October 22, 1997 13th Meeting
Room 15, Capitol

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 9:20 A.M.

Commission members present:
Representatives Mike Delmont, Richard Jefferson, Phyllis Kahn, Harry Mares, and Mary Murphy
Senators Don Betzold, Dean Johnson, Steven Morse, Lawrence Pogemiller, and Roy Terwilliger

Commission members with an excused absence:
Senator LeRoy Stumpf and Representative Steve Smith

2. **Mandated Study: Retirement Plan Coverage For Legislators and Constitutional Officers (Continuation of Second Consideration)**
Mr. Martin continued with his review of this topic from the last meeting. He also noted that Dave Bergstrom, MSRS Executive Director, had further information on the Social Security offset which members had questions about during the last meeting. Mr. Martin referred members to page 7 in the staff memo, the question of retroactive Social Security coverage. He noted that federal law permits up to five years of past Social Security service to be purchased upon approval of a referendum but the Legislator's and Constitutional Officers pension plans are not funded. That means that there is not a pot of money to tap into to fund retroactive Social Security coverage. Sen. Betzold asked if the State will have to make an appropriation to cover future legislators and constitutional officers Social Security coverage. Mr. Martin answered affirmatively. Mr. Martin reviewed the policy issues raised by retroactive Social Security coverage. He noted that it will cost both the employer and employee approximately $2,825 per year of service credit to purchase retroactive coverage per legislator and that amounts to $14,125 for both the employer and employee for five years of retroactive service credit.

Dave Bergstrom provided members with a handout on the Social Security offset and began to review the information. He noted that the offset applies to public employees who do not pay into Social Security but does not apply to individuals with 30 or more years of substantial earnings covered by Social Security. He reviewed the formula Social Security uses to determine a person's benefit and then reviewed charts showing a person's benefit with and without application of the Social Security offset. He stated that the offset only affects the first $437 dollars of the Social Security benefit. Discussion followed.

Mr. Martin reviewed some of the options for redesigning the Legislators and Constitutional Officers plans into modified versions of the current defined benefit plan and the policy issues raised by the options. He then reviewed the MSRS Unclassified Plan provisions that permit employees with ten years of service to switch to MSRS General Plan coverage. He noted that in the past, the majority of unclassified members with ten years of service switched to MSRS General but recently, due to large investment gains, the majority of unclassified members are retaining the Unclassified Plan. Mr. Martin reviewed potential actuarial loss opportunities within MSRS-General if the option to switch from the Unclassified Plan to MSRS-General is continued.

Sen. Morse questioned whether legislators who currently have six years of vested service will need ten years of service in the Unclassified Plan before they would have the option to switch to MSRS-General. Mr. Bergstrom responded that he is not sure yet how that provision would be interpreted for legislators and constitutional officers. He suggested that if it is determined that this transfer option should continue, legislation should be enacted to allow legislators and constitutional officers service credit to be added to the current list under Minnesota Statutes, Chapter 352, whereby service in certain other MSRS covered plans is counted towards the ten years of service required by the Unclassified Plan. He further noted that there are currently 1600 members in the Unclassified Plan, it was established about 25 years ago, and five to ten percent of the members transfer to MSRS-General depending on the number of years of service credit that they accrue. Discussion followed.

Mr. Martin noted that, with regard to retroactive Social Security coverage, Mark Shepard, House Research, brought a Constitutional issue to the attention of the Commission. He noted that the State Constitution provides that there be no increase in the compensation of a member of the Legislature until after the next election and, if the State were to fund the employer contribution for retroactive Social Security coverage, that might be viewed as an increase in compensation. Discussion followed.

Mr. Martin reviewed the potential options for resolving this mandated study. Sen. Morse stated that he would be interested in again discussing the establishment of pension funds for the current Legislators and Constitutional Officers pension plans. Sen. Johnson asked what is the unfunded accrued liability for the two plans. Mr. Martin responded that it is approximately $38 million for the Legislators Plan and $3 million for the Constitutional Officers Plan. Rep. Kahn spoke in support of establishing a fund for the two plans. Sen. Morse stated that he would like an overview of the options for funding the Legislators Retirement Plan and the Elective State Officers Retirement Plan after the revenue forecast and actuarial work are in. Sen. Johnson asked if it would be appropriate to send a letter to the administration after the Commission concludes discussions on the funding of these two plans asking whether the administration could begin phasing-in funding the plans in their budget. Phil Kapler, Department of Finance, suggested sending the message about pre-funding these two plans to the Governor, Constitutional Officers, and the Commissioner of Finance. Mr. Kapler stated that the issue in the past for administration was whether to pre-fund these two plans or to retain the current flexibility of the pay-as-you-go method since the money allocated is small in comparison to the full State budget. Sen. Morse suggested that the State look for opportunities such as when the December revenue forecast comes in and if there is a surplus which could allow the State to make a one-time investment that would reduce future liabilities to take advantage of that situation. He asked Mr. Kapler what the deadline was for the supplemental budget. Mr. Kapler responded that the deadline was October 1, but the Governor could make a proposal to add funding the Legislators and Constitutional Officers Plan to the Supplemental budget at anytime before the Session began. Sen. Pogemiller questioned how the mandated study on this issue came about. Sen. Morse responded that since the Legislature has been reluctant to fund these two plans, the Senate passed legislation to eventually phase out the current plans by closing them to new members and by covering new members in the Unclassified Plan which would eliminate any further long term liabilities on the part of the State. Sen. Pogemiller asked whether it was good policy to move to a defined contribution plan from a defined benefit plan because the defined benefit plan has not been funded in the past. Sen. Morse stated that the Commission has discussed this issue but has not come to a consensus on the topic. Sen. Pogemiller stated that he feels that the Commission should discuss further the policy implications of moving from a defined benefit plan for legislators and constitutional officers to a defined contribution plan. Sen. Morse stated that one mark against defined benefit plans for these groups is that they have an unfunded liability that the Legislature has refused to deal with. He further stated that a defined contribution plan provides more flexibility and a better benefit particularly for short term legislators. He also favors providing legislators with Social Security. He believes that it makes sense to treat legislators and constitutional officers as much as possible like employees of the State of Minnesota. Rep. Kevin Knight, a House Pension Subcommittee member, testified that the money members are currently contributing is not going into a pension fund it is going into the State's general fund. He prefers a defined contribution plan. Discussion continued. Rep. Murphy stated that she had hoped that the Commission would discuss benefit improvements as part of the study on this topic since during the last Session members were emphatic about not increasing their own pension benefits. Sen. Morse asked members to study the staff memos on this topic for future discussion.

3. Mandated Study: Local Police and Fire Consolidation Account Fold-in (Second Consideration)

Edward Burek, Deputy Executive Director, referred members to the staff memos on this topic. He noted that preliminary information from the July 1, 1997, actuarial valuations is not yet available. He stated that this memo will provide information on the consolidated relief associations that appeared to be overfunded as of the July 1, 1996, actuarial valuations, the municipal contributions to those funds, and the state aids relating to those funds. Mr. Burek reviewed the columns and data for the fully funded fire relief association consolidation accounts contained in Table 2. He noted that the column marked Municipal Contribution contains data that is net of member contributions but includes state aids and the column marked State Aid includes the 2% fire state aid, the amortization aid, and the supplemental amortization aid. Mr. Burek referred members to the low funding levels for the relief associations prior to passage of the Guidelines Act which required municipalities to make sufficient contributions to their relief associations to pay off their unfunded liability by a specific full funding date. Rep. Mares questioned the potential result of the excess funding indicated in the tables in the memo. Mr. Burek responded that the use of the excess funding depends on the decision of the Commission. Sen. Morse stated that the first step is to determine the amount of the excess funding and how the excess was created.

Mr. Burek referred members to a table that indicated the gains and losses realized by the consolidation accounts. He noted that as the consolidated relief association realizes gains, the municipal contribution is reduced. He referred members to another table that indicated the actual elections members made since consolidation with PERA-P&F. Sen. Pogemiller questioned the losses for Duluth and Chisholm Police on the gain or loss table. Mr. Martin explained that he produced the tables and for Buhl and Duluth police he inadvertently picked up the initial unfunded liability and carried them as a loss so the amount picked up in the 1987 year column should not be there. Chisholm, however, does have financial problems and has had them for some time. Mr. Burek reviewed Table 3 which provided data on the funding status of the police consolidation accounts. Sen. Morse asked why Bloomington, for example, continues to make a contribution when their plan is fully funded. Mr. Burek responded that although some plans are fully funded and no longer need an employer additional contribution, municipalities are required by law to make their regular employer contribution to cover normal cost and the administrative expenses of the plan. He stated that an argument could be made for eliminating the contribution in certain years or for resetting the employee and employer contribution. Sen. Morse suggested that the State could allow plans that are overfunded to eliminate their contribution until their funding level was reduced to 110%. Mr. Martin noted that even though relief associations are fully funded based on the liability that they have to date, they still do have pension costs.

Mark Bernhardson, Bloomington City Manager, testified that the Bloomington Police consolidation account represents only 39 of Bloomington's active officers. He testified that 62 officers have been hired since 1980 and are members of PERA-P&F and the state aid is now used for those pension costs. Mr. Martin stated that the $262,551 shown on Table 3 in the Municipal Contribution column represents the 11.4% of salary employer contribution for the 39 Bloomington Police consolidation account members. Mr. Burek referred members to Table 4 which shows the cumulative state aid provided from 1983 to 1996 on these 15 fully funded consolidation accounts.

Sen. Morse stated that prior to today's meeting, he initiated a meeting with parties interested in the consolidation account fold-in topic to discuss the issue on an informal basis. He invited any members who were interested in this topic to advise him so that they could sit in on these informal discussions when another meeting is scheduled.

4. Mandated Study: First Class City Teacher Retirement Funds Consolidation Options (First Consideration)

Mr. Burek noted that this issue was also a mandated study topic in 1993 and he referred members to the attachment to the staff memo which contained excerpts from that 1993 study. The excerpts included the 14 options and analyses developed by members of the 1993 Technical Advisory Group. Mr. Burek reviewed background information on the first class city teacher plans which included their creation, membership, pension plan benefits, funding history, and contribution rates. He reviewed the state's participation in funding the first class city teacher plans which began in 1967. He stated that the 1997 Legislature made substantial changes in benefits for the first class city teachers funds. All those funds now provide post retirement adjustments using an automatic two percent increase plus an investment performance increase similar to the SBI post retirement adjusment mechanism.

Mr. Burek next reviewed options for potential consolidation of the first class city teacher funds including phase-outs, partial consolidations, and total consolidations. He reviewed the most recent legislation introduced by Sen. Kelly which would have required the St. Paul School Board to decide whether to consolidate StPTRFA with TRA and if it did not consolidate StPTRFA with TRA, the school board would have been required to meet the full actuarial funding needs over and above employee contributions and state aid programs. Mr. Burek reviewed the chart on page 13 which provided the July 1, 1992 funding status of the first class city teacher plans and TRA and then to the chart on page 14 which provided an estimate of the funding status of the same plans after the 1997 benefit improvements and assumption changes. He stated that the Legislature did not take any action on consolidating these plans after the 1993 study but did increase the state funding for the plans considerably in subsequent sessions. Mr. Burek concluded his comments by noting that at this point, due to the various additional state aid programs that have been implemented and including the impact of the 1997 benefit improvements and assumption changes, the funding problems for MTRFA and StPTRFA seem to have been addressed. He stated that the plans funding status and benefits should no longer be a factor in consideration of consolidation restructuring options.

Sen. Morse questioned why the normal cost for the teacher plans were so different. Mr. Burek responded that the numbers in the chart are blended between basic and coordinated members and some of the plans still have a large number of basic members. He further stated that some of the differences are due to demographics and for MTRFA, some of the difference is due to a "30 and out" provision that MTRFA provides. Sen. Morse stated that all of the first class teacher plans have a higher member contribution than TRA and are perhaps not getting the best return for that higher contribution. Discussion followed regarding TRA and first class city teacher contributions in prior years.

5. Designated Study: Funding and Allocation of State Aids For Police Pension Coverage (First Consideration)

Mr. Martin noted that this was a designated study and he began to review the background information on this issue. He stated that there are four state aid programs for police relief associations and three of them cover paid firefighter relief associations as well. The aid programs are police state aid, police and paid fire amortization state aid, supplemental police and paid fire amortization state aid, and additional police and paid fire amortization state aid. He stated that the memo provides information on why the various programs were established, the funding used to finance each of the programs, the qualifications required to receive aid under the programs, how the aid is allocated, and the permissible uses of the aid received. He stated that all of the aid programs are meant to assist the municipalities in meeting the funding requirements of police and fire pension programs. Mr. Martin stated that one of the goals of this study is to assist the Commission in getting a better understanding of how these programs work and the inter-relationship of the programs.

Sen. Morse questioned why the Supplemental Amortization Aid changes from $1,000,000 to about one-half million in some years. Mr. Martin responded that the aid change is driven by whether Minneapolis police and fire are able to pay a thirteenth check. If those funds are able to pay a thirteenth check, their supplemental amortization aid is reduced by the amount of the thirteenth check payment.

Mr. Martin referred members to the flowcharts labeled Attachments A through D and began to briefly review each of the attachments. In reviewing Attachment B, Mr. Martin noted that the proportions of the chart were off slightly and would be corrected before the Commission looked at this topic again. He noted that the amortization aid has been reduced in recent years because some of the police and fire relief associations have become fully funded and the amount also fluctuates depending on whether Minneapolis police and fire pay a thirteenth check. Sen. Morse noted that Attachment A showed $3.2 million dollars canceling back to the General Fund from the 1997 Police State Aid and Attachment B showed $4.7 million dollars coming out of the General Fund to fund the 1997 Amortization State Aid program. Discussion followed. Mr. Martin continued with a review of Attachment C and stated that any reduction in the one million dollars is solely due to Minneapolis police and fire paying a thirteenth check as noted previously. He then reviewed Attachment D, which is a subset of Attachment A, to provide a detailed look at where the additional amortization aid money comes from and goes.

Mr. Martin referred members to Attachment E and noted that the 1997 police state aid numbers show a negative percentage change. He explained that part of the reason for the negative numbers is due to the inclusion of the State Patrol in the Police State Aid program but he has not yet determined the whole reason for the negative numbers. He stated that Attachments F, G, and H are aid amounts for one year only and he referred members to Attachment H. He noted that this is the newest aid program and that Minneapolis was the largest recipient with 43%, Duluth was second with 15%, St. Paul received 14%, Rochester received 7%, St. Cloud received 4%, and all other recipients shared the remaining 17%.

Rep. Kahn asked whether these aid programs could be converted to one revenue source, possibly the General Fund, and one allocation. Sen. Morse observed that the revenue source may not have to be the General Fund, that perhaps alternately, the Commission could look at where the money goes and work backwards.

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

The meeting adjourned at 1:05 P.M.

Jean Liebgott

Jean Liebgott, Secretary