

TO: House Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director

RE: Summary of the 2006 Omnibus Retirement Bill II, S.F. 1057 (Pogemiller), as Amended by House Rules and Legislative Administration Committee

DATE: May 18, 2006

### Introduction

A general summary of the House 2006 Omnibus Retirement Bill II, S.F. 1057 (Pogemiller), as recommended by the House Committee on Rules and Legislative Administration, appears below. A section-by-section summary is attached.

### Source Legislation for the 2006 House Omnibus Retirement Bill II

The House 2006 Omnibus Retirement Bill II, S.F. 1057 (Pogemiller), is derived from the following retirement bills and Commission or House Committee amendments:

1. SF 70 (Betzold); HF 40 (Smith): MPRIF; Post-Retirement Adjustment Limit.
2. SF 620 (Betzold, by request); HF 1785 (Smith): Deferred Annuity Augmentation Rates.
3. SF xxx; HF 2847 (Ozment): TRA; MTRFA Merger and Prospective Retirement Annuity Accrual Rate Increase.
4. Education Finance Committee Amendment: TRA; FY 2008-2009 Biennium Education Aid Increase.
5. State Government Finance Committee Amendment: SPTRFA; Post-Retirement Adjustment Limit.
6. State Government Finance Committee Amendment: TRA; MTRFA Savings Clause and Indemnification.
7. Rules and Legislative Administration Committee Amendment: Inclusion of Pension Contribution Information in Governor's Budget.
8. Rules and Legislative Administration Committee Amendment: State Auditor; Investment Performance Data.
9. Rules and Legislative Administration Committee Amendment: LCPR; Study of Comparative Public Employee Retirement Benefits.
10. Rules and Legislative Administration Committee Amendment: LCPR; Study of Post-Retirement Adjustment Mechanisms.

### General Summary of the 2006 House Omnibus Retirement Bill II

Article 1: Minnesota Post Retirement Investment Fund Changes. A five percent maximum is placed on post-retirement adjustments from the Minnesota Post Retirement Investment Fund, effective July 1, 2010. A five percent maximum is also placed on post-retirement adjustments from the St. Paul Teachers Retirement Fund Association (SPTRFA).

Article 2: Deferred Annuities Augmentation Rate Change. For the various statewide and major local retirement plans, the deferred annuity augmentation rate applicable for individuals who newly become pension plan members after June 30, 2006, is reduced from the current rates to a flat 2.5 percent per year.

Article 3: Teachers Retirement Association (TRA) Coverage and Benefit Restructuring. The Minneapolis Teachers Retirement Fund Association (MTRFA) is merged into the Teachers Retirement Association (TRA), effective July 1, 2006. All active, inactive, and retired MTRFA members become TRA members as of that date. Pre-July 1, 2006, MTRFA service credit becomes TRA service credit, and all of the assets, liabilities, and records of MTRFA transfer to TRA. Pre-July 1, 2006, MTRFA Basic Program members are grandparented into the MTRFA Basic Program benefit plan. The MTRFA records transfer occurs on June 30, 2006, with the asset and liability transfers also occurring on July 1, 2006. TRA is mandated to assert all legal defenses that the MTRFA Board could assert and may indemnify the MTRFA Board for any action it has taken. The current MTRFA post-retirement adjustment mechanism is repealed in favor of the Minnesota Post Retirement Investment Fund. All MTRFA contract liabilities and obligations are fully enforceable liabilities and obligations of TRA. MTRFA administrative staff members other than the MTRFA executive director are required to be employed by TRA until June 30, 2008. The amortization target date for TRA is set at June 30, 2037. The TRA benefit accrual rate for post-July 1, 2007, teaching service is increased by 0.2 percent, generally from 1.7 percent per year of post-2006 service to 1.9 percent per year of post-2006 service. 4. The member contribution rate for TRA members other than Special School District No. 1, Minneapolis, Coordinated Program members is increased by one-half of one percent. The employer contribution rate for Special School District No. 1, Minneapolis, is increased by one-half of one percent of salary, effective on July 1, 2006, and the employer contribution rate for all other TRA-covered employing units is increased by one-half of one percent of salary, effective on July 1, 2007. Effective next biennium, State education aid is increased to offset this TRA employer contribution rate

increase impact. A special TRA additional employer contribution rate is established if TRA has a contribution deficiency of 0.5 percent or greater, effective 18 months after disclosed in the TRA actuarial valuation, and phased in over four equal percentage of covered payroll installments. The transfer of required reserves for MTRFA retirees to the Minnesota Post Retirement Investment Fund would reflect the then funded condition of the post-retirement mechanism, rather than the generally required full funding of reserves. The State aids for MTRFA under current law would be reassigned to TRA. Amounts of State aid to the Minneapolis Employees Retirement Fund (MERF) in excess of \$8.065 million annually are reassigned to TRA rather than MERF.

Article 4: State Board of Investment. For the second year of the FY 2006 FY 2007 biennium, the State Board of Investment appropriation is reduced, with much of the future State Board of Investment budget reallocated as charges payable by the various statewide retirement plans. Future State Board of Investment budgets would be subject to approval by the State Board of Investment and the Department of Finance rather than legislative enactment.

Article 5: Budget Presentation of Employer Pension Contributions. Employer retirement plan contributions are required to be disclosed in the Governor's budget recommendations and in materials relating to local government truth in taxation hearings.

Article 6: Investment Performance Reporting. Office of the State Auditor investment performance data, if public, is generally available and State Auditor investment performance reports are required to include comparisons to relevant indices.

Article 7: Study of Comparative Public Retirement Plan Provisions. The Legislative Commission on Pensions and Retirement is required to study the current Minnesota post-retirement adjustment mechanisms and to compare Minnesota teacher public pension plan benefit and related provisions with other public pension plan provisions for teachers in other states.

Article 8: Study of Statewide Retirement Plan Structure. The Legislative Commission on Pensions and Retirement is required to study the structure of the Minnesota Combined Investment Funds and the Minnesota Post Retirement Investment Fund.

#### Section-by-Section Summary of S.F. 1057 (Pogemiller), the 2006 House Omnibus Retirement Bill II

Sec.	Page, Lines	Retirement Plan	Source Bill(s)	Stat. Provision	Summary
<b>Article 1: Minnesota Post Retirement Investment Fund Changes</b>					
1		Statewide Plans	SF 70 (Betzold); HF 40 (Smith)	11A.18, Subdivision 9	Sets a five percent maximum on annual post-retirement adjustments.
2		SPTRFA	State Government Finance Amendment	New 354A.42	Sets five percent post-retirement adjustment maximum.
3		--	--	Effective Date	Effective July 1, 2010.
<b>Article 2: Deferred Annuities Augmentation Rate Change</b>					
1		MSRS-General	Derived from SF 620 (Betzold); HF 1758 (Smith)	352.116, Subdivision 1a	Sets annual 2.5 percent deferred annuity augmentation rate for post-2006 hires.
2		MSRS	Derived from SF 620 (Betzold); HF 1758 (Smith)	352.72, Subdivision 2	Sets annual 2.5 percent deferred annuity augmentation rate for post-2006 hires.
3		State Patrol	Derived from SF 620 (Betzold); HF 1758 (Smith)	352B.30, Subdivision 2	Sets annual 2.5 percent deferred annuity augmentation rate for post-2006 hires.
4		PERA-General	Derived from SF 620 (Betzold); HF 1758 (Smith)	353.30, Subdivision 5	Sets annual 2.5 percent deferred annuity augmentation rate for post-2006 hires.
5		PERA	Derived from SF 620 (Betzold); HF 1758 (Smith)	353.71, Subdivision 2	Sets annual 2.5 percent deferred annuity augmentation rate for post-2006 hires.
6		TRA	Derived from SF 620 (Betzold); HF 1758 (Smith)	354.44, Subdivision 6	Sets annual 2.5 percent deferred annuity augmentation rate for post-2006 hires.
7		TRA	Derived from SF 620 (Betzold); HF 1758 (Smith)	354.55, Subdivision 11	Sets annual 2.5 percent deferred annuity augmentation rate for post-2006 hires.

Section-by-Section Summary of S.F. 1057 (Pogemiller), the 2006 House Omnibus Retirement Bill II

Sec.	Page, Lines	Retirement Plan	Source Bill(s)	Stat. Provision	Summary
8		1 <sup>st</sup> Class City Teacher Retirement Fund Associations	Derived from SF 620 (Betzold); HF 1758 (Smith)	354A.31, Subdivision 7	Sets annual 2.5 percent deferred annuity augmentation rate for post-2006 hires.
9		1 <sup>st</sup> Class City Teacher Retirement Fund Associations	Derived from SF 620 (Betzold); HF 1758 (Smith)	354A.37, Subdivision 2	Sets annual 2.5 percent deferred annuity augmentation rate for post-2006 hires.
10		Combined Service Annuity	Derived from SF 620 (Betzold); HF 1758 (Smith)	356.30, Subdivision 1	Sets annual 2.5 percent deferred annuity augmentation rate for post-2006 hires.
11		--	--	Effective Date	Article is effective July 1, 2006.
<b>Article 3: TRA Restructuring and MTRFA Consolidation</b>					
1		School Districts	Committee Amendment	127A.50, Subdivision 1	Increases basic education aid by 0.5 percent of TRA member salaries in 2007.
2		Minneapolis School District	HF 2847 (Ozment); SF xxx	128D.10	Eliminates references to the Minneapolis Teachers Retirement Fund Association.
3		TRA	HF 2847 (Ozment); SF xxx	New 128D.19	Redirects prior MTRFA State aids to TRA.
4		TRA	HF 2847 (Ozment); SF xxx	354.05, Subdivision 2	Includes Special School District No. 1 teachers in TRA membership.
5		TRA	HF 2847 (Ozment); SF xxx	354.05, Subdivision 13	Include past MTRFA service credit as TRA allowable service credit.
6		TRA	HF 2847 (Ozment); SF xxx	354.42, Subdivision 2	Sets member contributions at 5.5% for coordinated program members and at 9.0% for basic program members.
7		TRA	HF 2847 (Ozment); SF xxx	354.42, Subdivision 3	Sets Special School District No. 1 employer contribution rate at 9.14% for coordinated program members and 12.14% for basic program members. Increases other TRA employer contributions by 0.5%.
8		TRA	HF 2847 (Ozment); SF xxx	354.44, Subdivision 6	Increases the retirement annuity benefit accrual rate by 0.2% for service after July 1, 2006. Retains current MTRFA Basic Program benefits for current MTRFA Basic Program active members.
9		TRA	HF 2847 (Ozment); SF xxx	New 354.70	Consolidates the MTRFA into TRA, with liability, asset, and records transfer on June 30, 2006. Retains current MTRFA benefits in force, payable from TRA. Terminates MTRFA as of June 30, 2006.
10		TRA	HF 2847 (Ozment); SF xxx	New 354.75	Redirects any unused Minneapolis Employees Retirement Fund (MERF) aid to TRA.
11		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.011, Subdivision 15a	Eliminates MTRFA references.

Section-by-Section Summary of S.F. 1057 (Pogemiller), the 2006 House Omnibus Retirement Bill II

Sec.	Page, Lines	Retirement Plan	Source Bill(s)	Stat. Provision	Summary
12		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.011, Subdivision 27	Eliminates MTRFA references.
13		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.021, Subdivision 1	Eliminates MTRFA references.
14		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.092	Eliminates MTRFA references.
15		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.093, Subdivision 1	Eliminates MTRFA references.
16		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.095	Eliminates MTRFA references.
17		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.096	Eliminates MTRFA references.
18		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.12, Subdivision 1	Eliminates MTRFA references.
19		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.12, Subdivision 2	Eliminates MTRFA references.
20		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.12, Subdivision 2a	Eliminates MTRFA references.
21		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.12, Subdivision 3a	Eliminates MTRFA references.
22		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.12, Subdivision 3b	Eliminates MTRFA references.
23		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.12, Subdivision 3c	Eliminates MTRFA references.
24		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.12, Subdivision 3d	Eliminates MTRFA references.
25		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.30	Eliminates MTRFA references.
26		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.31, Subdivision 4	Eliminates MTRFA references.
27		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.32, Subdivision 1	Eliminates MTRFA references.

Section-by-Section Summary of S.F. 1057 (Pogemiller), the 2006 House Omnibus Retirement Bill II

Sec.	Page, Lines	Retirement Plan	Source Bill(s)	Stat. Provision	Summary
28		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.39	Eliminates MTRFA references.
29		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.40, Subdivision 1	Eliminates MTRFA references.
30		First Class City Teacher Retirement Fund Assoc. Law	HF 2847 (Ozment); SF xxx	354A.41	Eliminates MTRFA references.
31		General Retirement Law	HF 2847 (Ozment); SF xxx	356.20, Subdivision 2	Eliminates MTRFA references.
32		General Retirement Law	HF 2847 (Ozment); SF xxx	356.214, Subdivision 1	Eliminates MTRFA references.
33		General Retirement Law	HF 2847 (Ozment); SF xxx	356.215, Subdivision 8	Eliminates MTRFA references.
34		General Retirement Law	HF 2847 (Ozment); SF xxx	356.215, Subdivision 11	Eliminates MTRFA references.
35		General Retirement Law	HF 2847 (Ozment); SF xxx	356.30, Subdivision 3	Eliminates MTRFA references.
36		General Retirement Law	HF 2847 (Ozment); SF xxx	356.302, Subdivision 7	Eliminates MTRFA references.
37		General Retirement Law	HF 2847 (Ozment); SF xxx	356.303, Subdivision 4	Eliminates MTRFA references.
38		General Retirement Law	HF 2847 (Ozment); SF xxx	356.315, New Subdivision 1a	Revised TRA benefit accrual rate.
39		General Retirement Law	HF 2847 (Ozment); SF xxx	356.315, New Subdivision 2b	Revised TRA benefit accrual rate.
40		General Retirement Law	HF 2847 (Ozment); SF xxx	356.42, Subdivision 3	Eliminates MTRFA references.
41		General Retirement Law	HF 2847 (Ozment); SF xxx	356.465, Subdivision 3	Eliminates MTRFA references.
42		Additional Amortization State Aid	HF 2847 (Ozment); SF xxx	423A.02, Subdivision 1b	Eliminates MTRFA references.
43		MTRFA Consolidation	HF 2847 (Ozment); SF xxx; Committee Amendment	Uncoded	Specifies the transition of staffing resources accompanying the MTRFA consolidation.
44		MTRFA	HF 2847 (Ozment); SF xxx	Uncoded	MTRFA benefit plan document repeal.
45		--	--	Repealer	Repeals MTRFA specific statutory provisions.
46		--	--	Effective Date	Generally effective July 1, 2006.
<b>Article 4: State Board of Investment Funding</b>					
1		State Board of Investment	Committee Amendment	Appropriation	Appropriation reductions for FY 2007.
2		State Board of Investment	Committee Amendment	11A.04	Replaces General Fund appropriation with cost allocation to retirement funds.

Section-by-Section Summary of S.F. 1057 (Pogemiller), the 2006 House Omnibus Retirement Bill II

Sec.	Page, Lines	Retirement Plan	Source Bill(s)	Stat. Provision	Summary
3		State Board of Investment	Committee Amendment	11A.07, Subdivision 4	Requires State Board of Investment Executive Director to prepare and submit budgets to State Board of Investment and Department of Finance.
4		State Board of Investment	Committee Amendment	11A.07, Subdivision 5	Revises State Board of Investment cost allocation to the various retirement funds.
<b>Article 5: Budget Presentation of Employer Pension Contributions</b>					
1		State Budget	Committee Amendment		Requires state presentation of employer pension contribution information.
2		--	--	Effective Date	Effective immediately.
<b>Article 6: Investment Performance Reporting</b>					
1		General Retirement Law	Committee Amendment	356.219, New Subdivision 9	Requires investment data provided to the State Auditor to be available.
2		General Retirement Law	Committee Amendment	356.219, New Subdivision 10	Requires State Auditor to provide benchmark rate of return information as part of performance reports.
3		--	--	Effective Date	Generally effective immediately.
<b>Article 7: Study of Comparative Public Retirement Plan Provisions</b>					
1		Legislative Comm. on Pensions and Retirement	Committee Amendment	Uncoded	Requires study of post-retirement adjustment practices within Minnesota and a study of teacher plan benefits in Minnesota and other states.
2		--	--	Effective Date	Effective immediately.
<b>Article 8: Study of Statewide Retirement Plan Structure</b>					
1		Legislative Comm. on Pensions and Retirement	Committee Amendment	Uncoded	Requires study of the Minnesota Combined Investment Fund and of the Minnesota Post Retirement Investment Fund.
2		--	--	Effective Date	Effective immediately.

cc: Representative Mary Murphy  
 Representative Dennis Ozment  
 Representative Steve Smith  
 Representative Paul Thissen  
 Representative Lynn Wardlow  
 Mark Shepard, House Research  
 Helen Roberts, House Fiscal Analyst  
 Janis Rider, Assistant Revisor