TO:	Members of the Legislative Commission on Pensions and Retirement
FROM:	Susan Lenczewski, Executive Director
RE:	Update on Bills regarding Fairview Employees: Reduction in the Enhanced Augmentation Rate and Changes to the Exception to Enhanced Augmentation for Return to Public Service
DATE:	April 5, 2016

Status Update on Bills relating to the Fairview Employees

H.F. 3716 (O'Driscoll)/S.F. XXXX (formerly LCPR16-016). This bill both reduces the rate of future augmentation and revises the exception from enhanced augmentation for return to public service. This bill was heard by the Pension Commission at its meeting on February 24, 2016. At the meeting, the Commission heard from David Bergstrom, Executive Director of the Minnesota State Retirement System (MSRS), Representative Phyllis Kahn, and several testifiers, including Fairview employees or their spouses, and representatives from AFSCME Council 5. No action was taken. The focus of the testimony and discussion was on the proposed reduction in the future rate of augmentation from 5.5% to 2%. (For Fairview employees who are at least age 55, the reduction in the future rate of augmentation would be from 7.5% to 2%.)

H.F. xxxx (Hornstein/Thissen); S.F. xxxx (Dibble); Revisor #16-6647. This bill only revises the exception from enhanced augmentation for return to public service and mirrors the exception language in H.F. 3716, as to substance. (This bill reflects changes made by the Revisor's Office to clarify the retroactive application of the changes, but these changes are not intended to change the substance of the bill.) This bill was heard by the Pension Commission at its meeting on March 22, 2016. The authors presented the bill and Mr. Bergstrom provided testimony. Amendment #16-6647-1A, which would apply the change to all current and future retirees was distributed. No action was taken on the bill or the amendment.

Commission Meeting on April 5, 2016. The Commission will hear an update from Mr. Bergstrom at the meeting on April 5. The Chair will determine the extent to which the Commission will hear additional testimony from members of the public.

Additional Information for Consideration by the Commission

Communications to Fairview Employees in 1997. In connection with the U of M Hospital/Fairview spin-off transaction at the end of 1996, MSRS provided information to all Fairview employees regarding the supplemental pension benefit package through a mailing and a series of informational meetings. Copies attached for your consideration:

- The mailing starts on page 3 of the packet; and
- The slide presentation used at the informational meetings starts on page 5 of the packet. Page 10, in the slide presentation, explains enhanced augmentation and the exceptions.

Communications to Fairview Employees since 1997. MSRS reports that an informational page was included with benefit estimates prepared as requested by Fairview employees for a period, up to approximately 2013. A copy of that information sheet is at page 13 of the packet.

Beginning in July 2014, benefit estimates for the Fairview employees included an explanation of augmentation and the exception for return to public service. A copy of a benefit estimate begins on page 15 of the packet. See page 17 of the packet for the paragraph on the Fairview benefits.

We understand that annual statements are not customized for this particular group of former employees, for cost reasons because the size of the group is small compared to the total MSRS member population. Therefore, annual statements typically have not specifically addressed enhanced augmentation or the exceptions to receiving it.

Summary of the Fairview Facts and Proposed Changes

- The reduction in the rate of augmentation will result in actuarial savings to MSRS of nearly $60 million, an immediate improvement to MSRS' funding status.

- Deductions from the paychecks of 50,000 current active State employees continue to pay for enhanced benefits to a small group of employees who haven't contributed to MSRS in 20 years.

- Augmentation is a COLA credited every year on a former employee's pension benefit and the increases are cumulative. It is not found at all in private sector pensions and, in the public sector, is unique to the pension plans of Minnesota and South Dakota. While a good case can be made to eliminate it entirely, an even better case can be made to eliminate it in this case, involving substantially higher rates of augmentation to one select group of former employees.

- The proposal reduces the rate of increase only on a prospective basis—the enhanced increases already credited to these members' pensions over the last 20 years are locked in and are not reduced by the proposal. The potential for litigation arises when change is retroactive, which this is not.

- This is true pension plan reform. It is commendable that MSRS is seeking to reform this excess from the past and has moved forward with this initiative, notwithstanding the controversy and additional work it has brought to the executive director and his staff. Were it not firmly grounded in common sense and fairness, MSRS would not have initiated the proposal.

- The changes to one of the two exceptions to receiving enhanced augmentation alleviate the adverse impact of the exception that has become a disincentive to Fairview employees wishing to return to public employment. Coincidentally, two constituents have also asked their respective legislators for this relief.

MSRS

IMPORTANT INFORMATION

FOR UNIVERSITY HOSPITAL AND CLINIC EMPLOYEES

WHO WILL BE INTEGRATED IN THE FAIRVIEW SYSTEM

Your University of Minnesota employment covered by the Minnesota State Retirement System (MSRS) ends with the integration of the University's hospital and clinics into Fairview hospital.

You have two choices with regard to your retirement account. You may leave your retirement deductions with MSRS and receive a lifetime monthly annuity when you retire; or you may apply for a refund of those deductions *following termination of University employment.*

Retirement Annuity

Special legislation for University hospital employees assures full value of your MSRS' deductions toward future retirement benefits. This legislation passed during the 1996 session. You are not covered by MSRS' General Employees' Retirement Plan once you end University hospital employment; however, the legislation generates a more substantial annuity than does the normal General Plan. *The legislation is applicable, if you are employed by the University hospital and clinics on the day before the integration, and if you are paid on a biweekly payroll.*

You are eligible for a lifetime monthly annuity at retirement, regardless of your length of service. This monthly benefit is calculated from your length of service and your five high-year average monthly salary. If your service is fewer than five years, we figure your benefit from the average of all salary earned from MSRS-covered employment.

The 1996 law provides additional benefit rights to University hospital employees who become Fairview hospital employees through this merger. If you leave your contributions with MSRS and apply later for monthly benefits, your payment amount is increased at a rate of 5.5 percent each year until the Jan. 1 after you turn age 55. Then the rate increases to 7.5 until the time you begin to draw monthly benefits. This law change is intended to maintain the value of your monthly benefit earned while you were a University employee. These percentages apply if you:

- are not employed in a position covered by another Minnesota public retirement plan
- do not receive the pension while you are still employed by Fairview

Your service with Fairview Hospital counts toward eligibility for the early-retirement benefit called the *Rule of 90,* if your Minnesota public employment began before July 1, 1989.

Example:
Your University employment ends after 28 years of service and you are age 58, you could work two years with Fairview and qualify for the Rule of 90. Then, you'll be age 60, and your service with the University and Fairview hospitals will be 30 years. You may retire from Fairview and receive an MSRS annuity with no early-retirement reduction.

(over)

Your annuity's computation is based on your 28 years of service and your five high-year average salary with the University. The percentage increase applies.

Call MSRS and request an estimate, if you qualify for the Rule of 90 before age 63.

Survivor's Benefit

If you have three years of service credit, leave your money with the retirement fund, and die before your annuity payments begin, your spouse may choose either a:

- lifetime monthly annuity, beginning when you would have been age 55
- refund of your MSRS deductions plus 6-percent interest

Your spouse's payment may begin immediately, if you are over age 55 at the time of death. Your beneficiary receives your retirement-deduction refund plus interest, if you have fewer than three years of service or are unmarried and die.

Refund

Instead of leaving your retirement deduction with MSRS for a lifetime annuity, you have another choice. You may apply for a refund of those deductions and 6-percent interest.

If you request a refund, you may transfer your funds—through a roll over—to another retirement-account trustee, or you may take the lump sum directly. You may roll over your refund to an independent retirement account or your new employer's retirement plan. If you decide to use the roll over, we mail you a check that is payable to you and the trustee. You must endorse the check and deliver it to the trustee. If you request the lump sum directly and bypass a trustee, we send the money to you. The lump-sum refund includes interest less the required 20-percent federal withholding. In addition, a 10-percent federal-tax penalty is applied when you withdraw your lump-sum refund.

A refund application is available from MSRS. You may apply for a refund after termination from University employment.

Consider carefully the advantages of receiving a monthly annuity. If you accept the refund, you forfeit all rights to a lifetime annuity and survivor benefits.

For Further Information

If you have questions, call the Minnesota State Retirement System at (612) 296-2761 or 1 (800) 657-5757; or write to MSRS at MidAmerica Bank Building, Suite 300, 175 W. Lafayette Road, St. Paul, MN 55107-1425.

This information can be made available in an alternative format, such as large print, Braille or cassette tape. Teletypewriter users and telecommunication-device-for-the-deaf users call the Minnesota Relay Service at (612) 297-5353 or 1 (800) 627-3529, and ask to be connected to MSRS at 296-2761.

ANNUITY AMOUNT

determined by

1. Average Salary
2. Length of Service
3. Age When Payment Begins
4. Form of Payout Selected

HANDOUT AT
SLIDE SHOW

AVERAGE SALARY

1. Average of 5 high successive years.
2. Normally is last 5 years, up to and including last day worked.
3. Includes all salary earned in 5 high period (i.e. overtime, shift differential, etc.) except;
   a. Unused vacation paid in lump sum upon termination.
   b. Unused sick leave (severance pay) paid upon retirement.
4. Deferred Compensation has no effect.

ALLOWABLE SERVICE

- Months in which deductions taken.
- Leave of absence with workers' compensation.
- Leave of absence paid.
- Refunds repaid.
- Part time may be prorated.

ALLOWABLE SERVICE FACTORS

Step Formula:

- 1% for each of first 10 years (.083% for each month).

- 1.5% for each year after 10 years (.125% for each month).

- If 20 years of service,

10	@ 1.0% =	10.0%
10	@ 1.5% =	15.0%
20		25%

Level Formula:

- 1.5% for each year (.125% for each month).
- If 20 years of service.

  20 @ 1.5% = 30%

NORMAL RETIREMENT AGE

IF FIRST COVERED BY RETIREMENT AFTER 6/30/89.

YEAR OF BIRTH	NORMAL RETIREMENT AGE	YEAR OF BIRTH	NORMAL RETIREMENT AGE
1937	65	1955	66-2
1938	65-2	1956	66-4
1939	65-4	1957	66-6
1940	65-6	1958	66-8
1941	65-8	1959	66-10
1942	65-10	1960 AND LATER	67
1943-1954	66		

REDUCTION FOR EARLY RETIREMENT

If Step Formula:

* No reduction if age plus service equals 90.
* If over 30 years of service, reduction is 3% for each year under age 62 (1/4% per month).
* If under 30 years of service, reduction is 3% for each year under age 65.

IF LEVEL FORMULA:

* No reduction if age 65 or over.
* Actuarial reduction (averages 5¼% per year) for each month under normal retirement age.

	STEP	LEVEL
FORMULA	1% for 1st 10 years 1.5% thereafter.	1.5% for all years.
NORMAL RETIREMENT AGE	62 or 65 or Rule of 90	Social Security normal retirement age; 65 or 65+
EARLY RETIREMENT REDUCTION	3% per year.	Actuarial reduction.

POST-RETIREMENT ADJUSTMENT FORMULA

- Cost of Living Component
  Up to 3.5% per year, based on CPI
- Investment Component
  Based on investment earnings - measured by increase in market value of the fund
  Increase spread over five-year period

University of Minnesota Hospital and Clinics Integration with Fairview Hospital and Health-Care Services

To be eligible:

* You must be employed on the day before integration.
* You must be paid on a biweekly-payroll basis.

Deferred Annuity Computation

Computation Method	Example
Average Monthly Salary	$2,200 *
Service-Credit Percent	x 7.5%
	$ 165.00
Augmentation Factor	x 2.4273 [illegible]
Early-Retirement Reduction	x .5231 [illegible]
	$ 209 at age 55 [illegible]

* The example assumes :

* an average monthly salary of $2,200
* termination at age 25 with five years of service
* an annuity payment that begins at age 55

MSRS' Special Benefits to Transferring Employees

* Immediate vesting

* *Rule of 90* eligibility

* Augmentation at 5.5 percent to Jan. 1. after age 55, and at 7.5 percent thereafter

Limitations on MSRS' Special Benefits

* Special augmentation rates do not apply if you start your annuity while employed by Fairview. Also, an earnings limitation exists on an MSRS annuity if you work for Fairview after beginning to receive an annuity.

* Special augmentation rates stop the day you become covered, again, by another public-retirement plan in Minnesota.

Taking a Refund?

If you decide to take a refund, it will include:

* your contributions
* 6-percent interest, that is compounded annually on fiscal year-end balances

Tax Consequences if You Take a Refund

If you take a refund, it is:

* taxable as ordinary income
* subject to a 10-percent excise tax, if you are fewer than 59½ years
* subject to a 20-percent withholding tax, if it is paid directly to you
* able to be rolled over to another qualified plan or retirement account, such as an IRA, without an income-tax or excise-tax penalty

MSRS' Survivor's Benefit

The survivor's benefit entails these particulars:

* The surviving spouse's benefit may begin as early as when the deceased employee would have been age 55.
* The usual reduction for early retirement applies after age 55. One-half the reduction applies before age 55.
* The survivor may choose a lifetime benefit or certain period amounts.

MSRS Minnesota State Retirement System
Your Foundation for Retirement

U of M Fairview Hospital Deferred Benefit Estimate Explained

Enclosed is an estimate of your deferred benefit from the Minnesota State Retirement System (MSRS).

The benefit is based on the amount of allowable service and your high-five average monthly salary. The benefit increases at the rate of 5.5 percent per year from January 1, 1997, until the month benefit payments begin. If you begin the benefit after age 55, the amount increases at the rate of 7.5 percent per year beginning the January following your 55th birthday. The percent increases are included in the estimated benefit amounts. The increased rates do not apply if you again become covered by another public retirement plan in Minnesota.

1. Retirement Date

The estimate(s) assumes you start receiving your benefit on this date(s).

2. Estimated Single-Life Monthly Benefit

This is the highest monthly benefit you can receive based on your allowable service and high-five salary. After your death payment stops. If your death occurs before you receive your total retirement contributions, MSRS will refund the balance to your beneficiary.

3. Allowable Service

Allowable service is the number of years and months you have been covered by MSRS during your career. The estimate is based on this amount of service.

4. Service Percentage Factor

Your amount of allowable service converts to this percent of your high-five salary.

5. Estimated Average Monthly Salary

This is based on your highest-five consecutive years of salary. If your allowable service is fewer than five years, all your earnings are included in calculating the average.

6. Early Retirement Reduction

If your benefit payment begins before you reach normal retirement age, the Single-Life benefit, as explained in number 2, has been reduced by this percent.

7. Joint-and-Survivor Benefit

You can select one of three Joint-and-Survivor benefit options. The 100 percent, 75 percent or 50 percent option provides for a survivor benefit after your death. If your survivor predeceases you, your benefit bounces back to the Single-Life benefit amount beginning the first of the month after your survivor's death. If you choose an option, MSRS needs a photocopy of your survivor's birth record.

Other Information

Your Fairview benefit is in addition to your MSRS benefit. To be eligible to receive your MSRS benefit, you must terminate Fairview employment.

If death occurs before your benefit starts, your benefit application may be voided. If death occurs before the benefit begins, there may be a monthly benefit payable to your spouse.

Your Social Security retirement benefit is in addition to your MSRS benefit. Call Social Security for an estimate at 1-800-772-1213.

MSRS

60 Empire Drive | Suite 300 | St. Paul, MN 55103-3000
Telephone: 651-296-2761 | Toll-free: 1-800-657-5757 | Fax: 651-297-5238
www.msrs.state.mn.us

Teletypewriter users and telecommunications-device-for-the-deaf (TDD) users call the Minnesota Relay Service at 1-800-627-3529 and ask to be connected to MSRS at 651-296-2761.

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MSRS Minnesota State Retirement System
MNDCP Minnesota Deferred Compensation Plan
HCSP Health Care Savings Plan

Your Foundation for Retirement

March 29, 2016

Account ID:

We are pleased to provide you with an estimate of your retirement benefit from the General Employees Retirement Plan, administered by the Minnesota State Retirement System (MSRS). If you have questions about your retirement plan, please contact MSRS at 1-800-657-5757 or visit our website at www.msrs.state.mn.us.

Your General Plan Retirement Benefit

Termination Date	**12/31/1996**	
Retirement Date	**06/26/2021**	
Age at Retirement	66-2	
Years of Service	[redacted]	
High-five Salary	$[redacted]	
Formula %	8.13%	
Reduction %	0%	
Proposed Survivor, [redacted]	**Monthly Income for your life**	**Survivor's Income after your death**
Single Life	$[redacted]	N/A
100% Option	$[redacted]	$[redacted]
75% Option	$[redacted]	$[redacted]
50% Option	[redacted]	$[redacted]
Life Income, 15-Year Certain	[redacted]	$[redacted]

This estimate is based on current information. Changes to your work pattern or legislative actions could affect the final monthly benefit amount. If you believe there is an error in this estimate, please notify our office. We reserve the right to correct errors and prepare a new estimate.

60 Empire Drive, Suite 300, Saint Paul, MN 55103-3000
651-296-2761 | Toll-free: 1-800-657-5757 | Fax: 651-297-5238 | www.msrs.state.mn.us

Your Retirement Benefit - Definition of Terms

Retirement date: The estimate(s) assumes you start receiving your monthly benefit on this date(s) and you terminated employment prior to the retirement date.

Age at retirement: The estimate(s) assumes you start receiving your monthly benefit at the age(s) indicated.

Full retirement age: Generally, if hired after 6/30/1989, you can collect an unreduced retirement benefit at age 66. Most vested employees qualify for a reduced monthly benefit at age 55.

Years of service: The number of years and months you have been covered by MSRS during your career. For each month you are employed at least 50% time and retirement deductions are withheld from your wages, you earn one month of service credit. If you work less than 50% time, your service credit is prorated. If first hired before July 1, 2010, you become vested once you have three years of service. If first hired after June 30, 2010, you are eligible for monthly benefits after five years of service.

High-five salary: We use your highest five consecutive years of earnings to compute your average monthly salary. We estimate your future high-five salary based on current data.

Formula %: Your benefit is a percentage of your high-five salary. We base this percentage on your years and months of service and a formula. The formula is 1.7% for all of your years of service.

Reduction %: We reduce your retirement benefit if you are under normal retirement age when you begin receiving your benefits. We use an actuarial factor based on life expectancy to reduce your benefit for every year you are under normal retirement age.

Benefit Options

When you apply for a retirement or disability benefit, you must elect a benefit option. If you choose a joint-and-survivor or life income option, your monthly benefit will be reduced in order to provide coverage to a survivor upon your death. The reduction is based on the age difference between you and your survivor. The younger the survivor, the greater your monthly benefit is reduced. It may also limit survivor options available to you. You can name anyone you choose to receive survivor benefits; however, once payments begin, you cannot change your survivor option or the person(s) you elect to cover.

Single Life benefit - This benefit covers only your life. Your benefit ends upon your death.

100% Joint-and-Survivor benefit - Your survivor would receive a monthly benefit amount equal to your benefit after your death. This option is not available if a non-spouse survivor is more than 10 years younger than you.

75% Joint-and-Survivor benefit - Your survivor would receive 75% of your monthly benefit after your death. This option is not available if a non-spouse survivor is more than 19 years younger than you.

50% Joint-and-Survivor benefit - Your survivor would receive 50% of your monthly benefit after your death. There is no age restriction for this option, even if you choose a non-spouse survivor. If you are married, you must provide at least a 50% survivor option for your spouse unless your spouse waives survivor coverage.

Life Income, 15-Year Certain - Payments will continue for your lifetime; however, if you die before you have collected for 15 years, your survivor would continue to receive the benefit for the balance of the 15 years. This option is not available if you are covered under the Correctional Retirement Plan and have chosen an accelerated benefit.

Joint & Survivor benefit options have a **bounce-back feature.** With this feature, if your survivor predeceases you, your monthly benefit would revert to the higher single-life amount effective the first of the month after your survivor's death.

Birth Record Required

Our records indicate that your date of birth has not been verified. Payments cannot begin until you provide MSRS with a copy of your birth record. In addition, if you select a survivor option, you must provide a copy of your survivor's birth record. If born in Minnesota, birth records can be obtained from any Local Registrar or visit www.health.state.mn.us. If born in another state, please visit www.cdc.gov/nchs/w2w.htm.

Combined Service

If you are covered by multiple Minnesota public retirement plans, the service credit earned from all plans can be combined with your MSRS service to qualify for a retirement or disability benefit. This is referred to as a Combined Service Annuity (CSA). For example, if you contributed to MSRS, PERA, & TRA, service credit from all three plans can be combined to qualify for a monthly benefit. In addition, all retirement plans use the same high-five average salary to calculate monthly benefits. To qualify for a CSA you must start receiving benefits from all retirement plans within one year.

When you change Minnesota public employers, the service credit earned will remain with the fund. When you retire, you will receive a benefit payment from each public retirement plan.

If you have service with another Minnesota public retirement plan, please notify MSRS so we can provide you with accurate benefit information. If you have taken a refund of your contributions from the other retirement fund, you may be able to repay the refund to reinstate your service. The reinstated service can be used to calculate your monthly benefit. Please contact the retirement fund to discuss your options.

Divorce

During a marriage dissolution proceeding, the court may decide to divide the assets of the MSRS retirement plan between the parties. If you are currently divorced, or have been divorced, you must provide MSRS with a copy of the divorce decree and/or Domestic Relations Order (DRO) before you can collect a retirement or disability benefit, even if the assets will not be divided between the parties. For more information on how divorce may affect your benefit, contact MSRS or visit our website.

Surviving Spouse Benefit & Beneficiary

If you die before you begin receiving your monthly retirement benefit, your surviving spouse is entitled to a benefit if you are vested. Please contact MSRS to learn more about the surviving spouse options and what happens to your account if you do not have a spouse.

U of M Fairview Hospital Employees

You must terminate Fairview employment to be eligible to receive your MSRS retirement benefit. Your monthly benefit amount increases by a percentage each year. The benefit increases 5.5% per year beginning the first of the month after you stopped contributing to the MSRS retirement plan, until the January following your 55th birthday. Thereafter, you receive 7.5% until you begin collecting your benefit. The increases are included in the estimate of your retirement benefits. These increased rates do not apply if you are employed in a position covered by another Minnesota public retirement plan.

Contacts

Social Security Administration	
For information, estimates, or to apply for your benefits	www.socialsecurity.gov
Retiree health, dental, & life insurance benefit information	
State employees – Minnesota Management & Budget (MMB)	651-355-0100
University of MN – Employee Benefits Office	612-624-9090 or 1-800-756-2363
Plan information & withdrawal options	
Minnesota Deferred Compensation Plan (MNDCP)	651-296-2761 or 1-800-657-5757
Health Care Savings Plan (HCSP)	651-296-2761 or 1-800-657-5757
University of MN tax-sheltered benefit program	612-624-9090 or 1-800-756-2363
Combined Service Annuities	
Public Employees Retirement Plan (PERA)	651-296-7460 or 1-800-652-9026
Teachers Retirement Association (TRA)	651-296-2409 or 1-800-657-3669

About MSRS

MSRS administers 10 different retirement plans that provide retirement, survivor, and disability benefit coverage for Minnesota state employees as well as employees of Metropolitan Council and many non-faculty members of the University of Minnesota, and Minnesota State Colleges and Universities (MNSCU).

MSRS also administers the **Minnesota Deferred Compensation Plan (MNDCP)** – a voluntary tax-deferred savings plan, and the **Health Care Savings Plan (HCSP)** – a tax-free medical expense and premium savings plan.

Core securities, when offered, are offered through GWFS Equities, Inc. and/or other broker dealers.

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