

August 5, 1997
Room 15, Capitol

11th 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 1:30 P.M.

Commission members present:

Representatives Richard Jefferson, Phyllis Kahn, Harry Mares, and Mary Murphy
Senators Steven Morse and LeRoy Stumpf

Commission members with an excused absence:

Senators Don Betzold, Lawrence Pogemiller, and Roy Terwilliger and Representative Steve Smith

2. Summary of 1997 Regular Session and 1997 First Special Session Pension Legislation

Edward Burek, LCPR Deputy Executive Director, briefly reviewed the Summary of 1997 Regular Session and 1997 First Special Session Pension Legislation. He started the review with legislation that affected the MSRS, PERA, and TRA funds and noted that major changes were enacted that increased member benefit accrual rates in a trade-off against a 1% lower postretirement adjustment. He also noted that the normal retirement age was set at age 66 for post-June 30, 1989 hires instead of being indexed to the Social Security normal retirement age. Employee and employer contribution rates were changed depending on the funding requirements of the particular plan involved. The MSRS-Correctional Plan coverage was expanded. New Legislators and Elected State Officers will be covered by the MSRS-Unclassified Plan and Social Security after June 30, 1997, and existing members are authorized to participate in a Social Security referendum. The MSRS State Patrol Plan is authorized to be included in the allocation of police state aid on a phased-in basis over three years. He noted that TRA members who began to receive benefits after July 1, 1997 and before July 2, 2002, are provided with an additional adjustment to compensate them for the impact of lower lifetime postretirement increases and the smaller increase in accrual rates in comparison to the accrual rate increase for MSRS and PERA members.

Mr. Burek referred members to page 16, item q., which passed as part of the K-12 Education bill in the 1997 First Special Session. He stated that staff is not clear on what waivers are needed nor what problem the legislation is trying to correct. He believes that permitting the person or persons covered by this provision to remit contributions once a year will result in lost investment gain for TRA. He also noted that the LCPR was not given an opportunity to review this provision.

Mr. Burek stated that the First Class City Teacher plans were provided with a clear benefit improvement rather than the trade-off members of the three statewide plans received. First Class City teacher coordinated members will receive higher benefit accrual rates at the time of retirement without a reduction in their postretirement adjustments and in addition, the StPTRFA will receive an improved postretirement adjustment mechanism. The 1997 Legislature also established a new direct state aid program for the First Class City Teacher plans. Mr. Burek continued with his review of 1997 legislation.

Sen. Morse asked for clarification of the TRA provision referred to on page 16, item q, which passed in the K-12 funding bill.

Gary Austin, TRA Executive Director, testified that the provision was introduced by the Minnesota Federation of Teachers (MFT) to protect a few of their employees. He noted that MFT employees have always been TRA members whereas MEA employees have their own qualified pension plan. He further stated that with the impending merger of the MFT and MEA, this provision will protect a few MFT employees who are close to retirement and wish to remain TRA members. Sen. Morse asked why this was not brought before the Pension Commission. Mr. Austin testified that the provision was not a TRA initiative, it was initiated by MFT. Sen. Morse asked what provision the

notwithstanding clause applied to. Mr. Austin responded that it applied to 354.41 which states that all new employees have to be on a leave of absence in order to retain former pension coverage.

3. Consideration of the Adequacy of Current Member Contribution Rates for the Judges Retirement Plan and the Legislators Retirement Plan (Second Consideration)

Lawrence A. Martin, LCPR Executive Director, began to review the packet of information provided to members on this topic. He reviewed the tables on the bottom of page 2 and top of page 3 of the staff memo dated August 4, 1997, which provided information requested by LCPR members and obtained from MSRS with regard to judges and legislators who retired over the last ten years. Mr. Martin provided two pages of bar charts to members and reviewed the information on the charts which compared judges and legislators service credit, retirement ages, entry ages, and utilization of combined service annuity provisions. Sen. Morse recapped Mr. Martin's review by stating that the average judge would begin service as a judge at the age of 45, serve a little over 20 years, retire near age 70 with a pension benefit equal to 67% of salary under the new law. He noted that Attachments B - H were items sent by the National Center for State Courts in response to a request by staff. He referred members to Attachment H, which showed the pension contribution practices for judges throughout all 50 states but did not show what percentage of cost those contributions covered. Mr. Martin referred members to Attachment I which provided a comparison of benefits provided to judges, legislators and MSRS-General members.

Sen. Morse provided copies of a memo he had requested which was written by Mr. Burek and which explored the issues raised by possibly increasing the judges pay an additional 2% above the recommended salary increase with the additional pay targeted toward paying an additional 2% employee pension contribution and permitting a corresponding reduction in the employer contribution rate. The increased member contribution by the judges would bring the judges closer to compliance with pension policy principles. Discussion followed. Mr. Burek reviewed the memo. He stated that one issue raised by an additional 2% increase in the judges salary targeted to employee pension contributions is that it would require more than a 2% reduction in the employer contribution rate in order to prevent an adverse impact on the court system budget. He also stated that another issue raised by this proposal is how to accommodate the current member contribution made by Basic judges that covers almost 50% of their normal cost while Coordinated judges member contribution covers only 38% of their normal cost to prevent either a windfall or an unfair result. Mr. Burek stated that increasing salary and member contribution rates while decreasing employer contribution rates causes normal cost to change and makes it difficult to determine the appropriate contribution rates to achieve a 50% employee and employer rate. He believes that one of the reasons for this complicating factor may be the 70% cap on maximum benefits payable in the judges plan.

Judge John Stanoch, Chief Judge of the Hennepin County Juvenile Court and President of the Minnesota Judges Association, testified that judicial salaries have been frozen for a number of years and this makes it difficult to talk about an increase in judges member contribution rates to judges around the state. He further testified that the Compensation Council recommended increasing the judicial salaries by 6% in 1997, 6% in 1998, and by providing a permanent fix that would grant regular increases thereafter, tied to either an inflation index or to the average increase given to other state employees. This salary increase recommendation was immediately reduced upon introduction to the Legislature to 4% in 1997 and 5% in 1998 and requiring any additional employee pension contribution would further reduce the compensation recommendation. Judge Stanoch testified that in recent discussions, judges did not necessarily agree that they should be paying 50% of the normal cost of their plan as do general employees. He also stated that he appreciated Sen. Morse's sensitivity to this issue and would be available for questions.

Judge Spencer Sokolowski, testified that the only thing the judges have proposed is that legislation be introduced to eliminate the requirement to make pension contributions for judges that have "maxed out" and no longer earn additional pension benefits for years of service. He further testified that he is a basic member and is paying contributions at the rate of 62% of cost. He did not understand why judges were being compared to legislators since the positions are considerably different. With regard to the policy of members paying 50% of normal cost, Judge Sokolowski testified that judges are in relatively dangerous positions and have received threats and have been bombed and possibly should be in a category of positions involving above average risk. He referred to data regarding judges contribution rates dated August 5, 1997, and noted that it showed only

three states required judges to make contributions above 40%, Wisconsin requires a 20% contribution, and Iowa requires a 27.5% contribution. Judge Sokolowski also testified that statutes set a salary assumption higher than what has been actual employee experience. Discussion occurred with regard to the current actuarial salary assumptions set in statutes.

Rep. Murphy questioned whether, when the Commission considered the 50/50 split between employee and employer contributions to pensions while formulating its Principles of Pension Policy, there was any discussion with regard to whether judges should be contributing 50% of their normal cost or whether they should be treated differently. Rep. Jefferson responded that the discussion did not center around a particular group, the discussion centered on the policy the State of Minnesota should have with regard to all employees. Rep. Murphy recommended that the Commission take a look at different employee groups and determine whether the goal for all groups should be 50% of normal cost. Sen. Morse stated that public safety employees are the only group recommended for a 40% of normal cost employee contribution goal. Discussion continued and Judge Stanoch provided historical background on how judges have been treated differently in the past. Sen. Morse stated that judges are unique but he still questioned whether judges should be treated differently than other employees. Judge Stanoch testified that in looking at the public safety category, at one end of the spectrum are police officers and firefighters and at the other end are correctional employees. Although the risks to judges are in no way comparable to the risks that public safety employees face on a day to day basis, the path from law enforcement to prison does lead through the court room and the types of behavior that necessitated establishing a different policy for public safety types is a reality for many judges in Minnesota courtrooms. For those reasons, he supports judges being included with employees who are expected to pay less than 50% of the normal cost of their pension benefit. Sen. Morse stated that most public safety employees are expected to retire at an early age whereas most judges are expected to retire at a much older age, so a comparison with public safety employees may not be a good fit. Judge Stanoch responded that judges begin their careers later and have shorter careers than most general employees so judges also differ from general employees. Discussion followed.

Rep. Murphy asked Judge Sokolowski what he meant by the term "maxed out." Judge Sokolowski responded that he began his career as a judge in April, 1972, and as of August, 1997, he has accrued 25 plus years of service at 3.2% which would give him 80% of salary but the maximum benefit he can draw is 70% of salary. He is still required to make member contributions to the pension plan but does not receive any additional benefit for those contributions.

Sen. Morse stated that he will request actuarial work on the proposal to increase the judges contribution rate.

4. Mandated Commission Study of Pension Coverage For Legislators and Constitutional Officers (First Consideration)

Mr. Martin began by reviewing the mandated study language and noted that the Commission is required to study the proposed pension coverage for legislators and constitutional officers prior to the delayed effective date of changes in their coverage which would allow existing members the option of retaining their current pension coverage without Social Security coverage or the option of electing Social Security coverage and membership in the MSRS Unclassified Plan. There are three mandated study items. They are contribution rates for the new coverage, Social Security coverage and the adaptations that should be made for legislators and constitutional officers in adding that coverage, and how changes for existing participants should be made. Mr. Martin reviewed the background and historical information contained in the staff memo on the Legislators Plan and the Elected State Officers Plan. He then reviewed information on the Social Security program and how benefits are calculated. Mr. Martin reviewed the windfall offset reduction provision in the Social Security program which affects persons who have significant earnings not covered by Social Security. Mr. Martin reviewed the historical nature of legislative service over a 40 year period. He then reviewed the characteristics of both a defined benefit and a defined contribution pension plan and their advantages and disadvantages for legislators. Discussion followed.

Mr. Martin asked members for their input on what information they were interested in staff pursuing for the next level of this mandated study. Rep. Kahn stated that she would like information on the factors that need to be considered by current legislators prior to deciding to retain their current coverage or to change to the Unclassified Plan and have Social Security coverage. Mr. Martin also

suggested that staff could provide information on a third option for existing legislators which would be to retain the current Legislators Plan with a Social Security option.

Sen. Morse stated that without further action, the current pension coverage will be phased out and all new legislators and constitutional officers will have Social Security and MSRS Unclassified coverage. Mr. Martin stated that the MSRS Unclassified Plan permits its members who have ten years of covered service to opt into the MSRS General Plan. Discussion followed regarding the public policy issues raised by this option. Dave Bergstrom, MSRS Executive Director, testified that he would be able to provide numbers on how many employees covered by the Unclassified Plan opted to switch to the General Plan. He also recommended that the Legislature eliminate the option for future employees.

The House Pension Subcommittee members were invited to the Commission meeting and Representatives Mindy Greiling, Bill Hilty, and Peg Larsen attended this meeting.

The meeting adjourned at 4:26 P.M.


Jean Lieb Gott, Secretary