

February 10, 1998
Room 318, Capitol

20th 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 4:07 P.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 LeRoy Stumpf

Commission members absent:

Representative Steve Smith and Senator Roy Terwilliger

Agenda Items Discussed

2. S.F. 2657 (Morse); H.F. 3012 (Kahn): TRA & IRAP; Phase-out Into Retirement Program Modifications

Lawrence A. Martin, LCPR Executive Director, stated that the bill makes three changes in the plans over five sections. The first change related to the higher education phase-out program and dealt with retaining collective bargaining unit rights for members who return to work. The second change provided a mechanism to deal with contributions in excess of federal tax law limits. The third change dealt with requiring a majority vote for recommendations of the advisory committee. Mr. Martin reviewed the four policy issues raised by the bill. Rep. Kahn stated that she understood that an amendment was prepared to deal with the mechanism relating to contributions in excess of federal limits and she requested that testimony be taken on that issue.

Russ Stanton, representing State University and Community College faculty unions, testified in support of this bill. He testified that the 1994 phase-out program permitted employees to retire, accept part-time reemployment without a benefit reduction if their salary was less than \$35,000, and continue health insurance coverage. Participation in this program required mutual consent between employer and employee. In recent implementation of this program, employees were being asked to waive some of their rights under collective bargaining agreements. He continued to testify on the issues raised by this bill. He also testified in support of the amendment.

Gary Janikowski, System Director of Personnel for MNSCU, testified that MNSCU did not object to this bill. He also testified that MNSCU administration would revise their plan document based on a letter ruling from the IRS regarding the excess contribution issue. Mr. Martin reviewed amendment LCPR98-56 which dealt with returning excess contributions. Mr. Janikowski testified that MNSCU would like to change the amendment language on page 1, line 14 and 17, to delete "the board may" and insert "MNSCU is authorized to".

Rep. Kahn moved amendment LCPR98-56 with the change to page 1, line 14 and 17. **MOTION PREVAILED.** Discussion followed.

This item was laid over until the required number of members were present to pass legislation.

S.F. 64 (Junge); H.F. 488 (Rest): Various Plans; Authorization of Service Credit Purchase For Voluntary Federal Service

Sen. Morse asked whether anyone was present to testify in support of this bill. He stated that the bill involved complicated issues and since he had not heard from the authors, he laid the item over without action because the Commission had a full agenda.

3. S.F. (); H.F. 3002 (Wolf): TRA; Retired Interim Superintendent and Principal Exemption From Earnings Limitation

Mr. Martin reviewed the background on this bill. He noted that the bill dealt with TRA, its interim

superintendents and principals and that it was rereferred from the House Education Committee so the Commission was looking at the first engrossment. He further stated that the bill allowed the reemployment of retired principals, provided an exemption from the reemployed earnings limit for principals for 120 days, increased the exemption from the reemployed earnings limitation for retired superintendents to 120 days, and expanded the MNSCU phase-out into retirement program to K-12 teachers in the first class cities. Mr. Martin then reviewed the policy issues raised by this bill. Discussion followed regarding the Commission's last review of the interim superintendent issue.

Rep. Wolf testified that he chaired an interim House K-12 Finance Subcommittee on Government Efficiency and Oversight. The goal of the subcommittee was to address issues that might help K-12 public schools. The subcommittee recommended three bills to help public education. This bill was one of their recommendations and he testified in support of this bill.

Roger Aronson, MN Association of Secondary School Principals, testified in support of this bill. He testified that there currently was an urban and rural shortage of school principals and superintendents. He also testified that the expansion to the 120 day exemption from the reemployed earnings limit and increase to a five exemption lifetime maximum were arbitrarily set. He stated that TRA actually computed the current 90 day exemption as 90 consecutive days rather than 90 working days.

Rep. Mares stated that Minnesota Statutes required a school district to have a superintendent in order to receive state aid. He asked how many of the 350 school districts were currently without a superintendent?

Sen. Betzold stated that in his school district, the superintendent left on short notice and an interim superintendent was hired while the school district conducted a nationwide search for a new superintendent. The process turned out to be lengthy and the interim superintendent reached the earnings limit but stayed on even though his retirement benefit was reduced.

Sen. Pogemiller asked how many superintendents have used the reemployed earnings exemption since it passed in 1989. Gary Austin, TRA Executive Director, responded that currently six superintendents were using this provision and that approximately ten or twelve members a year used the provision. Sen. Pogemiller stated that these people take advantage of early retirement programs, become reemployed, and then want an exemption on their reemployed earnings limit. He stated that this was an employment issue not a pension issue and he recommended repealing the current 90 day reemployment exemption.

Rep. Kahn asked how the school districts should respond to the problem that Sen. Betzold had reviewed. Sen. Pogemiller responded that the school districts could pay the salary necessary to make the person whole. Rep. Jefferson stated that passage of this bill would open the door to rehiring retired employees at the expense of the pension funds.

Gary Austin testified that the reemployment exemption was not a TRA initiative when it was passed in 1989. He gave an example of an interim superintendent who, in the 1996-1997 school year, worked part of a year, was paid \$70,000, his offset was \$10,000 with the current provision, and this provided him with higher earnings than any superintendent in the State. Rep. Kahn stated that she heard of a retired Minneapolis principal who went to work in a TRA covered school district, earned full salary while collecting full pension benefits, and had no offset requirement. Rep. Jefferson restated his question about reemployed earnings exemptions potentially creating more of a shortage of principals or superintendents. Mr. Austin responded that he could see expanding the reemployment exemption to principals potentially becoming a problem. Discussion followed.

Gene Waschbusch, StPTRFA Executive Secretary, testified that loosening reemployment exemptions made a pension problem out of an employment problem.

Dale Jensen, Executive Director of the MN Association of School Administrators, testified that in the 1997-1998 school year there were 58 superintendent changes and the average over a five year period has been about 60. He testified that half of the changes are people new to the position of superintendent and half are people moving from position to position. He testified that the pool of candidates has decreased, it is difficult to find superintendents, and so interim superintendents are hired while the school district conducts the search for a new superintendent. Sen. Morse asked what

the compensation was for a superintendent. Mr. Jensen responded that the average salary in Minnesota was \$71,862. Sen. Morse stated that the average superintendent's annuity would be approximately \$35,000 plus the \$35,000 to \$40,000 they would earn prior to the reemployed annuitant reduction being triggered so the person could receive \$70,000 without a reduction. Mr. Jensen stated that Sen. Morse's analysis was accurate but there still was a problem filling superintendent positions on an interim basis. He testified that over the last five years 150 superintendents have retired and the School Administrators have a list of 20 people interested in filling in as interim superintendents. Discussion followed.

Sen. Pogemiller moved to repeal the current reemployed annuitant exemption for superintendents so that all employees would have the same benefits. Discussion followed. Sen. Pogemiller withdrew his motion.

Mr. Martin reviewed expanding the MNSCU phase-out into retirement program to include the first class city teacher plans.

Jim Grathwol, Minneapolis public schools, testified that expansion of the MNSCU reemployment exemption would assist the Minneapolis School District in solving its recruiting problem.

Dan Lowenson, Director of Human Resources for Minneapolis public schools, testified that this year the Minneapolis school district started the year with 16 part-time vacancies and Minneapolis currently had 10 in critical subject areas. They have recruited retired teachers as substitutes to assist in these subject areas until they reach their earnings cap. Minneapolis schools also has six principal position vacancies. They have to hire two to three retired principals to fill a two to three month vacancy because retirees quit when they reach the cap. Sen. Morse asked how the policy for principals differs from the policy for superintendents. Mr. Lowenson testified that the people they are bringing back on a part-time basis are restricted to the Social Security salary limit of \$8,500 or \$13,500 depending on their age. Discussion followed regarding the legislative intent when the MNSCU phase-into retirement language was passed. Sen. Pogemiller stated that the school district could compensate the retiree to cover their offset and he did not see the difference between the Minneapolis school district's employment problems and the superintendent employment problems. Mr. Lowenson stated that if the school district compensated the retired employee enough to cover the offset the retiree would face in the following year, the retiree would be earning more than other part-time employees. Discussion continued. Mr. Martin stated that this provision applied only to MTRFA Coordinated members and did not apply to MTRFA Basic members.

Sen. Pogemiller moved to require continuity of service for access to the MNSCU phase-into retirement provision passed a few years ago. Discussion followed. Sen. Pogemiller withdrew his motion.

This issue was laid over without action.

1. Proposed Authorizations of Prior Service Credit Purchases

Mr. Martin referred members to amendment LCPR98-71, the omnibus pension bill, which the Commission had already acted on. He then reviewed two technical amendments included in amendment LCPR98-77. He noted that one of the parts of the technical amendment, LCPR98-77, clarified the dates for the Columbia Height teacher and the other clarified the language for the transfer to the Unclassified Plan from the Legislators Plan.

Sen. Pogemiller moved approval of amendment LCPR98-77. **MOTION PREVAILED.**

5. S.F. 2742 (Kelley, S.P.); H.F. 3198 (Folliard): TRA; Allow Greater Percentage of Full Time in Part-time Participation Program

Sen. Kelley provided background on this bill and testified in support of this bill. He testified that the bill would increase the percentage of part-time employment eligible for full-time service credit from 67% to 80%.

Mr. Martin stated that this program was created by the Education Committee in 1978 to resolve a teacher surplus at that time. He reviewed the policy issues raised by this bill and noted that the first policy issue was whether this bill was consistent with the intent of the original program.

Butch Johnson, a teacher in Hopkins, testified that the school district reduced his hours to 4/5s of full-time at the school he has worked at for 20 years and wanted him to work 1/5 time at another school some distance from the first. He was not willing to travel to the other school and work the 1/5 time but would like to be able to pay for full-time service credit while working 80% time. Discussion followed.

Mr. Austin testified that going from 67% to 80% would not be an issue administratively. He also stated that when a person worked 8/10's time on a daily basis, they probably were getting credit for full-time service. Mr. Johnson testified that he works four days a week. Mr. Austin stated that Mr. Johnson would not be getting full-time credit for his 80% of service in a four day period.

Rep. Murphy spoke in opposition to encouraging part-time teaching as bad education policy. Discussion followed.

Rep. Kahn moved to recommend S.F. 2742; H.F. 3198. **MOTION PREVAILED.**

6. S.F. 3025 (Pogemiller); H.F. 3260 (Jefferson): PERA; Allow Hennepin County Regional Park Employee To Elect PERA Defined Contribution Plan

Edward Burek, LCPR Deputy Executive Director, reviewed the staff memo, amendment LCPR98-47 (which he was asked to draft to replace the bill), and the policy issues raised by the bill as amended by LCPR98-47. Mr. Burek stated that the amendment would allow an individual who was an employee of the Suburban Hennepin County Regional Park District and held an elected position with the Minneapolis Park and Recreation Board to retire from Park District employment and receive a PERA benefit while continuing his elected position. He could also receive a refund of PERA contributions for his elected position or transfer those contributions to the Public Employees Defined Contribution Plan. Mr. Burek noted that the amendment required the annuity to be calculated without inclusion of the salary he received for his elected position to prevent the individual from getting a windfall.

Mary Vanek, PERA Executive Director, testified that this individual had a history with PERA-General, the payroll people from the Parks Board reported this individual to the PERA Coordinated Plan, and there was no indication that this individual was advised of his option to contribute to PERA's defined contribution plan for his elected service. PERA was comfortable with amendment LCPR98-47. Discussion followed.

Rep. Jefferson moved approval of amendment LCPR98-47. **MOTION PREVAILED.**

7. S.F. 2364 (Pogemiller); H.F. 2716 (Kahn): Minneapolis Fire; Certain Survivor Benefit Retroactive

Mr. Martin reviewed the staff memo and amendment LCPR98-66. He stated that the bill would extend the optional annuity form coverage for Minneapolis Fire Relief Association members that passed last session as part of the Uniformity Bill to survivors of members who died prior to the coverage's approval by the City of Minneapolis. Amendment LCPR98-66 made the bill retroactive to July 1, 1997, rather than January 1, 1997.

Sen. Morse asked what the effective date was for this part of the Uniformity Bill. Bob Johnson, representing Minneapolis Fire Relief Association, testified that this part of the Uniformity bill was effective July 1, 1997, the Minneapolis City Council approved it June 28, 1997, but the Fire Relief Association did not implement the change nor provide the forms to elect the option prior to the death of three individuals. Sen. Morse asked what the cost of providing these three survivors with this option. Brian Rice, representing Minneapolis Fire Relief Association, testified that the cost would add approximately \$20,000 to the unfunded accrued liability of the fund or about \$2,000 per year for the three individuals.

Sen. Pogemiller moved approval of amendment LCPR98-66. **MOTION PREVAILED.**

Sen. Pogemiller moved to recommend S.F. 2364; H.F. 2716 as amended. **MOTION PREVAILED.**

8. S.F. 3038 (Pogemiller); H.F. 3418 (Jefferson): MERF; Increase Death-While Active Survivor Benefit

Sen. Morse stated that his understanding was that because of the complexity of this issue, there was a greatly reduced version that dealt with just the retirement benefits for certain retirees. Mr. Burek stated that the staff memo dealt with the complex issue and he referred members to the first two pages after the staff memo. He stated that Rep. Jefferson requested that he draft amendment LCPR98-64 and he reviewed the amendment. He noted that the increases in LCPR98-64 are the same as the increases in the original bill for the pre-1983 retirees.

Sen. Pogemiller suggested using the language in the first paragraph of the MERF Amendment which started out Subd. 2. (d). Rep. Jefferson concurred.

Sen. Pogemiller moved approval of the language in the MERF Amendment with the increase to \$750 per month and amending Chapter 422A.23, Subd. 2 (d), and permitting LCPR staff to put the language in proper form as needed. Discussion followed.

Judy Johnson, MERF Executive Director, testified that if clause (e) from either MERF document was not included, 16 survivors would not receive a benefit increase.

Sen. Pogemiller renewed his motion and added clause (e) from the memorandum from MERF to Edward Burek. **MOTION PREVAILED.**

Ms. Johnson requested further Commission review of this topic during the Interim. Sen. Morse agreed to revisit the other issues discussed in the staff memo on this bill.

9. S.F. 2439 (Metzen); H.F. 2869 (Delmont): Deferred Compensation Program; Administrative Expense Changes

Mr. Burek reviewed the background and amendment LCPR98-57 requested by MSRS. He stated that the bill would permit more flexibility in setting administrative fees for contributions made after July 1, 1992, to deferred compensation programs administered by MSRS, PERA, and IRAP.

Rep. Delmont asked Dave Bergstrom to review this issue.

David Bergstrom, MSRS Executive Director, testified in support of the bill and stated that it would allow MSRS to dramatically lower the fees currently charged for this program. The amendment would restrict the fees to an amount no higher than the current fee.

Rep. Delmont moved amendment LCPR98-57. **MOTION PREVAILED.**

Sen. Pogemiller moved S.F. 2439 as amended. **MOTION PREVAILED.**

10a. S.F. 2200 (Pogemiller); H.F. 2623 (Delmont): PERA; Establishment of Local Government Correctional Retirement Plan

Sen. Morse stated that due to a miscommunication, this bill was not listed on the agenda today. He provided background on this bill and stated that it had been agreed that rather than set up a new plan at this time, the Commission would deal only with the disability benefit and review the whole issue during the interim. The agreement was to allow a special disability benefit for this group of employees through PERA-General. The cost would be .73 percent of payroll.

Mr. Martin reviewed amendment LCPR98-76. He stated that the amendment created disability coverage for PERA correctional facility employees. It established a duty disability benefit of 50% of salary plus 2.4% per year for years of service in excess of 25 years. Mr. Martin stated that the member contribution would increase by .29% to 5.04 and the employer contribution would increase by .42% to 5.62%. Discussion followed.

Bob Johnson, representing Teamsters Local 320, testified that because of the cost of the duty related disability benefit, he requested reducing the benefit to 45% of salary plus 1.8% per year for years of service in excess of 25 years.

Mary Vanek, PERA Executive Director, testified in support of this amendment with the 45% and 1.8% accrual rate.

Sen. Pogemiller moved amendment LCPR98-76 with the following changes: on page 2, line 36,

delete "50" and insert "45" and on page 3, line 2, delete "2.4" and insert "1.8". **MOTION PREVAILED.**

- 10b. Rep. Murphy provided background on the issue of a DTRFA teacher who was not permitted to purchase service credit for maternity leave. Rep. Murphy spoke in support of amendment LCPR98-74.

J. Stoffel, DTRFA Executive Secretary, testified that with this service credit, this person would be eligible for a retirement benefit under the Rule of 90 in September, 1998.

Mr. Martin reviewed amendment LCPR98-74 and stated that it would allow one person to purchase up to four and one-half years of service credit in the DTRFA for a maternity leave and break in service. The service credit purchase would use the new calculation method and the amendment did not mandate an employer contribution which meant the employer and employee could negotiate that issue.

J. Stoffel testified that at the time of the maternity leave, it was Duluth School Board policy to require a teacher to take a two year leave of absence and if the teacher was not vested in the pension plan, the teacher was required to take a refund of contributions. Sen. Pogemiller asked if there were other teachers in this situation. Mr. Stoffel testified that there are others in this situation. He also testified that the DTRFA Board has not taken a position on this issue. He estimated that the purchase would cost \$35,000. Discussion followed.

Sen. Pogemiller moved amendment LCPR98-74. **MOTION PREVAILED.**

- 10c. Rep. Kahn introduced and reviewed amendment LCPR98-69. She stated that this issue dealt with requiring the State Board of Investment to allocate shares twice a month rather than once a month.

Dave Bergstrom testified that there would be a cost associated with a twice monthly transfer and that would increase the administrative expense.

This item was laid over until further testimony could be heard.

- 10d. Rep. Kahn introduced amendment LCPR98-80: Various Plans; Modification in the Definition of the Actuarial Value of Pension Plan Assets. She briefly reviewed the issue. Sen. Morse noted that the Commission lacked enough members to act on this amendment and stated that the topic should be reviewed at another time due to its complexity.

The meeting adjourned at 7:15 P.M.


Jean Liebgott, Secretary