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State of Minnesota  
HOUSE OF REPRESENTATIVES

EIGHTY-NINTH SESSION

H. F. No. **566**

02/05/2015 Authored by O'Driscoll

The bill was read for the first time and referred to the Committee on Government Operations and Elections Policy

1.1 A bill for an act  
1.2 relating to retirement; general state employees retirement plan of the Minnesota  
1.3 State Retirement System; general employees retirement plan of the Public  
1.4 Employees Retirement Association; Teachers Retirement Association; modifying  
1.5 provisions directing criteria for making recommendations to adjust employee  
1.6 and employer contribution rates; amending Minnesota Statutes 2014, sections  
1.7 352.045; 353.27, subdivision 3b; 354.42, subdivisions 4b, 4d.

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

1.9 Section 1. Minnesota Statutes 2014, section 352.045, is amended to read:

1.10 **352.045 PROCEDURE FOR REVISING EMPLOYEE AND EMPLOYER**  
1.11 **CONTRIBUTIONS IN CERTAIN INSTANCES.**

1.12 Subdivision 1. **Application.** This section applies to the general state employees  
1.13 retirement plan ~~and to~~ established under this chapter, the correctional state employees  
1.14 retirement plan established under this chapter, and ~~to~~ the state patrol retirement plan  
1.15 established under chapter 352B.

1.16 Subd. 2. **Determination.** For purposes of this section, a contribution sufficiency  
1.17 exists if, for ~~purposes of~~ the applicable plan, the total of the employee contributions, the  
1.18 employer contributions, and any additional employer contributions, if applicable, exceeds  
1.19 the total of the normal cost, the administrative expenses, and the amortization contribution  
1.20 of the retirement plan as reported in the most recent actuarial valuation of the retirement  
1.21 plan prepared by the approved actuary retained under section 356.214 and prepared under  
1.22 section 356.215 and the standards for actuarial work of the Legislative Commission on  
1.23 Pensions and Retirement. For purposes of this section, a contribution deficiency exists  
1.24 if, for the applicable plan, the total employee contributions, employer contributions,  
1.25 and any additional employer contributions are less than the total of the normal cost, the

2.1 administrative expenses, and the amortization contribution of the retirement plan as  
 2.2 reported in the most recent actuarial valuation of the retirement plan prepared by the  
 2.3 approved actuary retained under section 356.214 and prepared under section 356.215 and  
 2.4 the standards for actuarial work of the Legislative Commission on Pensions and Retirement.

2.5 Subd. 3a. **Contribution rate revision; general state employees retirement plan.**

2.6 (a) Notwithstanding the contribution rates ~~stated in plan law~~ as specified in law governing  
 2.7 the applicable retirement plan, the board of directors of the Minnesota State Retirement  
 2.8 System may adjust the employee and employer contribution rates for the general state  
 2.9 employees retirement plan must be adjusted:

2.10 (1) if the regular actuarial valuation of the plan prepared under section 356.215  
 2.11 indicates that there is a contribution sufficiency greater than one percent of covered payroll  
 2.12 ~~and that the sufficiency has existed for at least two consecutive years, the employee and~~  
 2.13 ~~employer contribution rates must be decreased as determined under paragraph (b) to a~~  
 2.14 ~~level such that the sufficiency is no greater than one percent of covered payroll based~~  
 2.15 ~~on the most recent actuarial valuation; or~~

2.16 (2) if the regular actuarial valuation of the plan under section 356.215 indicates that  
 2.17 there is a contribution deficiency under subdivision 2 equal to or greater than ~~0.5~~ one-half  
 2.18 of one percent of covered payroll ~~and that the deficiency has existed for at least two~~  
 2.19 ~~consecutive years, the employee and employer contribution rates must be increased as~~  
 2.20 ~~determined under paragraph (c) to a level such that no deficiency exists based on the~~  
 2.21 ~~most recent actuarial valuation.~~

2.22 (b) If the actuarially ~~required~~ determined contribution of the plan is less than the  
 2.23 total support provided by the combined employee and employer contribution rates by  
 2.24 more than one percent of covered payroll, the plan employee and employer contribution  
 2.25 rates ~~must~~ may be decreased incrementally over one or more years ~~by no more than~~  
 2.26 ~~0.25 percent of pay each for employee and employer contribution rates~~ to a level such  
 2.27 that there remains a contribution sufficiency of at least one percent of covered payroll.  
 2.28 ~~No contribution rate~~ Any decrease may be made until at least two years have elapsed  
 2.29 ~~since any adjustment under this paragraph has been fully implemented in employee and~~  
 2.30 employer contribution rates must not result in total contributions that are less than the sum  
 2.31 of the normal cost and administrative expenses of the retirement plan.

2.32 (c) If the actuarially required contribution exceeds the total support provided by  
 2.33 the employee and employer contribution rates, the board of directors may increase the  
 2.34 ~~employee and employer contribution rates must be increased~~ equally to eliminate that  
 2.35 contribution deficiency. ~~If the contribution deficiency is:~~

3.1 (1) ~~less than two percent, the incremental increase may be up to 0.25 percent each~~  
 3.2 ~~for the employee and employer contribution rates;~~

3.3 (2) ~~greater than 1.99 percent and less than 4.01 percent, the incremental increase~~  
 3.4 ~~may be up to 0.5 percent each for the employee and employer contribution rates; or~~

3.5 (3) ~~greater than four percent, the incremental increase may be up to 0.75 percent~~  
 3.6 ~~each for the employee and employer contribution.~~

3.7 (d) To determine if an adjustment is to be made, the board of directors shall consult  
 3.8 with the approved actuary retained under section 356.214 and shall take into consideration  
 3.9 factors that include, but are not limited to, the contribution rates calculated based on the  
 3.10 actuarial value of assets and calculated based on the market value of assets; the funded  
 3.11 ratio calculated based on the actuarial value of assets; the funded ratio calculated based on  
 3.12 the market value of assets; the remaining number of years to the amortization target date;  
 3.13 the recent experience of the investment markets; and the results of the 30-year funding,  
 3.14 disbursements, and contribution projections prepared every other year as required under  
 3.15 the standards for actuarial work adopted by the Legislative Commission on Pensions  
 3.16 and Retirement.

3.17 (e) ~~Any recommended~~ adjustment to the contribution rates must be reported to  
 3.18 the chair and the executive director of the Legislative Commission on Pensions and  
 3.19 Retirement by January 15 following receipt of the most recent annual actuarial valuation  
 3.20 prepared under section 356.215. The report must include draft legislation to revise the  
 3.21 employee and employer contributions stated in plan law. If the Legislative Commission  
 3.22 on Pensions and Retirement does not recommend against the rate change or does not  
 3.23 recommend a modification in the rate change, the ~~recommended~~ adjustment becomes  
 3.24 effective on the first day of the first full payroll period in the fiscal year following receipt  
 3.25 of the most recent actuarial valuation that gave rise to the adjustment.

3.26 (e) (f) ~~A contribution sufficiency of up to one percent of covered payroll must be~~  
 3.27 ~~held in reserve to be used to offset any future actuarially required~~ determined contributions  
 3.28 ~~that are more than the total combined employee and employer contributions.~~

3.29 (f) (g) ~~Before any reduction in contributions to eliminate a sufficiency in excess of~~  
 3.30 ~~one percent of covered pay may be recommended~~ made, the executive director must  
 3.31 review any need for a change in actuarial assumptions, as recommended by the approved  
 3.32 actuary retained under section 356.214 in the most recent experience study of the general  
 3.33 employees retirement plan prepared under section 356.215 and the standards for actuarial  
 3.34 work promulgated by the Legislative Commission on Pensions and Retirement that may  
 3.35 result in an increase in the actuarially required determined contribution and must report to  
 3.36 the Legislative Commission on Pensions and Retirement any ~~recommendation~~ decision

4.1 by the board to use the sufficiency exceeding one percent of covered payroll to offset the  
 4.2 impact of an actuarial assumption change recommended by the actuary retained under  
 4.3 section 356.214, subdivision 1, and reviewed by the actuary retained by the commission  
 4.4 under section 356.214, subdivision 4.

4.5 ~~(g)~~ (h) No contribution sufficiency in excess of one percent of covered pay may be  
 4.6 proposed to be used to increase benefits, and no benefit increase may be proposed that  
 4.7 would initiate an ~~automatic~~ adjustment to increase contributions under this subdivision.  
 4.8 Any proposed benefit improvement must include a recommendation, prepared by the  
 4.9 approved actuary retained under section 356.214, subdivision 1, and reviewed by the  
 4.10 actuary retained by the Legislative Commission on Pensions and Retirement as provided  
 4.11 under section 356.214, subdivision 4, on how the benefit modification will be funded.

4.12 Subd. 3b. **Contribution rate revision; correctional state employees retirement**  
 4.13 **plan and State Patrol retirement plan.** (a) Subdivision 3a applies to the correctional  
 4.14 state employees retirement plan under this chapter and to the State Patrol retirement  
 4.15 plan established under chapter 352B, except as ~~stated in this subdivision~~ specified in  
 4.16 paragraph (b) or (c).

4.17 (b) Any limitations on the amount of contribution rate changes stated in subdivision  
 4.18 3a apply only to the amount of the employee contribution revision. The employer  
 4.19 contribution for the correctional state employees retirement plan or the State Patrol  
 4.20 retirement plan, whichever is applicable, must be adjusted so that the employer  
 4.21 contribution is equal to 60 percent of the sum of employee plus employer contributions.

4.22 (c) For the State Patrol retirement plan, a contribution sufficiency of up to two  
 4.23 percent of covered payroll, rather than one percent, may be held in reserves without taking  
 4.24 action to reduce employee and employer contributions.

4.25 Sec. 2. Minnesota Statutes 2014, section 353.27, subdivision 3b, is amended to read:

4.26 Subd. 3b. **Change in employee and employer contributions in certain instances.**

4.27 (a) For purposes of this section:

4.28 (1) a contribution sufficiency exists if the total of the employee contribution under  
 4.29 subdivision 2, the employer contribution under subdivision 3, the additional employer  
 4.30 contribution under subdivision 3a, and any additional contribution previously imposed  
 4.31 under this subdivision exceeds the total of the normal cost, the administrative expenses,  
 4.32 and the amortization contribution of the general employees retirement plan as reported in  
 4.33 the most recent actuarial valuation of the retirement plan prepared by the actuary retained  
 4.34 under section 356.214 and prepared under section 356.215 and the standards for actuarial  
 4.35 work of the Legislative Commission on Pensions and Retirement; and

5.1 (2) a contribution deficiency exists if the total of the employee contributions under  
5.2 subdivision 2, the employer contributions under subdivision 3, the additional employer  
5.3 contribution under subdivision 3a, and any additional contribution previously imposed  
5.4 under this subdivision is less than the total of the normal cost, the administrative expenses,  
5.5 and the amortization contribution of the general employees retirement plan as reported in  
5.6 the most recent actuarial valuation of the retirement plan prepared by the actuary retained  
5.7 under section 356.214 and prepared under section 356.215 and the standards for actuarial  
5.8 work of the Legislative Commission on Pensions and Retirement.

5.9 (b) Notwithstanding the contribution rate provision specified under subdivisions 2,  
5.10 3, and 3a, the board of trustees of the Public Employees Retirement Association may  
5.11 adjust the employee and employer contributions to the general employees retirement plan  
5.12 under subdivisions 2 and 3 must be adjusted:

5.13 (1) if the regular actuarial valuation of the general employees retirement plan of  
5.14 the Public Employees Retirement Association prepared under section 356.215 indicates  
5.15 that there is a contribution sufficiency under paragraph (a) greater than one percent of  
5.16 covered payroll ~~and that the sufficiency has existed for at least two consecutive years, the~~  
5.17 ~~coordinated program employee and employer contribution rates must be decreased as~~  
5.18 ~~determined under paragraph (e) to a level such that the sufficiency is no greater than one~~  
5.19 ~~percent of covered payroll based on the most recent actuarial valuation; or~~

5.20 (2) if the regular actuarial valuation of the general employees retirement plan of the  
5.21 ~~Public Employees Retirement Association under section 356.215 indicates that there~~  
5.22 ~~is a contribution deficiency~~ under paragraph (a) equal to or greater than 0.5 one-half  
5.23 of one percent of covered payroll and that the deficiency has existed for at least two  
5.24 consecutive years, the coordinated program employee and employer contribution rates  
5.25 must be increased as determined under paragraph (d) to a level such that no deficiency  
5.26 exists based on the most recent actuarial valuation.

5.27 (c) If the actuarially required determined contribution of the general employees  
5.28 retirement plan is less than the total support provided by the combined employee and  
5.29 employer contribution rates under subdivisions 2, 3, and 3a, by more than one percent of  
5.30 covered payroll, the general employees retirement plan coordinated program employee  
5.31 and employer contribution rates under subdivisions 2 and 3 ~~must~~ may be decreased  
5.32 ~~incrementally over one or more years by no more than 0.25 percent of pay each for~~  
5.33 ~~employee and employer matching contribution rates to a level such that there remains a~~  
5.34 ~~contribution sufficiency of at least one percent of covered payroll. No contribution rate~~  
5.35 ~~decrease may be made until at least two years have elapsed since any adjustment under~~  
5.36 ~~this subdivision has been fully implemented. Any decrease in employee and employer~~

6.1 contribution rates may not result in total contributions that are less than the total of the  
6.2 normal cost of the retirement plan and the administrative expenses of the retirement plan.

6.3 (d) If the actuarially ~~required~~ determined contribution exceeds the total support  
6.4 provided by the combined employee and employer contribution rates under subdivisions  
6.5 2, 3, and 3a, the board of trustees may increase the employee and matching employer  
6.6 contribution rates ~~must be increased equally~~ to eliminate that contribution deficiency.

6.7 ~~If the contribution deficiency is:~~

6.8 (1) ~~less than two percent, the incremental increase may be up to 0.25 percent for the~~  
6.9 ~~general employees retirement plan employee and matching employer contribution rates;~~

6.10 (2) ~~greater than 1.99 percent and less than 4.01 percent, the incremental increase~~  
6.11 ~~may be up to 0.5 percent for the employee and matching employer contribution rates; or~~

6.12 (3) ~~greater than four percent, the incremental increase may be up to 0.75 percent for~~  
6.13 ~~the employee and matching employer contribution.~~

6.14 (e) ~~The general employees retirement plan contribution sufficiency or deficiency~~  
6.15 ~~determination under paragraphs (a) to (d) must be made without the inclusion of the~~  
6.16 ~~contributions to, the funded condition of, or the actuarial funding requirements of the~~  
6.17 ~~MERF division. To determine if an adjustment is to be made, the board of trustees shall~~  
6.18 consult with the approved actuary retained under section 356.214 and shall take into  
6.19 consideration factors that include, but are not limited to, the contribution rates based on  
6.20 actuarial value of assets and contribution rates based on the market value of assets; the  
6.21 funded ratio based on the actuarial value of assets and based on the market value of assets;  
6.22 the number of years remaining to the amortization target date; the recent experience  
6.23 of the investment markets; and the results of the 30-year funding, disbursements, and  
6.24 contributions projections prepared every other year as required under the standards for  
6.25 actuarial work adopted by the Legislative Commission on Pensions and Retirement.

6.26 (f) Any ~~recommended~~ adjustment to the contribution rates must be reported to  
6.27 the chair and the executive director of the Legislative Commission on Pensions and  
6.28 Retirement by January 15 following the receipt of the most recent annual actuarial  
6.29 valuation prepared under section 356.215. If the Legislative Commission on Pensions  
6.30 and Retirement does not recommend against the rate change or does not recommend  
6.31 a modification in the rate change, the recommended adjustment becomes effective for  
6.32 any salary paid on or after the January 1 next following the legislative session in which  
6.33 the Legislative Commission on Pensions and Retirement did not take any action to  
6.34 disapprove or modify the Public Employees Retirement Association Board of Trustees'  
6.35 ~~recommendation to adjust~~ adjustment to the employee and employer rates.

7.1 (g) A contribution sufficiency of up to one percent of covered payroll must be held  
 7.2 in reserve to be used to offset any future actuarially ~~required~~ determined contributions  
 7.3 that are more than the total combined employee and employer contributions under  
 7.4 subdivisions 2, 3, and 3a.

7.5 (h) Before any reduction in contributions to eliminate a sufficiency in excess of one  
 7.6 percent of covered pay may be ~~recommended~~ made, the executive director must review  
 7.7 any need for a change in actuarial assumptions, as recommended by the actuary retained  
 7.8 under section 356.214 in the most recent experience study of the general employees  
 7.9 retirement plan prepared under section 356.215 and the standards for actuarial work  
 7.10 promulgated by the Legislative Commission on Pensions and Retirement that may result  
 7.11 in an increase in the actuarially ~~required~~ determined contribution and must report to the  
 7.12 Legislative Commission on Pensions and Retirement any ~~recommendation~~ decision by the  
 7.13 board to use the sufficiency exceeding one percent of covered payroll to offset the impact  
 7.14 of an actuarial assumption change recommended by the actuary retained under section  
 7.15 356.214, subdivision 1, and reviewed by the actuary retained by the commission under  
 7.16 section 356.214, subdivision 4.

7.17 (i) No contribution sufficiency in excess of one percent of covered pay may be  
 7.18 proposed to be used to increase benefits, and no benefit increase may be proposed that  
 7.19 would initiate an ~~automatic~~ adjustment to increase contributions under this subdivision.  
 7.20 Any proposed benefit improvement must include a recommendation, prepared by the  
 7.21 approved actuary retained under section 356.214, subdivision 1, and reviewed by the  
 7.22 actuary retained by the Legislative Commission on Pensions and Retirement as provided  
 7.23 under section 356.214, subdivision 4, on how the benefit modification will be funded.

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

7.25 Sec. 3. Minnesota Statutes 2014, section 354.42, subdivision 4b, is amended to read:

7.26 Subd. 4b. **Contribution rate revision.** (a) Notwithstanding the contribution rate  
 7.27 provisions under subdivisions 2 and 3, the board of trustees of the Teachers Retirement  
 7.28 Association may adjust the employee and employer contribution rates ~~may be adjusted~~  
 7.29 ~~as follows:~~

7.30 (1) ~~if, after June 30, 2015,~~ the regular actuarial valuation of the plan under section  
 7.31 356.215 indicates that there is a contribution sufficiency under subdivision 4a equal to or  
 7.32 greater than one percent of covered payroll ~~and the sufficiency has existed for at least two~~  
 7.33 ~~consecutive years, the employee and employer contribution rates for the plan may each be~~  
 7.34 ~~decreased to a level such that the sufficiency equals no more than one percent of covered~~  
 7.35 ~~payroll based on the most recent actuarial valuation; or~~

8.1 (2) if, ~~after June 30, 2015,~~ the regular valuation of the plan under section 356.215  
 8.2 indicates that there is a deficiency equal to or greater than ~~0.25~~ one-half of one percent  
 8.3 of covered payroll ~~and the deficiency has existed for at least two consecutive years,~~ the  
 8.4 ~~employee and employer contribution rates for the applicable plan may each be increased by:~~  
 8.5 (i) ~~0.25 percent if the deficiency is less than two percent of covered payroll;~~  
 8.6 (ii) ~~0.5 percent if the deficiency is equal to or greater than two percent of covered~~  
 8.7 ~~payroll and less than or equal to four percent; and~~  
 8.8 (iii) ~~0.75 percent if the deficiency is greater than four percent.~~ Any decrease in  
 8.9 employee and employer contribution rates must not result in the total of contribution rates  
 8.10 that is less than the total of normal cost and administrative expenses.

8.11 (b) To determine if an adjustment is to be made, the board of trustees shall consult  
 8.12 with the approved actuary retained under section 356.214 and shall take into consideration  
 8.13 factors that include, but are not limited to, the contribution rates based on actuarial value of  
 8.14 assets and contribution rates based on the market value of assets; the funded ratio based on  
 8.15 the actuarial value of assets and based on the market value of assets; the number of years  
 8.16 remaining to the amortization target date; the recent experience of the investment markets;  
 8.17 and the results of the 30-year funding, disbursements, and contributions projections  
 8.18 prepared every other year as required under the standards for actuarial work adopted by  
 8.19 the Legislative Commission on Pensions and Retirement.

8.20 **EFFECTIVE DATE.** This section is effective July 1, 2015.

8.21 Sec. 4. Minnesota Statutes 2014, section 354.42, subdivision 4d, is amended to read:

8.22 Subd. 4d. **Reporting; commission review.** A contribution rate increase or decrease  
 8.23 made under subdivision 4b, ~~as determined by the executive director of the Teachers~~  
 8.24 ~~Retirement Association,~~ must be reported to the chair and the executive director of the  
 8.25 Legislative Commission on Pensions and Retirement on or before the next February 1 and,  
 8.26 if the Legislative Commission on Pensions and Retirement does not recommend against the  
 8.27 rate change or does not recommend a modification in the rate change, is effective on the next  
 8.28 July 1 following the determination ~~by the executive director~~ that a contribution deficiency  
 8.29 or sufficiency exists based on the most recent actuarial valuation under section 356.215.

8.30 **EFFECTIVE DATE.** This section is effective July 1, 2015.