



March 17, 1994
Room 318 Capitol

22nd 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 6:45 P.M.

Commission members present:

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

1. S.F. (); H.F. 2017 (Johnson, R): Deferred Compensation Plan; Various Revisions

Rep. Johnson presented a section-by-section review of a delete everything amendment to the bill.

David Bergstrom, MSRS Executive Director, testified that he had spent 1-1/2 years reviewing the Deferred Compensation Plan after becoming the MSRS Executive Director. In November, 1992, the MSRS Board approved hiring a consultant to assess and recommend changes to the Deferred Compensation Plan, in March, 1993 MSRS hired Gabriel, Roeder, Smith as the consultant, and in July, 1993 the consultant reported to the MSRS Board and the Board authorized Mr. Bergstrom to renegotiate the contracts. He is concerned with the bill's addition of insurance companies, as the investment products offered may be duplicative, it may add confusion by providing fifty to eighty additional investment options, and it would increase administrative costs. Mr. Bergstrom's second concern is with the creation of an Advisory Council as he feels that the MSRS Board is already serving that purpose. Rep. Johnson commented on Mr. Bergstrom's testimony. Mr. Bergstrom went on to suggest technical changes to the bill.

A quorum was present.

Rep. Johnson referred members to the last line of a letter dated February 16, 1994, from National Benefits, Inc. to Dave Bergstrom in which Mr. Bye stated "Further, our understanding is that no other legislative changes to the deferred compensation program will be sought or supported by you and the MSRS Board this year." Discussion followed and Rep. Johnson stressed that the deferred compensation contract currently being negotiated would extend for five years. Discussion followed.

Howard Bicker, State Board of Investment, testified that after extensive discussion it was determined that deferred compensation participants would be better off if the current contracts were renegotiated. The goal of renegotiation is to provide participants with the portability, mutual funds, and flexibility they do not currently have. Rep. Kahn questioned the length of the contract being negotiated. Mr. Bicker responded that the contract would be in effect for five years. Discussion followed.

Rep. Johnson offered the following amendment which included Mr. Bergstrom's suggestions:

Page 5, line 4, delete "the most" and insert "a"

Page 7, line 4, delete "state board of investment and the"

Page 7, line 35, delete "bases" and insert "basis"

Page 8, line 18, after "director" insert "of the Minnesota state retirement system or the state board of investment, whichever applies".

Page 10, line 1, delete "without further action by the state board of investment."

Rep. Johnson moved the verbal amendment offered above. **MOTION PREVAILED.**

Rep. Johnson moved the H2017A3 delete everything amendment as amended. **MOTION PREVAILED.**

Rep. Johnson moved H.F. 2017 as amended. **MOTION FAILED.**

11. S.F. 2060 (Solon); H.F. 2299 (Huntley): Duluth Fire; Definition of Salary for Service Pension Calculation Purposes

Sen. Solon briefly reviewed this bill and testified that it redefines salary to include payments mandated for a regular work week in conformance with the Fair Labor Standards Act of 1937. The bill is retroactive to January 31, 1992, and does not have city approval.

Gene Rainieri, representing the City of Duluth, testified in support of this bill.

Lawrence A. Martin, LCPR Executive Director, reviewed the staff memo and testified that this bill redefines salary to include mandatory standard overtime. Discussion followed.

Mike Stockstead, Minnesota Professional Firefighters Association, testified that overtime in excess of 53 hours per week is not unique to Duluth but a 1992 total package negotiated settlement is unique to Duluth. Discussion followed.

Mr. Martin also reviewed amendment LCPR94-72 and stated that the amendment clarifies the bill and makes conforming changes to the consolidation law.

Sen. Pogemiller moved approval of amendment LCPR94-72. **MOTION PREVAILED.**

Sen. Pogemiller moved approval of S.F. 2060; H.F. 2299 as amended. **MOTION PREVAILED.**

15. S.F. 2180 (Kroening); H.F. 2420 (Rice): Minneapolis Fire; Surviving Spouse Benefit Increase
Rep. Rice reviewed this bill and testified that it expands eligibility for a surviving spouse benefit. He requested an amendment to page 1, line 23, strike "one year" and insert "five years."

Sen. Pogemiller moved approval of the author's amendment LCPR94-83. **MOTION PREVAILED.**

Mr. Martin reviewed the conforming amendment LCPR94-84.

Sen. Pogemiller moved approval of amendment LCPR94-84. **MOTION PREVAILED.** Discussion followed.

Rep. Kahn moved S.F. 2180; H.F. 2420 as amended. **MOTION PREVAILED.**

16. S.F. 2240 (Pogemiller); H.F. 2512 (Sarna): Minneapolis Police; Level Service Pension and Surviving Spouse Benefit Increase
Rep. Rice testified in support of this bill.

Sen. Pogemiller moved approval of the author's amendment LCPR94-85. **MOTION PREVAILED.**

Sen. Pogemiller moved approval of a conforming amendment LCPR94-86. **MOTION PREVAILED.**

Mr. Martin reviewed the bill and stated that it extends the same surviving spouse benefit change reviewed previously for the Minneapolis Fire to the Minneapolis Police Relief Association and also provides a level formula to calculate the Minneapolis Police benefit.

Gerald Bridgeman testified that this bill extends the same level benefit formula passed last session for Minneapolis Fire to Minneapolis Police.

Sen. Pogemiller moved S.F. 2240; H.F. 2512 as amended. **MOTION PREVAILED.**

9. S.F. 2316 (Metzen); H.F. 1651 (Reding): SBI; Various Fund Management Modifications
Sen. Metzen testified in support of this bill and requested that Howard Bicker review the bill.

Howard Bicker, State Board of Investment, reviewed the bill and testified that it adds an International Investment Account to the Supplemental Investment Fund, it increases the asset base charge in the Supplemental Investment Fund for deferred compensation participants, it makes a technical change to the postretirement investment formula, it makes a technical change to how SBI invests in bank funds, it reinstates the board's ability to buy non-rated or below investment grade debt with restrictions, it clarifies the mortgage and asset-backed

security category, it clarifies SBI's authority to invest in REITs, it removes international investments from the 5% cap, and it permits SBI to provide a pool of GIC's rather than the current three year GIC. Discussion followed.

Mr. Martin briefly reviewed technical amendment LCPR94-78.

Rep. Johnson asked for language to eliminate the unclassified employees and others from being charged the increased asset base charge being requested for deferred compensation participants. Mr. Bicker assured him that this would be addressed.

Rep. Kahn requested language requiring SBI to report non-rated and below investment grade debt investments to the legislature on page 15, after line 13.

Mr. Martin read the amendment as follows:

Page 15, after line 13, add new section 16

"Annually the executive director of the State Board of Investment shall report to the 1995 Legislative Commission on Pensions and Retirement on any investments that it made under Minnesota Statutes, Section 11A.24, subdivision 3, paragraph b. The report must be made in conjunction with the regular annual report of the state board of investment."

Rep. Kahn moved approval of the verbal amendment above. **MOTION PREVAILED.**

Rep. Kahn moved approval of amendment LCPR94-78. **MOTION PREVAILED.**

Sen. Stumpf moved approval of S.F. 2316; H.F. 2651 as amended. **MOTION PREVAILED.**

2. S.F. 2171 (Moe); H.F. 2402 (Johnson, R.): Fire State Aid; Inclusion of Red Lake Indian Reservation in Aid

Rep. Johnson reviewed the background on this bill and amendment LCPR94-78.

Rep. Johnson moved approval of amendment LCPR94-78. **MOTION PREVAILED.**

Rep. Johnson moved approval of S.F. 2171; H.F. 2402 as amended. **MOTION PREVAILED.**

12. S.F. 2210 (Kelly); H.F. 2296 (McGuire): St. Paul Ramsey Hospital; Pension Coverage on Change of Corporate Status

Sen. Kelly reviewed and provided background on this bill. He noted that 640 employees would be affected by this change and offered an unnumbered legal paper amendment to this bill. Discussion followed.

Laurie Fiori Hacking, PERA Executive Director, testified that PERA intends to request an IRS ruling on the tax qualification status of these employees. Discussion followed.

Mr. Martin reviewed technical corrections to the unnumbered amendment.

Rep. Johnson moved approval of the unnumbered legal paper amendment as changed. **MOTION PREVAILED.**

Rep. Johnson moved approval of S.F. 2210; H.F. 2296 as amended. **MOTION PREVAILED.**

10. S.F. 2276 (Pogemiller); H.F. 2670 (Kahn): PERA-P&F; Addition of Hennepin County Paramedics

Rep. Kahn reviewed the background and bill.

Lowell Thompson, Vice President of the Hennepin County Association of Paramedics and EMTs, provided background and testified in support of this bill. He noted that they are the only governmental subdivision paramedics that are not members of PERA-P&F. Hennepin County Paramedics are members of the PERA Coordinated Plan as are seven other paramedics who are employed by non-profit corporations. Discussion followed.

Ms. Hacking testified that if Hennepin County was added to PERA-P&F and employees wanted a combined service annuity, their benefit formula would be computed using the 1.5 multiplier for their coordinated service credit.

Dave Johnson, representing the Hennepin County Board of Commissioners, testified that the board does not oppose the bill if it contains a local approval clause.

Mr. Martin reviewed amendment LCPR94-70 and stated that it clarified the language in the bill and changed the effective date.

Rep. Kahn moved approval of amendment LCPR94-70. **MOTION PREVAILED.**

Larry Christopherson, St. Paul Firefighter, testified in opposition to permitting small groups into PERA-P&F.

Roy Krushenski, President of the PERA-P&F Association, testified in opposition to this bill. Discussion followed.

Mike Stockstead, Minnesota Professional Firefighters Association, testified in support of this bill.

Rep. Kahn moved approval of S.F. 2276; H.F. 2670 as amended. **MOTION PREVAILED.**

14. S.F. 2498 (Stumpf); H.F. 2698 (Reding): Higher Education Systems; Pension Coverage Following Merger

Sen. Stumpf stated that the bill pertained to the pension coverage of employees following a merger. He referred members to amendment LCPR94-91.

Mr. Martin reviewed the amendment and stated that after the first page, it is primarily a technical amendment. He testified that the employees covered by this bill are generally PERA or TRA covered employees and that the first page of this amendment clarifies the procedure that would permit them to retain their current coverage or to elect to become MSRS-General employees after a merger.

Sen. Morse moved approval of amendment LCPR94-91. **MOTION PREVAILED.**

Mary Stanton, State University System, testified that following the merger new employees would be members of MSRS and the IRAP plan would be administered by the Higher Education Board.

Gene Mammenga, Community Colleges, testified regarding the early separation incentive section of the bill. He commented that the Higher Education Board has worked to minimize displacement of people but there will be displacement of administrative people in the central office and in five or six co-located college campuses.

Rep. Johnson questioned whether these incentives apply to all employees or just administrators and faculty. Ms. Stanton testified that the intention was to include all employees.

Ms. Hacking referred members to page 5, lines 3 to 15, and testified that if PERA covered employees were intended to be included, they should be referenced.

Rep. Reding questioned whether MSRS and TRA employees were included. Mr. Mammenga responded that the intention was to include everyone but since there was not going to be any reduction in physical properties, janitorial and maintenance positions were not being jeopardized. Sen. Stumpf stated that the key language is on page 3, line 11, where it states which positions will be eliminated. Discussion followed. Mr. Martin suggested referencing eligible employees on page 5, lines 7 and 11.

Ms. Stanton continued her review of the remaining sections of the bill. Ms. Stanton testified that on page 14, line 12, the year 1995 should be deleted and 1994 should be inserted at the request of the Attorney General. Discussion followed.

Mr. Mammenga suggested that the early retirement incentives allow a five year purchase of service at full actuarial value rather than two years and be effective in 1994 rather than 1995. Discussion followed.

Eugene Waschbusch, St. Paul Teachers Retirement Fund Association, testified that the early retirement incentives and the part-time teaching options are not contained in the IRAP Administrative bill referenced earlier. If St. Paul Teacher members are intended to be

included in these options, they should be added to this bill.

Gary Austin, Teachers Retirement Association, questioned whether the five year purchase of service would be at full actuarial value. Mr. Martin stated that the bill as currently written provides for two years of service with payment of the member contribution plus interest. It was agreed that the intention was to require full actuarial value for all purchases of service.

Rep. Johnson moved approval of a handwritten amendment as follows:

Page 5, line 3, delete "Teachers' retirement association members" and insert "eligible employees"

Page 5, lines 7 and 11 delete "section" and insert "sections 352.04, 353.27" and after "354.42" insert "or 354A.12, whichever applies"

Mr. Martin reviewed the full actuarial value language for a two year purchase of service. Discussion followed and members agreed to change two years to five years on page 1, line 4, and page 4, line 36.

Sen. Stumpf moved approval of the handwritten amendment offering the purchase of 5 years of service rather than 2 years at full actuarial value. **MOTION PREVAILED.**

Mr. Martin reviewed an additional amendment dealing with the obligations that might be incurred that may need to be dealt with in the future by the Higher Ed Board.

Sen. Stumpf moved approval of this additional amendment. **MOTION PREVAILED.**

Sen. Stumpf moved approval of S.F. 2498; H.F. 2698 as amended. **MOTION PREVAILED.**

5. S.F. 1908 (Morse); H.F. 2013 (Johnson, R): Various Plans; correction of 1993 Early Retirement Incentive Program Omissions

Rep. Johnson reviewed the background and stated that this bill would correct the inadvertent omission of charitable hospitals from the 1993 early retirement incentive program. This bill also extends the early retirement incentive program to eligible elected local government officials.

Ms. Hacking testified that PERA sent notices of the early retirement incentive program broadly as they were uncertain which local units of government would choose to offer the discretionary incentive options. Discussion followed. Ms. Hacking requested that the bill be amended as a hospital is expected to close May 1.

Rep. Johnson moved approval of the verbal amendment to page 1, line 24, delete "May 15" and insert "April 30." **MOTION PREVAILED.**

Rep. Johnson moved approval of S.F. 1908; H.F. 2013 as amended. **MOTION PREVAILED.**

6. S.F. 1801 (Morse); H.F. 1921 (Johnson, R.): TRA; Benefits Improvement and Actuarial Assumption Change

Sen. Morse reviewed the bill and testified that it provided a permanent benefit increase for TRA from 1.5% to 1.7% for coordinated members and from 2.5% to 2.7% for basic members. The benefit increase is paid for by increasing the employee contribution rate and by reducing the salary assumption from 6.5% to 6%. Rep. Johnson briefly reviewed amendment LCPR94-88 which eliminates the change in salary assumption and increases the employee contribution rate.

Mr. Austin agreed that the increase in the employee contribution rate will fully fund the benefit increase and the amendment agrees with information he received from the TRA actuary.

Rep. Johnson moved approval of amendment LCPR94-88. **MOTION PREVAILED.**

Rep. Reding spoke in opposition to this benefit improvement without full funding.

Bob Gunderson, Minnesota Federation of Teachers, testified that MFT members prefer a 50/50 split in cost between the employee and employer.

Sen. Morse commented that older teachers retiring within the next five years will receive a

windfall benefit while new members will be paying for that benefit for several years to come. Discussion followed.

Cheryl Furrer, MEA, testified in support of the bill and stated that MEA initiated this bill.

Hank Stankiewicz, MEA, testified in support of the bill and stated that 80% of their members, regardless of age group, support this bill. The bill also moves the percentage increase from 4.5% to 6.5% of payroll which is comparable to the average amount teachers contribute in the United States. Discussion followed. Sen. Riveness stated that he would ask the LCPR actuary to validate the TRA actuarial numbers.

Rep. Johnson moved approval of S.F. 1801; H.F. 1921 as amended. **MOTION PREVAILED.**

4. S.F. 1860 (Riveness); H.F. 2124 (Kahn): IRAP; Administrative Bill

Rep. Kahn presented the bill.

Ms. Stanton, State University System, testified that the overriding theme of the bill was a proposal to allow the technical college faculty the opportunity to elect IRAP as their retirement plan.

Mr. Martin reviewed amendment LCPR94-48 which includes IRAP in the MSRS, PERA, and TRA erroneous deductions and contributions transfer provisions.

Rep. Kahn moved approval of amendment LCPR94-48. **MOTION PREVAILED.**

Ms. Stanton continued her review. Sen. Morse asked what happens with contributions for non-vested technical college employees. Ms. Stanton testified that neither employer nor employee contributions will transfer from TRA to IRAP. Discussion followed.

Mr. Austin testified that TRA does not object to transferring employee contributions for non-vested employees.

Rep. Reding reviewed an unnumbered amendment that would reinstate the 300 hour threshold for full time service, would permit certain TRA members to switch to IRAP, and other provisions.

*Mr. Austin testified regarding section 12 and stated that it is necessary for TRA to continue to receive the employer additional contribution. He testified that if TRA does not receive the employer additional contribution for members switching to IRAP, the K-12 teachers will be subsidizing the college faculty.

Rep. Kahn moved an amendment to page 2, striking lines 3 through 18. **MOTION PREVAILED.**

Rep. Reding moved approval of his unnumbered amendment as amended. **MOTION PREVAILED.**

Ms. Furrer testified that MEA is concerned about the impact this amendment might have on TRA.

Rep. Johnson reviewed amendment H2124A1. Rep. Johnson moved approval of amendment H2124A1. **MOTION PREVAILED.**

Rep. Kahn reviewed amendment SA94-257 and requested that on page 3, line 18, delete "24 months." and insert "120 days."

Robert C. Booker, Minnesota State Arts Board, testified in support of SA94-257.

Dave Johnson testified in support of SA94-257 as it would provide IRAP coverage as an option to other professional employees.

Rep. Johnson did not support this amendment because he did not see the need for portability for this group

Dave Johnson testified that the amendment would provide recruitment and retention tools.

Ms. Furrer testified that she was not prepared to support the amendment without a discussion of the issues at MEA.

Mr. Martin reviewed the handwritten amendment regarding the transfer of contributions.

Rep. Kahn moved approval of the handwritten amendment. **MOTION PREVAILED.**

Rep. Kahn moved approval of SA94-257 as amended. **MOTION FAILED.**

Rep. Kahn moved approval of S.F. 1860; H.F. 2124 as amended. **MOTION PREVAILED.**

Sen. Riveness reviewed amendment LCPR94-49, regarding investment performance disclosure, and stated that he would offer it as an amendment to S.F. 1641; H.F. 1778 when that bill comes up before the Government Operations Committee.

Rep. Johnson moved approval of amendment LCPR94-49. **MOTION PREVAILED.**

The meeting adjourned at 12:20 A.M.


Jean Lieb Gott, Secretary

- * The tape player malfunctioned at this point in the meeting. The conclusion of the meeting is not on tape.

