December 16th, 1998
Room 107, Capitol

25th 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 9:20 A.M.

Commission members present:
Representatives Phyllis Kahn, Mary Murphy, and Steve Smith
Senators Don Betzold, Dean Johnson, Steven Morse, and LeRoy Stumpf

Commission members absent:
Representatives Mike Delmont, Richard Jefferson, and Harry Mares and Senators Lawrence Pogemiller and Roy Terwilliger

Agenda Items Discussed

Commission Interim Topic: Minnesota Public Pension Fund Investment Policies and Performance
Sen. Morse requested that Edward Burek, LCPR Deputy Executive Director, review the information requested by the Commission regarding passive and active investment allocation for the ten funds whose investment returns were studied by the Commission during the interim. Mr. Burek referred members to the chart in their packets and stated that it provided information with regard to the funds' investment allocation, the managers used, the amount of assets each manager invested for the fund, and the percent of that portfolio's total assets invested by that manager. He noted that DTRFA used only one bond and one international stock manager. MTRFA had a passive manager handle 47% of their stock portfolio and also used a passive manager for a portion of their bond and international stock portfolios. He noted that the high percentage of MERF assets that are passively managed is quite unusual. He noted that Minneapolis police and fire did not give the Commission the breakdown requested between stocks and bonds. He noted that the bulk of the Bloomington Fire assets are administered and allocated by the Bloomington Fire Relief Board. Discussion followed.

2. **Summary of July 1, 1998, Actuarial Valuation Results**
Lawrence A. Martin, LCPR Executive Director, referred members to the tables showing the actuarial valuation results and reviewed the funding level of the major public pension plans based on the 1998 actuarial valuations. He noted that generally the public pension plans' funding ratios have improved with the exception of the MSRS-Correctional Plan and StPTRFA. The MSRS-Correctional Plan recently concluded transferring MSRS-General and TRA members into the Correctional Plan which may account for their one point reduction. He was uncertain why the StPTRFA unfunded liability increased. He referred members to the 1998 letter-sized valuation results and stated that the statewide plans (MSRS, PERA, and TRA) combined are just short of being fully funded. He noted that the statewide public safety plans, as a group and individually, are the best funded of the state public pension plans. The local police and fire consolidation accounts in aggregate are now more than 100% funded. With the consolidation accounts, he noted that some plans are 150% funded while other plans are 75% to 80% funded on an individual basis. He then reviewed the specialty plans which included the Legislators Retirement Plan, the Elective State Officers Retirement Plan, and the Judges Retirement Plan. He stated that only the Judges plan is funded on an actuarial basis. He noted that the actuarial work for the Legislators plan and Elective State Officers plan was done prior to the election that permitted members of these two plans to switch to the Unclassified Employees Plan and to be covered by Social Security. The next valuation should reflect a change in membership numbers for these two plans.

Senator Morse questioned how many active members of the Legislators Plan opted to switch to the Unclassified Plan. David Bergstrom, MSRS Executive Director, testified that approximately 18 or 19 members switched and that the Governor set the election deadline at June 30, 1998. He also testified that all newly elected Legislators and Elective State Officers will automatically become members of the Unclassified Plan. Sen. Morse requested an update on the number of active members left in the Legislators Retirement Plan. Mr. Bergstrom stated that he will provide Sen. Morse with that information.

Mr. Martin next reviewed the three first class city teacher plans and MERF. He noted that three of the plans' funding status improved but the funding status for StPTRFA went down and their membership increased considerably.

Eugene Waschbusch, StPTRFA Secretary/Treasurer, testified that the student population increased dramatically so the school district hired 400 new teachers and is still hiring additional teachers. He also testified that state funding for StPTRFA was reduced by about $2 million so that accounted for some of the reduction in their funding status. The final factor in their reduced funding status was due to a larger number of retirees who retired prior to the effective date of the post retirement medical insurance cap imposed by the school district and the City of St. Paul.

Mr. Martin reviewed the four remaining local police and fire pension funds, Fairmont police, Minneapolis police and fire and Virginia fire, as well as Crookston police since the Crookston police consolidation was not effective until July 31, 1998. In conclusion, Mr. Martin noted that the volunteer fire numbers are the 1997 numbers but will be updated when the Commission receives the new Volunteer Firefighters Compilation Report from the State Auditor's Office.

Sen. Morse stated that Mr. Custis will be providing a formal presentation of this actuarial work but Sen. Morse was interested in getting the raw numbers to Commission members as soon as they were available.

3. Commission Consideration of MSRS-Correctional Plan Membership Expansion

Sen. Morse noted that a quorum was needed to act on this agenda item and he asked Mr. Martin to review this issue until members returned to make up the quorum. Mr. Martin noted that this was the second time this interim the Commission had been requested by the Department of Employee Relations to approve transferring employees to the MSRS-Correctional Plan. He noted that the special procedure to expand the MSRS Correctional Plan has been in statute since 1980 but it has only been used twice, once in June, 1998 and this time. He reviewed the procedure and noted that the Commission's role was to provide comments on the proposed expansion and it was up to the Legislative Advisory Commission to approve the expansion. He referred to the letter from Commissioner Carpenter, DOER, and stated that the Commissioner was making two requests. The first request was retroactive approval of 51 employees who have already been transferred to the MSRS-Correctional Plan. The second request was for prospective approval for 24 job classifications which include 39 current employees seeking transfers to the MSRS-Correctional Plan. Sen. Morse asked what would happen if the Commission acted unfavorably on the retroactive transfers? Mr. Martin stated that would cause a problem since the 51 employees were transferred without full compliance with the statutory process and a question would be raised about their potential next step. Sen. Stumpf stated that his memory was that the Legislature approved several transfers to the MSRS-Correctional Plan a few years ago. Mr. Martin stated that in 1980 this process was set up to allow expansion of the MSRS-Correctional Plan in the event that new job classifications were created that should be covered by the MSRS-Correctional Plan. He stated that Sen. Stumpf was probably remembering legislation that passed in 1996 which added different classifications and included more than 400 employees being transferred to the MSRS-Correctional Plan whereas this process adds employee by employee. Rep. Murphy questioned the transfer of the Delivery Van Driver position to the Correctional Plan. Discussion followed. Mr. Martin outlined the policy issues raised by these transfers. He noted that the 75% inmate contact criteria if it were the sole criteria may be insufficient in determining eligibility for the MSRS-Correctional Plan since model prisoner contact may not be hazardous duty. He noted that the Department of Corrections had added a number of other eligibility items to their criteria but he was unsure if the Department of Human Services had also increased their criteria.

Sandi Blaeser, Labor Relations Manager for the Department of Corrections, testified that the delivery van driver position's main function was to supervise residents in the kitchen at Sauk Center and so the employee met their criteria for transfer to the Correctional Plan. Sen. Morse asked what happens if that person moves to a different position and what happens to the new person in the delivery van driver position? Ms. Blaeser testified that in that event, each position would be reviewed and if the position no longer met the criteria, the position would no longer be covered by the Correctional Plan.

Paul Larson, Assistant State Negotiator for the Department of Employee Relations, testified that he was given the task of reestablishing the procedure for transferring employees to the MSRS-Correctional Plan by not only sending notification of the transfers to the Chair of the Pension Commission but also by requiring comments in response to the notification. The procedure will now include copying LCPR staff on those notifications. He testified that past transfers have included both whole position transfers as well as individual employee transfers. The new procedure will include a full review of the duties of each position when a new person is hired to assure that the pension coverage for the position is appropriate.

Sen. Morse asked what criteria has been met for the two Med Tech employees? Ms. Blaeser testified that the duties at Oak Park Heights and Stillwater for that position included 75% or more time spent in direct inmate contact taking blood, taking x-rays, or administering EKGs without a security officer present. Sen. Morse further questioned how those duties establish an employee need for age 55 retirement and enhanced disability benefits? Ms. Blaeser testified that those positions may not have qualified for MSRS-Correctional Plan coverage using the new criteria.

Mr. Martin reviewed the policy issues arising from the prospective transfer of 24 positions, which included 39 employees, to MSRS-Correctional Plan coverage. Sen. Morse questioned why Clerk Typist positions qualify? Larry Tebrat, Program Director of the Minnesota Security Hospital, testified that this Clerk Typist 4 employee administers psychometric tests to all incoming patients at the hospital for more than 75% of the time. Sen. Morse stated that he still did not understand how a person in that position or some of the other positions discussed could effectively perform their duties if they were also responsible for the control of the inmates. Mr. Tebrat testified that this Clerk Typist 4 is responsible for protecting herself and controlling the patient while she performs her duties. Rep. Kahn asked if there was any history of disability caused by inmate action to employees in these positions. Mr. Tebrat testified that several incidents have occurred with employees in these positions. Mr. Larson testified that they have frequent workers compensation claims submitted by employees in these classifications. He also testified that he has reviewed a number of instances of "injured-on-duty-pay" claims whereby an employee, while on duty, was assaulted by an inmate and was provided with a supplement to their sick leave.

Rick Harry, Chief Operating Officer of the Minnesota Sex Offender Program at the Minnesota Sexual Psychopathic Personality Treatment Center at Moose Lake and two units at the Minnesota Security Hospital, testified that all treatment center employees must meet essential physical requirements of the job in order to be hired. They had a comprehensive evaluation program where professionals measured the physical requirements necessary and assessed every job classification. All employees at their facility are required to respond to a code red and, in his opinion, there are no model inmates at their facility. The behavior of their patients is unpredictable. They contract for dental hygienists and dentists and have security counselors or employees trained in therapeutic intervention in the room with them because there have been incidents where handcuffed inmates have tried to assault a dental hygienist. Assaults typically occur against the professional staff and not the security staff.

Rep. Kahn asked whether the transferees to the correctional plan have to make up the higher contributions for their past service in another plan? Mr. Martin stated that the transfers to the correctional plan are for prospective service only. Discussion followed. Sen. Morse took a break from this topic since the Commission did not have a quorum at this time.

8. Overview Briefing on Potential Future Social Security Revisions

Sen. Morse introduced Tim Penny, former Congressman from the 1st District, to make a few comments on the Social Security issue in light of the White House Conference and the reforms that have been proposed on this topic. Mr. Penny's schedule did not permit his attendance at the Commission's afternoon meeting.

Mr. Penny began by stating he was speaking only for himself and not on behalf of Governor Elect Ventura or the Humphrey Institute. He stated that in 1983, significant Social Security reforms were enacted. One of the reforms that had a major impact on Social Security was accelerating the payroll tax increases which has produced a surplus in the Social Security system. That surplus is not being saved or invested however, it is being spent as quickly as it comes in. Spending the surplus is creating a problem that will occur in 2012 or 2013 if action is not taken. In his view, Social Security reform will be more likely in the 1999 or 2000 Sessions if President Clinton remains in office because of his commitment to reform. Vice President Gore does not have that commitment. He noted that President Clinton in his state of the union speech at the beginning of the year established a dialogue for one year to culminate with the White House Conference on Social Security. Many groups came together to discuss the issue and possible ideas for reform. He stated that Senator Grams has introduced a proposal that would gradually move toward almost total privatization of Social Security investments, which the Commission will hear more about this afternoon, while the former Social Security administrator suggested a two percent payroll tax increase to finance the shortfall in Social Security over the longer term. He stated that the proposal getting the most attention is the two-plus-two plan, a bipartisan plan developed at the Center for Strategic International Studies. The plan would take the current two percent of payroll not needed to cover current benefits and set it aside by establishing personal accounts similar to Minnesota public employee defined contribution plan accounts. The plan would allow employees to make an additional contribution of two percent over and above the base Social Security rate. Sen. Morse stated that permitting employees to invest two percent of their payroll tax into a private fund would allow those with a long time period to work with that investment but wouldn't it cause Social Security benefits to exceed the tax receipts in a shorter period of time? Mr. Penny stated that taking two percent out of Social Security would accelerate the 2012-2013 timeframe by about three or four years and would require additional adjustments in the basic benefit program. The proposal would need to address those problems during the phase-in period and spread the effect over a long enough time period to minimize adjustments in the basic program. Rep. Kahn asked why not permit the Social Security Trust Fund to be invested in something other than Treasury bonds? Mr. Penny said that option is being considered but the objections raised are more concerned with the size of that investment. It would dwarf many other funds and cause a major impact on the markets. There is also the potential for political pressure on the investment of that money. Sen. Stumpf asked if the talk of a federal tax cut had been superseded by the move to reform Social Security. Mr. Penny stated that it has been substantially conceded that the 1999 $60 billion federal surplus has been financed by the excess Social Security payroll taxes being collected so it may be difficult to provide a tax cut until the Social Security program has been reformed.

Sen. Morse reverted to the MSRS-Correctional Plan expansion topic even though the Commission did not have a quorum and could not take action.

Sen. Stumpf questioned whether the physical tests at age 55 were the same for all job classifications and were they similar to the physical requirements applicants at the Moose Lake facility had to meet prior to their employment? Mr. Harry testified that DHS is looking at establishing a test similar to the Moose Lake program's test for other facilities but they do not have such a standard at this time. Mr. Larson testified that applicants for positions must meet the physical requirements for their positions but physical exams are not routinely required for employees prior to age 55. After an employee reaches age 55, employees are required to have physical exams but it is rare that an employee works beyond age 55. Ms. Blaeser testified that the Department of Corrections has had about eighty employees work beyond the age 55 retirement date. Rep. Kahn asked if the physical standards were the same for all those employees. Ms. Blaeser testified that she did not know.

Mr. Martin reviewed the additional policy issues raised by the retroactive transfers and the prospective transfers to the MSRS-Correctional Plan. He stated that the prospective transfer of positions where no individuals are currently employed makes it difficult to determine what basis was used to include them in the correctional plan and is a delegation by the Commission of the normal comment role. He also raised the issue of the adequacy of the criteria used by the Department of Human Services. Mr. Martin then reviewed the four staff recommendations for Commission action.

Sen. Morse asked what was the date the earliest person who is now included on the retroactive transfer list was transferred? Mr. Larson responded that it was October 24, 1996. Sen. Morse asked what would be the affect if the Commission did not approve the vacant positions? Mr. Larson responded that he would request that it be on the Commission's next agenda with proposed legislation. Mr. Larson disagreed with Mr. Martin's recommendation that the Commission withhold approval of positions where no individuals are currently employed since the Commission previously approved positions without employees. He further testified that these transfers would finalize the transfer of employees who meet the criteria for coverage in the MSRS-Correctional Plan begun in 1996. Sen. Morse asked why not put these positions in law rather than having the Commission make comments? Mr. Martin stated that there is draft legislation to do that but the individuals involved would then have to wait until May for approval whereas the comment and approval by the Legislative Advisory Commission may provide faster approval.

Rep. Murphy asked whether employees might not accept transfers or promotions from their current positions if the new position was not covered by the MSRS-Correctional Plan? Mr. Larson testified that Rep. Murphy was correct and that was why DOER has requested the transfer of groups of job classifications to the correctional plan. Sen. Morse questioned why not propose legislation to add these job classifications? Mr. Larson responded that it was his understanding that the Pension Commission preferred this process. Sen. Morse stated that this process works for unique circumstances but for whole classifications, it may be simpler to add them to the list in statutes. Mr. Larson testified that if the

Commission commented favorably on the job classifications, DOER does plan to have those classifications codified.

Sen. Morse stated that if the Commission was able to get a quorum, it would take action on this topic without further testimony.

4. **Commission Interim Topic: Potential Expanded Authority For Prior Military, Unpurchased Interim Military, Out-of-State Teaching, and Maternity Service Credit Purchases (Second Consideration)**

Mr. Martin noted that the first memo on this topic provided background information. He began to review the second memo which covered the policy issues raised by this topic. He stated that the bill to expand purchase of service credit authority was introduced in the 1998 Session prior to the passage of the new procedure for calculating the actuarial value of purchases of prior service so the new method was not included in that bill. He then reviewed the policy issues raised by this topic and noted that the first several issues dealt with the Commission's past policy and practice with regard to purchases of prior service which required that the service was public employment, that it have a Minnesota connection, that the payment amount was equal to the actuarial liability incurred by the public pension plan granting that service credit, and that it meet equitable considerations. He noted that legislation authorizing public pension plan members to purchase maternity leave service credit was enacted in 1976 but was not adopted by the Minneapolis Teachers Retirement Fund Association until 1989. Rep. Murphy stated that school board policies required teachers to resign when they became pregnant so there were no maternity leave of absence provisions established. Mr. Martin noted that if the purchase of service provisions were expanded for the teacher plans, non-teacher plans and retirees might also seek the expanded authority. Mr. Martin continued to review the other policy issues raised in the staff memo. Mr. Martin reviewed potential limits or conditions the Commission may wish to require for purchasing service credit if the expanded authority was enacted. Mr. Martin reviewed the final two policy issues raised by the topic of expanding purchase of service credit authority. He stated that if purchases of service credit are to be encouraged, it may be beneficial to impose a small dedicated additional employee and employer contribution to establish a fund to subsidize the purchases of service. He also suggested establishing a special defined contribution plan to subsidize service credit purchases. The final policy issue was that in 1994, the major pension plan administrations were directed to prepare legislation to revise and establish consistency in their service credit leave of absence provisions but have not done so. He stated that it may not be advisable to expand purchase of service credit provisions until that task has been completed.

Hank Stankiewicz, Education Minnesota Research Specialist, provided copies of Education Minnesota's Testimony in Support of Out-of-State Teaching Service Credit Purchases. He gave an overview of the study on purchasing out-of-state service credit and noted that only five states, including Minnesota, do not provide out-of-state purchase opportunities. He testified in support of expanding the authority to purchase service credit.

Gary Austin, TRA Executive Director, provided copies of the TRA Prior Service Questionnaire survey. He provided an overview of the highlights of the survey results and noted that 56% of the respondents had one of the three prior service categories. Of that 56%, 27.5% had out-of-state teaching service credit, 22.6% had maternity leave service credit, and 6.9 percent had military service credit. He referred members to the comments from questionnaire respondents and noted that the questionnaire was also included in the TRA newsletter and responses were solicited. All 1700 of the newsletter respondents had service to purchase and there was much greater interest in the purchase of military service (about 25%) among the newsletter respondents.

The meeting recessed at 12:10 P.M. for a lunch break.

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Senator Steven Morse, Chair of the Legislative Commission on Pensions and Retirement, reconvened the meeting at 1:45 P.M.

Commission members present:

Representatives Phyllis Kahn and Mary Murphy
Senators Steven Morse and LeRoy Stumpf

5. **Commission Interim Topic: Potential Revisions In The Minimum Volunteer Firefighter Aid Portion of the Fire State Aid Program (Second Consideration)**

Mr. Burek provided background on the minimum fire state aid program and noted that when the program was established, the allocation for aid was based on the firefighter count in 1993. Establishing 1993 as the base year eliminated any relief association from eligibility that was established after 1993. Mr. Burek referred members to Table 1 on page 2 of the memo dated December 14, 1998, and stated that it showed the relief associations established since 1993. He stated that the adverse impact of adding these relief associations to the minimum fire state aid program would be minimal since some relief associations that were eligible for the aid have dissolved. He then referred members to Table 2 on page 3 of the memo which indicated the firetowns that have not established a relief association. He noted that the minimum fire state aid per firefighter has risen from $264 per firefighter in 1996 to $313 per firefighter in 1998. He stated that a copy of the Department of Revenue printout, showing the state aid and minimum state aid paid in 1998, was attached to this memo. Discussion followed. Sen. Morse stated that the Commission will have to determine whether to expand the minimum fire state aid program and what should be established as the new base year. Mr. Burek noted that the Commission may want to learn how much local support there would be to support specific new fire relief associations.

8. **Overview Briefing on Potential Future Social Security Revisions**

Kim Lichy, Special Counsel for the Minnesota office of Senator Rod Grams, was invited to this meeting to provide the Commission with an overview of legislation Senator Grams has introduced to resolve the future Social Security crises. Ms. Lichy began her presentation by providing background on Sen. Grams' recent actions. She stated that the primary piece in Sen. Gram's plan is the personal retirement account which would allow an individual to invest the money that currently goes into Social Security, not the Medicare portion, in the marketplace through approved investment firms and financial institutions. He believes that personal investing will provide higher benefits but his plan will permit individuals who are not comfortable with the personal retirement account to stay with the traditional Social Security system. She stated that with Sen. Grams' plan, the government approved investment companies would be insured to guarantee a return higher than the current Social Security benefit. She noted the flexibility Sen. Grams' plan would provide with regard to retirement age and whether an individual would buy an annuity with their fund or take regular withdrawals so long as they did not deplete their fund early. She concluded by stating that Sen. Grams believes that individuals responsible for their own retirement accounts will achieve better results than the government.

Sen. Morse asked what the transition cost would be to implement Sen. Grams' plan and what would be the cost for individuals who choose to stay with the current Social Security system. Ms. Lichy responded that the transition costs would be covered by the 2.4% that individuals would continue to contribute to the Social Security Trust Fund in addition to other methods provided in Sen. Grams legislation. She stated that since Sen. Grams proposal does not include any increase in taxes, the additional money needed to implement the plan would have to come from other federal revenue sources. Sen. Morse asked what would be the total transition costs. Ms. Lichy stated that she would get that number for Sen. Morse but she knew that the cost was less than the dollar amount required to resolve the crisis by increasing the Social Security tax. Sen. Stumpf stated that Sen. Grams' plan emphasizes the decision making of individuals but what would happen if an individual made poor investment decisions? She responded that a requirement to use only approved investment firms that would guarantee a minimum 2% return and a pool of money to draw from in the event of poor decisions would provide a safety net for those individuals. Sen. Morse asked what would happen to the money a person had already paid in to Social Security if they opted for the personal retirement account? Ms. Lichy responded that an individual between 30 and 50 years of age would receive a bond that recognized past contributions which could be cashed at the time of retirement with interest added and an individual under 30 years of age would forfeit their contributions. Discussion continued.

Dean Lemke, representing the Senior Federation, began his presentation by providing background on what the Senior Federation has been doing to educate people on the possible changes to Social Security. He stated that a Senior Federation committee that represented the 12 regions of Minnesota reviewed eight potential changes to Social Security and came up with four recommendations. Mr. Lemke stated that the first recommendation was to tax 100% of Social Security benefits rather than the current method of taxing only 50% to 85% of benefits. The second recommendation would be to phase in, over a five year period, the amount of wages subject to payroll taxes up to a 90% of earnings level. The third recommendation would require all newly hired state and local employees to be covered by Social Security. The fourth recommendation was to invest 40% of Social Security Trust Fund money in equities. He stated that these changes would resolve the Social Security crisis for 75 years. Mr. Lemke then reviewed the four proposals that the Senior Federation was opposed to which were cutting the COLA, means testing for receipt of Social Security, raising the payroll tax, and investing a portion of the payroll tax in individual accounts.

Sen. Morse asked Mr. Lemke if he knew how much money was currently being invested in the stock market and what impact investing 40% of the Social Security Trust Fund would have on the market? Mr. Lemke responded that he did not know how much money was being invested in the market but an investment of 40% of the Social Security Trust Fund would have a major impact on the market. Sen. Stumpf asked if increasing the payroll tax cap to 90% of earnings would wipe out the Social Security deficit? Mr. Lemke responded that it would raise ¼ of the money required to eliminate the 2.3% deficit. Discussion followed.

6. **Commission Interim Topic: Police Pension State Aid Revision/PERA-P&F Consolidation Account Amalgamation (Third Consideration)**

Mr. Martin provided background on this topic and stated that four of the flowcharts previously provided have been updated based on the most recent Department of Revenue information. He noted that in 1997 the excess police state aid cancellation to the general fund was changed from ½ of the remainder of excess police aid after deducting the $1 million for the ambulance program to a set dollar amount. The set dollar amount balanced budget projections but reduced the amount of money that would have gone into the general fund. The other change that impacted the programs which was reflected in the flowcharts was the significant reduction in the PERA-P&F contribution rates. The employer contribution rate will drop next year from 11.4% to 6.9%. This will dramatically reduce the amount of police state aid required and will increase significantly the excess police state aid. He cautioned members since according to the 1998 actuarial work for PERA-P&F, the employer contribution was $45.5 million and the state aid amount was in the high $20 millions that there is a problem with data. He referred members to page 3 and the table that showed the funding progress of PERA-P&F Consolidation accounts. The number of consolidation accounts less than 100% funded has fallen from 22 funds in 1996 to 17 funds in 1998. He referred members to the chart that showed the number of consolidation account members that have chosen PERA-P&F coverage (2,856), the number that have chosen the local plan (211), and the number that have not made an election as yet (179). The right hand side of the chart provided information with regard to the additional municipal contribution that was needed upon initial consolidation and the current additional municipal contribution, which was considerably less. Sen. Morse questioned whether the consolidation account employer contribution will be reduced when the PERA-P&F contributions are reduced? Mr. Martin answered affirmatively. Sen. Morse requested that Mr. Martin draft legislation that would maintain the contribution rate at current levels for consolidation accounts that are not fully funded. Mr. Martin referred members to Attachments A and B for the funding status of the consolidation accounts. Finally, he referred members to the 1997 law that changed the cancellation to the General Fund and the 1993 law that reduced the PERA-P&F contribution rates. He concluded by stating that these memos could be the basis for the Commission making decisions with regard to the state aid programs and the consolidation accounts. Sen. Stumpf asked if there was any information with regard to utilization of the Ambulance Service Program. Mr. Martin responded that he did not have that information. He stated that the program was being administered by the Emergency Medical Services Board and they were not required to report. He will request the information. Discussion followed.

8. **Overview Briefing on Potential Future Social Security Revisions**

Mark Anderson, representing the office of Senator Paul Wellstone, began his presentation by stating that on December 3, 1998, Senator Wellstone sent a letter to President Clinton outlining his thoughts on resolving the Social Security problem. Sen. Wellstone recommended strengthening Social Security's finances and opposed privatization because it would aggravate Social Security's long term financing shortfall. Sen. Wellstone stated that paying for new privatized accounts would require more benefit cuts and tax increases than would otherwise be necessary. Privatization plans that have so far been offered, include unacceptable benefit cuts and exaggerated potential returns from stock market investment. Sen. Wellstone supports proposals that close Social Security's long-term shortfall such as using the budget surplus or raising the payroll cap on individuals' earning to more than $68,400. He opposes benefit cuts, raising the retirement age to 70, and privatization.

Rep. Kahn asked if Sen. Wellstone has taken any position on investing a portion of the Social Security Trust Fund in the stock market? Mr. Anderson stated that Sen. Wellstone has not taken a formal position but he is open to getting more information on that issue. Sen. Morse asked how likely it was that action would be taken on this issue. Mr. Anderson stated that Sen. Wellstone does not believe that major changes will occur this year. Rep. Kahn asked why not allow people to opt to put additional money into retirement in addition to Social Security? Mr. Anderson responded that Sen. Wellstone favors maintaining Social Security as a safety net and adding a tax benefited defined contribution plan for investing some retirement money. Sen. Morse stated that he believes that was the purpose of establishing IRAs.

Mr. Anderson concluded his presentation by noting that the survivor and disability part of Social Security is extremely valuable to individuals and would be greatly impacted by privatization proposals. He stated that 30% of today's 20 year olds will experience a disability prior to reaching retirement age and 40% of today's 20 years olds will either face a disability or die prior to reaching age 65. Discussion followed. Mr. Anderson provided a packet of articles on this topic.

7. Commission Interim Topic: Potential MERF Survivor Benefit Modifications (Second Consideration) Report of Subcommittee

Mr. Burek provided background on the this topic and provided an overview of the MERF Subcommittee Report. He referred members to page three of the staff memo, the recommendations of the Subcommittee, and noted that draft language (LCPR98-147) including those recommendations was attached to the memo. He stated that there were eight recommendations. The first recommendation was to authorize MERF to bill and charge interest to employing units which had a negative asset balance. The second recommendation was to provide a death-while-active refund excluding contributions to the survivor benefit fund. Sen. Morse asked for clarification on this issue. He asked if MERF pays a refund of contributions in addition to providing a survivor benefit while the State is providing over a $6 million supplement? Mr. Burek responded affirmatively and stated that MERF interprets its laws to allow short service and long service death-while-active survivors to get a refund as well as a survivor benefit. Sen. Morse asked why they need this language if they are already following this practice? Mr. Burek stated that it was not clear how the refund amount was determined. Sen. Morse stated that the practice of paying someone a refund in addition to a survivor benefit raises questions. He asked how that survivor benefit was funded? Mr. Burek stated that it was financed under the general financing provision in MERF and it was coming from a commingled pool. Rep. Kahn asked what was the MSRS survivor benefit procedure? Mr. Burek did not know but he did know that a refund was not paid when a survivor benefit was paid. Discussion followed and Mr. Burek noted that testimony by MERF before the Subcommittee was that the survivor benefit portion came from a separate insurance plan arrangement between employers and employees. Mr. Burek reviewed the third through the eighth MERF Subcommittee recommendations. Sen. Morse asked why the provisions that have no benefit recipients, like the long-service death-while-active dependent parent annuity and dependent child lifetime annuity could not be eliminated? Mr. Burek stated that taking any one of these provisions and altering it or eliminating it could be viewed as a benefit takeaway. However, it might be possible to adjust these benefits in some kind of trade situation. Mr. Burek noted that two items were not covered by the Subcommittee but are included in the bill draft attached. The first item was the lump sum death benefit paid by MERF when no other benefit was paid. The second item related to changing the language dealing with post retirement benefit increases for disabilitants being indexed to the MERF retired fund rather than SBI for consistency and to follow MERF's current administrative practice.

Mr. Burek stated that the draft language does not require MERF to cover any unfunded liability generated by acting on the Subcommittee recommendations. He noted that there is a significant complex issue raised if these benefit improvements were passed under MERF's current financing laws. He stated that unless specific language was added to require the employing units to pay for these benefit improvements, the unfunded liability would roll to the state. He stated that the Subcommittee believed that the unfunded liability would be picked up by the City of Minneapolis but after that meeting, Commission staff received the 1998 actuarial valuation report which contained comments regarding the actuary's efforts in dealing with the MERF survivor benefit increase passed last session. The MERF valuation report indicated to Commission staff that the unfunded liability would roll to the State and not the City of Minneapolis. Due to the complexity of the issues raised and the time constraints of this meeting, the Commission postponed action on the Subcommittee report until a new Commission was convened.

The meeting adjourned at 4:05 P.M.

Jean Liebgott

Jean Liebgott, Secretary