State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

e 16, 1986
Room 15
State Capitol

MINUTES of the June 16, 1986 Meeting:

The chair, Senator Donald Moe, opened the meeting at 2:22 p.m.

PRESENT: Senators Donald Moe, Lawrence Pogemiller, Earl Renneke, Darril Wegscheid
Representatives Terry Dempsey, Gil Gutknecht, Gerald Knickerbocker, Wayne Simoneau, Steve Sviggum

Senator Moe moved for approval of the recommendation of the Executive Committee for a salary increase for Jim Heidelberg to $33,500. effective June 1, 1986. Motion carried.

Senator Moe introduced Mr. Heidelberg who noted for the Commission several items included in their packets as follows:

1. Several newspaper articles dealing with the Legislative Auditor's report, follow up on the Winona situation, and other items of interest to the Commission

2. A copy of information dealing with Mandatory Medicare coverage for new public employees hired after March 31, 1986

3. A copy of the State Board of Investment staff paper concerning the post retirement fund and its benefit increase mechanism

4. A document which contains clarifying information pertaining to the Legislative Auditor's Report

5. A copy of SBI and MERF rates of return in a different format from that presented in the Legislative Auditor's report.

Senator Moe questioned the significance of the Medicare coverage with regard to the State. Mr. Heidelberg responded that the action by the Congress doesn't affect any of the public employee pension plans but it does increase the cost of government and the cost of being a government employee.

Senator Moe introduced the report of the Program Evaluation Division of the Office of the Legislative Auditor entitled Management of Public Employee Pension Funds as presented by Mr. Elliot Long who directed the study. Mr. Long was assisted by Mr. Ed Burek whom he introduced and Mr. Burek assisted Mr. Long in answering questions about the report.

Mr. Long began by explaining that the Evaluation Division of the Legislative Audit Commission is interested in local public employee pension funds because the state provides major financing for local funds. In 1984 the state provided $38 million dollars for the 10 First Class City funds. The assets of the 10 funds considered are over one billion dollars. He went on to note that the report is not a financial audit, but is an evaluation study and a policy study focusing on the First Class Cities, as those funds covered most of the employees, in the context of all the local pension funds in the state, and controlled most of the assets. The ten funds the LAC focused on were the 3 police funds, the 3 fire funds, the 3 teachers funds (for St. Paul, Minneapolis, and Duluth), and MERF.

Mr. Long went on to note that the Evaluation Division of the Legislative Auditor's Office is interested in whether State oversight of the funds is adequate in view of the money involved and the State's exposure if problems arise in terms of investment practices or managerial practices. He continued that the Evaluation Division examined the structure of the funds but the major focus of the report is an examination of the investment practices and the performance of the funds. Mr. Long stated that the question was whether the apparent organizational incentives are actually reflected in performance. The answer is yes. For the most part, existing organizational incentives help determine actual investment practices and performance.

Mr. Long continued his summary. Discussion, including questions and answers, followed. After much discussion, Senator Moe requested that discussion on the Duluth pension funds and the St. Paul Teachers Retirement Fund be continued to the next meeting scheduled for Wednesday, June 25, 1986, to give the funds an opportunity to speak.

Meeting adjourned at 5:01 p.m.

Wayne Simoneau
Commission Secretary
Jean Liebgott
Staff Secretary