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State of Minnesota

HOUSE OF REPRESENTATIVES

NINETY-THIRD SESSION

H. F. No. 3956

02/19/2024

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The bill was read for the first time and referred to the Committee on State and Local Government Finance and Policy

1.1 A bill for an act

1.2 relating to retirement; making administrative changes to the statutes governing the

1.3 pension plans administered by the Minnesota State Retirement System; modifying

1.4 the definition of salary; replacing an obsolete cross-reference related to setting the

1.5 executive director's salary; making conforming changes to vesting requirements;

1.6 clarifying dependent child survivor benefits; modifying a requirement for

1.7 correctional employees applying for disability benefits; amending Minnesota

1.8 Statutes 2022, sections 352.01, subdivision 13; 352.03, subdivision 5; 352.113,

1.9 subdivision 1; 352.12, subdivisions 1, 2, 2b, 7, 8; 352.95, subdivision 4.

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

1.11 Section 1. Minnesota Statutes 2022, section 352.01, subdivision 13, is amended to read:

1.12 Subd. 13. **Salary.** (a) Subject to the limitations of section 356.611, "salary" means wages,

1.13 or other periodic compensation, paid to an employee before deductions for deferred

1.14 compensation, supplemental retirement plans, or other voluntary salary reduction programs.

1.15 (b) "Salary" does not include:

1.16 (1) lump-sum sick leave payments;

1.17 (2) severance payments;

1.18 (3) lump-sum annual leave payments and overtime payments made at the time of

1.19 separation from state service;

1.20 (4) payments in lieu of any employer-paid group insurance coverage, including the

1.21 difference between single and family rates that may be paid to an employee with single

1.22 coverage;

1.23 (5) payments made as an employer-paid fringe benefit;

2.1 (6) workers' compensation payments;

2.2 (7) employer contributions to a deferred compensation or tax-sheltered annuity program;
2.3 and

2.4 (8) amounts contributed under a benevolent vacation and sick leave donation program.

2.5 (c) Amounts ~~provided~~ paid to an employee by the employer through a grievance
2.6 proceeding or a legal settlement are salary only if the grievance or settlement is reviewed
2.7 by the executive director and agreement is received by the executive director no fewer than
2.8 14 days before payment is made and the executive director determines that:

2.9 (1) the grievance or settlement agreement describes with sufficient specificity the period
2.10 or periods of time worked or not worked by the employee for which the amounts are
2.11 compensation; and

2.12 (2) the amounts are determined by the executive director to be consistent with salary as
2.13 defined in paragraph (a) and the determination is consistent with prior determinations.

2.14 **EFFECTIVE DATE.** This section is effective the day following final enactment.

2.15 Sec. 2. Minnesota Statutes 2022, section 352.03, subdivision 5, is amended to read:

2.16 Subd. 5. **Executive director, deputy director, and assistant director.** (a) The board
2.17 shall appoint an executive director, in this chapter called the director, on the basis of
2.18 education, experience in the retirement field, ability to manage and lead system staff, and
2.19 ability to assist the board in setting a vision for the system. The director must have had at
2.20 least five years' experience in either an executive level management position or in a position
2.21 with responsibility for the governance, management, or administration of a retirement plan.

2.22 (b) The executive director, deputy director, and assistant director must be in the
2.23 unclassified service but appointees may be selected from civil service lists if desired.
2.24 Notwithstanding any law to the contrary, the board must set the salary of the executive
2.25 director. ~~The salary of the executive director must not exceed the limit for a position listed~~
2.26 ~~in section 15A.0815, subdivision 2.~~ The board must set the salary of the executive director
2.27 with reference to a salary range in the managerial plan in effect under section 43A.18,
2.28 subdivision 3. The board must designate the salary range and the salary of the executive
2.29 director, which must not exceed the maximum for the salary range. The salary of the deputy
2.30 director and assistant director must be set in accordance with section 43A.18, subdivision
2.31 3.

2.32 **EFFECTIVE DATE.** This section is effective the day following final enactment.

3.1 Sec. 3. Minnesota Statutes 2022, section 352.113, subdivision 1, is amended to read:

3.2 Subdivision 1. **Age and service requirements.** (a) An employee covered by the system,
 3.3 ~~who is less than~~ who has satisfied the applicable allowable service credit requirement under
 3.4 section 352.115, subdivision 1, has not reached normal retirement age, and ~~who~~ becomes
 3.5 totally and permanently disabled ~~after three or more years of allowable service if employed~~
 3.6 ~~before July 1, 2010, or after five or more years of allowable service if employed after June~~
 3.7 ~~30, 2010,~~ is entitled to a disability benefit in an amount provided in subdivision 3.

3.8 (b) If the disabled employee's state service has terminated at any time, the employee
 3.9 must have at least two years of allowable service after last becoming a state employee
 3.10 covered by the system.

3.11 (c) Refunds may be repaid under section 352.23 before the effective accrual date of the
 3.12 disability benefit under subdivision 2.

3.13 **EFFECTIVE DATE.** This section is effective retroactively from July 1, 2023.

3.14 Sec. 4. Minnesota Statutes 2022, section 352.12, subdivision 1, is amended to read:

3.15 Subdivision 1. **Death before termination of service.** If an employee dies before state
 3.16 service has terminated and neither a survivor annuity nor a ~~reversionary~~ bounce-back annuity
 3.17 is payable on behalf of the employee, or if a former employee who has sufficient service
 3.18 credit to be entitled to an annuity dies before the annuity has become payable, a refund ~~with~~
 3.19 in an amount equal to the employee's accumulated contributions plus interest is payable
 3.20 upon filing a written application on a form prescribed by the executive director. The refund
 3.21 is payable to the last designated beneficiary or, if there is none, to the surviving spouse or,
 3.22 if none, to the employee's surviving children in equal shares or, if none, to the employee's
 3.23 surviving parents in equal shares or, if none, to the representative of the estate. Interest must
 3.24 be computed as provided in section 352.22, subdivision 2. Upon the death of an employee
 3.25 who has received a refund that was later repaid in full, interest must be paid on the repaid
 3.26 refund only from the date of the repayment. If the repayment was made in installments,
 3.27 interest must be paid only from the date on which the installment payments began. The
 3.28 designated beneficiary, the surviving spouse, or the representative of the estate of an
 3.29 employee who had received a disability benefit is not entitled to the payment of interest
 3.30 upon any balance remaining to the decedent's credit in the fund at the time of death, unless
 3.31 the death occurred before any payment could be negotiated.

3.32 **EFFECTIVE DATE.** This section is effective the day following final enactment.

4.1 Sec. 5. Minnesota Statutes 2022, section 352.12, subdivision 2, is amended to read:

4.2 Subd. 2. **Surviving spouse benefit.** (a) If an employee or former employee has ~~credit~~
4.3 ~~for at least three years allowable service if the employee was employed before July 1, 2010,~~
4.4 ~~or for at least five years of allowable service if the employee was employed after June 30,~~
4.5 ~~2010, satisfied the applicable allowable service credit requirement under section 352.115,~~
4.6 subdivision 1, and dies before an annuity or disability benefit has become payable,
4.7 notwithstanding any designation of beneficiary to the contrary, the surviving spouse of the
4.8 employee may elect to receive, in lieu of the refund with interest under subdivision 1, an
4.9 annuity equal to the joint and 100 percent survivor annuity which the employee or former
4.10 employee could have qualified for on the date of death.

4.11 (b) If the employee was an active employee at the time of the employee's death, was
4.12 under age 55, and has credit for at least 30 years of allowable service on the date of death,
4.13 the surviving spouse may elect to receive a 100 percent joint and survivor annuity based on
4.14 the age of the employee and surviving spouse on the date of death. The annuity is payable
4.15 using the full early retirement reduction under section 352.116, subdivision 1, paragraph
4.16 (b), to age 55 and one-half of the early retirement reduction from age 55 to the age payment
4.17 begins.

4.18 (c) If the employee was an active employee at the time of the employee's death, was
4.19 under age 55, and has ~~credit for at least three years of allowable service credit on the date~~
4.20 ~~of death if the employee was employed before July 1, 2010, or for at least five years of~~
4.21 ~~allowable service if the employee was employed after June 30, 2010, satisfied the applicable~~
4.22 allowable service credit requirement under section 352.115, subdivision 1, but did not yet
4.23 qualify for retirement, the surviving spouse may elect to receive a 100 percent joint and
4.24 survivor annuity based on the age of the employee and surviving spouse at the time of death.
4.25 The annuity is payable using the full early retirement reduction under section 352.116,
4.26 subdivision 1 or 1a, to age 55 and one-half of the early retirement reduction from age 55 to
4.27 the age payment begins.

4.28 (d) The surviving spouse eligible for benefits under paragraph (a) may apply for the
4.29 annuity at any time after the date on which the employee or former employee would have
4.30 attained the required age for retirement based on the allowable service earned. The surviving
4.31 spouse eligible for surviving spouse benefits under paragraph (b) or (c) may apply for the
4.32 annuity at any time after the employee's death. The annuity must be computed under sections
4.33 352.115, subdivisions 1, 2, and 3, and 352.116, subdivisions 1, 1a, and 3. ~~Sections~~ Section
4.34 352.22, subdivision subdivisions 3, and ~~352.72, subdivision 2~~ 3a, apply to a deferred annuity
4.35 ~~or payable to a surviving spouse benefit payable~~ under this subdivision. The annuity must

5.1 cease with the last payment received by the surviving spouse in the lifetime of the surviving
 5.2 spouse, or upon expiration of a term certain benefit payment to a surviving spouse under
 5.3 subdivision 2a. An amount equal to the excess, if any, of the accumulated contributions
 5.4 credited to the account of the deceased employee in excess of the total of the benefits paid
 5.5 and payable to the surviving spouse must be paid to the deceased employee's or former
 5.6 employee's last designated beneficiary or, if none, as specified under subdivision 1.

5.7 (e) Any employee or former employee may request in writing, with the signed consent
 5.8 of the spouse, that this subdivision not apply and that payment be made only to a designated
 5.9 beneficiary as otherwise provided by this chapter.

5.10 **EFFECTIVE DATE.** This section is effective retroactively from July 1, 2023.

5.11 Sec. 6. Minnesota Statutes 2022, section 352.12, subdivision 2b, is amended to read:

5.12 Subd. 2b. **Dependent child survivor coverage.** If there is no surviving spouse eligible
 5.13 for benefits under subdivision 2, a dependent child or children as defined in section 352.01,
 5.14 subdivision 26, is eligible for monthly payments under this subdivision, but only if the
 5.15 dependent child or children did not elect to receive a refund under subdivision 1. Payments
 5.16 to a dependent child must be paid from the date of the employee's death to the date the
 5.17 dependent child attains age 20 if the child is under age 15. If the child is 15 years or older
 5.18 on the date of death, payment must be made for five years. The payment to a dependent
 5.19 child is an amount actuarially equivalent to the value of a 100 percent optional annuity
 5.20 under subdivision 2 using the age of the employee and age of the dependent child at the
 5.21 date of death in lieu of the age of the surviving spouse. If there is more than one dependent
 5.22 child, each dependent child shall receive a proportionate share of the actuarial value of the
 5.23 employee's account.

5.24 **EFFECTIVE DATE.** This section is effective the day following final enactment.

5.25 Sec. 7. Minnesota Statutes 2022, section 352.12, subdivision 7, is amended to read:

5.26 Subd. 7. **Absence of optional or ~~reversionary~~ bounce-back annuity.** Upon the death
 5.27 of a retired employee who selected neither an optional annuity or a ~~reversionary~~ bounce-back
 5.28 annuity, a refund must be paid in an amount equal to the excess, if any, of the accumulated
 5.29 contributions to the credit of the retired employee immediately before retirement in excess
 5.30 of the sum of (1) all annuities, retirement allowances, and disability benefits that had been
 5.31 received and had accrued in the lifetime of the decedent, and (2) the annuity, retirement
 5.32 allowance, or disability benefit if not negotiated, payable to the surviving spouse under
 5.33 section 352.115, subdivision 8, or 352.113, subdivision 4, for the calendar month in which

6.1 the retired employee died. The refund must be paid to the named beneficiary or, if there be
6.2 none, to the surviving spouse or, if none, to the employee's surviving children in equal
6.3 shares or, if none, to the employee's surviving parents in equal shares or, if none, to the
6.4 representative of the estate.

6.5 **EFFECTIVE DATE.** This section is effective the day following final enactment.

6.6 Sec. 8. Minnesota Statutes 2022, section 352.12, subdivision 8, is amended to read:

6.7 Subd. 8. **Optional or ~~reversionary~~ bounce-back annuity.** If the last eligible recipient
6.8 of an optional annuity dies and the total amounts paid under it are less than the accumulated
6.9 contributions to the credit of the retired employee immediately before retirement, the balance
6.10 of accumulated contributions must be paid to the person designated by the retired employee
6.11 in writing to receive payment. If no designation has been made by the retired employee, the
6.12 remaining balance of accumulated contributions must be paid to the surviving children of
6.13 the deceased recipient of the optional annuity in equal shares. If there are no surviving
6.14 children, payment must be made to the deceased recipient's parents or, if none, to the
6.15 representative of the deceased recipient's estate.

6.16 **EFFECTIVE DATE.** This section is effective the day following final enactment.

6.17 Sec. 9. Minnesota Statutes 2022, section 352.95, subdivision 4, is amended to read:

6.18 Subd. 4. **Medical or psychological evidence.** (a) An applicant shall provide medical,
6.19 chiropractic, or psychological evidence to support an application for disability benefits. The
6.20 director ~~shall~~ may have the employee examined by at least one additional licensed physician,
6.21 APRN, chiropractor, or psychologist who is designated by the medical adviser. The
6.22 physicians, APRNs, chiropractors, or psychologists with respect to a mental impairment,
6.23 shall make written reports to the director concerning the question of the employee's disability,
6.24 including their expert opinions as to whether the employee has an occupational disability
6.25 within the meaning of section 352.01, subdivision 17a, and whether the employee has a
6.26 duty disability, physical or psychological, under section 352.01, subdivision 17b, or has a
6.27 regular disability, physical or psychological, under section 352.01, subdivision 17c. The
6.28 director shall also obtain written certification from the employer stating whether or not the
6.29 employee is on sick leave of absence because of a disability that will prevent further service
6.30 to the employer performing normal duties as defined in section 352.01, subdivision 17d, or
6.31 performing less frequent duties as defined in section 352.01, subdivision 17e, and as a
6.32 consequence, the employee is not entitled to compensation from the employer.

7.1 (b) If, on considering the reports by the physicians, APRNs, chiropractors, or
7.2 psychologists and any other evidence supplied by the employee or others, the medical
7.3 adviser finds that the employee has an occupational disability within the meaning of section
7.4 352.01, subdivision 17a, the adviser shall make the appropriate recommendation to the
7.5 director, in writing, together with the date from which the employee has been disabled. The
7.6 director shall then determine the propriety of authorizing payment of a duty disability benefit
7.7 or a regular disability benefit as provided in this section.

7.8 (c) Unless the payment of a disability benefit has terminated because the employee no
7.9 longer has an occupational disability, or because the employee has reached either age 55
7.10 or the five-year anniversary of the effective date of the disability benefit, whichever is later,
7.11 the disability benefit must cease with the last payment which was received by the disabled
7.12 employee or which had accrued during the employee's lifetime. While disability benefits
7.13 are paid, the director has the right, at reasonable times, to require the disabled employee to
7.14 submit proof of the continuance of an occupational disability. If any examination indicates
7.15 to the medical adviser that the employee no longer has an occupational disability, the
7.16 disability payment must be discontinued upon the person's reinstatement to state service or
7.17 within 60 days of the finding, whichever is sooner.

7.18 **EFFECTIVE DATE.** This section is effective the day following final enactment.