

TO: LCP&R

FROM: Larry Martin

RE: 1978 Pension Legislation of a General Nature

DATE: April 10, 1978

There were five bills which contained pension and pension related provisions of a general nature applicable to all or most of the public pension funds in the state. There were:

Laws 1978, Chapter 562 (HF 1858) was a Commission sponsored bill which clarified various ambiguous references in a number of the laws of the various public pension funds which came to the attention of the Commission staff. Funds involved were the lump sum service pension volunteer firefighters' relief associations, the Highway Patrol Retirement Fund, the MSRS Unclassified Retirement Plan, the Minneapolis Municipal Employees Retirement Fund, the Crystal Volunteer Firefighters' Relief Association, and the Eveleth Police and Paid Firefighters' Relief Associations. The bill also removed various obsolete gender references in laws governing the Highway Patrol Retirement Fund and the local police and paid firefighters' relief associations.

Laws 1978, Chapter 649 (HF 2041) increased the mandatory retirement age for most public employees to age 70, effective in 1980. The mandatory retirement age will remain at age 55 for persons in the MSRS Correctional Retirement Plan, at age 60 for persons in the Highway Patrol Retirement Fund, at age 65 for persons in the Teachers Retirement Association, Duluth Teachers Retirement Fund Association, Minneapolis Teachers Retirement Fund Association and St. Paul Teachers Retirement Fund Association, and at age 65 for persons in the various police and paid firefighters' relief associations. An age 65 mandatory retirement age is also permissible applied to the highly compensated, which is defined as those persons with a vested right to an annuity equivalent to a \$27,000 single life annuity.

Laws 1978, Chapter 665 (HF 2163) provided a four percent post retirement adjustment to persons receiving disability or survivor of deceased active employee benefits, from the major and statewide funds, but are not included in the participation in the Minnesota Adjustable Fixed Benefit Fund (MAFB) and did not receive the adjustment granted January 1, 1978. The funds involved are the Minnesota State Retirement System, the Public Employees Retirement Association, the Public Employees Police and Fire Fund, the Teachers Retirement Association, the Highway Patrol Retirement Fund, the Minneapolis Municipal Employees Retirement Fund, the Judges Retirement Fund and the Legislators' Retirement Plan. These persons shall be entitled to future adjustments at the same time and in the same amount as future MAFB adjustments. The adjustment is payable from the retirement funds involved, from the investment earnings on non-MAFB assets in excess of the five percent interest assumption.

Laws 1978, Chapter 720 (HF 1850) provided for the exclusion from most public pension funds of most participants in various programs under the federal Comprehensive Employment and Training Act (CETA) in compliance with recently amended federal regulations. CETA participants who are vested, or for whom the employer will make the employer contribution from non CETA funds, or who make the employer contribution themselves are not excluded. CETA participants covered by the Minneapolis Municipal Employees Retirement Fund, Minneapolis Firefighters Relief Association, Minneapolis Police Relief Association, Minneapolis Housing Redevelopment Agency Employees Retirement plan or the Minneapolis Teachers Retirement Fund Association are not required to be excluded but are allowed to be classified as provisional members of the fund or plan, with coverage in an escrow account which allows federal CETA funded employer contributions to be refunded back to the CETA program.

Laws 1978, Chapter 721 (HF 2250, Article VI) modified and clarified the taxation of public pension legislation adopted by the 1977 Session. Both public and private pensions are taxable in an identical fashion. After the recovery of employee contributions, if any, public and private pension amounts are excluded up to a maximum of \$7,200. The exclusion is reduced by any amounts receivable from social security or railroad retirement, which are totally excluded from taxation, and any earnings in excess of \$13,000 federal adjusted gross income.

There were two bills which applied generally to the local police, paid firefighters and volunteer firefighters relief associations. These were:

Laws 1978, Chapter 563 (HF 1864) provided that local police and paid firefighters relief associations file actuarial valuations every two years instead of every four years, commencing with a valuation for the 1978 plan year and required all local police, paid firefighters and volunteer firefighters relief associations to make actuarial valuations under the general actuarial reporting law applicable to all other retirement funds.

Laws 1978, Chapter 690 (HF 2332) defined what expenses constitute authorized or allowable administrative expenses for a local police, paid firefighters or volunteer firefighters relief association. The definition broke the expenses down into a number of categories, including general office expenses, salaries for relief association officers, educational conference expenses, professional service expenses, reimbursement of actual expenses of relief association officers, and insurance and bond premiums.

TO: LCP&R

FROM: Larry Martin

RE: 1978 Legislation Pertaining to the Major Statewide Retirement Funds

DATE: April, 1978

A number of bills were acted upon by the 1978 Legislature which made changes in the laws governing the major statewide retirement funds, the Minnesota State Retirement System (MSRS), the Public Employees Retirement Association (PERA), and the Teachers Retirement Association (TRA).

1. MSRS

a. Regular MSRS Employees Fund

Laws 1978, Chapter 538 (SF 1985) provided for the consolidation of the Metropolitan Transit Commission Transit Operating Division Employees Retirement Fund into the Minnesota State Retirement System (MSRS). The liability for all benefit recipients and all existing employees was transferred to MSRS. An MTC-TOD employee is added to the MSRS Board. Pensions would no longer be a bargainable item between the MTC and the labor union. The MTC is required to make a 3.8% of payroll contribution in addition to the 6.0% MSRS employer contribution for a period of 20 years to amortize the extra deficit in MSRS resulting from the act.

Laws 1978, Chapter 615 (HF 1663) provided for a purchase of prior service for certain tradesmen at the University of Minnesota who were excluded from MSRS coverage.

Laws 1978, Chapter 672 (HF 2218, Sections 10-14) provided for the inclusion of judges of the tax court in MSRS. Laws 1978, Chapter 720 (HF 1859, Section 23) provided for a purchase of prior service in MSRS by certain judges of the tax court.

Laws 1978, Chapter (HF 1861, Section 10) provided for a reduction in the rate of deferred annuities augmentation from 5% to 3%, effective January 1, 1981.

Laws 1978, Chapter 781 (HF 2160, Section 1) provided that the existing early retirement reduction factor of one half of one percent per month (6% per year) under age 65 with less than 30 years of service, or under age 62 with at least 30 years of service, shall be replaced by an actuarial equivalent early retirement reduction, effective April 1, 1979.

b. Correctional Employees Plan.

Laws 1978, Chapter 781 (HF 2160, Section 2) provided that the employment classifications of institution educational administrator and supervisor are included in the term "special teacher" and are included in coverage by the correctional employees plan.

c. Highway Patrol Fund.

Laws 1978, Chapter 646 (HF 2023) provided for a slight increase in survivor benefits for disabled and deferred fund members. It also provided for a one percent reduction in both the employee and the employer contribution rates, effective July 1, 1978.

Laws 1978, Chapter 720 (HF 1859, Section 5) provided for an increase in the maximum benefit for surviving children of a deceased active member from \$400 per month to 40% of the average salary of the deceased active member.

Laws 1978, Chapter (HF 1861, Section 11) provided for a reduction in the rate of deferred annuities augmentation from 5% to 3%, effective January 1, 1981

TO: LCP&R

FROM: Larry Martin

RE: 1978 Legislation Pertaining to the Constitutional Officers and Legislators Retirement Plans and the Judges Retirement Fund

DATE: April, 1978

The 1978 Legislature made a number of changes in the laws governing the Constitutional Officers and Legislators Retirement Plans and the Judges Retirement Fund.

1. Constitutional Officers Retirement Plan

Laws 1978, Chapter (HF 1861, Sections 12-22) provided benefit improvements for members of the Constitutional Officers Retirement Plan. The plan was modified from a career average salary since 1965 plan with a 5.0% per year of service thereafter formula to a highest five successive years average salary plan with a flat 2.5% per year formula. Normal retirement was reduced from age 65 to age 62, with early retirement at age 60 with a one half of one percent per month (6% per year) under age 62 reduction. Deferred annuities augmentation was added, with a rate of 5% for deferral from 1978 to 1980 and a rate of 3% beginning in 1981. Portability with the Legislators' Retirement Plan was clarified.

2. Legislators Retirement Plan

Laws 1978, Chapter (HF 1861, Sections 1-9) provided for modifications in the Legislators Retirement Plan. The salary base to which the retirement formula is applied was changed from the salary of the final month of the final term in office to a highest five successive years average salary, effective for salary increases occurring after January 1, 1981. The normal retirement age for receipt of full unreduced benefits was increased from age 60 to age 62, with early retirement permitted at age 60 with a one half of one per cent per month (6% per year) under age 62 reduction, effective January 1, 1981. Vesting was reduced from the present eight years of service or all or part of four regular sessions, effective immediately. Also effective immediately, service in all or part of four regular sessions will be deemed to be eight years of service, even if the legislator terminates service prior to the end of the final term in office. The rate of deferred annuities augmentation was reduced from 5% per annum compounded to 3% per annum compounded, effective January 1, 1981. The member contribution to the plan was increased one percent, to nine percent of salary, excluding per diem payments, effective January 1, 1979.

3. Judges Retirement Fund

Laws 1978, Chapter 475 (SF 1613) repealed the procedure for removing a judge for mental or physical incapacity.

Laws 1978, Chapter 626 (HF 1865) provided that members of the Judges Retirement Fund could receive service credit for fractions of years as well as whole years. It also provided that the surviving spouse, or if none, the estate of a deceased former judge on deferred status would be entitled to receive a refund of the member contribution made by the judge.

Laws 1978, Chapter 720 (HF 1859, Sections 18 and 24) provided that certain retired probate court judges would receive post retirement increases equal to those granted to state employees to date and will receive equivalent post retirement increases in the future.

TO: LCP&R

FROM: Larry Martin

RE: Summary of Laws 1978, Chapter 781 (HF 2160: Beauchamp)
Statewide Funds: Miscellaneous Provisions

DATE: April, 1978

General Summary of Major Provisions

The act makes the following changes:

- (1) The Teachers Retirement Association (TRA) part formula-part variable annuity program shall be discontinued for all prospective service after July 1, 1978 unless a participant makes an affirmative election to retain coverage by the program;
- (2) The Teachers Retirement Association (TRA) member contribution shall be increased by one half of one percent, to 4.5% for coordinated members and 8.5% for basic members, effective July 1, 1979. The member contribution for the new St. Paul Teachers Retirement Fund Association and Minneapolis Teachers Retirement Fund Association coordinated programs is also increased by one half of one percent, to 4.5%, effective July 1, 1979;
- (3) The Minnesota State Retirement System (MSRS) and the Minneapolis Municipal Employees Retirement Fund (MMER) level average early retirement reduction factors shall be replaced by an actuarial equivalent early retirement reduction, effective April 1, 1979;
- (4) The 15% limitation on increases in the highest five successive years average salary which was enacted in 1976 and delayed from going into effect until July 1, 1978 was repealed. The provision was replaced with a Personnel Department study on overtime and extra-ordinary payment abuses and their effect on retirement benefits, due November 15, 1978;
- (5) A 40 year maximum on service credit was established effective immediately. Any retirement fund members with service in excess of 40 years shall retain all service credited up to the effective date, but shall not be entitled to accumulate additional years of service credit.

TO: LCP&R

FROM: Larry Martin - Commission Staff

RE: Brief Summary of Pension Legislation Enacted in 1978

DATE: March, 1978

I. Bills Which Became Law in 1978

During the 1978 Session of the Minnesota Legislature, more than 70 bills which concerned pension matters were introduced and more than 50 bills carried over from the 1977 Session. In accordance with Minnesota Statutes, Section 3.85, these bills were received and analyzed by the Commission members and staff.

Of the bills considered in 1978, 31 became law. They may be classified as follows:

Statewide Funds	10
First Class City Funds	0
Local Police & Fire Funds	7
Volunteer Fire Funds	10
Miscellaneous	4
	<u>31 bills</u>

Separate provisions pertaining to the Statewide Funds, First Class City Funds, Local Police and Paid Fire Funds, and Volunteer Fire Funds were included as amendments to various pension and related subject bills.

Several of the laws enacted in 1978 represent significant pension changes, which are briefly reviewed in the following section.

II. Significant Changes

A. Statewide Funds

- Deferred annuities augmentation was reduced from 5% to 3%, effective January 1, 1981.
- The TRA part variable-part formula program was prospectively discontinued, with all future service credited in the full formula program unless the participant elects otherwise.
- The survivor benefits for the Highway Patrol Fund were improved and clarified.
- The TRA member contribution was increased by one half percent, to 4.5% for coordinated members and 8.5% for basic members, effective July 1, 1979.
- The Highway Patrol fund employee and employer contributions were decreased by one percent respectively, to 7.0% for the member and 21.0% for the employer.
- The limitation that each year of a member's high five years average salary shall not exceed the previous year's salary by more than 15% was repealed, and was replaced by a Department of Personnel study on over-time and extraordinary payments abuses.
- The MSRS and PERA early retirement reduction factors shall be replaced by an actuarial equivalent early retirement reduction, effective April 1, 1979.
- The MTC-Transit Operating Division Employees Retirement Fund was consolidated into MSRS.
- The University of Minnesota Police Department Retirement Plan and Fund was consolidated into the PERA-Police and Fire Fund.

- Part time teachers with Individual Retirement Accounts (IRAs) are excluded from TRA membership.
- Fractional service credit and refunds of member contributions to the survivor of a deceased deferred judge were added to the Judges' Retirement Fund.
- Member contributions were increased by one percent to 9%, the normal retirement age was increased from age 60 to age 62, deferred annuities augmentation was reduced from 5% to 3%, vesting was reduced from eight years to six years; and average salary was changed to a highest five successive years average salary in the Legislators' Retirement Plan.
- The retirement annuity and survivor benefits in the Constitutional Officers Retirement Plan were improved.
- Post retirement increases were granted to certain retired probate judges.

B. First Class City Funds

- Newly hired police and fire personnel of the Metropolitan Airports Commission shall have pension coverage by the PERA-Police & Fire Fund.
- Deferred annuities augmentation for MMER was reduced from 5% to 3%, effective January 1, 1981.
- The MMER Coordinated Program early retirement reduction factor shall be replaced by an actuarial equivalent early retirement reduction, effective April 1, 1979.

C. Local Police and Paid Fire Funds

- Two local police funds, Brooklyn Center and Thief River Falls, totally consolidated into the PERA-Police and Fire Fund. Administrative provisions, exclusions from membership and pre and post retirement benefit improvements constituted the other changes for the remaining funds.
- The actuarial reporting requirement was changed from every four years to every two years, with valuations required for all funds for the year ending December 31, 1978. Actuarial reporting is also required under the general actuarial reporting law, Minnesota Statutes, Chapter 356.
- Allowable administrative expenses of local police and paid fire funds were clarified and enumerated.

D. Volunteer Fire Funds

- For lump sum service pension funds requiring a minimum of 20 years to vest for a service pension, a chart for calculating accrued liability based on 20 years of service is provided for in addition to the current 15 years accrued liability chart.
- Three volunteer funds were granted lump sum service pension increases and seven volunteer funds were granted monthly service pension increases.

C. Miscellaneous

- A 4% post retirement adjustment was granted for disabilitants and survivors of deceased active employees of MSRS, PERA, TRA, Highway Patrol, Judges Fund and MMR if not already included in MAFB increases.
- Participants in the federal Comprehensive Employment and Training Act (CETA) were generally excluded from public pension fund coverage.
- The mandatory retirement age for public employees was generally increased to age 70, effective 1980.
- The exclusion of public pension amounts from Minnesota Income Tax was clarified.

Bills Enacted During the 1978 Legislative Session Concerning Pensions

	<u>Chapter</u>	<u>Bill</u>	<u>Subject</u>
MSRS	781	(HF 2160 Sections 1 & 2)	Early Retirement Reduction Factor, Definition of Correctional Special Teacher
	796	(HF 1861, Sec. 10)	Deferred Annuities Augmentation
	615	(HF 1663)	University Tradesman Buyback
	538	(SF 1985)	MTC-Transit Operating Division Employees
	672	(HF 2218 Sections 10-19)	Tax Court Judge Inclusion
	720	(HF 1859, Sec. 23)	Tax Court Judge Purchase of Prior Service
PERA	471	(HF 1860)	Minimum Inclusion Salary for Elected Officials; First Month Payment Dates
	796	(HF 1861, Sections 23-40, 44, & 45)	Administrative Amendments
	774	(HF 2093)	University of Minnesota Police Retirement Fund Consolidation into PERA Police & Fire Fund
	676	(HF 2228)	Joint & Survivor Annuity for Certain Survivors
	556	(HF 1770)	Exclusion of Certain Part Time Teachers
	764	(HF 1885)	Education Aid Bill - Teacher Mobility Programs
	781	(HF 2160 Sections 3-7)	Prospective Discontinuation of Part Variable Program, Employee Contribution Increase
Highway Patrol	796	(HF 1861, Sections 41-43)	Deferred Annuities Augmentation, Employee Organization Representative Buyback
	646	(HF 2023)	Survivor Benefit Increase, Clarification, Contribution Reduction
	720	(HF 1859, Section 5)	Survivor Benefit Increase
Judges, Legislators, Const. Officers	796	(HF 1861, Section 11)	Deferred Annuities Augmentation
	475	SF 1613)	Judges: Removal for Incapacity
	626	(HF 1865)	Judges: Fractional Service Credit; Refund to Survivor of Deceased Deferred Judge
	720	(HF 1859, Sections 18 & 24)	Judges: Increases for Certain Retired Probate Judges
	796	(HF 1861, Sections 1-9)	Legislators Plan: Benefit Modifications
MMER	796	(HF 1861, Sections 12-22)	Constitutional Officers: Benefit Improvements
	562	(HF 1858, Sections 11-12)	Metropolitan Airports Commission Police & Fire Phase Out Into PERA-P&F, Elected Officials Retirement Age

Fund	<u>Chapter</u>	Bill	<u>Subject</u>
	796	(HF 1861, Sec. 45)	Deferred Annuities Augmentation
	781	(HF , Sections 10 & 11)	Coordinated Program Early Retirement Reduction; Proportionate Annuity in Certain Instances.
Local Police & Paid Fire Funds	579	(HF 2155)	Austin Fire: Validation of Certain Administrative Expenses
	684	(HF 2279)	Brooklyn Center Police: Consolidation into PERA-PF
	648	(HF 2025)	Chisholm Police & Fire: Fund Reversion and Treasurer's Bond
	675	(HF 2224)	Nashwauk Police: Pre-and Post Retirement Benefit Increases
	93	(HF 2527, Sec. 96)	Rochester Police: Exclusions From Relief Assn.
	689	(HF 2330)	Thief River Falls Police: Consolidation Into PERA-Police & Fire
	563	(HF 1864)	Biennial Police & Fire Valuations
	690	(HF 2332)	Allowable Administrative Expenses
	747	(HF 1227)	Legal Status for FDIC Coverage of Bank Deposits
Volunteer Fire Funds	617	(HF 1767)	Anoka: Lump Sum Service Pension Increase
	622	(HF 1821)	Brainerd: Lump Sum Service Pension Increase
	683	(HF 2278)	Brooklyn Center: Monthly Service Pension Increase
	753	(HF 1760)	Crystal: Monthly Service Pension Increase
	673	(HF 2219)	Eagan: Monthly Service Pension Increase
	627	(HF 1866)	Karlstad: Incorporation Date
	754	(HF 1781)	Maplewood NPC: Lump Sum Service Pension Increase
	631	(HF 1900)	Mound: Monthly Service Pension Increase
	685	(HF 2282)	Plymouth: Monthly Service Pension Increase
	606	(HF 1403)	Spring Lake Park NPC: Monthly Service Pension Incr.
	599	(HF 908)	White Bear Lake: Monthly Service Pension Increase
	562	(HF 1858, Section 1)	Volunteer Funds: Lump Sum Funding Tables
Gen & Misc.	562	(HF 1858)	Clarification of Ambiguous References; Removal of Various Obsolete Gender References
	720	(HF 1859)	CETA Participants Exclusion from Public Funds
	665	(HF 2163)	4% Adjustment for Certain Disabilitants & Survivors of Deceased Active Employees
	649	(HF 2041)	Mandatory Retirement Age Increase
	72;	(HF 2250, Art. VI)	Taxation of Public Pensions