

TO: Legislative Retirement Study Commission
RE: Brief Summary of Pension Legislation in 1974
DATE: April, 1974

I. Bills Which Became Law in 1974

During the 1974 session of the Minnesota Legislature, more than 70 bills were introduced which concerned pension matters. In addition, several of the more than 150 pension bills introduced in 1973 received further attention in 1974. In accordance with M.S. Section 3.85, these bills were reviewed and analyzed by the commission members and staff.

Of the bills introduced in 1974 and remaining from the 1973 session, 28 became law (see attachment). They may be classified as shown below. Also shown below for comparison is a similar classification of the 57 pension bills passed in 1973.

	<u>1974</u>	<u>1973</u>
Statewide Funds	5 bills	11 bills
1st Class City Funds	8 bills	4 bills
Local Police & Fire Fds.	3 bills	12 bills
Volunteer Fire Funds	4 bills	21 bills
Miscellaneous	8 bills	9 bills
Total	28 bills	57 bills

Several of the 1974 Session Laws represent significant pension changes which are briefly reviewed in the following section. (Significant changes resulting from the 1973 Session Laws were reviewed in a memorandum dated June, 1973).

II. Significant Changes

A. Statewide Funds

- The executive director of MSRS was given administrative responsibility for judges', legislators', and constitutional officers' retirement.
- The TRA law, M.S. Chapter 354, was thoroughly revised. A major change was made relating to the number of retirement programs available to TRA members, reducing the number from five to two (Formula, and Combined Formula & Variable), and placing all new employees in the full Formula Program.

B. Local Police & Paid Fire Funds

- One local police fund and two paid local fire funds were placed on a "phase out" basis in 1974. New employees will be covered by the PERA Police & Fire Fund rather than the local funds.

C. Miscellaneous

- Coverage under the MSRS correctional officers' plan was broadened to include certain personnel other than guards (e.g., teachers, tradesmen and maintenance personnel) at correctional institutions.

(Miscellaneous continued)

- Legislators taking leave of absence from public or private employment and constitutional officers taking leave of absence from public employment were given rights to reinstatement to their former positions after termination of legislative (or constitutional officers') service. Legislators and constitutional officers on leave from public employment would have their years of legislative (or constitutional officers') service count toward vesting requirements in their other public pension plans, but no pension credit will be given except in the Legislators' Retirement Plan.
- The "Private Pension Benefits Protection Act" imposes a "pension funding charge" on certain private employers who terminate pension plans. The pension funding charge would be an amount equal to the unfunded accrued liability for every employee with 10 or more years of service, and would be used to purchase annuities for employees whose pension credits would otherwise be forfeited. The act also requires further study of pension termination protection programs by subcommittee of the Governmental Operations Committee "and any other appropriate committees" prior to the 1975 legislative session. The act contains a "self-destruct" clause, becoming null and void in the event that the federal government imposes a mandatory plan of termination insurance on private pension plans.
- A "fixed-return account" was added to the other two accounts (growth share account and income share account) of the Supplemental Retirement Fund administered by the State Board of Investment.

III. Major Bills Which Failed to Become Law in 1974

Five major pension bills passed both houses in 1974 but failed to become law, as follows:

Vetoed by the Governor:	H.F. 3400	MSRS Housekeeping & miscellaneous amendments
(Incorporated into vetoed bill	S.F. 3008	PERA - building authorization
	S.F. 2759	Deferred Compensation - Making state plan available to subdivisions)
Died in Conference Committee	H.F. 3310	Judges - Housekeeping
	H.F. 3023	Actuarial Valuations - Revision of Chap. 356

Bills Passed in 1974 Concerning Pension Matters

	<u>Laws 1974</u>		
PERA	Chap. 229	(S.F. 3144)	Housekeeping
TRA	Chap. 289	(S.F. 3033)	Recodification
MSRS	Chap. 445	(H.F. 3060)	Transfer of administration of judges', legislators' & constitutional officers to MSRS
Highway Patrol	Chap. 454	(H.F. 3398)	Unclassified service of a patrol member transferred to Highway Patrol Program
Judges	Chap. 129	(H.F. 3132)	24 yrs. of service instead of 25 yrs. required for normal retirement at age 65 under old law
1st Class Cities	Chap. 213	(S.F. 2949)	Duluth Teachers - state aid distribution
	Chap. 214	(S.F. 2951)	Duluth Teachers - repeal of obsolete material
	Chap. 73	(S.F. 2823)	MMER - new formulas
	Chap. 74	(S.F. 2891)	MMER - disability benefits
	Chap. 75	(S.F. 2892)	MMER - survivors' benefits
	Chap. 76	(S.F. 2921)	MMER Housekeeping
	Chap. 232	(S.F. 3162)	MMER - survivors' increase
Local Police & Paid Fire	Chap. 49	(S.F. 2704)	St. Paul Bureau of Health
	Chap. 251	(H.F. 1409)	New Ulm Police - new men into PERA
	Chap. 382	(S.F. 1679)	St. Cloud - new men into PERA
Volunteer Fire	Chap. 183	(H.F. 1986)	Virginia Fire - new men into PERA
	Chap. 309	(H.F. 3533)	Backus - eligibility clarified
	Chap. 208	(S.F. 2450)	Falcon Heights - lump sum increase
	Chap. 188	(H.F. 2829)	Goodview - eligibility clarified
	Chap. 112	(H.F. 2726)	International Falls - lump sum increase

Miscellaneous	Chap. 520	(H.F. 2990)	Correctional employees - teachers, tradesmen, main- tenance personnel
	Chap. 552	(H.F. 3479)	Elected state officials - Compensating for reduction in benefits
	Chap. 94	(H.F. 1630)	Hennepin County - retirement age 65
	Chap. 306	(H.F. 102)	Legislators & Const. officers leave of absence
	Chap. 437	(H.F. 2764)	Private Pensions - benefit protection
	Chap. 4	(H.F. 1320)	State Board of Investment - Banks as legal investment
	Chap. 152	(H.F. 3058)	State Board of Investment - Fixed return account & misc.
	Chap. 145	(H.F. 995)	Volunteer Fire Fund payments - Exempt from state income tax

Chapter 1

✓ LRSC

Policy and Philosophy

Dr. Smith's Summary

✓ Summary of 1973-74 Retirement Legislation

Chapter 2

Overview - Payrolling Plans (including Legislators Plan, Judiciary, Constitutional Officers)

✓ autonomy and legislative responsibility

retiree's valuation (including 356 & 69 (Judicial))

✓ investments

post retirement adjustment

- Sample (Long)

✓ supplemental pensions and deferred compensation

portability

✓ vesting

mandatory retirement age

✓ buy-backs, waivers, return of refunds

state fire and police aid

✓ scope of pension coverage

Chapter 3

Statewide Funds

General Coordinated Funds MSRS, TRA, PERA Coord.

✓ General Basic Funds TRA & PERA basic

Protective and Safety Personnel Highway Patrol, PERA-PDF, Correctional Officers

✓ Legislators and Constitutional Officers

Judges Fund

Chapter 4

First Class City Funds

✓ MMR

St. Paul, Mpls & Duluth TRA

✓ TEL (MTC)

U of M

Chapter 5

✓ Local Fire Police and Fire

Chapter 6

Volunteer Firemen

Chapter 7

✓ Private Pensions

✓ Glossary

1973 - 75 Legislative Biennium
of the
Legislative Retirement Study Commission

First Session Bills Concerning Pension Matters

I. Passed into Law in 1973

<u>PERA</u>	Chap. 753	(HF 1673)	Major Benefits Improvement Bill
<u>TRA</u>	Chap. 728	(HF 358)	Major Benefits Improvement Bill
	Chap. 270	(HF 356)	Housekeeping Matters Bill
<u>MSRS</u>	Chap. 653	(HF 1355)	Major Benefits Improvement Bill
	Chap. 221	(SF 912)	Housekeeping Matter Bill
	Chap. 624	(HF 1626)	Unclassified Employee Plan Recodification
<u>Highway</u>			
<u>Patrol</u>	Chap. 755	(HF 1906)	Major Benefit Improvement Bill
	Chap. 70	(SF 233)	Survivor Benefit Bill
	Chap. 178	(HF 821)	Statutory Recodification Bill
<u>Judges</u>	Chap. 744	(HF 1675)	Statewide Judicial Plan Enactment
	Chap. 229	(SF 1287)	County Court Housekeeping Amendment
<u>1st Class</u>	Chap. 133	(HF 1218)	Mpls. Municipal Fund Recodification
<u>City Fds.</u>			
	Chap. 770	(HF 2447)	Mpls. Municipal Fund Benefit Improvement
	Chap. 767	(HF 2381)	St. Paul Bureau of Health into PERA
	Chap. 255	(SF 935)	1st Class City Retired Teachers as Substitutes
<u>Local</u>			
<u>P & F Fd.</u>	Chap. 382	(SF 496)	Gilbert Police Fund - new into PERA
	Chap. 272	(HF 748)	Mpls. Police Fund - administrative costs
	Chap. 309	(HF 890)	Mpls. Police Fund - elected official bill
	Chap. 433	(SF 925)	Chisholm Police & Fire - new into PERA
	Chap. 563	(SF 1028)	Cloquet Fire Fund - all into PERA
	Chap. 346	(SF 1128)	Red Wing Police Fund - new into PERA
	Chap. 286	(HF 1579)	St. Paul Police Fund - disability change
	Chap. 287	(HF 1580)	St. Paul Fire Fund - disability change
	Chap. 359	(SF 1708)	Red Wing Fire Fund - new into PERA
	Chap. 432	(SF 1954)	St. Cloud Police Fund - new into PERA
	Chap. 587	(SF 1949)	Anoka Police Fund - new into PERA
	Chap. 594	(SF 2275)	Fridley Fire Fund - all into PERA

Volunteer

<u>Funds</u>			
	Chap. 290	(HF 1727)	Chapter 69 - increase lump sum maximum
	Chap. 166	(HF 78)	Hastings Fire Fund - lump sum benefit change
	Chap. 464	(HF 217)	Roseville Fire Fund - monthly benefit change
	Chap. 170	(HF 263)	Brainerd Fire Fund - lump sum benefit change
	Chap. 30	(SF 228)	Golden Valley Fire Fund - lump sum benefit change
	Chap. 172	(HF 362)	St. Michael's Fire Fund - incorporation date bill
	Chap. 33	(SF 368)	Hoyt Lake Fire Fund - lump sum benefit change
	Chap. 173	(HF 425)	Mendota Heights Fire Fund - monthly benefit change
	Chap. 304	(HF 535)	Coon Rapids Fire Fund - lump sum benefit change
	Chap. 175	(HF 610)	Mound Fire Fund - monthly benefit change
	Chap. 472	(HF 895)	Wayzata Fire Fund - lump sum benefit change
	Chap. 311	(HF 964)	Thief River Falls - lump sum benefit change
	Chap. 502	(HF 959)	Canosia Fire Fund - levy provision
	Chap. 181	(HF 1130)	Owatonna Fire Fund - lump sum benefit change
	Chap. 182	(HF 1137)	New Ulm Fire Fund - monthly benefit change
	Chap. 288	(HF 1671)	Bemidji Fire Fund - lump sum benefit change
	Chap. 507	(HF 1214)	McKinley Fire Fund - dissolution process
	Chap. 280	(HF 1319)	Stillwater Fire Fund - lump sum benefit change
	Chap. 283	(HF 1510)	Anoka Fire Fund - lump sum benefit change
	Chap. 481	(HF 1578)	Sauk Rapids Fire Fund - lump sum benefit change
	Chap. 484	(HF 1844)	Redwood Falls Fire Fund - lump sum benefit change
Misc.	Chap. 7	(HF 97)	MAFB Fund mortality adjustments bill
	Chap. 129	(HF 540)	Investment Law Housekeeping Bill
	Chap. 772	(HF 2473)	Police and Fire Assumption Changes
	Chap. 248	(HF 178)	State Death Benefit for Police & Firemen
	Chap. 602	(HF 294)	All employers to pay benefits required - penalty
	Chap. 298	(HF 225)	Severance Pay Bill
	Chap. 435	(SF 2232)	State Employees Deferred Compensation Amendments
	Chap. 635	(HF 295)	Public Employee Bargaining Bill
	Chap. 380	(SF 410)	County Welfare Bill (Mpls. employees)

II. Pension Bills in Process at End of 1973 Session

<u>House File</u>	<u>Senate File</u>	<u>Subject</u>
827	1132	Private Pension Study Bill (H - passed S - floor)
1320	1491	Investment Laws as to Certain Banks (H - passed S. - N.A.)
1630	1064	Hennepin County Mandatory Retirement Amendment (H - passed S - pass subcommittee)
1409	1958	New Ulm Police Fund (new into PERA) (H - passed S - N.A.)
1674	1971	Statewide Funds Administrative Merger (H - passed to Gov. Op. S - N.A.)
2115	1437	Amendments to Actuarial Law of M.S. 356 (H - N.A. S - passed)
1836	1962	Eveleth Police Fund (new into PERA) (H - passed S - N.A.)
1986	2006	Virginia Fire Fund (new into PERA) (H - passed S - N.A.)
2116	2140	Winona Police & Fire Funds (new into PERA) (H - N.A. S - passed Gov. Op.)
2151	2165	Red Lake Falls Fire Fund - financing (H - laid over S - passed)
2226	(-)	Police State Aid Amendments Bill (H - passed S on floor)

III. Pension Bills not in process at end of 1973 Session

There were many pension bills introduced during the 1973 Session which received no hearings. Presumably, they are still "alive" and may be considered during the interim period and also during the 1974 Session. Several of the bills are of major import; such as those dealing with private pensions, merger of funds and financing of police and fire funds.

TO: Jay Forsman
RE: Summary of Major 1973 and 1974 Pension Legislation
FROM: Lawrence A. Martin
DATE: July 24, 1974

1. Public Employees Retirement Association (PERA)

A number of major changes were made in PERA during the 1973 session. The PERA benefit calculation was changed from a career salary average to an average of the highest salary for any five successive years. The four step benefit formula was simplified and replaced by a two step formula, dividing service years into the first ten years and the remainder, while assigning a percentage of benefit accrual to each step. Contributions from basic members (without Social Security) were increased from 6% to 8% of salary, and contributions from coordinated members (with Social Security) were increased from 3% to 4%. The regular employer contribution matches the employee contribution, and the additional employer contribution for amortization of the fund deficit was set at 2-1/2% for basic and 1-1/2% for coordinated memberships. A 25% improvement in benefits for members and beneficiaries drawing benefits as of July 1, 1973 was also included. Early retirement without actuarial benefit reduction was set at age 62 with at least 30 years service. Normal retirement is at age 65 with at least 10 years service. The interest assumption was increased from 3-1/2% to 5%. The PERA survivor benefits were given a revised calculation formula, with minimum monthly family benefit set at 30% of employee's salary to a maximum of \$400. The PERA--Police and Fire Fund was authorized to participate in the Minnesota Adjustable Fixed Benefit Fund, and the normal retirement age for Police and Fire Fund members was reduced to age 55 with at least 10 years service.

Action concerning PERA in the 1974 session was of a housekeeping nature. Numerous statutory definitions were clarified, and obsolete language was eliminated. The survivor benefits family maximum was raised to \$450 per month for both PERA and PERA--Police and Fire Fund. Provision was also made for a surviving spouse optional annuity. In addition, the interest rate for deferred retirement annuity augmentation was raised from 3-1/2% to 5%.

2. Teachers Retirement Association (TRA)

Major changes were made in TRA during the 1973 session, in keeping with the other statewide funds. The career salary average was replaced by the average of the highest salary for any five consecutive years. A two step benefit calculation for those retirement options involving the formula program simplified the previous four step schedule. Service years are divided into the first ten, which qualify the member for vesting, and the remainder of vested service. Contributions by employee and employer were increased from 7% to 8% each for a basic membership and from 3-1/2% to 4% each for a coordinated membership. The additional employer contribution was increased from 2% to 2-1/2%. Early retirement without actuarial benefit reduction was provided for at age 62 with 30 years service. TRA was included in the 25% improvement of benefits granted to members and beneficiaries drawing benefits as of July 1, 1973. The interest assumption was increased from 3-1/2% to 5%. Survivor benefits were revised to 30% full benefit for a wife and 10% per child to a \$400 monthly family maximum. Provisions of the statutes pertaining to retirement for State College Teachers were clarified.

In the 1974 session, there was a major recodification of TRA law. Definitions of the basic TRA membership (without Social Security) and the coordinated TRA membership (with Social Security) were added to the statutes. The five retirement options previously in effect were reduced to two: the formula program and the combined formula and variable annuity program. Benefit calculation schedules are established for both options and for both memberships. Teachers hired since June 30, 1974 are covered by the formula program only. Definitions are clarified, including the

substitution of "spouse" for "wife" regarding survivor benefits. The family maximum for survival benefits were raised to \$450 per month. Those sections excepting Teacher Retirement Associations in the three cities of the first class from the requirements of the general TRA law are assigned to a new Chapter. In addition, the interest rate for deferred retirement annuity augmentation was set at 5%.

3. Minnesota State Retirement System (MSRS)

MSRS was included in the major benefit improvement actions of the 1973 session. The career salary average was replaced by the average of five highest successive years. The two step formula was substituted for the previous four step formula, dividing service into the ten years required for vesting and the remainder. Benefit calculation was set at 1% of salary for the first ten years, 1.5% for the remainder. Employee and employer contributions are each 4%, with an additional 2% required of the employer for amortization of the deficit. Benefits for members and beneficiaries drawing benefits as of July 1, 1973 were improved by 25%. The interest assumption was increased from 3-1/2% to 5%. Early retirement at age 62 with 30 years at no actuarial benefit reduction was also included. The unclassified service retirement program was merged with MSRS, and the Highway Patrol fund was placed under MSRS administration. Correctional employees were granted special retirement considerations due to the hazardous nature of their employment. In addition to the five high years average, the two step benefit formula for correctional employees is divided into the first twenty years at 2.5%, and the remainder at 2.0%, to a limit of 75% of average salary. Normal retirement was reduced to age 55 with at least ten years service. Contributions by correctional employees were set at 6%, employers at 9%, with the employers additional contribution to amortize the fund deficit set at 5%.

Legislation in 1974 concerning MSRS was limited to transferring the administration of the retirement programs of legislators, constitutional officers and judiciary to MSRS, and broadening the special coverage granted correctional employees to include all correctional personnel engaged in rehabilitation or custody work in correctional facilities.

4. Local Police and Paid Fire Funds

During the 1973 session, 5 Police funds and 1 paid Fire fund were authorized to place new members into PERA--Police and Fire Fund. The Police funds were Gilbert, Chisholm, Red Wing, St. Cloud and Anoka. The Fire fund was Red Wing. The Fire funds of Fridley and Cloquet were authorized to place all members into PERA--Police and Fire Fund. The Police fund of St. Paul was granted an on-duty disability benefit increase for service past 20 years. The Fire fund of St. Paul was granted a retirement benefit increase for recent annuitants with service past 20 years. Members of the Minneapolis Police fund on leave of absence for service as elected officials were allowed to retain their pension rights. The Minneapolis Police fund also requested and was granted authority to increase the salaries of the president and secretary of the retirement association, and to pay benefits to beneficiaries no longer in residence in the United States. In 1974, the Police fund of New Ulm, and the Fire funds of St. Cloud and Virginia were all authorized to place new members into PERA--Police and Fire Fund.

5. Volunteer Fire Funds

During the 1973 session, the lump sum maximum benefit limit for volunteer fire funds was raised from \$200 to \$300 for each year of service. The thirteen fire funds of Anoka, Bemidji, Brainerd, Coon Rapids, Golden Valley, Hastings, Hoyt Lakes, Owatonna, Redwood Falls, Sauk Rapids, Stillwater, Thief River Falls, and Wayzata all sought and were granted lump sum increases in excess of this maximum. The four fire funds of Mendota Heights, Mound, New Ulm, and Roseville sought and received authorization for a monthly benefit above the statutory limit of \$40.

The fire fund of Canosia was granted a levy authorization. With the dissolution of the village of McKinley, the fire fund was authorized to divide and distribute the fund's assets. The fire fund of St. Michael had the eligibility requirements of its fund clarified. In 1974, the fire funds of International Falls and Falcon Heights sought and were granted lump sum maximum benefit increase in excess of the limits. The fire funds of Backus and Goodview had eligibility requirements for their funds clarified. In addition, payments received from a volunteer firemen's relief association as refunds or benefits were added as exemptions from gross income for state income tax, effective for taxable years commencing after December 31, 1974.

6. Miscellaneous Pension Legislation

In 1973, the pension adjustment calculation of the Minnesota Adjustable Fixed Benefit Fund was modified to insure uniformity of pension increases among the participating funds by removing the influence of the mortality factor, utilizing the same accumulation factor and adjustment ratio for each fund, and creating a single annuity stabilization reserve. The assumptions specified in statute for actuarial reporting by police and fire funds was increased from 3% to 5% for interest and from 3% to 3.5% for future salary. A fund was established and money appropriated to provide a \$25,000 death benefit to dependent survivors of a peace officer killed in the line of duty. A gross misdemeanor penalty was prescribed for employers failing to pay previously agreed benefits or wage supplements, including retirement benefits and contributions. Retirement contributions and benefits were excluded from negotiable terms and conditions of employment in Public Employees Bargaining bill.

In 1974, private pension legislation was enacted which imposed a pension funding charge to cover the pension rights of those employees of certain private employers with one hundred or more employees who terminate their pension plans. With regards to public pension legislation, constitutional officers on leave of absence from public employment and legislators on leave of absence from public or private employment were allowed reinstatement of their positions after termination of service, with the years taken on leave counting toward vesting but not benefit credit in their pension plan. Years taken on leave in legislative service would only credit toward the legislator's retirement plan. A fixed return account was added to the income share and growth share accounts of the Supplemental Retirement Fund administered by the State Board of Investment. Share purchase options for employees in the retirement program are expanded with the addition of the new account.