRFA active members and retirees fully understand the implications of remaining free-standing, and whether these groups and the employer support this bill.

Potential Amendments

S1802-1A revises the state aid proposal to require equal sharing of the additional burden between the state and the St. Paul school district.

Various alternative oral amendments to state aid amounts and funding dates can be suggested by Commission staff.

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State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Ed Burek, Deputy Director EB

RE: S.F. 1802 (Pappas); H.F. 2520 (Lesch): SPTRFA; Creating New State Aid Program, Establishing Full Funding Date

DATE: March 5, 2014

General Summary of S.F. 1802 (Pappas); H.F. 2520 (Lesch)

S.F. 1802 (Pappas); H.F. 2520 (Lesch) changes the temporary aid enacted in 2013 of $7 million per year for two years for the St. Paul Teachers Retirement Fund Association (SPTRFA), to a codified direct state aid of $7 million per year, payable from fiscal year 2016 until 2042; and creates a 2042 full funding date for the plan, replacing the present use of a 25-year rolling average.

Background Information on Relevant Topics

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

- **Attachment A**: Background information on the St. Paul Teachers Retirement Fund Association.
- **Attachment B**: Partial listing of Minnesota public pension plan consolidations.

Discussion and Analysis

S.F. 1802 (Pappas); H.F. 2520 (Lesch) reflects an effort by the St. Paul Teachers Retirement Fund Association (SPTRFA) to maintain itself as a separate organization rather than merging into the statewide Teachers Retirement Association (TRA). The 2013 omnibus pension bill included an uncoded provision (Laws 2013, Ch. 111, Art. 13, Sec. 23) providing the SPTRFA with $7 million in additional state aid in each year of the 2014-2015 biennium. The current bill will continue that effort by revising the codified first class city teacher plan direct state aid provision to provide $7 annually through the year 2042, beginning in fiscal year 2016. The other change in the bill revises SPTRFA actuarial funding procedures. Under current law the SPTRFA full funding date is created using a 25-year rolling average procedure. As each year passes, the plan's full funding date is rolled back one more year, so that the plan's actuarial contribution requirements are always computed under an assumption that the full funding date is 25 years from the current date. The SPTRFA is proposing to eliminate use of a rolling date. Instead, the plan's full funding date will be June 30, 2042.

Eliminating the 25-year rolling average procedure has merit. Commission staff has consistently expressed reservations about that procedure. The rolling date procedure has few, if any, real advantages. Paying off unfunded liabilities is similar to a paying off a mortgage. Suppose a mortgage was renegotiated annually, so that the mortgage payer always had 25 years remaining on the mortgage. That practice might keep the monthly payments low, but it results in a situation where the mortgage is never paid off. The same is true about SPTRFA unfunded liabilities. When the actuary determines the actuarial contribution requirements for the plan, the computed rates are always too low to ever retire the unfunded liability. Plan members, the employer, and the Legislature are given a false impression about the actuarial health of the SPTRFA, and it is impossible to make meaningful comparisons to other plans, such as TRA, which does not use an annual rolling funding date.

The Commission's reviewing actuary, Milliman, Inc., has expressed the same concern: under the SPTRFA rolling 25-year amortization date procedure the unfunded liability will never be paid off. Milliman's recently completed report, titled "July 1, 2013 Actuarial Review of the Retirement Systems Under the Minnesota Legislative Commission on Pensions and Retirement," was presented and key findings summarized at the Commission's March 4, 2014, meeting. Milliman noted that for most of our plans, including the SPTRFA, law requires that unfunded liability be amortized using a level percentage of payroll approach, coupled with an assumption that payroll will increase over time (the specific assumption for the SPTRFA is that payroll will increase by 4% per year). A consequence of the payroll assumptions is that when a plan incurs unfunded liability, in the early years the computed contribution requirement to amortize that unfunded liability is not sufficient to cover even the interest on the unfunded liability. The unfunded liability actually grows in the early years of the amortization period, but in later years of the amortization period, if payroll grows as assumed by the payroll growth assumption, the unfunded is retired. Milliman refers to the early period when the unfunded continues to grow as the "negative territory." But a serious flaw arises under the 25-year rolling amortization procedure; Milliman concluded that under that procedure, the SPTRFA is permanently stuck in the negative territory. Milliman advises that the Commission review this rolling 25-year amortization procedure and modify it if the Commission deems that action appropriate. Revising that process will be a positive step.

Regarding the issue of whether the SPTRFA should remain as a separate association, as is assumed under this bill, rather than consolidate with TRA, Commission staff observes that the Commission and Legislature have a long history of consolidating smaller pension funds into the larger statewide plans. This improves benefit consistency and provides cost savings. Duplicate administrative expenses and investment-related costs are eliminated. An additional provided advantage is the risk pooling provided by the larger, more dispersed membership. Problems caused by a declining active membership, as is occurring in Duluth as the district contracts, are avoided. Attachment B is a listing of plans, currently in excess of 60, that have been consolidated into statewide plans. These include plans covering every conceivable type of employee, including judges, various constitutional officers, teachers and other general employees, and public safety employees.

The first class city teacher retirement fund associations were created in the early part of the last century. The Duluth Teachers Retirement Fund Association (DTRFA) dates from 1910, the SPTRFA from 1909, and the former Minneapolis Teachers Retirement Fund Association (MTRFA) was created about the same time. When TRA was created in 1931, the Legislature decided that TRA would cover teachers other than in the first class cities, since those teachers already had coverage and the associations to provide it. That decision may have been based more on political necessity than administrative efficiency. A near constant topic in recent decades has been whether to consolidate first class city teacher plans into TRA. The Commission may choose to consider whether the system or systems of pension coverage for teachers that we have in this state is efficient, and whether it represents the way the Legislature would design coverage if it could start with a clean slate.

If the current arrangement does not represent best practice, then consolidating the remaining local teacher plans into TRA may be preferable to this bill, which assumes a continuing, free-standing SPTRFA. The MTRFA consolidated into TRA in 2006, following years of deteriorating financial condition. More recently, during the 2013 session the DTRFA and SPTRFA had bills under which they requested additional financial aid from the state and benefit improvements to give those two plans the same benefit accrual rates as TRA. The Commission discussed those bills and also the option of consolidating those two plans into TRA. The 2013 Legislature decided to grant the benefit improvements, rather than retaining the option to grant those improvements only upon consolidation with TRA, but the Legislature also required TRA, DTRFA, and SPTRFA to study consolidation and report to the Commission and Legislature. That report was recently provided to the Commission. The DTRFA supports consolidating into TRA, while SPTRFA has expressed an intention to remain separate. Assuming that DTRFA does consolidate with TRA while the SPTRFA does not, the SPTRFA will be the only local paid employee plan remaining. The other first class city teacher plan associations, local general employee plans, and local police and paid fire plans, have all consolidated into a statewide plan.

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

1. <u>SPTRFA Remaining Free-Standing versus Consolidation into TRA</u>. The policy issue is whether the Commission supports the bill in its current form, which assumes that the SPTRFA will remain as a separate organization, or whether the SPTRFA should instead be directed to pursue legislation to consolidate into TRA. The DTRFA intends to pursue consolidation legislation. If that consolidation occurs, SPTRFA will be the only remaining local paid employee plan. Retaining a single local plan seems to contradict the actions of prior legislatures, which chose to consolidate dozens of local plans into statewide plans.

2. <u>Changing State Aid from Temporary to Permanent Provision</u>. The policy issue is whether it is appropriate to turn the temporary direct state aid, $7 million per year for two years as enacted in 2013, into a permanent direct state aid (until full funding is reached). At $7 million per year to 2042, that new request amounts to more than $180 million over time. The Commission may consider rejecting any request for additional state aid unless the SPTRFA consolidates. Another question is whether $7 million, or some other amount, including no aid, is the appropriate amount. As noted later, actuarial work provided by the SPTRFA actuary suggests that $7 million per year in additional state aid under this bill may be more than necessary to meet the plan's financial needs.

3. Lack of Further Local Financial Support. The policy issue is the lack of any additional local financing assistance to the SPTRFA beyond what was in the 2013 legislation. Given that the state is being asked to extend $7 million per year in additional support to the proposed full funding date, 2042, at a total cost of over $180 million, the Commission may choose to consider that it may be appropriate to consider substituting some of that state burden with some additional local effort.

4. Replacing Rolling Amortization Date. The policy issue is whether it is appropriate to replace the currently rolling amortization date system with a single, specified date. As discussed above, the rolling date procedure is generally lacking in merit and will never retire the SPTRFA unfunded liability. Use of a specified date, as proposed in this bill, has merit and would bring this fund into conformity with the general procedures used for our other public plans.

5. Implications of Specific Date Chosen. Assuming that the Commission supports use of a specified date rather than rolling amortization, the issue is the appropriate date. The further out in the future the date is, the lower the annual amortization requirement will be. The situation is comparable to a mortgage. The payments on a 20-year mortgage will be higher than on a 30-year mortgage, but the 20-year mortgage will be paid off much sooner. TRA's full funding date is June 30, 2037, and staff's understanding as of this writing is that TRA wants to keep that date under any consolidation legislation. In contrast, SPTRFA is proposing to use June 30, 2042. In recent weeks SPTRFA's Executive Director has commented that SPTRFA contribution requirements will be lower if it remains separate. That seems very unlikely if everything between the two plans were made comparable. If the SPTRFA does have lower contribution requirements by remaining separate compared to consolidating, one reason is that the SPTRFA would use a different full funding date than TRA. The SPTRFA proposal lowers the amortization requirement that would otherwise apply by taking longer to pay off its unfunded liability. Another contributing source is different post-retirement adjustment procedures. TRA currently is paying 2% annual post-retirement increases while the SPTRFA is providing 1% increases.

   The proposed amortization date in this bill also impacts SPTRFA retirees because permitted post-retirement adjustments are a function of the funding ratio. Under current law the SPTRFA provides 1% annual post-retirement increases until the plan funding ratio reaches at least 80%, when it can begin paying a 2% increase. The plan funding ratio is currently 60.4%. Assuming that the contribution requirements in statute are kept at least approximately equal to the contribution requirements as computed by the actuary, the plan's full funding date will influence how quickly the funding ratio increases. The further out in the future that date is set, the longer it will take to achieve an 80% funding ratio. Thus, the full funding date established in law can influence the post-retirement increases provided by the plan.

6. Impact on Actuarial Condition, and Implications for State Aid Request. The issue is the impact that this bill will have on SPTRFA actuarial condition. Actuarial work from Gabriel Roeder Smith and Company, the SPTRFA-retained actuary, is reproduced below. The work does not follow our usual presentation format of showing the statutory and actuarially required contributions per the most recent actuarial valuation, and how the results of that actuarial valuation would be changed due to the impact of the bill. Instead, the results show the estimated results as of July 1, 2017, and as of the proposed full funding date, July 1, 2042. The actuary provided an estimate as of July 1, 2017, at the request of the SPTRFA Executive Director. That information has value, since it reflects the expected condition of the plan just after all the employee and employer contribution changes, required due to last year's SPTRFA pension legislation, have been fully phased-in. The results depicted under "Scenario 1" is the expected outcome if no action is taken on the current bill, and thus the $7 million in temporary new state aid enacted last year expires after 2014, and the SPTRFA keeps using 25-year rolling amortization. "Scenario 2" is the results of changing to a June 30, 2042 fixed full-funding date. "Scenario 3" is the results of both the June 30, 2042 fixed full-funding date and the requested $7 million in annual aid to the full-funding date.

   Under the July 1, 2013 actuarial results, the bottom row of the table indicates that the SPTRFA had a 1.67% of payroll contribution deficiency. Under the 2017 results, under "Scenario 3" where all the contribution impacts from last year's legislation have occurred and the when the provisions of the current bill are factored in ($7 million in new aid until full funding is reached, and use of the July 1, 2042 full funding date) the plan is .93% of payroll sufficient. That would suggest that the requested aid amount is in excess of what is necessary. Rather than helping to just cover the required contributions, it is creating an excess of nearly 1% of payroll. This is also evident under the results at the full funding date, July 1, 2042, Scenario 3. Rather than having a 100% funding ratio on that date, the predicted funding ratio is 104.3%, and the state aid has shut off, possibly a year or two earlier, because the aid will cease on July 1, 2042 or when full funding is attained, whichever is earlier. Thus, the analysis, at least before qualifiers, suggests that the aid request is excessive.

St. Paul Teachers' Retirement Fund Association
Actuarial Liabilities and Supplemental Contribution Rate as of July 1, 2013
Estimated Actuarial Status based on the Market Value of Assets
(dollars in thousands)

Scenario 1 - baseline; assumes $7 million state contribution paid in 2013 and 2014 only and 25-year rolling amortization
Scenario 2 - assumes $7 million state contribution paid in 2013 and 2014 only and 28-year closed amortization effective July 1, 2014
Scenario 3 - assumes $7 million state contribution paid annually until the earlier of 100% funding or July 1, 2042 and 28-year closed amortization effective July 1, 2014

	July 1, 2013 Results	Estimated July 1, 2017 Results			Estimated July 1, 2042 Results		
		Scenario 1	Scenario 2	Scenario 3	Scenario 1	Scenario 2	Scenario 3
Actuarial Accrued Liability	$1,467.3	$1,600.1	$1,600.1	$1,600.1	$3,322.8	$3,322.8	$3,322.8
Market Value of Assets	933.1	995.0	995.0	1,010.2	$2,782.8	2,782.8	3,466.0
Unfunded Actuarial Accrued Liability	$534.2	$605.1	$605.1	$589.9	$540.0	$540.0	$(143.2)
Funding Ratio	63.6%	62.2%	62.2%	63.1%	83.7%	83.7%	104.3%
Statutory Contributions, percent of pay							
1. Employee contributions	6.27%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
2. Employer contributions	9.11%	10.34%	10.34%	10.34%	10.34%	10.34%	10.34%
3. Supplemental Contributions							
a. 1996 and 1997 Legislation	1.36%	1.14%	1.14%	1.14%			
b. Additional State Contribution	2.59%	0.00%	0.00%	2.21%			
4. Total	19.33%	18.98%	18.98%	21.19%	17.84%	17.84%	17.84%
Required Contributions, percent of pay							
1. Normal cost	7.83%	7.67%	7.67%	7.67%	7.67%	7.67%	7.67%
2. Amortization of Unfunded Liability	12.88%	12.61%	12.61%	12.30%	4.25%	66.91%	(1.02)%
3. Allowance for Admin Expenses	0.29%	0.29%	0.29%	0.29%	0.29%	0.29%	0.29%
4. Total	21.00%	20.57%	20.57%	20.26%	12.21%	74.87%	6.94%
Contribution Sufficiency/(Deficiency) (% of pay)	(1.67)%	(1.59)%	(1.59)%	0.93%	5.62%	(57.03)%	10.90%

25-year rolling amortization assumed for 2013-2016; amortization changed to a 28-year closed period on July 1, 2014 in Scenarios 2 and 3
Amortization period as of July 1, 2013: 25 years
Amortization period as of July 1, 2017: 25 years
Amortization period as of July 1, 2042: 25 years (Scenario 1), 1 year (Scenario 2), 30 years (Scenario 3 - surplus assets amortized over 30 years)

Investment return is assumed to be 8% for the first four years; 8.5% thereafter (consistent with statutory assumption)
COLA's are assumed to remain at 1% indefinitely. Projected results do not reflect additional liabilities or benefit payments due to potential higher COLA's

Source: Actuarial Analysis of Proposed Legislation – Revised (3/4/2014), Attachment One, Gabriel Roeder Smith & Company

The key qualifier is included in the footnote to the table. All the actuarial results assume a 1% post-retirement adjustment is paid indefinitely, which will simply not be the case. The SPTRFA under current law will begin paying a 2% adjustment when the funding ratio hits 80%, and an inflation match up to 5% when a 90% ratio is achieved. Thus, as the SPTRFA funding ratio improves, its liabilities due to post-retirement adjustments will increase. Since the actuary does not know when these events will occur, the actuary has chosen to not include the impact in the analysis and is alerting the reader of that in the footnotes.

This liability recognition issue is not limited to the SPTRFA. It is a broader problem most recently brought to the Commission's attention in Milliman's Commission presentation on March 4, 2014. For the SPTRFA the issue began in 2011, and for all the major plan systems in 2010 under the Financial Sustainability Provisions (Laws 2010, Ch. 359, Art. 1). For all the plans post-retirement increases were lowered, and will be permitted to increase to prior levels when the plan attains certain specified funding ratios. A consequence of that practice is that, for the actuaries, predicting long-term outcomes has become frightfully difficult, because assumptions need to be made regarding the dates that these trigger points, adding new liabilities, will occur. Alternatively, the actuary can ignore this post-retirement impact problem in the analysis and warn the reader in the footnotes. But the liabilities that will be triggered when these points are reached are not trivial. The amounts involved may noticeably alter results. Longer term, the Commission may wish to consider totally revamping the approach begun in the 2010 Financial Sustainability Provisions, where levels of post-retirement adjustments paid prior to 2010 are slowly phased back in has certain funding ratios are attained. Having statutory contributions in line with the contributions as determined by the actuary may be a far better indicator of financial health and sustainability than the funding ratio at any point in time.

7. <u>Support by SPTRFA Membership.</u> The issue is whether the SPTRFA active and retired membership supports this bill and the continuation of a freestanding plan. The membership may not be fully informed. Even with the benefit improvements granted under the 2013 legislation, the SPTRFA benefit package is inferior to TRA's. SPTRFA active members would have better off if the plan had consolidated several years ago. TRA has a 1.9% benefit accrual rate (rather than 1.7%) for each year

of service provided after June 30, 2006. Due to 2013 legislation, SPTRFA also has that higher accrual rate, but it applies only to service rendered after June 30, 2015, rather than after June 30, 2006. SPTRFA retirees are receiving 1% post-retirement adjustments and under current law that is unlikely to change for many years; TRA is providing 2% annual adjustments.

8. School District Support. The issue is whether the school district supports this bill rather than a proposal to consolidate this plan and fund into TRA.

Potential Amendments for Commission Consideration

- **S1802-1A** revises the new aid provision by requiring an equal sharing of the burden between the state and the school district. The state would provide $3.5 million annually, rather than $7 million, if matched by an equal payment by the school district. If the Commission wishes to revise the total aid amount but keep equal sharing, that could be done by a verbal amendment to the amendment, revising the $3.5 million amount.

- **A motion to delete "$7,000,000" on page 1, line 14, and insert a number to be determined** would change the amount of state aid provided under the bill.

- **A motion to delete Section 1** would eliminate the state aid request.

- **A motion to delete "2042" on page 4, line 26, and insert a number to be determined** would revise the SPTRFA full funding date. If the Commission inserted "2037" it would match TRA's current full funding date, which would cause SPTRFA contribution requirements as determined by the actuary to be somewhat higher they would otherwise be, because the amortization contribution must be higher to retire the unfunded liability by the specified full funding date.

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4. Each Fund Actuary has reported the Contribution Sufficiency/(Deficiency) measure on both an actuarial value and a market value basis. Reviewing this measure on a market value basis illustrates the impact the asset smoothing has on deferred asset gains. In addition to reviewing the Contribution Sufficiency/(Deficiency) measure on a market value basis, it is also instructive to consider the effects after the increases in member and employer contribution rates are fully phased in and after the temporary State Aid to the St. Paul and Duluth Teachers Funds expire. The table below illustrates the Contribution Sufficiency/(Deficiency) measure on a market value basis and on a market value basis with long-term funding sources.

July 1, 2013 Contribution Sufficiency/(Deficiency) Measure			
Fund* **	**Actuarial Value Basis Reported by Fund Actuary**	**Market Value Basis Reported by Fund Actuary**	**Market Value Basis with Long-Term Funding Sources Calculated by Milliman***
MSRS General	-2.45%	-0.80%	-0.80%
MSRS Correctional	-5.41%	-3.97%	-3.97%
MSRS State Patrol	-8.68%	-4.33%	0.67%
MSRS Judges	-11.46%	-9.64%	-9.64%
PERA General	-1.65%	-0.15%	-0.15%
PERA Correctional	0.26%	1.19%	1.19%
PERA P&F	-2.64%	0.65%	2.90%
TRA	-4.74%	-2.73%	-1.73%
DTRFA	-2.88%	-0.85%	-10.77%
SPTRFA	-2.80%	-1.67%	-1.42%

* *Milliman calculations use the values reported by the Fund Actuary.*

*** *The table above shows the results for Funds that use a level percentage of pay methodology to determine the Contribution Sufficiency/(Deficiency) measure. Consequently, the results for MSRS Elective State Officials, MSRS Legislators, and the MERF Division of PERA are not included.*

5. As noted in the detailed commentary, the Actuarial Required Contribution rate results in "negative amortization" for a period of time. This means that amortization payments on the unfunded actuarial liability are not large enough to cover interest on the unfunded actuarial liability in the short term. Consequently, the unfunded actuarial liability is expected to increase in the next year for most funds. Because the amortization payments are expected to increase over time under this method, eventually the payments will be enough to cover both interest and principal until the unfunded liability is fully amortized at the statutory amortization date.

   However, we note that for the St. Paul Teachers Retirement Fund Association, a "rolling" 25 year amortization period is used. This means that the amortization schedule never diminishes and the method will never get out of the negative territory. We believe that this funding methodology should be reviewed and modified if deemed appropriate.

6. For the Duluth Teachers Retirement Fund Association, there is an inherent upward bias in the calculation of the Actuarial Required Contribution rate due to the combined impact of the Fund Actuary's application of the Entry Age normal actuarial cost method and the amortization of the Unfunded Actuarial Accrued Liability as a level percentage of payroll for this fund. This issue is further discussed in Section 3 of this report. The Entry Age Normal methodology which is applied for Duluth Teachers lowers the Normal Cost and moves a portion of it to the unfunded actuarial liability. This increases the pressure on funding a mature fund such as Duluth Teachers during periods of declining payroll because the funding of the Unfunded Actuarial Accrued Liability is predicated on payments from future payrolls that will be higher than the current payroll. The increased amortization period as a

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Background Information on the
St. Paul Teachers Retirement Fund Association

The St. Paul Teachers Retirement Fund Association (SPTRFA) was created in 1910 under the authority of Laws 1909, Chapter 343, by the teaching body of the St. Paul public schools with the consent of the St. Paul City Council and was incorporated as a Minnesota corporation in 1910. The plan primarily covers certificated teaching and administrative personnel employed by Independent School District No. 625, St. Paul, but the plan also includes some faculty members employed by the Minnesota State Colleges and Universities System (MnSCU). Teachers who were employed by charter schools that were located in St. Paul previously were members of SPTRFA, but coverage for them was transferred to the statewide Teachers Retirement Association (TRA) in 2002.

The SPTRFA is managed by a governing board of ten members, one member of the Board of Education of Independent School District No. 625, as designated by the board, and nine elected members. In addition to maintaining member records and determining benefit amounts, the SPTRFA governing board is the investment authority for the assets of the retirement fund.

Initially, in 1910, membership in the SPTRFA was voluntary and the initial pensions, first paid in 1910, were $30 per month and were funded from a 1.0% member contribution and a contribution from the City of St. Paul, subject to a maximum levy. The flat retirement benefit amount was increased to $40 per month in 1913 and to $50 in 1922. The funding of the SPTRFA before 1955 was essentially on a “current disbursements” or “pay-as-you-go” basis, with the total of the member contributions and the City of St. Paul tax levy generally equaling the retirement benefit payout (i.e., in 1952, the member contribution of $223,891 and the tax levy of $289,861 largely was consumed by the annuities payable of $508,923; in 1953, the respective amounts were $233,391; $312,433; and $525,959; and in 1954, $243,181; $334,245; and $529,429).

In 1955, unrelated to any legislative mandate, the SPTRFA member contribution rate was increased from 4.5% of covered pay to 6.0% of covered pay and the City of St. Paul essentially doubled its local tax levy, from $334,245 in 1954 to $687,000 in 1955. This resulted in SPTRFA beginning to amass reserves for its actuarial liabilities, totaling $1.6 million in assets in 1955. Also in 1955, SPTRFA first retained a consulting actuary, A. A. Weinberg of Chicago, Illinois, who also was the State Employees Retirement Association (SERA, predecessor to the Minnesota State Retirement System (MSRS)) consulting actuary. The applicable tax levy limit for SPTRFA and the other two first class city teacher retirement fund associations was set in 1923 and remained unchanged until 1969, when the levy limit was eliminated following the 1967 inclusion of the first class city teacher retirement fund associations in direct State payment of teacher employer retirement contributions.

In 1975, the local levy for SPTRFA was eliminated and the State funding of the plan, set identical as a percentage of covered payroll to the statewide Teachers Retirement Association (TRA), was set as the total employer support of the plan.

The SPTRFA coordinated with Social Security in 1978, effectively closing the SPTRFA Basic Plan to new members. Each existing teacher elected to either remain as a basic member or to begin Social Security coverage (which makes them coordinated members). The current SPTRFA Basic Plan covers the pre-1978 hires who did not elect Social Security coverage. A SPTRFA Coordinated Program was created for all post-1978 hires and for those pre-1978 hires who elected Social Security coverage. Because there have been no new basic members added to the SPTRFA since 1978, not many St. Paul teachers remain as Basic Program active members. As of June 30, 2004, the 362 SPTRFA Basic Program active members made up 8.2% of the total SPTRFA active membership, while the 1,689 SPTRFA Basic Program retired members comprised 81.0% of the total number of SPTRFA service retiree membership. As of June 30, 2012, the 26 remaining SPTRFA Basic Program active members made up 0.68% of the total SPTRFA active membership, while the 1,766 SPTRFA Basic Program retired members comprised 60.0% of the total number of SPTRFA service retiree membership.

The SPTRFA after 1978 substantially replicated the statewide TRA Coordinated Program benefit plan. In 1983, member contributions to SPTRFA were tax sheltered for federal and State income tax purposes and the plan was determined as tax qualified by the federal Internal Revenue Service.

In 1987, the prior direct State funding to SPTRFA was folded into the general education State aid to the school district. Retirement benefits were improved by the addition of a two-tier benefit package, effective in 1989 (Laws 1989, Chapter 319, Article 13), for both Basic and Coordinated Plan members. Coordinated members first hired before July 1, 1989, are eligible for Tier I or Tier II benefits. Members first hired after June 30, 1989, are eligible for Tier II benefits only. Tier I is the Rule of 90 early normal retirement age benefit program, with a modestly smaller retirement annuity formula for the initial ten years of service credit. Tier II is the "level benefit" later normal retirement age benefit program, with a higher benefit accrual rate for all years of service credit.

In 1997 (Laws 1997, Chapter 233, Article 3), legislation improved first class city teacher retirement fund association Coordinated Program benefits, implement a new method of paying a post-retirement increase, and provided additional state, employer, and employee funding. Also in 1997, as part of major benefit increase legislation, special direct state aid to SPTRFA was enacted.

In 2010, 2011, and 2012, as part of, or prompted by, benefit plan revisions for the various statewide and major local retirement plans, for the SPTRFA:

- the member and employer contribution rates were increased twice;
- the scheduled post-retirement adjustment was suspended in 2011, was reduced to 1.0% annually when the plan is funded less than 80% on an actuarial value of assets basis, and was reduced to 2.0% annually when the plan is funded between 80% and 90% on an actuarial value of assets basis;
- the interest rate on refunds was reduced by 2.0% after July 1, 2011;
- the deferred annuity augmentation rate in all instances was reduced to 2.0% annually after July 1, 2012; and
- the interest on reemployed annuitant earnings limitation deferral accounts was eliminated after June 30, 2011.

In 2013 (Laws 2013, Ch. 111, Art. 13), the SPTRFA benefit accrual rates were increased to match those of TRA, and the Legislature took actions to help pay for those increases and to improve the overall funding of the SPTRFA:

- for service rendered after June 30, 2015, the accrual rate is increased from 1.2% per year of service to 1.4% for each of the first ten years of service and from 1.7% to 1.9% on later years of service for step formula annuities, and from 1.7% to 1.9% on level formula annuities;
- the basic member contribution rate was increased from 9.0% in 2014 to 9.5% as of July 1, 2015, and to 10% on July 1, 2016, and the coordinated member contribution rate was increased from 6.5% in 2014 to 7% effective July 1, 2015 and to 7.5% on July 1, 2016;
- the employer regular contribution rate for basic members was increased from 9% in 2014 to 9.5% effective July 1, 2015, to 9.75% on July 1, 2016, and to 10% on July 1, 2017, and the employer regular contribution rate for coordinated members was increased from 5.5% in 2014 to 6% on July 1, 2015, to 6.25% on July 1, 2016, and 6.5% on July 1, 2017;
- the state provided additional direct state aid to the SPTRFA, but only for the biennium, of an additional $7 each year, due on October 1, 2013 and 2014;
- the SPTRFA 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;
- a 90-day separation from service requirement was created to qualify for annuity receipt;
- the school district was required to pay employer contributions, plus an additional 2.5%, to the SPTRFA if a SPTRFA annuitant is reemployed by the district; and
- reemployed annuitant holding accounts, which under prior law might lead to a portion of the benefit being deferred and placed in an account until the annuitant again terminates service, will instead be forfeited for members retiring after June 30, 2013.

Partial Listing of Minnesota Pension Plan Consolidations

The following is a listing, not necessarily complete, of Minnesota public pension plan consolidations. These consolidations have helped plan members by creating more consistent, professional plan administration. These consolidations have also helped lower the cost to taxpayers by greatly improving pension plan administrative efficiency, and in many cases by considerably improving investment returns, which lowers the need for employee and employer contributions to finance any given benefit level.

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	Red Wing Police	1990	Columbia Heights Fire	1994
Duluth Police	1987	Rochester Fire	1990	Columbia Heights Police	1994
West St. Paul Police	1988	St. Louis Park Police	1990	New Ulm Police	1994
Anoka Police	1989	Winona Police	1990	St. Paul Police	1994
Hibbing Fire	1989	Albert Lea Police	1991	South St. Paul Fire	1994
Hibbing Police	1989	Faribault Fire	1991	Brainerd Police	1996
Red Wing Fire	1989	Richfield Police	1991	Faribault Police	1996
Rochester Police	1989	Crystal Police	1992	Virginia Police	1996
St. Cloud Fire	1989	Duluth Fire	1992	Mankato Police	1997
St. Louis Park Fire	1989	St. Paul Fire	1992	Richfield Fire	1997
Winona Fire	1989	Albert Lea Fire	1993	South St. Paul Police	1997
Chisholm Fire	1990	Austin Police	1993	Austin Fire	1998
Chisholm Police	1990	Bloomington Police	1993	Crookston Police	1998
Crookston Fire	1990	Fridley Police	1993	St. Cloud Police	1998
Mankato Fire	1990	West St. Paul Police	1993		

  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)

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.... moves to amend S.F. No. 1802; H.F. No. 2520, as follows:

Page 1, line 14, delete "$7,000,000" and insert "an amount not to exceed $3,500,000" and after "Association" insert ", if matched by an equal payment from Independent School District No. 625, St. Paul"

Page 1, line 15, after the period insert "Any amount payable by Independent School District No. 625, St. Paul, under paragraph (b), is payable by September 15 annually."

Amend the title accordingly

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SENATE
STATE OF MINNESOTA
EIGHTY-EIGHTH SESSION

S.F. No. 1802

(SENATE AUTHORS: PAPPAS)

DATE	D-PG	OFFICIAL STATUS
02/25/2014		Introduction and first reading Referred to State and Local Government

A bill for an act
relating to retirement; St. Paul Teachers Retirement Fund Association; revising the date for full funding; creating a new state aid program; appropriating money; amending Minnesota Statutes 2012, section 356.215, subdivision 11; Minnesota Statutes 2013 Supplement, section 354A.12, subdivisions 3a, 3c.

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

Section 1. Minnesota Statutes 2013 Supplement, section 354A.12, subdivision 3a, is amended to read:

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

(b) In addition to other amounts specified in this subdivision, the state shall pay $7,000,000 as state aid to the St. Paul Teachers Retirement Fund Association.

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

EFFECTIVE DATE. This section is effective September 30, 2015.

Sec. 2. Minnesota Statutes 2013 Supplement, section 354A.12, subdivision 3c, is amended to read:

Subd. 3c. **Termination of supplemental contributions and direct matching and state aid.** (a) The supplemental contributions payable to the St. Paul Teachers

Retirement Fund Association by Independent School District No. 625 under section 423A.02, subdivision 3, and all forms of ~~state~~ aid under subdivision 3a to the St. Paul Teachers Retirement Fund Association must continue until the current assets of the fund equal or exceed the actuarial accrued liability of the fund as determined in the most recent actuarial report for the fund by the actuary retained under section 356.214 or until ~~June 30, 2037~~ the established date for full funding under section 356.215, subdivision 11, whichever occurs earlier.

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

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

Sec. 3. 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.

(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~~, 2042. 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 the day following final enactment.