April 15, 1997
107 Capitol

9th 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 6:20 P.M.

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

Commission members with an excused absence:
Representative Phyllis Kahn
Senator Lawrence Pogemiller

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

Senator Morse provided an outline of how he planned to conduct the meeting. Mr. Martin reviewed technical amendment LCPR97-109, which is a page and line amendment to S.F. 637. He referred members to page 5, line 25, and requested that they change Section 51 to 52. On pages 9 & 10, a section has been added for deferred police and fire consolidation accounts. On pages 10, 11 & 12, consolidated police and fire language has been restructured. On page 14, there is a section of uncoded language that should be coded. Pages 16, 17 & 18 add a provision requested by the Department of Finance requiring open group projection valuations. Pages 18-21, Section 21 is new language and includes a substantive change recommended by the fund directors. Pages 21 and 22 further clarify MERF law. Pages 22 and 23 relate to judges and include language that was omitted in the first bill. Pages 23 and 24, replace and clean up Department of Finance language. Pages 25, 26 and 27 codify the St. Paul Teachers Retirement Fund Association (StPTRFA) post retirement increase mechanism language. Pages 27 and 28 include a necessary repealer of some sections. Pages 29-38 relate to Minneapolis police and fire changes. Pages 32 and 37 include a substantive change that shifts the valuation due date to May 1 rather than June 1 for Minneapolis police and fire. Pages 33, 34 and 35 include stricken and reworked sections of the bill. Pages 37 and 38 clarify the Minneapolis fire benefit shift.

The unofficial, unofficial engrossment, LCPR97-110, captures the bill after LCPR97-109 is incorporated into S.F. 637. Section 51 is now Section 52 in LCPR97-109. Mr. Martin noted the following errors in LCPR97-110; page 13, line 31 should be Section 52, not Section 51; page 73, line 14 delete everything after "(b)" and page 73, line 15, delete everything before "laws." Representative Jefferson moved adoption of LCPR97-110. **MOTION PREVAILED.**

Representative Jefferson questioned the marriage clause on page 33 in Amendment LCPR97-109. Mr. Martin said this is not a new concept. Senator Stumpf referred to LCPR97-110, page 23, Section 29 and questioned the reference to 353.28. Mr. Martin responded that this is a portion of PERA law. Ms. Mary Vanek, Executive Director, Public Employees Retirement Association (PERA), explained that 353.28 addresses employer contributions to PERA and the revenue sources that finance the employer contributions.

Senator Morse introduced Amendment LCPR97-85 which is drawn to the bill as introduced. Mr. Martin explained that this amendment deals with the PERA Correctional Plan which was authorized in 1987 and has never been implemented by any county. Mr. Martin questioned if we should retain this plan in statute since it is not being utilized. The repealer of Chapter 353C is on pages 11 and 12. If the PERA Correctional Plan is to be retained, it should be amended to match the MSRS Correctional Plan. Ms. Vanek said that since 1987 employees have inquired about this plan, but it is cost prohibitive for counties. She does not have a problem with repealing this section of law. Representative Murphy asked what if units of government consolidate and want this plan. Ms. Vanek said that the people involved could address this issue in the future. Ms. Vanek said reorganization does not necessarily mean employees leave PERA. If Representative Murphy's scenario occurred, discussion regarding a policy to move to the MSRS Correctional Plan or to establish a new PERA Correctional Plan would be needed. Mr. Phil Kapler, Finance, recapped Representative Murphy's comments. Senator Morse asked if these individuals would be eligible for PERA coverage. Ms. Vanek said all local government correctional employees are eligible for PERA-P&F. Senator Morse said it makes more sense to repeal this law now and reestablish it when it is needed. Ms. Vanek agreed.

Senator Stumpf moved adoption of LCPR97-85. **MOTION PREVAILED.**

Senator Stumpf referred to the letter from Commissioner Simoneau, Department of Finance, about the Governor's preference on pension legislation. Senator Stumpf asked if the current proposal complies with the request in Commissioner Simoneau's letter. Phil Kapler said the bill is consistent with the Governor's objective of being fiscally neutral. Mr. Kapler said the Commissioner was requesting that bills dealing with substantially different issues not be rolled into an omnibus bill. The overall purpose of this bill is consistent with this request.

Senator Morse questioned the open group valuation process. Mr. Kapler explained valuations would remain as they are, but experience studies would be performed on an alternating four year cycle and would be done using an open group process to potentially reduce distortions. Senator Morse asked why Finance didn't have this done on its own and what would be the cost of having this done. Mr. Kapler said the bulk of the cost would be covered as part of the regular actuarial valuation process but adding an open group process was not figured into the fiscal impact of the bill.

Senator Morse introduced Amendment LCPR97-116. Mr. Martin explained that this relates to the St. Paul Teachers Retirement Fund Association (StPTRFA) and would clear the current thirteenth check mechanism language out of the StPTRFA bylaws and articles of incorporation. Mr. Gene Waschbush, Executive Director, St. Paul Teachers Retirement Fund Association (StPTRFA), testified that they have no problem with this amendment.

Representative Jefferson moved approval of LCPR97-116. **MOTION PREVAILED.**

Senator Morse referred members to Amendment LCPR97-113 which deals with the Metropolitan Airport Commission (MAC). Noting the actuarial information being distributed, Senator Morse said the net cost would be $97,000 per year if MAC employees were rolled into PERA-P&F instead of staying with MERF. Ms. Judy Johnson, Executive Director, Minneapolis Employees Retirement Fund (MERF), testified that the $97,000 cost would continue annually until the year 2020. Discussion of costs followed. Ms. Johnson recommended that these employees be left in MERF and included in the benefit increase mechanism that PERA-P&F will get with this bill. She said the accounting process is not an issue and the chief argument for keeping MAC employees in MERF is the financial issue. Why give them benefits that cost $97,000 per year until 2020. Mr. Martin explained that this amendment keeps the MAC employees in MERF but if they retired with the PERA-P&F benefit increase, their future post fund mechanism would be reduced by 1%. He also stated that the reserve calculation will be done by the Legislative Commission on Pensions and Retirement actuary.

Representative Mares moved approval of LCPR97-113. **MOTION PREVAILED.**

Senator Morse questioned how the inflation adjustment would work if inflation was 2% but the investment performance was too low to cover a 2% increase. Would the fund provide a 2% increase or would it pay less. Mr. Dave Bergstrom, Executive Director, Minnesota State Retirement System (MSRS), said the fund would provide a 2% increase, but future investment gains would be allocated to cover the loss. On average, over time, every year would be one percent less.

Mr. Howard Bicker, State Board of Investment (SBI), basically agreed with this analysis. Reserves are currently increased by 5% when the investment component is determined. Under the proposed bill, the calculations would be the same, but a 6% assumed rate to increase the reserves would be used instead of a 5% rate, plus a 2% cost of living. Senator Morse asked where the language was that showed the actual aid amount to support PERA. Mr. Kapler said the net numbers were in the bill. Senator Morse asked what the PERA payroll growth was historically, since there will be a widening gap between the money provided today and the extra cost to local governments in the future. Mr. Kapler said school districts will see an increase in their PERA costs, but an offsetting reduction in their TRA costs. Cities and counties will not have this offsetting benefit. Senator Morse asked why not make the aid payable directly to PERA and reduce employer contributions with some sort of credit instead of this complicated formula. Mr. Kapler testified that in 1986 a policy decision was made to eliminate the direct appropriation to school districts for the employer costs of teacher retirement benefits in favor of including those costs in the appropriation to school districts. Sen. Morse referred members to amendment LCPR97-111 and stated that the amendment eliminates the HACA adjustment formula and provides a direct state appropriation to PERA adjusted annually based on the requirement. Mr. Martin provided the correct page and line numbers to merge 97-111 into the 97-110 amendment. He also provided the information to fill in the blanks on page 1, line 9, the figure should be 8.75 and on line 10, the figure should be 4.75. Sen. Morse stated that this amendment would be a more straightforward way of funding.

Ms. Vanek testified that the employer contribution for the coordinated plan is currently 65% of normal cost. She is concerned that the employer contribution would be less than the employee contribution and may cause perception problems among PERA union representatives. In 1984 PERA's employer contribution for coordinated plan members was rolled back by 1.25% which contributed to a deficiency in PERA funding. Sen. Morse clarified that this bill will provide local units of government with increased HACA aid and other aids to enable local units of government to pay an increased PERA employer contribution rate. He prefers to have the State provide a direct payment to PERA and to have PERA request a smaller amount from the local employers. Ms. Vanek testified that PERA does not know the amount due from each employer. Sen. Morse stated that PERA would annually advise local employers that the State was providing a certain amount of aid so local units of government would need to contribute a certain percentage of payroll as their PERA employer contribution for that year. Ms. Vanek stated that the employer contribution rate is set statutorily and she questioned whether Sen. Morse's amendment would direct PERA to establish an annual employer contribution rate and disregard the statutory rate. Sen. Morse responded negatively. Joel Jamnick, League of Minnesota Cities, testified in support of LCPR97-111 in concept. He further suggested that the Legislature specify the employer contribution, make an annual appropriation, and have the Legislature make the adjustment. Ms. Vanek agreed with Mr. Jamnick's simplified approach. Discussion continued.

Sen. Stumpf stated that he is concerned with the difference in HACA aid adjustments from community to community and the impact this amendment might have over time. Sen. Morse questioned how the HACA formula takes into account employer payroll contributions. Mr. Kapler testified that this bill actually will create a separate aid for the PERA employer contribution rate increase and is not done through HACA because it might precipitate a levy increase or a levy creation by some special jurisdiction. Mr. Kapler stated that if Sen. Morse wished to simplify the aid delivery process, he would recommend that on amendment LCPR97-111, the Commission delete page 1, lines 12 through 13, on lines 9 and 10 insert 8.23 percent and 4.23 percent respectively, and on lines 15 and 16 delete 2.75 and .50 and insert 2.5 percent and .25 percent respectively. Discussion followed.

Rep. Smith moved amendment LCPR97-111 and called the question. Sen. Stumpf stated that he was interested in the concept of this amendment but was not prepared to vote on it yet as he did not have a clear understanding of the HACA distribution system. Discussion followed on the motion. **MOTION FAILED**. Sen. Morse commented that this was complex legislation and laid over amendment LCPR97-111 to allow further study and raise members comfort level with this concept.

Sen. Stumpf asked Mr. Kapler if the actuarial assumptions with regard to this bill were overly optimistic. Mr. Kapler testified that the Commission actuary considers the assumptions valid at this point in time. He further recommended that it may be useful to have the actuary perform worst case and best case scenarios to allow the Commission to take a middle of the road stance and to be more knowledgeable about the risks if the assumptions were not accurate.

Sen. Pogemiller took the Chair and requested that Mr. Martin review amendment LCPR97-108, which would include the licensed peace officers who are currently State Patrol Plan members in the Police State Aid program. The amendment would also include State Troopers, Bureau of Criminal Apprehension Officers, Gambling Enforcement Officers, and the Conservation Officers from DNA in the Police State Aid Program. These peace officers would be phased in over a two year period. Half of the officers, as of the end of 1996, would be included in the 1997 police state aid distribution and the other half would be included in the 1998 distribution. If this proposal was enacted and if police state aid did not increase, the 1996 per officer state aid amount would be reduced from $6,872 per officer to $6,503 for 1997 and to $6,172 for 1998. Mr. Martin stated that the amendment would also impact various employing groups and state funds. Sen. Morse stated that the growth in the police state aid amount will permit the addition of these peace officers without any major impact on police funding and would have a significant positive impact on the trunk highway fund and a smaller impact on the game and fish fund, the BCA and gambling fund. Discussion followed.

Dick Nelson, representative of the Minneapolis Police Federation pension board, questioned whether this amendment will change the definition of a peace officer. Sen. Morse stated that the definition would not change. Mr. Nelson testified that he supports this amendment.

Mr. Bergstrom questioned whether on page 9 of the amendment the employer contribution rate should be adjusted. Mr. Martin stated that to adapt LCPR97-108 to LCPR97-110, it will be necessary to insert the new language from page 9, lines 11 and 12 of LCPR97-108 into LCPR97-110 on page 19, after line 26.

Mr. Kapler testified that this amendment would have a fiscal impact on the State's General Fund since in 1998 the General Fund would get $1.8 million and in 1999 $2.095 million from excess Police State Aid without enactment of this amendment. Discussion followed.

Sen. Morse moved approval of amendment LCPR97-108 to permit members to have an opportunity to view a fiscal note on this proposal. **MOTION PREVAILED**.

Sen. Morse commented that in the uniformity bill, the State is picking up approximately two-thirds of the cost of funding the deficiency in the first city class teacher plans. He believes that, for the long term, to eliminate the remainder of the liability, it makes sense to consolidate the first class city teacher funds into TRA so long as it does not negatively impact the members of any of the plans. He believes consolidation would increase efficiency, reduce administrative costs and provide true uniformity across the plans. Sen. Morse further commented on local police and fire consolidation accounts. Some of the consolidation accounts are fully funded, some still have liabilities, and PERA-P&F has a $300 million dollar surplus. He commented that the State is not currently making the best use of its resources. He then requested that Mr. Martin review amendments LCPR97-114 and LCPR97-119. Mr. Martin stated that LCPR97-114 mandates a study due January 1, 1998, with regard to blending local police and fire consolidation accounts into PERA-P&F. Discussion followed.

Brian Rice, representing Minneapolis Police and Fire Relief Associations, provided background on the legislation that authorized the consolidation of local police and fire funds into PERA-P&F. He suggested that the mandated study be an open and deliberative process, include input from all parties involved and take all concerns into account in any conclusion reached by the study. Sen. Pogemiller suggested on line 7, after "study" insert "the advantages and disadvantages, and if appropriate develop a plan in the form of proposed legislation, for blending some or all" and delete "the issue of the ultimate disposition". Mr. Rice suggested that after "legislative commission on pensions and retirement" add "in consultation with affected constituencies". Discussion followed and the amendment was further changed. Sen. Morse moved amendment LCPR97-114 as amended. **MOTION PREVAILED**.

Sen. Morse commented on the changes in this bill for the Legislator's Plan. He stated that the bill would establish a defined contribution plan for newly elected legislators and he feels that further study and discussion is needed on this issue. Sen. Pogemiller suggested that Sen. Morse and Representative Jefferson talk to legislative leadership about the issue and provide Commission members with the alternatives and pros and cons of the options. Sen. Morse agreed to this suggestion.

Rep. Jefferson thanked everyone who worked on this bill over the past year.

Sen. Morse moved to approve S.F. 637; H.F. 647 as amended. **MOTION PREVAILED**.

The meeting adjourned at 9:35 P.M.

Jean A. Liebgott

Jean Liebgott, Secretary