

Legislative Commission on Pensions and Retirement

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TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Rachel Barth, Deputy Director

DATE: March 5, 2018

RE: S.F. 2743 (Latz): TRA/Minnesota State; TRA coverage election authority for certain employee.

Summary of the Bill

S.F. 2743 (Latz) provides Steve Gednalske a second chance opportunity to elect Teachers Retirement Association (TRA) coverage and to receive retroactive coverage.

1. Allows the employee to elect TRA coverage within one year after the bill is enacted;
2. Transfers all employee and employer contributions, plus investment returns, made to the respective IRAP account from August 5, 2009, to the date he applies for TRA coverage;
3. Requires the employee to pay any difference between the IRAP and TRA employee contributions, plus interest, that would have been made if he had been covered by TRA; and
4. Requires the Minnesota State system to pay any remainder of the full actuarial value of the benefit.

Background Information

Steve Gednalske is a current administrator with Minnesota State. On December 2, 2002, Minnesota State hired Mr. Gednalske as a Minnesota Association of Professional Employees (MAPE) State Program Administrator Coordinator. In this position, he became a member of the Minnesota State Retirement System (MSRS).

On August 5, 2009, Mr. Gednalske was promoted to an Administrator 7 within the Minnesota State Personnel Plan for Administrators. Upon employment, he became an unclassified employee with default coverage in Minnesota State's Individual Retirement Account Plan (IRAP). Under MN Stat. § 352B.21, Subd. 2, Para. (b), Mr. Gednalske had the option to elect prospective TRA coverage within one year of beginning his Administrator 7 employment.

In order to make the TRA election, Minnesota State is required to provide the employee with information about TRA and IRAP and an election form. To elect TRA coverage, the employee must fill out the election form and return it to Human Resources personnel within 90 days of the date the employer provided the employee with information and an election form. Mr. Gednalske states that Minnesota State never provided the required information or election.

Minnesota State is currently unable to confirm or deny that Mr. Gednalske was provided the required information. Mr. Gednalske would now like to convert his IRAP account into TRA coverage.

Discussion and Analysis

The proposed legislation raises the following pension and public policy issues:

1. **Evidence of Error.** Mr. Gednalske states that he was unaware of his eligibility to elect TRA coverage and that his employer did not provide him with any information. Minnesota State has been unable to confirm or deny that Mr. Gednalske was notified of the retirement election option or provided with the required information to make an informed decision. Therefore, the equities appear to run with Mr. Gednalske and the proposed legislation will fix an employer error.
2. **Precedent for Similarly Situated Individuals.** The Pension Commission has approved past bills allowing an individual to retroactively elect to switch from IRAP to TRA coverage. Those cases presented evidence of an employer error, specifically that the employer never informed the individual about the election option or failed to provide the individual with the required information. Such cases also required the Minnesota State system to pay the remaining amount of the full actuarial value purchase amount. In Mr. Gednalske's case, there is an indication that the employer made an error and failed to inform him of his eligibility to elect TRA coverage. Mr. Gednalske's case is similar to past cases and the proposed legislation is therefore supported by precedent.
3. **Cost.** Under Minn. Stat. § 356.551, the total amount that must be paid to cover the liability of Mr. Gednalske's retroactive and prospective TRA coverage is \$170,348. Mr. Gednalske must pay the portion that is based on the member contributions, plus investment earnings and interest, that he would have paid had he been a contributing TRA member beginning August 5, 2009. These amounts can be paid from his IRAP and SRP accounts. After the appropriate member and employer contribution amounts are transferred, the Minnesota State system will be required to pay \$19,027, which is the remaining amount of the total actuarial value of the TRA benefit.