



March 15, 1995
Room 10 State Office Building

5th Meeting



LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Representative Richard Jefferson, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 6:11 P.M.

Commission members present:

Representatives Jeff Bertram, Richard Jefferson, Bob Johnson, Phyllis Kahn, and Steve Smith
Senators Steven Morse, Lawrence Pogemiller, Phil Riveness, LeRoy Stumpf, and Roy Terwilliger

8. H.F. 829 (Carlson); S.F. 862 (Reichgott Junge): Volunteer Fire; Crystal, New Hope Volunteer Fire Consolidation

Lawrence A. Martin, LCPR Executive Director, reviewed the background and policy issues on this bill. He referred members to the addendum to the staff memo which provided an update on the funded condition of the two plans. He noted that this is a new issue for the Commission to deal with, a defined benefit plan converting to a defined contribution plan, authorized in statute, with a specific conversion process specified. Mr. Martin noted that this bill does have local approval.

Rep. Carlson testified in support of this bill and noted that the two cities involved initiated the idea of consolidating the two fire departments. He introduced the large delegation that accompanied him in support of this bill, Bob Long (Assistant City Attorney for Crystal), Steve Longacre (President of the Crystal Volunteer Firefighters Relief Association), Theodore Ink (New Hope City Council), Ken Donahue (New Hope City Manager), Jerry Jocelyn (Crystal City Council), Gary Dahlberg (Crystal City Manager), and Doug Smith (New Hope Director of Fire Safety).

Mr. Martin reviewed amendment LCPR95-63 which specified that the cities are mandated to create a Special Fund for receipt of the tax money to fund pension benefits.

Rep. Jefferson moved amendment LCPR95-63. **MOTION PREVAILED.**

Mr. Martin reviewed an author's technical amendment, LCPR95-66, supplied by the Crystal City Attorney.

Rep. Jefferson moved amendment LCPR95-66. **MOTION PREVAILED.**

Rep. Kahn stated that this policy should be made available throughout the state.

Rep. Johnson questioned the language on page 6, lines 17 to 23, which permits the top 25% of insurance companies to provide annuities for the consolidated relief association. Mr. Martin responded that this is boilerplate language from current statutes in volunteer firefighter law. Discussion followed.

Sen. Stumpf questioned whether the benefit level of \$3,000 for Crystal is the maximum benefit allowed by law. Mr. Martin responded that the current maximum is \$3,750 and will be increased to \$4,000 by the end of the year.

Sen. Pogemiller questioned the current funding deficit for New Hope and how that will be addressed. Bob Long responded that the City of New Hope is aware of the deficiency and will make up the \$400,000 funding deficit. Sen. Pogemiller stated that since the consolidation of these funds is a prototype, he would prefer that the requirement that consolidating funds be fully funded prior to consolidation be written into the legislation.

Sen. Riveness questioned how \$1,811 was arrived at and how that projected benefit compares with the \$3,000 per year of service. Kevin McGinty, Crystal fire chief, responded that it was difficult to determine the amount needed in a defined contribution plan to equal the \$3,000 per year of service current benefit. Deloitte and Touche calculated the \$1,811 amount. It was expected that it would be a benefit improvement for the Crystal and New Hope firefighters. It was also expected that Crystal's annual contribution would decrease with the consolidation. Discussion followed.

Sen. Morse moved to amend H.F. 829, Page 8, line 4, delete "\$3,000" and insert "full year of prior service".

Rep. Kahn moved H.F. 829 as amended. **MOTION PREVAILED.**

1. **H.F. 99 (Brown); S.F. (): PERA; Service Credit Purchase By Swift County Employee**
Rep. Jefferson noted that Rep. Brown has requested that this bill be delayed.
5. **H.F. 617 (Johnson, R.); S.F. 561 (Stumpf): TRA; Administrative and Other Provisions**
Edward Burek, LCPR Deputy Executive Director, reviewed the staff memo and a technical amendment, LCPR95-59, on this bill.

Sen. Stumpf noted that administrative bills were required to be pre-reviewed by Commission staff between October 15, and November 30, 1994, and he believes that this requirement was helpful to the process.

Sen. Stumpf moved approval of LCPR95-59. **MOTION PREVAILED.**

Sen. Stumpf reviewed amendment SCS0561A-1. He testified that this amendment was in response to a constituent for whom special legislation was passed last session. The amendment provided for 6% interest compounded annually for the past benefits provided in last session's legislation.

Gary Austin, TRA Executive Director, testified that 6% interest is the current interest TRA pays and that the interest would amount to approximately \$5,000. Discussion followed.

Rep. Kahn stated that this was the late notification bill the Commission recommended last session and she believes the merit of the original bill was somewhat marginal.

Rep. Johnson stated that he also had concerns regarding this amendment.

Sen. Riveness suggested that Sen. Stumpf withdraw this amendment since Commission members seemed to be inclined to fail it.

Rep. Jefferson suggested that if Sen. Stumpf planned to offer this amendment at another time, he should amend Page 2, line 8, by deleting the second "and".

Sen. Riveness asked Mr. Austin if he or the other fund directors had done any research on the issue of the potential for a member to repay a partial refund. Mr. Austin responded that he would get back to Sen. Riveness on this issue.

Rep. Johnson offered LCPR95-47 and noted that this amendment would require a person who returned to public pension covered service to work for 85 days before the person would be eligible for benefit improvements that occurred subsequent to their previous public employment. Rep. Johnson moved to amend Page 2, line 5, of the amendment, delete "may" and insert "shall" and on line 19 insert "July 1, 1995" for the effective date. **MOTION PREVAILED.** Discussion followed.

Rep. Johnson reviewed an unnumbered amendment prepared by TRA dealing with inclusion of the use of the 1994 increased accrual rate in the TRA combined service annuity provisions.

Mr. Austin testified in support of this amendment.

Mr. Burek noted that this provision was part of the draft administrative bill. He had commented on the provision in his response to the administrative bill and TRA removed it, now it has been brought back as an amendment. Discussion followed.

Sen. Pogemiller questioned whether the provision regarding the salary definition was still in this bill. Mr. Austin answered affirmatively and testified that this provision removed employer contributions to deferred compensation and tax-sheltered annuities from the employees high five salary.

The amendment and bill were laid over due to the lack of a quorum.

When a quorum was present, Rep. Johnson renewed his motion on the unnumbered amendment to H.F. 617; S.F. 561 to include the 1994 TRA increased accrual rate for combined service annuities retroactive to May 16, 1994. Mr. Austin stated that this would apply

retroactively to 14 people and would cost \$22,000. Discussion followed. **MOTION PREVAILED.**

Sen. Stumpf moved S.F. 561; H.F. 617 as amended. **MOTION PREVAILED.**

6. **H.F. (); S.F. 767 (Stumpf): MSRS; Administrative and Other Provisions**
Mr. Burek reviewed the staff memo and amendment LCPR95-58. He noted that the amendment deletes the sections of the bill that MSRS requested be deleted.

Sen. Stumpf moved amendment LCPR95-58. **MOTION PREVAILED.**

Mr. Burek reviewed amendment LCPR95-62 and noted that the amendment was the result of the working group on salary. Sen. Pogemiller asked staff to provide a memo on this amendment since it was larger than the bill. Sen. Stumpf testified that he believes the amendment is non-controversial but he temporarily withdrew LCPR95-62.

Sen. Stumpf moved amendment LCPR95-58. **MOTION PREVAILED.**

Sen. Stumpf moved S.F. 767 as amended. **MOTION PREVAILED.**

2. **H.F. 463 (Johnson, R.); S.F. 189 (Morse): State Patrol; Benefit Accrual Rate and Contribution Increase**

Mr. Martin reviewed the staff memo and technical amendment, LCPR95-45. He noted that this bill would increase the State Patrol member contribution from 8.5% to 8.65%, the employer contribution would increase from just under 15% to 15.3%, and the benefit accrual rate would increase from 2.5% to 2.65%. Mr. Martin then reviewed the policy issues, the actuarial condition of the plan, and the cost of this benefit improvement.

Sen. Stumpf questioned why the employer contribution for this benefit improvement is three times greater than the employee contribution. Rep. Johnson stated that he has an amendment that would reduce the employer contribution from 15.30% to 15.15%.

Dave Bergstrom, MSRS Executive Director, testified that this bill would provide the State Patrol with the same benefit increase provided to PERA-P&F in 1993 and would provide equity between the plans.

Dennis Olson, President of the Troopers Association, testified that the cost of this bill for the department would be \$100,000. Most of it would come out of the highway fund although a small portion would come from the general fund to be used for Capitol Security. This bill does have the support of the Chief.

Sen. Morse questioned why the benefit increase is not a 40/60 split. Mr. Bergstrom testified that the split is 40/60 of the normal cost. Mr. Martin provided background on this issue.

Rep. Johnson moved amendment LCPR95-45. **MOTION PREVAILED.**

Sen. Morse moved to amend Page 1, line 11, delete "8.65" and insert "8.92" and delete Section 2. **MOTION PREVAILED.**

Sen. Pogemiller questioned the parity issue. Mr. Olson testified that recent arbitration decisions stated that bargaining unit 201 should be compared to the Stanton 5 group, suburban departments in the metropolitan area. DOER agreed, studied the compensation of all departments in that group, and came up with a list of disparities, some of which will be handled during collective bargaining and some require legislative action. Mr. Olson further testified that a four year trooper makes 21% less than the average Stanton 5 trooper and that PERA-P&F members make smaller employee contributions to their pension plans but have better benefits than state troopers. This causes problems in recruiting experienced candidates.

Sen. Pogemiller questioned the windfall for troopers that would be retiring soon without contributing much to their increased benefits and suggested making the benefit increase prospective only. Mr. Martin stated that if members did make the benefit increase prospective, the sufficiency in the State Patrol plan might cover the cost without an increase in the employee contributions. Discussion followed and Commission members expressed an interest in studying the windfall after benefit increases issue during the interim.

Rep. Johnson moved H.F. 463 as amended. **MOTION PREVAILED.**

3. **H.F. 923 (Johnson, R.); S.F. 766 (Metzen): MSRS-Correctional; Benefit Accrual Rate and Contribution Increase**

Mr. Martin reviewed the staff memo and noted that this bill provides essentially the same benefit change as the State Patrol requested in the previous bill. He referred members to the addendum which provided the actuarial results of the benefit increase. Mr. Martin noted that the benefit improvement is not as great as the improvement provided to the State Patrol plan and that the increase in employer and employee contributions more than pays for the benefit increase.

Sen. Riveness asked how the bill to expand the Correctional plan membership would affect funding of this benefit improvement. Rep. Johnson stated that he is currently holding the bill to expand the Correctional plan membership pending resolution by the bargaining units on the appropriate employee positions to be included in Correctional plan membership.

Mr. Martin reviewed technical amendment LCPR95-44.

Rep. Johnson moved amendment LCPR95-44. **MOTION PREVAILED.**

Sen. Riveness asked whether the Correctional plan employees were prepared to fund the benefit increase in this bill wholly with employee contributions. Mr. Bergstrom testified that the member contribution would increase from 4.9% to 5.76% if the benefit increase was funded totally by member contributions.

Tom Beer, AFSCME, testified in support of H.F. 923 if the cost of the benefit increase is shared by the employer and employee. If the cost is not shared, AFSCME would not support the bill.

Gary DeNault, Executive Director of the Middle Management Association, also testified in support of the shared cost of the benefit increase and in opposition to the employee bearing the whole cost. Discussion followed.

Sen. Morse commented that the Correctional plan is not close to the 60/40 funding split that PERA-P&F has or that the State Patrol is getting close to achieving. He further commented that the Correctional plan employer contribution could totally fund this benefit increase and still not achieve 60% of the plan funding. Discussion followed.

Rep. Johnson withdrew H.F. 923 as amended.

4. **H.F. 995 (Johnson, R.); S.F. 863 (Morse): Police State Aid; Establishing Excess Police State Aid Amortization Aid Program**

Mr. Martin reviewed the staff memo and policy issues on this bill.

Sen. Morse asked how the excess police state aid began to go to the general fund. Mr. Martin responded that it probably was appropriated in the state departments bill last session. Sen. Morse stated that the excess police state aid was part of a dedicated fund and should be used to reduce the unfunded accrued liability of police relief associations. He further stated that he agreed with the fourth policy issue reviewed by Mr. Martin regarding setting the aid allocation based on the most recent level of unfunded accrued liability and how that might lead to less municipal concern with policies that might increase the unfunded liability. To counteract that potential occurrence, Sen. Morse suggested freezing the aid allocation at the current unfunded accrued liability level.

Sen. Pogemiller suggested using the excess state aid to reduce the unfunded liabilities of other poorly funded plans such as some of the teacher plans.

Dick Nelson, MN Police Pension Council, testified in support of the bill and noted that this new aid program would not begin until 1997. Discussion followed.

Sen. Morse stated that the Commission should review the excess police aid issue and withdrew the bill until members could get further information on the issue.

The meeting adjourned at 9:50 P.M.


Jean Liebgott, Secretary