March 22, 1997
Room 112, Capitol

6th 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 9:15 A.M.

Commission members present during the meeting:
Representatives Richard Jefferson, Phyllis Kahn, Harry Mares, Mary Murphy, and Steve Smith
Senators Don Betzold, Steven Morse, and LeRoy Stumpf

2. **S.F. 34 (Wiger); H.F. 170 (McCollum): PERA; Excluding St. Paul School Districts Trades Personnel From Membership**

Sen. Wiger gave a brief overview of the issue. He testified that the bill would permit members of the St. Paul School District pipefitters union to be excluded from PERA. He further testified that a precedent was set for exclusion in 1977 for members of the Waste Control Commission and other exclusions have also occurred.

Lawrence A. Martin, LCPR Executive Director, reviewed the staff memo on the exception from mandatory PERA coverage. He noted that the bill would exclude future pipefitters from PERA coverage and allow current employees to elect to be excluded from PERA coverage. Mr. Martin reviewed the policy issues raised by this bill.

Jerry Hanson, a member of the Pipefitters Union, testified that St. Paul School District pipefitters currently pay both the PERA employer and employee contribution, which amounts to 8.71% of their salary, to PERA, so passage of this bill would be revenue neutral for the St. Paul School District. In addition, the pipefitters contribute to the pipefitters union pension plan and the contributions to both plans amount to 19.6% of their gross salary. The St. Paul School District pipefitters support passage of this bill.

Sen. Morse questioned whether the bill allowed a refund of member contributions. Mr. Martin responded that the bill does not address the issue of a refund, however, if the bill does pass, the pipefitters would be entitled to a refund. The bill does address the issue of a deferred benefit for a pipefitter with more than three years of service credit.

Mary Vanek, PERA Executive Director, testified that PERA does not oppose this bill. She further testified that the bill affects nine individuals and that she is concerned with the precedent that it sets.

Sen. Morse stated that he would prefer to limit the vested pipefitters who would be eligible for a refund to prevent them from making a poor choice. Mr. Hanson testified that only one pipefitter is not vested in PERA. Discussion followed.

Sen. Morse suggested amending Page 7, Line 6, after "who" insert "has less than three years of allowable service in the public employees retirement association and who".

Rep. Kahn moved the handwritten amendment as typed above. **MOTION PREVAILED**.

Rep. Kahn moved approval of S.F. 34 as amended. **MOTION PREVAILED**.

15. **S.F. 798 (Johnson, D.H.); H.F. 907 (Garcia): Richfield Fire; Benefit Increases Upon Consolidation**

Sen. Dave Johnson introduced Greg Knaeble and James Prosser to testify on this bill. Sen. Morse requested that Mr. Burek briefly review the staff memo on this bill before other testimony occurred.

Edward Burek, LCPR Deputy Executive Director, highlighted the two key policy issues related to this bill. The first key policy issue was that various benefits for retirees, disabilitants, and survivors would be recomputed under this bill and would provide extensive retroactivity. This is in opposition to the Commission's Principles of Pension Policy although retroactive provisions have been approved previously for a few consolidating relief associations. The other key policy issue was the limit on the ratchet-down provision which deals with the recomputation of survivor benefits that occurs when a retiree has received escalating benefits under PERA-P&F and the survivor benefits are computed under the local plan provisions. The ratchet-down limiting provision may set a precedent. Mr. Burek then reviewed amendment LCPR97-65, which was requested by PERA and affects the effective date of this bill.

Mary Vanek testified in support of the amendment.

Rep. Kahn recommended eliminating the retroactivity provisions in this bill since no one would lose benefits through consolidation. Sen. Dave Johnson responded that retroactivity is a key provision of this bill and without it, consolidation probably will not occur.

Jim Prosser, Richfield City Manager, testified that a significant number of current retirees are concerned about the effect of the loss of direct representation that consolidation with PERA-P&F will cause. Additionally, consolidation will provide the City of Richfield with potential significant cost savings. These retirees are asking for benefit improvements prior to consolidation just as the Richfield Police Relief Association members did before their consolidation.

Greg Knaeble, President of the Richfield Fire Relief Association, testified in support of the bill and stated that Richfield Fire Relief has only six active members and 30 retired members. He testified that 25 out of the 30 retired members will not vote in favor of consolidation without the provisions in this bill. He further testified that consolidation is cost effective for the City of Richfield.

Sen. Dave Johnson testified that the cost savings for the City of Richfield for the first year are $26,000 and in subsequent years up to $185,000 per year. Discussion followed.

Tom Custis, Commission-retained actuary from Milliman & Robertson, Inc., was asked what was the cost of the retroactivity provision. Mr. Custis responded that the cost of the additional benefits would be approximately $36,000 per year. He further testified that some of the cost savings for the City of Richfield are achieved because of the differences between the Richfield Firefighters Relief Association assumptions and the PERA-P&F assumptions.

Sen. Stumpf recommended amending LCPR97-52 as follows: Page 1, lines 12 to 14, delete the sentence that begins "<u>It is the intent</u>".

Sen. Betzold recommended amending LCPR97-52 as follows: Page 1, line 12, before the period add "<u>and at no expense to the state or the public employees retirement association</u>".

Sen. Pogemiller moved approval of S.F. 798 as amended by LCPR97-52, with the amendments above, and LCPR97-65. **MOTION PREVAILED**.

1a. S.F. 922 (Morse); H.F. 1127 (Kahn): IRAP; Various Administrative Changes
Sen. Morse stated that this bill deals with the Art School, the Academy for the Blind, the Academy for the Deaf, and the Zoo. He referred members to an amendment, LCPR97-71, which he was offering.

Mr. Martin reviewed LCPR97-71. He noted that the amendment included some handwritten changes and that it provided for the transfer of employee contributions from MSRS and TRA into an IRAP plan for employees of these four facilities who have less than three years of service credit.

Sen. Pogemiller moved S.F. 922 as amended by LCPR97-71, including the handwritten changes. **MOTION PREVAILED**.

Rep. Kahn referred members to H1127A1 and introduced Tom Beer and Terry Bach.

Senator Morse questioned whether on page 1, line 12, "<u>and</u>" should be deleted and "<u>or</u>" should be inserted on amendment H1127A1. The response was affirmative.

David Bergstrom, MSRS Executive Director, testified that he considers amendment H1127A1 to be a cleanup of last year's legislation dealing with the Fairview Hospital/University of Minnesota issue. He suggested that if an issue like this comes up in the future, the Commission should study the topic. Discussion followed.

Tom Beer, AFSCME, testified that this amendment addresses the problem of a small group of University of Minnesota employees who are involved in the transfer of the University of Minnesota public operation of the hospital to private management.

Terry Bach, University of MN Health Center, testified in support of this amendment and stated that it is a continuation of the legislation that passed last session affecting 4,000 employees. This amendment affects less than 200 employees. Senator Stumpf questioned the counseling employees received with regard to their pension benefits. Mr. Bach responded that one or more counseling sessions were provided to employees. Mr. Bergstrom testified that MSRS had provided benefit statements to all of the employees and very few employees requested refunds. He believes this is due to the higher interest rate provided for these employees if they deferred their MSRS pension benefits.

Rep. Kahn moved approval of amendment H1127A1 with the change on page 1, line 12, deleting "and" and inserting "or". **MOTION PREVAILED.**

Senator Morse introduced Senator Dick Day to provide an overview of an amendment that dealt with a retired Rochester police officer. Mr. John Paul Jones retired from the Rochester Police Department on October 31, 1996 and within 30 days of his retirement worked part-time in November and December for the Olmsted County Sheriff. Mr. Jones received a notice in March, 1997, that he had violated PERA's rules with regard to reemployment within 30 days of retirement and must repay PERA approximately $11,000.

Mary Vanek, PERA Executive Director, testified that PERA law requires individuals who retire to wait at least 30 days before accepting reemployment with a public employer. She noted that PERA has many people in situations similar to this, this law has been challenged before and she opposes this amendment as it would set a precedent. She further testified that the whole reemployed annuitant issue should be studied. Sen. Stumpf questioned the penalty amount levied against Mr. Jones. Ms. Vanek testified that it is not a penalty, PERA considered that Mr. Jones had not really retired and required a return of all benefit payments that had been made prior to a 30 day break in service. Rep. Jefferson asked whether Mr. Jones could return the money he earned for the 20 or so hours that he worked. Ms. Vanek testified that she is concerned about Mr. Jones repaying the money that he had earned with Olmsted County since some years ago, the State Auditor raised issues with regard to two Carlton County employees who entered into a special arrangement to come back to work without compensation until they had fulfilled their 30 day break in service. Discussion followed.

Rep. Jefferson moved that this individual be allowed an exemption from the 30 day reemployment provision in this instance and allow PERA to deduct the amount of wages paid by Olmsted County to Mr. Jones from Mr. Jones's pension benefits. **MOTION PREVAILED.**

1b. S.F. 717 (Metzen); H.F. 796 (Delmont): Deferred Compensation Arrangements; Increase in Investment Options

Mr. Burek reviewed the staff memo and noted that this bill would expand the types and number of providers for the State Deferred Compensation Plan. It would allow direct access to mutual funds, add a mutual fund type arrangement under a registered investment advisor, and add a mutual fund type arrangement under a bank or holding company arrangement. The other major change would be that accounts would be held in trust for individuals rather than the State of Minnesota. Rep. Smith questioned whether expanding competition would be advantageous. Mr. Burek responded that it would be advantageous if it provided members with better returns or reduced administrative costs. Mr. Burek reviewed amendment LCPR97-56 and stated that it simply corrects language on page 3 of the bill that is not technically accurate.

Dave Bergstrom, MSRS Executive Director, testified in support of this bill. He testified that in 1994 improvements were made in the Deferred Compensation Plan and this bill continues that practice.

Howard Bicker, SBI Executive Director, testified in support of this bill and noted that the second part of the bill provides the SBI Board with additional flexibility in selecting vendors.

Rep. Kahn moved approval of S.F. 717 with amendment LCPR97-56. **MOTION PREVAILED.**

8. S.F. 1579 (Janezich); H.F. 1853 (Tomassoni): MSRS Correctional; Member Contributions on Prior Service Credit Purchase

Sen. Janezich stated that he has Mr. Kraley present to answer questions and he requested that Mr.

Martin review the issue for members. Mr. Martin stated that there was no staff memo on this bill and he noted that the bill relates to last year's expansion of the MSRS Correctional Plan. He stated that the expansion bill included some teachers at juvenile facilities. The expansion allowed for the transfer of service credit from the previous pension plan into the MSRS Correctional Plan by paying the difference between the previous plan contribution amount and the MSRS Correctional contribution amount. Individuals covered by TRA paid more in TRA employee contributions since 1993, than the MSRS Correctional contribution requirement during that time but when their charge was calculated, the overage was not netted against the amount they were required to pay. This bill permits the overage to be included when the required contribution is calculated.

Dave Bergstrom, MSRS Executive Director, testified that the individuals who were able to transfer their service paid the difference between the 4.5% and the 4.9% MSRS Correctional contribution. He considered it a funding mechanism to assist in funding the purchase of prior service. Consideration was not given to the different periods of time when the MSRS Correctional employee contribution was 6%.

Mr. Kraley testified in support of this bill. He believes this is a fairness issue since nurses and caseworkers paid a lower contribution rate to their respective pension plans.

Mr. Bergstrom made three points on this issue. First, TRA employees who paid a 6.5% member contribution were eligible for survivor and disability benefits at their higher accrual rate during the years when they paid those higher contribution rates. Second, they are being required to pay only a 6% interest rate rather than current 8.5% interest rate. Third, the employees who were covered by the MSRS Correctional Plan during the 1973-1982 period made contributions of 6% of salary and question why these people are permitted to buyback their time for 4.9%.

Rep. Kahn stated that employees were aware of the cost to buyback MSRS Correctional service when the expansion of the Correctional Plan passed the Legislature.

Hank Stankiewicz, MEA representative, testified in support of this bill. He testified that when the bill to expand the Correctional Plan passed, the teachers believed that their 6.5% contribution would be credited towards purchasing their prior service credit.

No member made a motion on this bill and no further action was taken.

3. **S.F. 476 (Kelly); H.F. 1146 (Trimble): StPTRFA; Future Retirement Coverage Structural Options**

Sen. Kelly reviewed the background on this issue. He stated that St. Paul teachers currently have an inferior pension plan in comparison to teachers in the Teachers Retirement Association. He testified that this bill does two things. First, it would provide the St. Paul School District with the option to continue the operation and full annual actuarial funding required of its independent pension plan without any additional state aid or consolidate the fund with TRA. Second, if the School District opted to consolidate, all active and retired teachers would be entitled to the higher TRA post retirement benefits. He testified that 60% of St. Paul teachers who have been retired for more than ten years receive less than $17,000 annually including their thirteenth check. He testified that StPTRFA does not have an adequate post retirement adjustment, it has unfunded liability problems, and high administrative costs. He further recommended consolidating all three of the first class city teacher funds into TRA and thereby providing uniformity among the teachers in Minnesota.

Mr. Martin reviewed the actuarial work on this bill. He referred members to Scenario #3 and noted that consolidating the StPTRFA into TRA would increase the TRA unfunded actuarial accrued liability from approximately $825 million to $1.14 billion dollars, the required contribution would increase from 12.78% to 13.47%, and TRA's sufficiency would decrease from 1.88% to 1.39%. Discussion followed regarding the actuarial work.

Sen. Morse asked what would be the actual new cost to TRA of consolidation. Mr. Thomas Custis, Commission-retained actuary from Milliman & Robertson, Inc., testified that the additional cost of the consolidation for TRA would be $34 million for 26 years.

Gordy Grant, a 40 year St. Paul teacher who retired five years ago, testified in support of this bill. He stated that consolidation would stop the bandaid approach to funding the StPTRFA and it would benefit every active and retired teacher. Sen. Morse asked if Mr. Grant's supported S.F. 637, the uniformity bill. Mr. Grant responded that it was a half-a-loaf and would not provide reform.

Dick Wasko, Director of the StPTRFA for Retirement Fairness, testified that the St. Paul House Delegation met on March 4 and supported the consolidation of StPTRFA into TRA. The St. Paul School Board and the school district support this bill as long as it doesn't cost the school district additional money. Sen. Kelly agreed with Mr. Wasko's comments. Discussion followed.

Eugene Waschbusch, StPTRFA Secretary/Treasurer, provided a handout and testified in support of the uniformity bill. He testified that the uniformity bill would provide retirees with a post retirement mechanism similar to SBI's, would not increase basic member accrual rates or contributions, and would increase coordinated members contributions by 1% and their accrual rate by .2%. He further testified that if S.F. 637 passed, the funding ratio for StPTRFA would improve, the first class city teacher plans would have comparable pension benefits, and comparable post retirement adjustment mechanisms.

Rose Hermodson, MFT lobbyist, testified in opposition to this bill. TRA teachers are concerned about underwriting the cost of consolidating the StPTRFA into TRA. MFT supports S.F. 637, the uniformity bill.

Hank Stankiewicz, MEA lobbyist, testified in opposition to this bill and in support of S.F. 637. Sen. Kelly questioned how the uniformity bill was being paid for and stated that it was his understanding that $44.6 million dollars was coming from TRA. Mr. Martin stated that S.F. 637 was revenue neutral and that money is being recaptured from education aids, HACA, MSRS and TRA employer contributions and redirected to the first class city teacher funds.

Senator Kelly questioned the cost of consolidating the three first class city teacher funds with TRA. Mr. Martin responded that the cost would be approximately $43 million annually. Sen. Morse asked Mr. Custis for the cost for each fund individually and then the cost for all three. Mr. Custis responded that for DTRFA the cost would be $4 million, for MTRFA the cost would be $24 million, for StPTRFA the cost would be $13 million, and for all three the cost would be $43 million. Ms. Hermodson questioned whether that counts TRA employee contributions remaining 6.5%. Mr. Custis responded affirmatively. Discussion followed.

Sen. Stumpf questioned whether basic employees who would have their contributions increased supported this bill. Sen. Kelly responded that the employees would support increased contributions to get into the TRA post retirement fund. Mr. Stankiewicz testified that consolidating the first class city teacher funds into TRA does not help the funds toward uniform contributions or benefits. Ms. Hermodson testified that when a vote was taken a few years ago with regard to consolidating the StPTRFA into TRA, she believes that the majority of teachers opposed consolidation. Sen. Kelly testified that teachers are becoming more knowledgeable about the proposal and now support consolidation. Mr. Stankiewicz testified that MEA's position is that they would favor consolidation if the fund that was consolidating with TRA was fully funded. MEA does not support TRA picking up another fund's unfunded liability.

Gary Austin, TRA Executive Director, testified that he is concerned with the extension of the amortization period to 2022 since that would increase costs considerably. He further testified that if StPTRFA consolidated with TRA under Scenario 3, the St. Paul teachers would get the best of both worlds and TRA members, who would be making the same employee contribution as StPTRFA members, would then want better benefits. Discussion followed.

J. Stoffel, DTRFA Executive Secretary, testified in support of S.F. 637 and in opposition to consolidating DTRFA into TRA because of the very small increase in benefits and the large increase in member contributions.

Karen Kilberg, MTRFA Executive Director, testified in support of S.F. 637 and in opposition to consolidating MTRFA into TRA because MTRFA believes S.F. 637 will provide benefit equity for their young members with TRA and will put them on a funding track that will prevent them from pushing their amortization date further out. Sen. Morse questioned whether MTRFA would be willing to consolidate with TRA if the state made a one time aid infusion into TRA to cover the additional costs without changing the member contributions that would be established if the uniformity bill were passed and without changing the amortization date. Ms. Kilberg responded that she would not be able to refuse that offer.

Sen. Kelly made a last statement in support of this bill. Sen. Morse laid the bill over.

16. **S.F. 1183 (Kelly, R.C.); H.F. 1267 (Osthoff): St. Paul Police and Fire; Limitation on Reductions In Certain Survivor Benefits**

Sen. Kelly provided a brief overview of this bill. He testified that prior to the consolidation of the St. Paul Police and Fire relief associations into PERA-P&F, every surviving spouse of a St. Paul police officer or firefighter, regardless of age, length of service, or age of the police officer or firefighter at death received the same benefit, which included an escalation clause based on an active employee's raises. Since consolidation, annual increases are based on the post retirement fund formula and surviving spouses newly entitled to a benefit receive 27.5% of a current police officer or firefighter's salary. Active employees salary increases have not kept pace with the post retirement fund increases, a new surviving spouse will receive less than other surviving spouses. In one two year period, that amounted to approximately $200 a month. This bill proposes to set a minimum surviving spouse benefit based on what a surviving spouse received on January 1, 1994. The actuarial work is not yet complete but the City of St. Paul supports this bill if it contains a local approval clause.

Mr. Martin reviewed the staff memo and policy issues on this bill. He stated that the Legislature passed a law in 1992 which provided the first ratchet provision for St. Paul police and fire retirees to prevent a reduction in pension benefits. Subsequently, it was noted that new benefit recipients were not protected by the 1992 ratchet provision and, in 1996, the Legislature passed a law to solve this problem but the law was not interpreted as the Legislature intended. This legislation will provide a minimum survivor benefit which will give some uniformity to survivor benefits. He reviewed the policy issues on this bill and noted that if other consolidated funds experience the large salary fluctuations that St. Paul has had, and uniformity of benefits is a concern, passage of this bill may set a precedent.

Bill Hueppenbecker, representative of the City of St. Paul, testified that the City of St. Paul will not have a position on this legislation until they see the actuarial work.

Wilfred Jyrkas, President of the St. Paul police retirees, testified that some of the disparity in survivor benefits was due to consolidation and some of it was due to a change in the way base pay was calculated. He further testified that PERA and all the other entities involved agree that this language will solve the problem.

Mike Schwab, PERA police and fire board member, testified that the 1996 law addressed the problem for 27 people for whom actuarial work had been completed. This was the way it was agreed to by the City of St. Paul and PERA because they knew the cost of this benefit. In this agreement, someone was overlooked and that was why this legislation was necessary.

Mary Vanek, PERA Executive Director, testified that Chapter 353A does not extend the post retirement adjustments that had already been awarded to the retired member to the survivors of retired consolidated employees. Although they were directed to use a new salary base to calculate survivor benefits, PERA was not comfortable in granting the post retirement adjustments that had previously been provided to the retiree. PERA recognized that the actuarial work generated to provide the City of St. Paul with a cost for the 1996 law did not take into account that the individuals would receive a post retirement adjustment. The intent of the 1997 legislation is to clarify the language and direct PERA to calculate future survivor benefits based on the benefit current survivors are receiving.

Sen. Morse questioned what law was referred to in the "Notwithstanding" clause on page 2, lines 11 and 12 in the phrase "or any other law,". Ms. Vanek responded that the clause referred to Chapter 353A, the consolidation law but she was not aware of anything else this might refer to. Sen. Morse moved to delete "or any other law," on page 2, lines 11 and 12. **MOTION PREVAILED**.

Sen. Stumpf moved S.F. 1183 as amended. **MOTION PREVAILED**.

5. **S.F. 64 (Junge); H.F. 488 (Rest): Various Plans; Purchase of Service Credit For Voluntary Federal Service**

Sen. Junge reviewed the bill and testified that the bill would provide retirement benefits for public employees for service with Vista and the Peace Corps. It is similar to and expands the language for military service credit purchases of service.

Mr. Burek reviewed the policy issues. He noted that the Commission might want to define what voluntary service under federal law would include in this provision. He also noted that purchases of service credit for military service are not consistent across pension plans, therefore, it may be advisable to separate this provision from the military service credit purchase provision. Mr. Burek further noted that the current military service credit purchase provision in MSRS law does not conform to the Commission's Principles of Pension Policy and allows military service credit to be purchased at any time in an employee's career prior to retirement. He also noted that PERA was not included in the bill to permit purchase of voluntary federal service credit although current PERA law does allow their members to purchase one year of service credit for authorized voluntary leaves of absence. This bill also revises MSRS and the first class city teachers military service credit law to be similar to TRA's law which is out of date. Mr. Burek reviewed staff amendment LCPR97-67 which addresses some of the policy issues but creates other policy issues. Discussion followed.

Sen. Morse recommended that the Commission study this issue during the interim due to the number of questions raised by this legislation.

4. S.F. 637 (Morse); H.F. 647 (Jefferson): Various Plans; Major Benefit Increase

Dave Bergstrom made a presentation by reviewing a summary of the bill. He testified that the goals of the bill, as outlined, are to provide uniformity in benefits and COLAs, to improve the benefit design for the statewide plans, to address a funding deficiency in some of the funds, to remain cost neutral, and to reform a number of pension provisions. Mr. Bergstrom continued with his presentation. Discussion followed regarding the actuarial equivalency of the one time adjustment for current retirees. Mr. Bergstrom testified that MSRS and TRA members would have a reduction in their contributions with this bill while PERA member contributions would increase due to PERA's funding deficiency. Rep. Kahn questioned whether the StPTRFA and MTRFA contribution increase would maintain their funding level at the current level.

Eugene Waschbusch, StPTRFA Executive Secretary, testified that the increase in the employee and employer contributions for the StPTRFA almost covers the cost of the benefit increase for the fund. Rep. Kahn asked if the benefit increase will increase the deficiency in the StPTRFA and MTRFA. Mr. Waschbusch referred the question to Mr. Custis. Mr. Custis testified that the deficiency would increase. Rep. Kahn questioned what contribution increase would maintain the funding levels at the current level. Sen. Stumpf referred members to the actuarial work attached to Mr. Martin's staff memo on this bill. Discussion followed regarding the cost of the benefit improvements and the required contribution amount.

Mr. Bergstrom testified that the reduction in MSRS and TRA employer contributions provides a $29 million savings which generates the money to help keep this benefit revenue neutral and fund the deficiency in the other plans. Sen. Morse questioned the MSRS cost savings of only $1.9 million with a 0.2% employer contribution reduction on a payroll of $1.6 billion. Mr. Bergstrom referred the question to Phil Kapler.

Phil Kapler, Dept. of Finance representative, testified that Finance can recapture the money from the state agencies but is not able to recapture the money from MNSCU and the University of Minnesota. They also have to ratchet down the amount recaptured by a percentage of .4, which is the split between general fund appropriations and tuition for MNSCU (to avoid tuition increases) and for the University of Minnesota. Discussion followed. Gary Austin testified that TRA's $29 million savings is the amount after netting out the cost for non-teaching employees. Mr. Bergstrom continued with his presentation and testified that in addition to the MSRS cost savings of $1.9 million there is an additional revenue impact due to the higher taxes that will be paid by state employees because of the smaller deferred contribution they will be making.

Mr. Bergstrom testified that the top three items on page 8 of the handout represent where the money comes from and the remaining items represent where the money will go. He stated that this will provide an annual ongoing flow of funding. Discussion followed and Mr. Bergstrom continued to testify regarding the smaller plans.

Sen. Morse announced that this would be the last bill discussed today. He stated that the Commission plan was to pass vehicle bills which will enable the Commission to continue to meet and make recommendations on this bill, prior to the second Committee deadline He would work with leadership in both houses to get this bill approved by the respective Government Operations Committees before the second Committee deadline.

Mr. Austin reviewed the TRA phase-in proposal in the bill. He testified that the phase-in is designed to compensate TRA members for the .07% increase in the TRA accrual rate being slightly less in value than the 1% reduction in the future cost of living adjustments. Over the long term, the 1.5% reduction in contributions will make up this difference for younger active members. However, teachers near retirement will not have time to reap the benefit of the contribution reduction so the phase-in will compensate teachers retiring within the next five years. Mr. Austin continued to explain the phase-in calculations. Sen. Morse questioned providing an additional benefit to TRA members who received a substantial benefit improvement three years ago even though they have been making higher employee contributions for that benefit. Mr. Austin testified that the Attorney General advised that if the 1% reduction in the COLA was enacted, action must be taken to offset that benefit reduction. Discussion followed and the presentation by the fund directors concluded.

Phil Kapler reviewed more specific information on aid payments and the dates of payments in response to a question from Senator Stumpf. Mr. Kapler reviewed the summary of the effect of the contribution rate changes and the net general fund reallocations. He stated that the reallocation of aid amounts to $35.7 million dollars the first year and $32.5 million dollars the second year and a significant part of these reallocated funds will be used to address the funding deficiencies in the first class city teacher plans. Mr. Kapler then reviewed the FY1998 and FY1999 impact summary sheets. Discussion followed.

Sen. Morse stated that he was not present when the Commission voted to recommend changing the actuarial assumptions and changing the method of valuing assets. He agreed with the recommended actuarial assumption changes but he had questions regarding changing the method of valuing assets. He requested that the Commission reconsider the legislation to change the method of valuing assets. He asked Mr. Custis to comment on the impact if the method of valuing assets was not addressed until the Commission had time to further study the issue. Mr. Custis stated that there would be no direct impact on the cost of benefit changes or the valuations. Mr. Custis further stated that although he continues to support changing the method of valuing assets as simply a timing recognition of assets that exist, he agrees that the Commission may need more time to study the issue to raise their comfort level with the change.

Sen. Stumpf moved to reconsider the vote to recommend changing the method of valuing assets. **MOTION PREVAILED**.

The meeting adjourned at 2:25 P.M.

Jean Liebgott

Jean Liebgott, Secretary