

House Research Act Summary

CHAPTER: 277

SESSION: 2006 Regular Session

TOPIC: Public Pensions

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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 the old 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 the new law, if investment 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 5 percent limit on each year's 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** **St. Paul teacher increase limit.** Effective in 2010, places a 5 percent limit on each year's postretirement increase paid from the St Paul Teachers Retirement Fund Association.
- 3** **Effective date.** Section 1 is effective July 1, 2010.

Section**Article 2: Deferred Annuity Augmentation Rate Change**

Under the old 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 merges the Minneapolis Teachers Retirement Fund Association (MTRFA) into the Teachers Retirement Association (TRA). The article also increases 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 percent of pay each, with the increased employer contribution not taking effect until July 2007. Increases state aid to school districts by the amount of the school districts' increase in the TRA contribution.

- 4** **Aid adjustment.** Increases state aid to school districts for fiscal year 2008 and later by the amount of the school districts' increase in their TRA contribution in this bill. (The employer contribution to TRA increases by .5 percent of its salaries paid to TRA members). This increase would apply to all school districts whose teachers are TRA members on July 1, 2007 (including Minneapolis).
- 5** **Minneapolis school district law.** Strikes reference to MTRFA in a section of law dealing with the Minneapolis school district.
- 6** **Aid rededication.** Provides that special direct state aid previously paid to MTRFA must be paid instead to TRA.
- 7** **Teacher.** Amends the definition of teacher in TRA law to include Minneapolis teachers.
- 8** **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.
- 9** **Employee contributions to TRA.** Amends employee contributions to the TRA fund. *See table at end of this summary.*
- 10** **Employer contributions to TRA.** Amends employer contributions to the TRA fund. *See table at end of this summary, prepared by TRA.*
- 11** **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*

Section*end of this summary.***12 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.

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 ceases to exist as of June 30, 2006. Provides for transfers of contracts, records, and obligations to TRA and the State Board of Investment. Forbids MTRFA from entering into contractual obligations after the effective date of this section without TRA approval.

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

14 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 21 to 23 also rededicate certain state aid to TRA, instead of MTRFA. Section 30 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 34 extends the target date for full funding of the Teachers Retirement Association to June 30, 2037.

Section 43 provides that MTRFA employees other than chief administrator must be retained by TRA in a comparable position until at least December 31 1, 2007. Section 44 repeals MTRFA bylaws and articles of incorporation, except as specified.

Provides that this article is effective July 1, 2006.

Article 4

State Board of Investment

- 1 **Appropriation.** Reduces the general fund appropriation to the State Board of Investment, in conjunction with the other changes in this article, which provide a standing appropriation from pension funds to pay most of the Board's expenses.
- 2 **SBI budget.** Annually appropriates to the State Board of Investment (SBI) from the assets of funds for which the SBI provides investment services, sums sufficient to pay costs for administration of the Board.
- 3 **SBI director duties.** Requires the SBI executive director to prepare and submit biennial and annual budgets to the SBI, and with SBI approval, submit these budgets to the Department of Finance.
- 4 **SBI expenses.** Specifies the method by which the SBI must apportion its expenses among funds for which the SBI invests. Authorizes the SBI to seek a direct general fund appropriation for expenses necessary to provide investment services to the state general fund.

Article 5

Reporting of Pension Contributions

Requires the annual report on state employee compensation prepared by the Department of Employee Relations to include information on retirement plan membership and the total employee and employer contributions to retirement plans.

Section**Article 6****Investment Performance Reporting**

Requires the state auditor to make data on public pension plan investment performance publicly available. Requires the auditor to provide an analysis comparing one year and five-year rates of return for each pension fund and the benchmark rate of return for each fund.

Article 7**Study**

Requires the Legislative Commission on Pensions and Retirement to study structure and implication of procedures used by major Minnesota public pension plans to provide investment performance based postretirement increases. Requires a report by December 1, 2006.

Article 8**Study**

Requires the Legislative Commission on Pensions and Retirement to study the structure of the Minnesota combined investment funds and the Minnesota postretirement fund. Requires a report by December 1, 2006.

Section**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	
TRA:	July 1, 2006	Beginning July 1, 2006	
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%	

Section

Basic-Level (No Step)	2.50%		2.50%
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