November 9, 1999 10th Meeting
Room 200, State Office Building

LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Representative Harry Mares called the meeting to order at 10:10 A.M. He noted that the Commission did not yet have a quorum and that he hoped to conclude this meeting by noon to allow members a chance to have lunch before the Subcommittee convened at 1:00 P.M. He also noted that the next Commission meeting would be December 14th at 10:00 A.M.

Commission members present at this meeting:
Representatives Philip Krinkie, Harry Mares, Mary Murphy, and Stephen Wenzel
Senators Don Betzold, Dean Johnson, Lawrence Pogemiller, and LeRoy Stumpf

Agenda Items Discussed

2. **State Deferred Compensation Plan; Designation of Trust As Beneficiary - H.F. 2454 (Carruthers); S.F. ____ (____)**
   This item was resolved administratively so there was no need for this legislation. Rep. Carruthers pulled this bill from the agenda.

3. **Teachers Retirement Association; Re-employed Annuitant Earnings Limitations - H.F. 1302 (Pugh); S.F. 1345 (Metzen); - H.F. 1816 (Larsen, P.); S.F. 1356 (Krentz)**
   Lawrence A. Martin, LCPR Executive Director, referred members to the staff memo. He noted that the four bills are identical and that the bills change the manner in which the reemployed annuitant earnings limits work by doubling the earnings limits currently in law.

   Rep. Peg Larsen introduced Mary Sacconni, a member of the Stillwater School District school board, and testified in support of this bill. Rep. Larsen testified that the reemployed annuitant earnings limit impacted her personally when her seventh grade daughter became ill and missed 72 days of school. The tutor that taught her daughter advanced math would only tutor for a limited time each week to stay within the reemployed annuitant earnings limit. Rep. Larsen testified that she is open to other suggestions such as lifting the cap or eliminating further contributions to the retirement fund.

   Mary Sacconni testified in support of this bill as a method to counteract the teacher shortage. She testified that half of their teaching staff is set to retire over the next several years so they have instituted a mentoring program to capture their wisdom before they retire. The school districts would like to use retired teachers as mentors, substitute teachers, temporary teachers, and tutors to assist in alleviating the teacher shortage. Ms. Sacconni testified that in the private sector, retirees can earn twice as much as public sector teachers. Sen. Stumpf asked why private sector retirees can earn twice as much? Ms. Sacconni testified that she did not know but that information was brought to the school board by the teacher's union.

   Rep. Mares noted that teachers can currently earn $9,600 before reemployed annuitant earnings limits begin and then for every $2 teachers earn over that amount $1 is deducted from their pension benefit. He asked how many days a teacher could teach in the Stillwater school district before reaching the $9,600 cap? Ms. Sacconni testified that $100 per day is the standard substitute pay but they are looking at paying $140 per day for retired teachers who will not have benefits. Sen. Pogemiller asked why the differential between the standard substitute and the retired substitute? Ms. Sacconni testified that the school districts are using the differential as a way to attract teachers who have a great deal of experience. Discussion followed.

   Sen. Stumpf asked if employer paid health insurance was counted as compensation if it was provided as a benefit?

   Gary Austin, TRA Executive Director, testified that health insurance premiums are not considered compensation if the teacher is under a contract. He also testified that substitute teachers normally do not receive benefits. Rep. Mares asked if Mr. Austin knew of any programs or state that might pay health insurance premiums once a retiree reached the reemployment cap? Mr. Austin testified that he was not aware of any program like that. Sen. Stumpf suggested that it may be attractive to teachers, or any retiree if health insurance was provided as a reemployment tool and it might also solve the cap problem.

Mr. Austin testified that the TRA board supports increasing the reemployed annuitant cap. He also testified that TRA, MSRS, and PERA have a similar proposal in their administrative bill. Their proposal would double the reemployed annuitant earnings limit cap for retirees under 65 but they do not support doubling the earnings limit for retirees between 65 and 70 since that cap is already high.

Mr. Martin reverted to the staff memo and reviewed the five policy issues raised by the reemployed annuitant issue. One of the issues he noted was that changing the reemployed earnings cap would further encourage early retirements at a time when teacher shortages are predicted. Mr. Martin reviewed several methods for modifying the reemployed annuitant limit other than doubling the cap amount. Sen. Stumpf asked whether reemployed annuitants make contributions to the pension fund. Mr. Martin stated that reemployed annuitants do not make pension fund contributions. Discussion followed.

Rep. Krinkie requested that TRA provide information on the number of teachers that might be impacted by changing the reemployed annuitant earnings limit. Mr. Austin stated that any teacher retiring under the "Rule of 90" might be impacted. He agreed to provide the requested information at the next meeting. Sen. Pogemiller asked staff to add a column to the table which showed which plans have access to early retirement. Mr. Martin agreed to add the column.

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

1. **Approval of Minutes of the Commission Meeting of October 12, 1999**
Sen. Stumpf moved approval of the meeting minutes for the October 12, 1999 meeting. **MOTION PREVAILED.**

4. **Legislative Commission on Pensions and Retirement; Actuarial Valuation and Experience Study Cost Allocation - H.F. 2157 (Murphy); S.F. 2021 (Stumpf)**
Edward Burek, LCPR Deputy Executive Director, referred members to the October 29 staff memo on this issue. He briefly reviewed the current actuarial cost allocation method, the role and function of the Commission retained actuary, and historical background on the actuarial cost allocation process. Mr. Burek noted that this bill does not shift any of the cost of the actuarial valuations back to the Commission. He noted some ambiguity in the language in the bill but was assured that the fund directors have a common understanding of the meaning of the language. He noted that the proposed cost allocation method may eliminate cross-subsidization. He also noted that if a new actuary is hired by the Commission, the learning curve cost for the first plan to have a valuation performed could be quite expensive. Mr. Burek then reviewed the policy issues raised by this bill. He noted that the total cost for all the actuarial valuations ($215,211) is small compared to the combined assets of the pension funds (over $40 billion). The valuation costs are less than five ten thousandths of one percent and he questioned the need for Commission attention to this issue. He stated that the impact of the cost allocation is very slight even on the smallest pension fund involved. He continued to review the policy issues raised by this bill. He then reviewed the delete everything amendment to this bill. He stated that the amendment was necessitated because the bill was drafted to 1998 law and those provisions were changed in 1999.

J. Stoffel, DTRFA Executive Secretary, testified that he is the spokesperson for the fund directors on this issue and they all support this bill. He testified that the fund directors only want to pay for the time and materials the actuary spends on their fund. He testified that the three main issues that precipitated this legislation were the cost of the quadrennial experience studies for the three statewide plans which are allocated to all the plans, the PERA-P&F consolidation fund actuarial costs which are not assessed to the consolidation funds but are allocated among all the plans included in the cost allocation process, and the cost of the projection valuation for MSRS General. The fund directors support the delete everything amendment drafted by Mr. Burek. Mr. Stoffel testified that Tom Custis, the Commission actuary, stated that this legislation would not require any additional work for Milliman & Robertson, Inc. in keeping track of the time and materials spent on each fund. Sen. Stumpf asked if the fund's auditors every question the cost allocation process? Mr. Stoffel responded that they have not questioned the process. Sen. Pogemiller asked what has changed since the agreement reached in 1991? Mr. Stoffel stated that allocating actuarial valuation costs based on time and materials is simpler, more direct, and a better way of doing business.

Rep. Murphy asked what about the startup costs if a new actuary was hired? Mr. Stoffel agreed that there would be learning curve costs with a new actuary but he testified that any general or indirect charges would be allocated back to the funds based on the proportion of the direct charges for each fund.

Sen. Pogemiller moved approval of amendment LCPR99-262. **MOTION PREVAILED.**

Sen. Pogemiller moved to add H.F. 2157 as amended to an omnibus pension bill. **MOTION PREVAILED.**

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

Mr. Martin referred members to the October 11, 1999 staff memo summarizing the delete everything amendment, LCPR99-258, recommended by PERA. The primary topic of the bill was to change the threshold for membership in PERA from the $425 a month salary amount to an annual hourly employment threshold. The other item in member's packets was a letter to Rep. Krinkie from PERA dated October 15, 1999 which addressed a PERA concern for local elected officials with regard to the membership eligibility revision.

Mary Vanek, PERA Executive Director, testified that a compromise has been reached between PERA and the union representing school employees. As an interim compromise, PERA has moved toward an escalating salary figure based on inflation which will change the salary exclusion amount from the $425 set in 1988 to approximately $625 per month. She testified that this would be an interim solution until there was a further opportunity to work with the union and come up with a reasonable approach to using an hourly threshold. PERA will also look at how service credit is awarded in PERA and then combine the membership eligibility and service credit concerns to come up with revisions in the PERA membership eligibility requirements.

Rep. Krinkie asked Ms. Vanek to provide further information on the local elected official issue. Ms. Vanek testified that when they proposed this bill, they hadn't considered the impact the proposal might have on local elected officials who have an option to participate in the PERA defined benefit plan. Since 1995 the PERA Board has had a standing position that local government officials who serve on governing boards should not have the option to participate in the PERA defined benefit plan since a defined contribution plan is available to them. Discussion followed.

Rep. Murphy asked whether PERA, in its compromise discussions with the union, considered the impact the proposed changes might have on school bus drivers. Ms. Vanek stated that the proposal would impact bus drivers who work 50% time but that will be one of the issues studied. Rep. Krinkie agreed that the compromise should try to avoid causing a problem with the recruitment and retention of bus drivers but stated that the receipt of full time service credit for part time work has to be dealt with. Discussion followed.

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

Mr. Martin referred members to the staff memo and four letter sized documents in their packets. He provided background on this topic and noted that the Commission reviewed and recommended approval of a request to transfer employees from the MSRS-General Plan to the MSRS-Correctional Plan at the June 22, 1999 LCPR meeting. That recommendation was forwarded to the Legislative Advisory Commission which only approved the retroactive transfers recommended by the Pension Commission and requested that the Pension Commission further review the prospective transfers and the whole transfer process. Mr. Martin stated that this document and the attachments try to provide a comparison of membership information received from MSRS with the statutory inclusions as well as information received from the Department of Employee Relations, the Department of Corrections, and the Department of Human Services. He stated that the comparison pointed out discrepancies and a lack of clarity in the occupational classes. The letter sized documents are the responses to his request for clarifying information. Mr. Martin further noted that there is now an additional request for LCPR action recommending transfer to the MSRS-Correctional Plan. Rep. Mares noted that members of the Pension Commission had concerns over the criteria used to determine eligibility for the MSRS-Correctional Plan.

David Bergstrom (MSRS Director), Terry Anderson (Manager of the State Operating Services Division of DHS), Paul Larson (Assistant State Negotiator for DOER), and Sandi Blaeser (Labor

Relations Director for the DOC) introduced themselves. Mr. Bergstrom testified regarding the discrepancy between the MSRS-Correctional membership and classifications reported by DOC, DHS, and MSRS. He referred members to the last three pages in the MSRS letter dated November 8, 1999, and stated that it lists the membership in the plan as of June 30, 1999, and all three agencies agree on that membership.

Sen. Stumpf stated that Commission members questioned the differences in the criteria used to determine MSRS-Correctional eligibility between the Dept. of Corrections and Dept. of Human Services and he questioned whether that has been resolved. Mr. Anderson testified that the Dept. of Corrections had five additional criteria documented in their review process, the Dept. of Human Services has incorporated those additional criteria in their process so both departments will use the same elements to determine eligibility in the future. Sen. Stumpf asked how many of the criteria items shown on page two of the Dept. of Human Services letter must be met prior to an employee requesting transfer to the MSRS-Correctional Plan. Mr. Anderson testified that employees in both Human Services and Corrections have to meet all of the criteria. Rep. Mares asked if the members currently requesting transfer to the Correctional Plan meet all of the criteria. Mr. Anderson testified that they all meet the new criteria.

Mr. Martin stated that he had not yet had a chance to analyze the information provided by MSRS and the agencies. He requested that the Commission clarify their intentions with regard to changing the current transfer procedure and advise him on how they wished to deal with the employees currently seeking to transfer to the MSRS-Correctional Plan. Rep. Mares stated that at the December meeting he would like the Commission to consider whether the eligibility criteria language should be added to Minnesota Statute, he would like to deal with the members DOER is requesting the Commission to reconsider for transfer to the MSRS-Correctional Plan, and he would like to establish a new procedure for handling transfers if the Commission recommends that approach. Discussion followed.

Sen. Pogemiller suggested asking the employee groups for their comments on the current transfer procedure.

Rep. Mares again stated that the next LCPR meeting would be on December 14, 1999.

The meeting adjourned at 11:55 A.M.

Jean Liebgott, Secretary