



October 12, 1999
Room 5 State Office Building

9th Meeting

LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Representative Harry Mares called the meeting to order at 10:16 A.M. He noted that the Commission did not yet have a quorum.

Commission members present at this meeting:

Representatives Philip Krinkie, Harry Mares, Mary Murphy, Rich Stanek, and Stephen Wenzel
Senators Don Betzold, Dean Johnson, and LeRoy Stumpf

Agenda Items Discussed

5. Commission Interim Topic: Minneapolis Fire Department Relief Association Governing Law Recodification and Additional Post Retirement Adjustment Mechanism Establishment (First Consideration)

Rep. Mares changed the order of the agenda to accommodate people who wished to testify on this issue because they needed to travel to other meetings. He again requested that any large pieces of legislation that people may wish to have the Commission consider be brought to his attention during the Interim so they can be dealt with prior to the 2000 Session by a Subcommittee he has established for that purpose.

Edward Burek, LCPR Deputy Executive Director, referred members to the staff memo and two bill drafts attached. He noted that one of the bill drafts is a recodification of Minneapolis Fire Relief Association laws and the other is a benefit improvement proposal to create a third post retirement adjustment for Minneapolis Fire retirees. The recodification of Minneapolis Fire Relief Association laws was introduced in 1995 but no action was taken because benefit improvements were included in the recodification bill. In 1996, legislation for Minneapolis Fire Relief passed that included those benefit improvements. Mr. Burek reviewed the problem areas in the recodification draft that need to be addressed. Some of the problem areas are references to the "firefighters fund" rather than the "special fund"; Sections 7 and 8 need clarification; Section 8 is misdrafted and could be a benefit takeaway; Section 12, units need to be specified and the survivor language needs to be clarified; and Section 15 creates a safety net for the City of Minneapolis which the Commission should study.

Mr. Burek then reviewed the benefit improvement proposal. He noted that the Minneapolis fire retirees currently get a benefit increase whenever the salary of a top grade firefighter increases and they also get a thirteenth check based on investment earnings. This bill draft would add an additional distribution of assets in excess of a 110% funding level and would further complicate calculations. He also noted that if the funding ratio of the Minneapolis Fire Department Relief Association was greater than 110%, the city was not required to make any contributions to the fund. He questioned whether that was appropriate since state aids provided much of the funding for the relief association. He noted that Section 6 further minimizes the city's obligation by changing the amortization period for this fund.

Since a quorum was now present, Rep. Mares reverted to agenda item one.

1. Approval of Minutes of the Commission Meeting of September 15, 1999

Sen. Johnson moved approval of the meeting minutes for the September 15, 1999 meeting.
MOTION PREVAILED.

Rep. Mares reverted to agenda item five and recognized Walter Schirmer, Executive Secretary of the Minneapolis Fire Relief Association. Mr. Schirmer introduced Brian Rice, Mark Meyer, and Bob Johnson.

Brian Rice, Best and Flanagan, stated that they would work with Commission staff to correct the problems with the recodification bill. He testified that the Minneapolis fire fund had reached 105% funding status as of December 31, 1998 and was the best performing fund in the State over the last decade.

Mark Meyer, the MFRA actuary with Van Iwaarden, provided a handout and began to review it. He noted that this was the first valuation performed by Van Iwaarden and that for the first time in its history, MFRA is now more than 100% funded. Mr. Meyer reviewed selected pages from the information provided in the asset and liability modeling handout. He testified that when he presented this information to the Minneapolis Fire Board he recommended that they increase their planned benefit increase bill from 105% to 110%. He then reviewed the preliminary conclusions Van Iwaarden provided.

Mr. Rice testified in support of the 110% bill. He noted that the Minneapolis Fire Fund is a closed fund and the Commission's Principles of Pension Policy allow consideration of the unique circumstances of a closed fund in considering legislation pertaining to them. He noted that the City of Minneapolis is interested in changing the finance structure included in sections 4, 5, and 6 and wishes to suspend normal cost contributions when Minneapolis Fire reaches 110% funding.

Rep. Mares stated that when these bills go to the Subcommittee, he prefers that the benefit improvement bill remain separated from the recodification bill.

3. Update on Retirement Plan Building Project - David Bergstrom, Executive Director, Minnesota State Retirement System (MSRS)

David Bergstrom, MSRS Executive Director, provided a handout and referred members to the map showing the location of the proposed building that will house the three statewide retirement plans. He testified that the 4.3 acre site that has been purchased for \$422,000 is on Empire Drive off of Pennsylvania Avenue. The plan is to build 131,000 square foot building with 102,000 square feet of useable space. The entire project is budgeted at \$32,000,000. He briefly reviewed the tentative schedule for the project.

Sen. Stumpf asked why they went with the design/build method? Mr. Bergstrom responded that the three pension plans involved in this project have leases that expire in 2001 so the design/build method was the best fit for the timeframe and it seemed to be the least expensive route.

Rep. Mares asked if the appropriate committees have been informed of the status of this project? Mr. Bergstrom testified that both committees have been notified and the chairs of the committees have given their approval. Rep. Mares requested that Rep. Knobloch be kept informed of the status of the project. Mr. Bergstrom testified that he has been and will continue to update Rep. Knobloch.

Rep. Murphy asked if the site will allow for parking? Mr. Bergstrom testified that there will be room for parking. Rep. Wenzel asked if there is enough space in this building to allow renting out space? Mr. Bergstrom stated that approximately 18,000 square feet will be leased to other state agencies.

Rep. Mares noted that he had sent a letter to all members of the Legislature notifying them to request Interim bill hearings for bills they wished the LCPR to review. He requested that if other Commission members get bill hearing requests from members they should forward them to him and to Commission staff.

2. Mandated Commission Interim Project: Appropriate Means For Partially Employer-funded Tax-sheltered Savings Opportunities For Educational Employees (Third Consideration)

Edward Burek, LCPR Deputy Executive Director, reviewed the October 4, 1999, third consideration staff memo on this issue. He noted that this mandated study does not specify a due date nor require a report to the Legislature. He stated that this memo deals with increasing the number of providers and the implications of that option as well as the implications of the single provider option. He also noted that the number of potential providers was increased during the 1999 session and will be implemented by July 1, 2000. He then reviewed four program goals or considerations. Next he reviewed the implications of increasing the number of providers beyond the expansion enacted in 1999 or if the single provider option were selected. Finally he reviewed his general observations and the implications of either option. Mr. Burek concluded his review by stating that although it is obvious that the employer-match tax-sheltered savings plan could be improved it is less clear whether it is a worthwhile use of the Legislature's time and the money required to make the improvements in a program that is secondary to teachers primary pension program. Sen. Stumpf noted that the Commission may want to wait to review this program until after the changes made to it in the 1999 Session are implemented so that the impact of those changes is known. Rep. Mares noted that the impact of the 1999 Session changes will not be implemented until the summer of 2000 and it will be several months before it is known which

insurance companies and mutual fund companies will be added to the employer-match program.

Rep. Mares asked what was the status of the State Board of Investment's implementation of the 1999 Session changes? Howard Bicker, SBI Executive Director, testified that SBI was waiting for the outcome of the Commission's study to see if the decision was to go for a single provider or unlimited vendors. The SBI Board will need to establish criteria for 403(b) vendors. He noted that the law provided that SBI may select up to 25 vendors and depending on how many vendors meet the criteria established, the result could be five total vendors or 16 vendors. He stated that the expansion may be completed by the fall of 2000. Rep. Mares recommended that SBI proceed as quickly as possible.

Hank Stankiewicz, representing Education Minnesota, testified in opposition to both the single provider option and the unlimited provider option.

Alve Jemtrud, Director of Economic Services for Education Minnesota, testified that 125 to 150 school districts now participate in the match program. The match program is being used to phase out severance and early retirement incentive plans that are under fire from IRS audits. He testified that Education Minnesota favors the current program with some expansion. The school boards and administration of the school districts are concerned about expansion of this program because of administration and compliance issues related to various IRS audits. There is no interest in the single provider option but there is some interest in expansion. However, there is an unwillingness on the part of some of the 403(b) no-load providers to assume liability or sign hold-harmless agreements which the districts require. Education Minnesota is working with several groups to develop an administration and compliance service and he provided a handout on that issue. Mr. Jemtrud testified that once that program is in place, Ed Minnesota would be open to expansion of the 403(b) match program because then standardization of enrollment, access, and educational requirements would be available. Rep. Krinkie recapped that until there is a centralized administrative process up and running, Ed Minnesota favors the program staying with the eight current vendors. Mr. Jemtrud agreed with the recap and testified that the centralized administration will be up and running possibly by January 2000.

Rich O'Connor, Regional Manager for Copeland Companies, testified that Copeland Companies has been involved with the 403(b) market for 25 years and has provided compliance and administration services for several years. He testified that Copeland Companies has never incurred a penalty as a result of an IRS audit of any of their clients and they currently represent 8000 companies. He testified in support of adding the SBI Supplemental Investment Fund in the 403(b) matching program. He testified in support of opening up the 403(b) match program to the discretion of the school districts that are implementing the program. He testified that the playing field should be made level by either greatly expanding the number of providers or going to the single provider option. He disagreed with the comment in the staff memo that stated that about 12 funds should be sufficient for people to invest in. He noted that MNSCU opened its program to about 250 mutual funds and over 100 of those funds are being utilized. He testified that even if the program was expanded to unlimited vendors, the school districts will utilize the providers that are currently doing business in their districts but may not be one of the eight providers eligible for the match program. He also disagreed with the statement that there may be a conflict of interest if the provider handles the compliance and administration as well as the 403(b) investments. He supports expediting the expansion passed last session and getting on with the RFP process.

Russ Stanton, a representative of the faculty at the community colleges and state universities, testified in support of a statewide tax-sheltered annuity plan structured like the deferred compensation plan with the exception of allowing TIAA-CREF. The MNSCU plan currently has four vendors that offer a great deal of variety in investment vehicles but the members that participate in the plans are upset because of the high fees they pay under this program. He suggested that the Commission consider setting up a statewide plan for MNSCU and as an experiment, permit the K-12 teachers to use it on a voluntary basis.

Rep. Murphy asked if there would be a financial incentive for the Legislature to develop a statewide plan if the vast majority of MNSCU employees are using TIAA-CREF? Mr. Stanton stated that his members would want TIAA-CREF included in any statewide plan that would be developed. Rep. Murphy asked how many of the MNSCU participants might use the statewide plan? Mr. Stanton estimated that about half of the 3,000 participants might use the statewide plan.

Bill Tschida, MNSCU Vice Chancellor for Human Resources, testified in support of a centrally administered state sponsored 403(b) program. He testified that the larger pool of assets would assist

in negotiating lower fees and that it would be beneficial to have experts working with this program. The MNSCU employee groups support the centrally administered option.

4. Commission Interim Topic: MSRS-Correctional Retirement Plan Membership Specification Review (Second Consideration)

Lawrence A. Martin, LCPR Executive Director, referred members to the staff memo on this topic and provided background. He noted that the Commission reviewed and recommended approval of a request to transfer 93 employees from MSRS-General to the MSRS-Correctional Plan at the June 22, 1999 LCPR meeting. However, Commission members had several questions and concerns with regard to the transfer of these employees and directed staff to prepare draft legislation that would provide a different method for transferring appropriate MSRS-General employees to the MSRS-Correctional Plan. Mr. Martin then reviewed the expansions of the Correctional Plan from 1973 through 1999. The Commission's June 22nd recommendation was forwarded to the Legislative Advisory Commission. The LAC recently approved the retroactive transfer of employees to the MSRS-Correctional Plan but did not approve the 42 prospective transfers. The three House members on the LAC requested that the LCPR review the 42 prospective transfers in greater detail. Mr. Martin reviewed his intended approach for conducting that study. He noted that he had requested a count of MSRS-Correctional Plan members from MSRS and had also requested a copy of all DHS and DOC employees by facility and occupation title which he will compare. He referred members to the tables attached to the memo and noted that the first table identified the classifications included in the Correctional Plan by statute or LAC administrative approval. The second table identified the classifications reported by MSRS as included in the Correctional Plan. When he has concluded the comparison, he will provide the Commission with the findings and provide draft legislation for Commission consideration.

Rep. Krinkie provided members with background on the LAC House members request for additional Commission study. Rep. Krinkie asked what constituted 75% inmate contact? Mr. Martin stated that DOC has detailed criteria while DHS has generalized criteria but their representatives claim that in actuality the criteria are the same. Rep. Krinkie stated that he believes a better understanding of what 75% inmate contact is, needs to be addressed.

Rep. Mares stated that he would like the Department of Corrections and Department of Human Services to testify when this issue comes up next.

6. Commission Interim Topic: Public Employees Retirement Association Membership Eligibility Requirement Revisions (First Consideration) - H.F. 1444 (Krinkie); S.F. 1468 (Stevens)

Mr. Martin referred members to the staff memo and amendment LCPR99-258, a delete everything amendment requested by PERA that revised and simplified the original bill. He stated that amendment LCPR99-258 narrowed the number of changes from the original bill and focused on the primary change which is a shift from an exclusion of employees based on a minimum threshold salary and replaced it with an exclusion based on a minimum number of hours in a work year. He reviewed the background on statutory exclusions to the three statewide plans particularly the PERA exclusion of an employee who earned less than \$425 which is proposed to change to an exclusion for less than 720 hours worked in a year for school district employees and less than 975 hours worked in a year for all other local public employees. He also reviewed background on PERA's eligibility requirements. Mr. Martin then briefly reviewed the primary policy issues raised by amendment LCPR99-258.

Holly Rodin, Director of the Service Employees International Union, testified in opposition to the amendment and bill since going from a dollar threshold to an hourly threshold would make about 20% of current employees ineligible. She testified that although current employees may be grandfathered into PERA, new hires doing the same job would be excluded. She testified that neither of the other two statewide plans have these restrictions on part-time workers. Ms. Rodin suggested using the PELRA definition of a public employee as a way to determine who should be included in PERA. She referred members to page 11 and testified regarding a concern with reporting of exclusions and the tracking mechanism in LCPR99-258. Rep. Mares requested that Ms. Rodin put the concerns she raised in her testimony in writing and send it to staff.

Sen. Betzold asked if the employees Ms Rodin was talking about were short service employees? Ms. Rodin answered that these were not short service employees, they only have short hours and most of them are permanent employees.


Rep. Krinkie referred members to page 5 of the staff memo and noted that the dollar level was

increased in 1974, 1977, 1981, and 1988. He stated that PERA is trying to establish a system that may not have to be changed as frequently as it has been in the past.

Mary Vanek, PERA Executive Director, testified that when the PERA Board reviewed the criteria other state's local plans used to exclude employees from pension coverage, they found that Minnesota was the only state that used a dollar threshold rather than an hourly threshold. She also testified that it will be easier for employers to track the hours an employee works rather than the dollars to determine eligibility for PERA coverage.

Rep. Mares noted that he plans to have the next LCPR meeting in the second or third week in November.

The meeting adjourned at 12:50 P.M.


Jean Lieb Gott, Secretary