

March 3, 1999
Room 5 State Office Building

2nd Meeting



LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Representative Harry Mares, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 6:10 P.M. He noted that the Commission did not yet have a quorum because Senate members had a number of concurrent Committee meetings in the Capitol. He stated that he would take testimony at this meeting but the Commission may not be able to take a final action until a quorum was present or until the next Commission meeting.

Commission members present:

Representatives Harry Mares, Mary Murphy, Steve Smith, Rich Stanek, and Stephen Wenzel
Senators Don Betzold, Dean Johnson, Lawrence Pogemiller, LeRoy Stumpf, and Roy Terwilliger

Commission members absent:

Representative Philip Krinkie; Senator Steven Morse

Agenda Items Discussed

H.F. 236 (Dawkins); S.F. 522 (Pappas): PERA; St. Paul Bureau of Health Service Credit Purchase

Rep. Dawkins presented his bill and introduced Martha Cobb, the constituent requesting the service credit purchase, and John Conley, an employee of the St. Paul City Council in charge of pension and research for many years. Rep. Dawkins provided background on Ms. Cobb's situation. He testified that Ms. Cobb worked for the St. Paul Bureau of Health from 1958-1962 and made contributions to the Bureau of Health retirement plan which did not require employer contributions and did not provide a refund of member contributions when Ms. Cobb left that position to go to college. Ms. Cobb has agreed to pay the full actuarial value of the service credit she wishes to purchase. Rep. Dawkins noted that the staff memo stated that this situation is unprecedented and that there may be 100 additional employees in public employment who have forfeited SPBH service credit. He asked Mr. Conley to respond to those issues.

John Conley, a retired City of St. Paul employee and a former secretary of the Ramsey County Research Committee, provided background on the Bureau of Health retirement plan transfer to PERA. He testified that the plan had a membership of about 70 to 80 members and that in the 60's the City of St. Paul wished to transfer this plan as well as the St. Paul police and fire plans to PERA. He stated that accommodations were made in the legislation to authorize a SPBH employee to purchase service credit at the time the plan transferred to PERA and that the City of St. Paul did make an employer contribution on behalf of all transferring SPBH employees.

Ms. Cobb testified in support of this bill and testified that although she reached full retirement age a year ago, she does not have enough service credit to provide her with an adequate retirement without receiving credit for the 1958-1962 SPBH service.

Edward Burek, LCPR Deputy Executive Director, reviewed the staff memo, the background, the policy issues raised by this bill, and amendment LCPR99-42. He noted that since Ms. Cobb terminated service at the SPBH, the plan no longer had any liability for her and when the assets were transferred to PERA, there were no assets relating to her. He noted that PERA-P&F law includes an explicit prohibition against allowing an individual who had coverage by a prior relief association to obtain service credit for that coverage following a consolidation. He recommended that if the Commission decides to pass this bill, they use LCPR99-42 which is a redrafting of the bill in a more standard form and corrects some factual errors in the bill.

Rep. Murphy asked if the total service credit Ms. Cobb was seeking was 13 years, four years of Bureau of Health service and nine years of PERA service? Ms. Cobb answered affirmatively. Rep. Dawkins stated that if all of Ms. Cobb's employment in the public sector was considered, she had 19 years of service. Ms. Cobb testified that she was also employed by the State. Mr. Burek stated

that the cost information attached to the staff memo may be inaccurate in light of the potential combined service annuity and the actual purchase price may be higher than indicated.

Rep. Dawkins stated that he supported LCPR99-42. Discussion followed and Mr. Burek questioned whether language was needed to keep MSRS whole in light of the potential for a combined service annuity.

David Bergstrom, MSRS Executive Director, testified that this service credit purchase would not have a detrimental effect on MSRS.

Mary Vanek, PERA Executive Director, testified that she did not believe that the dollar amount in the cost estimate would change.

Sen. Betzold moved amendment LCPR99-42. **MOTION PREVAILED.**

Sen. Betzold moved H.F. 236 as amended. **MOTION PREVAILED.**

Rep. Mares noted that the next Commission meetings would be held on March 10 at 5:00 P.M. and on March 16 at 5:00 P.M.

H.F. 291 (Folliard); S.F. 302 (Kelley, S.P.): TRA; Minnetonka Teacher Medical Leave Service Credit Purchase

Rep. Folliard introduced Dorothy Rootes and presented her bill. She testified that Ms. Rootes applied for medical leave for the 1994-1995 and 1995-1996 school years but the school district did not file the appropriate papers.

Dorothy Rootes, a Minnetonka teacher, testified that in 1996, the fourth year of her partial medical leave, she checked with TRA on the status of her leave and its effect on her retirement. She was told that the Minnetonka School District had not filed leave papers for any of her four years. She went back to the School District and within a week the appropriate papers were filed and she confirmed that TRA had received them. As of the summer of 1998, she had not received information from TRA on what she owed them so she checked again and was advised that she could make contributions for two of the four years, which she did, but she would need special legislation to authorize her to make contributions for the 1994-1996 school years because it was too late for her to make those contributions. Ms. Rootes testified that she plans to retire in June under the Rule of 90.

Gary Austin, TRA Executive Director, testified that the leave of absence reports for a leave that extended from 1992-1997 were not received by TRA until August 16, 1996. TRA was remiss in not notifying Ms. Rootes that she could make the 1995-1996 contributions prior to the June 30, 1997 deadline. TRA agreed to assume some of the liability in this case. He testified that Ms. Rootes would pay the employee, employer and employer additional contribution plus interest and that TRA and the school district could split the remainder of the full actuarial value of the purchase.

Rep. Murphy asked whether Minnetonka has admitted that they made an error. Rep. Folliard responded that the Minnetonka school district agreed that there was a shared responsibility with TRA and they support the legislation and sharing the cost as stated by Mr. Austin with TRA. Discussion followed and Mr. Austin testified that TRA has recently established procedures to verify that all leaves that have been granted by school districts are reported in a timely manner.

Rep. Mares stated that since the Commission lacks a quorum and to allow staff time to draft the amendment Mr. Austin suggested, the bill was laid over to the next meeting for final action.

H.F. 440 (Abrams); S.F. 372 (Robertson): TRA; Spring Lake Park Teacher Sabbatical Leave Service Credit Purchase

Sen. Robertson presented and provided a brief background on this bill.

Mr. Burek reviewed the staff memo and noted the policy issues raised by this bill. He noted that the individual waited two decades to purchase the service credit and that the individual has alleged that the school district failed to file the necessary documentation for this leave with TRA. He also noted that the school district has not been able to provide information that would indicate whether the

school district did or did not act in a timely manner. Mr. Burek reviewed LCPR99-39, a technical amendment. He then reviewed LCPR99-40 which would require the school district to pay the remainder of the full actuarial value of the service credit purchase and the individual to pay contributions plus interest if it was concluded that the school district was at fault in this case.

Mr. Austin stated that TRA has no record of this leave being reported to them. He believes that new calculations indicate the full actuarial value of this purchase of service would be \$9,000.

Rep. Murphy asked if anyone from the Spring Lake Park school district was at the meeting as she had a question. Sen. Robertson stated that the school district had knowledge of this meeting.

Sen. Pogemiller agreed that the Commission should request information from the school district with regard to whether they admit fault. Members directed staff to contact the school district and request their response.

Sen. Pogemiller moved LCPR99-39. **MOTION PREVAILED.**

Sen. Pogemiller moved LCPR99-40 if the Commission determined that the school district was at fault. **MOTION PREVAILED.**

Rep. Mares laid the bill over to the next meeting pending a response from the school district regarding the financial impact of this bill on the district.

H.F. 366 (Kelliher); S.F. 5 (Spear): TRA; Omitted Contribution Interest Charge Repayment

Rep. Kelliher presented her bill and provided background on the bill for her constituent Ruth Jones, who was unable to attend this meeting due to teacher conferences. She noted that Ms. Jones member contributions for the 1968-1969 school year were under deducted from her salary by the Hopkins school district. When she learned of this in 1997, she was advised by TRA that the contribution amount was \$114.66 plus interest of \$1,004.08. She paid the amount and is seeking to be reimbursed for the \$1,004.08 in interest charges since she was not advised of this under deduction in a timely manner although she had taken refunds and repaid the refunds and had requested benefit estimates several times over the years.

Lawrence A. Martin, LCPR Executive Director, reviewed the staff memo and policy issues on this bill. He noted the differences in the method for handling omitted contributions between the major funds. He further noted that the Hopkins school district is not held liable for their error in omitting to deduct the appropriate contributions from Ms. Jones in the 1968-1969 school year.

Mr. Austin testified that the school district's under deduction error was found in an annual audit by TRA and TRA notified the member in a November 10, 1969 letter which was addressed to the school district since TRA did not mail directly to members at that time.

Rep. Murphy asked if anyone from the Hopkins school district was at the meeting as she had a question. No representative from the Hopkins school district was at the meeting.

Rep. Mares laid this bill over to the next Commission meeting to allow for a response from the Hopkins school district since the Commission recommendation will require the Hopkins school district to pay 100%.

H.F. 192 (Greiling); S.F. 161 (Wiger): Volunteer Fire; Elimination of 30 year Monthly Benefit Relief Association Service Credit Maximum

Rep. Greiling presented and provided background on the bill. She testified that the state does not have a service credit cap for lump sum service benefits but does have a service credit cap on monthly benefit service plans. She testified that this bill would eliminate the 30 year cap and would provide more flexibility for municipalities and relief associations.

Jim Bodsgard, a Roseville firefighter and relief association board member, introduced Dick Forliti the Roseville Fire Chief, and Nick Tally the relief association president. Mr. Bodsgard testified in support of this bill to assist Roseville in retaining trained firefighters beyond 30 years if the firefighter plans to take a monthly benefit at retirement.

Mr. Burek reviewed the staff memo and noted that most volunteer firefighter relief associations provide a lump sum benefit so this bill would impact only a few dozen relief associations. He referred members to the table on pages five and six which showed the relief associations that provide monthly service pension benefits and stated that this bill would remove the cap for all of them. He reviewed amendment LCPR99-38 which removed the monthly service benefit cap for the Roseville Firefighters Relief Association only. Mr. Burek reviewed the policy issues raised by this bill.

Rep. Greiling testified that the League of Minnesota Cities sent a letter to municipalities that had fire relief associations with a monthly benefit service pension and requested their comments on this bill. They only received a response from the City of Mound and they supported removing the cap. Roseville supports this legislation if it includes a local approval clause. Discussion followed regarding recruitment and retention of firefighters and other public safety volunteers.

Rep. Mares restated that LCPR99-38 removed the cap for the City of Roseville while the bill removed the cap statewide. Discussion followed regarding the effect this legislation would have on state aid. It was agreed that it would not affect state aid.

Rep. Murphy moved H.F. 192. **MOTION PREVAILED.**

H.F. 432 (Orfield); S.F. 423 (Spear): MTRFA; Designation of Supplemental Needs Trust on Optional Annuity Form

Rep. Orfield presented his bill and stated that it relates to a problem his constituent, Ann Burns, has. She has an autistic daughter who receives medical assistance. In order to provide for her without impacting the services she already qualifies for and receives, Ms. Burns needs to have the option to designate a supplemental needs trust as the survivor of her pension benefit. Rep. Orfield testified that private pension plans permit designating a supplemental needs trust as a beneficiary.

Ann Burns, a Minneapolis public school teacher, provided additional background and testified in support of this bill.

Mr. Martin reviewed the staff memo and the policy issues raised by this bill. He also reviewed technical amendment LCPR99-41.

Sen. Pogemiller moved amendment LCPR99-41. **MOTION PREVAILED.**

Norm Moen, MTRFA board member, testified in support of this bill and to having it open to other Minneapolis teachers.

Karen Kilberg, MTRFA Director, testified that MTRFA is not opposed to this bill but they would like to limit trust beneficiary designations to supplemental needs trusts rather than all trusts because trust beneficiary designations can be problematic.

David Bergstrom, MSRS Executive Director, testified in support of limiting an option to select a trust to a special needs trust.

Judy Strobel, TRA representative, testified in support of this bill but opposed allowing trusts other than special needs trusts as an option.

Sen. Pogemiller moved to amend H.F. 432 to permit a special needs trust option to apply to all funds that offer optional annuity forms. **MOTION PREVAILED.**

Sen. Pogemiller moved H.F. 432 as amended. **MOTION PREVAILED.**

H.F. 176 (Mares); S.F. 263 (Pogemiller): PERA; Creation of Local Correctional Employees Retirement Plan

Mr. Martin reviewed the staff memo on this bill and noted that the bill creates a new pension plan that would cover local correctional employees. He referred members to a more detailed section-by-section summary of the bill and a background memo on correctional plans which were attached to the staff memo and then he began to review the policy issues raised by this bill.

Sen. Pogemiller moved technical amendment LCPR99-43. **MOTION PREVAILED.**

Mr. Martin reviewed the first policy issue raised by the bill which was the need to create another public pension plan in Minnesota when the Commission could include local correctional officers in the MSRS Correctional Plan. He reviewed the actuarial cost for this bill using a 2% and a 1.9% benefit accrual rate for prospective service only. Since the bill covers only prospective service, there are no accrued liability numbers in the actuarial work for the plan. He noted that the bill as drafted does not include an employee or employer contribution rate which the Commission will need to determine if they recommend this bill. If the benefit accrual rate of 2% is recommended, the normal cost would be 15.18% and if the benefit accrual rate of 1.9% is recommended, the normal cost would be 14.58%. He noted that there has been some disparity in the potential number of participants reported for membership in this plan and this may impact the actuarial cost. Mr. Martin continued to review the policy issues. Referring to the blanks in the bill for member and employer contribution rates, he stated that the split using a public safety plan model would be 40/60 and using a general employee model it would be 50/50. The final policy issue raised was the level of county support for this bill since the Association of Counties opposed the bill last session as an unfunded mandate and Commission staff has not heard from them this year.

Sen. Pogemiller moved to amend the bill by setting a 1.9% benefit accrual rate and a 40/60 split for employee and employer contribution rates. **MOTION PREVAILED.**

Sen. Pogemiller questioned how the local correctional employees could be defined without using the PELRA "essential employee" definition. Robert Johnson, representing Teamsters Local 320, testified that the "essential employee" definition was added in response to concerns raised by the Pension Commission last year. He supported removing the PELRA "essential employee" reference. Sen. Pogemiller suggested freezing the definition for these employees at the current "essential employee" definition. Sen. Stumpf suggested deleting lines 30 and 31 on page 6 of the bill and renumbering the remaining paragraphs.

Sen. Pogemiller questioned the list shown on page five of the staff memo. Mr. Martin stated that the list was supplied by PERA and showed the number of employees covered by the special disability language passed last session for local correctional employees using the "essential employee" definition to determine eligibility. Ms. Vanek testified that when the original bill passed last session, counties contacted PERA for direction on which employees it applied to. PERA advised the counties to look at the language in the bill and apply it as literally as possible. PERA has been advised in discussions of the number of employees certified that the unions may dispute whether or not all members certified as eligible for this coverage are in fact meeting the criteria specified in law. She testified that more employees have been reported than union representatives believe meet the criteria as it was originally defined. Ms. Vanek stated that the disparity in the numbers the Commission actuary used and the numbers PERA provided to Commission staff, was due to the lapse in reporting changes in employment status of PERA covered members by local employers. Rep. Murphy stated that she had a concern about using the "essential employee" definition. She believes dispatchers may try to be included in the local correctional plan even though they do not meet the inmate contact criteria. Sen. Pogemiller questioned why 75% inmate contact was used rather than 90%? Mr. Johnson testified that 75% was used as a criteria for state correctional plan members so they used the 75% threshold for this plan's criteria. Rep. Mares questioned whether the 75% criteria included the time spent when prisoners were behind bars or a glass encasement and the employee was not? Mr. Johnson answered yes. Sen. Stumpf stated that the idea to provide public safety employees with higher and earlier retirement benefits was due to the need to maintain a workforce that could deal with the physical requirements and danger associated with those positions and a dispatcher, though an essential employee, does not have that requirement and should not be included in a public safety pension plan. Rep. Mares stated that the "essential employee" designation deals with the employees right to strike and not the physical requirements or danger aspect of the position.

Sen. Pogemiller moved to delete page 6, lines 30 and 31, and renumber the paragraphs, on line 35, delete "75%" and insert "95%", and on line 36, delete "contact with" and insert "supervision of". Mr. Martin noted that higher echelon employees may be included by changing the "contact with" language to "supervision of". Sen. Pogemiller moved to leave line 36 as originally written and asked if a representative from the counties was at the meeting.

Kevin Corbett, representative of the Association of Minnesota Counties, testified that the Association opposed this bill last year and that position has not changed. Sen. Stumpf asked what the cost of this bill would be. Mr. Martin stated that with Sen. Pogemiller's amendment, the new cost for the plan would be 8.75%, the current rate is 5.49% so the difference would be 3.26%.

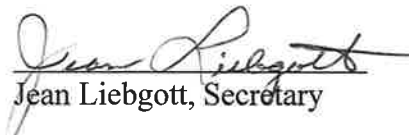
Sen. Pogemiller renewed his motion to delete page 6, lines 30 and 31, and renumber the paragraphs, and on line 35, delete "75%" and insert "95%". He recommended sending this bill out separately rather than as part of the omnibus pension bill since it will need to go to the Tax Committee. He further recommended that to address the counties' concern with regard to the mandate on counties, the expense of paying for this bill be authorized outside of the levy limits. **MOTION PREVAILED.**

Sen. Stumpf questioned whether there was a better method for certifying an employee's inmate contact rather than in writing. Ms. Vanek responded that PERA is working towards eliminating their written verification process by next year and will use electronic data exchange and fund transfers. Sen. Stumpf questioned how an employees pre-existing disability would be handled if the employee went from PERA-General to a local correctional officer plan. Ms. Vanek testified that to be covered by the local correctional officer plan disability provisions, the injury would have to occur while covered by that plan.

Sen. Pogemiller referred members to policy issues one and two and questioned whether the Commission should hear the pros and cons with regard to authorizing the local correctional employees to be included in the MSRS-Correctional Plan or to establish a new plan. Mr. Bergstrom testified in opposition to including the local correctional employees in the MSRS-Correctional Plan. He testified that the benefits in the MSRS-Correctional Plan are higher and the cost to the counties would be higher than the cost by establishing a local correctional plan. He also testified that including local correctional employees in the state plan may make the state liable for local costs.

Sen. Pogemiller moved H.F. 176 as amended. **MOTION PREVAILED.**

The meeting adjourned at 9:15 P.M.


Jean Lieb Gott, Secretary