LEGISLATIVE RETIREMENT STUDY COMMISSION

330 State Capitol
St. Paul, Minnesota 55101

The regular meeting of the Legislative Retirement Study Commission was called to order by the chairman, Rep. Calvin Larson, Friday, **May 22, 1970**, Room 125, State Capitol

PRESENT:	Senators	Representatives
	Mel Hansen	Don Forseth
	Baldy Hansen	Calvin Larson
	Mel Hansen	Helen McMillan
	J. A. Josefson	Joseph O'Neill
	Harmon Ogdahl	D. H. Sillers

ALSO PRESENT: Dr. Franklin Smith, Stennes & Associates; Frank Moulton, Exec. Sec.; Blair Testin, Assistant; Robert Wetherille, Jr., Mpls. Fire; Henry Hoffman, MRSE Ass'n Mike Ousdigian, PERA; Inga Cragg, Retired Teachers Ass'n of Minnesota; Jim Clark, Retired State Employees Ass'n; Arne Ulvi, MSRS; Douglas Mewhorter, MSRS; N. Gaasedelen, Mpls. Teachers Retirement; Jim Schmidt, MSBA; Marion Skahen, MRSE; Carl Gislason, MSCEU; Dean Kendall, Richfield Fire; C. Meehan, PERA; Bert Johnson, Minnesota Highway Patrol; Louis Claeson, League of Minn. Municipalities; Robert Reed, MEA; Albert Schulstad, MERB; Mpls; T. E. Campbell, MGEC; Leonard Elts, MGEC Joseph Thill, St. Paul Fire Relief; Elton Erdahl, TRA; Richard Berg, TRA; Gordon Williams PERA; R.M. Scully, Mpls. Police Relief & Minn. Police Pension Council; St. Clair Beeman, Comm. 13; Dick Kraeger, Budget Div.; Dept. of Adm.; Gilman Gandrud, Probate Judges; Dr. Leo Bernat, MFT.

Minutes of the April 17 meeting approved as mailed.

At the request of the Commission, Mr. Moulton will attend the May 28 meeting and conference called by the Commissioner of Administration relative to federal grants to teachers. Mr. Moulton will report on this at the next Commission meeting.

PERA Subcommittee Report: Chairman of PERA Subcommittee, D. H. Sillers, stated that the subcommittee will not meet in June.

Mr. Ousdigian will report and give a resume of the suggested PERA program relative to the savings clause after consulting with the PERA actuaries and Dr. Smith.

Mr. Ousdigian will talk with the major employers relative to the suggested PERA program for the 1971 session.

Mr. Moulton will send the PERA recodification material which is ready down to the revisor of statutes to work on.

STATEWIDE SUBCOMMITTEE REPORT - Mel Hansen, chairman reported on the progress. Blair Testin, Assistant, read the Statewide Subcommittee's report re Deputy Registrars.

Sen. Mel Hansen moved that the proposed language as suggested in the report be accepted by the Commission and that it be incorporated into legislation for the next Session of the Legislature. MOTION CARRIED.

Sen. Hansen also advised that the subcommittee is waiting for reports from the MEA and MFT relative to their views on the subject of supplementals for TRA.

SEN. MEL HANSEN - Actuarial Matters

Relative to the Metropolitan Transit Commission law and problems of moving private employees into public employment when employees have a private plan:

What happens if there is a change in interest rate; for instance, 1% - say move from 4% to 5%; assume that a plan is approximately 1/3 funded, make another assumption that a plan is approximately 2/3 funded. What would happen to the actuarial deficit if you changed interest assumption by a 1% increment?

Dr. Smith: "A rough rule of thumb is that the over-all pension cost would go down about 5% to 6% for each quarter percent increase in the interest rate over all pension costs. Depends on the benefit structure, also on what portion of the deficit is for retired lives and what portion is for active lives. Have a preponderance of retired lives in the transit company fund; quite different from typical pension fund--shorter for the operation of interest, a shorter span for the interest to effect.

Sen. Hansen: How would it be related to the deficit at any given time?

Dr. Smith: The higher you take the interest assumption, the lower the deficit is going to be.

Mel Hansen: What happens if entry age normal is changed?

Dr. Smith: The funding method used will determine how much of the cost goes in what is called normal cost and will determine the amount of actuarial deficit, and then gives a different split you might say of the contribution between normal cost and the amount toward retiring the deficit.

For example - I can think of two methods right off which have come before the Commission - called Unit Credit, in which you attempt to pay for each piece of benefit as it is earned. The law now requires that you use Entry Age Normal Cost method, in which on any given valuation you determine what each participant's prospective benefit is going to be; then calculate a level contribution, starting from the date he enters the plan; then turn around and calculate what is the accumulation of all these past normal level costs and compare that with the assets you have on hand; and the difference, of course, is the deficit. For example - the Unit Credit - you would have a considerably smaller deficit than you would have under the Entry Age Normal under the state plan. Under PERA and the state plan, you have a larger benefit credit for the later years of service. For example - a man at the present time with 20 years of service and who has a potential remaining service of 20 years; if you do that on a Unit Credit valuation basis, you take into account those lower percentage credits for the first 20 years, you take only those into account, and you calculate your accrued liability at the cost of those lower credits earned to the date that you make the valuation.

Sen. Hansen: Do I understand that on your Unit Credit your contribution varies from year to year, lower at the beginning - you are going to have more interest earnings? You are buying the same amount of ultimate pension each year of contribution, and if you have 20 years to go, you will have a bunch of interest to add to what you pay in.

Dr. Smith: In the statewide funds, you have another reason why it is lower, and that is your credit for service; during your early decades of service, it is smaller than it is during the later decades.

Sen. Hansen: By credit for service, you are speaking of the amount of credit accruing for the benefit of an individual.

Dr. Smith: Year by year, for example, at a given salary this year and during the first decade of service (PERA basic) you would apply the 1% to his pay for that year, and apply that to his benefit, and because of his younger age and the fact that you are in an early decade of service where the percentage credit is at a smaller level, you would then be buying a smaller piece of service so that you make a valuation to determine the cost of all the credit earned during the first 20 years - you come out with a lower figure than you would under Entry Age Normal where you also take into account what he is going to earn during the remaining 20 years of service at the higher percentage level.

Sen. Hansen: The Entry Age Normal is a more conservative method?

Dr. Smith: It is a more conservative method; that is right. An attempt to try to level the contribution out over a period of years. For a given employee, on Unit Credit you get this pattern, an increasing cost.

Sen. Hansen: For the employer and the employee both, they both go up?

Dr. Smith: If you have, however, a fund with a mature population where you have exactly the same age and salary distribution, year after year after year, you would get a level cost ultimately under a Unit Credit also. The thing that gives you the increasing cost under Unit Credit ordinarily is that you may not have a mature population and, therefore, the age and salary distribution will change year after year.

Sen. Hansen: You have to reflect that change in the contribution?

Dr. Smith: Right.

Sen. Hansen: What about "Attained Age Normal"?

Dr. Smith: I can't think of any pension fund that I have worked on that has used this method. This is a method in which you separate the so-called past service credit and future service credit and you fund the past service credit just as though you were

a unit credit, and you do the future service like an entry age normal. This method gets a little bit complicated.. As a result, in my experience, the method is of more theoretical interest than applied interest. A method which has a similar title but is quite different is called "Attained Age Level Cost". This is used quite often. This one ultimately becomes equivalent to an Entry Age Normal. At the start of the plan it is quite different in that the only accrued liability is for lives already retired. The difference in the two is that if we are starting a plan right today on a working force that has been in existence for some time, under the Entry Age Normal, you calculate the normal cost by going back to each employee's age at entry, and because you have not made the normal cost contributions in the past, you have an accumulation which is a deficit to start with, then your contributions consist of normal cost plus something to amortize the deficit.

Under attained age level cost, you calculate the level cost on the employee's attained age, so that as far as an active employee goes, you don't set up any deficit to start with. It is only for retired lives that you get into any accrued liability. In fact, what you are doing on this attained age level cost, rather than giving yourself some flexibility on how you retire a deficit, you are funding as a part of normal cost what otherwise might be a deficit under the entry age normal. You are funding that piece of it over his remaining working life time. Whereas, you might have given yourself 30 or 40 years, using Entry Age Normal.

Sen. Hansen: What I understand then, Dr. Smith, if we had an individual we could pick out one man who went into a plan at the time this was established, he has 30 years of service - bran new plan - he had 10 years of service left - so that over those 10 years you would have to have a very high contribution to fund for past service, but it would be part of the normal cost rather than a deficit because he hadn't retired.

Dr. Smith: You calculate the level cost for him to pay off this over a ten year period under attained age level cost. Using entry age normal cost, you go back to 30 years before, you would calculate what would be the normal cost, and determine the deficit for those prior 30 years of service. You might in funding this plan decide to use 30 or 40 years to pay off the deficit. So, in effect, you are paying off a piece of the past service cost over a 30 year period that under the attained age level contribution you would be wiping out in a ten year period.

Dr. Smith: Aggregate Cost is used mainly after a fund has gotten to a point where it has no deficit remaining under the other methods of funding. Aggregate Cost, you take the present value of the benefits, subtract from the assets and divide it by average remaining working lifetime annuity of the group.

Sen. Hansen: What does that do in terms of cost? That, of course, is used when you have a plan that is fully funded.

Dr. Smith: How would it compare - for example, with entry age normal cost? I would say that would depend a good deal on how the size of this average annuity

compared with the period you might set for paying off the deficit under one of these other plans. If that average annuity turned out to be 15 years and you had decided to amortize the deficit over 30 years, this is going to produce a higher contribution because you are trying to pay it off in 15 years, but you might otherwise have paid it off partly in 15 years and partly in 30 years.

Sen. Hansen: But, if it is presently fully funded ...

Dr. Smith: In that case, the deficit is paid off ... normal cost would be the same then.

Mr. Moulton: Isn't it true, Dr. Smith, the effect of the Unit Credit or Attained Age Normal would be to minimize the deficit and maximize the cost thereafter?

Dr. Smith: This depends on how mature, how stable the population is.

Mr. Moulton: But it makes the deficit much smaller -- the ongoing cost much larger.

Dr. Smith: In the typical situation, until the fund has approached maturity.

Mr. Moulton: If applied to any of the state funds?

Dr. Smith: Well, I would think so, I am not prepared to say how mature the state funds might be. "

REPORT ON THE FIRE AND POLICE CONVENTION IN NEW ORLEANS

Sen. Josefson advised the Commission that Sen. Mel Hansen made the most valuable contribution to the conference.

Sen. Mel Hansen told the Commission that one of the problems he talked about at the convention was the effects of the raids on pension funds.

Sen. Baldy Hansen reported that Minnesota is a leader in most respects in pension solutions; that we compare very favorably.

Mr. Ousdigian reported that the Commission members who attended were a credit to the State of Minnesota.

MSRS TESTIMONY - Retired State Employees

Mr. Hoffman, President of the Minnesota State Employees and Mr. Jim Clark, formerly with its Department of Economic Development, appeared before the Commission and presented the legislative requests of the retired state employees.

Mr. Carl Gislason, Minnesota State Capitol Employees Union, presented the proposed changes in the state employees retirement law for the employees' union. (Copies in memo files)

Commission Action: - These proposals were referred to the Statewide Subcommittee for study and further action.

STAFF MEMO - Policy Questions Concerning the Minnesota Adjustable Fixed Benefit Fund (FVM). Memo was read and discussed.

Rep. Jos. O'Neill moved that Mr. Moulton prepare for legislation the part of this memo which relates to Sec. 31, Subd. 2 (3). (Copies of memo in memo files) CARRIED

The chairman advised that the subject matter of the balance of the Minnesota Adjustable Fixed Benefit Fund memo will be taken up at a later meeting and in conjunction with Mr. Blixt.

STAFF MEMO - Merger of Elected Official Funds - Commission Decisions (BT) Memo was read and discussed. (Copies in memo files).

Relative to the second point in this memo as to how the merger shall be accomplished in the statutes, this will be taken up with the revisor of statutes, Mr. Bright. Dr. Smith is to be consulted relative to cost.

Sen. Ogdahl requested that Dr. Smith be consulted as to a plan for minimums of 8 years and 12 years; also, get cost factors based on survivor benefits such as the legislators now have. Would like figures with three breakdowns.

Blair Testin is to present this plan and alternatives to Dr. Smith for cost figures.

The Commission will meet in the PERA office, Capitol Square Building, during the months of June, July and August.

Next Commission meeting is scheduled for June 19, 1970, PERA office, Capitol Square Building, at 9:00 A.M.

Mel Hansen, Secretary

E. Diebel, Steno.