June 13, 1996 19th Meeting
Room 10, 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 12:45 P.M.

Commission members present:
Representatives Richard Jefferson, Bob Johnson, and Phyllis Kahn
Senators Steven Morse, Lawrence Pogemiller, and Phil Riveness

Commission members with an excused absence:
Representative Steve Smith and Senators LeRoy Stumpf and Roy Terwilliger

Rep. Jefferson started the meeting with agenda item two since agenda item one required a vote by the Commission and a quorum was not yet present.

2. **Review of H.F. 3281 (Jefferson); S.F. 2890 (Pogemiller): Various Public Pension Plans, Benefit Uniformity Proposal**

Ms. Laurie Hacking, PERA Executive Director, began the presentation on this issue. She testified that the benefit uniformity proposal is a joint proposal covering the three statewide funds and the three first class city teacher funds. Ms. Hacking provided background information and testified that the State of Minnesota's retirement benefits rank low in the initial years of retirement in comparison with several other states due to the low benefit accrual rate but rank high in the later years of retirement due to the high post retirement adjustment mechanism. She further testified that the goals of the proposal are to bring uniformity among the pension plans, to improve pension benefit design, to address funding deficiencies, to be cost neutral, and to implement pension reform.

Sen. Morse questioned whether there is a way to combine into a single figure the benefit at retirement and the cumulative impact of the escalators so that the figure could be used to compare Minnesota's retirement benefit with that of other states. Mr. Thomas Custis, Commission-retained actuary from Milliman & Robertson, Inc., responded that it would be possible to do that from an actuarial perspective but the dynamics are such that it would require making several assumptions. He stated that a rule of thumb might be that a 1% difference in the COLA over the lifetime payout of an annuitant who retires at age 65 is the equivalent of a 10% change in the multiplier. Mr. Lawrence A. Martin, LCPR Executive Director, stated that an actuarial valuation using another state's benefits with the MSRS membership data could provide an accurate comparison.

Mr. David Bergstrom, MSRS Executive Director, continued with the presentation on this issue. He began by reviewing one of two provisions meant to bring uniformity among the statewide plans and the first class city teacher plans. The provision would set the benefit accrual rate for all six plans at 1.7% per year of service for the level benefit tier and 1.2% for the first ten years with a 1.7% accrual rate for all additional years of service for the "Rule of 90" tier.

Mr. Bergstrom testified that another provision to bring uniformity among the six plans would be the provision of a post retirement adjustment containing both a COLA and an investment based increase adjustment. The provision would reduce the COLA component of the post retirement adjustment mechanism by 1% which would reduce the current guaranteed COLA of up to 3.5% to 2.5% plus excess investment earnings for the three statewide plans. The 1% reduction in the COLA component would be used to fund the higher accrual rate for those three plans. The three first class city teacher plans would provide a post retirement adjustment with a guaranteed 2% COLA component plus an excess investment earnings component. This provision would replace the thirteenth check for the StPTRFA but it would not be a change for either DTRFA or MTRFA. The three first class city teacher funds would increase employee contributions to pay for their higher accrual rate provision. Discussion followed.

Mr. Bergstrom testified that the proposal would change the interest assumption for the excess investment earnings component of the post fund mechanism from 5% to 6%. Using this year as an example, he testified that this year retirees received a post retirement increase of 6.4% (3.1% was the COLA component and 3.3% was the excess investment earnings component). If the changes proposed in this bill had been in place, the increase would have been 5.4% (2.5% for the COLA and 2.9% for the excess investment earnings). Mr. Bergstrom reviewed comparisons of the effects of the change in the benefit accrual rate and the post retirement mechanism on future retirees. He also testified that current statewide plan retirees would receive a one time lump sum adjustment in exchange for their reduced future post retirement adjustments. He then reviewed a comparison of the effects of the lower future post retirement adjustments. He testified that the retiree groups support these provisions.

Sen. Morse asked what the public policy reason was for front loading retirement benefits. Mr. Bergstrom stated that people enjoy their retirement more in their earlier years. Sen. Morse stated that the costs for retirees to maintain themselves after reaching age 80 or 85 increase significantly. He asked if Mr. Bergstrom knew the percentage of MSRS retirees over 85 who live in nursing homes. Mr. Bergstrom stated that he did not know the exact number but it was less than was expected and the difference in dollar value between the current benefit and the proposed benefit would be approximately $2,500 so it would not have a great impact. Sen. Morse requested that the pension plans provide more information on this aspect of the proposal.

Rep. Jefferson noted that a quorum was now present so he reverted to agenda item one.

1. **Review of Proposed Revisions to the Commission's Standards For Actuarial Work**
Mr. Custis, the Commission-retained actuary, testified that he had recommended fourteen changes to the Standards in his letter of May 6, 1996. He testified that seven of the fourteen were specifically related to the assumption changes adopted for the three major statewide funds. Three more changes were related to legislative provisions enacted since the Standards were last updated. Three were ministerial adjustments to dates. Only item seven in the May 6th memo, which was revised in a subsequent memo dated June 7, 1996, represented a substantive change. That item relates only to the DTRFA and MTRFA, the way they calculate their post fund COLA, and the five year averaging mechanism they use. There is an identifiable deferred liability that is a factor in their other losses in their actuarial valuations and Mr. Custis recommended that it be recognized. The June 7th memo is a clarification of the actual practice in computing that COLA. Mr. Custis noted that he had not received any comments on thirteen of the changes recommended but he did have discussions with the actuaries for DTRFA and MTRFA on item 7. One of the comments had to do with the Commission not adopting the assumption changes for the smaller retirement plans. The change in methodology being proposed in item 7 would create a fairly significant recognition of liability and make the DTRFA and MTRFA current deficiencies appear greater. Without the recommended assumption changes, the distortion would be greater than it currently is. He testified that the Commission may want to defer the change recommended in item 7 until the Commission acts on the assumption changes for the smaller funds.

The other comment Mr. Custis received had to do with the Commission potentially considering a totally different method of recognizing assets for actuarial valuation purposes for all Minnesota public pension plans. The current method of valuing assets for valuation purposes is to use 1/3 of market value and 2/3 of cost value. This method is intended to recognize changes in market value less rapidly and smooth the changes. He testified that another method could be developed that may potentially further smooth market performance and would create a deferred asset that for DTRFA and MTRFA would parallel the deferred liability recognized in item 7 above. Discussion followed and Mr. Custis stated that his recommendation to adopt all fourteen changes still stands but if the Commission had reservations about adopting item 7 because of the valid issues raised, he recommended adopting the other 13 items.

Sen. Pogemiller moved adoption of 13 of the items recommended and excluding item 7 at this time. **MOTION PREVAILED**.

J. Stoffel, DTRFA Executive Secretary, testified that the trustees of the DTRFA Board recommend that the assumptions for DTRFA be approved prior to adoption of item 7.

Karen Kilberg, MTRFA Executive Director, testified in support of delaying implementation of item 7 until the assumption changes are approved. Discussion followed.

Eugene Waschbusch, StPTRFA Executive Secretary, testified that the StPTRFA actuary, Gabriel, Roeder, wishes to discuss the issue with Mr. Custis to ascertain the effect of item 7 on their fund if the uniformity provisions pass.

Sen. Pogemiller recommended that the Commission actuary and the funds' actuaries deal jointly with the asset and liability problem and provide a recommendation to the Legislature for a statutory change and a change to the Standards for Actuarial Work.

Rep. Jefferson reverted to agenda item two, the **Benefit Uniformity Proposal**.

Gary Austin, TRA Executive Director, began his part of the presentation dealing with funding the proposal. He testified that the primary funding mechanism for this proposal is the reduction in the post retirement adjustment mechanism formula. He stated that the MSRS employee contributions will not change. The TRA employee contributions will be reduced by 1.45% since their accrual rate is already at 1.63% and the reduction in the post fund mechanism provides enough funding to permit reducing the employee contribution rate. The PERA employee contribution will increase .40%. Sen. Morse questioned whether older, retiring PERA members will enjoy a windfall. Mr. Austin answered affirmatively.

Mr. Austin testified that the decrease in the post fund mechanism will also permit a reduction in the employer contribution for MSRS of .10% and for TRA of .64%. The PERA employer contribution will increase by .34% since PERA currently has an actuarial deficiency. Rep. Kahn stated that she would like to have more balance between the employee and employer contribution rates. Discussion followed. Mr. Austin further testified that the TRA $12 million dollar sufficiency would be transferred to PERA in the amount of $7 million dollars and transferred to the first class city teacher plans in the amount of $5 million dollars. Sen. Morse questioned the rationale for providing additional money to the first class city teacher funds. Mr. Austin testified that this was part of the general compromise agreed to by the six plans. Discussion followed.

Mr. Bergstrom reviewed the post fund mechanism change impact on the smaller plans. He testified that these changes do not add any additional cost, they simply trade higher additional benefits for lower future increases. He further reviewed the creation of a new defined contribution plan only for future legislators and constitutional officers. Rep. Jefferson questioned why not include current legislators. Mr. Bergstrom testified that if current legislators would be given this option, money would need to be transferred from the general fund immediately. Discussion followed.

Rep. Kahn requested information on legislators who would be positively or negatively impacted by adding Social Security coverage.

Sen. Morse requested information on the net impact of this proposal on young PERA members. Ms. Hacking stated that PERA had done a comparison of young PERA members who would make the higher contribution and compared it to the higher benefit they would receive and the comparison seemed to show a fair trade-off. She will see that Senator Morse gets a copy.

Mr. Bergstrom reviewed the proposed changes to the MSRS Correctional Plan. He testified that currently Correctional plan members who retire at age 55 receive a higher benefit until age 62 when Social Security kicks in and their Correctional Plan benefit is reduced. The new proposal would provide an option for a level lifetime benefit payment and an option for a slightly reduced initial benefit until age 65 and a smaller reduction in the Correctional Plan benefit than the current plan provides when Social Security kicks in at age 65. Mr. Bergstrom testified that current law provides a supplemental benefit for retired Correctional plan members which is used by approximately 1/3 of their retirees now. The proposed increase in benefits may permit elimination of the supplemental benefit. Discussion followed.

Mr. Stoffel began the first class city teachers presentation on the uniformity proposal by reviewing the goals of the proposal. He noted that the three plans would achieve uniformity by increasing the accrual rate to 1.2% and 1.7% for tier 1 benefits and 1.7% for tier 2 benefits. Further, the three plans would all use a guaranteed 2% COLA plus excess investment earnings post retirement mechanism. The three plans would have an employee contribution rate of 5.5% and the DTRFA would increase the employer contribution rate to 6.79%. Discussion followed.

Ms. Kilberg testified regarding the increase in the employee contribution rate for the MTRFA and StPTRFA. She stated that the employees of the two funds would be paying the full cost of the benefit increase. Discussion followed. Ms. Kilberg also testified that part of the TRA sufficiency would be used to offset the MTRFA and StPTRFA deficiency.

Mr. Waschbusch continued with the first class city teacher presentation regarding the uniformity provision. He testified that the proposal under consideration would provide for a COLA and excess investment earnings mechanism for StPTRFA retirees who currently receive a thirteenth check. He further testified that StPTRFA will receive a one time base benefit increase prior to implementation of the new post retirement adjustment mechanism. Mr. Waschbusch testified that they are investigating options for recognizing a greater portion of their asset value to help pay for the one time base benefit increase. StPTRFA is also considering amortizing this benefit increase over a thirty year period or by 2027 while still amortizing their current liability by 2020.

Sen. Morse recommends that the Commission discuss carefully any change to the full amortization date of 2020. He also requested a sheet showing the normal cost for all the pension plans involved in this proposal and the employees percentage of normal cost before and after this proposal.

Wayne Simoneau, representing DOER, the Department of Finance, and the Governor, testified in support of this proposal. He also requested that the Commission review H.F. 3041 (Knoblach) which is a bill that would expand and revamp the Legislative Commission on Pensions and Retirement.

Barb Goodwin, MAPE, testified in support of this proposal and introduced Gail Tessman. Rep. Johnson asked whether Ms. Goodwin was speaking for the active and retired members. Ms. Goodwin testified that this proposal has the general support of both groups. Ms. Tessman, MSRS Board Trustee, also testified in support of this proposal.

Glen West, Minnesota Government Engineers Council, testified that their 870 members support this proposal.

Gary Denault, Middle Management Association, testified that their 2700 members support this proposal and it is their number one priority for the next session.

Cheryl Furrer, MN Education Association, testified in support of this proposal and stated that it is their top priority. She further testified that MN has one of the most senior staffs in the nation.

Roger Ecklund, President of MEA/NEAR, provided background on his own experience in retiring under the "Rule of 85" and testified in support of this proposal.

Hank Stankiewicz, MEA, provided and reviewed a handout comparing Minnesota pension benefits with those of several other states. He testified in support of this proposal. Rep. Kahn requested a comparison of the effects of Minnesota's post fund ten years and twenty years out with all of the states shown in the comparison of benefits. Mr. Stankiewicz agreed to provide Rep. Kahn with that information.

Bob Gunderson, MFT, testified in support of this bill and noted that it reduces the employee contribution, it provides additional funding for MTRFA and StPTRFA, and it brings uniformity among the plans.

Russ Stanton, Interfaculty Organization and the MNSCU faculty, testified in support of the reduction in the post retirement adjustment as long as it is used to increase the accrual rate formula. He testified in support of providing a higher benefit in the early years of retirement rather than the later years.

Don Buckner, MRSEA, testified that their 5,500 members support this proposal.

John Hagman, REAM, testified that their 7,000 members support this proposal.

Gordon Graff testified that the group now before the Commission were all active or retired teachers representing the St. Paul Teachers Association for Retirement Fairness and that he had been a St. Paul teacher for 40 years and has been retired for 5 years. The group introduced themselves: Paul Christianson, an active teacher at Johnson High School who has been a teacher for 32 years; Dick Wasko, a retired teacher who taught 31 years at Johnson High School; Carol McClellan, a St. Paul teacher for 31 years and retired since 1993; Jack Pearson, a St. Paul teacher for 35 years.

Mr. Graff provided a handout, testified in opposition to this proposal for the StPTRFA, and began the presentation. He provided members with background on their organization testifying that their organization has 9 board members and a 40 member advisory council. They have supported proposals to include the StPTRFA thirteenth check in their retirees base benefit, to consolidate the StPTRFA into TRA, and their goal is to stay actively involved in pension reform until equity has been achieved. Mr. Graff testified that a St. Paul teacher who retired with a base pension of $20,000 in 1984 will receive a benefit of $23,000 this year, an increase of 18.5% while the CPI increased by 52.9% in that time period. They agree that the uniformity proposal does begin to address part of the problem but does not fully provide a post retirement adjustment mechanism equal to that of TRA. They support consolidation of the StPTRFA with TRA rather than continuing with these bandaid approaches.

Mr. Wasko also testified in opposition to the proposal. He recommended that if the Commission is considering reform, it should not stop at uniformity, it should go all the way to consolidation. This would provide true equity. Discussion followed.

Mr. Christianson testified that 60% of StPTRFA's retirees and survivors have a base benefit of $18,000 or less. He opposes the uniformity proposal and supports consolidation with TRA.

Brian Rice, representing Minneapolis Police and Fire and testifying in place of Al Berryman who had to leave, provided a handout and testified in support of including legislation in the pension uniformity proposal to also equalize pension benefits for Minneapolis Police and Fire. He reviewed the other points stated in the handout.

Rep. Jefferson requested that any revisions of the benefit uniformity proposal be provided to all affected parties including the LCPR staff and stated that this proposal will be on a future agenda.

The meeting adjourned at 4:40 P.M.

Jean Liebgott

Jean Liebgott, Secretary