April 2, 1997
Room 316, Capitol

7th 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 6:45 P.M.

Commission members present during the 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

The tape player malfunctioned at this meeting so there is no tape of the meeting.

2a. S.F. 637 (Morse); H.F. 647 (Jefferson): Various Plans; Major Benefit Increase
David Bergstrom, MSRS Executive Director, provided a brief overview of the bill. In response to questions from members, Mr. Bergstrom recapped the provisions dealing with the Correctional Plan and reviewed the cost of the State Patrol's early retirement coverage.

Jerry Bridgeman, Minneapolis Police Relief Association, and Walter Schirmer, Minneapolis Fire Relief Association, reviewed the provisions in this bill that deal with the Minneapolis police and fire funds. Rep. Kahn questioned whether there was a local approval clause for this part of the bill. The response was affirmative. Discussion followed.

Lawrence A. Martin, LCPR Executive Director, reviewed the staff memo and related items included in members packets. Mr. Martin reviewed the general policy issues raised by this legislation. Sen. Morse questioned the legal status of retirees trading a 1% future cost of living increase for an immediate lump sum payment as far as a potential legal challenge may be concerned. Phil Kapler, Department of Finance, testified that members seem to be satisfied with getting the money upfront. Mr. Bergstrom testified that the Attorney General's office stated informally that since retirees will be receiving an equivalent amount upfront and active employees will be receiving a benefit improvement the basis for a court challenge would be minimal.

Mr. Martin reviewed the specific policy issues raised by this legislation. Rep. Murphy questioned MERF's exclusion from this bill. Judy Johnson, MERF Executive Director, testified that inclusion in this bill was not beneficial for MERF members since they currently have full retirement at age 60 and a 30 and out provision. Mr. Martin reviewed the specific issues dealing with changes to legislators and constitutional officers retirement coverage. Questions regarding the actuarially calculated benefit increase for legislators and constitutional officers followed. Mr. Bergstrom testified that MSRS could publish the factor needed to calculate each legislator's benefit based on their age, length of service, marital status and other specific information. Rep. Jefferson questioned other components of this bill dealing with current and future legislators retirement coverage and suggested removing this article from the bill. Sen. Morse stated that if the bill passed in its present form, the State would be making a 5% employer contribution for legislators and constitutional officers and a seven plus percent employer contribution to provide social security coverage. Discussion continued regarding the proposals for the legislators and constitutional officers retirement coverage.

Mr. Martin reviewed the specific policy issue with regard to the PERA Local Government Correctional Retirement Plan and the appropriateness of repealing the relevant statutes since it has not been implemented in the decade since it was established. Mary Vanek, PERA Executive Director, testified that PERA would not oppose repealing the statutes establishing the plan.

Mr. Martin reviewed the specific policy issue with regard to the appropriateness of changing the method of valuing assets for the first class city teacher plans. Mr. Gene Waschbusch, StPTRFA Executive Secretary, testified that the change in the method of valuing assets would improve the funding ratio for the plans. Mr. Martin continued to review the specific policy issues.

Sen. Morse stated that this bill uses $29 million from TRA and $2 million from MSRS to improve the funding of PERA and the first class city teacher plans. Mr. Martin noted that one year ago TRA's funding sufficiency was .36% and now it is 1.88%, probably due to high investment returns. Mr. Bergstrom testified that last year's investment return was over 18% and the investment return averages have been 12.5% over the last five years. Mr. Bergstrom testified in support of this bill.

Fred Mauer, President of MGEC, provided a handout showing the support for this legislation and testified in support of this bill. Hank Stankiewicz, MEA, testified in support of this bill on behalf of MEA retirees. Arnie Antzel, transit workers representative, testified in support of this bill. Mr. Kapler referred members to the letter from Finance Commissioner Wayne Simoneau, and testified that the Governor supports this bill.

Sen. Morse asked Mr. Kapler where the $40 million dollar figure to consolidate the first class city teacher plans came from. Mr. Kapler responded that the figure came from the last Pension Commission meeting. Sen. Morse stated that consolidating the first class city teacher plans with TRA may cost $40 million if the uniformity bill did not pass. Sen. Morse also noted that Commissioner Simoneau's letter states that the Governor does not like cross-subsidizing plans but the uniformity bill includes cross-subsidization. Discussion followed. Tom Custis, Commission-retained actuary from Milliman & Robertson, Inc., testified that the $40 million dollar figure related to consolidation without benefit changes but if the uniformity bill passed, consolidation of the first class teacher funds into TRA would cost $6.5 million.

Mr. Martin reviewed a memo that Sen. Morse requested regarding consolidating the first class city plans without cost and without moving out the amortization date. Mr. Martin reviewed the April 2, 1997 memo to Sen. Morse coded 497LM01. Rep. Murphy questioned whether this proposal would be acceptable to the Governor. Sen. Morse stated that this proposal had more uniformity than the uniformity bill. Sen. Pogemiller asked whether the Department of Finance dollars could compare with the dollars shown in Mr. Martin's memo. Mr. Custis testified that to consolidate the first class city teacher plans and enact the uniformity bill would cost $6.5 million. Mr. Martin noted that the actuarial work for Sen. Kelly's bill did not use a 6% assumption, it used a 5% assumption. Mr. Martin also noted that Sen. Kelly's bill was not included in the numbers Mr. Martin generated for Sen. Morse's memo. Mr. Bergstrom stated that the Rule of 90 tier would not get an increased accrual rate but would lose 1% in post retirement increases under Sen. Morse's proposal. Mr. Martin stated that employees would have a choice of which benefit to use and Mr. Bergstrom is correct, the Rule of 90 benefit would have less value. Mr. Bergstrom testified that 15% of MSRS retirees use the Rule of 90 tier. Sen. Pogemiller requested written comments from the fund directors with regard to Mr. Martin's March 20th and April 2nd memos. Sen. Morse stated that the Commission was close to being able to consolidate plans and pass the uniformity bill. He further stated that adjustments could be made to the Rule of 90 tier benefit. Rep. Jefferson stated that the uniformity bill has been around for over a year and has changed monthly, he was concerned about Sen. Morse's eleventh hour proposal. Rep. Murphy stated that property taxes in Duluth may be able to be reduced with Sen. Morse's proposal. Gary Austin, TRA Executive Director, testified that 55% of TRA members retire under the Rule of 90 tier. He questioned what the TRA employer and employee contribution would be with this proposal. Mr. Custis responded that the TRA employer contribution would be 7.20% and the employee contribution would be 5.5%. Mr. Bergstrom questioned whether the first class city teacher plans would get the full benefit increase TRA members would receive. Mr. Custis responded that they would not get the one-time lump sum but would get the following year's post retirement adjustment.

Sen. Pogemiller recommended that the LCPR lay this proposal over temporarily to allow members to further consider all the options available. Sen. Morse restated his intention to deal with the uniformity bill this session.

2b. S.F. 1191 (Morse); H.F. 1726 (Kahn): MSRS-General; Coverage For Seasonal Department of Revenue Employees

Edward Burek, LCPR Deputy Executive Director, reviewed the staff memo on this bill. He stated that staff did not have a cost estimate on this bill but, if only prospective coverage was provided, the cost to the Department of Revenue would be $60,000. Mr. Burek reviewed amendment LCPR97-79 for consideration if the Commission was interested in covering past service. Rep. Kahn stated that these are the only seasonal employees not covered by a pension plan. Mr. Burek noted that the Principles of Pension Policy state that pension coverage should be mandatory for recurring or regular employment. Mr. Bergstrom testified that MSRS does not oppose the bill or amendment LCPR97-79.

Sen. Pogemiller moved approval of S.F. 1191; H.F. 1726 as amended by LCPR97-79. **MOTION PREVAILED**.

2e. S.F. 1793 (Morse); H.F. 2041 (Ozment): Investment Attribution Task Force Proposed Legislation

Mr. Burek reviewed the information included in members' packets. He then reviewed amendment LCPR97-81. He referred members to the new language on page 7 of the amendment which would require that plans with assets greater than $500,000 must provide monthly data on their total portfolio and their major asset classes. The amendment would require the State Auditor's office to compute the returns. Pension plans with assets under $500,000 would only be required to report as of the beginning of the calendar year although they would be required to keep their monthly data.

Howard Bicker, SBI Executive Director, testified that he needed more time to review this proposal. Deno Howard, State Auditor's Office, testified that the Auditor's office based its budget request on the recommendation of the Task Force which did not include calculations on asset classes as well as total portfolio. Rep. Kahn stated that she does not want the funds to have to calculate their time-weighted rate of return. Mr. Burek stated that past results have been inconsistent and a more consistent methodology would provide for a higher quality output and report.

Nyle Zikmund, MARAC representative, testified in support of the report by the task force and stated that he was not ready to comment on amendment LCPR97-81.

The meeting adjourned at 10:45 P.M.

Jean Liebgott

Jean Liebgott, Secretary