HF3777 (Her); SF3672 (Rosen): Amending requirements for reporting by pension funds to the State Auditor

Prepared by: Susan Lenczewski *Date: February 27, 2020*

Introduction

Minnesota Statutes, section 356.219, requires public pension plans to report to the State Auditor regarding investments and provide the plan's investment policy. If a plan fails to comply with the reporting requirements, any state aid or state appropriations the plan would otherwise have received is suspended until the plan complies with the reporting requirements. While the penalty for non-compliance is clear in the statutes, the actual reporting requirements are confusing, redundant, poorly drafted, and out-of-date.

The bill streamlines the reporting requirements and re-writes most of section 356.219. We understand that the State Auditor's office took the lead on the re-write, but others contributed by reviewing drafts and providing comments. The others involved, in varying degrees, included representatives from the State Board of Investment, University of Minnesota, St. Paul Teachers Retirement Fund Association, Bloomington Fire Relief Association, and PERA.

Section-by-Section Summary

Section 1

Section 1 amends section 356.219, subdivision 1, which requires reports to be filed annually by (a) the State Board of Investment on behalf of the public pension plans for which it has investment authority, and (b) any public pension plan that is not fully invested through the State Board of Investment (SBI). Plans invested by the SBI include the plans administered by the Minnesota State Retirement System, the Public Employees Retirement System, and the Teachers Retirement Association. Since the information required to be reported by the SBI on behalf of these plans is already publicly available in the annual reports published by all the plans, the reporting requirement as applied to the SBI is being eliminated.

Public pension plans "not fully invested through the SBI" are now identified in subdivision 1, paragraph (a). They are the Bloomington Fire Department Relief Association, the St. Paul Teachers Retirement Fund Association, and volunteer firefighter relief associations that are not fully invested through the SBI. Under current law, these plans are required to file reports, unless the State Auditor annually audits the plan and, through the audit, will receive all the information required to be reported. This exception for audited plans is now clearly stated as paragraph (c) of subdivision 1. This exception applies to the Bloomington relief association and the St. Paul Teachers plan, both of which are audited annually by the State Auditor.

Finally, the list at paragraph (d) of plans to which reporting requirements do not apply has been revised to add the University of Minnesota Faculty Supplemental Plan to clause (6) and a catch-all as new clause (7) for any other statewide plan that is required to be invested by SBI. Since the information that is required to be reported to the State Auditor for the University Plan is publicly available in a comprehensive annual report, there would appear to be no need to continue to require additional reporting under this statute.

Section 2

Section 2 of the bill re-writes and clarifies section 356.219, subdivision 3, which sets forth the specific reporting requirements, which vary depending on whether a plan is fully or partially invested with SBI and has assets that are above or below a $50 million dollar threshold:

Paragraph (b) sets forth the requirements for plans with assets having a market value of $50 million or more and not fully invested through the SBI.

Paragraph (c) sets forth the requirements for plans with assets having a market value of $50 million or more and fully invested through the SBI.

Paragraph (d) sets forth the requirements for plans with assets having a market value of less than $50 million and not fully invested through the SBI.

Paragraph (f) sets forth the requirements for plans with assets having a market value of less than $50 million and fully invested through the SBI.

The most information is required to be reported under paragraph (a) and the amount of required information is less with each paragraph from (b) through (f). The information required to be reported under the most onerous provision, which is paragraph (a), has been streamlined and clarified. As revised, information required under paragraph (b) includes market values of the portfolio and each investment fund on a monthly basis, injections and withdrawals, rates of return per asset class, and indices used.

Currently, the only plans not otherwise excepted from the reporting requirements under subdivision 1, as amended by section 1 of the bill, are volunteer firefighter relief associations and none of the relief associations have $50 million or more in assets. Bloomington relief does have more than $50 million in assets -- over $150 million -- but it is specifically excepted from the reporting requirements under subdivision 1, paragraph (c), as noted in section 1, above, because it is audited annually by the State Auditor.

Section 3

Section 3 of the bill amends subdivision 6, which sets forth the information required to be included in an annual report the State Auditor is required to file with the legislature. The description of the required information is streamlined and clarified, distilled down to a requirement that the State Auditor provide a summary of the information reported by the plans under subdivision 3 and any other information or analysis deemed appropriate, including a presentation of multiyear performance.

Section 4

Section 4 of the bill changes “office of the state auditor” to “state auditor” to match other references in section 356.219.

Section 5

Section 5 of the bill clarifies the due date for the reports required under section 356.219 and removes references to the SBI’s reporting requirement, which was eliminated under section 1 of the bill.

Effective Date

All sections are effective the day following final enactment.

Legislative Commission on Pensions and Retirement

55 State Office Building 100 Rev. Dr. Martin Luther King Jr. Blvd. St. Paul, MN 55155-1201
Phone: 651-296-2750 TDD: 651-296-9896; Fax: 651-297-3697 www.lcpr.leg.mn