



March 22, 1995
Room 10, State Office Building

6th 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 6:30 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

- H.F. 997 (Delmont); S.F. (): Legislative Commission; Abolishing Commissions; Reallocating Charges For Actuary Retained by the Pension Commission**
Rep. Jefferson noted that due to information received the day before this meeting regarding this bill's ramifications for the Pension Commission, it was added to this agenda.

Rep. Delmont testified that this bill is the result of a taskforce established by House Leadership to investigate potential efficiencies among Legislative Commissions. The taskforce recommended that the pension funds cost for the annual actuarial valuations be increased from 72% to 100%. This bill has passed out of the Government Operations Committee with the agreement that the Pension Commission members would be permitted to offer amendments.

James Hacking, MERF Executive Director, provided a handout and stated that he was speaking on behalf of the fund administrators of the affected funds. Mr. Hacking referred members to the handout and provided background information on the relationship between the fund administrators, the Commission, and the Commission-retained actuary since 1985. He testified in support of the current arrangement and testified that the proposal in H.F. 997 would shift costs from the General Fund to the pension funds. He testified that the proposal in H.F. 997 may result in actuarial costs escalating out of the control of the pension funds that must pay those costs.

Rep. Johnson testified in support of the current system of allocating the costs of the Commission actuary and against requiring the pension funds to pay 100% of the cost of the Commission-retained actuary.

Rep. Kahn testified in support of H.F. 997 since the demands on the General fund are great and she believes this change is appropriate.

Sen. Riveness testified in support of the current system of allocating the costs of the Commission actuary.

Rep. Delmont testified that he brought this bill before the Pension Commission believing that there was no opposition to the bill but simply to permit the Commission to amend the bill by setting up a body that would control the cost allocation of the Commission-retained actuary. Rep. Delmont clarified that the amendment passed by the Government Operations Committee would require the pension funds to pay 100% of the total charges for the Commission-retained actuary. Discussion followed.

Rep. Kahn moved to amend H.F. 997 by deleting lines 2 and 3 of amendment H997A2 and by reinstating the stricken language on page 4, lines 31 to 35 in H.F. 997.

Mr. Hacking testified in opposition to Rep. Kahn's motion.

Sen. Morse suggested requiring the funds to pay 72% of the total costs of the Commission-retained actuary. He stated that there is justification for requiring the funds to pay for a portion of the cost of benefit increase cost estimates.

Sen. Riveness moved to amend H.F. 997 by deleting lines 2 and 3 of amendment H997A2, and in H.F. 997, on page 4, line 26, by striking "a portion of" and by reinstating the stricken language on page 4, lines 31 to 35. **MOTION PREVAILED.**

Sen. Stumpf asked for clarification on who pays for a cost estimate when it is requested by a legislator. Mr. Lawrence A. Martin, LCPR Executive Director, responded that all benefit increase proposals are not costed out. They must be requested by a Commission member or approved by the Chair, or must deal with a benefit increase that is known will be heard by the Commission. In those cases the Commission pays for the cost estimate.

Rep. Johnson reviewed an amendment to H.F. 997 which dealt with exempting the clerical staff of the Commission from management by the Legislative Coordinating Commission.

Rep. Kahn testified that she believed that the LCPR would be the net winner if LCC staff was pooled.

Rep. Johnson moved amendment LCPR95-82. **MOTION FAILED.**

5. **H.F. (); S.F. 126 (Terwilliger): Eden Prairie Volunteer Fire; Vesting and Benefit Changes**
Mr. Martin reviewed the staff memo and noted that the bill provided for an accelerated vesting schedule and a post retirement adjustment for deferred retirees. He then reviewed the four policy issues raised by this bill. He noted that the Commission had received a resolution from the City of Eden Prairie in support of this bill. Discussion followed.

Sen. Terwilliger testified that this bill is different than the bills reviewed in previous sessions and has a much lower cost. Discussion followed.

Jean Harris, Mayor of Eden Prairie, testified that in studies Eden Prairie has done, the volunteer fire department has proven to be the most cost effective service for Eden Prairie. She further testified that in order to recruit and retain additional firefighters, Eden Prairie needs to offer this enhancement to volunteer firefighter benefits.

Sen Terwilliger moved S.F. 126. **MOTION PREVAILED.**

2. **H.F. 1092 (Kahn); S.F. 922 (Riveness): IRAP; Recodification and Various Substantive Changes**
Mr. Martin reviewed the staff memo and noted that the first four articles of the bill address the technical recodification of existing law while the fifth article makes 14 substantive changes to the IRAP plan.

Mary Stanton, Director of Administrative Services for the State University System and a representative of the Higher Education Board, testified in support of amendment LCPR95-71.

Mr. Martin reviewed amendment LCPR95-71 and stated that it would continue the exclusion of faculty who teach less than 25% of the year from IRAP.

Sen. Stumpf expressed support for this amendment.

Russ Stanton, a representative of the Higher Education faculty, testified in opposition to the amendment. He testified in support of covering these part-time faculty from day one and dollar one and noted that it would cost the Higher Education systems approximately \$400,000. Discussion followed.

Rep. Kahn moved approval of amendment LCPR95-71. **MOTION PREVAILED.**

Mr. Martin reviewed amendment LCPR95-65 which was requested by the technical college faculty members. He stated that it would permit technical college teachers who are currently covered by a first class city teacher plan to elect TRA coverage.

Sue Lynch, UTCE, testified in support of this amendment and noted that it probably would not be utilized frequently.

Gary Austin, TRA Executive Director, testified in opposition to the amendment as it may set a precedent for allowing K-12 teachers to choose between plans. Discussion followed.

Sen. Riveness moved approval of amendment LCPR95-65. **MOTION PREVAILED.**

Mr. Martin reviewed amendment LCPR95-67 which restores to first class city teacher law an exemption for technical college teachers who teach less than 300 hours in an academic year.

Eugene Waschbusch, StPTRFA Executive Director, testified in support of this amendment.

Rep. Kahn moved approval of amendment LCPR95-67. **MOTION PREVAILED.**

Rep. Kahn moved approval of H.F. 1092 as amended. **MOTION PREVAILED.**

4. H.F. 925 (Johnson, R.); S.F. 743 (Metzen): TRA, MSRS; Allow TRA Employees to Elect MSRS General Coverage

Edward Burek, LCPR Deputy Executive Director, reviewed the staff memo, policy issues and amendment LCPR95-60. He noted that the impetus for this coverage change may be concern over a conflict of interest or more likely the 2% increase in employee contributions to fund the 1994 TRA increase in accrual rate benefit improvement. He noted that if this coverage change was permitted for TRA employees, many TRA teacher members may also want this coverage change. Mr. Burek also stated that the bill would provide the TRA employees a refund of their additional contributions plus six percent interest from the effective date of the 1994 employee contribution increase.

Sen. Riveness suggested studying this issue during the interim to permit the Commission to look at the broader issues involved.

Rep. Johnson testified in support of this bill as a fairness issue for the 52 TRA employees who would be permitted to elect MSRS coverage. He also stated that there is a cost implication if this issue is delayed and implemented in a future session.

Tom Beer, AFSCME, testified in support of this bill and noted that the bill would affect mainly clerical personnel who are lower paid and did not have any input in the benefit increase provision. He testified that probably only eight or ten individuals would elect MSRS coverage.

Sen. Riveness stated that the issue of adverse selection comes up as well as the issue of precedent in permitting plan members to opt out of contribution increases that fund benefit improvements if they do not see a pension advantage for themselves. Discussion followed.

Barb Goodwin, MAPE, testified in support of this bill and noted that the decision to increase the member contribution to 2% was strictly a teacher decision, administrative people were not surveyed.

Sen. Riveness stated that this bill has major implications and he recommends that the bill be laid over for interim study.

Rep. Johnson moved H.F. 925 be **LAI D OVER** for interim study. **MOTION PREVAILED.**

6. H.F. 1016 (Jaros); S.F. 857 (Solon): DTRFA; Post Retirement Adjustment Mechanism Modification

Mr. Burek reviewed the staff memo. He noted that none of the post retirement adjustment mechanisms currently being used or proposed by the first class city teacher plans are adequate when it comes to their benefits matching the cost of living through retirement. Mr. Burek reviewed the policy issues and noted that the DTRFA proposed post retirement adjustment mechanism is the same as that passed for the MTRFA in 1993. He noted that MTRFA uses a system that pays a post retirement adjustment that is above the amount that can be funded by the funded portion of the actuarial reserves for the retirees. He also noted that the Commission might want to add language to limit the DTRFA post retirement adjustment to the amount that can be financed by the excess return on the funded actuarial reserves for the retirees. Mr. Burek continued the review of the policy issues and reviewed a delete everything amendment, LCPR95-80, that would implement language addressing the policy issues raised.

Rep. Jaros testified that the DTRFA has reviewed amendment LCPR95-80 and supports it.

J. Michael Stoffel, DTRFA Executive Secretary, testified in support of providing this new post retirement adjustment mechanism for the fund.

Sen. Morse expressed concern about eliminating the thirteenth check and causing members who retire in 1995 to feel deprived because their base for the new post mechanism might be less than a member who retired in 1994.

Mr. Stoffel testified that possibility exists but the new mechanism would guarantee a 2% cost of living adjustment plus an additional increase if there are surplus earnings. He testified that he

believed members would be satisfied knowing that they would have better inflation protection than current law provides.

Sen. Riveness is concerned that this benefit improvement is being provided without an employee or employer contribution and asked what the cost would be if it was being paid for by the employer.

Mr. Stoffel testified that the guaranteed 2% is equal to the thirteenth check and according to the actuarial work, with the proposed change in actuarial assumptions, normal cost would be reduced.

Sen. Morse expressed concern about moving the amortization date to 2024.

Mr. Stoffel testified that when a fund becomes almost 100% funded, as DTRFA is, and then creates a new unfunded liability, which DTRFA will do by adding the last thirteenth check to the base, current law provides a new 30 year amortization period.

Sen. Morse asked that the amortization date remain at 2020.

Rep. Jefferson moved approval of amendment LCPR95-80. **MOTION PREVAILED.**

Rep. Jefferson moved approval of H.F. 1016 as amended. **MOTION PREVAILED.** A division was called for and the bill was approved.

7. **H.F. 1142 (Jaros); S.F. 955 (Solon): DTRFA; Benefit Formula and Contribution Increases**
Mr. Burek reviewed the staff memo and amendment A95-0301. He stated that the amendment was requested by Mr. Stoffel and has Rep. Jaros approval. The amendment would increase the step rate formula from 1% to 1.16% for the first ten years of service and from 1.5% to 1.66% for the years after that. It would also increase the level benefit formula from 1.5% to 1.66% for New Law members. For Old Law members, the amendment would increase the formula from 1.25% to 1.41%. The member contribution rate would increase by 1% to fund this higher accrual rate.

Rep. Jefferson moved approval of amendment A95-0301. **MOTION PREVAILED.**

Sen. Riveness questioned the impact on the funding ratio with this benefit increase.

Mr. Stoffel testified that the 1% member contribution increase would more than fund the benefit improvement but the unfunded liability of the plan would increase due to DTRFA members who will retire soon and will enjoy a windfall from the accrual rate increase without making the payroll contributions to pay for that increase. Discussion followed regarding the actuarial impact as stated in the actuarial work provided by DTRFA's actuary, Hewitt Associates.

Sen. Riveness moved H.F. 1142 as amended. **MOTION PREVAILED.**

9. **H.F. (); S.F. 1145 (Kroening): MSRS; Early Retirement Incentive For Metropolitan Council and Historical Society**
Sen. Kroening testified that this early retirement incentive will be provided for employees who were not included in previous incentive programs. Employees of the Metropolitan Council and Historical Society are now faced with staff reductions and the need to reduce payroll by eliminating long term higher salaried employees with new lower salaried employees.

Mr. Martin reviewed the staff memo on this bill and noted that it would affect four different public pension plans, MSRS, PERA, TRA, and MERF, and would affect Metropolitan agencies as well as the Met Council, and Historical Society. He then reviewed the five policy issues on this bill. Mr. Martin noted that the cost of the incentive would probably exceed the savings. He further noted that if these employees were covered by PELRA, they were eligible to be included in the 1993 incentive. He also noted that the cost of the incentive is borne by all of the pension plans but the savings are achieved only by the agency.

Rep. Johnson stated that the Legislative Auditor's Report pointed out that these incentives need to be specifically targeted.

John Wood, Minnesota Historical Society, testified that the Historical Society is faced with a major staff reduction, that they expect cost savings of \$470,000 over 20 years from this program,

and that they are willing to pay MSRS back over a three and a half year time period for the cost of the incentives.

David Bergstrom, MSRS Executive Director, stated that if all of the employees at the Historical Society took the early retirement incentive, the cost would be \$470,000 but it is likely that only 35% to 40% would use the incentive. The cost probably would be closer to \$150,000 to \$200,000. MSRS is willing to enter into an agreement with the Historical Society to permit payback of MSRS's costs.

Rep. Kahn stated that in view of the Legislative Auditor's report, she will require that all early retirement incentives be funded by the employer offering them and be targeted toward specific employees. Mr. Wood responded that they will work at setting up a plan to target this incentive.

Richard Johnson, Associate Regional Administrator for the Metropolitan Council, testified that as a result of the Metropolitan Reorganization Act passed in 1994, they have a number of redundant administrative positions and were prohibited from laying off until January 1, 1996. The Met Council would be prepared to study the possibility of repaying MSRS for the early retirement incentive costs on a point by point basis. Sen. Kroening noted that he had seen a cost savings projection of \$3.72 million for the Met Council.

Mr. Bergstrom testified that the Historical Society was not eligible for the 1993 incentive. The Met Council was eligible but did not offer the 1993 incentive. Mr. Bergstrom further testified that the Met Council incentive would affect 132 employees and at a 35% to 40% utilization rate, could cost \$1.5 to \$1.8 million.

Rep. Johnson stated that he would support the Met Council incentive if language was included that required the employer to pay MSRS back for the cost. Mr. Johnson agreed to include that language. Discussion followed.

Mr. Martin stated that the amendment he drafted would require the employing unit offering the early retirement incentive to pay, in a short time period, the difference between the post fund transfer with the incentive minus the post fund transfer without the incentive. The amendment does not deal with the targeting issue or the rehiring issue.

Sen. Morse moved the handwritten amendment reviewed by Mr. Martin.

Rep. Kahn suggested that the amendment provide a specific period of time for the Historical Society to repay MSRS for the cost of the early retirement incentive. Sen. Morse stated that if MSRS is not repaid in one year, interest should be charged.

Mr. Johnson testified that a three year repayment period with interest charged after one year would be acceptable.

Sen. Pogemiller questioned why the incentive is not targeted at specific employees. Mark Shepard, House Research, suggested adding an additional condition to page 1, line 24, "employed in a job classification in which the employer certifies that there would be layoffs within a designated number of months of the effective date of the section if the incentive were not offered." Mr. Wood stated that this language would defeat the Historical Society's goals. Discussion followed.

This bill was **LAI D O V E R** until the next meeting to permit the staff to take the time to draft an amendment incorporating the issues the Commission wants addressed.

Rep. Jefferson questioned whether members could meet again this Friday from 3:00 P.M. to 6:00 P.M. At least three House members and four Senate members agreed to attend the meeting.

3. H.F. 1040 (Kahn); S.F. 806 (Morse): TRA; Benefit Coverage For Certain Part-Time Higher Education Faculty

Mr. Burek reviewed the staff memo and policy issues on this bill. He noted another policy issue not raised in the memo dealing with page 3, beginning with line 35 of the bill. The bill would allow the first \$35,000 of a reemployed annuitant's earnings to be exempt from the offset, only income over that amount would be subject to the offset. This language should be tightened up to apply only to persons who receive retroactive salary under a collective bargaining agreement.

Russ Stanton, representing faculty, testified in support of the bill and amendment but would like the word retroactive removed. Discussion followed dealing with the phase into retirement program and the language in the amendment.

Rep. Johnson questioned section 9 of the bill regarding selection of an investment product from an open-end investment company and asked whether this had the support of the State Board of Investment.

Howard Bicker, Executive Director SBI, testified that SBI selects vendors for IRAP and 15 to 20 mutual funds are now being offered to IRAP members. SBI opposes reopening the process at this time as they have yet to finish signing the renegotiated contracts and have not explained those investment options to members. This bill would permit SBI to hire an investment company as an option for IRAP members without going through an insurance company. Discussion followed.

Russ Stanton testified in opposition to the amendment. Discussion followed.

Rep. Johnson moved amendment H1040A2. **MOTION PREVAILED.**

Sen. Pogemiller moved to delete section 3 in H.F. 1040. **MOTION PREVAILED.**

Mr. Burek reviewed LCPR95-64 and noted that LCPR95-64 should be amended on line 11 after the comma insert "line 4," as it was inadvertently left out of this amendment. He also suggested deleting lines 14 through 16 and in H.F. 1040 on Page 7, delete lines 32 to 34 and insert "Sections 1 through 9 are effective the day following final enactment."

Sen. Morse moved amendment LCPR95-64 as amended. **MOTION PREVAILED.**

Sen. Morse moved H.F. 1040 as amended. **MOTION PREVAILED.**

Rep. Kahn requested that the Commission consider an amendment dealing with Roberta Osborne.

Mr. Burek reviewed the amendment and noted that it was a delete everything amendment that would permit an individual to be treated like a deferred annuitant for past employment and to participate in the unclassified plan for current employment.

Ken Campbell, the son of Roberta Osborne, testified that there were two options.

Rep. Kahn expressed support for option 1.

Ms. Osborne provided background on her situation and testified in support of waiving the earnings restriction on her TRA benefits. Discussion followed.

Laurie Hacking, PERA Executive Director, testified that both options set precedents with the first option setting two precedents and the second option setting one precedent. PERA is opposed to this legislation. She also testified that the salary offset limit is low.

Rep. Johnson pointed out that the Commission raised the reemployed annuitant limit for higher education employees to \$35,000 with the legislation passed prior to this issue.

Rep. Kahn moved amendment LCPR95-89 which was option 2.

Mr. Burek stated that the Commission may want to put a dollar amount limit on the salary this person could earn while still receiving a pension annuity. LCPR95-89 has a blank space for this amount.

Sen. Riveness expressed concern about the precedent this legislation would set in allowing a person to become reemployed and continue to receive a full pension annuity. Mr. Burek stated that eliminating the reemployed annuitant offset undermines the justification for providing defined benefit pension plans which are established as a recruitment and retention tool and also undermines the need to maintain benefit adequacy in retirement.

Ms. Osborne testified that she is currently working fulltime at her previous level of pay and will also receive her pension until her earnings reach the \$8,000 limit which will be approximately four months into the year. She further testified that because she retired early, her reduced pension is \$559 rather than the \$1,000 she would have received at age 62 and she no longer gets service credit from her current employment.

Rep. Kahn recommended reversing the retirement, permitting Ms. Osborne to earn service credit, and permitting her annuity to be recalculated when she retires. Mr. Burek noted that if Ms. Osborne's retirement is reversed, what happens to the benefits she has already received. Discussion followed.

Rep. Johnson moved to amend LCPR95-89 on Page 1, line 6, after "\$" insert "35,000".
MOTION PREVAILED.

Rep. Kahn renewed her motion to pass LCPR95-89 as amended. **MOTION PREVAILED.**

8. H.F. 1403 (Jefferson); S.F. 1124 (Riveness): Statewide Plans; Graded Rate Salary Increase Actuarial Assumption

Mr. Burek reviewed the staff memo and a delete everything amendment, LCPR95-69, to this bill. He further noted that there is an amendment, LCPR95-83, to the delete everything amendment.

Sen. Riveness reviewed a handwritten amendment dealing with the partial repayment of a pension plan refund. He stated that he had requested information from the statewide pension plan directors on this issue but had not received it. Discussion followed.

Mr. Bergstrom testified that some MTC members are not allowed to repay a refund and recommended retaining (e) in the handwritten amendment.

Mr. Austin questioned whether the amendment would permit more than one payment. Sen. Riveness responded that members would be permitted to buy the entire amount at three different times with three different payments.

Sen. Riveness moved the handwritten amendment. **MOTION PREVAILED.**

Sen. Riveness moved amendment LCPR95-83.

Ms. Hacking testified that the Commission actuary, Tom Custis, had advised against including the table of numbers in this legislation. She also suggested amending LCPR95-83 by deleting Page 2, line 36, and Page 3, lines 1-2.

Mr. Martin stated that members had two issues to decide, whether to include the table on salary assumptions, although salary assumptions historically have been in statute since 1965, and whether clause (f) is needed.

Sen. Riveness renewed his motion to approve amendment LCPR95-83 as amended by deleting clause (f). **MOTION PREVAILED.**

Mr. Martin briefly reviewed amendment LCPR95-69. Mr. Burek reviewed the amendment by section.

Rep. Kahn moved LCPR95-69 as amended. **MOTION PREVAILED.**

Sen. Pogemiller reviewed an amendment dealing with the Hennepin County Paramedics which would extend the deadline for them to receive an affirmative determination from the Social Security administration to permit them to consolidate with PERA-P&F.

Sen. Pogemiller moved amendment LCPR95-32. **MOTION PREVAILED.**

The meeting adjourned at 12:05 A.M.


Jean Liebgott, Secretary

Note: The tape player for the last hour of this meeting malfunctioned and that portion of the meeting was not recorded.