

October 11, 1993
Room 15 Capitol

14th Meeting



LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Senator Phil Riveness, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 1:15 P.M.

Commission members present:

Representatives Bob Johnson, Phyllis Kahn, and Gerald Knickerbocker
Senators Steven Morse, Lawrence Pogemiller, Phil Riveness, and Roy Terwilliger

Potential For the Establishment of a Joint Legislators-Constitutional Officers Retirement Fund

Lawrence A. Martin, LCPR Executive Director, noted that this is the first of two meetings the Commission will hold on this topic. Mr. Martin stated that the staff memo provides information on the Legislators Plan and the Constitutional Officers Plan, compares the two plan's benefits, reviews the current funding of the two plans, discusses why pension plans in Minnesota are funded on an actuarial basis (though neither of these two plans are funded on an actuarial basis), and outlines potential approaches to fund the two plans. Mr. Martin stated that the Legislators Plan is a terminally funded plan and the Constitutional Officers Plan is funded on a pay-as-you-go basis.

Sen. Riveness questioned why both the Basic and Coordinated employer contribution for judges is 22% and what the employer contribution would need to be for the Legislators Plan and the Constitutional Officers Plan. Mr. Martin responded that there are very few basic member judges and the Commission actuary has determined that an employer contribution of 22% would bring the Judges Plan to full funding by 2020. Mr. Martin referred members to pages two and three of the staff memo and stated that the funding requirement for the Legislators Plan would be 21.49% and for the Constitutional Officers Plan 27.23%.

Mr. Martin reviewed seven advantages for funding public pension plans on an actuarial funding basis. He then reviewed potential approaches to fund the Legislators Plan and Constitutional Officers Plan. Questions and discussion followed.

David Bergstrom, MSRS Executive Director, responded to a question regarding how MSRS determines which legislators may be retiring in a particular year and stated that MSRS determines the number of legislators who are deferred annuitants and who are near retirement age and they also assume a certain percentage of current legislators will be retiring. Sen. Pogemiller asked how legislator's contributions are accounted for in the budgeting process. No representative of the Department of Finance was present at this meeting to respond to this question. Discussion followed. Sen. Riveness requested that a Finance Department representative be at the Commission's next meeting on this topic.

A quorum was present

Approval of Minutes of Prior Meeting, August 19, 1993

Sen. Morse moved approval of the August 19, 1993, Commission meeting minutes.
MOTION PREVAILED.

Options Available to Enhance Opportunities For Phasing-Out Into Retirement

Edward Burek, LCPR Deputy Executive Director, noted that this is the first of two meetings the Commission will have on this issue. Mr. Burek reviewed the staff memo on this topic and stated that phasing into retirement will require a redirection of the purpose of state public pensions which was to retain and reward long service employees and penalize short term employees. Mr. Burek reviewed the key concepts on which pension benefits are based such as the high-five average salary and years of service. Discussion followed.

Appropriate Disposition of Previously Forfeited TRA Employer Contributions For Certain IRAP Members

Edward Burek reviewed the background on the Individual Retirement Account Plan and stated that it is a defined contribution plan that was established to provide portability for State University and Community College personnel. He reviewed similar situations (MSRS Correctional, MSRS Unclassified and privatized employees) and the way the Legislature handled their employee and employer contributions.

Sen. Riveness questioned the dollar value of the decrease in TRA liabilities when non-vested TRA members switched to IRAP. Mr. Burek stated that staff does not have that number currently but it would probably be less than the \$410,000 in employer contributions that were forfeited by IRAP members when they transferred from TRA since the liability for short term members is very low. Mr. Burek further stated that reducing TRA's assets by the \$410,000 forfeited employer contributions would not affect TRA's funding ratio. Mr. Burek continued his review of this issue.


Sen. Morse questioned the purpose of having any vesting period. Mr. Burek responded that originally vesting was an employee retention tool. Over the last several years, vesting has been reduced to a three year period and probably doesn't serve that purpose anymore. Sen. Morse stated that reducing vesting to one year or eliminating it might be a potential solution to this issue as employees would be able to defer their TRA benefit and would not forfeit their employer contributions. Mr. Burek stated that the value of the refund of employee contributions plus interest in the first several years of employment is much greater than the value of a deferred annuity even with 5% augmentation.

Sen. Riveness advised that testimony would be taken on this issue at the next Commission meeting.

Sen. Riveness reminded members of the upcoming State Auditors Investment Conference and stated that attendance at the Conference would be an approved Commission member activity.

Sen. Riveness referred members to the packet of information provided to update them on the work of the LAC with regard to the State Auditor's MERF audits. Sen. Pogemiller questioned what Sen. Riveness's hoped for outcome was with regard to the LAC meetings. Sen. Riveness responded that he had hoped that the work of the LAC would be done by this time but it now appeared that the LAC would have one more meeting after which he would determine some final questions and then select an outside auditor or the Legislative Auditor to get the required information.

The meeting adjourned at 3:50 P.M.


Jean Lieb Gott, Secretary