February 20, 1996 17th Meeting
Basement Hearing Room, State Office Building

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 2:20 P.M.

Commission members present:
Representatives Jeff Bertram, Richard Jefferson, Bob Johnson, Phyllis Kahn, and Steve Smith
Senators Steven Morse and Roy Terwilliger

2. **Summary of 1995 Actuarial Valuations For The Statewide and Major Local Public Pension Plans**

Lawrence A. Martin, LCPR Executive Director, introduced the Commission actuary, Thomas Custis from Milliman & Robertson, Inc.

Mr. Custis began his presentation by stating that he would review the Summary of Actuarial Valuations, pension plan funding deficiencies, and recommended actuarial assumptions changes for plans other than statewide pension plans. He noted that all three of the major funds experienced gains from investments and salary. However, PERA still bears watching since their contribution level is not adequate to reduce their deficiency. He noted that some of the 1995 actuarial valuations included information on alternative actuarial results if assumption changes he is recommending are approved.

Rep. Kahn asked where investment gains come into the funding of the pension plans. Mr. Custis responded that investment gains are accounted for in the supplemental cost portion of the chart. Discussion followed and Rep. Kahn requested that in the future investment gains be shown separately from the supplemental cost.

Mr. Custis reviewed the PERA-P&F consolidation accounts and the potential problems for several municipalities if expected retirements occur soon.

Mr. Custis reviewed the process used to arrive at the assumptions recommended for PERA-P&F. He stated that the recommended assumptions were arrived at after reviewing the PERA-P&F experience study and discussing the results with the PERA-P&F actuary. He is comfortable with the agreement that has been reached on the recommended assumption changes. Mr. Custis stated, that according to statute, changes to PERA-P&F actuarial assumptions also will change the actuarial assumptions for the PERA-P&F consolidation funds. He further noted that if the PERA-P&F recommended assumption changes are approved, two relief association consolidation funds will show funding improvement under the new assumptions. His presentation continued.

Mr. Custis reviewed the impact of the recommended assumption changes on the DTRFA. He stated that the alternative assumptions for DTRFA would provide an improvement in their funding status. The StPTRFA recommended assumption changes would improve the funding for that plan so that rather than being funded with a 3% deficiency it would be funded with a 1% deficiency. For the MTRFA, the recommended assumption changes would increase normal cost and eliminate the benefits of the additional funding provided by the state a few years ago. Mr. Custis stated that the MTRFA has a serious funding problem that will not be self correcting. Discussion followed regarding MTRFA's funding problems, comparative data on similar funds throughout the country, and potential actions the Commission actuary might suggest.

Mr. Custis noted two corrections to the Summary of Actuarial Valuations. The first is on page 3, the last paragraph, \$500,000,000 should be \$500,000. The second is on page 7, the footnotes should be deleted.

Mr. Martin asked what statutory actuarial assumption changes Mr. Custis would recommend are necessary this year. Mr. Custis responded that the primary actuarial assumptions requiring a statutory change that he would recommend this year are the salary scale assumption, in which the salary assumption would change from a flat 6.5% to a 5% base plus a merit scale, and the payroll growth assumption, in which the assumption would change from 6.5% to 5% for most plans and from 6.5% to 6% for fire plans. These recommended changes would involve PERA-P&F, the PERA-P&F consolidation accounts, five of the MSRS administered plans (other than MSRS-General), and the three first class city teacher plans. Mr. Martin stated that these recommended assumption changes could be amended to the omnibus pension bill. He stated that it would be optimal to make these changes. Rep. Kahn asked what would the consequence be if these changes were not made. Mr. Custis responded that the consequence for not changing these assumptions would be that the next actuarial valuations would not provide the best picture of the actuarial status of these pension plans.

1. **Approval of Minutes of January 22, 1996 Meeting**

Rep. Johnson moved approval of the minutes of the January 22, 1996 meeting. **MOTION PREVAILED.**

3. **Other Items as May be Added by Chair**
Supplemental State Government Appropriations Bill Proposing Change In Handling Excess Police State Aid

Mr. Martin stated that Rep. Rukavina has requested that the Pension Commission review language dealing with the handling of excess police state aid which is being considered for inclusion in the supplemental appropriations bill. Mr. Martin reviewed the staff memo on this issue and noted that the language deals with two changes. One of the changes would be to send out only the appropriate aid amount and to retain the excess rather than the current method of sending the aid out and requiring a return of the excess aid amount. This would permit the state to earn interest on the excess aid amount and simplify the process. The other change would be to exclude firefighters from receiving excess police state aid. Currently the excess police state aid is being provided to paid firefighters that are covered by PERA-P&F and this provision would exclude them. He referred members to a handout provided by the Finance Department laying out the changes and showing the dollar amount these two changes would gain.

Phil Kapler, Department of Finance, further reviewed these changes that are included in the Governor's supplemental budget recommendation. He testified that the primary issue was to change the administrative process and the secondary issue was to segregate the PERA-P&F police and fire payrolls and provide additional excess police aid. Discussion followed.

Rep. Johnson stated that he doesn't have a problem with the first change. He was, however, concerned about the dispute between PERA, the Finance Department and Pension Commission staff regarding whether PERA has correctly interpreted the statutes in the distribution of the excess police state aid over the last 20 years.

Mary Vanek, PERA, testified that in 1977 PERA was directed to collect the excess police state aid. PERA requested clarification and the Commerce Department responded by memo. It stated that PERA should take the total employer contribution paid for every member of the police and fire fund, compare it to what those municipalities and counties received in aid, and if there was an excess distributed to those municipalities and counties, PERA was to collect it and deposit it in the PERA-P&F fund. In 1989 and 1994, some of the excess aid was redirected by the Legislature. During the 1995 Interim, LCPR staff questioned PERA with regard to the excess police state aid distribution procedures. Today, PERA's assistant attorney general recommended that PERA request a statutory change to clarify the language regarding the uses for excess police state aid.

Rep. Johnson again stated that he would support the administrative change to eliminate providing excess state aid and then reclaiming it, but he would prefer to study the second issue. Discussion followed.

Brian Rice, from Best & Flanagan and representing Minneapolis Police and Fire, testified regarding when the aid is paid. He testified that the bill passed last session provided for payment of police and fire state aid on September 1, and payment of the excess police supplemental amortization aid on October 1. He is concerned that moving the police and fire state aid payment to October 1 might cause problems.

Mr. Kapler testified that he does not see a problem occurring due to the change in date to October 1.

Mr. Martin noted that the Commission lacks a quorum to provide an official recommendation.

Rep. Jefferson stated that there are enough members to act as an administrative body.

Mr. Martin stated that MS296 changes the police state aid distribution procedures but does not exclude paid firefighters from receiving excess police state aid. It could be interpreted as sanctioning PERA's excess police state aid distribution procedures.

Rep. Kahn suggested adding language that requires the Pension Commission to study excess police state aid distributions so that the Commission does not appear to be sanctioning PERA's current procedure.

Ms Vanek testified that PERA needs to segregate police and fire members so that it will be clear who is impacted by excluding paid firefighters from receiving excess police state aid.

Rep. Kahn suggested adding language directing PERA to segregate police and fire data so that the Commission will know what the impact will be on municipalities if firefighters are excluded from excess police aid.

Mr. Kapler suggested that the Legislature mandate that the employing units, when they make application to the Department of Revenue to receive state aid, certify what their prior year's expenditures were for fire and police services. Discussion followed.

Mr. Martin reviewed amendment LCPR96-50 which, as a good housekeeping measure, would move the amortization aid portion of the language to a more appropriate place in statute.

Rep. Kahn moved amendment LCPR96-50. **MOTION PREVAILED.**

Rep. Jefferson directed Mr. Martin to convey the informal position of the Commission in a response to Rep. Rukavina's memo.

The meeting adjourned at 4:20 P.M.

Jean A. Liebgott

Jean Liebgott, Secretary