

May 23, 1996
Room 10, State Office Building

18th 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 2:10 P.M.

Commission members present:

Representatives Richard Jefferson, Bob Johnson, and Phyllis Kahn
Senators Steven Morse, Lawrence Pogemiller, Phil Riveness, and LeRoy Stumpf

Commission members with an excused absence:

Representative Steve Smith and Senator Roy Terwilliger

1. **Approval of Meeting Minutes Meetings of, January 29, February 2, and February 20, 1996**
Sen. Riveness moved approval of the minutes of the meetings noted above. **MOTION PREVAILED.**

2. **Review of 1996 Session Pension Legislation**

Edward Burek, LCPR Deputy Executive Director, reviewed the summary of legislation that passed in the 1996 Session. He noted that the most significant legislation that passed for MSRS-General dealt with the U of M hospital employees pension benefits if the hospital merges with Fairview Hospital. Those employees would no longer be public employees and for pension benefit purposes would be considered terminated employees. Special provisions were passed specifically for those employees such as the 5.5 percent per year augmentation rate to age 55 and 7.5 percent rate thereafter.

Mr. Burek also reviewed the Wilmar Treatment Center service credit purchase repealer since that topic is one of the Commission's mandatory study topics.

Mr. Burek continued reviewing the session summary.

Sen. Pogemiller asked if any pension legislation passed that was not recommended to pass by the Pension Commission. Mr. Burek stated that the minimum fire state aid provisions were reviewed in concept by the Commission but the language was not reviewed by the Commission. The Hastings part-time teacher deadline extension was not heard by the Commission but was similar to the provision for the New York Mills part-time teacher extension which was passed by the Commission. Lawrence A. Martin, LCPR Executive Director, stated that the revision of the expanded list investment authority, the change in dates for receipt of amortization aid, the requirement for filing economic interest statements with the Ethical Practices Board in addition to the pension plan's office, the St. Louis Park exclusion of firefighters from civil service, the tort liability and immunity for non-profit firefighting corporations, the Kanabec hospital employees authorization to elect PERA General coverage, the repealer of the obsolete pre-73 escalation provision, the repealer of the obsolete PERA board of trustee term provision, and the transitional provision for current physicians covered by PERA General who switch prospective coverage to the PERA Defined Contribution Plan were not reviewed or recommended by the Pension Commission.

Sen. Pogemiller asked whether a precedent has been set in the legislation concerning the Kanabec hospital employees election of PERA General coverage. Mr. Burek stated that the Kanabec hospital employees declined PERA General coverage several years ago so the legislation providing prospective coverage now means that their choice was not irrevocable. The employer will be required to make the employer contribution if PERA coverage is elected so this legislation does have a cost. The legislation also contains a local approval clause.

Sen. Pogemiller asked who signed off on the two repealers included in the Revisor's bill. Mark

Shepard, House Research, testified that when the Revisor's bill is introduced in mid-session it goes through the Committee process. Discussion followed.

Eugene Waschbusch, StPTRFA Executive Secretary, testified that the provision to revise the expanded list investment authority was added in Senate Government Operations by Senator Metzen at the request of the first class city teacher funds.

Sen. Pogemiller stated that he expects all amendments relating to pension issues to be reviewed by LCPR staff. Discussion followed.

3. Review of Legislatively Mandated Commission Studies

Mr. Martin reviewed the four studies the legislature has mandated the LCPR to perform. The mandated studies are 1) defined contribution and defined benefit pension plans; 2) treatment center employees purchase of service credit; 3) uses of police state aid; and 4) the investment performance attribution task force. Mr. Martin stated that the investment performance attribution task force met just prior to this LCPR meeting and began their work. He stated that the defined contribution and defined benefit pension plan study topic was on today's agenda for its initial review. Mr. Martin further stated that with regard to the mandated study of the treatment center employees purchase of service credit, several additional employees have come to light who have circumstances similar to the treatment center employees and who also may wish to purchase service credit. The study regarding the uses of police state aid will not be addressed until later this year since other work needs to be completed by the Department of Finance and PERA before the Commission can begin its study. Discussion followed regarding educational leaves and purchases of service credit.

Sen. Pogemiller stated that the Commission has not received a mandate to study the definition of salary, but he recommends that the Commission discuss and clarify that issue. Mr. Martin provided background on the issue and stated that prior to Minneapolis Police and Fire's lawsuit with Minneapolis, disputes concerning salary occurred in Red Wing, West St. Paul, Crystal and Fairmont. He also stated that the statute on the definition of salary for police and firefighters has not kept pace with compensation practices. Determining how salary is currently being defined by the police and fire departments and municipalities would be helpful. Rep. Johnson suggested that Sen. Pogemiller might want to review the salary study report which was completed in 1994.

Rep. Jefferson referred members to the tentative interim meeting schedule for the LCPR. He noted that some members had requested one day meetings rather than the two day meetings held in previous interims and he complied with that request. Sen. Morse expressed concern about being able to attend a Commission meeting in October.

Rep. Jefferson stated that at the June 13th meeting the pension uniformity bill would be on the agenda. He requested that the LCPR staff and the fund directors get together prior to that meeting to discuss the bill and its proposals. Sen. Pogemiller stated that the Executive branch is quite interested in that bill and they should be alerted to that meeting date and time.

4. Mandated Commission Study: Defined Contribution Pension Plans and Defined Benefit Pension Plans

Mr. Martin referred members to the staff memo on this issue and stated that he thought this topic might take two to three meetings. He stated that a future staff memo would deal with the advantages and disadvantages of the two types of plans while this memo deals with the relative differences between the plans.

Mr. Martin stated that this study was precipitated by the Springfield Hospital physicians requesting to be excluded from PERA coverage. He noted that pages two through five of this memo contain a summary of the public pension plan coverages provided and although many of them are defined benefit plans, several are defined contribution plans. He also noted that some of the plans have optional coverage while some have elective coverage. Mr. Martin continued with the review of the staff memo.

Sen. Morse questioned the salary requirements for local elected officials membership in PERA. Mr. Martin responded that if a local elected official exceeds the PERA salary threshold, they qualify for PERA-General coverage. Sen. Morse questioned whether that applies to school board members and whether per diem payments are included. Laurie Hacking, PERA Executive Director, stated that per

diem payments would be included if they were not paid to compensate for expenses. She further testified that there are approximately 4,000 members in PERA's defined contribution plan. Sen. Morse questioned how a PERA General retiree who becomes a local elected official and whose salary exceeds the \$425 per month threshold would be handled.

Mary Vanek, PERA, responded that if a PERA annuitant becomes an elected official with a salary that exceeds the PERA threshold, they cannot opt for the defined benefit plan they can only choose to participate in the defined contribution plan.

Mr. Martin reviewed the last part of the staff memo which characterized the attributes of defined benefit plans and defined contribution plans.

Sen. Stumpf requested clarification on how defined benefit plans are susceptible to manipulation. Mr. Martin stated that the windfalls that occur after a benefit increase for members who retire shortly thereafter is an example. Discussion followed.

Cheryl Furrer, MEA, testified in support of the continuation of defined benefit plans for teachers and testified in opposition to defined contribution plans as a replacement for them. She testified that defined benefit plans reward longevity and Minnesota's teaching personnel are in the top five in years of teaching experience compared to other states. In a survey in which 42 states out of 50 responded, 98% provided defined benefit plans for their teachers.

Sen. Stumpf asked if the disparity in salary and benefits between school districts was decreasing. Hank Stankiewicz, MEA, testified that across the state, disparities in salary and benefits are increasing. He suggested regional bargaining as a solution to this problem. Sen. Stumpf questioned whether MEA might support establishing a defined contribution plan to assist in reducing or eliminating the disparity. Ms. Furrer testified that MEA would certainly review a proposal to establish such a plan. Sen. Morse suggested that requiring teachers statewide to contribute the same dollar amount employee pension contribution might solve the disparity problem for pension benefits. He also questioned what might be done to provide more portability. Ms. Furrer testified that the portability problem may have to be addressed on a national level. Rep. Johnson stated that he believes the federal government did enact portability provisions in 1986 but to date they have only been acted upon by two states.

Ms. Hacking, PERA, reviewed a handout showing how defined benefit plans and defined contribution plans achieve an employee's and an employer's goal.

Dave Bergstrom, MSRS Executive Director, reviewed a handout called "A Positive Look at Minnesota Public Pension Plans" and referred members to page 8. He testified that defined contribution plan employee and employer contribution rates are often higher than defined benefit plan rates in Minnesota. He also testified that according to The Wyatt Company, self directed assets in a defined contribution plan provide a return of 2% to 3% less than that earned by institutional investors because most employees are not willing to take the risk necessary to improve investment returns. Discussion followed regarding investment returns.

Gary Austin, TRA Executive Director, reviewed a handout discussing current pension portability and augmentation issues and suggestions for improving those benefits. He testified that if a current member of TRA with 10 years of service and an average salary of \$30,000 left the plan, they would have a pension benefit of \$4800 a year if they were 65 years of age. If that member were age 35 when they left the plan and they deferred their benefit, the augmented benefit would triple in value by age 65. Sen. Morse questioned how the deferred augmentation rate of 3% and 5% was determined. Mr. Austin responded that prior to 1981 the rate was 5% per year for augmentation and then was changed to the current 3% rate to age 55 and 5% rate thereafter. Sen. Morse suggested looking at those rates in the future and tying them to the CPI or something that might make more sense. Mr. Austin then reviewed some alternative portability proposals. Sen. Morse asked what is a TRA members average salary increase. Mr. Austin responded that it is approximately 3%. Mr. Stankiewicz testified that it averages 3.5% including moving through lanes and steps.

Mr. Bergstrom testified that up to 79% of members leaving public employment do not roll their refund over into another plan.

Gus Welter, retired volunteer firefighter, testified that defined contribution plans for volunteer firefighters have a smaller employer contribution and smaller employee benefit. He further testified that many volunteer firefighter plans may be out of compliance with IRS rules since their compensation is small and to maintain a tax qualified plan, contributions to the pension plan are limited to a percentage of salary.

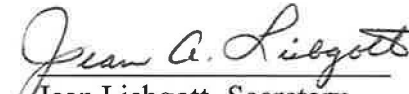
Bob Gunderson, MFT, testified strongly in support of defined benefit plans. MFT only supports defined contribution plans as supplements to defined benefit plans.

Steve Hunter, AFSCME, testified strongly in support of defined benefit plans. AFSCME represents 45,000 members and opposes replacing the defined benefit plan with a defined contribution plan. He further testified that portability is not an issue for AFSCME members.

Rep. Kahn asked what MFT and AFSCME members might think of a defined contribution plan if it was in conjunction with the defined benefit plan and was the only possible way to provide a benefit increase. Mr. Hunter testified that his members would review any proposal to provide a supplemental defined contribution plan.

Rep. Kahn suggested that the Commission continue to monitor and discuss the issue of privatization of public pension funds.

The meeting adjourned at 5:15 P.M.


Jean Liebgott, Secretary