December 1, 1993
Room 123 Capitol

16th 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 1:50 P.M.

Commission members present:

Representatives Mindy Greiling, Bob Johnson, Phyllis Kahn, Gerald Knickerbocker, and Leo Reding
Senators Steven Morse, Lawrence Pogemiller, Phil Riveness, LeRoy Stumpf, and Roy Terwilliger

Approval of Minutes of Prior Meeting, November 4, 1993

Rep. Johnson moved approval of the November 4, 1993, Commission meeting minutes. **MOTION PREVAILED.**

Options for Adapting Retirement Coverage for Teachers Engaged in Job-Sharing (First Consideration)

Lawrence A. Martin, LCPR Executive Director, reviewed the background on this topic. Sen. Riveness asked the author to inform the members of her purpose in offering this bill.

Rep. Greiling stated that she viewed this issue as one method for teachers to phase-into retirement. She also stated that the bill she introduced in the House and that Senator Krentz introduced in the Senate would reduce eligibility for teachers to participate in a job-share program from 20 years to 15 years, would allow teachers to make employee pension contributions at the full-time salary rate, and would permit job-sharing teachers to receive a retirement benefit based on a full-time high-five. Rep. Greiling also mentioned that she is interested in providing a similar program for teachers with preschool children to enable them to have a career as well as spend time with their children.

Rep. Johnson agreed with the concept of job-sharing but stated that he is concerned that this program might become an incentive program.

Rep. Knickerbocker noted that this program might cause an additional burden on the employer since the employer would be paying two people to do one job while also paying two full-time employer pension contributions. Discussion followed.

Mr. Martin referred members to page 2 of the staff memo and pointed out how service and salary are credited differently by the various pension plans.

Barb Conrad, representative of DOER, provided information on state job-sharing positions. She testified that currently 39 full-time positions have been split into job-sharing positions. She was unaware of how pension coverage for job-sharing positions was treated.

David Bergstrom, MSRS Executive Director, testified that a full time employee is given full credit for all service and a part-time employee is given prorated service credit. Discussion followed.

Gary Austin, TRA Executive Director, testified that TRA credits service by days and 180 days is the minimum credit for one year of service. He further testified that a TRA member's high-five is based on an equivalent of five full years of service. He stated that TRA may go back 13 or 14 years to accumulate five full years of service credit to determine a person's high-five for pension benefit calculations. Discussion followed.

Rep. Greiling stated that it appears that the only difference between current practice and the bill she authored is the reduction in eligibility for the job-share program from 20 years to 15 years of service for K-12 teachers.

Mr. Martin continued with his review of the staff memo and stated that the hypothetical is inaccurate in view of the testimony of Mr. Austin as to how TRA determines service credit for job-sharing teachers.

Sen. Krentz testified that she was a teacher who had job-shared for three years in order to spend more time with her small children and knew of other teachers who were reluctant to job-share because it would affect their high-five. This was why she authored and supported this bill. Discussion followed.

Rep. Knickerbocker requested an example of a job-sharing teacher and what the cost would be to the school district if the school district paid the full employer contribution for job-sharing teachers. Rep. Greiling requested an example of whether their might be a cost savings for a school district if a younger, lower salaried job-sharing teacher were paired with an older, higher salaried job-sharing teacher. Discussion followed.

Potential Major General Employee Pension Plan Benefit Accrual Rate Increase (First Consideration)

Mr. Martin reviewed the background on this topic and stated that the staff memo deals primarily with the question of the adequacy of public employee pension benefits and what impact a benefit formula increase would have on benefit adequacy. He further stated that the Commission actuary has been asked to cost out the benefit accrual rate increase and the cost estimate should be available the next time the Commission looks at this issue. Mr. Martin referred members to the graphs in the appendix of the memo and reviewed them.

Sen. Morse questioned what is the average age and years of service at which a TRA member retires. Mr. Austin responded that the average age is 60 and the average years of service is 28. Discussion followed.

Sen. Terwilliger questioned whether staff could get information from the private sector (General Mills, Pillsbury) for comparison with Minnesota public pension plans. Mr. Martin stated that it may be possible to get some information on the private sector. He further stated that private plans are usually funded solely by the employer and that private employers may have two plans, a basic salary plan and/or a 401K plan making comparison difficult.

Sen. Riveness stated that Bill Blazer from the Minnesota Chamber of Commerce recently did a comparison of public sector and private sector salaries that had a pension component. He suggested that staff invite Mr. Blazer to testify before the Commission.

Sen. Morse stated that in considering this bill, changes in actuarial assumptions or other measures may need to be studied to minimize any increased burden to local governments.

Hank Stankiewicz testified that the Wyatt report was based on an assumption of a married, one wage earner family and it may be more appropriate to compare situations closer to reality today. Mr. Martin stated that Mr. Stankiewicz was correct and that it was noted on page 11 of the staff memo that the charts do not necessarily reflect a typical public employee.

Establishment of a Statewide Pension Plan For Emergency Service Personnel (Second Consideration)

Mr. Martin reviewed the staff memo on this topic which provided information on six issues Commission members had raised during the October 11, 1993 meeting.

Rep. Johnson stated that he had received a copy of a letter sent to the volunteer fire community and he was concerned by the misinformation it contained regarding the interim study undertaken by the LCPR. Sen. Riveness agreed with and added to Rep. Johnson's comments as did Sen. Morse.

Rep. Bertram testified on behalf of his volunteer firefighters and stated that the volunteer firefighters do not have a full-time paid lobbyist. Rep. Bertram stated that volunteer firefighters are concerned about what the Commission may propose and he will share the information he gets from this meeting today with his constituents. Discussion followed.

Sen. Lesewski testified that her firefighters are concerned that the Commission may take the state aid currently distributed to the volunteer firefighters and redistribute it to other emergency service personnel as well as the volunteer firefighters.

Chief Mike Evnet testified on behalf of the Lake Region Volunteer Firefighters. He testified that the 2% money has been reduced each year making it necessary for local government to make a contribution to adequately fund pension benefits. He further testified that he would not like to see local departments lose control of their own administration.

Judith Johnson, general counsel from the State Auditor's Office, testified that in her visits around the state to discuss volunteer firefighters relief association compliance with reporting to the State Auditor's Office, she first must address concerns about what the Pension Commission is doing. She testified that some of the larger relief associations have established an organization that is planning to meet with the State Auditor's Office to discuss doing a joint RFP for audit and actuarial services. Ms. Johnson noted that these larger relief associations seem to already be addressing some of the issues the Commission was discussing with regard to economies of scale. She further noted that the State Auditor's Office is receiving and reporting information regarding the administrative costs for volunteer fire plans.

Rep. Bertram stated that out of the over 690 volunteer fire relief associations, 400 of them received a letter saying they would not receive their 2% money. At the same time, the volunteer fire relief associations received word that the LCPR was studying the establishment of a statewide pension plan for emergency services personnel. These two occurrences raised volunteer firefighters' level of concern. Discussion followed.

The meeting adjourned at 4:05 P.M.

Jean Liebgott

Jean Liebgott, Secretary

Senator Phil Riveness, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 8:45 A.M.

Commission members present:

Representatives Mindy Greiling, Bob Johnson, Phyllis Kahn, Gerald Knickerbocker, and Leo Reding
Senators Steven Morse, Lawrence Pogemiller, Phil Riveness, LeRoy Stumpf, and Roy Terwilliger

Establishment of a Statewide Pension Plan For Emergency Service Personnel (Second Consideration)

Lawrence A. Martin, LCPR Executive Director, continued with his review of the November 30, 1993 staff memo beginning with page 4 dealing with administrative expenses.

Sen. Morse questioned the $46.22 total annual administrative expense for volunteer fire relief associations with a lump sum benefit of less than $50. Mr. Martin responded that the expense might be for postage and that Minnesota Statutes 69.051 permits plans with less than $200,000 in assets to do minimal accounting and reporting. Discussion concerning administrative expenses followed.

Rep. Kahn stated that she would like to see the administrative expense broken out both on a per member and a per asset basis. Mr. Martin stated that staff could provide that information and could also provide members with the actual range of administrative expense by category rather than the average administrative expense.

Mr. Martin stated that at the next Commission meeting staff would provide members with information on the investment performance of plans with $500,000 or more in assets. However, plans are not required to report their investment policies so comparisons are not available. Discussion followed.

Sen. Morse questioned whether the State Auditor has information on the non-farm real estate investments of Minnesota public pension plans other than plans invested by the State Board of Investment. He would be interested in knowing which public pension plans have non-farm real estate and the status of those investments in view of MERF's problem real estate investments.

Mr. Martin reviewed a comparison of fire state aid amounts received with the premium tax paid by the first class cities. Mr. Martin stated that the first class cities receive the 2% premium tax, the surcharge for the first class cities, amortization aid, and supplemental amortization aid. He also noted that Hennepin County gets approximately 46% of the fire state aid available. Discussion followed.

Robert Whetherille, Secretary for the MN State Fire Department Association, testified that the surcharge for the first class cities was a 2% charge added to a policyholder's fire insurance premium. He believes that the surcharge is no longer being collected from policyholders. At the end of the year when insurance companies report their premiums to the state, they attribute 33%-35% of the premium to fire insurance and then pay 2% of the 33%-35% to the state for fire state aid. Mr. Whetherille commented on the letter he had sent to district directors of the MN State Fire Department Association concerning the Commission's study of the policy implications in the establishment of a statewide emergency services plan. Mr. Whetherille further testified that there are approximately 70 firetowns that do not have relief associations. He testified that some of those firetowns simply cannot afford to have a relief association as they need to use the fire state aid money to buy equipment. Representatives of the fire community would like to see an indepth study into how fire departments in the state are operated. Discussion followed.

Gus Welter, MN State Fire Department Association, began his testimony by questioning why the Bloomington Volunteer Firefighters Relief Association is not included in the State Auditor's Compilation report. Mr. Welter testified that all volunteer fire relief associations are permitted to invest their assets with the State Board of Investment. Approximately 75 to 80 fire relief associations use SBI to invest their assets. He further testified that in 1989, taxes on insurance companies were reduced by 75%. Of the 750 insurance companies doing business in the State of Minnesota, 147 had their premium taxes cut to 1/2 of 1%. He would like further study into this reduction in the fire premium tax. Mr. Welter favors local communities setting the benefit limits for their firefighters rather than the Legislature setting a maximum benefit amount in state law. Rep. Reding stated that the limits were set to assure the sound actuarial funding of relief associations. Mr. Welter requested that the Commission undertake an indepth study of the whole volunteer firefighter issue. Discussion followed.

Sen. Riveness stated that the Commission will continue to study this topic at another meeting. He would also like to look at the connection between volunteer firefighter benefits and the recruitment and retention of volunteer firefighters. Sen. Riveness stated that it is his intent to appoint a subcommittee to deal with this issue more thoroughly.

Attribution of Investment performance to Various levels of the Investment Decision-Making Process (First Consideration)

Edward Burek, LCPR Deputy Executive Director, reviewed the staff memo on this issue and requested that members change the word "contribution" to "benefit" on the third line in the sixth paragraph on page two of the memo. He then referred members to Table 1 and stated that investment returns are the largest component of revenue for pension plans and can be as much as 70% of the revenue used to finance benefits. Mr. Burek continued with his review and noted that the State Auditor's office has contracted with a private vendor to provide an investment attribution study of the first class city teacher funds for the time period of 1982 through 1992. Discussion followed.

Lisa Rotenberg, Deputy State Auditor, testified regarding the investment attribution study contracted by the State Auditor's office and the value of this kind of information to the Commission. She stated that the model being developed for the study will enable the pension funds' boards and the Commission to evaluate the funds' performance by the standards that the funds have established. This information is important to Minnesota taxpayers since they may have to make up for poor investment performance by the pension funds. The State Auditor's Office will also use the model on 1992 investment information supplied by volunteer fire relief associations for any relief association that is not primarily invested in cash, certificates of deposit or money markets. Ms. Rotenberg continued with her testimony and noted that the study is tentatively scheduled for completion in mid-February. Discussion followed.

Rep. Knickerbocker noted that the state has set only general investment standards in statute and permits a relief association to make investments that the relief association feels are in the best interests of their members. If the association is satisfied with their results, what does the Commission plan to do with the information obtained from the State Auditor's Office. He went on to say that the Commission is raising concern in the volunteer fire community with the interim study of the establishment of a statewide emergency services plan and the State Auditor's Office is raising concern by hiring a consultant to look at investment performance. Discussion followed. Ms. Rotenberg stated that Mike Stolte, the State Auditor's consultant, would be available at the next Commission meeting to describe the investment model.

Rep. Johnson brought up his concern with the Commission's oversight responsibility in light of the Legislative Audit Commission's review of MERF. He would like to have a Commission hearing to air everyone's views on what should be the scope and mission of the LCPR. Sen. Pogemiller questioned how an outside auditor will investigate whether a legislative commission had adequately met its responsibilities? Sen. Riveness stated that he is interested in learning what series of events permitted the MERF situation to occur. Sen. Pogemiller stated that there is a fundamental difference between a legislative role and an administrative role. Discussion followed.

Sen. Stumpf stated that at a previous meeting he had questioned how much of a reduction there had been in the fire premium tax. The response to his question was that in 1992 the reduction was $718,000. He requested that copies of the memo he had received be provided to Commission members.

The meeting adjourned at 11:35 A.M.

Jean Liebgott

Jean Liebgott, Secretary