January 13, 1994 — 17th Meeting
Room 112 Capitol

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 1:45 P.M.

Commission members present:

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

Pension and Early Retirement Incentive Program Eligibility Situation of School Service Employees Union Local 284 President John H. Allers.
Ms. Laurie Hacking, PERA Executive Director, provided members with a handout documenting the chronology of the John Allers issue and reviewed the information in the chronology. She reviewed the recommendations by the PERA Board to eliminate the manipulative capabilities of the current law on this issue. Ms. Hacking testified that currently five labor union employees are covered by PERA. Rep. Reding stated that whatever legislation is enacted for PERA should include MSRS and TRA as well.

Rep. Johnson asked who notified PERA that Mr. Allers 1993 salary was $150,000. Ms. Hacking responded that Judith Allers, the Local 284 payroll person, provided the information that the 1993 salary was $150,000 rather than $83,000.

Sen. Morse asked whether PERA has adequate authority to handle the field audit to verify Mr. Allers salary history. Ms. Hacking responded that PERA does have adequate authority to handle this situation. Sen. Morse further applauded the Richfield School District's decision to refuse one day reemployment for Mr. Allers. Discussion followed regarding the Legislature's former practice of including legislative intent in statute.

Ms. Hacking testified regarding the second item on the agenda and stated that it was the recommendation of the PERA Board that direction be sought from the IRS regarding the privatized public employee issue as PERA does not wish to jeopardize their tax qualification status in any way.

Sen. Morse briefly mentioned that legislation is being drafted that deals with the situation of union officials maintaining pension coverage through a public pension plan.

Senator Steven Morse moved the following resolution:

"Be it resolved by the Legislative Commission on Pensions and Retirement that:
1. it is the sense of the Commission that the legislative intent of the early retirement incentive program enacted as Laws 1993, Chapter 192, Section 108, does not include its extension to former employees who are currently employed by a non-public employer; and
2. the Commission expresses its support of the PERA staff recommendation to deny eligibility for the early retirement incentive program under Laws 1993, Chapter 192, Section 108, in the situation of John H. Allers and recommends that the PERA Board take a similar action."

Adopted unanimously by the members present

Study of Benefit Options For Public Employees Who Become Nonpublic Employees (Second Consideration).
David Bergstrom, MSRS Executive Director, testified that at the last meeting on this issue, he was requested to provide information on private employees covered under public plans. He contacted his Utah counterpart for information since they have researched this topic. Mr. Bergstrom stated that his testimony would cover the definition of a government plan,

some of the tests used by the IRS to determine governmental pension plan qualification, the advantages of retaining public pension plan status, and actuarial work showing the financial ramifications of making the U of M heat plant employees and the Gillette State Hospital employees ERISA qualified plans. Mr. Bergstrom provided members with exhibits 1, 2, and 3 and then reviewed the exhibits. Discussion followed. Sen. Riveness asked Mr. Bergstrom what action he would recommend the Commission take on this issue. Mr. Bergstrom testified that at a minimum no more privatized employees should be permitted to remain in public pension plans and perhaps instead these employees could be immediately vested or provided with a greater deferred annuity. Another possible action would be to ask the IRS for amnesty and invite them to look at the current plans.

Gary Austin, TRA Executive Director, testified that this is a growing problem and TRA expects another non-public group to seek TRA membership this year.

Potential Major General Employee Pension Plan Benefit Accrual Rate Increase (Second Consideration).
Lawrence Martin, LCPR Executive Director, reviewed the background on this topic and stated that the staff memo compares public pension plan benefits with private sector pension benefit trends. Mr. Martin also noted that Mr. Blazer from the Minnesota Chamber of Commerce had declined the Commission's invitation to testify.

Thomas Custis, Milliman & Robertson, Inc., reviewed the actuarial work on the benefit accrual rate increase. Mr. Custis testified that the unfunded actuarial accrued liability would increase by the full benefit increase amount if no contribution, assumption, or other change occurred. Mr. Custis continued with his presentation. Discussion followed. Sen. Riveness noted that testimony on this issue would be taken at the next Commission meeting.

Establishment of a Joint Legislators-Constitutional Officers Retirement Fund (Second Consideration).
Mr. Martin reviewed the staff memo dated November 30, 1993, and the updated actuarial information on this issue. He noted that the current terminal funding method makes funding these plans unpredictable, whereas putting these funds on an actuarial funding basis provides budgeting predictability. Discussion followed regarding combined service annuities providing a windfall for some people and how that is taken into account in actuarial work. Mr. Custis stated that currently no accommodation is made for this in the actuarial assumptions.

Mr. Bergstrom responded to a question regarding how MSRS applies the benefit for a legislator with a benefit accrual rate of 2.5% who changes careers and becomes employed in a higher paying position where his benefit accrues at 1.5%. He testified that MSRS would use the 2.5% accrual rate times the appropriate number of years of service and the 1.5% accrual rate times the appropriate number of years of service and use the sum of those rates times the employees high five average salary.

Sen. Dan Stevens stated that his perspective is that of a registered securities representative and testified that he has introduced a bill to change the Legislator's plan to a defined contribution plan for future legislators. He does not believe that the taxpayers should continue to have to fund this plan. Sen. Riveness noted that the proposal to establish a joint Legislators-Constitutional Officers Retirement Fund does not increase benefits it only provides a method for actuarially funding those plans. Discussion followed.

Study of Teacher Retirement Fund Associations Phase-Out or Consolidation Options (Second Consideration).
Mr. Martin reviewed the staff memo and noted that a technical advisory group has been formed to study the phase-out or consolidation of the first class city teacher plans. He stated that the staff memo provided updated valuation numbers based on the 1993 actuarial valuations. Mr. Martin referred members to page two of the memo which provided baseline actuarial projections of the funding requirements for the first class city teacher plans and TRA.

Rep. Reding asked whether the 1990 reduction in TRA funding by the state caused the increase in the accrued liability for TRA in the projections. Rep. Reding stated that the school districts should be increasing their supplemental contributions. Sen. Riveness asked what was the trigger to increase contributions. Mr. Martin responded that the Legislature sets the contribution rate for TRA. Mr. Custis clarified that the projections Mr. Martin reviewed do not include potential rate increases. Mr. Custis reviewed additional information regarding what the changes in funding last session did for MTRFA and StPTRFA. Discussion followed. Sen. Riveness requested that actuarial projections pertaining to the teacher plans be presented in the same terms as those the Commission looked at last year.

The meeting adjourned at 3:55 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 9:15 A.M.

Commission members present:

Representatives Mindy Greiling, Bob Johnson, Phyllis Kahn, and Leo Reding
Senators Phil Riveness and Roy Terwilliger

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

Myron Stolte, President of Asset Allocations, Inc., began his presentation to update the Commission on the status of the study commissioned by the State Auditor's Office. Mr. Stolte noted that the purpose of the project was to find a way for the Commission to better exercise its oversight responsibilities over the state's pension plans. This will be accomplished by providing a common ground for comparing investment performance of the funds. He provided a four page handout to members and began to review the information.

Rep. Reding asked where real estate fits into the investment performance comparison. Mr. Stolte responded that real estate investments are not homogeneous enough to provide a track record. Sen. Riveness asked how then can the investment performance of a fund that includes real estate assets be fully compared to funds that do not include real estate. Mr. Stolte responded that there are some real estate indices but experts are not comfortable with them yet due to the volatility of real estate. Rep. Reding stated that more and more defined contribution plans are being created and in light of Executive Life and the junk bond problem, how can defined contribution plan members be protected. Mr. Stolte responded that it is a problem. Many defined contribution plan members look at risk factors and shorter timeframes and do not get as involved in equities as defined benefit plans do and therefore accumulate smaller retirement incomes. Discussion followed.

Mr. Stolte continued with his presentation. He testified that the Commission should be concerned with the asset investment process of the funds, what the funds are attempting to do, and how well the funds are doing. Mr. Stolte then updated the Commission on the status of the project involving the first class city teacher plans. He testified that the funds . are having difficulty reconstructing data for the ten year period. He further stated that the funds should have a targeted policy mix rather than a policy range. Discussion followed. Sen. Riveness stated that as a result of information the Commission has heard on this issue, he believes that specific investment policies should be required for public pension funds in statute.

Mark Dayton, State Auditor, requested reaffirmation of the Commission's support for this project. He stated that the first class city teachers funds have been reluctant in their cooperation to assure the completion of this project in a timely manner. Sen. Riveness reaffirmed the Commission's total support for this project and its timely completion. Discussion followed.

Karen Kilberg, MTRFA Executive Director, testified that the timeline for this project has been difficult to comply with partially due to the difficulty in recreating information that was lost in the 1986 Norwest Bank fire.

Eugene Waschbusch, StPTRFA Executive Secretary, agreed that the timeline has been difficult to comply with and also felt that compliance with this project is requiring a duplication of information for StPTRFA.

J. Michael Stoffel, DTRFA Executive Secretary, testified that gathering the data has been difficult and getting it to comply with Mr. Stolte's format has also been difficult.

Rep. Kahn asked how this process could be made easier in the future. Mr. Waschbusch responded that future compliance will not be a problem. The problem this time was in gathering past information.

Total Rate of Return Investment Performance Results of Statewide and Larger Local Public Pension Plans.

Edward Burek, LCPR Deputy Executive Director, reviewed the staff memo on this issue. Mr. Burek began by briefly reviewing the benchmarks that could be used by public pension plans for investment performance comparison purposes. He noted that the memo now shows annual, two year annualized, and three year annualized returns where appropriate. Mr. Burek referred members to Table 14 on page 36 of the memo and noted that all of the public plans included in the investment performance results have underperformed the TUCS Median Balanced Fund and the Composite Fund benchmarks for the three year annualized returns. Mr. Burek noted that if ten billion dollars of SBI's assets underperformed the TUCS by 1/2% it would amount to $50 million. Discussion followed.

Mr. Burek referred members to Table 4, the Miscellaneous Asset Class table for Non-Public Safety Plans. He suggested that the Commission may at some point want MTRFA to do a presentation on their Miscellaneous Asset Classes to enable members to have a better insight into MTRFA's real estate investments.

Mr.Burek reviewed the police and paid fire asset class tables and noted specifically the South St. Paul Police real estate portfolio in the Miscellaneous Asset Class Table. He stated that he is concerned about the real estate portfolio because South St. Paul Police has indicated that real estate comprises 20% of their assets and they are carrying real estate at cost for investment reporting purposes. Rep. Reding stated that he thought legislation passed requiring real estate to be reported at market value. Mr. Burek stated that Rep. Reding was correct but the pension funds are saying that they do not have real estate market value information and the best they can do is report it at cost or not report it at all.

Some of the issues Mr. Burek raised for volunteer fire relief associations were that data quality is still a problem and assets continue to be misclassified. This causes the returns to be erroneous. He noted that investment performance under 5% requires additional municipal contributions to the pension plans.

Mr. Burek concluded his report with a review of the compliance problems.

Rep. Johnson briefly updated members on the deferred compensation issue and stated that he will be introducing legislation.

The meeting adjourned at 11:30 A.M.

Jean Liebgott

Jean Liebgott, Secretary