

**Appendix A: Glossary of Terms**

**Accrue:** An actuarial term with the same meaning as “accumulate”.

**Accrued Liability:** Also known as “actuarial accrued liability”. It generally consists of the total retirement benefits that current and retired public employees have earned, as measured by the actuarial method used.

**Actuarial Funding:** Actuarial reporting is intended to assess the adequacy of the total non-investment revenue financial support of the pension plan compared with calculated annual actuarial funding requirements of the pension plan, to assess the extent of conformance with the selected budgetary actuarial method for accumulating financial reserves for pension liabilities, and to provide required actuarial disclosure for governmental accounting purposes.

**Annual Salary:** Also known as “covered salary”. Compensation paid before any employee-paid deductions are made, including fringe benefits, tax-sheltered annuities, deferred compensation, or any combinations of these items.

**Assumed Rate of Return:** The annual rate of return assumed by actuaries when evaluating the health of a pension fund and the contributions that will be required in the coming year to meet all costs. Currently set in statute at 8.5%.

**Basic Fund:** That portion of TRA, PERA or MSRS assets that are assigned to “active” plan participants (i.e. those participants not yet drawing a pension).

**Contribution Deficiency (Sufficiency):** Compares the contributions needed to cover the expenses, the normal cost and payments needed to amortize unfunded liabilities against the contributions employees, employers and other entities, where applicable, are required to make to a plan by law. A deficiency indicates that contributions required by law insufficient to cover these costs; a sufficiency indicates that the legally-required contributions do cover these costs.

**Current Assets:** Also known as “actuarial value of assets”. Generally defined as the value of assets at cost plus one-third of the difference between the cost value and market value.

**Defined Benefit Plan:** Under this type of retirement benefit plan, the eventual pension benefit is defined, or determinable, by formulas. Most Minnesota public pension plans are defined benefit plans.

**Employer Contribution:** Contributions that units of government make to pension funds, set in law.

**Funded Ratio:** A percentage that expresses current assets in relation to accrued liabilities.

**High Five Average:** a public employee’s average salary in the highest five consecutive salary years

**Investment Gains and Losses:** Net gain or loss produced by an investment portfolio. Usually corrected to disregard cash flow (time-weighted rate of return).

**Member Contribution:** Contributions that members make to pension funds, set in law.

**Multiplier:** also known as the benefit accrual rate, it is the percentage of the high-five salary a public employee will receive per year of service provided to the employer times years of service

**Normal Cost:** The cost, or additional liability, incurred by covering employees for the current year’s operations.

**Post Fund:** Also known as the Minnesota Post Retirement Investment Fund; receives the fully funded actuarial reserves for a new retiree’s pension at benefit from the Basic Fund

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at the date of retirement, and generates funding for and pays all retirement benefits for MSRS, PERA and TRA.

**Rule of 90:** An early retirement incentive available to public employees hired before July 1, 1989. Allows them to retire with full benefits when their age plus years of service equals 90.

**Unfunded Liability:** Also known as “unfunded actuarial accrued liability”. Any amount of pension plan accrued liability in excess of the current assets (actuarial value) of the pension plan.

**Year of Service:** Also known as “years of allowable service”. Any service during which member contributions were made. It may include certain leave of absence, military service and periods where temporary Worker’s Compensation is paid. For teacher pension plans, one year of service is earned after one teaches for at least 5 hours per day for 170 or more days during a fiscal year.

**Appendix B: Current Members and Former Chairs of the Pension Commission**

**2005-2006 Members of the Legislative Commission on Pensions and Retirement**

Member	Phone (651)	Years Served##	E-mail address
<i>Minnesota House of Representatives</i>			
Rep. Mary Murphy (DFL) # <a href="mailto:rep.mary.murphy@house.mn">rep.mary.murphy@house.mn</a>	296-2676	8	
Rep. Dennis Ozment (R) <a href="mailto:rep.dennis.ozment@house.mn">rep.dennis.ozment@house.mn</a>	296-4306	0	
Rep. Steve Smith (R) **	296-9188	8	<a href="mailto:rep.steve.smith@house.mn">rep.steve.smith@house.mn</a>
Rep. Paul Thissen (DFL)	296-5375	0	<a href="mailto:rep.paul.thissen@house.mn">rep.paul.thissen@house.mn</a>
Rep. Lynn Wardlow (R) <a href="mailto:rep.lynn.wardlow@house.mn">rep.lynn.wardlow@house.mn</a>	296-4128	0	
<i>Minnesota Senate</i>			
Sen. Don Betzold (DFL)	296-2556	7	<a href="mailto:sen.don.betzold@senate.mn">sen.don.betzold@senate.mn</a>
Sen. Keith Langseth (DFL) <a href="mailto:sen.keith.langseth@senate.mn">sen.keith.langseth@senate.mn</a>	296-3205	5	
Sen. Cal Larson (R)	296-5655	10	<a href="mailto:sen.cal.larson@senate.mn">sen.cal.larson@senate.mn</a>
Sen. Geoff Michel (R) <a href="mailto:sen.geoff.michel@senate.mn">sen.geoff.michel@senate.mn</a>	296-6238	2	
Sen. Lawrence Pogemiller (DFL) * <a href="mailto:sen.larry.pogemiller@senate.mn">sen.larry.pogemiller@senate.mn</a>	296-7809		20
* Chair		## Prior to January 1, 2005, may not be	
consecutive			
** Vice-Chair			
# Secretary			

**Past Chairs of the Legislative Commission on Pensions and Retirement**

Years	Chairperson
2003-2004	Rep. Steve Smith (R, Mound)
2001-2002	Sen. Dean Johnson (DFL, Willmar)
1999-2000	Rep. Harry Mares (R, White Bear Lake)
1997-1998	Sen. Steve Morse (DFL, Dakota)
1995-1996	Rep. Richard Jefferson (DFL, Minneapolis)
1993-1994	Sen. Phil Riveness (DFL, Bloomington)
1991-1992	Rep. Leo Reding (DFL, Austin)
1989-1990	Sen. Don Moe (DFL, St. Paul)
1987-1988	Rep. Wayne Simoneau (DFL, Fridley)



**Appendix C: Minnesota Public Pension Plan Financial Statistics**

	<b>Total Membership</b>	<b>Funded Ratio</b>	<b>Accrued Liability</b>	<b>Contribution Deficiency (Surplus)</b>
<i>Administered by Minnesota State Retirement System (MSRS)</i>				
General	91,786	95.58%	\$8,455,335,998	2.55%
Correctional Employees	5,975	92.21%	546,117,680	4.04%
State Patrol	1,693	106.08%	566,763,689	(1.16%)
Elective State Officers	16	5.03%	4,065,308	NA
Legislators	517	55.63%	81,836,478	103.64%
Judges	569	75.47%	191,413,999	0.97%
Military Affairs	No Data*			
Transportation Department Pilots	No Data*			
Unclassified State Employees	No Data*			
<i>Administered by Public Employees Retirement Association (PERA)</i>				
General	335,090	74.53%	15,892,554,615	1.67%
Police and Fire	18,506	97.15%	4,956,339,899	7.74%
Correctional Employees	5,353	90.11%	108,923,147	(1.53%)
Consolidating Local Relief	No Data**			
<i>Self-Administered</i>				
Teachers Retirement Association	142,540	98.51%	18,021,410,061	(0.95%)
Duluth Teachers Retirement Fund Association	3,268	86.35%	310,923,821	2.87%
Minneapolis Teachers Retirement Fund Association	13,576	44.61%	1,755,912,975	23.30%
Saint Paul Teachers Retirement Fund Association	9,766	69.65%	1,299,831,584	7.29%
Minneapolis Employees Retirement Fund	5,714	92.10%	1,643,139,996	0.01%
Minneapolis Police Relief Association	690	64.51%	465,275,886	0.00%

*Source: Legislative Commission on Pensions and Retirement.*

\* These MSRS plans do not have data covered as part of the regular actuarial valuation reports. Information is usually available in MSRS' financial report or by request from that pension plan.

\*\* The PERA consolidating relief plan has no data covered because these relief associations were completely merged into PERA Police and Fire in 1999. There have been no relief associations wishing to consolidate since that time, although the fund is kept open as an ongoing concern in case one or more relief associations do choose such a merger in the future.

### Appendix D: Multiplier Increase Cost Methodology

Benefits are calculated as (multiplier times years of service times high-five salary), with reductions for early retirement. If we knew these details for the universe of retired employees, it would be fairly simple to calculate the cost of multiplier changes, since one would only need to substitute different multipliers for each retiree. However, that data is not publicly provided by the different pension funds. Therefore, we must make certain assumptions.

Information about average salaries, years of service and age are provided for the universe of active employees in the yearly actuarial valuation reports. Employees are divided into five-year cohorts based on age and the number of years worked. For example, there are X number of employees in MSRS who are between the age of 55 and 59 years and who have worked for 20 to 25 years. Average salaries are provided for each cohort. This information is presented in cross-tabular form.

We know that most public employees who are pensioners retired with at least 10 years of active service and aged at least 55 years. Now, assume a cross-tabular graph is constructed, similar to that for active employees, but instead contains information on total number of years worked and age at retirement for the universe of retired public employees in each pension plan. If we assume that the proportional distribution for this group resembles the proportional distribution for the set of active employees, then we can use active employee data as a proxy for the universe of retired employees.

There are a few difficulties with using this data. The most challenging problem has to do with the two “open-ended” categories: employees who are 65 years of age and older, and those who have worked for 30 or more years. One can reasonably assume a fairly even distribution by individual year of age and service year within the other cohort groups, but not for these. Given that few people will choose to work past the date at which they may retire with full benefits and that there are undoubtedly some small number of people who are retired with less than 10 years of service or 55 years of age; we have chosen to assume that all persons in the 65+ age category are 65 years of age, and that all persons in the 30+ years of service category have 30 years of service.

The methodology assumes that employees would make the same decisions regarding employment and retirement regardless of whether these benefit increases had been implemented. Without surveying persons retiring during the period from 1985 to 2005 to determine how changes to pension benefit provisions would have affected their retirement plans, there is no data to support how continuing the pension provisions in place in 1985 would have affected retirement decisions.

The methodology does not address liability released from turnovers (i.e. plan members who discontinue public employments, take a refund of their member contributions and forfeit pension benefits). It is assumed that this would remain unchanged.

Proceeding on this assumption, we set 1985 as our base year since it was the first year actuarial valuations were available that were standard for the six plans in this report, and it predates the 1989 multiplier increases. Using the demographic data available in each annual valuation report, we calculated estimates of the total pensions that would be paid

to this group of people, if they were to all retire, under the benefit package in effect in 1985 and the benefit package(s) available in the current year. Wage increases were compensated for since benefits were calculated under each scenario using annually updated wage data.

Since multiplier increases do not apply to persons already retired, we phased in the increases based on retirement dates. The annual actuarial valuation reports do provide information on how long pensioners have been retired (again, in 5-year cohorts), so it is relatively easy to estimate how many people are currently retired under any particular benefit formula. Since benefits were increased two times for each of these plans (and three times in two cases), different benefit increase percentages must be calculated for each benefit plan relative to the 1985 base, and then be applied to the appropriate portion of retirees.

It is assumed that total retiree benefits are divided roughly evenly based on the number of years retired. This likely under-estimates the actual dollar increase in annual benefits caused by these multiplier increases, since more recent retirees are likely to retire with greater benefits than those being awarded to current retirees, primarily because of wage growth since a long-time retiree's last day of employment.

Finally, this methodology is unique to this report, and was derived in an attempt to quantify the additional cash-flow costs of the benefit increases provided for between 1989 and 2005, using the data available to MCPFR staff.

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### Appendix E: Historical Benefit Increase Comparisons

#### Annual Post Retirement Benefit Increases (%)

Year (Effective Jan 1.)	MPRIF*	DTRFA**	MTRFA**	SPTRFA**
1978	4.0000	--	--	--
1979	0.0000	--	--	--
1980	0.0000	--	--	--
1981	3.2090	--	--	--
1982	7.4360	--	--	--
1983	6.8530	--	--	--
1984	7.4990	--	--	--
1985	6.9050	--	--	--
1986	7.9000	--	--	--
1987	9.7920	--	--	--
1988	8.0540	--	--	--
1989	6.9180	--	--	--
1990	4.0400	--	--	--
1991	5.1000	--	--	--
1992	4.2950	--	--	--
1993	4.5530	--	--	--
1994	6.0170	4.50	--	--
1995	3.9850	2.13	--	--
1996	6.3954	3.85	4.6424	--
1997	8.0395	6.23	5.6315	--
1998	10.0876	7.28	6.3407	7.0000
1999	9.8254	7.33	7.0125	7.2145
2000	11.1436	9.67	9.0275	9.2619
2001	9.5342	8.81	10.2391	7.6723
2002	4.4935	2.31	5.2500	3.7000
2003	0.7450	2.00	2.0000	2.0000
2004	2.1030	2.00	2.0000	2.0000
2005	2.5000	2.00	2.0000	2.0000
2006	2.5000	2.00	2.0000	2.0000

Source: Legislative Commission on Pensions and Retirement

\* Includes MSRS, PERA and TRA

\*\* Increases were paid out in years with no data, but in the form of "13<sup>th</sup> checks", which were one-time payments only and not built into the benefit base.

#### Comparison of Average Pension Increases to Inflation and Wage Increases, by Selected Major and Statewide Minnesota Public Pension Plans, Selected Years (1975 = 1.0)

Pension plan	1975	1984	1994	2004	% Change 1975-2004
MSRS	1.000	1.491	3.830	8.085	708.49%
PERA - General	1.000	1.865	3.698	6.791	579.12%
TRA	1.000	1.997	5.497	10.676	967.56%
DTRFA	1.000	1.365	3.285	5.349	434.90%
MTRFA	1.000	2.000	4.496	8.056	705.64%
SPTRFA	1.000	1.873	3.723	6.122	512.24%
All Wages	1.000	1.748	2.295	3.104	210.41%
Inflation (CPI for Mpls./St. Paul)	1.000	2.014	2.805	3.670	266.99%

Sources: Actuarial Valuation Data provided by Legislative Commission on Pensions and Retirement, Bureau of Labor Statistics. Calculations by MCPFR staff.

**Appendix F: History of Major Statutory Changes to Selected Statewide and Major Minnesota Public Pension Plans**

Prior to the 1975 session of the Minnesota Legislature, contribution rates, full retirement benefit eligibility and multipliers for each pension plan were as follows:

**Table 18: Selected Statewide and Major Minnesota Public Pension Plan Retirement Provisions in 1975**

<b>Pension plan</b>	<b>Employee/Employer Contribution (% salary)</b>	<b>Eligibility Requirements (for full retirement benefits)</b>	<b>Multiplier</b>
MSRS*	4% / 6%**	Age 62 with 10 years service; age 58 with 30 years service.	1% X first 10 service years + 1.5% X subsequent service years.
PERA: Basic	8% / 10.5%**	Age 65 with 10 years service; age 62 with 30 years service.	2% X first 10 service years + 2.5% X subsequent service years.
PERA: Coordinated	4% / 5.5%**	Age 65 with 10 years service; age 62 with 30 years service.	1% X first 10 service years + 1.5% X subsequent service years.
TRA: Basic	8% / 10.5%**	Age 65 with 10 years service; age 62 with 30 years service.	2% X first 10 service years + 2.5% X subsequent service years.
TRA: Coordinated	4% / 6.5%**	Age 65 with 10 years service; age 62 with 30 years service.	1% X first 10 service years + 1.5% X subsequent service years.
DTRFA*	4% / 5.0%	Age 60	1.15% X number of service years.
MTRFA***	6.5% / 6.5%	Age 60; any age with 30 years service	1.67% X number of service years.
SPTRFA***	8% / 13.5%	Age 60 AND 25 years of service.	1.8% X number of service years.

\* Coordinated plans only

\*\* Additional contributions (1.5% for PERA Coordinated, 2.0% for MSRS and 2.5% for all others) were required by law and dedicated to amortize unfunded liabilities.

\*\*\* Basic plans only

Note that eligibility changes are only documented as they apply to eligibility for retirement benefits; changes to eligibility for survivor or disability benefits are not summarized because those benefits are relatively minor compared to retirement.

Legislative changes occurred during the following years, and years where no changes were made are not listed. Time series data on changes to the contribution rates for employees and employers are located in Appendix .

**1975**

The Legislature abolished local tax levies for teachers' funds in the first-class cities, and took over responsibility for providing the employer contribution to those funds.<sup>71</sup> This legislation especially affected MTRFA, to which the city of Minneapolis was contributing proceeds from a property tax levy to help amortize the plan's unfunded liabilities.

<sup>71</sup> Laws 1975, Chapter 306, Section 30.

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### 1976

Major changes were enacted to the MTRFA's pension plan. The employee contribution rate was increased from 6.5% to 8.0%.<sup>72</sup> The multiplier was increased from 1.67% to 2.25%, and a cap of 30 years service was placed on the formula.<sup>73</sup> Plan members who had retired before May 1, 1974 were given an across-the-board 10% annuity increase.<sup>74</sup> Eligibility for automatic post-retirement benefit increases of 1.5% yearly was dropped from age 72 to age 65.<sup>75</sup>

### 1977

Further changes were made to the first-class city teacher plans. The Minneapolis and Saint Paul plans were required to coordinate new members with Social Security, effective for new hires made after July 1, 1978; to be modeled on the statewide TRA plan.<sup>76</sup> The additional employer (taxpayer) contribution to TRA to amortize unfunded liabilities was raised from 2.5% to 3.0%.<sup>77</sup> SPTRFA's multiplier was raised from 1.8% to 2.0%.<sup>78</sup> Finally, an early retirement incentive was provided for all teachers, with a maximum of \$7,500 provided to teachers with 15 years of teaching experience between the ages of 55 and 65, with a reduction of \$375 for each year of age over 55 and a reduction of \$1,125 for each year over 60. The state provided 10% of the funding for the incentive.<sup>79</sup>

### 1978

The employee contribution for TRA members was increased by 0.5%, to 8.5% for basic members and 4.5% for coordinated members.<sup>80</sup> For all plans, a 40 year cap was retroactively set on the benefits formula.<sup>81</sup> Finally, the state's reimbursement to school districts for the early retirement incentive program rose from 10% to 25%.<sup>82</sup>

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<sup>72</sup> Laws 1976, Chapter 238, Section 1 (originally enacted in Laws 1975, Chapter 306, Section 30 but was contingent at that point on the benefit changes made later in 1976.

<sup>73</sup> Laws 1976, Chapter 238, Section 13, Subdivision 3.

<sup>74</sup> Laws 1976, Chapter 238, Section 13, Subdivision 8.

<sup>75</sup> Laws 1976, Chapter 238, Section 13, Subdivision 4.

<sup>76</sup> Laws 1977, Chapter 429, Sections 38-48, 54 and 59-61. Note that the Minneapolis Social Security referendum was first passed during the 1976 legislative session, but was delayed one year to coincide with the Saint Paul referendum.

<sup>77</sup> Laws 1977, Chapter 313, Section 1.

<sup>78</sup> Laws 1977, Chapter 429, Section 61.

<sup>79</sup> Laws 1977, Chapter 447, Article IX, Section 2.

<sup>80</sup> Laws 1978, Chapter 781, Section 3.

<sup>81</sup> Laws 1978, Chapter 781, Section 9.

<sup>82</sup> Laws 1978, Chapter 764, Section 87.

1979

Coordinated plans were established for teachers in Minneapolis and Saint Paul with contribution rates, full retirement benefit eligibility and multipliers as follows<sup>83</sup>:

**Table 19: Minneapolis and Saint Paul Teachers Coordinated Pension Plan Provisions, as of 1979**

Employee/Employer Contribution (% salary)	Eligibility Requirements	Multiplier
4.5%/4.5%	Age 65 with 10 years service; age 62 with 30 years service.	1% X first 10 service years + 1.5% X subsequent service years.

The employer matching contribution rates for TRA was raised by 0.5% for all members to 4.5% for basic members and 8.5% for coordinated members<sup>84</sup>. Additional contribution rates for the teachers' funds were raised as follows<sup>85</sup>:

**Table 20: Additional Employer Contribution Rates for Minnesota Teacher Pension Plans, as of 1979**

Pension plan	Additional Employer Contribution Increase	Total Additional Employer Contribution	Total Employer Contribution (Basic/Coordinated)
TRA	0.05%	3.05%	11.55% / 7.55%
DTRFA	0.09%	1.29%	-- / 5.79%
MTRFA	1.85%	4.85%	13.35% / 4.5%
SPTRFA	1.13%	4.13%	12.63% / 4.5%

The maximum early retirement incentive for teachers was increased from \$7,500 to \$10,000, with the age penalties with the reductions raised to \$500 for each year of age over 55 and a reduction of \$1,500 for each year over 60. The program was expanded to include teachers at local vocational-technical schools who were employed by a school district. For teachers retiring from the Minneapolis or Saint Paul districts after the 1978-79 or 1979-80 school years, the maximum incentive was raised to \$15,000, with a reduction of \$750 for each year of age between 56 and 60 and a reduction of \$2,250 for each year over 60. The state's reimbursement to districts for the incentive rose to 50% of cost.<sup>86</sup>

SPTRFA was authorized to establish a post retirement adjustment program, payable from investment income if the fund's investment rate of return exceeded 5.5% (0.5% above the assumed annual rate of return) as a one-time lump sum to those persons who have been receiving benefits from the fund for at least five years. The fund was authorized to pay up to 0.5% of its assets out as a post-retirement lump sum payment.<sup>87</sup>

Finally, the statutory amortization target date in the general actuarial reporting law was changed from 1997 to 2009, pushing back the date by which all major and statewide public pension funds were to be fully funded (on an actuarial basis) by 12 years. The change applied only to liabilities assumed after May 25, 1979, so the pre- and post-law accrued liabilities are weight-averaged to determine a new amortization target date.<sup>88</sup>

<sup>83</sup> Laws 1979, Chapter 217, Sections 11 and 15.

<sup>84</sup> Laws 1979, Chapter 293, Section 1.

<sup>85</sup> Laws 1979, Chapter 293, Section 2 and Section 3, Subdivision 2.

<sup>86</sup> Laws 1979, Chapter 334, Article VIII, Sections 9 and 10.

<sup>87</sup> Laws 1979, Chapter 109.

<sup>88</sup> Laws 1979, Chapter 184.

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### 1981

Changes were made to the DTRFA pension plan; with the creation of a new coordinated plan, designed to conform to the plans covering all other teachers in the state. The employee contribution for both old law and new law members was raised from 4.0% to 4.5%.<sup>89</sup> Moreover, the multiplier was raised from 1.15 to 1.25 times all service years (unlike the other teacher plans, which had a tiered multiplier), and retirement benefits and annuities were increased 8.7%.<sup>90</sup> MTRFA was authorized to establish a post retirement adjustment program, identical to the one created for SPTRFA in 1979 (for details, see 1979 above).<sup>91</sup>

Legislation also modified MSRS, PERA and TRA to increase from 75% to 95% the portion of investment income in excess of the assumed statutory rate of return (5.0%) that the fund was required to pay to retirees as a benefit increase. The smaller remaining portion of the excess investment income was still retained to amortize each plan's unfunded liabilities.<sup>92</sup>

### 1982

Legislation during this session eliminated the 40 year cap on service credit, and instead prohibited a public employee's pension from exceeding his or her final salary immediately prior to receiving the benefit.<sup>93</sup> Employee and employer contributions to MSRS were modified, dropping from 4.0% to 3.46% of salary, with the employer additional contribution dropping from 2.0% to 1.58% of salary.<sup>94</sup>

The Legislature in 1982 also approved an early retirement option for PERA plan members only called the "Rule of 90".<sup>95</sup> Previously, PERA members could only retire early with full benefits once they had reached age 62 and had 30 years of service. Under this new program, employees could retire with full benefits when their age and years of credited service added up to 90. Thus, an employee could retire with full pension benefits long before the normal retirement age of 65, since a local government employee who began service with PERA at age 27 could retire under these circumstances with full benefits at age 59 (as 32 years of service plus 59 years of age equals 91).

The Legislature also adopted a 2% increase in the employee contribution for all public pension plans<sup>96</sup>, but eliminated the increase during the 1983 session<sup>97</sup> and refunded the extra contributions during the 1984 session.<sup>98</sup>

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<sup>89</sup> Laws 1981, Chapter 269, Section 4.

<sup>90</sup> Laws 1981, Chapter 269, Section 10.

<sup>91</sup> Laws 1981, Chapter 159.

<sup>92</sup> Laws 1981, Chapter 158.

<sup>93</sup> Laws 1982, Chapter 578, Article I, Sections 10, 18 and 19

<sup>94</sup> Laws 1982, Chapter 641, Article I, Sections 9-10 (superceded Third Special Session Laws 1981, Chapter 2, Article I, Sections 64-65).

<sup>95</sup> Laws 1982, Chapter 519.

<sup>96</sup> Third Special Session Laws 1982, Chapter 1, Article II, Section 1, Subdivision 1, Clause v.

<sup>97</sup> Laws 1983, Chapter 301, Sections 224-226.

<sup>98</sup> Laws 1984, Chapter 564, Section 45.

### 1983

Lump sum post-retirement payments were provided to MSRS, PERA and TRA members. Retirees received \$16 for each full year of allowable service credit in 1983 and \$17 for each full year of allowable service credit in 1984.<sup>99</sup> The Pension Commission indicated that this provision affected roughly 16,000 employees.<sup>100</sup>

### 1984

The 1984 Legislature created the “Rule of 85” early retirement incentive and applied it to all the plans detailed in this report; effective for persons retiring between July 1, 1984 and December 31, 1986.<sup>101</sup> Under this new retirement option, employees could retire with full benefits when the sum of one’s age and years of credited service equaled 85, although employees could not qualify unless 55 years of age. Someone who began service at age 27, therefore, could retire with full benefits after 29 years of service at age 56.

Various changes were also made to the employer contribution rates. The additional 1.87% employer contribution to MSRS was eliminated, while the regular employer rate was increased from 3.46% to 3.90%.<sup>102</sup> The employee contribution to MSRS was increase from 3.46% to 3.73%.<sup>103</sup> The additional employer contribution to TRA for all members was increased from 3.05% to 4.48%<sup>104</sup>, and the additional employer contribution to the PERA coordinated plan was decreased from 1.5% to 0.25%.<sup>105</sup>

Changes were made to MTRFA, allowing the fund to increase from 0.5% to 1.0% the amount of total assets it paid out annually as a post-retirement benefit when returns exceeded the rate of return of 5.0% assumed in statute. The fund was also allowed to distribute the payment to persons receiving benefits for three, rather than for five years, thus increasing the number of beneficiaries granted such post-retirement bonuses.<sup>106</sup>

Finally, the changes to the actuarial assumptions were enacted, which raised the pre-retirement (but not post-retirement) annual interest assumption from 5.0% to 8.0%; and the assumption for annual salary increases was adjusted upward from 3.5% to 6.5%.<sup>107</sup> Given the investment performance of these funds over that period, this seems to have been good policy.

### 1985

Legislation in 1985 focused mainly on post-retirement benefits. MSRS, PERA and TRA members were provided with lump sum payments in addition to regular benefits equal to

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<sup>99</sup> Laws 1983, Chapter 246.

<sup>100</sup> *Summaries of Legislation Enacted in 1983*, Legislative Commission on Pensions and Retirement. June 3, 1983.

<sup>101</sup> Laws 1984, Chapter 564, Section 44.

<sup>102</sup> Laws 1984, chapter 564, section 5.

<sup>103</sup> Laws 1984, Chapter 565, Section 4.

<sup>104</sup> Laws 1984, chapter 564, section 29.

<sup>105</sup> Laws 1984, chapter 564, section 21.

<sup>106</sup> Laws 1984, chapter 574, section 34.

<sup>107</sup> Laws 1984, chapter 564, section 43.

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\$18 for each full year of allowable service in 1985 and \$19 for each full year in 1986.<sup>108</sup> Similar to the changes made to the MTRFA in 1984, the SPTRFA was allowed to increase from 0.5% to 1.0% the maximum amount of total assets it paid out annually in post-retirement benefit increases, based on the investment return above the 5.0% threshold.<sup>109</sup> A similar post-retirement benefit mechanism was enacted for the DTRFA, with the only difference being that distribution was based on both years of service and years in retirement.<sup>110</sup> By including years of retirement in the calculation of bonus distributions, greater bonuses were given to person retired longer, who had faced more inflation since retirement. The SPTRFA was also allowed to calculate retirement bonuses in this fashion. Finally, the 30-year cap on retirement service credit was lifted for MTRFA members.<sup>111</sup>

One further change was made to the first-class teachers' funds. Legislation was passed shifting the burden for providing the employer matching contribution from the state to the local school districts, although the prohibition against levying for these monies was not removed.<sup>112</sup>

### 1986

Legislation allowed persons eligible to retire under the "Rule of 85" provision through December 31, 1986 to work through June 30, 1987.<sup>113</sup> The state also authorized payment to certain MSRS and PERA employees taking early retirement before July 1, 1973 or certain TRA employees taking early retirement before July 1, 1972 of a 25% annuity increase<sup>114</sup> which was originally enacted, but not authorized, in 1973.<sup>115</sup>

### 1987

Major changes were made to the post-retirement benefits provided to Minneapolis teachers. The MTRFA was authorized to replace the ad hoc "13<sup>th</sup> check" post retirement increase mechanism. The new post retirement bonus system:

- provided that benefits be recalculated based on the current formula,
- authorized a one-time permanent increase equal to 4% for each year in retirement up to a maximum of 5 years,
- provided a minimum retirement benefit of \$9,000 per year for a 30 year career, prorated by the number of years of service; and
- raised the annual automatic annuity increase from 1.5% to 2.0%.

The legislation also changed the actuarial assumptions for post-retirement investment earnings, from 5.0% to 8.0% annually.<sup>116</sup> Therefore, after enactment of this legislation,

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<sup>108</sup> Laws 1985, chapter 259, sections 7-8.

<sup>109</sup> Laws 1985, chapter 259, section 3.

<sup>110</sup> Laws 1985, chapter 259, section 2.

<sup>111</sup> Laws 1985, chapter 259, section 4.

<sup>112</sup> First Special Session Laws 1985, chapter 12, article XI, section 13.

<sup>113</sup> Laws 1986, chapter 458, section 21.

<sup>114</sup> Laws 1986, chapter 458, section 38.

<sup>115</sup> Laws 1973, chapter 653, sections 32 and 34; chapter 728, section 25, subdivisions 13 and 14; chapter 753, sections 2 and 36; and chapter 755, section 5.

<sup>116</sup> Laws 1987, chapter 372, article III, sections 1-3.

investment-return related post-retirement bonuses could only be paid if the fund's return on investment over the most recent three-year fiscal period surpassed 8%.

The mandatory retirement age of 70 was abolished for public employees, in conjunction with the federal Age Discrimination in Employment Act that prohibited most mandatory retirement age provisions.<sup>117</sup>

Finally, pre-1973 retirees from MSRS, PERA and TRA were again granted lump-sum post retirement bonuses, of \$20 per year of service in 1987 and again in 1988.<sup>118</sup>

## 1989

The Legislature made significant changes and improvements to benefits during the 1989 session. For employees hired after June 30, 1989 in all plans documented in this report, the multiplier was increased by 0.5% for the first ten years of service (providing a level benefit formula); to 1.5% for each year of service for new coordinated plan members and to 2.5% for each year of service for new basic plan members. For these employees, the age at which retirement benefits may be collected was changed to automatically correspond to the Social Security retirement age.<sup>119</sup> MSRS, TRA, DTRFA, MTRFA and SPTRFA employees hired before July 1, 1989 were also given the "Rule of 90" early retirement provision. The provision was eliminated for all public employees (including those in PERA, which had previously been the only plan to offer the provision) for persons hired on or after July 1, 1989.

The following changes applied to members of MSRS, and the coordinated plans of PERA, TRA, MTRFA, SPTRFA and DTRFA (new law coordinated only) as of June 30, 1989. Annuities were calculated based on whichever of the following three formulas produced the highest benefit:

- Current benefit formula: 1.0% times first ten years of service, plus 1.5% times subsequent years, all times average "high five" salary, with a reduction of 0.25% in the annuity for each month (3% for each year) that the employee retired before the normal retirement age.
- Level benefit formula: 1.5% times all years of service, times average "high five" salary, with an actuarial reduction<sup>120</sup> in benefits for early retirement.
- "Rule of 90" with current benefit formula rates: 1.0% times first ten years of service, plus 1.5% times subsequent years, all times average "high five" salary, with no reduction for early retirement if age plus years of service equal at least 90.<sup>121</sup>

The following changes applied to current (as of June 30, 1989) members of the basic plans of PERA and TRA. Annuities were calculated based on whichever of the following three formulas produced the highest benefit:

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<sup>117</sup> Laws 1987, chapter 284

<sup>118</sup> Laws 1987, chapter 404, section 52.

<sup>119</sup> Laws 1989, chapter 319, article XIII, sections 2, 9, 29, 33, 53, 57-58, 71, 75 and 78.

<sup>120</sup> Meaning that the reduced annuity is actuarially equivalent to the annuity that would have been received if its receipt were deferred to the age of full retirement, and the annuity amount were compounded at an annual rate of 3%.

<sup>121</sup> Laws 1989, chapter 319, article XIII, sections 9-10, 33-34, 58, 75 and 77-78.

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- Current benefit formula: 2.0% times first ten years of service, plus 2.5% times subsequent years, all times average “high five” salary, with a reduction of 0.25% in the annuity for each month (3% for each year) that the employee retires before the age at which full benefits are granted.
- Level benefit formula: 2.5% times all years of service, times average “high five” salary, with an actuarial reduction in benefits for early retirement.
- “Rule of 90” with current benefit formula rates: 2.0% times first ten years of service, plus 2.5% times subsequent years, all times average “high five” salary, with no reduction for early retirement if age plus years of service equal at least 90.<sup>122</sup>

The following changes applied to current (as of June 30, 1989) members of the basic plans of MTRFA and SPTRFA, along with old-law coordinated (pre-1981) members of the DTRFA plan. Annuities were calculated based on whichever of the following three formulas produced the highest benefit:

- Current benefit formula: 2.5% (MTRFA), 2.0% (SPTRFA) or 1.25% (DTRFA) times all years of service, all times average “high five” salary, with a reduction of 0.25% in the annuity for each month (3% for each year) that the employee retires before the age at which full benefits are granted.
- “Rule of 90” with the above benefit formulas, with no reduction for early retirement if age plus years of service equal at least 90.
- Level benefit formula: 2.5% (MTRFA and SPTRFA) or 1.25% (DTRFA) times all years of service, times average “high five” salary, with an actuarial reduction in benefits for early retirement.<sup>123</sup>

Contribution rate increases were also enacted for various funds. The employee contribution rate for MSRS was increased from 3.73% to 4.34%<sup>124</sup>, and the employer contribution rate from 3.90% to 4.51%.<sup>125</sup> The employee contribution rate for PERA was increased by 0.23%; from 8.0% to 8.23% for basic members and from 4.0% to 4.23% for coordinated members.<sup>126</sup>

Statutory actuarial assumptions were also changed during this session. The pre-retirement assumption regarding investment return was increased from 8.0% to 8.5% for the statewide funds under consideration in this report, and the same change was made to the pre- and post-retirement assumptions for all three first class teachers’ funds.<sup>127</sup> The amortization deadlines for full funding (on an actuarial basis) for these plans were extended from 2009 until 2020.<sup>128</sup>

The increased benefits promised by the Legislature during 1989 were paid for by changing these statutory assumptions. By simply changing state law to assuming higher investment gains, lengthening the amortization period for unfunded liabilities, and adjusting the contribution rates upward, pension funds suddenly had more money available to pay for the increased benefit. Since the retained actuaries must apply these

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<sup>122</sup> Laws 1989, chapter 319, article XIII, sections 33-34 and 58.

<sup>123</sup> Laws 1989, chapter 319, article XIII, section 94.

<sup>124</sup> Laws 1989, chapter 319, article XIII, section 3.

<sup>125</sup> Laws 1989, chapter 319, article XIII, section 4.

<sup>126</sup> Laws 1989, chapter 319, article XIII, section 30.

<sup>127</sup> Laws 1989, chapter 319, article XIII, section 90.

<sup>128</sup> Laws 1989, chapter 319, article XIII, section 91.

assumptions when assessing the funding adequacy of each pension fund, these pension benefit increases were “paid for” without any direct appropriation from the state's budget.

Finally, legislation during the 1989 session voided the “Rule of 90” early retirement provision if usage exceeded 45% of members eligible to retire under its provisions.<sup>129</sup>

**1990**

Legislation enacted in this year reduced the employee contribution rate to MSRS from 4.34% to 4.15% of salary and the employer contribution rate from 4.51% to 4.29%.<sup>130</sup> The employer additional contribution to the TRA fund was reduced from 4.48% to 3.64% of salary.<sup>131</sup> These reductions were enacted as part of a budget-balancing program.

**1992**

Legislation reduced the employee contribution rate to MSRS from 4.15% to 3.99% of salary, and reduced the employer contribution rate to the same fund from 4.29% to 4.12% of salary.<sup>132</sup> Separate regular and additional employer contribution rates were established for the first-class city teachers’ fund plans as follows:<sup>133</sup>

**Table 21: Regular and Additional Employer Contribution Rates for Minnesota Teacher Pension Plans, after the 1992 Session**

Pension plan	Regular Employer Contribution	Additional Employer Contribution	Total Employer Contribution
DTRFA – both plans	4.50%	1.29%	5.79%
MTRFA – Basic	8.50%	4.85%	13.35%
MTRFA – Coordinated	4.50%	1.00%*	5.50%
SPTRFA – Basic	8.50%	4.63%	13.13%
SPTRFA – Coordinated	4.50%	1.00%*	5.50%

\* Newly-imposed rates scheduled to begin July 1, 1993, other additional rates formerly included in the regular contribution.

The DTRFA post-retirement bonus provisions were amended to eliminate the requirement that the fund earn 6% on investment return before paying out up to 1% of the fund’s assets as a post-retirement benefit to retired fund members.<sup>134</sup>

**1993**

Changes were made in 1993 to the MTRFA and SPTRFA plans to address funding problems. Contribution rates were realigned to match those of TRA as follows:<sup>135</sup>

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<sup>129</sup> Laws 1989, chapter 319, article XIII, section 96.

<sup>130</sup> Laws 1990, chapter 591, article II, sections 1, 2 and 7.

<sup>131</sup> Laws 1990, chapter 591, article II, sections 5 and 7.

<sup>132</sup> Laws 1992, chapter 513, article IV, section 22, subdivision 8 and sections 38-39.

<sup>133</sup> Laws 1992, chapter 598, article V, section 1.

<sup>134</sup> Laws 1992, chapter 403.

<sup>135</sup> Laws 1993, chapter 357, section 2.

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**Table 22: Total Employer Contribution Rates for Minnesota Teacher Pension Plans, after the 1994 Legislative Session, by effective date**

Pension plan	July 1, 1993	July 1, 1994	July 1, 1995
MTRFA – Basic	4.85%	3.64%	3.64%
MTRFA – Coordinated	0.50%	3.64%	3.64%
SPTRFA – Basic	4.63%	4.63%	3.64%
SPTRFA – Coordinated	0.50%	1.50%	3.64%

The state also guaranteed additional contributions to each of these two funds (\$500,000 for Saint Paul, indexed to increases in the general education formula allowance; and aid of up to \$2.5 million for Minneapolis to match school district and city contributions) to terminate when each fund’s funding ratio matched that of TRA.<sup>136</sup> SPTRFA received \$2 million in aid under this provision between fiscal years 1993 and 1996, and MTRFA has received \$27,911,000 in state aid (to match the \$27,911,000 total provided by the city of Minneapolis and the Minneapolis school district) between fiscal years 1993 and 2004, with ongoing contributions for MTRFA expected in the coming years.<sup>137</sup>

A supplemental administrative expense was also assessed against both retirees and active members of these two funds. The total charge was computed by determining the administrative expenses for MTRFA, SPTRFA and TRA, as a percentage of total covered payrolls. The charge equaled the dollar value above which either MTRFA or SPTRFA’s administrative expenses exceeded the percentage set by TRA. Each fund’s board was given the authority to determine how to allocate this cost between active and retired members.<sup>138</sup>

The post-retirement automatic benefit increase mechanism for MTRFA was adjusted. The basic 2% annual increases were unchanged, but the state obligated the fund to pay out any investment returns in excess of a five-year annualized rate of 8.5% (minus the rate of contribution deficiency) were awarded to retirees.<sup>139</sup>

The provision voiding the “Rule of 90” if 45% or more eligible employees should utilize it was repealed.<sup>140</sup>

New early retirement incentives were also enacted for all members of MSRS, PERA and TRA. Qualifying employees could choose either to have their accrual rate increased by 0.25% for MSRS and PERA service and by 0.10% for TRA or first class city teacher service, up to a maximum of 30 years; or, could have employer-paid hospital, medical and dental insurance until age 65. Eligibility requirements were as follows.

For the service accrual rate increase, the member must:

- Have 25 years of service in one or more Minnesota public pension plans or be age 65 with one year of service;
- Be immediately eligible for an annuity and be at least age 55; and
- Retire after May 16, 1993 and before January 31, 1994.

For the employer-paid healthcare, the member must:

- Currently be eligible for employer-paid insurance;

<sup>136</sup> Laws 1993, chapter 357, sections 3-5.

<sup>137</sup> Actuarial valuation reports, Minneapolis and Saint Paul Teachers’ Retirement Funds, various years.

<sup>138</sup> Laws 1993, chapter 357, section 6.

<sup>139</sup> Laws 1993, chapter 357, section 7.

<sup>140</sup> Laws 1993, chapter 280.

- Be less than age 65; and,
- Have at least as many months of service with the current employer as the number of months the individual is younger than 65 at the time of retirement.<sup>141</sup>

**1994**

The employee and employer contribution rates for MSRS were increased, from 3.99% of salary to 4.07%<sup>142</sup> and from 4.12% to 4.20%, respectively.<sup>143</sup> The Pension Commission indicates that these statutes were modified to reflect changes already in effect.<sup>144</sup> The employee contribution rates for TRA were increased by 2.0%; to 6.5% for coordinated members and to 10.5% for basic members. The multiplier for all TRA members was also increased by 0.13%.<sup>145</sup> Multipliers for members of this fund were now as follows:

**Table 23: TRA Multipliers by Plan Type, after 1994 Legislative Session**

Plan Type	Multiplier
Basic – Tiered Benefit	2.13% X first 10 service years + 2.63% X subsequent service years.
Basic – Level Benefit	2.63% X all years of service.
Coordinated – Tiered Benefit	1.13% X first 10 service years + 1.63% X subsequent service years.
Coordinated – Level Benefit	1.63% X all years of service.

**1995**

Changes were made to the DTRFA plans as follows:

- The employee contribution rate for all plans was increased from 4.5% to 5.5%.<sup>146</sup>
- The multiplier was increased for new law coordinated plans by 0.13% (from 1.0% and 1.5% to 1.13% and 1.63% under the tiered system; and from 1.5% to 1.63% under the level benefit system), matching the previous year’s increase for TRA.<sup>147</sup>
- The accrual rate for the old law coordinated plan was increased by 0.13% from 1.25% to 1.38% to year of service.<sup>148</sup>
- The “13<sup>th</sup> check” post-retirement benefit adjustment was abolished in favor of the same system used by the MTRFA plan (see the 1993 summary for details).<sup>149</sup>

<sup>141</sup> Laws 1993, chapter 192, section 108.

<sup>142</sup> Laws 1994, chapter 528, article I, section 4.

<sup>143</sup> Laws 1994, chapter 528, article I, section 5.

<sup>144</sup> *Summary of 1994 Pension Legislation*, Legislative Commission on Pensions and Retirement, June 10, 1994.

<sup>145</sup> Laws 1994, chapter 524.

<sup>146</sup> Laws 1995, chapter 262, article II, section 2.

<sup>147</sup> Laws 1995, chapter 262, article II, section 7.

<sup>148</sup> Laws 1995, chapter 262, article II, section 12.

<sup>149</sup> Laws 1995, chapter 262, article II, sections 3-5, 11 and 13-14.

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### 1996

State and local funding for MTRFA and SPTRFA was increased, by diverting 70% of unallocated amortization or supplemental amortization state aid for local police and fire plans to these funds (70% to Minneapolis, 30% to Saint Paul). The legislation required certain contributions by the Saint Paul school district and both the city of Minneapolis and the Minneapolis school district in order for the funds to receive these monies, and permitted property tax levies for this purpose. The legislation further stipulated that the aid cease when the associations are fully funded, and prohibited the revenue from being used for benefit increases so long as this particular aid to these funds continued.<sup>150</sup> Under this provision, MTRFA has received \$19,601,000 in state aid between fiscal years 1996 and 2004, while SPTRFA has received \$12,346,000 in state aid during that same period.<sup>151</sup> This aid is expected to continue into the foreseeable future.

### 1997

Minnesota's pension plans underwent major changes during the 1997 legislative session, as the legislature altered contribution rates, multiplier and post-retirement adjustments. Effectively, MSRS, PERA, TRA, DTRFA (except for "Old Law" coordinated members), MTRFA and SPTRFA multipliers were increased from their current levels by either 0.2% or 0.07% to be standardized as:

- Tiered benefit program, coordinated members: 1.2% for first ten years of service, 1.7% thereafter
- Tiered benefit program, basic members: 2.2% for first ten years of service, 2.7% thereafter
- Level benefit program, coordinated members: 1.7% for all years of service
- Level benefit program, basic members: 2.7% for all years of service<sup>152</sup>

The "Old Law" DTRFA plan members had their multiplier increased from 1.38% to 1.45% for all years of service.<sup>153</sup>

The "normal" retirement age (the age at which plan members may receive full retirement benefits) for all plans under consideration in this report was restricted so as to not exceed 66 years of age.<sup>154</sup>

The following table indicates the changes to the employee and employer contribution rates.

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<sup>150</sup> Laws 1996, article IV, sections 3, 5-6 and 9.

<sup>151</sup> Actuarial valuation reports, Minneapolis and Saint Paul Teachers' Retirement Funds, various years.

<sup>152</sup> Laws 1997, chapter 233, article I, sections 19, 40, 51 and 55; article III, sections 8, 9 and 11

<sup>153</sup> Laws 1997, chapter 233, article III, section 11; amended Laws 1995, chapter 262, article II, section 12.

<sup>154</sup> Laws 1997, chapter 233, article I, section 37.

**Table 24: Changes to Selected Major and Statewide Minnesota Public Pension Plans during the 1997 Legislative Session**

Pension plan	Employee	Employer – Regular	Employer - Additional	Employer - Total
MSRS <sup>155</sup>	4.07% → 4.0%	4.2% → 4.0%		4.2% → 4.0%
PERA: Basic <sup>156</sup>	8.23% → 8.75%	8.23% → 8.75%	2.50% → 2.68%*	10.73% → 11.43%
PERA: Coordinated <sup>157</sup>	4.23% → 4.75%	4.23% → 4.75%	0.25% → 0.43%*	4.48% → 5.18%
TRA: Basic <sup>158</sup>	10.5% → 9.0%	8.5% → 9.0%	3.64% → 1.64%*	12.14% → 10.64%
TRA: Coordinated <sup>159</sup>	6.5% → 5.0%	4.5% → 5.0%	3.64% → 1.64%*	8.14% → 6.64%
MTRFA: Coordinated <sup>160</sup>	4.5% → 5.5%			
SPTRFA: Coordinated <sup>161</sup>	4.5% → 5.5%		3.64% → 3.84%	8.14% → 8.34%

\* By law, additional rates will be terminated when the unfunded accrued liabilities are eliminated.

Legislation during this session also affected the first-class city teacher plans in other ways. The Saint Paul 13<sup>th</sup> check post-retirement automatic increase was abolished, and a system identical to that used in Minneapolis and Duluth was instituted in its place (see 1994 summary for details).<sup>162</sup> New direct state aid was provided to the Duluth and Minneapolis funds; and direct aid was increased to the Saint Paul fund. As with prior aids, the legislation stipulated that these aids would stop once each respective association’s funding level matched that of TRA.<sup>163</sup> As a result of this legislation, DTRFA received \$2,430,000 in state aid between fiscal years 1998 and 2002, when its funding ratio reached that of TRA; MTRFA received \$98,882,000 in state aid between fiscal years 1998 and 2004; and SPTRFA received \$24,994,000 between fiscal years 1998 and 2004.<sup>164</sup> The aid for MTRFA and SPTRFA is ongoing, through at least fiscal year 2005.

TRA benefits were increased for persons whose benefit began to accrue between July 1, 1997 and July 1, 2002 in order to provide compensation for the impact of expected lower post-retirement increases during their lifetimes. Additional benefits, given as a percentage of the permanent increases given to existing, comparable TRA members, are as follows<sup>165</sup>:

**Table 25: Permanent Benefit Increases for TRA Members Retiring Between Fiscal Years 1997 and 2002**

Retirement Date	Additional Benefit
July 2, 1997 to July 1, 1998	50%
July 2, 1998 to July 1, 1999	40%
July 2, 1999 to July 1, 2000	30%
July 2, 2000 to July 1, 2001	20%
July 2, 2001 to July 1, 2002	10%

<sup>155</sup> Laws 1997, chapter 233, article I, section 18

<sup>156</sup> Laws 1997, chapter 233, article I, sections 38 and 39 (although the legislation refers specifically to employee contribution rates; from 1974 through 2000, MS 353.27 subd. 3. tied PERA’s regular employer contribution rates to the employee contribution rates.

<sup>157</sup> *Ibid*

<sup>158</sup> Laws 1997, chapter 233, article I, sections 49 and 50.

<sup>159</sup> *Ibid*

<sup>160</sup> Laws 1997, chapter 233, article III, section 2.

<sup>161</sup> Laws 1997, chapter 233, article III, sections 2 and 3.

<sup>162</sup> Laws 1997, chapter 233, article III, sections 7 and 10.

<sup>163</sup> Laws 1997, chapter 233, article III, section 6.

<sup>164</sup> Actuarial valuation reports, Duluth, Minneapolis and Saint Paul Teachers’ Retirement Funds, various years.

<sup>165</sup> Laws 1997, chapter 233, article I, section 52.

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Finally, three changes were made to the MSRS, PERA and TRA plans generally, which:

- reduced the required maximum post-retirement inflation adjustment from 3.5% to 2.5%,<sup>166</sup>
- increased the post-retirement interest assumption from 5% to 6%<sup>167</sup>, and
- specified that future increases in accrual rates would apply only to prospective service, and not to service years already worked.<sup>168</sup>

### 2000

Legislation during this session extended a provision to all funds in this report that originally applied only to a few pension plans.<sup>169</sup> If a pension plan's fund moves to a 100% funded ratio or above, this provision requires that the plan's excess actuarial value be amortized in reverse, meaning that the excess monies are in effect "paid back" to employers and employees by reducing the contribution rates for the plan. Applying this provision to a public pension plan also entails that the plan's amortization date, the date by which all unfunded liabilities must be eliminated, is rolled back to be re-set at 30 years from that date.<sup>170</sup> Therefore, rather than paying out the excess contributions as an ongoing new benefit, the excess is treated as a credit against future contributions. This also is an excellent policy idea, since it prevents legislators from using a one-time surplus to award costly long-term benefit increases.

### 2001

Employee and employer contribution rates for PERA were raised from 8.75% of salary to 9.10% for basic members and from 4.75% to 5.10% for coordinated members.<sup>171</sup>

### 2005

Changes were made to the PERA plan during this legislative session. The contribution rates for employees in the coordinated plan were increased as follows<sup>172</sup>:

**Table 26: PERA Contribution Rate Changes for 2006 through 2008**

Contribution type	Current Law	1/1/2006	1/1/2007	1/1/2008
Member	5.10%	5.50%	5.75%	6.00%
Employer - Matching	5.10%	5.50%	5.75%	6.00%
Employer – Additional*	0.43%	0.50%	0.50%	0.50%

\* Note: additional contribution will increase to 0.75% in 2009 and to 1.0% in 2010 if the previous year actuarial valuation indicates that it will be needed to cover the plan's actuarially determined required contributions.

A provision was also inserted into law requiring the PERA Executive Director to determine an appropriate increase or decrease in contribution rates of up to 0.25% after

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<sup>166</sup> Laws 1997, chapter 233, article I, section 5.

<sup>167</sup> Laws 1997, chapter 233, article I, section 58.

<sup>168</sup> Laws 1997, chapter 233, article I, section 55.

<sup>169</sup> PERA's Police and Fire plan and the plan covering the state's correctional workers.

<sup>170</sup> Laws 2000, chapter 461, article I, section 6.

<sup>171</sup> First Special Session Laws 2001, chapter 10, article XI, section 13.

<sup>172</sup> First Special Session Laws 2005, chapter 8, article V, sections 2-3.

July 1, 2010, if there are two consecutive years with a contribution sufficiency or deficiency of at least 0.5%. The provision further stipulates that the recommendation be forwarded to the Pension Commission and become effective the next fiscal year (beginning July 1) unless the Commission recommends modification or elimination of the change.<sup>173</sup>

The following table provides a snapshot of the relevant public pension plan provisions as of the end of the 2005 legislative session:

**Table 27: 2004 Selected Statewide and Major Minnesota Public Pension Plan Retirement Provisions**

<b>Pension plan (Hired before 7/1/89)</b>	<b>Employee/Employer Contribution (% salary)</b>	<b>Eligibility Requirements for Full Pension</b>	<b>Multiplier</b>
PERA – Basic	8.75% / 11.43%	Age 65 with 3 years service; or Age 62 with 30 years service; or Rule of 90	2.2% X first 10 years of service and 2.7% X subsequent years; or, 2.7% X all years of service with actuarial reduction*.
TRA – Basic	9.00% / 9.00%		
DTRFA – Old law coordinated	5.50% / 5.79%	Age 60 with 10 years of service; or Rule of 90	1.45% X number of years of service
MTRFA – Basic	8.50% / 12.14%	Age 60; or Any age with 30 years of service	2.50% X number of years of service
SPTRFA – Basic	8.00% / 11.64%	Age 65 with 5 years service; or Age 60 with 25 years service; or Rule of 90	2.0% X all years of service; or, 2.5% X all years of service with actuarial reduction*.
MSRS	4.00% / 4.00%	Age 65 with 3 years service; or Age 62 with 30 years service; or Rule of 90	1.2% X first 10 years of service and 1.7% X subsequent years; or, 1.7% X all years of service with actuarial reduction*.
PERA – Coordinated	4.75% / 5.18%		
TRA – Coordinated	5.00% / 5.00%		
MTRFA – Coordinated	5.50% / 8.14%		
DTRFA – New law coordinated	5.50% / 5.79%	Age 65 with 3 years service; or Any age with 30 years service; or Rule of 90	1.2% X first 10 years of service and 1.7% X subsequent years.
SPTRFA – Coordinated	5.50% / 8.34%	Age 65 with 3 years service; or Any age with 30 years service; or Rule of 90	1.2% X first 10 years of service and 1.7% X subsequent years; or, 1.7% X all years of service with actuarial reduction*.
<b>Pension plan (Hired after 7/1/89)</b>			
MSRS – General	4.00% / 4.00%	Social Security retirement age (up to age 66) with 3 years service.	1.7% X all years of service.
PERA – Coordinated	4.75% / 5.18%		
TRA: Coordinated	5.00% / 5.00%		

<sup>173</sup> First Special Session Laws 2005, chapter 8, article V, section 4.

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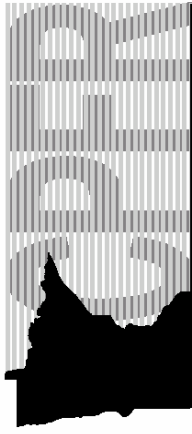
Pension plan (Hired before 7/1/89)	Employee/Employer Contribution (% salary)	Eligibility Requirements for Full Pension	Multiplier
MTRFA – Coordinated	5.50% / 8.14%		
SPTRFA – Coordinated	5.50% / 8.34%		
DTRFA – New law coordinated	5.50% / 5.79%	Social Security retirement age (up to age 66).	1.7% X all years of service.

\* Actuarial reduction of 0.25% for each month the member is under age 65.

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Center for **P**ublic **F**inance **R**esearch



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