March 14, 1997
Room 112, Capitol

3rd Meeting

LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

March 14, 1997 Meeting

Senator Steven Morse, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 2:15 P.M. A quorom was present.

Commission members present:
Representatives Richard Jefferson, Phyllis Kahn, Harry Mares, Mary Murphy, and Steve Smith
Senators Don Betzold, Steven Morse, Lawrence Pogemiller, LeRoy Stumpf and Roy Terwilliger

1. Lawrence A. Martin, LCPR Executive Director, reviewed the budget for the Legislative Commission on Pensions and Retirement. He stated that the budget came in within the Governor's budget guidelines. Representative Mares moved to approve the budget as proposed. **MOTION PREVAILED.**

2a. **Mandated Study: Report on the Use of Police State Aid to Fund PERA-P&F Pension Coverage For Salaried Firefighters.**
Senator Morse discussed memo 12M397LM, dated March 11, 1997, drafted by Mr. Martin. This was distributed to members. Senator Morse noted that 29 of the 52 municipalities that are getting the excess aid are at the top or the upper end of service pension coverage. Mr. Martin reviewed his memo and the table in this memo. Senator Morse recommend using option B, which would clearly authorize police state aid to fund paid firefighter employer PERA-P&F obligations.

Bob Wetherille, Secretary for the Minnesota State Fire Department Association, testified that volunteer firefighters do not receive any excess police aid. Senator Morse noted that this resolution would allow a city to use their fire state aid to pay the pensions of either paid or volunteer firefighters.

Mr. Martin explained that currently fire state aid goes to local relief associations. If option D were adopted (LCPR97-36; page 3, line 36), a city that has paid police and paid fire excess aid could be allocated between the two, whichever way the city authorizes.

Senator Pogemiller asked for clarification between Option C and Option D of Mr. Martin's memo. Mr. Martin explained that Option D is a phase-out over a period of five years. Option C is a grandparenting-in of that set dollar amount. Representative Smith commented we should look at how much these cities are getting now in local government aid. Represenitive Kahn said we should look at what the law is and, if the law is being misapplied, fix it. Senator Morse recommended Option D. Senator Betzold moved that the LCPR opt for Option D. **MOTION FAILED.** Senator Morse laid over both issues in item 2 for the next meeting.

3. **S.F. 15 (Solon); H.F. 54 (Murphy): TRA and MSRS; Authorizing Former Member To Repay Past Refunds.**
Representative Murphy gave a brief overview of this bill and noted that this person will probably never be a public employee again. Mr. Martin noted this person took a combined, eight-year service refund. He would be vested if he rapaid this refund. We have never let a person who is not currently a public employee repay a refund. This may set a precedent that would lead to other legislation. Senator Morse asked if there would be any tax consequences. Mr. Martin responded he was unaware of any. Representative Murphy said the uniqueness of this situation is that this person is now in the clergy and probably will not again become a public employee. Represenative Mares asked that if a person actually could re-buy the payment he lost, what would be the actuarial cost? Dave Bergstrom, Director of the Minnesota State Retirement System, responded the cost would be $4,042.66. The benefit available would be $55 per month. The present value would be $6,199.18. This person took a refund in 1972. Gary Austin, Director of TRA, said this person had six years of service with TRA. He took a refund in 1991, and in the 60's and in the 80's. The benefit would be $531 a month. The actuarial cost would be about $78,000.

Representative Smith moved to recommend approval of S.F. 15; H.F. 54. **MOTION FAILED.**

7. **S.F. 626 (Fishbach); H.F. 883 (Stang): PERA; Refund of Contributions For Privatized Melrose Hospital - Pine Villa Employees**

Senator Fishbach reviewed the background on this bill. Ms. Jackson, Administrator, Melrose Hospital, testified that Melrose Hospital is being privatized without any say by employees. Mr. Martin reviewed the staff memo and noted LCPR past action on these issues and three models used in the past. This bill follows the Albany/Canby model. In 1987 the conference committee stated its intent that this be the last time this model was used. Mr. Martin suggested designating one of the three models as the optimal model, or creating a fourth optimal model. Mr. Martin then reviewed technical amendment LCPR97-41 to clarify the applications for a refund. Senator Morse asked what the interest rate would be if this refund were paid. Mr. Martin responded it would be 6%.

Representative Jefferson inquired about a bill a few years ago for Olmsted Hospital. He asked what it did as far as a new plan for employees. Mr. Martin did not have any specific information. He suggested PERA would have more specific information. Mary Vanek, Director of PERA, testified that the employer contribution, if all individuals took a refund, was $1.2 million. Olmsted did a study of public benefits. For those individuals vested over the age of 40, the deferred benefit available through PERA was much more valuable to them. 99 of the affected individuals were vested, and of those 99, 70 of them were over the age of 40. According to this study, it was advantageous to defer their benefits. Ms. Vanek testified that refunding employer contributions would set a precedent. PERA is not a defined contribution plan and does not permit refunding employer contributions. According to Chapter law from 1996, relating to the Itasca Hosptial, only those employees who were not vested were entitled to receive, through the employer, not PERA, an amount of money that was equal to the refund they were entitled to through PERA.

Representative Harder introduced Tom Evans of Sioux Valley Health System. Represenative Harder provided that the communities of Jackson and Tracy are in a situation similar to that of Melrose. Mr. Evans testified in support of this bill.

Mr. Martin referred to the Pension Principles, page 3, principle 20, the topic of privitization.

Representative Kahn recommend the Olmsted County or Itasca model as a resolution. Mr. Evans said that Tracy and Jackson are leasing facilities, not buying facilities. Senator Morse suggested using the Itasca model for resolution of this legislation and for future similiar legislation. Senator Fishbach spoke in support of this bill. Senator Morse asked what the value would be of refunding employer contribution. Senator Fishbach responded it would be around $50,000. Representative Stang stated the cash was not available to refund the employee contributions. Senator Stumpf asked if this is similar to the Ramsey Hospital model. Mr. Martin said the impact would be the same, but it is technically who they are employed by.

Representative Smith asked if the authors of the bill and the author of the amendment want to pursue a vote today or table it for further study. Rep Kahn suggested the authors meet with LCPR staff and PERA and come back with a possible solution that would be more in mind with the 1995 solution. An answer was requested by Senator Morse within 10 days.

8. **S.F. 1033 (Pappas); H.F. 765 (Dawkins): MSRS; Refund Repayment Authorization For Certain Metropolitan Council Employee**

Representative Dawkins provided an overview of this bill. Mr. Shumee wants to repay $17,000 to buy back his past service credit. Without an election, he was given a refund in 1978. He was not aware that he had a choice. Edward Burek, Deputy Executive Director, stated that when an individual takes a refund, the individual foregoes benefits in favor of that refund. Taking the refund eliminates all liability that the pension plan had. Mr. Burek said that state law prohibits repaying refunds The full actuarial cost would be $43,000. Passage of this bill would set a precedent for future legislation. Senator Morse asked if allowing a full actuarial buyback would set a new precedent. Mr. Burek stated this would be a new use of full actuarial values. Representative Jefferson asked who would be liable for the employer share at that time. Mr. Burek said boilerplate language would permit the employer to pay.

Dave Bergstom, Director, MSRS, gave background on this bill. They have no record of Mr. Schumee prior to 1975. Representative Murphy asked how the refund was administered. Mr. Schumer said at some point he was given a check; he could not remember the details. He did not know whether he had any recourse. He stressed he never left the organization. Senator Morse observed that Mr. Schume is not the only person in this situation and if this legislation is allowed, he feels this will set a precedent for other people in similiar situations.

Representative Dawkins made a concluding remark that this is a unique situation since Mr. Schumee was with the same employer throughout his career. Senator Stumpf also noted the uniqueness of this situation. Senator Stumpf asked Mr. Bergstrom if there are any other employees in this situation. Mr. Bergstrom stated they have no paperwork on this. He said he has no way of identifying how many people may be in this same situation.

Representative Jefferson noted doubt about the refund being mandatory. Mr. Martin said Mr. Schumee was not vested but Mr. Martin was not certain if the refund was required. Representative Jefferson asked Mr. Bergstrom to find out if Mr. Schumee was required to take the refund since he was not vested.

This bill was laid over pending further information.

The meeting adjourned at 4:25 P.M.

Jean Liebgott

Jean Liebgott, Secretary