

# State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

October 21, 22 and 23, 1977 Meetings  
Duluth Radisson  
Duluth, Minnesota

## MINUTES

The chairman, Rep. Al Patton, opened the meeting at the Duluth Radisson on October 21, 1977, at 5:30 P.M.

PRESENT: Rep. Al Patton, John Biersdorf, David Beauchamp, Sen. John Chenoweth, ~~Sen. Ogdahl~~, ~~Strand~~, ~~Stokowski~~, ~~Renneke~~  
The minutes of the September 22 and 23, 1977 meetings were approved.

John Mandeville reviewed a letter dated October 17, 1977, from Harry Groschel, Director of the Social Security Division, re Congressional Social Security legislation which would extend mandatory social security coverage to firemen and policemen and legislators. It was pointed out that the commission should be kept informed and that the staff find out what meetings are being scheduled so that the commission can take part in the hearings.

The following discussed the social security legislation;

1. Robert Wetherille, Minneapolis Fire, reported that it is expected that Congress will vote to eliminate mandatory coverage for public employees.
2. O. M. Ousdigian, Exec. Dir. of PERA, told the commission that the Fisher amendment to strike federal employees from the bill will pass; that he is opposed to any type of coverage for federal or public employees.

### Supreme Court and District Court Judges

A meeting will be scheduled in December to deal with these problems. Paul Groschen, Exec. Dir. of MSRS, reported that one judge still had not signed a waiver of escalation.

October 22, 1977 Meeting

PRESENT: Senators Ogdahl, Strand, Renneke, Stokowski  
Representatives Al Patton, David Beauchamp, John Biersdorf, Donald Moe  
Also: Sen. John Chenoweth

### Limitation on Increases in High-Five Average Salary - Staff Memo

Larry Martin went over the memo and discussion followed. The law provides that no year of salary used for pension benefits shall exceed the previous year's by more than 15%.

Bob Currie, Minnesota State Employees Union, told the commission that this law hits the people at the lowest end of the salary scale bracket the most; that it's an administrative problem; that this section of the law should be repealed.

Paul Groschen, Exec. Dir. of MSRS, commented that he does not think the fund is going to save much, if any, money; that it will probably spend a little money; that is is an administrative problem that should have been solved some other way; that the law should be repealed.

Harvey Schmidt, Exec. Dir. of TRA, advised that his fund has a different problem; that teachers are paid on a 12 month basis; but, are employed for a 9 month period. He will have problems administering the law.

O. M. Ousdigian, Exec. Dir. of PERA, reported that in analyzing the situation, that they have not found one individual who has received more than a 15% increase; that as time goes on, it may cause some administrative problems.

Duluth Meeting Minutes continued:

TRA Financing Deficiency - Staff Memo

Larry Martin went over the memo and discussion followed.

The 1977 Legislature, Chapter 313, provided for a 5.0% covered payroll increase in the employer contributions to TRA. The TRA financing deficiency is a serious problem and the memo pointed out the need for the commission to again consider the problem and consider recommending increased financing in the next session.

Mr. Harvey Schmidt, TRA, reported that a letter had been sent to the Governor requesting additional financing this coming session; that he appreciates the commission's looking at this problem; that he does not know the reaction of the teachers to increasing the contribution rate.

Stephanie Wolkin, MEA, stated that the teachers should be educated to the fact that something has to be done re financing; try to get more information out to the teachers.

John Belk, TRA Board, advised the commission that he does not know how the teachers would feel re an increase in contributions; that benefit changes should be discouraged; that he will endeavor to tell the fund members of the financing problems. He is grateful for this study.

Richard Larson, TRA Board, advised that he thought the teachers would go along with a 1/2% increase; that they understand the problem.

Lyle Farmer, St. Paul Teachers, advised that in general the teachers do not understand TRA financing; that a contribution increase would cause concern.

Sen. Stokowski stated that he does not think there is a critical need to pay off the \$6 million if we are gaining in the ratio of funding; that there is need to take a serious look before we change.

Sen. Ogdahl is of the opinion that there is need to extend the amortization date out 10 years.

Mr. Blixt, Exec. Sec. of the State Board of Investment, spoke about investment rate of return and distributed various information.

Highway Patrol Benefit Improvements - Staff Memo

Larry Martin went over the staff memo which summarized the remaining Highway Patrol benefit increase proposals laid over from the 1977 Session: reduction in normal retirement age from 55 to 50; elimination of the present provision which requires that disability benefits be reduced by any benefits received from the Workers Compensation on account of injury; reduction in vesting requirement for 100% joint and survivor annuity for survivors of former members on deferred status and active members who die prior to the normal retirement age from 20 years of service to 10 years of service.

Revision of the Method of Making Employer Contributions to the First Class City Teachers Retirement Fund Associations - Staff Memo

L. Martin went over the memo. The memo points out that Minnesota Statutes, Section 354A.12, provides that the state shall contribute the same percentage of covered payroll to the first class city teachers retirement fund associations as the state contributes to TRA, including social security contributions; that the actuarial requirements for the Minneapolis and St. Paul Teachers Retirement Funds exceed the present state contribution rate.

TRA Variable Annuity Program - Staff Memo

L. Martin went over the memo. The memo explains that the variable annuity program is a money purchase benefit; that the annuity depends on the reserves at the time of retirement and the individual's expected mortality; that since the 1973 benefit improvements, the variable annuity program has caused problems.

Discussion followed. It was pointed out that in this program the member is taking the risk; that the group should share the risk; that it should have been invested in bonds.

Duluth Meetings continued:

Mr. Blixt commented that he would like the commission to explore the approach described in the staff memo.

Mr. Schmidt stated that his Board would prefer proposal #1 in the memo with no deadline--leave it open. Proposal #1: "Allow all present participants in the variable annuity program to elect to have future service credited in the formula program rather than in the variable annuity program, with a deadline on the election set for the year 1980 or within two years of returning to active service from inactive service, whichever is later."

General Review of the Policy on Buybacks - Staff Memo

L. Martin went over the memo. The memo points out that the commission as a general policy has not favored authorizing the purchase of prior service without requiring adequate financing; that there has been a demand for buybacks in the past several years.

The chairman, Al Patton, stated that buybacks should be dealt with on an individual basis.

Lyle Farmer, St. Paul Teachers, advised that the problem comes up with the combined service annuity for teachers; that there are people who have the service but who did not pay into the fund.

Re: 4% MAFB Increase

Paul Groschen advised the commission that the figures are not all in yet, but it appears that the assets in the MAFB fund are probably not sufficient to justify paying out a 4% increase this year; that paying the increase will leave the MAFB fund in a deficit position. He said although the 1977 amendments could be interpreted to authorize the 4% payout based on rate of return, he feels the law is somewhat ambiguous. He informed the commission that his main purpose in testifying was to make sure that everyone understands the condition of the MAFB fund before the increase is paid.

Mr. Blixt said he has been telling the commission for the past two years that technically they should wait until 1/1/79 to pay out the 4% increase, but that an early payout on 1/1/78 would be consistent with the fund's investment performance and expectations. He said it was his understanding that the 1977 changes direct the increase to be paid this year.

Mr. Ousdigian advised that the PERA actuary agrees that the 4% can be paid; that there should be authorization from the State Board of Investment to pay the 4% and that the executive secretaries of the funds should not be burdened with this problem.

Harry Newby commented that no one knows what the Adjustable Fixed is; that it is not generally understood.

The staff was directed to contact the Attorney General's office and find out the legal position if we do not pay out the 4%.

October 23, 1977

PRESENT: Senators Ogdahl, Strand, Renneke, Stokowski, Chenoweth  
Representatives Al Patton, David Beauchamp, Biersdorf, Donald Moe

Chapter 356 Reporting Law Requirements Concerning Investments - Staff Memo

L. Martin went over the memo and discussion followed.

The staff was directed to look at the Audit Commission's recent report for different approaches to determine rates of return on investments.

Bill Draft - Biennial Actuarial Reporting for Police and Fire - Staff Memo

The bill draft would require that local police and paid firefighters, etc. submit actuarial valuations every two years rather than every 4 years.

The Volunteers would remain on a 4-year basis.

Duluth meeting continued (minutes)

Mr. Heim, Duluth Fire, brought up the subject of the cost of the actuarial surveys.

The bill from Stennes and Associates for actuarial services from September 1 to September 30, 1977 was approved for payment.

Meeting adjourned at 10:30 A.M.

E. Diebel  
Steno