Legislative Commission on Pensions and Retirement

TO:	Members of the Legislative Commission on Pensions and Retirement
FROM:	LCPR Staff
DATE:	March 19, 2019
RE:	H.F. xxxx; S.F. xxxx (Revisor #19-4622): MSRS administrative bill

Summary of H.F. xxxx; S.F. xxxx (Revisor #19-4622)

HF xxxx; SF xxxx (Revisor #19-4622) makes administrative or technical changes to the statutes governing the Minnesota State Retirement System (MSRS). Most of the changes affect only MSRS plans and amend Chapters 3A, 352, 352B, 352D, 352F and 490. The changes bring statutory language into conformity with actual practice, clarify language that is ambiguous or confusing, correct a drafting error in the 2018 omnibus bill, and repeal provisions that are no longer needed.

A number of sections deal with conforming the various MSRS plans with new annuity application requirements set forth in Section 352.115 (see the summary for sections 5 and 6, below).

The bill also creates a new section in Chapter 356 that applies to the three statewide pension systems, and the State Board of Investment. The section would codify in Chapter 356 an existing exemption to the general requirement that state agencies must use the office of MN.IT services (see the summary for section 13, below).

All sections in the bill take effect the day following final enactment.

Section-by-Section Summary

Section 1:   **Application procedure specified.** *(Minn. Stat. § 3A.02, Subd. 7)*

Section 1 adds a subdivision specifying that the application procedure for an annuity in the Legislator's plan is the application procedure in 352.115.

Sections 2-3:   **Clarification of voting rights for Unclassified Plan members.** *(Minn. Stat. § 352.03, Subd. 1 and 1b)*

Sections 2 and 3 clarify that members of the unclassified plan are eligible to vote in elections for the MSRS board of directors. The current practice of MSRS is to allow unclassified plan members to vote in board elections. The new language codifies that practice and clarifies voting eligibility for certain uncommon instances.

These sections also include a technical change removing references to "deferred members" and replacing them with "inactive vested members."

Section 4: **Modification of the disability benefit application procedure.** *(Minn. Stat. § 352.113, Subd. 2)*.

Section 4 specifies that disability applications must include certain medical reports at the time they are filed.

Sections 5-6: **Establishing procedure for application for an annuity.** *(Minn. Stat. § 352.115, Subd. 7, and 7a)*.

Sections 5 and 6 establish the minimum requirements for annuity or other benefit applications. The procedure set forth in a new subdivision 7a provides for the following:

- All of the MSRS defined benefit plans follow the same filing procedure.
- An application isn't filed with the system until the original paper application is received by the system.
- Fax or electronic copies of the application are not permitted.
- An application isn't complete until the required supporting documents are received by the system.
- Supporting documents (i.e. birth certificate, marriage certificate, divorce decree) do not need to be original or paper documents.

Section 7: **Modification of the effect of refund repayment on vesting credit.** *(Minn. Stat. § 352.23)*.

Under current statute and in certain situations, participants may forfeit their right to a rule of 90 benefit by taking a refund of their contributions. However, such participants may regain their right to a rule of 90 benefit by repaying only one third of the refunded contributions. Section 7 modifies the effect of repaying refund contributions so that eligible participants must repay all of the refunded contributions before regaining the right to a rule of 90 benefit.

MSRS believes that, though rarely used, the current law leads to inequitable outcomes for members who pay back a partial refund thereby receiving the benefit of 2/3 of their refund and the majority of the benefit of repaying. This incentivizes taking a refund and advantages refund recipients over non-refund recipients. Section 7, may result in a decrease in the future net benefit for a small number of MSRS members.

Sections 8-9: **Clarification of election of coverage and payment of contributions for the military affairs and fire marshal special plans.** *(Minn. Stat. §§ 352.85, Subd. 4 and 352.87, Subd. 8)*.

The military affairs and fire marshal plans cover special groups within the MSRS General Plan. Combined, the two special groups have a total of 24 active members. The special groups receive enhanced early retirement benefits in exchange for paying higher contribution rates. Eligible military affairs personnel and deputy fire marshals may elect to become members of these special groups within 90 days of starting employment.

Sections 8 and 9 clarify that when an eligible member elects coverage in either plan, their coverage is retroactive to the first day of employment. In addition, the employer and member must pay the difference between contributions made at the General Employees

Retirement Plan contribution rates and contributions at the special group rates for the period between their first date of employment and the day the member elects coverage.

Section 10: **Application procedure specified.** *(Minn. Stat. § 352B.08, Subd. 7a)*

Section 10 adds a subdivision specifying that the application procedure for an annuity in the State Patrol Plan is the application procedure in Section 352.115.

Section 11: **Application procedure specified.** *(Minn. Stat. § 352D.05, Subd. 3)*

Section 11 adds a modifies the Unclassified Plan application for withdrawal procedure to conform with the application procedure in Section 352.115.

Section 12: **Correcting an error in the 2018 omnibus retirement bill related to former University of Minnesota Hospital employees.** *(Minn. Stat. § 352F.04, Subd. 1)*.

The 2018 omnibus retirement bill changed the augmentation rate for certain former University of Minnesota Hospital employees who became employees of Fairview Health Services. Section 12 changes clarifies that those augmentation rate changes are prospective only and that any augmentation that accrued prior to January 1, 2019, is not forfeited or reduced.

Section 13: Establishing an exception to the requirement to use MN.IT. *(Minn. Stat. New § 356.97)*.

Under Minn. Stat. § 16E.016, Para. (d), MSRS, the Public Employees Retirement Association, the Teachers Retirement Association, the State Board of Investment and a number of other entities are not subject to a general requirement that MN.IT manage the provision of information technology (IT) hardware and services, provide IT personnel, and manage IT contracts. Section 13 codifies this exemption in Chapter 356. This allows the three statewide systems and the SBI to continue to use and direct their own IT personnel, enter into IT services contracts without oversight from MN.IT, and contract with MN.IT or other businesses for IT services.

Section 14: **Application procedure specified.** *(Minn. Stat. § 490.126, Subd. 3)*.

Section 14 specifies that the application procedure for an annuity in the Judges Retirement Plan is the application procedure in Section 352.115.

Section 15: **Repealer.** *(Minn. Stat. § 352F.06)*.

The 2018 omnibus retirement bill removed restrictions on eligible former University of Minnesota Hospital employees collecting an annuity while continuing to work for Fairview Health Services, University of Minnesota Physicians, or University Affiliated Family Physicians (hereinafter "Fairview Employer"). The repealed section applies earnings limitations to employees who first terminate employment with a Fairview Employer, begin collecting an annuity, then are rehired by a Fairview Employer. This results in earnings limitations being arbitrarily applied to members who previously terminated and returned but not to those members who simply remain working and collect an annuity under the 2018 omnibus retirement bill provisions.