March 21, 1997
Room 112, Capitol

5th Meeting

LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Senator Steven Morse, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 2:20 P.M.

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

2b. S.F. ...(...); H.F. 1230 (Johnson, R.): TRA; Purchase of Prior Service Credit For a Misreported Leave

Representative Ruth Johnson reviewed the history of this bill. Lawrence A. Martin, Executive Director, Legislative Commission on Pensions and Retirement, reviewed the staff memo for this bill. A Mankato teacher leave was misreported to TRA and as a consequence the teacher has not been able to receive service credit for the three-year leave. There is a question of the facts and the culpability for the delay in resolving this matter. Representative Johnson said the actuarial cost is approximately $67,000. Senator Morse questioned the culpability of TRA in this matter. Senator Johnson had no documentation that TRA questioned the leave in a timely fashion for this individual. There was also a verbal misunderstanding over the phone. While providing for an administrative law judge hearing is not normally done for a pension issue, this might be a good solution for this problem.

Gary Austin, Executive Director, Teachers Retirement Association (TRA), stated TRA clearly has the form that was submitted by this individual in December of 1986. TRA sent the individual a memo which explained the conditions of checking "other" on this form. TRA didn't hear anything else from this person for 10 years. Mr. Austin is opposed to using an administrative law judge. He noted the employer was at fault here and there is no reason to go through an administrative hearing. He then suggested that during the interim LCPR look at its method of calculating full actuarial cost. Senator Morse recommended laying this bill over to next session.

Representative Smith reviewed Amendment A97-0307 and requested action on this amendment and Amendment A97-0299 authored by Representative Mulder. Amendment A97-03087 refers to a teacher who was allowed to go on leave and the school district agreed to pay the employer and employee contribution but the district failed to honor the agreement. Senator Morse asked if there was any urgency to this bill. Representative Smith stated there was no urgency on this amendment and it could be laid over until next session. Senator Morse asked Mr. Austin to review Amendment A97-0299 and it would be put on the agenda for March 22, 1997. Mr. Austin agreed.

3a. S.F. 51 (Janezich); H.F. 73 (Rukavina): Eveleth Police and Fire Ad Hoc Post Retirement Adjustment

Mr. Martin reviewed the staff memo. He explained this is a post retirement increase for 4 retirees and 8 surviving spouses of the Eveleth Police and Fire Trust Fund. This would be the 12th increase granted for the Eveleth Trust Fund members. This plan has been run on a modified, pay-as-you-go basis. The actuarial cost of the increase would be $73,000. Special law requires this plan to be amortized by 1998. Mr. Martin reviewed Amendment LCPR97-47 which provides the same language that the Commission attached to the 1995 special law, making the payment of the increases contingent on the City of Eveleth meeting its actuarial requirements. Representative Murphy asked if the money for the increase will come from property tax levies. Senator Janezich said yes. Discussion followed about changing the amortization date of the 1995 special law, or leaving the fund on a pay-as-you-go basis. Mr. Martin noted that if Eveleth didn't pay these benefits the retirees could sue the city. Representative Murphy moved approval of S.F. 51; H.F. 73. Senator Morse noted for the record that a quorum was present. **MOTION PREVAILED.**

10. S.F. 318 (Kleis); H.F. 856 (Dehler): Legislators; Plan Reformulation and Social Security Coverage

Senator Kleis reviewed this bill and noted it would eliminate the legislative pension for any legislator elected in 1998 and beyond, instead they would be covered by Social Security. It would allow current legislators to opt out of the Legislators Pension Plan and contribute to Social Security instead. Senator Morse asked Mr. Edward Burek, Deputy Executive Director, to comment on the Social Security component of this bill. Mr. Burek noted that this plan is not currently coordinated with Social Security as a result of a decision made when this plan was set up. To make Social Security available to members, there would have to be a Social Security referendum, which would be a person-by-person election.

Senator Stumpf expressed opposition to this bill. Mr. Martin reviewed the Social Security referendum process and provided a history of referendums. He explained that for existing employees, a referendum would be needed; the legislature can designate that all new employees would be covered by Social Security. Representative Murphy questioned Senator Kleis about his experience with people who thought the Legislative Pension Plan was a deterrent to running for the legislature. Senator Kleis noted he did not think it was a deterrent. Representative Smith asked what this bill was correcting. Senator Kleis noted that a legislator cannot opt out of the current pension program. Representative Smith asked if this bill passed, would it cost a legislator more or less. Senator Morse explained it would not affect current legislators, but it would result in a lower contribution for future legislators, and the benefit would be a Social Security benefit instead of a Legislator's benefit. Senator Morse noted there is a provision in S.F. 637; H.F. 647 dealing with legislative pensions for newly elected members. Representative Jefferson moved to lay over S.F. 318; H.F. 856 until March 22, 1997. **MOTION PREVAILED.**

2a. S.F. 188 (Ranum); H.F. 305 (Wagenius): MTRFA; Purchase of Service Credit For Uncredited Part-Time Teaching Service

Representative Wagenius reviewed the background on this issue. She was previously advised that actuarial value of the benefit purchase would be about $40,000, but prior to today's meeting she was told that the actuarial value was over $64,000. A delete everything amendment, Amendment H305DE1, was distributed. This amendment provides an opportunity for this individual and the school board to come to an agreement to allow her to participate in the pension plan. Mr. Burek noted that after a decade of teaching, this individual was still not a member of the fund. If any action were to be taken, the relative merit and the relative blame to be shared by the various parties should be assessed. The Commission may wish to seek testimony as to why the individual wants to buy back service credit. He noted that he heard an agreement had been reached whereby the school district was willing to pay two-thirds of the full actuarial value of this bill.

Ms. Karen Kilberg, Minneapolis Teachers Retirement Fund Association (MTRFA), noted that until 1986, part-time teachers were not eligible for MTRFA coverage. In the early 1990's, MTRFA sought legislation that would make it mandatory for part-time teachers to join MTRFA and would allow MTRFA to go back and collect omitted contributions. Senator Morse asked Ms. Kilberg about legislation passed in 1996 that had the employee pay their contribution, plus interest, and the school district pay the balance up to the full actuarial value. He asked what happened in that case. Ms. Kilberg said the payment was made by the individual but not by the school district. Mr. Mark Fermanich, Minneapolis public school representative, noted that the person was ineligible for service credit as a part-time teacher, according to the policy in place at the time of service, and it was the teacher's decision to purchase service credit. In this case, the district had agreed to pay two-thirds of the preliminary $40,000. They are committed to negotiate with the new actuarial amount. Senator Morse asked Ms. Kilberg if this is a similar situation to the TRA bill discussed earlier, where an interim study of evaluating the method of calculating full actuarial cost was discussed. Ms. Kilberg stated there may be some urgency to this situation because the member may be retiring in the near future. She would have to contact this individual. Senator Stumpf asked Mr. Fermanich if he knew of any similar situations. He did not know the number of people who may be in this same situation.

Representative Kahn said that according to our policies, we don't want to deficit the fund. She suggested looking at buying full actuarial cost and putting in the 1/3rd-2/3rd split language as opposed to giving the school district the option or, considering the new higher actuarial value, the individual could pay more than the 1/3rd amount. Senator Morse noted that the amendment states the buy-back will be at full actuarial value and will allow the individual and the school district to negotiate the split. Mr. Kilberg stated the person wants to buy back two years of basic service time, and the rest of the service time as part of the coordinated plan. Representative Wagenius suggested this be done by amending page 2, line 1, by deleting "~~basic~~" and inserting "applicable." Mr. Martin suggested this would be the most efficient way to achieve the objective. Representative Wagenius noted a technical change on page 1, line 15, "April 4th" should be "April 7". Senator Morse moved to table this bill temporarily.

11. **S.F. 1232 (Lessard); H.F. 1355 (Solberg): Nashwauk Police; Post Retirement Adjustments**
Representative Solberg reviewed this bill which would allow two surviving spouses, one age 73 and one age 90, to receive an increase, up to the Consumer Price Index, as specified by the Nashwauk City Council. This would allow them a reasonable increase in their pension benefits. There is about $50,000 in this pension fund. Representative Jefferson moved approval of S.F. 1232; H.F. 1355. **MOTION PREVAILED.**

With a quorum present, Senator Morse moved approval of S.F. 188; H.F. 305 as amended. **MOTION PREVAILED.**

1a. **Mandated Study: Report on the Use of Police state Aid to Fund PERA-P&F Pension Coverage For Salaried Firefighters (Third Consideration)**
Senator Morse reviewed the background and the various options outlined in Mr. Martin's memo of March 11, 1997. Representative Murphy moved approval of Option C which would freeze the paid firefighter employer obligation in place. Mr. Martin explained that Amendment LCPR97-35 does include language that would authorize a city that receives fire state aid to use this aid to pay PERA-P&F coverage for their paid firefighters. Representative Murphy moved to implement Option C and delete page 3, lines 21 through 33, of LCPR97-35. **MOTION FAILED.** Representative Murphy repeated the previous motion. **MOTION PREVAILED.**

1b. **S.F. 466 (Terwilliger); H.F. 568 (Delmont): Volunteer Fire Relief Associations; Increase Uppermost Monthly and Lump Sum Flexible Service Pension Maximums**
Mr. Nyle Zikmund, President, Minnesota Area Relief Association Coalition, reviewed this bill, and the handouts he provided. This bill would raise the caps on both the lump sum and the monthly flexible service pension plans. It has been six years since the caps have been raised for the monthly benefit plans. Over that time inflation has been 24%. This bill will allow a 33% increase.

Mr. Burek noted the present cap, in law, for volunteer fire relief associations paying monthly benefits is $30 per month per year of service. Under this bill that would be increased to $40 per month. It also increases the cap for lump sum pension plans from $4,000 per year of service to $5,500 per year of service. The three options that members have are to take no action; adopt the bill as it stands; or phase in the increases over time. If the Commission is interested in phasing in the increases, LCPR97-40 is an amendment that would increase the caps on a phased-in basis.

Representative Kahn asked Mr. Zikmund how many volunteer firefighters are also firefighters in other cities, thereby receiving two pensions. Mr. Zikmund noted that all volunteer fire departments that he is aware of prohibit membership in another volunteer fire department. Mr. Zikmund noted the pension plan is a good retention tool. He also noted the predominant form of volunteer firefighter compensation is the pension. The City of Eden Prairie is willing to pay a higher pension to attract volunteer firefighters and it still will save money over full-time paid firefighters. Representative Kahn stated this will be a cost to the community because state aid will not be increased. Senator Pogemiller moved to pass technical Amendment LCPR97-39. Mr. Zikmund said there are only two plans that the lump sum cap applies to, and this increase will allow them several years worth of movement. The two plans are Grand Rapids and Eagan.

Senator Pogemiller asked how a volunteer firefighter pension compares to a PERA pension. Mr. Zikmund responded that firefighting is dangerous work and a volunteer firefighter does not receive compensation other than a pension. Ms. Mary Vanek, Executive Director, Public Employees Retirement Association (PERA), compared these pensions to a PERA-P&F plan. Senator Pogemiller renewed his motion to pass this bill with Amendment LCPR97-39. **MOTION PREVAILED.**

4. **S.F. 995 (Morse); H.F. 1129 (Kahn): TRA; Change in Sabbatical Leave Contribution Amounts**
Representative Kahn explained that this bill amends the sabbatical leave of absence provision by mandating the employee and employer contributions during a leave. There is an amendment suggested by TRA to make sure that the base contract salary is being addressed. Mr. Russ Stanton, TRA, reviewed the bill and Amendment H1129A1. This allows a person, while on sabbatical, to pay the employee contribution as if full-time, and to get service credit as if they were full-time. The amendment dealt with the normal base contract salary only. This is very similar to Amendment LCPR97-58.

Mr. Burek reviewed the policy issues. This bill mandates contributions at the full-time equivalent salary and this person would earn full-time service credit. Requiring payment as if full-time could be punitive to some members if they are only on partial salary. There would be some impact on the school budget because employer contributions would be made on a full-time equivalent salary rather than a partial salary. It is not clear to staff why the sabbatical leave provision in TRA is being recommended for revision but not similar sabbatical leave provisions in the IRAP plan or the First Class City Teacher plans. Passing this would create inconsistencies between the plans. Amendment LCPR97-58 is a technical amendment very similar to Amendment H1129A1 which could be substituted for LCPR97-58. Amendment LCPR97-59 retains the current option for those who want to make contributions based only on part-time salary; those who wanted to make contributions based on a full-time salary could do that. Representative Jefferson mentioned his concern about the impact on someone's pay and asked if this was negotiable. Mr. Stanton stated that this was not negotiable. The unions he represents support this. Ms. Cheryl Furrer, representative of the Minnesota Education Association, noted MEA's support of this bill. Ms. Mary Stanton, Minnesota State Colleges and Universities, said MNSCU supports this legislation. This bill will be voted on when a quorum is present.

5. **S.F. 997 (Morse); H.F. 1128 (Kahn): Higher Education Supplemental Plan; Modification In Contribution Rate**

Representative Kahn explained that this bill allows the MNSCU system to deduct for supplemental retirement in equal amounts per paycheck. This bill doesn't change the formula or the amount of deductions. Mr. Burek reviewed Amendment LCPR97-60 which deletes Section 2 of the bill, at the author's request, and corrects the effective date provision. He explained the existing language could be interpreted as simply specifying an amount, leaving the systems to decide how they wish to make the deduction. He noted the new language does no harm. Senator Stumpf noted the fiscal year for deductions isn't usually the same fiscal year for the state. Senator Stumpf questioned the effective date being right in the middle of the year. Mary Stanton, MNSCU, said the fiscal year for MNSCU begins July 1st. Faculty deductions don't start until the amount is accrued, which is part of the confusion. For administrators it begins July 1st. Senator Stumpf asked if bookkeeping changes would be needed. Mary Stanton noted the change would be coded into the computer to start with the first paycheck. This bill will be voted on when a quorum is present.

7. **S.F. 996 (Morse); H.F. 1130 (Kahn): IRAP & Higher Education Supplemental Plan; Various Administrative Changes**

Representative Kahn noted this bill creates an advisory committee for the IRAP and Higher Education Supplemental plans. This committee would advise MNSCU of the investment options under the plans. Mr. Martin reviewed the staff memo summary, the five policy issues involved, and Amendment LCPR97-50. Representative Kahn moved approval of Amendment LCPR97-50. **MOTION PREVAILED.**

Representative Kahn passed out Amendment H1130A1. Mr. Russ Stanton, representing IRAP members, explained this amendment would add Minnesota Association of Professional Employees (MAPE) and other employee representatives to the advisory committee. One of the members would be the personnel administrator, no one member would serve more than five years, and no member could be retired. Representative Jefferson questioned who would make up the board members. Ms. Stanton said members of the faculty would make up the vast majority of the board.

Mr. Stanton said there are two non-controversial parts to this bill; the advisory committee and the accounting for administrative expenses. He said the controversial part of the bill, Sections 4 and 5, deal with vendor selection. Up until a few years ago, selection of vendors was done by the faculty. A few years ago the law was changed transferring vendor selection to SBI. SBI did not have a single faculty person on their advisory committee. MNSCU was not happy with the vendor selection process under SBI. It was being driven by people who did not have MNSCU connections. There was a conflict of interest because SBI was one of the vendors.

Ms. Cheryl Furrer, representing MEA, Minnesota Federation of Teachers (MFT), and United Technical College Educators (UTCE), which is a merged organization of MEA and MFT, testified in opposition to replacing SBI with a MNSCU board for selection of vendors. Senator Stumpf asked what their position was on a creating an advisory committee. Ms. Furrer said they would support the creation of an advisory committee that would be advisory to SBI. Representative Kahn questioned SBI being one of the vendors, the conflict with having them review their competitors, and there being no variety in the plans. Ms. Rose Hermodson, MFT, said SBI did involve UTCE when looking at vendors. She stated MFT opposed removing the selection process from SBI. Senator Stumpf asked if there were any performance data to compare MNSCU to SBI. Ms. Furrer said they did not have this kind of information. Barb Goodwin, MAPE, said there are 900 employees with MNSCU and she stated their opposition to removing SBI from selecting vendors. Mr. Howard Bicker, Executive Secretary, SBI, said that if SBI was removed from this vendor selection process, remove them from vendor selection for all groups in IRAP. He noted that Mr. Stanton, Ms. Stanton and other MNSCU people were part of the selection process. Senator Stumpf asked about the cost of fees. Mr. Bicker said the costs could be reduced by 40-70%.

Senator Pogemiller moved to delete sections 2, 3 and 6. Mr. Stanton referred to a handout which addressed the rates of return given by the various options in response to Senator Stumpf's question. He stated SBI would still be one of the investor options. He stated there was no faculty on the selection board and that MNSCU was not welcome at the meeting. Mr. Martin reviewed the language he would suggest for what the members are requesting. Representative Kahn moved approval of Amendment H1130A1, deleting Sections 2, 3 and 6, and the technical amendments as read by staff. **MOTION PREVAILED.** Representative Kahn moved approval of S.F. 996; H.F. 1130 as amended. **MOTION PREVAILED.**

With a quorum now present, Senator Stumpf moved to approve S.F. 995 (Morse); H.F. 1129 (Kahn), and S.F. 997 (Morse); H.F. 1128 (Kahn). **MOTION PREVAILED.**

9. S.F. 139 (Cohen); H.F. 416 (Entenza): TRA; Purchase of Service Credit For Multiple Sclerosis Leave Period

Mr. Burek reviewed the staff memo on this bill. Representative Entenza spoke in support of this bill. He noted that the school district admitted they had made a mistake in not informing TRA so that TRA could send this individual information and she could make the necessary contribution. Representative Jefferson asked what 18 days of service credit will do for this individual. Mr. Gary Austin said this would permit this person to reach the Rule of 90 on May 1st rather than completing the normal school year. Mr. Austin estimated the full actuarial cost at $57,000. Representative Kahn suggested that the school district hire her back for the one month. Representative Entenza will talk to his constituent and the school district to try and work this out. Mr. Austin said an individual can only accumulate one year of service credit in one year and the 18 days would have to be tacked on to the end of her career. Representative Murphy asked why this Commission can't tell the jurisdiction to make good on their mistake. Mr. Martin responded that a bill without local approval is unconstitutional. Senator Morse said there is no great urgency for this bill because this individual will not retire in the near future. Representative Kahn recommended laying over this bill for an interim study on calculating full actuarial value.

6. S.F. 922 (Morse); H.F. 1127 (Kahn): Additional IRAPS; Expanding Eligibility For Optional Defined Contribution Plan Coverage

Senator Pogemiller spoke in support of this bill. Mr. Martin reviewed the staff memo on this bill which would extend the authority to establish an IRAP to the Minnesota State Academy For the Deaf, the Minnesota State Academy For the Blind, The Minnesota Zoological Garden, and the Lola and Rudy Perpich Minnesota Center For Arts Education. Representative Kahn said this bill will give these employees a choice to pick the plan that fits their lifestyle the best.

Former Senator Phil Riveness, representing TIAA-CREF, testified in support of this bill. Representative Kahn asked why not put them all in one administrative entity. Mr. Riveness stated we are not creating all kinds of pension funds; we are basically asking them to do what they would do with any other withholding program. Ms. Stanton, MNSCU, explained the Minnesota Arts Board became part of the IRAP plan several years ago. The Minnesota Humanities Commission did not work out because they were not public employees. She said the Historical Society wanted to run their own plan, and did not want to be part of the MNSCU plan. Mr. Bicker stated you have to take it all or none. All plans have some options available but certain entities do not use all options. Senator Riveness added that all of the employees at the Historical Society have selected their option and they are extremely happy with the program.

Senator Morse questioned how many employees there are in each of the four categories under consideration. Mr. Bergstrom, Executive Director, Minnesota State Retirement System (MSRS), said there are 450 MSRS employees covered by this bill. Mr. Austin, Teachers Retirement Association (TRA), said there are 66 teachers in the Academy and 40 teachers in the Center For The Arts. Mr.

Bergstrom testified in opposition to this bill. He stated this bill is a major departure from past practice. He stated that instead of broadly bringing in a group of employees, target the appropriate group. Senator Stumpf also stated his concern that he would prefer to limit coverage. Mr. Tom Beer, AFSCME, provided a list of positions at four institutions that are covered by AFSCME and testified in opposition to the broadness of this legislation. Mr. Austin opposes this bill since it targets K-12 teachers. At the academies, the average age is 47, with about 15 years of service. They will most likely stay with TRA. Representative Mares noted the Principles of Pension Policy that Mr. Burek referenced in his review of this bill and questioned if this is good pension policy. He stated this may need more study. Ms. Barbara Martin, Center for Arts Education, testified in support of this bill, noting they recruit nationally. Mr. Jeff Higgins, representative of the Minnesota Zoo, testified in support of this bill. They also recruit nationally. Senator Riveness noted this bill would give employees a choice, and why not give people the option.

Senator Morse laid over this bill until the next Legislative Commission on Pensions and Retirement meeting on March 22, 1997.

The meeting adjourned at 7:00 P.M.

Jean Liebgott

Jean Liebgott, Secretary