

February 26, 1999
Room 125, Capitol

1st 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 2:15 P.M.

Commission members present:

Representatives Philip Krinkie, Harry Mares, Steve Smith, and Stephen Wenzel
Senators Don Betzold, Steven Morse, Lawrence Pogemiller, and Roy Terwilliger

Commission members absent:

Representatives Mary Murphy and Rich Stanek; Senators Dean Johnson and LeRoy Stumpf

Agenda Items Discussed

Senator Morse noted that since a quorum was not yet present, he would begin the meeting as a Subcommittee and take action on the Subcommittee recommendations when a quorum was present.

**H.F. 551 (Mulder); S.F. 707 (Lesewski): PERA; Luverne Hospital Employees Retirement Coverage
After Hospital Privatization**

Rep. Mulder presented the bill and testified that Luverne Hospital was a public hospital, now privatized, and being run by a group from Sioux Falls, South Dakota. He referred to a technical amendment which Lawrence A. Martin, LCPR Executive Director, reviewed noting that the amendment, LCPR99-33, clarified the language in the bill.

Rep. Mares moved amendment LCPR99-33. **MOTION PREVAILED.**

Rep. Mulder introduced Christopher Hood, an attorney with Flaherty and Associates, Matthew Hysten, Luverne City Administrator, Everett Brandenburg, City Council and hospital board member, Jerry Karl, Hospital Administrator, and Barbara Berghorst, Luverne Financial Director. He testified that there is no opposition to this bill either by hospital management or employees.

Ms. Berghorst provided an overview of the bill. She noted that the City of Luverne has been working with Sioux Valley Health Members of Sioux Falls to take over the operation of the Luverne Community Hospital to assure the continuation of high quality health services to the community. The privatization of the hospital would have a detrimental impact on the pension benefits of current hospital employees so this special legislation is being requested to assure that hospital employees maintain pension benefits comparable to PERA's. The legislation will provide immediate vesting for current employees, deferred augmentation will increase at a higher rate between date of privatization and date of retirement, and future hospital service under privatization will be included in determining eligibility for "Rule of 90" retirement. Ms. Berghorst testified that this solution is similar to the solution used in the Fairview hospital privatization and will not negatively impact PERA. The special legislation passed for Luverne hospital employees in 1998 was not enacted by the City of Luverne because hospital employee pension benefits would have been negatively impacted and the city pension contribution to the employees could not have been made on a tax deferred basis.

Election of Officers

Sen. Morse welcomed the new Commission members, Rep. Krinkie and Rep. Wenzel. He stated that the Commission Chair rotates between the House and the Senate every two years and for the next biennium it rotates to the House. He opened nominations for the office of Commission Chair.

Rep. Wenzel nominated Representative Harry Mares. There being no further nominations for Chair, nominations were closed.

Rep. Mares was elected Chair of the Legislative Commission on Pensions and Retirement.

Rep. Mares assumed the Chair and opened nominations for the position of Commission Vice Chair. Sen. Morse nominated Senator Don Betzold for Vice Chair and Senator Dean Johnson for Secretary. There being no further nominations, nominations were closed.

Sen. Betzold was elected Commission Vice Chair and Sen. Johnson was elected Commission Secretary.

The Commission next moved to adopt the Rules of the Legislative Commission on Pensions and Retirement. Sen. Pogemiller asked if the deadline was in the Commission rules. Mr. Martin stated that in his memory the Commission has never had a deadline date included in the Commission Rules. Sen. Pogemiller asked how Rep. Mares planned to proceed with hearing bills prior to the House and Senate bill deadline. Rep. Mares noted that 43 pension bills have been introduced to date, 23 have hearing requests, one was resolved without a hearing, bills are on today's agenda, the next Commission meeting will have 11 bills on the agenda, and it is scheduled for Wednesday, March 3, 1999. He noted that the first bill deadline will be March 19, 1999.

Rep. Wenzel moved to adopt the current Commission Rules. **MOTION PREVAILED.**

Approval of Minutes of the Commission Meetings of November 17 to 18 and December 16, 1998

Sen. Morse moved approval of the minutes of the Commission meetings of November 17 to 18, and December 16, 1998. **MOTION PREVAILED.**

The Commission reverted to testimony on **H.F. 551 (Mulder); S.F. 707 (Lesewski)**. Jerry Karl, Luverne Hospital Board member, testified in support of the bill to assist the Luverne hospital to become part of a healthcare network. He testified that the Board had resolved all of the issues related to that goal except for the employee pension issue.

Mr. Martin reviewed the staff memo on this bill and noted the three benefits that Luverne Hospital employees would have if this legislation was enacted. He reviewed the history of the sometimes contentious question of PERA coverage for public hospital employees, provided background on the trend toward privatization of public hospitals, and reviewed the different methods used by the Pension Commission to deal with the issue. He then reviewed the four policy issues raised by this legislation. Mr. Martin referred members to Table 3 in the actuarial work done by the Commission actuary and reviewed the information. Sen. Morse noted that this legislation reduced the \$4 million gain to PERA in the legislation passed last session down to a gain of \$800,000.

Mary Vanek, PERA Executive Director, testified that the PERA Board remained neutral on this bill since PERA would continue to have a gain.

Sen. Morse questioned whether Rep. Mares planned to pass pension bills on an individual basis. Rep. Mares introduced Rep. Rhodes, the Chair of the House Governmental Operations and Veterans Affairs Policy Committee, and stated that the plan was to pass bills individually rather than assemble an omnibus pension bill. Sen. Pogemiller noted that an omnibus pension bill usually represents a consensus between the House and Senate and may be easier to track and control than multiple bills. He encouraged Rep. Mares to consider assembling an omnibus bill. Rep. Mares agreed with Sen. Pogemiller's point and recommended Commission action be rolled into omnibus pension bills.

Rep. Smith moved H.F. 551; S.F. 707 as amended. **MOTION PREVAILED.**

H.F. 1027 (Molnau); S.F. 912 (Robling): PERA; Ridgeview Medical Center Employees Retirement Coverage After Hospital Privatization

Sen. Robling presented the bill and testified that the Waconia City Council decided not to sell the hospital to a private entity but to change the status of the municipal hospital to a community non-profit 501(c)(3) organization. The hospital has 800 employees and the bill decreased the impact on employee's pension status and the possible involuntary loss of PERA coverage when the hospital changed to a 501(c)(3) organization.

Bob Stevens, Hospital Administrator, testified in support of the bill and provided background on the

Ridgeview Medical Center.

Sen. Betzold moved a technical amendment, LCPR99-34. **MOTION PREVAILED.**

Mr. Martin briefly reviewed the staff memo on this bill and noted that the two items that were different in this bill from the previous bill were the actuarial cost and the adequacy of the pension coverage provided. He stated that the actuarial gain to PERA from this bill's enactment would be over \$6 million. Sen. Morse asked if prior privatized hospitals that did not receive the benefit package provided under this bill for Ridgeview Medical Center and the Luverne Hospital bill might be back seeking this privatization package? Mr. Martin stated that it is very likely and that the precedent is being set to treat future hospital privatizations in this manner.

Ms. Vanek testified that the PERA Board is neutral on this bill also since PERA will have an actuarial gain but she was concerned that previously privatized hospitals may request this method since their employees have already terminated PERA coverage and the gains associated with those privatizations have already been accounted for in PERA's actuarial valuations. She stated that counseling the 800 Ridgeview employees in addition to the 150 Luverne employees may cause a resource problem for PERA.

Sen. Betzold moved H.F. 1027; S.F. 912 as amended. **MOTION PREVAILED.**

H.F. 117 (Gunther); S.F. 152 (Beckman): Fairmont Police; Increase Surviving Spouse Benefit and Provide Additional Post Retirement Adjustment

Rep. Gunther presented the bill and noted that the Fairmont Police Relief Association has only one active member and has 16 members and spouses receiving benefits. They are funded at 116% and this bill has City Council approval.

John Bisby, a retired Fairmont police officer, testified in support of this bill. He stated that the members have not requested benefit increases in the past and have been conservatively profitable in relief association investments.

Dick Nelson, representing the Minnesota Police Pension Council, testified in support of this bill.

Edward Burek, LCPR Deputy Executive Director, passed out the benefit summary provisions from the 1997 Fairmont Police actuarial valuation. He reviewed the staff memo and stated that the bill established an additional post retirement adjustment modeled after the Minneapolis police and fire approach. It permitted distribution of two percent of the assets of the association to retirees and survivors if the association's funding level was greater than 102%. The bill also increased benefits for a certain survivor, provided for bylaw conformity, and required local approval. Mr. Burek reviewed the policy issues raised by this bill. He referred to the actuarial valuation data and noted that the normal cost was 36.49%, indicative of very generous current benefits and considerably above the 26% normal cost of the Minneapolis police and fire benefit package. He also noted that the employee contribution was 8% but there was no employer contribution shown since the remainder of the funding for this plan comes from state aid. Prior to the plan reaching full funding as of the 1997 valuation, the plan also received amortization aid, supplemental amortization aid, and additional amortization aid. The City of Fairmont has not borne any burden for funding these benefits for several years. He questioned whether there was a need for an additional post retirement adjustment since the current adjustment replicates active member salary increases. He referred to the table on page 4 of the memo which indicated that benefit increases equaling 97.3% over the last ten years have been more than double the cost of living for that time period. Another policy issue raised was the precedent it would set. He noted that this bill had local approval but the city does not have any obligation to fund this benefit improvement. Mr. Burek reviewed amendment LCPR99-35 which would eliminate the additional post retirement mechanism and leave only the benefit improvement for a survivor. He also reviewed amendment LCPR99-36 which would scale back the benefit improvement from 2% to a smaller amount to be set by the Commission.

Sen. Morse commented that this bill provided retirees who already have a generous defined benefit package with a defined contribution benefit as well since the distribution of 2% of the fund's assets were not tied to any service credit component. He stated that the bill produced a large windfall for Fairmont police benefit recipients and he questioned what return the state would get for all of the state aids provided over the years.

Dick Nelson testified that investment growth also contributed to the asset growth of the fund. He stated that the 36% increase in 1989 was the result of a Supreme Court decision which required that a top grade patrol officer's overtime and longevity pay had to be included in the calculation of salary for benefit purposes. Discussion followed and Sen. Morse stated that the benefit requested in this bill did not have anything to do with need and he again asked what does the state get for all of the state aids it has provided to this plan.

Brian Rice, Best & Flanagan, testified that he assisted in drafting this legislation. He testified that current law provided that when the last benefit recipient of the police fund died, the remaining assets of the relief association would pass to the City of Fairmont. He also testified that Fairmont police have not consolidated with PERA-P&F because their benefit recipients have had higher benefit increases than participants in the SBI post retirement fund. He testified in support of amendment LCPR99-36 and supported inserting 1.5% in the blank on line three. He stated that when the Minneapolis firefighters fund becomes fully funded the firefighters would receive a 25% increase in benefits.

Sen. Pogemiller recommended inserting 1% on line three. Discussion followed and Mr. Bisby again testified in support of this bill and the 2% additional benefit increase. He also provided background on the circumstances and benefit of the survivor of a non-vested member who was included in Section 2 of this bill.

Sen. Morse moved amendment LCPR99-36 with 1% inserted on line 3. **MOTION PREVAILED.**

Rep. Wenzel moved H.F. 117 as amended by LCPR99-36 as amended. **MOTION PREVAILED.**

H.F. 68 (Rukavina); S.F. 103 (Janezich): Eveleth Police and Fire; Post Retirement Adjustment

Rep. Mares noted that Rep. Rukavina provided the Commission with a letter and an attached Eveleth City Council resolution in support of the benefit increase. In the letter Rep. Rukavina stated that the only point of contention with the bill was the relief association actuarial funding issue. Rep. Rukavina stated that since 1979 Eveleth has considered their police and fire plans to be pay-as-you-go plans and they have never missed making the appropriate payment.

Mr. Burek reviewed the staff memo on this bill and noted that in 1977 the Eveleth police and fire relief association active member pension coverage was transferred to PERA-P&F and a joint Eveleth trust fund was established for benefit recipients. He referred members to Table 1 in the memo which indicated the ad hoc increases over the years for benefit recipients of the plans. He noted that 1998 legislation changed the law to authorize Eveleth to operate the trust fund as a pay-as-you-go plan. He briefly reviewed policy issues associated with this bill. He reviewed amendment LCPR99-32.

Sen. Morse recommended striking paragraph (b) from LCPR99-32. Discussion followed.

Sen. Morse moved to strike "(a)" on page 1, line 8, strike paragraph (b) and delete the new language in amendment LCPR99-32. **MOTION PREVAILED.**

Sen. Pogemiller moved to delete line 7, on page 1 of H.F. 68. **MOTION PREVAILED.**

Sen. Morse moved H.F. 68 as amended. **MOTION PREVAILED.**

The meeting adjourned at 4:20 P.M.


Jean Lieb Gott, Secretary