



August 9 and 10, 1995
Room 10, State Office Building

10th Meeting



LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

August 9, 1995 Meeting

Representative Richard Jefferson, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 1:23 P.M.

Commission members present:

Representatives Jeff Bertram, Richard Jefferson, Bob Johnson, and Steve Smith
Senators Lawrence Pogemiller, Phil Riveness, and Roy Terwilliger

Commission members with an excused absence:

Representative Phyllis Kahn; Senators Steven Morse and LeRoy Stumpf

1. **Approval of Meeting Minutes of March 22, March 24, April 13, and July 6, 1995, and Actuarial Services Subcommittee Meeting of June 15, 1995**
Rep. Bob Johnson moved approval of the meeting minutes listed above. **MOTION PREVAILED.**

2. **Review of The Role and Function of the Pension Commission (First Consideration)**
Lawrence A. Martin, LCPR Executive Director, reviewed the information contained in each member's packet and noted that it contained information on the Pension Commission's past history, its role and function, and the policy principles which past Commissions reviewed frequently but which were last reviewed in 1980.

Sen. Riveness asked how other states manage pension policy. Mr. Martin responded that several years ago an actuarial firm promoted the establishment of pension commissions in all states and produced a report on the status of those commissions. At the height of the actuarial firm's success in getting pension commissions established, one half of the states had commissions and many of those commissions are still active. Some of the states have commissions comprised of both public and private members while others have strictly public members.

Rep. Johnson questioned the language in Appendix C stating that the Commission has the power of "investigation." He stated that he would like an interpretation of that word as it pertains to the Pension Commission. Mr. Martin responded that the LCPR was criticized during the Legislative Audit Commission's review of the State Auditor's role in the MERF issue for not doing more with regard to the situation with MERF. Discussion followed. Rep. Johnson requested that the Commission review the law regarding fiduciary responsibility as well as obtaining an official interpretation of the Commission's investigative responsibilities.

Sen. Riveness requested more information about the Commission's policy principles which were previously referred to by Mr. Martin.

Mr. Martin reviewed the individual principles beginning on page 8 of the staff memo and noted that the principles were reviewed and updated during session interims prior to 1980.

Sen. Riveness stated that he believes pension benefit portability should be a more prominent principle of the Commission. He further stated that authorizing movement from a defined benefit plan to a defined contribution plan is a type of portability the Commission has just begun to deal with. Mr. Martin continued with his review of the principles.

Sen. Riveness stated that he believes the 7th principle dealing with pre-funding post retirement increases should be updated as both pre-funding the increases and providing a portion of the excess investment returns to fund the increases have merit.

Rep. Johnson questioned whether buybacks were at full actuarial value in the 1950's and 1960's

or whether they were at contribution rates plus interest. Mr. Martin stated that principle 13 dealt with buyback legislation and he referred members to Appendix F. He noted that tomorrow's agenda included a staff memo on the purchase of prior service. Mr. Martin further stated that the concept of paying full actuarial value came in the late 1970's and 1980's. In the mid-1970's, there was a moratorium on buybacks.

Rep. Bertram suggested that staff provide a uniform method for dealing with special legislation possibly by combining special legislation into one bill. He also suggested that staff educate other legislators regarding the Commission's history and policy on certain issues with the goal of reducing the Commission's workload for reviewing bills. Mr. Martin stated that each purchase of prior service bill has unique equitable and factual considerations making it difficult to combine into one bill at the Pension Commission level but can be combined for consideration by legislative committees. With regard to legislators who introduce bills that are unlikely to be recommended by the Commission, Mr. Martin noted that Commission staff frequently provides upfront information to legislators which includes background information on the Commission's actions on certain issues as well as the policy issues raised by the potential legislation. He noted that this has not dissuaded legislators from introducing those bills. Rep. Bertram stated that perhaps Commission members need to get involved in talking to other members. Discussion followed.

Sen. Riveness again referred to principle 7 regarding prefunded post retirement increases. He stated that he believes that it is a valid objective to provide a post retirement increase that keeps up with inflation. Discussion followed.

Sen. Pogemiller suggested that the Commission seek the expertise of the pension fund directors and persons interested in pension policy in reworking the principles by either working off of the current principles or by having staff do a first draft and then seeking comments or suggestions for changes.

Rep. Jefferson stated that he would set up a floating subcommittee made up of the LCPR Chair, LCPR staff, fund directors, and Commission members that might be available for meetings as dates are set-up.

Sen. Riveness suggested that in addition to the parties already mentioned, input should be solicited from the employer groups and unions as well. He further suggested that while input was being solicited regarding the Commission's pension policy principles, the Commission should also solicit comments regarding the Commission's role in terms of the format, frequency of meetings, and jurisdiction. Discussion followed.

Rep. Smith referred members to Minnesota Statutes, Chapter 3.85, with regard to the Commission's investigative duties and suggested that an Attorney General's opinion be requested. Rep. Johnson stated that his idea was to get a recommendation from the Attorney General's office rather than a formal opinion. Sen. Pogemiller suggested that in keeping with the separation of powers, the Commission may want to seek input from House and Senate Counsel rather than the Attorney General's office.

Rep. Bertram recommended also seeking input on the Commission's pension principles from non-Commission members of the Legislature.

The meeting adjourned at 2:50 P.M.

August 10, 1995, LCPR Meeting

Representative Richard Jefferson, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 9:00 A.M.

Commission members present:

Representatives Jeff Bertram, Richard Jefferson, and Bob Johnson
Senators Steven Morse, Lawrence Pogemiller, Phil Riveness, and Roy Terwilliger

Commission members with an excused absence:

Representatives Phyllis Kahn and Steve Smith; Senator LeRoy Stumpf

3. **Review of a Potential "Rule of 85" and Other Potential Early Normal Retirement Provisions (First Consideration)**

Elliot Long, Dan Jacobson and Carrie Meyerhoff from the Legislative Auditor's Office made a presentation on the LAC's Early Retirement Incentives report dated March, 1995. They noted that the objectives of the early retirement incentive program were to save money, increase productivity, and avoid layoffs. Mr. Jacobson noted that approximately 4,000 employees overall participated in the 1993 program. Teachers accounted for the highest percentage of participants and State employees accounted for less than 20% of the overall participants. The estimated cost of the 1993 incentive was between \$101 and \$132 million dollars with most of that cost borne by the public employee pension plans and approximately \$19 million borne by the employers offering the incentives. Mr. Jacobson also noted that approximately half of those retiring would have retired without the early retirement incentives. Discussion followed and Mr. Long stated that whatever salary savings accrue as a result of replacing a higher paid employee with a lower paid employee only accrue until the point when the higher paid employee would have retired without the incentives, on average .5 years to 1.7 years later. The presentation resumed.

The recommendations of the Legislative Auditor's office with regard to early retirement incentives were that they be targeted to employees that are facing layoff situations and that the employers pay for the incentives rather than the public employee pension plans. Discussion followed and it was noted that past early retirement incentives did not result in salary savings and less than 20% of the costs were paid by the employers.

Rep. Johnson stated that the early retirement incentives passed by the 1995 Legislature took the Legislative Auditor's office recommendations into account.

Sen. Riveness asked whether the Legislative Auditor's office has had any feedback from school districts since the report and whether school district administrators expressed surprise regarding the lack of salary savings from the incentives. Mr. Long responded that there was flat disbelief in the findings until they understood the Legislative Auditor's methodology. Discussion followed.

Edward Burek, LCPR Deputy Executive Director, reviewed the staff memo on this issue and stated that the memo was meant to provide a more general background on this issue. He noted that two reports have been done on early retirement incentives, the 1995 Legislative Auditor's report and the 1986 Finance Department evaluation of the "Rule of 85." Mr. Burek stated that the Department of Finance report did observe a net salary savings of \$3.25 million dollars but stated that in two-thirds of the cases the direct cost exceeded the salary savings, 64% of those who used the "Rule of 85" would have retired without the incentive, and the "Rule of 85" provided a windfall to retirees using the program.

Mr. Burek reviewed the 1995 early retirement incentives authorized for the Metropolitan Council and Minnesota Historical Society. He noted that the incentives were targeted and that the employers were required to bear the full cost of the incentives. He then reviewed two other bills introduced in the 1995 Session that would provide "Rule of 85" early retirement incentives and the policy issues raised by the bills.

Rep. Johnson asked staff to follow-up on and evaluate the Metro Council and Historical Society incentive programs.

David Bergstrom, MSRS Executive Director, testified that the Metropolitan Council is offering the early retirement incentives to at least 150 to 200 of their employees. MSRS estimates the

cost per employee to be equal to one year of the employee's salary. He also testified that the Minnesota Historical Society has not decided whether to offer the program. Mr. Bergstrom stated that he agreed with the recommendations of the Legislative Auditor regarding targeting the incentives and requiring employers to bear the cost of the incentives. Discussion followed.

4. Review of the Commission's Policy on the Purchase of Credit for Prior Service (First Consideration)

Lawrence A. Martin, LCPR Executive Director, reviewed the staff memo and background on this issue. He noted that the shift in 1973 from a career average salary formula to a high five average salary formula caused an increased demand for purchases of service credit. The purchase of service credit issue has been studied by three separate subcommittees of the Commission over the past several years and resulted in the Commission policy to require full actuarial value for service credit purchased. Mr. Martin reviewed analogous purchases of service within a designated timeframe which are permitted under previously granted authority. He reviewed additional types of service credit that have been requested for purchase but not authorized. He also reviewed the conditions that individual requests for service credit purchases must meet.

Mr. Martin reviewed the three requests that caused the Commission to decide on this issue as an interim topic. The requests were for the purchase of prior military service credit, the time limits on the purchase of leave of absence military service credit, and pre-age 25/pre-57 TRA member service credit.

Rep. Bertram requested that discussion on purchases of prior military service credit be separate from discussion on other purchases of service. He also requested that they receive enough notice so that he can arrange for a person he has been working with for nine years to testify on that issue.

Rep. Johnson stated that it is important for the Commission to set parameters for the purchase of service credit in its policy principles so as to maintain the funding level of the pension funds.

Sen. Morse questioned the study of the pre-age 25/pre-57 issue. He requested that as part of that study, Commission staff note the windfall these teachers will gain if they are allowed to purchase that service credit on a subsidized basis now that TRA's formula multiplier has been increased. Discussion followed.

5. Other Items

Rep. Johnson commented on the privatization of the Rochester Hospital and noted that these privatizations probably will continue. He suggested that the Commission establish boilerplate language to address privatizations. He suggested an evaluation of the privatization in Rochester.

Rep. Johnson also commented on the Forbes magazine article, the Mayo Clinic doctor's letter, and the issue of defined benefit and defined contribution plans. He noted that Minnesota is doing well in addressing the unfunded actuarial liability of its pension plans but stated that on a national level, unfunded actuarial liability will reach one trillion dollars by the year 2000. Discussion followed and members requested a copy of the staff memo discussing the Forbes article.

Mr. Bergstrom spoke on behalf of the fund directors in thanking the Commission for permitting them to participate in suggestions regarding the Commission's policy principles. He recommended that the Commission establish the end of October as a deadline for suggestions on the principles to permit the fund directors, unions and employers time to fully participate. He also recommended that the Commission establish an ongoing process for developing additional policy principles.

The meeting adjourned at 11:08 A.M.


Jean Lieb Gott, Secretary