

HOUSE RESEARCH

Bill Summary

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Overview

This is one of two omnibus public pension bills for the 2006 session.

Article 1: Post-Retirement Adjustments

Effective in 2010, places a 5 percent per year cap on post-retirement adjustments for members of public pension funds that participate in the Minnesota Post-Retirement Investment Fund. Under current law, post-retirement adjustments are based on two components: (1) a cost-of-living adjustment, of up to 2.5 percent per year; and (2) an investment-based adjustment, which is not capped. Under this proposal, if investments earnings (combined with the cost-of-living adjustment) would cause the total increase to exceed 5 percent in any year, the adjustment will be capped at 5 percent, with excess investment earnings being retained and made available to support adjustments in future years.

- 1** **Limit on post-retirement adjustment.** Effective in 2010, places a five percent limit on post-retirement adjustments for public pension funds participating in the post-retirement fund administered by the State Board of Investment. The limit does not apply to the Minneapolis Employees Retirement Fund.
- 2** **Effective date.** Section 1 is effective July 1, 2010.

Section

Article 2: Deferred Annuity Augmentation Rate Change

Under current law, when a person leaves public employment but does not yet begin to draw a pension, the amount of the deferred pension is augmented by 3 percent per year until the employee reaches age 55, and by 5 percent per year after that until the person begins to draw a pension. For people first hired after June 30, 2006, this article changes the augmentation rate to a flat 2.5 percent for each year the pension is deferred.

Sections 1 to 3 implement this change for funds administered by the Minnesota State Retirement system, sections 4 and 5 for funds administered by the Public Employees Retirement Association, sections 6 to 9 for teacher funds, and section 10 for combined service annuities.

Article 3: Teacher pensions

This article has two major changes:

- (1) Merges the Minneapolis Teachers Retirement Fund Association (MTRFA) into the Teachers Retirement Association (TRA); and
- (2) Increase the formula used to calculate TRA benefits for coordinated members, in most cases from 1.7 to 1.9 percent of high-five salary for each year of service. The formula increase applies only to service after July 1, 2006. Increases employer and employee contributions to TRA by .5% of pay each, with the increased employer contribution not taking effect until July 2007.

- 1 **1 Minneapolis school district law.** Strikes reference to MTRFA in a section of law dealing with the Minneapolis school district.
- 2 **Aid rededication.** Provides that special direct state aid previously paid to MTRFA must be paid instead to TRA.
- 3 **Teacher.** Amends the definition of teacher in TRA law to include Minneapolis teachers.
- 4 **Allowable service.** Amends the definition of allowable service in TRA law to include service before July 1, 2006 that was credited in MTRFA, for people who have not begun receiving a benefit from MTRFA and haven't taken a refund from MTRFA.
- 5 **Employee contributions to TRA.** Amends employee contributions to the TRA fund. *See table at end of this summary.*
- 6 **Employer contributions to TRA.** Amends employer contributions to the TRA fund. *See table at end of this summary, prepared by TRA.*
- 7 **Computation of retirement annuity.** For service after July 1, 2006, increases the percentages per year of service that are used to calculate retirement benefits. *See table at end of this summary.*
- 8 **Consolidation of Minneapolis teacher pension fund.**

Subd. 1. Membership transfer. Transfers all active, inactive, and retired members of MTRFA to TRA as of July 1, 2006.

Section

Subd. 2. TRA membership. Provides that Minneapolis teachers hired after June 30, 2006 are members of TRA.

Subd. 3. Service credit transfer. Transfers service credit from MTRFA to TRA.

Subd. 4. Records. Transfers MTRFA records to TRA.

Subd. 5. Assets. Transfers MTRFA assets to TRA. Specifies the amount that TRA must transfer to the postretirement fund to pay for the present value of benefits due to MTRFA annuitants.

Subd. 6. Benefit calculation. Provides that for deferred, inactive, disabled and retired members of MTRFA who are transferred to TRA, benefits (other than future postretirement adjustments) must be calculated under the old MTRFA laws. Provides that Minneapolis teachers who retired before July 1, 2006 have postretirement adjustments after 2006 determined under the laws governing the state postretirement investment fund.

Subd. 7. Termination of MTRFA special fund. Provides that the MTRFA special fund ceases to exist at the end of 2007. (The special fund is the main fund used to account for contributions and to pay benefits.) Specifies conditions under which the general fund can exist. Provides for costs of consolidation to be paid from the special fund. Provides the MTRFA liabilities become TRA liabilities.

9 State aid rededicated. Provides that certain state aid the currently is dedicated to MTRFA instead is dedicated to TRA.

10 to 46 References stricken, aid rededicated, transitional laws. Amends laws governing first-class city teacher funds to strike references to the Minneapolis teacher fund, and to specify that these laws apply only to teacher funds in St. Paul and Duluth. Sections 20 to 22 also rededicate certain state aid to TRA, instead of MTRFA. Section 29 provides that administrative provisions in MTRFA articles of incorporation and bylaws are no longer effective. Amends chapter 356, a general chapter governing public pension plans, to strike references to the MTRFA.

Section 33 and 42 extend the target date for full funding of the Teachers Retirement Association to June 30, 2037.

Section 43 gives MTRFA employees an employment preference for employment by TRA, MSRS, or PERA, equivalent to the preference provided to veterans under state civil service laws. Provides that MTRFA employees other than chief administrator employed as of June 30, 2007 must be retained by TRA in a comparable position until June 30, 2008. Repeals MTRFA bylaws and articles of incorporation, except as specified.

Provides that this article is effective July 1, 2006.

Prepared by TRA

Analysis of Minnesota TRA and Minneapolis TRAF Merger Employee, Employer Contributions and Benefit Formula Multipliers 2006 Legislative Session			
Employer Contributions			
	(FY 2006)	(FY 2007)	(FY 2008)
	Pre-July 1, 2006	July 1, 2006 -June 30, 2007	Post June 30, 2007
TRA:			
Coordinated	5.0%	5.0%	5.5%
Basic	9.0%	9.0%	9.5%
MTRFA:			
Coordinated	4.50%	5.00%	5.50%
Coordinated-Supplemental	3.64%	3.64%	3.64%
Basic	8.50%	9.00%	9.50%
Basic-Supplemental	3.64%	3.64%	3.64%
Employee Contributions			
TRA:			
Coordinated	5.0%	5.5%	5.5%
Basic	9.0%	9.0%	9.0%
MTRFA:			
Coordinated	5.5%	5.5%	5.5%
Basic	8.5%	9.0%	9.0%
Benefit Formula Multipliers			
	For Service Years Prior to		For Service Years
	July 1, 2006		Beginning July 1, 2006
TRA:			
Coordinated-Level (Tier 1 or 2)	1.70%		1.90%
Tier I Only Benefits:			
Coordinated-Step (1st 10 yrs)	1.20%		1.40%
Coordinated-Step (All Yrs after)	1.70%		1.90%
Basic-Level	2.70%		2.70%
Basic-Step (1st 10 yrs)	2.20%		2.20%
Basic-Step (All Yrs after)	2.70%		2.70%
MTRFA:			
Coordinated-Level (Tier 1 or 2)	1.70%		1.90%
Tier I Only Benefits:			
Coordinated-Step (1st 10 yrs)	1.20%		1.40%
Coordinated-Step (All Yrs after)	1.70%		1.90%
Basic-Level (No Step)	2.50%		2.50%