

**SENATE
STATE OF MINNESOTA
NINETY-FOURTH SESSION**

S.F. No. 4373

(SENATE AUTHORS: FRENTZ)

DATE	D-PG	OFFICIAL STATUS
03/11/2026	6597	Introduction and first reading Referred to State and Local Government

1.1 A bill for an act

1.2 relating to retirement; Minnesota State Retirement System; Public Employees

1.3 Retirement Association; Teachers Retirement Association; St. Paul Teachers'

1.4 Retirement Fund Association; modifying the definition of "salary" to exclude pay

1.5 from the family and medical benefit insurance account for Minnesota paid leave;

1.6 amending Minnesota Statutes 2024, sections 352.01, subdivision 13; 353.01,

1.7 subdivision 10; 354.05, subdivision 35; 354A.011, subdivision 24.

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

1.9 Section 1. Minnesota Statutes 2024, section 352.01, subdivision 13, is amended to read:

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

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

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

1.13 (b) "Salary" does not include:

1.14 (1) lump-sum sick leave payments;

1.15 (2) severance payments;

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

1.17 separation from state service;

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

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

1.20 coverage;

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

1.22 (6) workers' compensation payments;

- 2.1 (7) employer contributions to a deferred compensation or tax-sheltered annuity program;
 2.2 ~~and~~
- 2.3 (8) amounts contributed under a benevolent vacation and sick leave donation program;
 2.4 and
- 2.5 (9) payments from the family and medical benefit insurance account for Minnesota paid
 2.6 leave under chapter 268B.

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

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

2.14 (2) the amounts are salary as defined in paragraph (a) and the determination is consistent
 2.15 with prior determinations.

2.16 **EFFECTIVE DATE.** This section is effective retroactively from January 1, 2026.

2.17 Sec. 2. Minnesota Statutes 2024, section 353.01, subdivision 10, is amended to read:

2.18 Subd. 10. **Salary.** (a) Subject to the limitations of section 356.611, "salary" means:

2.19 (1) the wages or periodic compensation payable to a public employee by the employing
 2.20 governmental subdivision before:

2.21 (i) employee retirement deductions that are designated as picked-up contributions under
 2.22 section 356.62;

2.23 (ii) any employee-elected deductions for deferred compensation, supplemental retirement
 2.24 plans, or other voluntary salary reduction programs that would have otherwise been available
 2.25 as a cash payment to the employee; and

2.26 (iii) employee deductions for contributions to a supplemental plan or to a governmental
 2.27 trust established under section 356.24, subdivision 1, clause (7), to save for postretirement
 2.28 health care expenses, unless otherwise excluded under paragraph (b);

2.29 (2) for a public employee who is covered by a supplemental retirement plan under section
 2.30 356.24, subdivision 1, clause (8), (9), (10), or (12), the employer contributions to the
 2.31 applicable supplemental retirement plan when an agreement between the parties establishes

3.1 that the contributions will either result in a mandatory reduction of employees' wages through
 3.2 payroll withholdings, or be made in lieu of an amount that would otherwise be paid as
 3.3 wages;

3.4 (3) a payment from a public employer through a grievance proceeding, settlement, or
 3.5 court order that is attached to a specific earnings period in which the employee's regular
 3.6 salary was not earned or paid to the member due to a suspension or a period of involuntary
 3.7 termination that is not a wrongful discharge under section 356.50; provided the amount is
 3.8 not less than the equivalent of the average of the hourly base salary rate in effect during the
 3.9 last six months of allowable service prior to the suspension or period of involuntary
 3.10 termination, plus any applicable increases awarded during the period that would have been
 3.11 paid under a collective bargaining agreement or personnel policy but for the suspension or
 3.12 involuntary termination, multiplied by the average number of regular hours for which the
 3.13 employee was compensated during the six months of allowable service prior to the suspension
 3.14 or period of involuntary termination, but not to exceed the compensation that the public
 3.15 employee would have earned if regularly employed during the applicable period;

3.16 (4) compensation paid during an authorized leave of absence, ~~other than an authorized~~
 3.17 ~~medical leave of absence, as long as the compensation paid during a pay period is not less~~
 3.18 ~~than the lesser of;~~ and

3.19 ~~(i) the product of the average hourly base salary rate in effect during the six months of~~
 3.20 ~~allowable service immediately preceding the leave, multiplied by the average number of~~
 3.21 ~~regular hours for which the employee was compensated each pay period during the six~~
 3.22 ~~months of allowable service immediately preceding the leave of absence; or~~

3.23 ~~(ii) compensation equal to the value of the employee's total available accrued leave~~
 3.24 ~~hours;~~

3.25 ~~(5) compensation paid during an authorized medical leave of absence, other than a~~
 3.26 ~~workers' compensation leave, as long as the compensation paid during a pay period is not~~
 3.27 ~~less than the lesser of:~~

3.28 ~~(i) the product of one-half and the average hourly base salary rate in effect during the~~
 3.29 ~~six months of allowable service immediately preceding the leave of absence; or~~

3.30 ~~(ii) compensation equal to the value of the employee's total available accrued leave~~
 3.31 ~~hours; and~~

3.32 ~~(6)~~ (5) for a public employee who receives performance or merit bonus payment under
 3.33 a written compensation plan, policy, or collective bargaining agreement in addition to regular

4.1 salary or in lieu of regular salary increases, the compensation paid to the employee for
4.2 attaining or exceeding performance goals, duties, or measures during a specified period of
4.3 employment.

4.4 (b) Salary does not mean:

4.5 (1) fees paid to district court reporters;

4.6 (2) unused annual leave, vacation, or sick leave payments, in the form of lump-sum or
4.7 periodic payments;

4.8 (3) for the donor, payment to another person of the value of hours donated under a
4.9 benevolent vacation, personal, or sick leave donation program;

4.10 (4) any form of severance or retirement incentive payments;

4.11 (5) an allowance payment or per diem payments for or reimbursement of expenses;

4.12 (6) lump-sum settlements not attached to a specific earnings period;

4.13 (7) workers' compensation payments, payments from the family and medical benefit
4.14 insurance account for Minnesota paid leave under chapter 268B, or disability insurance
4.15 payments, including payments from employer self-insurance arrangements;

4.16 (8) employer-paid amounts used by an employee toward the cost of insurance coverage,
4.17 flexible spending accounts, cafeteria plans, health care expense accounts, day care expenses,
4.18 or any payments in lieu of any employer-paid group insurance coverage, including the
4.19 difference between single and family rates that may be paid to a member with single coverage
4.20 and certain amounts determined by the executive director to be ineligible;

4.21 (9) employer-paid fringe benefits, including, but not limited to:

4.22 (i) employer-paid premiums or supplemental contributions for employees for all types
4.23 of insurance;

4.24 (ii) membership dues or fees for the use of fitness or recreational facilities;

4.25 (iii) incentive payments or cash awards relating to a wellness program;

4.26 (iv) the value of any nonmonetary benefits;

4.27 (v) any form of payment made in lieu of an employer-paid fringe benefit;

4.28 (vi) an employer-paid amount made to a deferred compensation or tax-sheltered annuity
4.29 program; and

5.1 (vii) any amount paid by the employer as a supplement to salary, either as a lump-sum
 5.2 amount or a fixed or matching amount paid on a recurring basis, that is not available to the
 5.3 employee as cash;

5.4 (10) the amount equal to that which the employing governmental subdivision would
 5.5 otherwise pay toward single or family insurance coverage for a covered employee when,
 5.6 through a contract or agreement with some but not all employees, the employer:

5.7 (i) discontinues, or for new hires does not provide, payment toward the cost of the
 5.8 employee's selected insurance coverages under a group plan offered by the employer;

5.9 (ii) makes the employee solely responsible for all contributions toward the cost of the
 5.10 employee's selected insurance coverages under a group plan offered by the employer,
 5.11 including any amount the employer makes toward other employees' selected insurance
 5.12 coverages under a group plan offered by the employer; and

5.13 (iii) provides increased salary rates for employees who do not have any employer-paid
 5.14 group insurance coverages;

5.15 (11) except as provided in section ~~353.86~~ or 353.87, compensation of any kind paid to
 5.16 volunteer ambulance service personnel or volunteer firefighters, as defined in subdivision
 5.17 35 or 36;

5.18 (12) the amount of compensation that exceeds the limitation provided in section 356.611;

5.19 (13) amounts paid by a federal or state grant for which the grant specifically prohibits
 5.20 grant proceeds from being used to make pension plan contributions, unless the contributions
 5.21 to the plan are made from sources other than the federal or state grant; and

5.22 (14) bonus pay that is not performance or merit pay under paragraph (a), clause ~~(6)~~ (5).

5.23 (c) Amounts, other than those provided under paragraph (a), clause (3), provided to an
 5.24 employee by the employer through a grievance proceeding, a court order, or a legal settlement
 5.25 are salary only if the settlement or court order is reviewed by the executive director and the
 5.26 amounts are determined by the executive director to be consistent with paragraph (a) and
 5.27 prior determinations.

5.28 **EFFECTIVE DATE.** The amendments to paragraph (a), clauses (4) and (5), and
 5.29 paragraph (b), clause (11), are effective July 1, 2026. The amendment to paragraph (b),
 5.30 clause (7), is effective retroactively from January 1, 2026.

6.1 Sec. 3. Minnesota Statutes 2024, section 354.05, subdivision 35, is amended to read:

6.2 Subd. 35. **Salary.** (a) Subject to the limitations of section 356.611, "salary" means the
6.3 periodic compensation, upon which member contributions are required before deductions
6.4 for deferred compensation, supplemental retirement plans, or other voluntary salary reduction
6.5 programs.

6.6 (b) "Salary" does not mean:

6.7 (1) lump-sum annual leave payments;

6.8 (2) lump-sum wellness and sick leave payments;

6.9 (3) employer-paid amounts used by an employee toward the cost of insurance coverage,
6.10 employer-paid fringe benefits, flexible spending accounts, cafeteria plans, health care
6.11 expense accounts, day care expenses, or any payments in lieu of any employer-paid group
6.12 insurance coverage, including the difference between single and family rates that may be
6.13 paid to a member with single coverage and certain amounts determined by the executive
6.14 director to be ineligible;

6.15 (4) any form of payment made in lieu of any other employer-paid fringe benefit or
6.16 expense;

6.17 (5) any form of severance payments;

6.18 (6) workers' compensation payments;

6.19 (7) disability insurance payments, including self-insured disability payments;

6.20 (8) payments to school principals and all other administrators for services that are in
6.21 addition to the normal work year contract if these additional services are performed on an
6.22 extended duty day, Saturday, Sunday, holiday, annual leave day, sick leave day, or any
6.23 other nonduty day;

6.24 (9) payments under section 356.24, subdivision 1, clause (4); ~~and~~

6.25 (10) payments made under section 122A.40, subdivision 12, except for payments for
6.26 sick leave that are accumulated under the provisions of a uniform school district policy that
6.27 applies equally to all similarly situated persons in the district; and

6.28 (11) payments from the family and medical benefit insurance account for Minnesota
6.29 paid leave under chapter 268B.

6.30 (c) Amounts provided to an employee by the employer through a grievance proceeding
6.31 or a legal settlement are salary only if the settlement is reviewed by the executive director

7.1 and the amounts are determined by the executive director to be consistent with paragraph
7.2 (a) and prior determinations.

7.3 **EFFECTIVE DATE.** This section is effective retroactively from January 1, 2026.

7.4 Sec. 4. Minnesota Statutes 2024, section 354A.011, subdivision 24, is amended to read:

7.5 Subd. 24. **Salary; covered salary.** (a) Subject to the limitations of section 356.611,
7.6 "salary" or "covered salary" means the entire compensation, upon which member
7.7 contributions are required and made, that is paid to a teacher before deductions for deferred
7.8 compensation, supplemental retirement plans, or other voluntary salary reduction programs.

7.9 (b) "Salary" does not mean:

7.10 (1) lump-sum annual leave payments;

7.11 (2) lump-sum wellness and sick leave payments;

7.12 (3) employer-paid amounts used by an employee toward the cost of insurance coverage,
7.13 employer-paid fringe benefits, flexible spending accounts, cafeteria plans, health care
7.14 expense accounts, day care expenses, or any payments in lieu of any employer-paid group
7.15 insurance coverage, including the difference between single and family rates that may be
7.16 paid to a member with single coverage, and certain amounts determined by the executive
7.17 secretary or director to be ineligible;

7.18 (4) any form of payment that is made in lieu of any other employer-paid fringe benefit
7.19 or expense;

7.20 (5) any form of severance payments;

7.21 (6) workers' compensation payments;

7.22 (7) disability insurance payments, including self-insured disability payments;

7.23 (8) payments to school principals and all other administrators for services that are in
7.24 addition to the normal work year contract if these additional services are performed on an
7.25 extended duty day, Saturday, Sunday, holiday, annual leave day, sick leave day, or any
7.26 other nonduty day;

7.27 (9) payments under section 356.24, subdivision 1, clause (4)~~(ii)~~; ~~and~~

7.28 (10) payments made under section 122A.40, subdivision 12, except for payments for
7.29 sick leave that are accumulated under the provisions of a uniform school district policy that
7.30 applies equally to all similarly situated persons in the district; and

8.1 (11) payments from the family and medical benefit insurance account for Minnesota
8.2 paid leave under chapter 268B.

8.3 (c) Amounts provided to an employee by the employer through a grievance proceeding
8.4 or a legal settlement are salary only if the settlement is reviewed by the executive director
8.5 and the amounts are determined by the executive director to be consistent with paragraph
8.6 (a) and prior determinations.

8.7 **EFFECTIVE DATE.** This section is effective retroactively from January 1, 2026.