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State of Minnesota  
HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH  
SESSION

HOUSE FILE No. **2341**

March 23, 2007

Authored by Thissen, by request

The bill was read for the first time and referred to the Committee on Governmental Operations, Reform, Technology and Elections

A bill for an act

relating to retirement; modifying adjustments by the commissioner of education to aid payments for Special School District No. 625; increasing direct state supplemental contributions to the St. Paul Teachers Retirement Fund Association; removing the sunset and redistributive provisions on direct state supplemental aids to teacher retirement funds; increasing employer contribution rates; repealing language on administrative cost-related member contribution surcharges; eliminating an investment-related postretirement increase for the St. Paul Teachers Retirement Fund Association; providing for a limited cost-of-living increase; establishing a new amortization target date for the St. Paul Teachers Retirement Fund Association; appropriating money; amending Minnesota Statutes 2006, sections 127A.50, subdivision 1; 354A.12, subdivisions 2a, 3a, 3c; 354A.29, subdivisions 3, 4; 356.215, subdivision 11; repealing Minnesota Statutes 2006, sections 127A.50, subdivision 5; 354A.12, subdivision 3d; 354A.29, subdivision 6.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2006, section 127A.50, subdivision 1, is amended to read:

Subdivision 1. **Aid adjustment.** Beginning in fiscal year 1998 and each year thereafter, the commissioner of education shall adjust state aid payments to school operating funds for Independent School District No. 625 ~~and~~ by the net amount of clauses (1), (2), and (5), Independent School District No. 709 by the net amount of clauses (1) and (2), for Special School District No. 1 by the net amount of clauses (1), (2), and (4), and for all other districts, including charter schools, but excluding any education organizations that are prohibited from receiving direct state aids under section 123A.26 or 125A.75, subdivision 7, by the net amount of clauses (1), (2), (3), and (4):

(1) a decrease equal to each district's share of the fiscal year 1997 adjustment effected under Minnesota Statutes 1996, section 124.2139;

2.1 (2) an increase equal to one percent of the salaries paid to members of the general  
 2.2 plan of the Public Employees Retirement Association in fiscal year 1997, multiplied by  
 2.3 0.35 for fiscal year 1998 and 0.70 each year thereafter;

2.4 (3) a decrease equal to 2.34 percent of the salaries paid to members of the Teachers  
 2.5 Retirement Association in fiscal year 1997; and

2.6 (4) an increase equal to 0.5 percent of the salaries paid to members of the Teachers  
 2.7 Retirement Association in fiscal year 2007.

2.8 (5) an increase equal to 1.0 percent of the covered salaries for members of the St.  
 2.9 Paul Teachers Retirement Fund Association in the most recent fiscal year as certified by  
 2.10 the executive director of the retirement fund.

2.11 Sec. 2. Minnesota Statutes 2006, section 354A.12, subdivision 2a, is amended to read:

2.12 Subd. 2a. **Employer regular and additional contribution rates.** (a) The  
 2.13 employing units shall make the following employer contributions to teachers retirement  
 2.14 fund associations:

2.15 (1) for any coordinated member of a teachers retirement fund association in a city  
 2.16 of the first class, the employing unit shall pay the employer Social Security taxes in  
 2.17 accordance with section 355.46, subdivision 3, clause (b);

2.18 (2) for any coordinated member of one of the following teachers retirement fund  
 2.19 associations in a city of the first class, the employing unit shall make a regular employer  
 2.20 contribution to the respective retirement fund association in an amount equal to the  
 2.21 designated percentage of the salary of the coordinated member as provided below:

2.22	Duluth Teachers Retirement	
2.23	Fund Association	4.50 percent
2.24	St. Paul Teachers Retirement	
2.25	Fund Association	<del>4.50</del> 5.50 percent

2.26 (3) for any basic member of the St. Paul Teachers Retirement Fund Association, the  
 2.27 employing unit shall make a regular employer contribution to the respective retirement  
 2.28 fund in an amount equal to ~~8.00~~ 9.00 percent of the salary of the basic member;

2.29 (4) for a basic member of the St. Paul Teachers Retirement Fund Association, the  
 2.30 employing unit shall make an additional employer contribution to the respective fund in  
 2.31 an amount equal to 3.64 percent of the salary of the basic member;

2.32 (5) for a coordinated member of a teachers retirement fund association in a city  
 2.33 of the first class, the employing unit shall make an additional employer contribution to  
 2.34 the respective fund in an amount equal to the applicable percentage of the coordinated  
 2.35 member's salary, as provided below:

3.1	Duluth Teachers Retirement	
3.2	Fund Association	1.29 percent
3.3	St. Paul Teachers Retirement	
3.4	Fund Association	
3.5	July 1, 1993 - June 30, 1994	0.50 percent
3.6	July 1, 1994 - June 30, 1995	1.50 percent
3.7	July 1, 1997, and thereafter	3.84 percent

3.8 (b) The regular and additional employer contributions must be remitted directly to  
 3.9 the respective teachers retirement fund association at least once each month. Delinquent  
 3.10 amounts are payable with interest under the procedure in subdivision 1a.

3.11 (c) Payments of regular and additional employer contributions for school district  
 3.12 or technical college employees who are paid from normal operating funds must be made  
 3.13 from the appropriate fund of the district or technical college.

3.14 Sec. 3. Minnesota Statutes 2006, section 354A.12, subdivision 3a, is amended to read:

3.15 Subd. 3a. **Special direct state aid to first class city teachers retirement fund**  
 3.16 **associations.** (a) ~~In fiscal year 1998, the state shall pay \$4,827,000 to the St. Paul Teachers~~  
 3.17 ~~Retirement Fund Association, \$17,954,000 to the Minneapolis Teachers Retirement Fund~~  
 3.18 ~~Association, and \$486,000 to the Duluth Teachers Retirement Fund Association. In each~~  
 3.19 ~~fiscal year after fiscal year 2006, these payments to the first class city~~ Beginning in fiscal  
 3.20 year 2008, the state shall pay \$6,000,000 to the St. Paul Teachers Retirement Fund  
 3.21 associations must be \$2,827,000 for St. Paul, \$12,954,000 Association and \$13,300,000  
 3.22 to the Teachers Retirement Association for the former Minneapolis Teachers Retirement  
 3.23 Fund Association, and \$486,000 for Duluth.

3.24 (b) The direct state aids under this subdivision are payable October 1 annually. The  
 3.25 commissioner of finance shall pay the direct state aid. The amount required under this  
 3.26 subdivision is appropriated annually from the general fund to the commissioner of finance.

3.27 Sec. 4. Minnesota Statutes 2006, section 354A.12, subdivision 3c, is amended to read:

3.28 Subd. 3c. **Termination of supplemental contributions and direct matching**  
 3.29 **and state aid.** (a) The supplemental contributions payable to the Minneapolis Teachers  
 3.30 Retirement Fund Association by Special School District No. 1 and the city of Minneapolis  
 3.31 under section 423A.02, subdivision 3, ~~which must continue to be paid to the Teachers~~  
 3.32 ~~Retirement Association until 2037,~~ or to the St. Paul Teachers Retirement Fund  
 3.33 Association by Independent School District No. 625 under section 423A.02, subdivision  
 3.34 3, or the direct state aids under subdivision 3a to the St. Paul Teachers Retirement Fund  
 3.35 Association ~~terminate at the end of the fiscal year in which the accrued liability funding~~

4.1 ~~ratio for that fund, as determined in the most recent actuarial report for that fund by the~~  
 4.2 ~~actuary retained under section 356.214, equals or exceeds the accrued liability funding~~  
 4.3 ~~ratio for the teachers retirement association, as determined in the most recent actuarial~~  
 4.4 ~~report for the Teachers Retirement Association by the actuary retained under section~~  
 4.5 ~~356.214 must continue to be paid to the Teachers Retirement Association and the St. Paul~~  
 4.6 ~~Teachers Retirement Fund Association, respectively, until fiscal year 2037.~~

4.7 (b) If the state direct matching, state supplemental, or state aid is terminated for a  
 4.8 ~~first class city~~ teachers retirement fund association under paragraph (a), it may not again  
 4.9 be received by that fund.

4.10 ~~(c) If the St. Paul Teachers Retirement Fund Association is funded at the funding~~  
 4.11 ~~ratio applicable to the Teachers Retirement Association when the provisions of paragraph~~  
 4.12 ~~(b) become effective, then any state aid previously distributed to that association must be~~  
 4.13 ~~immediately transferred to the Teachers Retirement Association.~~

4.14 Sec. 5. Minnesota Statutes 2006, section 354A.29, subdivision 3, is amended to read:

4.15 Subd. 3. **Postretirement adjustment eligibility.** (a) The postretirement adjustment  
 4.16 described in the articles and bylaws of the St. Paul Teachers Retirement Fund Association  
 4.17 must be determined by the executive director and approved by the board annually after  
 4.18 ~~June 30~~ using the procedures under this section.

4.19 (b) On January 1, each eligible person who has been receiving accrued or received an  
 4.20 annuity or benefit under the articles of incorporation, the bylaws, or this chapter for at least  
 4.21 ~~12~~ three full calendar months as of the end of the fiscal calendar year is eligible to receive  
 4.22 a postretirement adjustment of 2.0 percent that is payable each the following January 1.

4.23 Sec. 6. Minnesota Statutes 2006, section 354A.29, subdivision 4, is amended to read:

4.24 Subd. 4. **Additional investment percentage Cost-of-living adjustment.** (a)  
 4.25 ~~An excess investment earnings~~ A percentage adjustment must be computed and paid  
 4.26 under this subdivision to those annuitants and eligible benefit recipients who have been  
 4.27 receiving an annuity or benefit for at least 12 months as determined each June 30 by the  
 4.28 ~~board of trustees~~ eligible persons as defined under subdivision 3. This adjustment is  
 4.29 determined by reference to the Consumer Price Index for urban wage earners and clerical  
 4.30 workers all items index as reported by the Bureau of Labor Statistics within the United  
 4.31 States Department of Labor each year as part of the determination of annual cost-of-living  
 4.32 adjustments to recipients of federal old-age, survivors, and disability insurance. For  
 4.33 calculations of the cost-of-living adjustment under paragraph (b), the term "average third  
 4.34 quarter Consumer Price Index value" means the sum of the monthly index values as

5.1 initially reported by the Bureau of Labor Statistics for the months of July, August, and  
 5.2 September, divided by 3.

5.3 ~~(b) The board shall also determine the five-year annualized rate of return attributable~~  
 5.4 ~~to the assets of the St. Paul Teachers Retirement Fund Association under the formula~~  
 5.5 ~~specified in section 11A.04, clause (11), and the amount of the excess five-year annualized~~  
 5.6 ~~rate of return over the preretirement interest assumption specified in section 356.215:~~

5.7 ~~(c) The excess investment percentage adjustment must be determined by multiplying~~  
 5.8 ~~the quantity one minus the rate of contribution deficiency, as specified in the most recent~~  
 5.9 ~~actuarial report of the actuary retained under sections 356.214 and 356.215, by the rate of~~  
 5.10 ~~return excess as determined in paragraph (b):~~

5.11 ~~(d) The excess investment percentage adjustment is payable to all annuitants and~~  
 5.12 ~~benefit recipients on the following January 1:~~

5.13 (b) Before January 1 of each year, the executive director must calculate the amount  
 5.14 of the cost-of-living adjustment by dividing the most recent average third quarter index  
 5.15 value by the same average third quarter index value from the previous year, subtract one  
 5.16 from the resulting quotient, and express the result as a percentage amount, which must be  
 5.17 rounded to the nearest one-tenth of one percent. The final amount may not be negative  
 5.18 and may not exceed 5.0 percent.

5.19 (c) The amount calculated under paragraph (b) is the full cost-of-living adjustment  
 5.20 to be applied as a permanent increase to the regular payment of each eligible member  
 5.21 under subdivision 3 on January 1 of the next calendar year. For any eligible member  
 5.22 whose effective date of benefit commencement occurred during the calendar year before  
 5.23 the cost-of-living adjustment is applied, the full increase amount must be prorated on the  
 5.24 basis of whole calendar quarters in benefit payment status in the calendar year prior to  
 5.25 the January 1 on which the cost-of-living adjustment is applied, rounded to the nearest  
 5.26 three-tenths of one percent.

5.27 Sec. 7. Minnesota Statutes 2006, section 356.215, subdivision 11, is amended to read:

5.28 Subd. 11. **Amortization contributions.** (a) In addition to the exhibit indicating the  
 5.29 level normal cost, the actuarial valuation must contain an exhibit indicating the additional  
 5.30 annual contribution sufficient to amortize the unfunded actuarial accrued liability. For  
 5.31 funds governed by chapters 3A, 352, 352B, 352C, 353, 354, 354A, and 490, the additional  
 5.32 contribution must be calculated on a level percentage of covered payroll basis by the  
 5.33 established date for full funding in effect when the valuation is prepared. For funds  
 5.34 governed by chapter 3A, sections 352.90 through 352.951, chapters 352B, 352C, sections  
 5.35 353.63 through 353.68, and chapters 353C, 354A, and 490, the level percent additional

6.1 contribution must be calculated assuming annual payroll growth of 6.5 percent. For funds  
6.2 governed by sections 352.01 through 352.86 and chapter 354, the level percent additional  
6.3 contribution must be calculated assuming an annual payroll growth of five percent. For the  
6.4 fund governed by sections 353.01 through 353.46, the level percent additional contribution  
6.5 must be calculated assuming an annual payroll growth of six percent. For all other funds,  
6.6 the additional annual contribution must be calculated on a level annual dollar amount basis.

6.7 (b) For any fund other than the Minneapolis Employees Retirement Fund ~~and~~,  
6.8 the Public Employees Retirement Association general plan, and the St. Paul Teachers  
6.9 Retirement Fund Association, if there has not been a change in the actuarial assumptions  
6.10 used for calculating the actuarial accrued liability of the fund, a change in the benefit  
6.11 plan governing annuities and benefits payable from the fund, a change in the actuarial  
6.12 cost method used in calculating the actuarial accrued liability of all or a portion of the  
6.13 fund, or a combination of the three, which change or changes by itself or by themselves  
6.14 without inclusion of any other items of increase or decrease produce a net increase in the  
6.15 unfunded actuarial accrued liability of the fund, the established date for full funding is the  
6.16 first actuarial valuation date occurring after June 1, 2020.

6.17 (c) For any fund or plan other than the Minneapolis Employees Retirement Fund and  
6.18 the Public Employees Retirement Association general plan, if there has been a change in  
6.19 any or all of the actuarial assumptions used for calculating the actuarial accrued liability  
6.20 of the fund, a change in the benefit plan governing annuities and benefits payable from  
6.21 the fund, a change in the actuarial cost method used in calculating the actuarial accrued  
6.22 liability of all or a portion of the fund, or a combination of the three, and the change or  
6.23 changes, by itself or by themselves and without inclusion of any other items of increase or  
6.24 decrease, produce a net increase in the unfunded actuarial accrued liability in the fund, the  
6.25 established date for full funding must be determined using the following procedure:

6.26 (i) the unfunded actuarial accrued liability of the fund must be determined in  
6.27 accordance with the plan provisions governing annuities and retirement benefits and the  
6.28 actuarial assumptions in effect before an applicable change;

6.29 (ii) the level annual dollar contribution or level percentage, whichever is applicable,  
6.30 needed to amortize the unfunded actuarial accrued liability amount determined under item  
6.31 (i) by the established date for full funding in effect before the change must be calculated  
6.32 using the interest assumption specified in subdivision 8 in effect before the change;

6.33 (iii) the unfunded actuarial accrued liability of the fund must be determined in  
6.34 accordance with any new plan provisions governing annuities and benefits payable from  
6.35 the fund and any new actuarial assumptions and the remaining plan provisions governing

7.1 annuities and benefits payable from the fund and actuarial assumptions in effect before  
7.2 the change;

7.3 (iv) the level annual dollar contribution or level percentage, whichever is applicable,  
7.4 needed to amortize the difference between the unfunded actuarial accrued liability amount  
7.5 calculated under item (i) and the unfunded actuarial accrued liability amount calculated  
7.6 under item (iii) over a period of 30 years from the end of the plan year in which the  
7.7 applicable change is effective must be calculated using the applicable interest assumption  
7.8 specified in subdivision 8 in effect after any applicable change;

7.9 (v) the level annual dollar or level percentage amortization contribution under item  
7.10 (iv) must be added to the level annual dollar amortization contribution or level percentage  
7.11 calculated under item (ii);

7.12 (vi) the period in which the unfunded actuarial accrued liability amount determined  
7.13 in item (iii) is amortized by the total level annual dollar or level percentage amortization  
7.14 contribution computed under item (v) must be calculated using the interest assumption  
7.15 specified in subdivision 8 in effect after any applicable change, rounded to the nearest  
7.16 integral number of years, but not to exceed 30 years from the end of the plan year in  
7.17 which the determination of the established date for full funding using the procedure set  
7.18 forth in this clause is made and not to be less than the period of years beginning in the  
7.19 plan year in which the determination of the established date for full funding using the  
7.20 procedure set forth in this clause is made and ending by the date for full funding in effect  
7.21 before the change; and

7.22 (vii) the period determined under item (vi) must be added to the date as of which  
7.23 the actuarial valuation was prepared and the date obtained is the new established date  
7.24 for full funding.

7.25 (d) For the Minneapolis Employees Retirement Fund, the established date for full  
7.26 funding is June 30, 2020.

7.27 (e) For the general employees retirement plan of the Public Employees Retirement  
7.28 Association, the established date for full funding is June 30, 2031.

7.29 (f) For the Teachers Retirement Association, the established date for full funding is  
7.30 June 30, 2037.

7.31 (g) For the St. Paul Teachers Retirement Fund Association, the established date for  
7.32 full funding is June 30, 2038. In addition to other requirements of this chapter, the annual  
7.33 actuarial valuation shall contain an exhibit indicating the funded ratio and the deficiency  
7.34 or sufficiency in annual contributions when comparing liabilities to the market value of  
7.35 the assets of the fund as of the close of the most recent fiscal year.

8.1            (h) For the retirement plans for which the annual actuarial valuation indicates an  
8.2 excess of valuation assets over the actuarial accrued liability, the valuation assets in  
8.3 excess of the actuarial accrued liability must be recognized as a reduction in the current  
8.4 contribution requirements by an amount equal to the amortization of the excess expressed  
8.5 as a level percentage of pay over a 30-year period beginning anew with each annual  
8.6 actuarial valuation of the plan.

8.7            Sec. 8. **REPEALER.**

8.8            Minnesota Statutes 2006, sections 127A.50, subdivision 5; 354A.12, subdivision 3d;  
8.9 and 354A.29, subdivision 6, are repealed.

**127A.50 AID ADJUSTMENTS DUE TO CHANGES IN EMPLOYER  
RETIREMENT CONTRIBUTION RATES.**

Subd. 5. **Adjustment termination.** All adjustments under this section terminate on June 30, 2020.

**354A.12 CONTRIBUTIONS BY EMPLOYEE AND EMPLOYER.**

Subd. 3d. **Supplemental administrative expense assessment.** (a) The active and retired membership of the St. Paul Teachers Retirement Fund Association is responsible for defraying supplemental administrative expenses other than investment expenses of the respective teacher retirement fund association.

(b) Investment expenses of the teachers retirement fund association are those expenses incurred by or on behalf of the retirement fund in connection with the investment of the assets of the retirement fund other than investment security transaction costs. Other administrative expenses are all expenses incurred by or on behalf of the retirement fund for all other retirement fund functions other than the investment of retirement fund assets. Investment and other administrative expenses must be accounted for using generally accepted accounting principles and in a manner consistent with the comprehensive annual financial report of the teachers retirement fund association for the immediately previous fiscal year under section 356.20.

(c) Supplemental administrative expenses other than investment expenses of the St. Paul Teachers Retirement Fund Association are those expenses for the fiscal year that:

(1) exceed, for the St. Paul Teachers Retirement Fund Association, \$443,745 an additional amount derived by applying the percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers All Items Index published by the Bureau of Labor Statistics of the United States Department of Labor since July 1, 2001, to the dollar amount; and

(2) exceed the amount computed by applying the most recent percentage of pay administrative expense amount, other than investment expenses, for the teachers retirement association governed by chapter 354 to the covered payroll of the respective teachers retirement fund association for the fiscal year.

(d) The board of trustees of the St. Paul Teachers Retirement Fund Association shall allocate the total dollar amount of supplemental administrative expenses other than investment expenses determined under paragraph (c), clause (2), among the various active and retired membership groups of the teachers retirement fund association and shall assess the various membership groups their respective share of the supplemental administrative expenses other than investment expenses, in amounts determined by the board of trustees. The supplemental administrative expense assessments must be paid by the membership group in a manner determined by the board of trustees of the respective teachers retirement association. Supplemental administrative expenses payable by the active members of the pension plan must be picked up by the employer in accordance with section 356.62.

(e) With respect to the St. Paul Teachers Retirement Fund Association, the supplemental administrative expense assessment must be fully disclosed to the various active and retired membership groups of the teachers retirement fund association. The chief administrative officer of the St. Paul Teachers Retirement Fund Association shall prepare a supplemental administrative expense assessment disclosure notice, which must include the following:

(1) the total amount of administrative expenses of the St. Paul Teachers Retirement Fund Association, the amount of the investment expenses of the St. Paul Teachers Retirement Fund Association, and the net remaining amount of administrative expenses of the St. Paul Teachers Retirement Fund Association;

(2) the amount of administrative expenses for the St. Paul Teachers Retirement Fund Association that would be equivalent to the teachers retirement association noninvestment administrative expense level described in paragraph (c);

(3) the total amount of supplemental administrative expenses required for assessment calculated under paragraph (c);

(4) the portion of the total amount of the supplemental administrative expense assessment allocated to each membership group and the rationale for that allocation;

(5) the manner of collecting the supplemental administrative expense assessment from each membership group, the number of assessment payments required during the year, and the amount of each payment or the procedure used to determine each payment; and

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(6) any other information that the chief administrative officer determines is necessary to fairly portray the manner in which the supplemental administrative expense assessment was determined and allocated.

(f) The disclosure notice must be provided annually in the annual report of the association.

(g) The supplemental administrative expense assessments must be deposited in the applicable teachers retirement fund upon receipt.

(h) Any omitted active membership group assessments that remain undeducted and unpaid to the teachers retirement fund association for 90 days must be paid by the respective school district. The school district may recover any omitted active membership group assessment amounts that it has previously paid. The teachers retirement fund association shall deduct any omitted retired membership group assessment amounts from the benefits next payable after the discovery of the omitted amounts.

**354A.29 ST. PAUL TEACHERS RETIREMENT FUND ASSOCIATION  
POSTRETIREMENT ADJUSTMENT.**

Subd. 6. **Lump sum postretirement adjustment transition.** This subdivision applies to all annuitants and beneficiaries of the association who received a lump sum postretirement adjustment before the calculation of the first postretirement adjustment under subdivisions 3 and 4. Before the calculation of the first postretirement adjustment under subdivisions 3 and 4, the annual retirement annuity must be increased by the amount of the lump sum postretirement adjustment described in the association bylaws and paid to the annuitant or beneficiary in 1997 before July 1, 1997, or if the annuitant or beneficiary was not eligible for a lump sum postretirement adjustment, then the annual benefit paid to that annuitant or benefit recipient must be increased by the cumulative percentage increase in the Consumer Price Index for urban wage earners and clerical workers All Items Index published by the United States Department of Labor, Bureau of Labor Statistics, from the date of the initial receipt of a retirement annuity or benefit of the person whose service is the basis of the benefit to June 30, 1997.