

October 7, 1997
Room 15, Capitol

12th Meeting



LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Senator Don Betzold, called the meeting to order at 3:15 P.M. at the request of Senator Steven Morse, Chair of the Legislative Commission on Pensions and Retirement, as Senator Morse had advised that he would be late.

Commission members present:

Representatives Mike Delmont, Richard Jefferson, Phyllis Kahn, Harry Mares, and Mary Murphy
Senators Don Betzold, Dean Johnson, Steven Morse, and Lawrence Pogemiller

Commission members with an excused absence:

Senators LeRoy Stumpf, and Roy Terwilliger and Representative Steve Smith

2. Purchase of Prior Service Credit Authorization and Payment Amount (First Consideration)

Lawrence A. Martin, LCPR Executive Director, noted that the Commission designated this as an interim topic to study the manner in which full actuarial value is calculated with regard to purchases of prior service credit and to review possible expansion of the authority to purchase service to include voluntary federal service. Mr. Martin noted that the Legislators and their constituents who were involved with purchase of service bills last session were invited to this meeting to testify if they wished. He reviewed the staff memo on this topic and noted the Commission's longstanding policy principle on purchases of prior service. He referred members to the table on the bottom of page four of the staff memo which illustrated the types of leaves pension plan members have purchased. He noted that the largest number of statutory prior service credit purchase provisions deal with military leaves of absence (13) while the largest number of special law provisions (53) deal with local elected officials who did not elect PERA coverage initially but who become public employees later in their careers and then wish to purchase credit for their elected service. Mr. Martin then reviewed two hypothetical situations which showed the difference in purchase payment amounts for a person who purchased two years of prior service credit at age 35 at a cost of \$12,722.00 and a person who purchased two years of prior service credit at age 56 at a cost of \$74,573.00 which would enable both of them to attain an additional \$485 per month benefit increase. He referred members to the graphic representation of pension liability over a member's career shown on pages 6 and 7 of the memo.

Sen. Betzold asked if there were a large number of people who come into public service and leave without ever vesting. Mr. Martin responded affirmatively and stated that those people are accounted for through a turnover assumption that is built into the actuarial valuations.

Senator Morse arrived and assumed the Chair.

Rep. Kahn asked if it wouldn't be simpler to only provide individuals a window of opportunity to purchase past service credit at the time that they reentered public service. Mr. Martin agreed that purchasing service credit as early as possible would lessen the impact of the purchase but stated that individuals sometimes have financial difficulty with purchasing service credit at that point in their career's. Rep. Kahn requested that legislation be drafted to allow purchases of service credit within a certain period of the time of the lost service period and with a specified payment time period.

Senator Morse welcomed Representative Delmont as the new House Pension Commission member and stated that Senator Dean Johnson was appointed as the new Senate Pension Commission member and will be arriving at this meeting soon.

Al Shaff, a Peace Corp volunteer whose bill, S.F. 64 and H.F. 488, was one of the bills laid over during the 1997 Session for interim study, testified in support of authorizing purchases of service credit for federal voluntary service in VISTA or the Peace Corp. He stated that he lost seniority and service credit because of his voluntary Peace Corp service and he only had one year after his return

to purchase service credit for his personal leave of absence. He further testified that after two years of Peace Corp service the army sent a request to his school district that he be permitted to take a military leave of absence to continue to assist the army in dismantling army bases. Although the school district granted this request, Mr. Shaff was not permitted to buy back this time because he did not have the discharge papers or other documentation which is required to purchase military service credit. Rep. Jefferson asked why Mr. Shaff went into the Peace Corp. Mr. Shaff responded that he had prior experience in this part of the world and with the army, and felt that he could make a difference.

Sen. Morse stated that the policy issues seem to be what are the appropriate types of volunteerism and what should be the appropriate timeframe to buy back service credit. Discussion followed.

Rep. Mares asked Mr. Shaff when his leave occurred. Mr. Shaff responded that he was on personal leave from 1992 to 1994 and extended leave into 1995. Rep. Mares asked Mr. Shaff if he was aware when he took the leave of the effect it would have on his retirement. Mr. Shaff responded that he was aware that he would not get service credit for the years of his leave.

1. Approval of Minutes, April 2, April 4, April 15, June 18, and August 5, 1997 Commission Meetings

Rep. Kahn moved approval of the meeting minutes listed above. **MOTION PREVAILED.**

3. Local Police and Fire Consolidation Account Fold-in (First Consideration)

Edward Burek, Deputy Executive Director, began a review of the staff memo and noted that the purpose of the memo was to provide members with background on the issue. He stated that in 1987 the Legislature passed legislation that allowed local police and paid fire funds to voluntarily consolidate with PERA-P&F. He then reviewed the consolidation process.

Sen. Morse asked if the consolidating members of the local relief association have the option to choose either the local plan or PERA-P&F if the municipality approves the consolidation. Mr. Burek responded that Sen. Morse was correct and he noted that if an individual is an active member of the plan and does not make a choice, the fall-back position is always the local plan. Sen. Morse then asked how many active members have selected PERA-P&F since passage of the consolidation law in 1987. Mr. Burek responded that it varies depending on the association but the majority of members have selected PERA-P&F particularly the retired members who have the option to select the MPRIF. Sen. Morse asked how the actuary determines the liability of the consolidated funds when some members have not made a selection. Mr. Burek responded that for members that have not made an election, the actuary determines the liability under both the local plan and PERA-P&F and uses whatever liability for that individual is higher.

In reviewing consolidation funding, Mr. Burek stated that the consolidation account is funded by employee and employer contributions, as well as investment earnings on relief association assets which have not been allocated to the MPRIF.

Mr. Burek then reviewed the funding arrangements considered prior to passage of the 1987 consolidation law. He reviewed the Moorhead police and fire consolidation which occurred in 1985 and served as a starting point for the general consolidation procedure that followed. He stated that under the Moorhead police and fire consolidation law all members became PERA-P&F members and did not have an option to select the local plan. He also noted that Moorhead did not have separate consolidation accounts created for their police and fire plans, all assets and liabilities were rolled into PERA-P&F with an effort made to maintain PERA-P&F's funding ratio. He continued to review the discussions that took place prior to the 1987 law and PERA's concern that consolidating police and fire funds may impact the PERA-P&F funding ratio. Discussion followed regarding the issues involved in legislation that passed in the 1997 Session with regard to Richfield Fire.

Mr. Burek referred members to Table 1 on page 6 which showed the funded condition of the consolidation accounts and PERA-P&F as of the July 1, 1996 valuations. He noted that we do not have the 1997 actuarial valuations, so the funding ratios shown in the table may change due to assumption changes and benefit accrual rate changes that passed during the 1997 session. Mr. Burek stated that the first five funds in the list are better funded than PERA-P&F and the next ten

funds are more than 100% funded. He noted that if all of the consolidation accounts were folded-into PERA-P&F, there would still be a \$261 million dollar sufficiency. Sen. Morse asked what the relief associations with excess funding could do with the excess dollars. Mr. Burek stated that the municipality would not be required to make any contribution in addition to the employer contribution. Mr. Martin stated that Minnesota Statutes, Chapter 423A, provides that the excess funding cannot be used until the last benefit recipient dies and any funding surplus at that point would revert to the city to be used for police or fire purposes depending on the fund that had the surplus. Mr. Martin noted that there is no formal opinion on whether the provisions in Chapter 423A are applicable after a consolidation but in his opinion they remain applicable.

Mr. Burek asked for a clarification on what the Commission felt was appropriate as far as consulting with interested parties on this issue. Sen. Morse responded that the Commission will seek active input from interested parties in future discussions of this topic. Mr. Burek stated that potential fold-in options will have a significant impact on the various aids not only for police and fire funds that have consolidated but also for free-standing police and fire funds, municipalities and possibly the first class city teacher funds. Sen. Morse stated that he has requested a spread sheet that would show how various police state aid and amortization aid money flows since the changes in aids were enacted in the past session. Discussion followed regarding the various state aids and their effects and the effect of folding-in relief associations that are and are not fully funded.

Mary Vanek, PERA Executive Director, testified with regard to comments earlier in this meeting. She stated that a number of Rochester police and fire retirees elected their local plan which means that their benefits come directly out of their active consolidation account rather than from the post fund. She questioned how that circumstance would work if consolidated local funds were folded into PERA-P&F. Ms. Vanek testified that most consolidated relief association retirees select the post retirement investment fund, most active members of smaller police and fire funds select PERA-P&F benefits, and even a majority of the larger funds active members select PERA-P&F benefits. Ms. Vanek testified that Moorhead's consolidation was fairly easy because their normal retirement age was 55, the same as PERA-P&F, and the municipality agreed to come up with enough funding for the Moorhead relief associations to equal the funding level of PERA-P&F at that time.

Sen. Morse concluded this issue by stating that the affected constituencies will have an opportunity to provide input on this issue on an informal basis.

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

Mr. Martin began by briefly reviewing the information included in members packets on this topic and by noting that this is a mandated study which deals with significant changes in pension coverage for all newly elected legislators and constitutional officers. Mr. Martin noted that current legislators will have 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. Mr. Martin stated that the first item addressed was how the shift from one plan to another might occur and the factors that could be considered by legislators and constitutional officers in electing to retain their current coverage or shift to the new coverage. The second item addressed in the memo was retroactive Social Security coverage. The third item addressed was other approaches. The final item addressed was whether to continue with the MSRS-Unclassified provision that allows MSRS-General plan coverage. Mr. Martin noted that Dave Bergstrom, MSRS Executive Director, would be making a presentation to provide members with an example of the kind of benefit counseling legislators and constitutional officers would be receiving from MSRS prior to making a change in their coverage.

Mr. Martin began his presentation with background on the Social Security coordination process covering a total group referendum and split basis coordinations. He noted that the last major Social Security referendum, other than the Economic Development Authorities, was the St. Paul Teachers referendum in 1977. He further noted that most Minnesota public employees are covered by Social Security, however, federal law does not provide for Social Security coverage for public safety employees except for a few states that have exceptions. Mr. Martin briefly reviewed the procedures for a Social Security referendum. He next reviewed the section of the staff memo showing some of the factors legislators and constitutional officers might consider in electing Social Security coverage or keeping their current coverage.

Senator Dean Johnson asked about the Social Security offset issue. Mr. Martin noted that the Social Security offset is covered in the first staff memo on this issue. Mr. Bergstrom provided a Social Security fact sheet on offsets.

Mr. Bergstrom provided members with copies of his overhead sheets, a booklet prepared by the William M. Mercer Company entitled 1997 Guide to Social Security and Medicare, introduced Doug Mewhorter, MSRS Assistant Director, and then began his presentation. Mr. Bergstrom testified that legislators and constitutional officers who elect Social Security coverage will have a tax impact since Social Security contributions are not tax deferred while their current plan contributions are tax deferred. He reviewed some of the items members would be counseled on prior to making an election between current pension coverage and the Social Security/Unclassified Plan coverage. He also reviewed the different calculations used to compute members benefits under the current plan. Mr. Bergstrom briefly reviewed a chart showing Social Security replacement ratios. He then reviewed several examples of different lengths of service and members ages to provide members with some idea of the difference in benefits members might be entitled to under each plan. Mr. Bergstrom noted that if members elect to move from the Legislator's or Elected State Officers Plan to the Unclassified plan the issue of funding will have to be addressed since those plans currently are on a pay-as-you-go basis. His final overhead showed what methods MSRS will use to counsel members. Mr. Bergstrom concluded his presentation with a brief overview of the Social Security offset fact sheet.

Mary Vanek advised members to be aware that Social Security does not apply the offset when providing members with benefit estimates. Discussion followed. Sen. Morse laid over further review of this topic until the next Commission meeting.

The House Pension Subcommittee members were invited to the Commission meeting and Representative Bill Hilty attended this meeting.

The meeting adjourned at 6:05 P.M.


Jean Lieb Gott, Secretary