



February 2, 1996  
Room 10, State Office Building

16th 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 2:40 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

**Omnibus Pension Bills**

Lawrence A. Martin, LCPR Executive Director, reviewed LCPR96-26, the Local Omnibus Pension Bill, and LCPR96-22, the General Omnibus Pension Bill. He stated that these omnibus pension bills reflect the work that the Pension Commission has completed as of Monday, January 29, 1996.

**1. Final Consideration of Tentative Commission Action of January 29, 1996, on:**

**a. H.F. 1072 (Vickerman); S.F. 800 (Frederickson); PERA; Springfield Hospital Physicians Exempt From Coverage**

Edward Burek, LCPR Deputy Executive Director, reviewed amendment LCPR96-23 which contains the language to permit physicians in public hospitals statewide to keep PERA General coverage or select PERA Defined Contribution plan coverage. He referred members to page 3, lines 34 to 36 and the top of page 4 of the amendment. He advised Commission members that they will need to determine the appropriate contribution rate to insert in the blanks in the amendment.

Rep. Johnson stated that these physicians are highly compensated employees and he believes that they would be out of compliance with IRS rules regarding non-discrimination and preferential treatment with this legislation. He requested that we study the implications of this amendment during the interim.

Mary Vanek, PERA, testified that she contacted PERA's federal tax compliance consultant on this issue since the consultant had already advised that the optional PERA coverage provided to elected officials was a problem that would need to be addressed by 1999 when the federal non-discrimination rules apply to public employee pension plans. He advised that mandating physicians coverage in the defined contribution plan was not problematic but it is problematic to provide optional plan coverage. Ms. Vanek also testified that she had contacted the Springfield hospital administrator and he stated that taking the physicians out of PERA's defined benefit plan with a contribution of 4.48% of salary and putting them in the defined contribution plan with a contribution of 5% would not solve their problem.

Rep. Vickerman testified that the physicians support the amendment as it is written.

Sen. Riveness stated that his understanding was that a change in plans was needed to recruit physicians. Rep. Vickerman testified that it was perceived to be a recruitment tool. Discussion followed.

Sen. Riveness asked if the Commission was being asked to anticipate a problem with the IRS or if it would be possible to address the problem after the IRS ruled on the qualification issue of quasi-public employees. Ms. Vanek testified that it would be the highly compensated individuals with a choice of plans that would be affected immediately by an IRS ruling of noncompliance with preferential treatment IRS rules.

Mr. Burek noted the need for a technical amendment to LCPR96-23. On page 3, line 6, delete "553.01" and insert "353.01". He also requested that members fill in the blank amounts on page 3, line 36.

Rep. Kahn supports the bill as a physician recruitment aid for outstate municipalities.

Ms. Vanek suggested inserting a 5% salary contribution rate. She also suggested providing a six month window for plan election rather than 90 days to enable PERA counselors to properly counsel the individuals affected by this legislation.

Sen. Riveness stated that when PERA's counselors go around the state and counsel physicians on the implications of the optional coverage and the potential negative IRS ruling, he believes physicians will not want any part of it. Ms. Vanek stated that PERA's counselors would focus on the differences between the defined benefit and the defined contribution plan and the benefits available from both. Discussion followed.

Rep. Johnson moved LCPR96-23 with a 5% salary contribution, a six month window for plan election, and a requirement that the Commission study defined benefit versus defined contribution plans as they apply to the State's public pension plans. **MOTION PREVAILED.**

Rep. Johnson requested that when the Commission has three Senate members and three House members they consider suspending the Commission's rules requiring three members of each body to pass legislation and permit legislation to pass with a quorum of any six members.

**b. H.F. 1272 (Carlson); S.F. 1150 (Reichgott-Junge): MTRFA; Purchases of Service Credit By Former Minneapolis Teachers**

Mr. Burek reviewed amendment LCPR96-20. He noted that the amendment revises the bill to require an individual to pay full actuarial value for the purchase of service and it permits the school district, at its option, to pay the remainder of the full actuarial value over and above the employee contribution plus interest at 8.5%.

Sen. Stumpf moved amendment LCPR96-20. **MOTION PREVAILED.**

**c. H.F. 2050 (Johnson, A.); S.F. 2060 (Krentz): Spring Lake Park Fire; Coverage For Fire Prevention Personnel**

Mr. Martin reviewed amendment LCPR96-18. He noted that the amendment makes the bill a statewide bill, it defines firefighting service in Minnesota Statutes, Section 424A to include fire prevention services, and entitles fire prevention personnel to receive the same pension benefits as fire suppression personnel.

Rep. Bertram reviewed amendment LCPR96-19 which would prevent a paid full-time firefighter from being paid overtime for doing fire prevention work over and above his regular full-time fire service and double dipping for that service.

Sen. Stumpf suggested clarifying the language. Discussion followed. Sen. Riveness expressed concern regarding the impact this amendment might have on an individual like the Bloomington Fire Chief who is a full-time Minneapolis firefighter and a volunteer for the Bloomington Volunteer Fire Department. Rep. Johnson stated that amendment LCPR96-19 may have major implications and should be studied further.

Nyles Zikmund testified in opposition to amendment LCPR96-19.

Mr. Martin read a potential clarification to LCPR96-19. He suggested that on page 1, line 5, after "service" insert "and receive volunteer firefighter relief association service credit for that fire prevention service".

Rep. Jefferson asked if the amendment would still have an impact on someone like the Bloomington Fire Chief. Rep. Bertram withdrew amendment LCPR96-19 in light of the Commission's lengthy agenda.

Rep. Bertram moved amendment LCPR96-18. **MOTION PREVAILED.**

**d. H.F. 2123 (Van Engen); S.F. 1911 (Johnson, D.E.): MSRS; Purchase of Service Credit by Willmar MSRS Member**

Mr. Martin reviewed amendment LCPR96-21 and noted that the amendment specifies that the basis for awarding these individuals full service credit at less than the full

actuarial value of the benefit is that the leave actually was an educational leave of absence. He also noted that additional individuals in this circumstance have recently come forth and that this bill would set a precedent.

Sen. Stumpf asked if this bill could be crafted more narrowly to apply only to the two individuals the original bill addressed. Mr. Burek responded that the bill does apply only to the two individuals but it sets a precedent that might cause other individuals to seek a legislative solution.

Dave Bergstrom, MSRS Executive Director, testified that MSRS has no way to identify who would be eligible to seek a similar solution.

Rep. Van Engen testified that he had heard from an individual who advised him that there are about ten people with similar situations who would like a similar resolution. Discussion followed and some members recommended that the Commission study this issue during the interim to determine how many people might have similar situations.

Sen. Stumpf moved amendment LCPR96-21. **MOTION PREVAILED.**

Rep. Johnson moved approval of **H.F. 1072; H.F. 1272; H.F. 2050; H.F. 2123** as all were amended and moved that they become part of the omnibus pension bill. **MOTION PREVAILED.**

Sen. Stumpf **withdrew** agenda **item 15, S.F. 2638** (Stumpf).

Rep. Jefferson stated that agenda **item 3, H.F. 968** (Smith); agenda **item 6, H.F. 1916** (Bakk); and agenda **item 8, H.F. 2474** (Tomassoni) have been **withdrawn**.

**7. MTRFA and StPTRFA Funding Changes**

- b. H.F. 2518 (Osthoff); S.F. 2142 (Pogemiller): MTRFA & StPTRFA; Supplemental Contributions to Reduce the Unfunded Accrued Liability of MTRFA and StPTRFA**  
Rep. Osthoff testified in support of this bill.

Mr. Martin reviewed the bill and noted that this bill redirects 30% of any reduction in the State contribution to MERF to the StPTRFA if there is a matching contribution from the St. Paul School District and 70% of the reduction in the State contribution to the MTRFA. He reviewed the policy issues raised by this bill and noted that it may be appropriate to consolidate the three plans rather than constructing more complicated funding relationships.

Rep. Kahn expressed interest in consolidating the three plans.

Sen. Riveness questioned why it is desirable to extend the 1993 \$2.5 million State funding for MTRFA and StPTRFA to their date of full funding rather than to the date that they achieve equivalency with the TRA funding status.

Gene Waschbusch, StPTRFA Executive Secretary, testified that the intent of changing that provision was to continue the \$2.5 million State Aid to MTRFA if StPTRFA became funded equivalent to TRA prior to MTRFA, or vice versa, so that the state aid would not revert to the general fund.

Sen. Riveness stated that he would prefer to leave the language as it was passed in 1993 so that the \$2.5 million state aid to MTRFA and StPTRFA would end when they achieved funding equivalence with TRA.

Karen Kilberg, MTRFA Executive Director, testified that MTRFA and StPTRFA would prefer that the State Aid continue until they become fully funded. Discussion followed and members agreed that they would prefer not to modify the 1993 agreement.

Sen. Riveness moved to amend H.F. 2518 by deleting the new language in Section 7 and by restoring the stricken language.

Mr. Waschbusch suggested reinstating the stricken language on page 7, lines 21 and 22, and deleting the new language on line 23.

Mr. Martin stated that Mr. Waschbusch's suggestion would work but language on page 7, line 33 would also have to be reworked.

Brian Rice, Best & Flanagan and representing StPTRFA, concurred with Mr. Martin's suggestion.

Sen. Riveness moved to amend H.F. 2518 by reinstating the stricken language on page 7, lines 21 and 22, deleting the new language on line 23, and by deleting on page 7, line 33, "underfunded" and inserting "less funded than the accrued liability funding ratio of the teachers retirement association". He further agreed that staff should make further changes as required in that section to conform with the intention of this amendment.  
**MOTION PREVAILED.**

Sen. Riveness moved H.F. 2518 as amended verbally. **MOTION PREVAILED.**

**2. H.F. 947 (Johnson, R.); S.F. 820 (Metzen): MSRS Correctional; Expansion of Correctional Employees Plan**

Rep. Johnson testified that he is offering a delete everything amendment, H947DE2, that includes the C List.

Sen. Stumpf requested that the people who testify on this bill include information regarding how this bill differs from versions that have previously been before the Commission.

Susan Stout, Minnesota Nurses Association, testified in support of this bill and noted that the current list only includes people who meet a standard of 75% or more contact with inmates.

Cheryl Furrer, MEA, testified in support of this bill and stated that the bill affects 50 teachers. She also noted that currently half of the teachers at correctional facilities are covered by MSRS-Correctional and the other half are covered by TRA, so this bill will resolve the inequities.

Barb Goodwin, MAPE, testified in support of this bill and stated that they used the 75% standard.

Tom Beer, AFSCME Council 6, testified that they do not oppose this bill and noted that the standard in this bill is based on individuals that have 75% inmate contact rather than position classifications.

Mr. Martin reviewed the actuarial cost estimates for this bill and noted that option 3 would add 401 additional members to the MSRS-Correctional Plan, that the plan would still be over 100% funded, and that the contributions would be deficient by 0.19%. He also noted that page 7, line 10, has a blank for the employer contribution which needs to be filled in.

James Burton, Deputy Commissioner of Corrections, testified that this process has been going on since 1973. He noted that the Department is concerned about the fiscal impact of this bill and the potential for further expansion of the plan. He also noted that the most obvious inequity that will be resolved relates to teachers and the Department supports their inclusion in the plan.

Sen. Riveness questioned whether Mr. Burton was satisfied with the 75% criteria standard. Mr. Burton responded affirmatively and testified that the Department was looking for fairness in resolving this issue. Sen. Riveness questioned whether the turnover rate for the group that will now be included in the Correctional Plan is different than that for the employees that are not included. Mr. Burton responded that the Human Resource people would be better able to answer that question but he does know that turnover rates are a concern from time to time. Sen. Riveness stated that he has a concern that the 75% exposure to inmates criteria results in a more favorable pension rather than documentation that shows that the exposure impacts employees in a negative way and therefore, justifies the more favorable pension. He has never been able to obtain that kind of information. Mr. Burton stated that he will follow-up with the Human Resource people to see if they can provide some documentation in each of the groups being added to the Correctional Plan.

Sen. Stumpf questioned whether there are other categories that may be added in future

expansions of the plan. Commissioner Burton responded that he is concerned about that also, but it really is an unknown. Discussion followed.

Rep. Mary Murphy testified in support of this bill because of the equity issue.

Dave Bergstrom testified that the MSRS Board has not taken a position on this bill other than to request that it is properly funded. He testified that he viewed the costs running from .19% of pay to .67% of pay. He believes the employer contribution blank could range from 6.46% of pay to 6.94% of pay. He suggested a compromise of 6.75% of pay as the number to use to fill in the blank on page 7, line 10 of the bill.

Rep. Kahn recommended that this bill move on its own because of its appropriation requirements.

Sen. Morse moved to insert 6.75% in the blank on page 7, line 10. **MOTION PREVAILED.**

Sen. Riveness moved H.F. 947 as amended. **MOTION PREVAILED.**

## 7. **MTRFA and StPTRFA Funding Changes**

### a. **H.F. 2417 (Jefferson); S.F. 2048 (Riveness): MTRFA & StPTRFA; Redirecting Amortization and Supplemental Amortization to MTRFA and StPTRFA; Revising the Minneapolis Police and Fire Thirteenth Check**

Mr. Martin reviewed the background and policy issues on this bill. He noted that the bill provides additional funding for the MTRFA and StPTRFA based on the amortization aid and supplemental amortization aid that might be freed up as a result of Minneapolis Police and Fire achieving investment gains that enable them to pay a thirteenth check. He also reviewed the change in the method of computing investment gains for Minneapolis Police and Fire from a two part trigger to a single trigger which improves the potential payment of a thirteenth check.

Sen. Morse asked what currently happens to the amortization aid and supplemental amortization aid that is freed-up.

Phil Kapler, Department of Finance, responded that those funds cancel to the general fund and amount to approximately \$500,000 for FY-1995.

Sen. Morse stated that H.F. 2518 took MERF money and provided it to MTRFA and StPTRFA and now this bill would take state money and also provide it to MTRFA and StPTRFA. He would like to see some parity by providing some of this money to the out-state area also. Discussion followed.

Sen. Riveness stated that this money is general fund revenue and he believes that it is appropriate to direct it toward the two funds that need it most.

Sen. Morse introduced amendment LCPR96-32 which would establish a minimum benefit for volunteer firefighter relief associations.

Mr. Martin reviewed LCPR96-32 and noted that it has a blank that would need to be filled in with an amount. He also reviewed a handwritten amendment that would provide half of the freed up amortization aid to MTRFA and StPTRFA and the other half to fund a minimum benefit for volunteer firefighter relief associations. Sen. Morse noted that with \$700,000 a year in freed up aid, a \$212 minimum benefit per year could be provided to volunteer firefighters who currently have lower benefits. Discussion followed.

Rep. Kahn stated that she would like to tie any minimum benefit for volunteer firefighters to a requirement that each of the volunteer fire funds establish an investment policy and comply with reporting requirements. Discussion followed.

Sen. Stumpf spoke in support of a minimum benefit. He stated that some volunteer firefighter relief associations are quite conservative in their investments but their investment returns are secure. He would encourage more reporting.

Sen. Riveness suggested allocating the freed up aid 75%/25%. Sen. Morse suggested

leaving it 2/3's/1/3. Sen. Riveness concurred. Mr. Martin suggested that on the handwritten amendment, page 1, line 16, change "one half" to "two thirds" and on the page 2, after line 2, change "The other half" to "The remaining one third". Rep. Kahn requested that this amendment include reporting requirements or at the very least a requirement for investment policy statements to tie some accountability to the benefit improvement. Sen. Riveness stated that although he supports reporting requirements, he was not comfortable with loading this bill excessively. Sen. Morse stated that he supports resolving what may be excessive reporting for small funds, consolidating reporting requirements, and requiring more information than is currently provided but not more data than is needed. He suggested establishing a task force that would provide recommendations on these issues. Rep. Kahn prefers to delay the benefit increase until the reporting requirements are in place. Discussion followed.

Sen. Morse moved amendment LCPR96-32 blended with the handwritten amendment specified above. **MOTION FAILED.**

Mr. Martin reviewed a short paper, handwritten amendment to page 1, line 18, delete "salaried" and on page 1, line 19, after "or" insert "salaried".

Rep. Jefferson moved the short paper handwritten amendment. **MOTION PREVAILED.**

Rep. Jefferson moved H.F. 2417 as amended. **MOTION PREVAILED.**

**5. H.F. 1621 (Clark); S.F. 1117 (Pogemiller): MTRFA; Expand Health Insurance Subsidy Eligibility**

Mr. Burek reviewed the bill and noted that it would expand the group from pre-1974 to pre-1983 retirees that qualifies for a health insurance subsidy which is paid for with an annual tax levy of .1 percent. He also reviewed LCPR96-30, a technical amendment, and LCPR96-31, an author's amendment. Discussion followed.

Sen. Pogemiller moved that the bill be referred to the House and Senate Government Operations Committee. **MOTION PREVAILED.**

**10. H.F. 2493 (Kahn); S.F. 2126 (Riveness): IRAP; Authorizing Individual Retirement Account Plan Coverage For Minnesota Historical Society Employees**

Mr. Burek reviewed the bill and noted that it would permit Historical Society employees to have an irrevocable option to elect defined contribution pension coverage through IRAP or continue with defined benefit coverage through their current plan. He also reviewed LCPR96-25, a technical amendment, and LCPR96-24, which would restrict the bill to supervisory or professional employees.

Rep. Kahn moved amendment LCPR96-25. **MOTION PREVAILED.**

Rep. Kahn testified in opposition to LCPR96-24. She offered and moved an amendment that the State Board of Investment had requested, HF2493-A1. **MOTION PREVAILED.**

Mr. Bergstrom testified that providing employees with an option for pension coverage raises the potential for adverse selection.

Rep. Kahn moved H.F. 2493 as amended. **MOTION PREVAILED.**

**9. University of Minnesota/Fairview Hospital Proposed Merger Issue**

**a. H.F. 2484 (Pugh); S.F. 2175 (Metzen): MSRS; Protect U of M Hospital Employees Benefits**

Mr. Martin reviewed Senate amendment SCS2175A-2. He stated that the amendment would require any purchaser of the U of M hospital and clinics to remain a public employer and retain the current pension coverage for employees.

**b. H.F. 2899 (Kahn); S.F. 2560 (Pogemiller): MSRS; U of M/Fairview Merger**

Mr. Martin stated that this bill deals strictly with the pension coverage of the current U of M hospital employees and makes four modifications to their pension coverage. This bill does have an actuarial impact and he referred members to the actuarial work shown

on page 5 of the staff memo. He noted that the cost of the employee benefit improvements are offset by the gain for MSRS. Mr. Martin also reviewed a primarily technical amendment, LCPR96-27, and noted that a correction should be made on page 1, line 24, delete "transferred".

Sen. Pogemiller moved amendment LCPR96-27 as amended. **MOTION PREVAILED**

Rep. Johnson offered an amendment to increase the augmentation rate. Mr. Bergstrom testified that the bill increases the deferred augmentation rate for these employees to 5% prior to age 55 and 7% after age 55. Rep. Johnson's amendment increases the augmentation rate further by 1/2% and thereby uses up all of the potential gain MSRS would have realized.

Jim Verlautz, an actuary with Deloitte Touche, testified that increasing augmentation rates for all employees would impact MSRS since turnover gain assumptions are built into the MSRS funding requirements. Sen. Morse spoke in support of the higher augmentation rates.

Rep. Johnson moved amendment H2899A1. **MOTION PREVAILED.**

Frank Sauro, Dean of the U of M Medical School, testified that the University hospital does not have adequate patient flow to meet their education mission or their research mission. In addition, the financial condition of the University of Minnesota Hospital is such that the medical school and hospital are both threatened. He continued with his review and testified that a letter of intent to sell the hospital has been signed. Discussion followed.

Rep. Pugh testified in support of H.F. 2484 and noted that there are questions regarding the Legislature's role in view of the autonomy of the University. Rep. Pugh also testified that he prefers that both bills remain separate.

Members agreed that H.F. 2484 does not require a Pension Commission hearing and should be referred back to the Senate and House Government Operations Committees.

Sen. Pogemiller moved H.F. 2899 as amended. **MOTION PREVAILED.**

The tape player malfunctioned at this point in the meeting and we do not have a tape of the rest of the meeting.

12. **H.F. 2864 (Onnen); S.F. 2569 (Dille): Volunteer Fire; Norwood/Young America Consolidation**  
Mr. Martin reviewed the staff memo on this issue.

Rep. Onnen testified in support of this bill and noted that both of the affected municipalities support this legislation.

Rep. Jefferson moved to amend the bill by adding a local approval clause. **MOTION PREVAILED.**

Sen. Riveness moved H.F. 2864 as amended. **MOTION PREVAILED.**

4. **H.F. 1540 (Jefferson); S.F. 2461 (Pogemiller): MTRFA; Purchase of Out-of-State Service Credit**

Mr. Martin reviewed the staff memo and the policy issues raised by this bill. He also reviewed amendment LCPR96-29 which would address some of the policy issues raised.

Karen Kilberg testified in opposition to the amendment and in support of this bill.

Doug Parr, William Mercer, testified regarding full actuarial value computations.

Rep. Kahn moved a handwritten amendment to page 2, line 1, delete "10" and insert "3" and on page 2, line 11, delete "one-half". **MOTION PREVAILED.**

Sen. Pogemiller moved H.F. 1540 as amended. **MOTION PREVAILED.**

11. **H.F. ( ); S.F. 2294 (Riveness): Ambulance Service Personnel Longevity Program; Technical Changes and Modify Investment Authority**  
Sen. Riveness moved an amendment requested by the State Board of Investment, SF2294-A1.  
**MOTION PREVAILED.**

Sen. Riveness moved S.F. 2294 as amended. **MOTION PREVAILED.**

14. **H.F. 2135 (Kelso); S.F. ( ): TRA; Provides Leave of Absence Service Credit for Up to One Year Leave**  
Rep. Jefferson **LAI D OVER** this bill.

13. **H.F. 2623 (Jefferson); S.F. ( ): MSRS and TRA; Modifying MSRS Refund Upon Death Procedures for the Legislators Plan, State Patrol Plan, Elected State Officers Plan, and Judges Plan; Modifying MSRS Interest Rates on Omitted Salary Deductions; Clarifying MSRS Non-Duty Disability Provisions; and Modifying TRA Annuity Application Provisions**  
Doug Mewhorter, representing MSRS, testified that the provision regarding disability due to mental illness is not an expansion of MSRS's non-duty disability provision.

Gary Austin, TRA Executive Director, testified in support of technical amendment LCPR96-28.

Sen. Riveness moved amendment LCPR96-28. **MOTION PREVAILED.**

Rep. Jefferson moved H.F. 2623 as amended. **MOTION PREVAILED.**

16. **Other Items as May be Added by Chair**

Sen. Pogemiller reviewed LCPR96-36. He stated that this amendment would allow a municipality to sell bonds to pay off the unfunded actuarial accrued liability of a pension fund and the proceeds of the bonds would not be used in calculating the amount of state aid a relief association would be eligible to receive. Discussion followed. Members recommended that this issue should be studied further.

The Commission did not take action on this issue.

The meeting adjourned at 7:40 P.M.

  
Jean Lieb Gott, Secretary