CHAPTER 11A

INVESTMENT OF STATE AND PENSION ASSETS

11A.08 INVESTMENT ADVISORY COUNCIL.

Subdivision 1. **Membership.** There is created an investment advisory council consisting of ten members who are experienced in general investment matters and who shall be appointed by the state board, the commissioner of finance and the executive directors of each of the following: the Minnesota state retirement system, the public employees retirement association, the teachers retirement association, and a retiree currently receiving benefits from the post retirement investment fund who shall be appointed by the governor for a four year term.

[For text of subds 2 to 6, see M.S.1980]

History: *1981 c 298 s 3*

11A.17 MINNESOTA SUPPLEMENTAL INVESTMENT FUND.

Subdivision 1. **Establishment.** There is hereby established a supplemental investment fund for the purpose of providing an investment vehicle for the assets of various public retirement plans and funds. This fund shall consist of four investment accounts: an income share account, a growth share account, a fixed-return account, and a bond account. The supplemental investment fund shall be a continuation of the supplemental retirement fund in existence on January 1, 1980.

Subd. 2. **Assets.** The assets of the supplemental investment fund shall consist of the moneys certified and transmitted to the state board from the participating public retirement plans and funds and shall be used to purchase investment shares in the investment accounts specified by the plan or fund.

Subd. 3. **Management.** The supplemental investment fund shall be managed by the state board.

Subd. 4. **Investment.** The assets of the supplemental investment fund shall be invested by the state board subject to the provisions of section 11A.24; provided, however, that the fixed-return account and the bond account shall be invested entirely in debt obligations and the growth share account shall be invested as follows:

(a) Up to 100 percent of the book value may be invested in corporate stocks;

(b) Up to six percent of the book value may be invested in the stock of any one corporation;

(c) Up to ten percent of the book value may be invested in corporate stocks which do not conform with the dividend standard provided for in section 11A.24.

Subd. 5. **Participating public retirement plans or funds.** Any public retirement plan or fund authorized or required by law to invest its assets in the supplemental investment fund may from time to time as provided by law certify moneys to the state board for the purchase of investment shares in the investment accounts of the supplemental investment account. The state board shall credit each purchase of investment shares to the appropriate participating public retirement plan or fund and shall confirm each purchase in writing to the appropriate plan or fund. Each participating public retirement plan or fund shall maintain adequate records to account for moneys certified to the supplemental investment fund.

Subd. 6. **Participation in fund.** Each public retirement plan or fund which has certified moneys to the state board for investment in the supplemental investment fund shall have a participation in each investment account of the fund in which it has moneys invested. The participation shall be determined by the ratio of the number of shares credited to the public retirement plan or fund to the total number of shares in that account.

Subd. 7. **Purchase of shares.** The state board shall allocate shares in the investment account or accounts at least monthly following the receipt of the funds for purchase of shares from the public retirement plan or fund as specified in the certification. The purchase price for shares shall be determined using the procedure specified in subdivision 9.

Subd. 8. **Redemption of shares.** The state board shall redeem shares in the investment account or accounts on the first business day after the valuation date next following the receipt of the request for redemption of shares from the public retirement plan or fund. The redemption value for shares shall be determined using the procedure specified in subdivision 9. Moneys representing the value of the redeemed shares shall be transmitted to the public retirement plan or fund making the request.

Subd. 9. **Valuation of investment shares.** The value of investment shares in the income share investment account or in the growth share investment account shall be determined by dividing the total market value of the securities constituting the respective account by the total number of shares then outstanding in the investment account. Whenever the value of investment shares of an investment account has exceeded $10 per share for a period of six consecutive months, each investment share in the investment account may be split at the direction of the board on a two new shares for one prior share basis. The value of investment shares in the fixed-return investment account and the bond account shall be $5 per share; provided, however, if the account shares are redeemed by a public retirement fund where the shares are not attributable to the individual account of any person prior to the expiration of the multi-year period set by the board for the payment of the applicable assumed rate, the value of the investment shares shall be at market value. Terms as to withdrawal schedules will be agreed upon by the public retirement fund and the state board. Notwithstanding the provisions of section 11A.12, the investment income earned by the fixed-return investment account shall be used to purchase additional shares on behalf of each participating public retirement plan or fund.

Subd. 10. **Certifications for investment and requests for redemption.** The state board may specify the required forms for certifications of moneys for investment and requests for redemption of investment shares and may require the filing of any other documents which it deems necessary.

Subd. 11. **Prospectus.** Annually, on or before July 1, the state board shall prepare and shall issue a prospectus for the supplemental investment fund with separate exhibits for each investment account. The exhibit for each account shall list for each security representing the current assets of the account the following items, whichever are applicable:

(1) The purchase price of the security;

(2) The current market value of the security;

(3) The current dividend or interest rate of the security;

(4) The rating of a debt security issued by a nationally recognized rating agency if it is other than a security issued or guaranteed by the United States government.

The prospectus shall set forth the statutory provisions governing the supplemental investment fund.

Sufficient copies of the prospectus shall be transmitted to each public retirement plan or fund participating in the supplemental investment account to meet the plan or fund's distribution requirements. Ten copies of the prospectus shall be filed with the director of the legislative reference library.

Subd. 12. **Deferred yield adjustment account for the bond account of the supplemental investment fund.** There is hereby established a deferred yield adjustment account which shall be increased by the sale or disposition of any debt securities at less than book value and shall be decreased by the sale or disposition of debt securities at more than book value. At the end of each fiscal year, a portion of the balance of this account shall be offset against the investment income for that year. The annual portion of the balance to be offset shall be proportional to the reciprocal of the period over which the established rate was set, unless the amounts are offset by gains on the future sales of securities. In any fiscal year in which the gains on the sales of debt securities exceed the discounts realized on the sales of such securities, the excess shall be used to reduce the balance of the account.

Subd. 13. **Rate of interest for fixed return account and bond account.** At the beginning of each fiscal year, the state board shall set an assumed interest rate for moneys invested in the accounts during that year, with the rate applicable to all sums invested during that 12 month period. At the end of the 12 months, the state board may determine for the bond account the period over which the established rate is to apply to funds so invested, depending on the average yield and maturity of the securities purchased. At the end of the 12 months, the state board may determine the annual rate for moneys invested in the fixed return account based on the average yield for the year. Any earnings accrued to the accounts above the rate earlier indicated may be used to purchase additional shares on behalf of each participating public retirement plan or fund at fiscal year end after necessary reserves are established.

History: *1981 c 208 s 1; 1981 c 224 s 14*

11A.18 MINNESOTA POST-RETIREMENT INVESTMENT FUND.

[For text of subds 1 to 8, see M.S.1980]

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

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

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

(b) The participating public pension funds or plans shall determine the amount of reserves required for every annuitant and benefit recipient as of the current June 30. Every 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 post-retirement adjustment. Each fund shall report separately the amount of the reserves for those annuitants and benefit recipients who are eligible to receive a post-retirement benefit adjustment and those annuitants and benefit recipients who are not eligible to receive a post-retirement adjustment. The amount of the required reserves shall be certified to the board 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 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 pursuant to clause (1)(a), to determine the amount of excess investment income. If this amount is positive, then a post-retirement adjustment may be paid.

(2) The state board shall determine the amount of any post-retirement 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 participating public pension funds and plans shall certify to the state board 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 post-retirement adjustment as determined by clause (1)(b). The required reserves shall be determined on the assumption that all annuitants and benefit recipients eligible to receive the post-retirement 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 100 percent 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 board shall allocate 25 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 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 post-retirement adjustment. If the percentage is less than one percent, the amount 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 post-retirement adjustment in the subsequent year. The amount certified shall be carried to five decimal places and stated as a percentage.

[For text of subds 10 to 12, see M.S.1980]

History: *1981 c 208 s 2*

NOTE: Subdivision 9 was also amended by Laws 1981, Chapter 158, Section 1 to read as follows:

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

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

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

(b) The participating public pension funds or plans shall determine the amount of reserves required for every annuitant and benefit recipient as of the current June 30. Every 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 post-retirement adjustment. Each fund shall report separately the amount of the reserves for those annuitants and benefit recipients who are eligible to receive a post-retirement benefit adjustment and those annuitants and benefit recipients who are not eligible to receive a post-retirement adjustment. The amount of the required reserves shall be certified to the board 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 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 pursuant to clause (1)(a), to determine the amount of excess investment income. If this amount is positive, then a post-retirement adjustment may be paid.

(2) The state board shall determine the amount of any post-retirement 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 participating public pension funds and plans shall certify to the state board 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 post-retirement adjustment as determined by clause (1)(b);

(c) If the state board determines that the book value of the assets of the fund is less than an amount equal to 100 percent of the current June 30 required reserves, with the book value to be determined after the adjustments provided for in subdivision 11, then the board shall allocate five percent of the excess investment income as an asset of the fund. The remaining 95 percent will be termed available for distribution. The book value of assets on any given date shall be the cost of equity investments and the amortized cost of fixed income investments.

(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 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 post-retirement adjustment. If the percentage is less than one percent, the amount 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 post-retirement adjustment in the subsequent year. The amount certified shall be carried to five decimal places and stated as a percentage."

11A.20 INVESTMENT OF STATE TREASURY FUNDS NOT CURRENTLY NEEDED.

[For text of subds 1 and 2, see M.S.1980]

Subd. 3. **Crediting of investment income.** Notwithstanding provisions of section 11A.12, all investment income and all investment losses attributable to the investment of state treasury funds, other than the game and fish fund, not currently needed shall be credited to the general fund.

History: *1981 c 356 s 254*

11A.23 INVESTMENT OF RETIREMENT FUNDS AND PLANS.

[For text of subd 1, see M.S.1980]

Subd. 2. **Investment.** Retirement fund assets certified to the state board pursuant to subdivision 1 shall be invested by the state board subject to the provisions of section 11A.24. Retirement fund assets transferred to the Minnesota post-retirement investment fund, the combined investment fund, the supplemental retirement investment fund or the variable annuity investment fund shall be invested by the state board as part of those funds.

[For text of subds 3 and 4, see M.S.1980]

History: *1981 c 224 s 15*

11A.24 AUTHORIZED INVESTMENTS.

[For text of subds 1 and 2, see M.S.1980]

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;

(b) The consolidated net pretax earnings of corporations other than finance corporations shall have been on average for the preceding five years at least 1.5 times the annual interest charges on total funded debt applicable to that period;

(c) The consolidated net pretax earnings of banks and finance corporations shall have been on average for the preceding five years at least 1.2 times the annual interest charges on total funded debt applicable to that period;

(d) Obligations shall be rated among the top four quality categories by a nationally recognized rating agency or if unrated, then the corporation shall have other comparably secured issues similarly rated or the consolidated net pretax earnings of the corporation shall have been on average for the preceding five fiscal years at least twice the ratios required in clauses (b) and (c).

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 and savings accounts if they conform to the following provisions:

(a) Bankers acceptances of United States banks shall be limited to those eligible for purchase by the Federal Reserve System;

(b) Certificates of deposit shall be limited to those issued by banks and savings institutions that meet the collateral requirements established in section 9.031, unless sufficient volume is unavailable at competitive interest rates. In that event, noncollateralized certificates of deposit may be purchased from United States banks and savings institutions that are rated in the highest quality category by a nationally recognized rating agency;

(c) Commercial paper shall be limited to those issued by United States corporations or their Canadian subsidiaries, shall be of the highest quality and mature in 270 days or less;

(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.

(e) Repurchase agreements and reverse repurchase agreements shall be limited to the securities described in subdivision 2, clause (a);

(f) 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 75 percent of the market value of a fund, less the aggregate value of investments pursuant to subdivision 6;

(b) Investments in any one corporation shall not exceed five percent of the market value of a fund;

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

(d) Cash dividends on corporate stock investments shall have been earned and paid for the preceding five years;

(e) Investments which do not conform to the dividend standard contained in clause (d) may be held but the total amount of these securities shall not exceed five percent of the market value of a fund.

Subd. 6. **Other investments.** (a) In addition to the investments authorized in subdivisions 1 to 5, and subject to the provisions in clauses (b) and (c), 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 funds through bank sponsored collective funds and open-end investment companies registered under the Federal Investment Company Act of 1940; and

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

(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 pursuant to clause (a) shall not exceed 20 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;

(3) State board participation in an investment vehicle shall be limited to 20 percent thereof; 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.

Subd. 7. **Appropriation.** There is annually appropriated to the state board, from the assets of the funds for which the state board invests pursuant to subdivision 6, clause (a), sums sufficient to pay the costs for the management of these funds by private management firms.

History: *1981 c 208 s 3-6,9*