

Legislative Commission on Pensions and Retirement

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TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Susan Lenczewski, Executive Director
Chad Burkitt, Analyst

DATE: April 2, 2019

RE: Summary of the 2019 Omnibus Bill, delete-everything amendment H2632-1A to H.F. 2632 (Murphy); S.F. 2583 (Rosen)

Introduction

Delete-everything amendment H2632-1A to H.F. 2632 (Murphy); S.F. 2583 (Rosen) is the Commission's 2019 Omnibus Retirement Bill. The amendment incorporates all of the bills that the Commission has adopted for inclusion during the 2019 Legislative Session prior to its April 2, 2019, meeting.

Summary of H2632-1A By Article

1. Minnesota State Retirement System (MSRS) Administrative Provisions

The bill makes a number of administrative changes to the plans administered by MSRS. Primarily those changes do the following:

- Clarify voting right for members of the Unclassified Plan and inactive vested members to vote in Board of Director elections;
- Establish a process that clearly defines when a benefit application has been filed with MSRS and what documents are required to apply for a benefit;
- Correct an error in the 2018 Omnibus Retirement Bill related to the calculation of augmentation for former University of Minnesota Hospital (Fairview) employees; and
- Make other minor administrative, technical changes or conforming changes.

2. Public Employees Retirement Association (PERA)

Phased Retirement Option.

The bill makes permanent a program administered by PERA called the "post-retirement option" (PRO). The program was established in 2009. The program is available to members of the PERA General Employees Retirement Plan who are age 62 or older. The program allows eligible members to enter into an agreement with their employer to continue working half time or less while collecting a retirement annuity. Under the program, a member is not allowed to contribute to a pension benefit or accrue additional service credit.

The bill makes several changes to the program including adding additional reporting requirements for employers, changing the maximum initial agreement period from one year to five years and renaming the program as the “Phased Retirement Option.”

Modification of Minneapolis Payments to PERA P&F for Relief Associations.

The bill modifies the annual amount paid by the City of Minneapolis to the Public Employees Police and Fire Retirement Plan (PERA P&F) on behalf of the Minneapolis Police Relief Association (MPRA) and the Minneapolis Firefighters Relief Association (MFRA). The payments are intended to cover the unfunded liabilities accepted by PERA P&F when it merged with MPRA and MFRA in 2011. However, the payment amount has fluctuated significantly since 2011 because current law requires the payment to be recalculated when actuarial assumptions change.

PERA and the City of Minneapolis agreed to a new calculation method, which fixes the amounts to be paid by the City for each relief association at \$4,489,837 and \$3,188,735 for MPRA and MFRA, respectively, starting in 2019, through 2031.

3. PERA Statewide Volunteer Firefighter Plan (SVF)

The bill establishes a process through which a municipality, independent nonprofit firefighting corporation, or a joint powers entity may terminate participation in the PERA SVF plan. The process includes fully vesting firefighters in their pension benefits, allocating any assets in excess of benefit liabilities, and making immediate distributions. A session law grandfathers any termination already underway and establishes a termination date, which will permit the Brevator Township to terminate participation and its former firefighters to receive distributions of their pension benefits.

4. Volunteer Firefighter Relief Associations

State Auditor Fire Relief Association Working Group Bill.

The bill includes a number of provisions modifying the requirements imposed on volunteer firefighter relief associations. The provisions in the 2019 omnibus bill are those agreed upon by the State Auditor’s Fire Relief Association Working Group. Many of the changes are administrative or technical in nature (e.g., clarifying break-in-service requirements, correcting terminology, and updating filing requirements for bylaw amendments). The substantive changes include:

- Reducing the permitted graded vesting schedule from 20 years to 10 years; and
- Allowing supplemental benefits to be paid to designated beneficiaries and estates, where there is no surviving spouse or children.

City of Austin.

The 2018 Omnibus Retirement Bill provided a special exemption to the City of Austin with respect to its firefighters. The exemption allows the City to allocate fire state aid between its relief association and contributions to PERA P&F for its full-time firefighters. The exemption is currently set to expire on July 1, 2019. The 2019 bill changes the expiration date to July 1, 2020.

5. Minnesota State Colleges and Universities Retirement Provisions

Employee Contributions to the Individual Account Retirement Plan (IRAP).

The current option available to members of the IRAP to elect to transfer from the IRAP to the Teachers Retirement Association (TRA) does not comply with federal Internal Revenue Code requirements and IRS guidance. The bill increases the employee contribution rate to match the TRA employee contribution rate, which is one of two alternatives for bringing the IRAP into compliance. (The other alternative—not included in the bill—would have been to eliminate the election to transfer to TRA.) The current employee contribution rate of 4.5% is increased to 7.5%, effective July 1, 2019, and is tied to the TRA rate thereafter. The employee contribution rate for employees who are not eligible for an election is increased over a five-year phase in, which brings their contribution rate equal to the TRA rate by July 1, 2024.

Employer Contributions to the IRAP.

The bill increases employer contributions to the IRAP. The employer contribution rate is phased in starting in 2019 and completing the phase-in in on July 1, 2024. The current employer contribution rate is 6%. At the end of the phase-in period, the IRAP employer contribution rate will be tied to the TRA employee contribution rate (scheduled to be 7.75%).

6. Generally Applicable Retirement Plan Changes

The bill includes three generally applicable retirement plan provisions. The first comes from the State Auditor's Fire Relief Association Working Group bill and increases the threshold for plan assets required before an entity is subject to a more stringent investment reporting requirement from \$25,000,000 to \$50,000,000.

The second applies to the statewide retirement systems and the State Board of Investment. Those entities are currently exempt from using MN.IT services. This provision inserts that exemption into Chapter 356.

The third provision creates a one-year exemption for the City of St. Paul and the St. Paul School District, allowing them to continue to make contributions to supplemental pension and retirement plans on behalf of trade union employees for one year, until June 30, 2020. Current law prohibits contributions to supplemental plans unless specifically allowed as an exception; however, the exceptions in current law do not cover most of the contributions being made by these employers to a number of multiemployer plans. The LCPR staff is required to work with the effected groups to propose legislation for consideration by the Commission during the 2020 legislative session that would resolve the non-compliance.

7. Minneapolis Employee Retirement Fund (MERF) Supplemental Contributions.

The bill reduces the employer supplemental contributions paid by the City of Minneapolis and related entities to PERA on behalf of MERF. Current law provides for a 2019 contribution of \$31,000,000. The new amount is \$21,000,000. The bill also increases the state's contribution to PERA on behalf of MERF from the current \$6,000,000 to \$16,000,000.

8. State Aid to Local Governments for Contributions to PERA.

Since 1997, the state has provided aid to local government to defray some of the cost of employer contributions to PERA. The authorization for the state aid expires on June 30, 2020. The bill changes the expiration date to the earlier June 30, 2048, or the year following the PERA General Employees Retirement Plan achieving full funding. The amount of state aid paid in 2019 was \$13,919,000.

2019 Omnibus Pension Bill
Bills passed as of March 26, 2019

Source Bills

Delete-all amendment H2632-1A includes all or portions of the following retirement bills recommended by the Commission through March 26, 2019:

- 1. HF 483 (Poppe); SF 570 (Sparks)**
Extending the alternative allocation of fire state aid for the City of Austin.
- 2. HF 2310 (Sundin); SF 2366 (Rarick)**
PERA Statewide Volunteer Firefighter Plan; Authorizing the termination of plan participation and coverage and distribution of benefits.
- 3. HF 2373 (Murphy, by request); SF 2491 (Rosen)**
State Auditor's Volunteer Fire Relief Association Working Group bill.
- 4. HF 2387 (Murphy, by request); SF 2488 (Rosen)**
PERA; Extending the 1997 state aid to local governments to fund increased employer contributions to PERA.
- 5. HF 2489 (Murphy, by request); SF xxxx**
Minnesota State IRAP; Employee contribution rate increase.
- 6. HF 2512 (Long); SF 2515 (Dziedzic)**
PERA; Revising the employer supplemental and state contributions to PERA related to the former Minneapolis Employees Retirement Fund (MERF).
- 7. HF 2598 (Freiberg); SF 2490 (Jasinski)**
PERA Police and Fire Plan; Revising the City of Minneapolis municipal contribution related to the former Minneapolis fire and police relief associations.
- 8. HF 2631 (Nelson); SF 2621 (Senjem)**
Prohibition on supplemental pension and retirement plans; exemption for contributions to labor organization multiemployer plans.
- 9. HF 2632 (Murphy, by request); SF 2583 (Rosen)**
MSRS administrative bill.
- 10. HF 2633 (Murphy, by request); SF 2584 (Rosen)**
PERA Phased Retirement Program; Eliminate sunset and annual renewal requirement.
- 11. HF 2671 (Nelson); SF 243 (Frentz)**
Minnesota State IRAP; Employer contribution rate increase.

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Section-by-Section Summary

Article 1: Minnesota State Retirement System Administrative Provisions

Sec.	Pg.Ln	Source	Statute	Plan	Summary
1	1.9	HF2632; SF2583	3A.02, New Subd. 7	Legis- lators Plan	Specifies that the annuity application procedure for the Legislator's plan is the application procedure in § 352.115.
2	1.14	HF2632; SF2583	352.03, Subd. 1	MSRS Plans	Clarifies that Unclassified Plan members are eligible to vote in board elections and makes clarifying changes.
3	2.26	HF2632; SF2583	352.03, Subd. 1b	MSRS Plans	Adds references to the Unclassified Plan and makes clarifying changes.
4	3.14	HF2632; SF2583	352.113, Subd. 2	MSRS Plans	Specifies that disability applications must include certain medical reports at the time they are filed.
5	3.25	HF2632; SF2583	352.115, Subd. 7	MSRS Plans	Corrects one word - "in" to "on".
6	4.1	HF2632; SF2583	352.115, New Subd. 7a	MSRS Plans	Establishes the procedure for filing an application for an annuity or any other benefit.
7	4.19	HF2632; SF2583	352.23	MSRS Plans	Clarifies that a refund must be repaid in full before a member is entitled to restoration of full benefits, including Rule of 90.
8	5.13	HF2632; SF2583	352.85, Subd. 4	Military Affairs Plan	Clarifies that a coverage election is retroactive to the first day of employment, and the employer and member must pay the difference between MSRS General and Military Affairs contribution rates for the period between the first date of employment and the election date.
9	5.26	HF2632; SF2583	352.87, Subd. 8	State Fire Marshal Plan	Clarifies that a coverage election is retroactive to the first day of employment, and the employer and member must pay the difference between MSRS General and Fire Marshal contribution rates for the period between the first date of employment and the election date.
10	6.7	HF2632; SF2583	352B.08, New Subd. 1a	State Patrol Plan	Specifies that the annuity application procedure for the State Patrol Plan is the application procedure in § 352.115.
11	6.12	HF2632; SF2583	352D.05, Subd. 3	Unclasi- fied Plan	Modifies the Unclassified Plan application for withdrawal procedure to conform with the application procedure in § 352.115.
12	6.24	HF2632; SF2583	352F.04, Subd. 1	U of M Hospital Privatized Employees	Corrects an error in the 2018 omnibus bill related to former University of Minnesota Hospital (aka Fairview) employees to provide that the augmentation rate changes are prospective only and that any augmentation credited before January 1, 2019, is not forfeited or reduced.
13	7.10	HF2632; SF2583	490.126, Subd. 3	Judges Plan	Specifies that the annuity application procedure for the Judges Plan is the application procedure in § 352.115.

Section-by-Section Summary

Article 1: Minnesota State Retirement System Administrative Provisions

Sec.	Pg.Ln	Source	Statute	Plan	Summary
14	7.20	HF2632; SF2583	352F.06	U of M Hospital Privatized Employees	Repeals Minn. Stat. § 352F.06, which applies earnings limitations to Fairview employees upon return to public employment, and is inconsistent with changes made under the 2018 Omnibus Retirement Bill to allow Fairview employees to receive an MSRS annuity while still employed.

Article 2: Public Employees Retirement Association Provisions

Sec.	Pg.Ln	Source	Statute	Plan	Summary
1	7.25	HF2633; SF2584	353.371, Subd. 1	PERA Phased Retirement Option (PRO)	Clarifies that elected officials are not permitted to enter into a PRO and that the eligibility requirements must be met no later than the end of the month in which the PRO begins; makes technical changes
2	8.21	HF2633; SF2584	353.371, Subd. 2	PERA PRO	Makes clarifying language changes.
3	8.27	HF2633; SF2584	353.371, Subd. 3	PERA PRO	Makes clarifying language changes.
4	9.4	HF2633; SF2584	353.371, Subd. 4	PERA PRO	Removes the requirement that the initial period of a PRO agreement is limited to 1 year, and prohibits an employee from being employed under a PRO agreement or combination of PRO agreements for longer than 5 years.
5	9.14	HF2633; SF2584	353.371, Subd. 5	PERA PRO	Requires documentation of a PRO agreement be provided to PERA before the employee's termination of membership.
6	9.23	HF2633; SF2584	353.371, Subd. 6	PERA PRO	Establishes a new reporting requirement that employers must report the number of hours worked by employees covered by a PRO within 14 days of the end of each pay period.
7	10.7	HF2633; SF2584	353.371, Subd. 7	PERA PRO	Establishes a new reporting requirement that employers and employees must inform PERA that the employee has terminated from a PRO covered position, and clarifies that any public employment that occurs after the PRO agreement cannot commence until at least 30 days after employment under the PRO ends.
8	10.23	HF2598; SF2490	353.665, Subd. 8	PERA P&F	Deletes language that is either obsolete or moved to new subdivision 8a.
9	12.8	HF2598; SF2490	353.665, New Subd. 8a	PERA P&F	Adds a new subdivision that establishes the amounts of the annual contribution by the City of Minneapolis to the PERA Police and Fire Plan with regard to the former Minneapolis firefighters and police relief associations for 2019 through 2031.

Section-by-Section Summary

Article 2: Public Employees Retirement Association Provisions

Sec.	Pg.Ln	Source	Statute	Plan	Summary
10	12.22	HF2633; SF2584	353.371, Subd. 8	PERA PRO	Repeals Minn. Stat. § 353.371, Subd. 8, which established an expiration date for the PRO program.

Article 3: Statewide Volunteer Firefighter Plan Provisions

Sec.	Pg.Ln	Source	Statute	Plan	Summary
1	12.27	HF2310; SF2366	New Section 353G.18	PERA SVF	Provides a new process by which a municipality may terminate its participation in the Statewide Plan and authorize the distribution of benefits; includes provisions for full vesting of all firefighters and allocation of any assets in excess of benefit liabilities.
2	15.24	HF2310; SF2366	Session Law	PERA SVF	Grandfathers, for the benefit of Brevator Township, any previously approved termination, establishes a termination date, and permits the termination to proceed in accordance with the resolutions adopted by the board of the municipality.
3	16.1	HF2310; SF2366	353G.15	PERA SVF	Repeals § 353G.15, now obsolete, which permitted direct rollovers of distributions, subject to the election of the firefighter, from the Statewide Plan only if the Plan receives a favorable determination letter from the IRS, which letter was issued in 2016.

Article 4: Volunteer Firefighter Relief Association Retirement Changes

Sec.	Pg.Ln	Source	Statute	Plan	Summary
1	16.7	HF2373; SF2491	69.051, Subd. 1	VFRAs	Incorporates the requirements of § 6.65, ensuring that the audits of relief associations include legal compliance as well as financial reports.
2	17.7	HF2373; SF2491	424A.001, New Subd. 9a	VFRAs	Creates a new definition for “break in service.”
3	17.6	HF2373; SF2491	424A.01, Subd. 6	VFRAs	Clarifies the requirements within which relief associations may define the treatment of firefighters who return to service after a break in service.
4	21.1	HF2373; SF2491	424A.015, Subd. 6	VFRAs	Clarifies that, in determining the amount of a pension benefit, the applicable benefit level is the level in effect at the earlier of: 1) the date of the firefighter’s separation from active service; or 2) the date on which the member begins a break in service if the break continues until the member’s separation from active service.

Section-by-Section Summary

Article 4: Volunteer Firefighter Relief Association Retirement Changes

Sec.	Pg.Ln	Source	Statute	Plan	Summary
5	21.12	HF2373; SF2491	424A.016, Subd. 3	Defined contri- bution VFRAs	Adds a definition of “vesting” and “vested,” and clarifies that a defined contribution relief association’s bylaws may not require more than 20 years to become fully vested and may not provide more generous vesting percentages than the following: <ul style="list-style-type: none"> • 40% vested with 5 years • 52% vested with 6 years • 64% vested with 7 years • 76% vested with 8 years • 88% vested with 9 years • 100% vested with 10 years
6	22.10	HF2373; SF2491	424A.016, Subd. 6	Defined contri- bution VFRAs	Replaces “paid” with “credited” and “pay” with “credit” to correct language regarding investment earnings on a defined contribution account for an inactive firefighter who has not yet reached age 50.
7	23.16	HF2373; SF2491	424A.02, Subd. 2	Defined benefit VFRAs	Makes the same changes that were made in section 5, above, to the vesting requirements for defined benefit relief associations and revises the requirements for defined benefit relief associations to be identical to the vesting requirements for defined contribution plans, shortening the 5- to 20-year vesting schedule to a 5- to 10-year vesting schedule.
8	24.28	HF2373; SF2491	424A.02, Subd. 7	Defined benefit VFRAs	Replaces “paid” with “credited” and “pay” with “credit” to correct language regarding the annual interest that will be credited automatically on the pension benefit of an inactive firefighter who has not yet reached age 50, if the bylaws of a relief association so provides.
9	26.17	HF2373; SF2491	424A.02, Subd. 9	Defined benefit VFRAs	Clarifies that, for deferred members, the amount of a disability or survivor benefit is calculated using the benefit level in effect on the date of separation from service, unless the bylaws provide differently.
10	28.24	HF2373; SF2491	424A.02, Subd. 10	Defined benefit VFRAs	Clarifies the entities that would approve a bylaws amendment that must be filed with the State Auditor.
11	29.32	HF2373; SF2491	424A.10, Subd. 1	VFRAs	Authorizes the payment of supplemental survivor benefits to a designated beneficiary or to an estate if there is no surviving spouse and no surviving children.
12	31.1	HF483; SF570	Laws 2018, Ch. 211, Art. 14, Sec. 26	Fire state aid City of Austin	Extends the expiration from July 1, 2019, to July 1, 2020, of the 2018 session law permitting an alternative allocation of fire state aid by the City of Austin.

Section-by-Section Summary

Article 5: Minnesota State Colleges and Universities Retirement Provisions

Sec.	Pg.Ln	Source	Statute	Plan	Summary
1	31.27	HF2489	354B.23, Subd. 1	MNState IRAP	Increases the IRAP employee contribution rate to the TRA member rate, except that, for participants who achieved tenure before July 1, 2018, or who are in an unclassified administrative position, not faculty, and started contributing to IRAP before July 1, 2018, the employee contribution rate is increased by 0.65% of pay per year over the next five years until the rate equals the TRA member contribution rate. The immediate increase to the TRA rate for all participants who may have a “second chance election” to transfer to TRA is intended to bring the IRAP into compliance with federal regulations governing the option to elect coverage by another plan.
2	32.16	HF2671; SF243	354B.23, Subd. 3	MNState IRAP	Ties the IRAP employer contribution rate to the TRA employee contribution rate, phasing in the increases by 0.35% each year between FY2020 and FY2025.

Article 6: Generally Applicable Retirement Plan Changes

Sec.	Pg.Ln	Source	Statute	Plan	Summary
1	32.26	HF2373; SF2491	356.219, Subd. 3	VFRAAs	Increases the additional investment reporting threshold from \$25M to \$50M so relief associations remain under the threshold and maintain their current level of reporting.
2	34.30	HF2632; SF2583	New Section 356.97	Retire- ment, Generally	Adds a new section stating that MSRS, PERA, TRA, and SBI are exempt from the general requirement in Chapter 16E that MN.IT manage the provision of IT hardware and services for state agencies.
3	35.1	HF2631; SF2621 LCPR H2631-1A	Uncoded	Supple- mental plans restriction	Permits the City of St. Paul and the St. Paul School District to continue contributing to the listed multiemployer funds as required under the applicable collective bargaining agreements until June 30, 2020.
4	36.1	HF2631; SF2621 LCPR H2631-1A	Uncoded	Supple- mental plans restriction	Directs representatives of the City of St. Paul, the St. Paul School District, and the labor organizations listed in section 3, above, to work with LCPR staff during the interim to draft legislation for consideration during the 2020 legislative session that will eliminate the need to identify the multi-employer funds, while safeguarding the intent of the statute to limit the public funds contributed to supplemental pension and retirement plans.

Section-by-Section Summary

Article 7: Former MERF Division Employer and State Contribution Revisions

<u>Sec.</u>	<u>Pg.Ln</u>	<u>Source</u>	<u>Statute</u>	<u>Plan</u>	<u>Summary</u>
1	36.30	HF2512; SF2515	353.27, Subd. 3c	PERA Former MERF	Reduces the employer supplemental contribution relating to the merger of MERF into PERA from \$31M to \$21M, beginning July 1, 2019.
2	38.1	HF2512; SF2515	353.505	PERA Former MERF	Increases the State payment to PERA with respect to MERF from \$6M to \$16M, beginning with the September 15, 2019, payment and annually thereafter; provides for an appropriation.

Article 8: State Aid to Local Governments for Employer Contributions to PERA

<u>Sec.</u>	<u>Pg.Ln</u>	<u>Source</u>	<u>Statute</u>	<u>Plan</u>	<u>Summary</u>
1	38.17	HF2387; SF2488	273.1385, Subd. 4	Local gov't aid related to PERA General	Continues the aid, currently set to terminate June 30, 2020, to the earlier of: 1) the fiscal year after the fiscal year in which PERA General becomes fully funded; or 2) June 30, 2048, the end of PERA General's current 30-year amortization period.