



Request for City Council Committee Action from the Department of Finance

Date: Tuesday, May 29, 2007
To: Council Member Betsy Hodges, Chair
Referral to: Intergovernmental Relations Committee

Subject: Local Approval Requirements; MERF State Pension Legislation

Act on legislative changes to the Minneapolis Employees Retirement Fund (MERF) per statutory requirements enacted as part of state omnibus pension legislation (*Laws of Minnesota 2007, Chapter 134*)

Recommendation:

- No recommendation on MERF's expansion of "salary" definition (*Laws of Minnesota 2007, Chapter 134, Article 8, Section 1*). This was not a City proposal, but was consistent with an action by PERA last session. We do not have a recommendation on this proposal.
- Approve MERF liquidity trigger changes (*Laws of Minnesota 2007, Chapter 134, Article 8, Sections 2-9*)
Recommend approval.

Previous Directives: December 22, 2006, Approval of City legislative agenda, including MERF liquidity trigger removal.
May 11, 2007, Authorization to issue up to \$44 million in pension bonds.

Prepared by: June Mathiowetz, 612-673-2027
Approved by: Patrick Born, Chief Financial Officer _____ Steven Bosaker, City Coordinator _____
Presenters in Committee: June Mathiowetz, Senior Financial Analyst Jack Qvale, Executive Secretary, Board of Estimate and Taxation

Financial Impact

Expansion of Salary Definition

The cost to the City for this legislation is estimated to be \$200,000-\$300,000.

MERF Liquidity Trigger

This legislation eliminates the need for the City to issue MERF pension bonds.

Supporting Information

Expansion of Salary Definition (*Laws of Minnesota 2007, Chapter 134, Article 8, Section 1*)

This legislation, moved forward by MERF and Laborer's Local 363, expands the definition of "salary" to include amounts withheld from an employee's wages as a contribution to a union pension plan as a supplemental retirement plan. The City's estimated costs are anticipated to be \$200,000-\$300,000 over the next thirteen years. There is no cost to MERF.

MERF Liquidity Trigger Changes (*Laws of Minnesota 2007, Chapter 134, Article 8, Sections 2-9*)

When a MERF employee retires, the liquidity trigger requires the City to transfer enough money from the employee's contributions and City funds from the Active Account into the Retired Account to pay the employee's entire expected retirement benefits. The liquidity trigger combined with earlier than expected retirement patterns resulted in large City payments that effectively pre-pay State aids to MERF. Removing the liquidity trigger allows the State aid to function as originally intended – to be "fully funded" by 2020 – and allows more time for investment returns to assist in financing these payments.

There is no negative impact to MERF beneficiaries as a result of removing the liquidity trigger. Any dollars loaned internally within MERF will be paid back over the amortization period. In more detailed terms, MERF will use its assets in the retired fund to pay benefits to retirees and will collect the money plus interest (5 percent interest plus inflation based on the Consumer Price Index) over the next 16 years. This protects the fund from losing investment earnings due to this process. The retiree will receive the same retirement benefit as defined by law.

The liquidity trigger removal does not impact the required full funding date of 2020.

This legislation is retroactive to July 1, 2006.

Proposed Resolution
Of the
City of Minneapolis
By Hodges

Approving Law of Minnesota 2007 Legislative Session; Chapter 134, Article 8, Section 1.

Whereas the Minnesota State Legislature has passed a law relating to the Minneapolis Employees Retirement Association, amending various sections of law related to expansion of the definition of "salary" to include amounts withheld from an employee's wages as a contribution to a union pension plan as a supplemental retirement plan; and

Whereas, said law, by its terms requires an affirmative vote of a majority of the members of the City Council by the first day of the next regular session of the legislature before it may become effective; and

Whereas, said law is estimated to increase City expenses by \$200,000-\$300,000;

Now, therefore, Be It Resolved by the City Council of Minneapolis:

That the Council act upon said law and the City Clerk be directed to prepare and file with the Secretary of State the required certification, if so approved.

Proposed Resolution

Of the

City of Minneapolis

By Hodges

Approving Law of Minnesota 2007 Legislative Session; Chapter 134, Article 8, Sections 2-9.

Whereas the Minnesota State Legislature has passed a law relating to the Minneapolis Employees Retirement Association, amending various sections of law related to the liquidity trigger; and

Whereas, said law, by its terms requires an affirmative vote of a majority of the members of the City Council by the first day of the next regular session of the legislature before it may become effective; and

Whereas, said law eliminates the need for the City to issue MERF pension bonds; and

Whereas, said law holds harmless the MERF beneficiaries by ensuring they receive the same retirement benefit as defined by current law; and

Whereas, said law does not impact the required full funding date of 2020; and

Whereas, said law is retroactive to July 1, 2006;

Now, therefore, Be It Resolved by the City Council of Minneapolis:

That said law be now approved and the City Clerk be directed to prepare and file with the Secretary of State the required certification of approval.

S.F. No. 430, 4th Engrossment - 85th Legislative Session (2007-2008)

ARTICLE 8

110.2 MINNEAPOLIS EMPLOYEES RETIREMENT FUND

110.3 LIQUIDITY CHANGES

110.4 Section 1. Minnesota Statutes 2006, section 422A.01, subdivision 13a, is amended to
110.5 read:

110.6 Subd. 13a. **Covered salary.** (a) "Salary" is subject to the limitations of section
110.7 356.611 .

110.8 (b) "Salary" also includes the contributions to a supplemental retirement plan under
110.9 section 356.24, subdivision 1, clause (8), (9), or (10), for an employee who is covered by a
110.10 supplemental retirement plan which requires that all plan contributions be made by the
110.11 person's employer from mandatory withholdings from the employee's wages.

110.12 Sec. 2. Minnesota Statutes 2006, section 422A.05, subdivision 2c, is amended to read:

110.13 Subd. 2c. **Minneapolis Employees Retirement Fund investment authority.**

110.14 (a) For investments made on or after July 1, 1991, the board shall invest funds only in
110.15 investments authorized by section 356A.06, subdivision 7.

110.16 (b) However, in addition to real estate investments authorized under paragraph (a),
110.17 the board may also make loans to purchasers of Minnesota situs nonfarm residential real
110.18 estate that is owned by the Minneapolis Employees Retirement Fund. The loans must
110.19 be secured by mortgages or deeds of trust.

110.20 (c) For investments made before July 1, 1991, the board may, but is not required to,
110.21 comply with paragraph (a). However, with respect to these investments, the board shall
110.22 act in accordance with subdivision 2a and chapter 356A.

110.23 (d) The board may certify assets for investment by the State Board of Investment
110.24 under section 11A.17. Alternatively or in addition, the board may certify assets for
110.25 investment by the State Board of Investment in fixed income pools or in a separately
110.26 managed account at the discretion of the State Board of Investment as provided in section
110.27 11A.14.

110.28 Sec. 3. Minnesota Statutes 2006, section 422A.06, subdivision 3, is amended to read:

110.29 Subd. 3. **Deposit accumulation fund.** (a) The deposit accumulation fund consists
110.30 of the assets held in the fund, including amounts contributed by or for employees, amounts
110.31 contributed by the city, amounts contributed by municipal activities supported in whole or
110.32 in part by revenues other than taxes and amounts contributed by any public corporation,

110.33 amounts paid by the state, and by income from investments.

111.1 (b) There must be paid from the fund the amounts required to be transferred to the
111.2 retirement benefit fund, or the disability benefit fund, refunds of contributions, including
111.3 the death-while-active refund specified in section 422A.22, subdivision 4, postretirement
111.4 increases in retirement allowances granted under Laws 1965, chapter 688, or Laws 1969,
111.5 chapter 859, and expenses of the administration of the retirement fund which were not
111.6 charged by the retirement board against the income of the retirement benefit fund from
111.7 investments as the cost of handling the investments of the retirement benefit fund.

111.8 (c) To the extent that the deposit accumulation fund has insufficient assets to transfer
111.9 the total value of the required reserves for retirement annuities to either the disability
111.10 benefit fund under subdivisions 5 and 7 or the retirement benefit fund under subdivisions 5
111.11 and 8 as required, the deposit accumulation fund has a transfer amount payable on which
111.12 an interest charge accrues. The executive director must determine the interest charge for
111.13 the period that the transfer amount payable remains unpaid at an annual rate equal to five
111.14 percent plus the percentage increase in the amount of the annual Consumer Price Index for
111.15 urban wage earners and clerical workers as calculated by the Bureau of Labor Statistics of
111.16 the United States Department of Labor from the previous June 30. The interest charge
111.17 must be reflected in the books of the Minneapolis Employees Retirement Fund and
111.18 assessed against the deposit accumulation fund based on the average quarterly transfer
111.19 amount payable balance outstanding. Any revenue received by the deposit accumulation
111.20 fund subsequent to unpaid transfers must be transferred from the deposit accumulation
111.21 fund to the disability benefit fund or to the retirement fund, whichever applies, and must
111.22 first be applied to any remaining interest charge and then must be applied to the principal
111.23 amount of transfer amount payable outstanding.

111.24 Sec. 4. Minnesota Statutes 2006, section 422A.06, subdivision 5, is amended to read:

111.25 Subd. 5. **Transfer of reserves to retirement benefit fund; adjustments of**
111.26 **annuities and benefits.** (a) Assets equal to the required reserves for retirement annuities
111.27 as determined in accordance with the appropriate mortality table adopted by the board
111.28 of trustees based on the experience of the fund as recommended by the actuary retained
111.29 under section 356.214 and using the postretirement interest assumption specified in
111.30 section 356.215, subdivision 8, ~~shall~~ must be transferred to the disability benefit fund as
111.31 provided in subdivision 7, or the retirement benefit fund, except for any amounts payable
111.32 from the survivor benefit fund, as of date of retirement.

111.33 (b) To the extent that the deposit accumulation fund has insufficient assets to cover a
111.34 full required transfer amount, the applicable fund must be credited with an interest-bearing
111.35 transfer amount payable.

112.1 (c) Annuity payments ~~shall~~ must be adjusted in accordance with this chapter, except

112.2 that no minimum retirement payments described in this chapter ~~shall~~ must include
112.3 any amounts payable from the survivors' benefit fund or disability benefit fund and
112.4 supplemented benefits specifically financed by statute.
112.5 ~~(e)~~ (d) Increases in annuity payments ~~pursuant to~~ under this section shall be made
112.6 automatically unless written notice on a form prescribed by the board is filed with the
112.7 retirement board requesting that the increase not be made.
112.8 ~~(d)~~ (e) Any additional annuity which began to accrue on July 1, 1973, or which
112.9 began to accrue on January 1, 1974, ~~pursuant to~~ under Laws 1973, chapter 770, section
112.101, ~~shall~~ must be considered as part of the base amount to be used in determining any
112.11 postretirement adjustments payable ~~pursuant to~~ under the provisions of subdivision 8.

112.12 Sec. 5. Minnesota Statutes 2006, section 422A.06, subdivision 7, is amended to read:

112.13 Subd. 7. **Disability benefit fund.** (a) A disability benefit fund is established,
112.14 containing the required reserves for disability allowances under this chapter. A
112.15 proportionate share of income from investments must be allocated to this fund and any
112.16 interest charge under subdivision 3, paragraph (c), must be credited to the fund. ~~There-~~
112.17 ~~must be paid from this fund~~ The disability allowances payable under this chapter must be
112.18 paid from this fund.

112.19 (b) In the event of the termination of any disability allowance for any reason other
112.20 than the death of the recipient, the balance of the required reserves for the disability
112.21 allowance as of the date of the termination must be transferred from the disability benefit
112.22 fund to the deposit accumulation fund.

112.23 (c) At the end of each fiscal year, as part of the annual actuarial valuation, a
112.24 determination must be made of the required reserves for all disability allowances being
112.25 paid from the disability benefit fund. Any excess of assets over actuarial required reserves
112.26 in the disability benefit fund must be transferred to the deposit accumulation fund. Unless
112.27 subdivision 3, paragraph (c), applies, any excess of actuarial reserves over assets in the
112.28 disability benefit fund must be funded by a transfer of the appropriate amount of assets
112.29 from the deposit accumulation fund.

112.30 Sec. 6. Minnesota Statutes 2006, section 422A.06, subdivision 8, is amended to read:

112.31 Subd. 8. **Retirement benefit fund.** (a) The retirement benefit fund ~~shall consist~~
112.32 consists of amounts held for payment of retirement allowances for members retired
112.33 pursuant to under this chapter, including any transfer amount payable under subdivision 3,
112.34 paragraph (c).

113.1 (b) Unless subdivision 3, paragraph (c), applies, assets equal to the required reserves
113.2 for retirement allowances ~~pursuant to~~ under this chapter determined in accordance with
113.3 the appropriate mortality table adopted by the board of trustees based on the experience of

113.4 the fund as recommended by the actuary retained under section 356.214 ~~shall~~ must be
113.5 transferred from the deposit accumulation fund to the retirement benefit fund as of the last
113.6 business day of the month in which the retirement allowance begins. The income from
113.7 investments of these assets ~~shall~~ must be allocated to this fund and any interest charge
113.8 under subdivision 3, paragraph (c), must be credited to the fund. There ~~shall~~ must be paid
113.9 from this fund the retirement annuities authorized by law. A required reserve calculation
113.10 for the retirement benefit fund must be made by the actuary retained under section 356.214
113.11 and must be certified to the retirement board by the actuary retained under section 356.214.
113.12 (c) The retirement benefit fund ~~shall~~ must be governed by the applicable laws
113.13 governing the accounting and audit procedures, investment, actuarial requirements,
113.14 calculation and payment of postretirement benefit adjustments, discharge of any deficiency
113.15 in the assets of the fund when compared to the actuarially determined required reserves,
113.16 and other applicable operations and procedures regarding the Minnesota postretirement
113.17 investment fund in effect on June 30, 1997, established under Minnesota Statutes 1996,
113.18 section 11A.18, and any legal or administrative interpretations of those laws of the State
113.19 Board of Investment, the legal advisor to the Board of Investment and the executive
113.20 director of the State Board of Investment in effect on June 30, 1997. If a deferred yield
113.21 adjustment account is established for the Minnesota postretirement investment fund
113.22 before June 30, 1997, under Minnesota Statutes 1996, section 11A.18, subdivision 5, the
113.23 retirement board shall also establish and maintain a deferred yield adjustment account
113.24 within this fund.
113.25 (d) Annually, following the calculation of any postretirement adjustment payable
113.26 from the retirement benefit fund, the board of trustees shall submit a report to the
113.27 executive director of the Legislative Commission on Pensions and Retirement and to the
113.28 commissioner of finance indicating the amount of any postretirement adjustment and
113.29 the underlying calculations on which that postretirement adjustment amount is based,
113.30 including the amount of dividends, the amount of interest, and the amount of net realized
113.31 capital gains or losses utilized in the calculations.
113.32 (e) With respect to a former contributing member who began receiving a retirement
113.33 annuity or disability benefit under section 422A.151, paragraph (a), clause (2), after June
113.34 30, 1997, or with respect to a survivor of a former contributing member who began
113.35 receiving a survivor benefit under section 422A.151, paragraph (a), clause (2), after June
113.36 30, 1997, the reserves attributable to the one percent lower amount of the cost-of-living
114.1 adjustment payable to those annuity or benefit recipients annually must be transferred back
114.2 to the deposit accumulation fund to the credit of the Metropolitan Airports Commission.
114.3 The calculation of this annual reduced cost-of-living adjustment reserve transfer must be
114.4 reviewed by the actuary retained under section 356.214.

114.5 Sec. 7. Minnesota Statutes 2006, section 422A.101, subdivision 3, is amended to read:

114.6 Subd. 3. **State contributions.** (a) Subject to the limitation set forth in paragraph (c),

114.7 the state shall pay to the Minneapolis Employees Retirement Fund annually an amount

114.8 equal to the amount calculated under paragraph (b).

114.9 (b) The payment amount is an amount equal to the financial requirements of the

114.10 Minneapolis Employees Retirement Fund reported in the actuarial valuation of the fund

114.11 prepared by the actuary retained under section 356.214 ~~pursuant to~~ consistent with section

114.12 356.215 for the most recent year but based on a target date for full amortization of the

114.13 unfunded actuarial accrued liabilities by June 30, 2020, less the amount of employee

114.14 contributions required ~~pursuant to~~ under section 422A.10, and the amount of employer

114.15 contributions required ~~pursuant to~~ under subdivisions 1a, 2, and 2a. Payments shall be

114.16 made September 15 annually.

114.17 (c) The annual state contribution under this subdivision may not exceed \$9,000,000,

114.18 plus the cost of the annual supplemental benefit determined under section 356.43.

114.19 (d) If the amount determined under paragraph (b) exceeds ~~\$11,910,000~~ \$9,000,000,

114.20 the excess must be allocated to and paid to the fund by the employers identified in

114.21 subdivisions 1a and 2, other than units of metropolitan government. Each employer's

114.22 share of the excess is proportionate to the employer's share of the fund's unfunded

114.23 actuarial accrued liability as disclosed in the annual actuarial valuation prepared by the

114.24 actuary retained under section 356.214 compared to the total unfunded actuarial accrued

114.25 liability attributed to all employers identified in subdivisions 1a and 2, other than units of

114.26 metropolitan government. Payments must be made in equal installments as set forth in

114.27 paragraph (b).

114.28 Sec. 8. **REPEALER.**

114.29 Minnesota Statutes 2006, section 422A.101, subdivision 4, is repealed.

114.30 Sec. 9. **EFFECTIVE DATE; LOCAL APPROVAL.**

114.31 If the city council of the city of Minneapolis and its chief clerical officer timely

114.32 complete their compliance with Minnesota Statutes, section 645.021, subdivisions 2 and

115.13, then section 1 is effective the day after compliance and sections 2 to 8 are effective

115.2 retroactively to July 1, 2006.