

CHAPTER 11A

INVESTMENT OF STATE AND PENSION ASSETS

11A.04 Duties and powers.

11A.18 Minnesota postretirement investment fund.

11A.24 Authorized investments.

11A.25 Additional investment provisions.

11A.04 DUTIES AND POWERS.

The state board shall:

- (1) Act as trustees for each fund for which it invests or manages money in accordance with the standard of care set forth in section 11A.09.
- (2) Formulate policies and procedures deemed necessary and appropriate to carry out its functions. Procedures adopted by the board shall allow fund beneficiaries and members of the public to become informed of proposed board actions. Procedures and policies of the board shall not be subject to the administrative procedure act.
- (3) Employ an executive director as provided in section 11A.07.
- (4) Employ investment advisors and consultants as it deems necessary.
- (5) Prescribe policies concerning personal investments of all employees of the board to prevent conflicts of interest.
- (6) Maintain a record of its proceedings.
- (7) As it deems necessary, establish advisory committees subject to the provisions of section 15.059 to assist the board in carrying out its duties.
- (8) Not permit state funds to be used for the underwriting or direct purchase of municipal securities from the issuer or the issuer's agent.
- (9) Direct the state treasurer to sell property other than money which has escheated to the state when the board determines that sale of the property is in the best interest of the state. Escheated property shall be sold to the highest bidder in the manner and upon terms and conditions prescribed by the board.
- (10) Undertake any other activities necessary to implement the duties and powers set forth in this section.
- (11) Establish a formula or formulas to measure management performance and return on investment. All public pension funds in the state shall utilize the formula or formulas developed by the state board.
- (12) Except as otherwise provided in article XI, section 8 of the constitution of the state of Minnesota, employ, at its discretion, qualified private firms to invest and manage the assets of funds over which the state board has investment management responsibility. There is annually appropriated to the state board, from the assets of the funds for which the state board utilizes a private investment manager, sums sufficient to pay the costs therefor. Each year, by January 15, the board shall report to the governor and legislature on the cost and the investment performance of each investment manager employed by the board.
- (13) Adopt an investment policy statement that includes investment objectives, asset allocation, and the investment management structure for the retirement fund assets under its control. The statement may be revised at the discretion of the state board. The state board shall seek the advice of the council regarding its investment policy statement. Adoption of the statement is not subject to chapter 14.

History: 1987 c 372 art 8 s 1

11A.18 MINNESOTA POSTRETIREMENT INVESTMENT FUND.

[For text of subs 1 to 5, see M.S.1986]

Subd. 6. Participating public retirement funds or plans; transfer of required reserves.

(a) Any public retirement fund or plan authorized by law to participate in the postretirement investment fund shall no later than the last business day of the month in which the benefit payment from the postretirement investment fund begins, certify and transfer to the state board money equal to the reserves required for those retirement annuities and benefits which are payable by the public retirement fund or plan and which are specified in law to be included in the participation in the fund as determined by or determined under a procedure specified by the actuary retained by the legislative commission on pensions and retirement.

(b) If the exact amount of the actuarially determined required reserves is not readily calculable as of the date of the commencement of a benefit payment, the initial transfer must be based on the best estimate by the executive director of the retirement fund involved and shall be made on a timely basis. Any necessary adjustments based on specific calculations of actuarially determined required reserves must be made in later transfers. If a best estimate initial transfer is insufficient, the later transfer from the retirement fund must include interest on the amount of the required reserve insufficiency at the greater of the following rates:

(1) the average short-term investment return rate earned by the state board over the 30-day period ending with the last business day of the month before the month in which the later adjustment transfer is made; or

(2) the preretirement interest assumption for the retirement fund as specified in section 356.215, subdivision 4d, stated as a monthly rate.

Interest on the amount of a required reserve insufficiency payable by a retirement fund shall be compounded on a monthly basis. No interest shall be payable from the postretirement investment fund in the event of a required reserve oversufficiency.

(c) The state board shall confirm in writing each certification and transfer of money made by a participating public retirement fund or plan. Each participating public retirement fund or plan shall maintain adequate records to account for money transferred to or from the postretirement investment fund.

[For text of subds 7 and 8, see M.S.1986]

Subd. 9. Calculation of postretirement adjustment. Annually, following June 30, the state board shall determine whether a postretirement adjustment shall be payable and shall determine the amount of any postretirement adjustment which shall be payable.

(1) The state board shall determine whether a postretirement adjustment shall be payable using the following procedure:

(a) The state board shall determine the amount of dividends, interest, accruals and realized capital gains or losses applicable to the most recent fiscal year ending June 30;

(b) The amount of reserves required for the annuity or benefit payable to an annuitant and benefit recipient of the participating public pension plans or funds shall be determined by the commission-retained actuary as of the current June 30. An annuitant or benefit recipient who has been receiving an annuity or benefit for at least one year as of the current June 30 shall be eligible to receive a postretirement adjustment. Each fund shall report separately the amount of the reserves for those annuitants and benefit recipients who are eligible to receive a postretirement benefit adjustment and those annuitants and benefit recipients who are not eligible to receive a postretirement adjustment shall be reported separately. The amount of the required reserves shall be certified to the board by the commission-retained actuary as soon as is practical following the current June 30;

(c) The state board shall determine the amount of investment income required to equal five percent of the total amount of the required reserves as of the preceding June 30 adjusted by five percent of each transfer in or transfer out multiplied by the fraction of a year from the date of transfer to the current June 30. This amount of required investment income shall be subtracted from the actual amount of investment income

determined according to clause (1)(a), to determine the amount of excess investment income. If this amount is positive, then a postretirement adjustment may be paid.

(2) The state board shall determine the amount of any postretirement adjustment which is payable using the following procedure:

(a) The state board shall determine the amount of excess investment income by the method indicated in clause (1);

(b) The total required reserves as of the first of January next following the end of the fiscal year for the annuitants and benefit recipients eligible to receive the postretirement adjustment as determined by clause (1)(b) shall be certified to the state board by the commission-retained actuary. The required reserves shall be determined by the commission-retained actuary on the assumption that all annuitants and benefit recipients eligible to receive the postretirement adjustment will be alive on the January 1 in question;

(c) If the state board determines that the book value of the assets of the fund is less than an amount equal to the total amount of the current June 30 required reserves, with the book value and required reserves to be determined after the adjustments provided for in subdivision 11, then the state board shall allocate five percent of the excess investment income as an asset of the fund. The excess investment income allocated as an asset of the fund shall not exceed the difference between book value and required reserves. The remaining amount shall be termed available for distribution. The book value of assets on any given date shall be the net assets at cost less the excess investment income determined pursuant to clause (1)(c);

(d) The resulting total amount available for distribution shall be increased by 2-1/2 percent, and the result shall be stated as a percentage of the total amount of the required reserves pursuant to clause (2)(b), and if the percentage is equal to or greater than one percent, the amount shall be certified to each participating public pension fund or plan as the amount of the postretirement adjustment. If the percentage is less than one percent, no postretirement adjustment shall be payable in that year and the amount otherwise available for distribution shall be credited to a separate reserve established for this purpose. The reserve shall be invested in the same manner as all other assets of the fund and shall be credited with any investment income as specified in clause (1)(a). Amounts credited to the reserve shall be utilized in determining a postretirement adjustment in the subsequent year. The amount of any postretirement adjustment certified by the state board as payable to the participating public pension plans or funds shall be carried to five decimal places and stated as a percentage.

(e) A retirement annuity payable in the event of retirement before becoming eligible for social security benefits as provided in section 352.116, subdivision 3; 353.29, subdivision 6; or 354.35 must be treated as the sum of a period certain retirement annuity and a life retirement annuity for the purposes of any postretirement adjustment. The period certain retirement annuity plus the life retirement annuity shall be the annuity amount payable until age 62 or 65, whichever applies. A postretirement adjustment granted on the period certain retirement annuity must terminate when the period certain retirement annuity terminates.

[For text of subd 10, see M.S.1986]

Subd. 11. Adjustment for mortality gains and losses. As of June 30 annually, the commission-retained actuary shall calculate the amount of required reserves representing any mortality gains and any mortality losses incurred by each participating public pension fund or plan during the fiscal year and report the results of those calculations to the applicable participating public pension fund or plan. The actuary shall report separately the amount of the reserves for annuitants and benefit recipients who are eligible for a postretirement benefit adjustment and the amount of reserves for annuitants and benefit recipients who are not eligible for a postretirement benefit adjustment. If the net amount of required reserves represents a mortality gain, the participating public pension fund or plan shall certify that amount to the state board, which shall sell sufficient securities or transfer sufficient available cash to equal the amount of money

certified. If the amount of required reserves represents a mortality loss, the participating public pension fund or plan shall transfer to the state board an amount equal to the amount of the net mortality loss. The amount of the transfers shall be determined before any postretirement benefit adjustments have been made. All transfers resulting from mortality adjustments shall be completed annually by December 31 for the preceding June 30. Interest shall be charged or credited on any transfers after December 31 based upon the average short-term rate earned by the postretirement investment fund. Book values of the assets of the fund for the purposes of subdivision 9 shall be determined only after all adjustments for mortality gains and losses for the fiscal year have been made.

[For text of subd 12, see M.S.1986]

History: 1987 c 259 s 3-5

11A.24 AUTHORIZED INVESTMENTS.

[For text of subd 1, see M.S.1986]

Subd. 2. Government obligations. The state board may invest funds in governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the issuer or the issue is rated among the top four quality rating categories by a nationally recognized rating agency. The obligations in which the board may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the states and their municipalities, political subdivisions, agencies or instrumentalities; (d) the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

Subd. 3. Corporate obligations. The state board may invest funds in bonds, notes, debentures, transportation equipment obligations, or any other longer term evidences of indebtedness issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof if they conform to the following provisions:

(a) the principal and interest of obligations of corporations incorporated or organized under the laws of the Dominion of Canada or any province thereof shall be payable in United States dollars; and

(b) obligations shall be rated among the top four quality categories by a nationally recognized rating agency.

Subd. 4. Other obligations. The state board may invest funds in bankers acceptances, certificates of deposit, commercial paper, mortgage participation certificates and pools, repurchase agreements and reverse repurchase agreements, guaranteed investment contracts, savings accounts, and guaranty fund certificates, surplus notes, or debentures of domestic mutual insurance companies if they conform to the following provisions:

(a) bankers acceptances of United States banks shall be limited to those issued by banks rated in the highest four quality categories by a nationally recognized rating agency;

(b) certificates of deposit shall be limited to those issued by United States banks and savings institutions that are rated in the highest four quality categories by a nationally recognized rating agency or whose certificates of deposit are fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation. Sections 16A.58 and 16B.06 do not apply to certifications of deposit and collateralization agreements executed by the state board;

(c) commercial paper shall be limited to those issued by United States corporations or their Canadian subsidiaries shall be rated in the highest two quality categories by a nationally recognized rating agency;

(d) mortgage participation or pass through certificates evidencing interests in pools of first mortgages or trust deeds on improved real estate located in the United States where the loan to value ratio for each loan as calculated in accordance with section 61A.28, subdivision 3, does not exceed 80 percent for fully amortizable residential properties and in all other respects meets the requirements of section 61A.28, subdivision 3. In addition, the state board may purchase from the Minnesota housing finance agency all or any part of any pool of residential mortgages, not in default, which has previously been financed by the issuance of bonds or notes of the agency. The state board may also enter into a commitment with the agency, at the time of any issue of bonds or notes, to purchase at a specified future date, not exceeding 12 years from the date of the issue, the amount of mortgage loans then outstanding and not in default, which have been made or purchased from the proceeds of the bonds or notes. The state board may charge reasonable fees for any such commitment, and may agree to purchase the mortgage loans at a price such that the yield thereon to the state board will, in its judgment, be comparable to that available on similar mortgage loans at the date of the bonds or notes. The state board may also enter into agreements with the agency for the investment of any portion of the funds of the agency for such period, with such withdrawal privileges, and at such guaranteed rate of return, if any, as may be agreed between the state board and the agency;

(e) collateral for repurchase agreements and reverse repurchase agreements shall be limited to letters of credit and securities authorized in this section;

(f) guaranteed investment contracts shall be limited to those issued by insurance companies rated in the top four quality categories by a nationally recognized rating agency;

(g) savings accounts shall be limited to those fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation.

Subd. 5. Corporate stocks. The state board may invest funds in stocks or convertible issues of any corporation organized under the laws of the United States or the states thereof, the Dominion of Canada or its provinces, or any corporation listed on the New York Stock Exchange or the American Stock Exchange, if they conform to the following provisions:

(a) The aggregate value of corporate stock investments, as adjusted for realized profits and losses, shall not exceed 85 percent of the market or book value, whichever is less, of a fund, less the aggregate value of investments according to subdivision 6;

(b) Investments shall not exceed five percent of the total outstanding shares of any one corporation.

Subd. 6. Other investments. (a) In addition to the investments authorized in subdivisions 1 to 5, and subject to the provisions in clause (b), the state board may invest funds in:

(1) Venture capital investment businesses through participation in limited partnerships and corporations;

(2) Real estate ownership interests or loans secured by mortgages or deeds of trust through investment in limited partnerships, bank sponsored collective funds, trusts, and insurance company commingled accounts, including separate accounts;

(3) Regional and mutual funds through bank sponsored collective funds and open-end investment companies registered under the Federal Investment Company Act of 1940;

(4) Resource investments through limited partnerships, private placements and corporations; and

(5) Debt obligations not subject to subdivision 3.

(b) The investments authorized in clause (a) may only be made if they conform to the following provisions:

(1) The aggregate value of all investments made according to clause (a) shall not exceed 35 percent of the market value of the fund for which the state board is investing;

(2) There shall be at least four unrelated owners of the investment other than the state board for investments made under paragraph (a), clause (1), (2), (3), or (4);

(3) State board participation in an investment vehicle shall be limited to 20 percent thereof for investments made under paragraph (a), clause (1), (2), (3), or (4); and

(4) State board participation in a limited partnership does not include a general partnership interest or other interest involving general liability. The state board shall not engage in any activity as a limited partner which creates general liability.

[For text of subd 7, see M.S.1986]

History: 1987 c 72 s 1; 1987 c 372 art 8 s 2-6

11A.25 ADDITIONAL INVESTMENT PROVISIONS.

When investing assets of any funds or accounts specifically made subject to this section or not otherwise referred to in sections 11A.01 to 11A.25, all securities shall be debt obligations and shall conform to the applicable provisions of section 11A.24.

History: 1987 c 372 art 8 s 7