

March 12, 1997
Room 112, Capitol

2nd Meeting



LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Representative Steve Smith, Secretary of the Legislative Commission on Pensions and Retirement, called the meeting to order at 2:13 P.M. since Sen. Morse had a bill up in another committee.

Commission members present during this meeting:

Representatives Richard Jefferson, Phyllis Kahn, Harry Mares, Mary Murphy, and Steve Smith
Senators Don Betzold, Steven Morse, Lawrence Pogemiller, and Roy Terwilliger

1. **Summary of 1996 Actuarial Valuations For the Statewide and Major Local Public Pension Plans and Review of Recommendations on Actuarial Assumption Changes and Asset Valuation Method Change**

Lawrence A. Martin, LCPR Executive Director, introduced Thomas Custis and William Hogan from Milliman & Robertson, Inc. to review the Summary of 1996 Actuarial Valuations. Mr. Custis provided a brief overview of the valuation process and turned the presentation over to Mr. Hogan. Mr. Hogan reviewed the funded status of the major pension plans. He noted that PERA has a funding deficiency, PERA-P&F has a funding sufficiency and several of the consolidation accounts are close to full funding. He went on to state that all MSRS administered plans have a funding sufficiency except for the Judges plan, which has only had a fund established for a few years. He then reviewed the status of the first class city teacher plans. He stated that the DTRFA has a slight deficiency while StPTRFA and particularly the MTRFA have a significant deficiency.

Mr. Custis reviewed the proposed changes in the asset valuation method and assumption changes. He noted that experience studies were completed in 1995 and they indicated that the economic assumptions should be changed to more accurately reflect the experience of the plans involved. Mr. Custis stated that economic assumption changes require legislative action and Mr. Martin drafted amendment LCPR97-13 to reflect the proposed economic assumption changes.

Mr. Custis then reviewed the proposed change in the method of valuing assets as reflected in amendment LCPR97-12. He noted that the current method has been used since 1984. The method that he proposed provides a smoother way to value assets and is driven by the market value of assets rather than the cost of assets. Sen. Pogemiller questioned whether the funds support the proposed changes. Mr. Custis responded affirmatively.

Rep. Jefferson moved approval of amendment LCPR97-13. **MOTION PREVAILED.**

Sen. Pogemiller moved approval of amendment LCPR97-12. **MOTION PREVAILED.**

2. **Mandated Study: Report on the Use of Police State Aid to Fund PERA-P&F Pension Coverage for Salaried Firefighters**

Mr. Martin reviewed the staff memo for the third consideration of this issue. He noted that approximately \$1 million of the 1996 excess police state aid was used to fund firefighter pension plans. Minnesota Statutes permit \$1 million of excess police state aid to be used to fund the Ambulance Service Personnel Longevity Award, to fund a police stress reduction program if one is created and money appropriated, half of the remaining excess police state aid provides additional amortization aid, and the other half of the remaining excess police state aid cancels to the General Fund. Mr. Martin then reviewed the four options to resolve the issue of using excess police state aid to fund PERA-P&F covered firefighters and the four draft amendments to accomplish each option. Mr. Martin concluded by reviewing the policy issues raised by the four options.

Senator Morse took the Chair.

Sen. Stumpf asked for clarification on where police state aid comes from. Mr. Martin stated that police state aid is a result of the 2% premium tax on auto insurance. Sen. Stumpf questioned whether the \$.50 theft prevention surcharge on auto insurance is used for pension purposes. The response was negative.

Sen. Pogemiller suggested Option B, which would authorize police state aid to be used to fund PERA-P&F employer contributions for paid firefighters. Sen. Morse suggested Option C, which would freeze the 1996 distribution and avoid any adverse impact on the municipalities that benefited from past PERA practice. Discussion followed.

Member's agreed to lay this issue over until the Friday, March 14, meeting.

3. S.F. 91 (Cohen); H.F. 22 (Rukavina): Police State Aid Program; Payment of Various Omitted 1996 Aid Amounts

Mr. Martin reviewed the staff memo on S.F. 91 (Cohen); H.F. 22 (Rukavina). He noted that the Senate Governmental Operations and Veterans Committee reviewed this bill on February 26, 1997. The Committee adopted amendment SCS0091A-1, which eliminates section 1 of the bill, and then rereferred the bill to Senator Price's Governmental Operations Budget Division. Mr. Martin recommended that the Pension Commission accept the amendment added by the Senate.

Sen. Pogemiller moved S.F. 91 as amended by SCS0091A-1. **MOTION PREVAILED.**

4. S.F. 163 (Pogemiller); H.F. 300 (Kahn): Police State Aid Program; Clarification of 1996 Excess Police State Aid Changes

Mr. Martin reviewed the staff memo on S.F. 163 (Pogemiller); H.F. 300 (Kahn) and noted that this bill corrects the error in the 1996 legislation that modified the way excess police state aid was determined causing a reduction in police state aid for seven municipalities and one metropolitan agency.

Mr. Martin reviewed amendment LCPR97-38 which accommodates the transition of Metropolitan Airports Commission police officers into PERA-P&F coverage.

Sen. Pogemiller moved S.F. 163 as amended by LCPR97-38 and by deleting Section 12, which was addressed by S.F. 91 previously recommended by the Commission. **MOTION PREVAILED.**

5. S.F. 466 (Terwilliger); H.F. 568 (Delmont): Volunteer Fire Relief Associations; Increase Uppermost Monthly and Lump Sum Flexible Service Pension Maximums

Edward Burek, LCPR Deputy Executive Director, reviewed the staff memo and background on this issue. He noted that the last increase in both the monthly and lump sum service pension maximums was 1990 and that in 1993, the lump sum service pension maximums were increased on a phased-in basis. In 1995 the fire related insurance premium laws changed and the 1996 fire state aid jumped by 30.5%. He also noted that in 1996 a minimum aid program was established. Mr. Burek reviewed the seven policy issues raised by this legislation. He also reviewed amendment LCPR97-39, which was a technical amendment that deleted obsolete phase-in language.

Rep. Mares questioned whether the increase in service pension maximums should be phased-in as had been done previously and whether there was anyone present that could testify on this issue. Mr. Burek stated that he did not have a phase-in amendment prepared but would prepare one if member's preferred that method.

Sen. Terwilliger stated that Nyle Zikmund was prepared to testify on this issue and the Senator then questioned whether a pension fund could have an unfunded actuarial accrued liability and still provide a benefit increase. The response was affirmative but the benefit increase would require municipal approval.

Rep. Kahn questioned whether some pension funds have established a defined contribution plan in addition to a defined benefit plan. Discussion followed.

As another committee had reserved this meeting room for 4:00 P.M., Sen. Morse laid this bill over to the meeting of March 14, 1997.

The meeting adjourned at 4:05 P.M.


Jean Lieb Gott, Secretary