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HOUSE FILE No. **2361**

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

1.1 A bill for an act
1.2 relating to retirement; accounting and actuarial reporting; implementing various
1.3 generally accepted accounting principle requirements; amending Minnesota
1.4 Statutes 2006, sections 356.20; 356.215, subdivisions 1, 2.

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

1.6 Section 1. Minnesota Statutes 2006, section 356.20, is amended to read:

1.7 **356.20 PUBLIC PENSION FUND FINANCIAL REPORTING**
1.8 **REQUIREMENT.**

1.9 Subdivision 1. **Report required.** (a) The governing or managing board or the
1.10 chief administrative ~~officials~~ officer of the each public pension and retirement ~~funds~~
1.11 plan enumerated in subdivision 2 ~~shall~~ must annually prepare and file a financial report
1.12 following the close of each fiscal year.

1.13 (b) This requirement also applies to any plan or fund which may be a successor to any
1.14 organization so enumerated or to any newly formed retirement plan, fund or association
1.15 operating under the control or supervision of any public employee group, governmental
1.16 unit, or institution receiving a portion of its support through legislative appropriations.

1.17 (c) The report must be prepared under the supervision and at the direction of the
1.18 management of each ~~fund~~ plan and must be signed by the presiding officer of the managing
1.19 board of the ~~fund~~ plan and the chief administrative ~~official~~ officer of the ~~fund~~ plan.

1.20 Subd. 2. **Covered public pension plans ~~and funds~~.** This section applies to the
1.21 following public pension plans:

1.22 (1) the general state employees retirement plan of the Minnesota State Retirement
1.23 System;

2.1 (2) the general employees retirement plan of the Public Employees Retirement
2.2 Association;

2.3 (3) the Teachers Retirement Association;

2.4 (4) the State Patrol retirement plan;

2.5 (5) the St. Paul Teachers Retirement Fund Association;

2.6 (6) the Duluth Teachers Retirement Fund Association;

2.7 (7) the Minneapolis Employees Retirement Fund;

2.8 (8) the University of Minnesota faculty retirement plan;

2.9 (9) the University of Minnesota faculty supplemental retirement plan;

2.10 (10) the judges retirement fund;

2.11 (11) a police or firefighter's relief association specified or described in section
2.12 69.77, subdivision 1a, or a firefighter's relief association specified in section 69.771,
2.13 subdivision 1;

2.14 (12) the public employees police and fire plan of the Public Employees Retirement
2.15 Association;

2.16 (13) the correctional state employees retirement plan of the Minnesota State
2.17 Retirement System; and

2.18 (14) the local government correctional service retirement plan of the Public
2.19 Employees Retirement Association.

2.20 Subd. 3. **Filing requirement.** The financial report is a public record. A copy of the
2.21 report or a synopsis of the report containing the information required by this section must
2.22 be ~~distributed~~ made available annually to each member of the fund and to the governing
2.23 body of each governmental subdivision of the state which makes employers contributions
2.24 thereto or in whose behalf taxes are levied for the employers' contribution. A signed copy
2.25 of the report must be delivered to the executive director of the Legislative Commission
2.26 on Pensions and Retirement and to the Legislative Reference Library not later than six
2.27 months after the close of each fiscal year or one month following the completion and
2.28 delivery to the retirement fund of the actuarial valuation report of the fund by the actuary
2.29 retained under section 356.214, if applicable, whichever is later.

2.30 Subd. 4. **Contents of financial report.** (a) The financial report required by
2.31 this section must contain financial statements and disclosures that indicate the financial
2.32 operations and position of the retirement plan and fund. The report must conform with
2.33 generally accepted governmental accounting principles, applied on a consistent basis. The
2.34 report must be audited.

2.35 (b) The report must include, as part of its exhibits or its footnotes, an actuarial
2.36 disclosure item based on the actuarial valuation calculations prepared by the actuary

3.1 retained under section 356.214 or by the actuary retained by the retirement fund or
 3.2 plan, whichever applies, according to applicable actuarial requirements enumerated in
 3.3 section 356.215, and specified in the most recent standards for actuarial work adopted
 3.4 by the Legislative Commission on Pensions and Retirement. The ~~accrued~~ actuarial value
 3.5 of assets, the actuarial accrued liabilities, including accrued reserves, and the unfunded
 3.6 actuarial accrued liability of the fund or plan must be disclosed. The disclosure item
 3.7 must contain a declaration by the actuary retained under section 356.214 or the actuary
 3.8 retained by the fund or plan, whichever applies, specifying that the required reserves
 3.9 for any retirement, disability, or survivor benefits provided under a benefit formula are
 3.10 computed in accordance with the entry age actuarial cost method and in accordance
 3.11 with the most recent applicable standards for actuarial work adopted by the Legislative
 3.12 Commission on Pensions and Retirement.

3.13 ~~(b) Assets of the fund or plan contained in the disclosure item must include the~~
 3.14 ~~following statement of the actuarial value of current assets as defined in section 356.215,~~
 3.15 ~~subdivision 1:~~

	Value at cost	Value at market
Cash, cash equivalents, and		
short-term securities
Accounts receivable
Accrued investment income
Fixed income investments
Equity investments other		
than real estate
Real estate investments
Equipment
Participation in the Minnesota		
postretirement investment		
fund or the retirement		
benefit fund
Other
Total assets		
Value at cost	
Value at market	
Actuarial value of current		
assets	

3.37 ~~(c) The unfunded actuarial accrued liability of the fund or plan contained in the~~
 3.38 ~~disclosure item must include the following measures of unfunded actuarial accrued~~
 3.39 ~~liability, using the actuarial value of current assets:~~

4.1 ~~(1) the unfunded actuarial accrued liability, determined by subtracting the current~~
 4.2 ~~assets and the present value of future normal costs from the total current and expected~~
 4.3 ~~future benefit obligations; and~~

4.4 ~~(2) the unfunded pension benefit obligation, determined by subtracting the current~~
 4.5 ~~assets from the actuarial present value of credited projected benefits;~~

4.6 ~~If the current assets of the fund or plan exceed the actuarial accrued liabilities, the~~
 4.7 ~~excess must be disclosed and indicated as a surplus;~~

4.8 ~~(d) The pension benefit obligations schedule included in the disclosure must contain~~
 4.9 ~~the following information on the benefit obligations:~~

4.10 ~~(1) the pension benefit obligation, determined as the actuarial present value of~~
 4.11 ~~credited projected benefits on account of service rendered to date, separately identified~~
 4.12 ~~as follows:~~

- 4.13 ~~(i) for annuitants,~~
- 4.14 ~~retirement annuities,~~
- 4.15 ~~disability benefits,~~
- 4.16 ~~surviving spouse and child benefits;~~
- 4.17 ~~(ii) for former members without vested~~
- 4.18 ~~rights;~~
- 4.19 ~~(iii) for deferred annuitants' benefits,~~
- 4.20 ~~including any augmentation;~~
- 4.21 ~~(iv) for active employees,~~
- 4.22 ~~accumulated employee contributions,~~
- 4.23 ~~including allocated investment income,~~
- 4.24 ~~employer-financed benefits vested,~~
- 4.25 ~~employer-financed benefits nonvested,~~
- 4.26 ~~total pension benefit obligation; and~~

4.27 ~~(2) if there are additional benefits not appropriately covered by the foregoing items~~
 4.28 ~~of benefit obligations, a separate identification of the obligation.~~

4.29 ~~(e) (c)~~ The report must contain an itemized exhibit describing the administrative
 4.30 expenses of the plan, including, but not limited to, the following items, classified on a
 4.31 consistent basis from year to year, and with any further meaningful detail:

- 4.32 (1) personnel expenses;
- 4.33 (2) communication-related expenses;
- 4.34 (3) office building and maintenance expenses;
- 4.35 (4) professional services fees; and
- 4.36 (5) other expenses.

4.37 ~~(f) (d)~~ The report must contain an itemized exhibit describing the investment
 4.38 expenses of the plan, including, but not limited to, the following items, classified on a
 4.39 consistent basis from year to year, and with any further meaningful detail:

5.1 (1) internal investment-related expenses; and

5.2 (2) external investment-related expenses.

5.3 ~~(g)~~ (e) Any additional statements or exhibits or more detailed or subdivided
5.4 itemization of a disclosure item that will enable the management of the ~~fund~~ plan to
5.5 portray a true interpretation of the ~~fund's~~ plan's financial condition must be included in the
5.6 additional statements or exhibits.

5.7 Subd. 4a. **Financial report for police or firefighters relief association.** For any
5.8 police or firefighter's relief association referred to in subdivision 2, clause ~~(12)~~ (11), a
5.9 financial report that is duly filed and ~~meeting~~ meets the requirements of section 69.051
5.10 ~~must be~~ is deemed to have met the requirements of subdivision 4.

5.11 Sec. 2. Minnesota Statutes 2006, section 356.215, subdivision 1, is amended to read:

5.12 Subdivision 1. **Definitions.** (a) For the purposes of sections 3.85 and 356.20 to
5.13 356.23, each of the terms in the following paragraphs has the meaning given.

5.14 (b) "Actuarial valuation" means a set of calculations prepared by the actuary
5.15 retained under section 356.214 if so required under section 3.85, or otherwise, by an
5.16 approved actuary, to determine the normal cost and the accrued actuarial liabilities of
5.17 a benefit plan, according to the entry age actuarial cost method and based upon stated
5.18 assumptions including, but not limited to rates of interest, mortality, salary increase,
5.19 disability, withdrawal, and retirement and to determine the payment necessary to amortize
5.20 over a stated period any unfunded accrued actuarial liability disclosed as a result of the
5.21 actuarial valuation of the benefit plan.

5.22 (c) "Approved actuary" means a person who is regularly engaged in the business
5.23 of providing actuarial services and who has at least 15 years of service to major public
5.24 employee pension or retirement funds or who is a fellow in the Society of Actuaries.

5.25 (d) "Entry age actuarial cost method" means an actuarial cost method under which
5.26 the actuarial present value of the projected benefits of each individual currently covered
5.27 by the benefit plan and included in the actuarial valuation is allocated on a level basis over
5.28 the service of the individual, if the benefit plan is governed by section 69.773, or over the
5.29 earnings of the individual, if the benefit plan is governed by any other law, between the
5.30 entry age and the assumed exit age, with the portion of the actuarial present value which is
5.31 allocated to the valuation year to be the normal cost and the portion of the actuarial present
5.32 value not provided for at the valuation date by the actuarial present value of future normal
5.33 costs to be the actuarial accrued liability, with aggregation in the calculation process to be
5.34 the sum of the calculated result for each covered individual and with recognition given to
5.35 any different benefit formulas which may apply to various periods of service.

6.1 (e) "Experience study" means a report providing experience data and an actuarial
 6.2 analysis of the adequacy of the actuarial assumptions on which actuarial valuations are
 6.3 based.

6.4 (f) "~~Current~~ Actuarial value of assets" means:

6.5 (1) for the July 1, ~~2001~~ 2007, actuarial valuation, the market value of ~~all~~ net assets
 6.6 available for benefits as of June 30, 2001, reduced by: 2007;

6.7 ~~(i) 30 percent of the difference between the market value of all assets as of June 30,~~
 6.8 ~~1999, and the actuarial value of assets used in~~

6.9 (2) for the July 1, 2008, actuarial valuation, the market value of net assets available
 6.10 for benefits as of June 30, 2008, reduced by 80 percent of the difference between the actual
 6.11 net change in the market value of assets between June 30, 2007, and June 30, 2008, and
 6.12 the computed increase in the market value of assets between June 30, 2007, and June 30,
 6.13 2008, if the assets had increased at the percentage preretirement interest rate assumption
 6.14 used in the July 1, 2007, actuarial valuation;

6.15 (3) for the July 1, 1999 2009, actuarial valuation; the market value of net assets
 6.16 available for benefits as of June 30, 2009, reduced by:

6.17 ~~(ii)~~ (i) 60 percent of the difference between the actual net change in the market value
 6.18 of assets between June 30, ~~1999~~ 2007, and June 30, ~~2000~~ 2008, and the computed increase
 6.19 in the market value of assets between June 30, ~~1999~~ 2007, and June 30, ~~2000~~ 2008, if the
 6.20 assets had increased at the percentage preretirement interest rate assumption used in the
 6.21 July 1, ~~1999~~ 2007, actuarial valuation; and

6.22 ~~(iii)~~ (ii) 80 percent of the difference between the actual net change in the market
 6.23 value of assets between June 30, ~~2000~~ 2008, and June 30, ~~2001~~ 2009, and the computed
 6.24 increase in the market value of assets between June 30, ~~2000~~ 2008, and June 30, ~~2001~~
 6.25 2009, if the assets had increased at the percentage preretirement interest rate assumption
 6.26 used in the July 1, ~~2000~~ 2008, actuarial valuation;

6.27 ~~(2)~~ (4) for the July 1, ~~2002~~ 2010, actuarial valuation, the market value of ~~all~~ net
 6.28 assets available for benefits as of June 30, 2002 2010, reduced by:

6.29 ~~(i) ten percent of the difference between the market value of all assets as of June 30,~~
 6.30 ~~1999, and the actuarial value of assets used in the July 1, 1999, actuarial valuation;~~

6.31 ~~(ii)~~ (i) 40 percent of the difference between the actual net change in the market value
 6.32 of assets between June 30, ~~1999~~ 2007, and June 30, ~~2000~~ 2008, and the computed increase
 6.33 in the market value of assets between June 30, ~~1999~~ 2007, and June 30, ~~2000~~ 2008, if the
 6.34 assets had increased at the percentage preretirement interest rate assumption used in
 6.35 the July 1, ~~1999~~ 2007, actuarial valuation;

7.1 ~~(iii)~~ (ii) 60 percent of the difference between the actual net change in the market
 7.2 value of assets between June 30, ~~2000~~ 2008, and June 30, ~~2001~~ 2009, and the computed
 7.3 increase in the market value of assets between June 30, ~~2000~~ 2008, and June 30, ~~2001~~
 7.4 2009, if the assets had increased at the percentage preretirement interest rate assumption
 7.5 used in the July 1, ~~2000~~ 2008, actuarial valuation; and

7.6 ~~(iv)~~ (iii) 80 percent of the difference between the actual net change in the market
 7.7 value of assets between June 30, ~~2001~~ 2009, and June 30, ~~2002~~ 2010, and the computed
 7.8 increase in the market value of assets between June 30, ~~2001~~ 2009, and June 30, ~~2002~~
 7.9 2010, if the assets had increased at the percentage preretirement interest rate assumption
 7.10 used in the July 1, ~~2001~~ 2009, actuarial valuation; or

7.11 ~~(3)~~ (5) for any actuarial valuation after July 1, ~~2002~~ 2010, the market value of ~~all~~
 7.12 net assets available for benefits as of the preceding June 30, reduced by:

7.13 (i) 20 percent of the difference between the actual net change in the market value of
 7.14 assets between the June 30 that occurred three years earlier and the June 30 that occurred
 7.15 four years earlier and the computed increase in the market value of assets over that
 7.16 fiscal year period if the assets had increased at the percentage preretirement interest rate
 7.17 assumption used in the actuarial valuation for the July 1 that occurred four years earlier;

7.18 (ii) 40 percent of the difference between the actual net change in the market value of
 7.19 assets between the June 30 that occurred two years earlier and the June 30 that occurred
 7.20 three years earlier and the computed increase in the market value of assets over that
 7.21 fiscal year period if the assets had increased at the percentage preretirement interest rate
 7.22 assumption used in the actuarial valuation for the July 1 that occurred three years earlier;

7.23 (iii) 60 percent of the difference between the actual net change in the market value of
 7.24 assets between the June 30 that occurred one year earlier and the June 30 that occurred two
 7.25 years earlier and the computed increase in the market value of assets over that fiscal year
 7.26 period if the assets had increased at the percentage preretirement interest rate assumption
 7.27 used in the actuarial valuation for the July 1 that occurred two years earlier; and

7.28 (iv) 80 percent of the difference between the actual net change in the market value
 7.29 of assets between the immediately prior June 30 and the June 30 that occurred one year
 7.30 earlier and the computed increase in the market value of assets over that fiscal year period
 7.31 if the assets had increased at the percentage preretirement interest rate assumption used in
 7.32 the actuarial valuation for the July 1 that occurred one year earlier.

7.33 (g) "Unfunded actuarial accrued liability" means the total current and expected
 7.34 future benefit obligations, reduced by the sum of the current actuarial value of assets and
 7.35 the present value of future normal costs.

8.1 ~~(h) "Pension benefit obligation" means the actuarial present value of credited~~
8.2 ~~projected benefits, determined as the actuarial present value of benefits estimated to be~~
8.3 ~~payable in the future as a result of employee service attributing an equal benefit amount,~~
8.4 ~~including the effect of projected salary increases and any step rate benefit accrual rate~~
8.5 ~~differences, to each year of credited and expected future employee service.~~

8.6 Sec. 3. Minnesota Statutes 2006, section 356.215, subdivision 2, is amended to read:

8.7 Subd. 2. **Requirements.** (a) It is the policy of the legislature that it is necessary
8.8 and appropriate to determine annually the financial status of tax supported retirement and
8.9 pension plans for public employees. To achieve this goal:

8.10 (1) the actuary retained under section 356.214 shall prepare annual actuarial
8.11 valuations of the retirement plans enumerated in section 356.214, subdivision 1, paragraph
8.12 (b), and quadrennial experience studies of the retirement plans enumerated in section
8.13 356.214, subdivision 1, paragraph (b), clauses (1), (2), and (7); and

8.14 (2) the commissioner of finance may have prepared by the actuary retained by the
8.15 commission, two years after each set of quadrennial experience studies, quadrennial
8.16 projection valuations of at least one of the retirement plans enumerated in section 6,
8.17 subdivision 1, paragraph (b), for which the commissioner determines that the analysis
8.18 may be beneficial.

8.19 (b) The governing or managing board or administrative officials of each public
8.20 pension and retirement ~~fund or~~ plan enumerated in section 356.20, subdivision 2, clauses
8.21 ~~(8), (9), (10); and (12)~~ (11), shall have prepared by an approved actuary annual actuarial
8.22 valuations of their respective ~~funds~~ plan as provided in this section. This requirement also
8.23 applies to any ~~fund or~~ plan that is the successor to any organization enumerated in section
8.24 356.20, subdivision 2, or to the governing or managing board or administrative officials
8.25 of any newly formed retirement fund, plan, or association operating under the control or
8.26 supervision of any public employee group, governmental unit, or institution receiving a
8.27 portion of its support through legislative appropriations, and any local police or fire ~~fund~~
8.28 relief association to which section 356.216 applies.

8.29 Sec. 4. **EFFECTIVE DATE.**

8.30 Sections 1 to 3 are effective June 30, 2007, and apply to annual financial reports and
8.31 actuarial valuations prepared after that date.