

December 14, 1999
Room 5, State Office Building

11th Meeting



LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Representative Harry Mares called the meeting to order at 10:15 A.M.

Agenda Items Discussed

1. **Approval of Minutes of the Commission Meeting of November 9, 1999, and the Fire Subcommittee Meeting Minutes of November 5 and November 9, 1999**
Senator Stumpf moved the approval of these meeting minutes. **MOTION PREVAILED.**

6. **H.F. ___ (Dawkins); S.F. ___ (Pappas): PERA-P&F; Purchase of Salary Credit By St. Paul Police Officer On Intergovernmental Transfer**

Representative Dawkins introduced his constituent Deb Montgomery, formerly the Assistant Commissioner in the Office of Public Safety. Rep. Dawkins reviewed the background behind the intergovernmental transfer of this person. Legislation was passed in 1990 stating that for pension purposes, this person would remain an employee of the St. Paul Police Department. This made it clear she wouldn't be eligible for two pensions. Rep. Dawkins noted Ms. Montgomery's pension is greatly reduced because of the lack of overtime pay as an Assistant Commissioner which was based on a 40-hour work week. Ms. Montgomery provided a recap of her duties as a Commissioner in the Public Safety Office. Senator Pappas testified in support of Ms. Montgomery.

Representative Murphy asked what the total average salary of a St. Paul police officer is, including overtime. Ms. Montgomery said an annual sergeant salary is \$54,000, a lieutenant salary is \$65,00, with an overtime overage of about \$18,500. As a police officer, Ms. Montgomery said her salary would have been approximately \$80,000 with overtime included on the base salary. As Assistant Commission, her annual salary was \$72,000-\$77,000.

Edward Burek, LCPR Deputy Executive Director, reviewed the staff memo and the main policy issues of this bill. He referred to the mobility agreement and Minnesota Statutes 15.56, Subdivision 3, that govern these mobility assignments. This individual, given these general laws and the mobility agreement, retained the status of an employee of the City of St. Paul. Mr. Burek reviewed updated actuarial cost information from PERA, stating the full actuarial cost would be \$118,000, the cost of the employee contributions plus interest is \$8,500, and the remaining \$110,00 would be picked up by the employing department.

Mr. Burek reviewed three amendments. LCPR99-298 would mandate that the City share in the employer cost burden along with the Department of Public Safety. LCPR99-299 requires the City, not the Department of Public Safety, to pay the full employer cost of this purchase. LCPR99-300 would require the employee to pay the full actuarial value and gives the employer the option to subsidize this purchase.

Rep. Mares, Chair, said LCPR will review this issue now but will decide on it during the Session when individual bills are on the agenda.

Senator Pogemiller questioned how the coverage for this person changed from the local relief association to PERA-P&F. Mr. Burek responded this was because St. Paul Police consolidated with PERA-P&F.

Rep. Mares directed the staff to research employer responsibility for the contribution deficiency. Rep. Dawkins recommended a 1/3 State-1/3 City-1/3 constituent amendment.

2. **H.F. 657 (Trimble); S.F. 699 (Kelly, R.C.): StPTRFA; Investment of Assets by State Board of Investment**

Mr. Burek reviewed the staff memo and the policy issues related to this bill. He said there is no cost information from the actuary but there is a cost to this bill. He said there may not be sufficient need for change because no one is truly harmed by the current system, and it seems to be keeping them more than whole over time. Mr. Burek said a person could argue it might

create an inequity between the St. Paul plans and the Minneapolis and Duluth plans. He told the Commission they might want to consider expanding this bill to include the other first class city teacher plans.

Mr. Burek then reviewed three amendments. He noted LCPR99-275 is a technical clean-up amendment. Amendment LCPR99-276 would transfer StPTRFA assets to SBI for investment, and members of this plan would not participate in the SBI post-fund. This change could be done without cost. Amendment LCPR00-278 is an author's amendment that would close StPTRFA to new members after July 1, 2000.

Senator Randy Kelly testified that he thinks there is a basic unfairness of StPTRFA's inferior pension plan compared to TRA. He said the uniformity bill in 1997 was a good start to improving this inequity. He said the solution is to merge StPTRFA into TRA and discussion on this will begin in January 2000. He said an additional 18.6 million in assets would have been gained if SBI had invested StPTRFA assets from 1994 to 1997. Sen. Kelly noted StPTRFA had a 9.26% post increase on January 1, 2000; SBI had an 11.14% post increase. He said this bill will address one of the inadequacies of this fund compared to TRA.

Ian Keith, President, St. Paul Federation of Teachers, testified that they are working on trying to change the plan inequities that Senator Kelly addressed. He said the board has not taken any formal position on this bill. Gordie Grant, retired St. Paul teacher, testified in support of this bill. He listed reasons for consolidation. Paul Christenson, retired St. Paul teacher, testified in support of this bill.

Gene Waschbusch, Executive Secretary, StPTRFA, testified and reviewed a handout provided. He said the Board has not taken a position on this bill and will meet to discuss this issue.

Bill Eisele, Department of Finance, said the Governor's office will look at policy, cost and equity issues relating to state pension funds. He questioned the cost of this bill and said they do not want any increase in State support of StPTRFA.

Sen. Kelly said the issue of unfunded liability brought up by Mr. Eisele should be addressed. He said the transfer could be implemented and still achieve amortization by 2020.

Sen. Pogemiller said it would be good for employees to consolidate and the time to do it is now, when the State has a budget surplus. Rep. Mares asked all parties to continue to discuss this issue and keep the Commission informed.

3. **H.F. ___ (Knoblach); S.F. ___ (): MSRS-Correctional, Purchase of Phoenix Treatment Program Service Credit**

Representative Knoblach reviewed Amendment LCPR99-225 and said this deals with three people in the state correctional system. He said this bill corrects the oversight of not including this group in the 1996 correctional employee bill which allowed employees with extensive inmate contact to be in the MSRS-Correctional Plan. James Cyson, one of the three people covered by this bill, testified to his extensive inmate contact during his career with the Phoenix Treatment Program. Mr. Greg Bartz also testified in support of this bill.

Mr. Lawrence Martin, Executive Director, Legislative Commission on Pensions and Retirement, reviewed the staff memo and the policy issues related to this bill. Sandi Blaiser, Department of Corrections, stated their concern about the precedent this might set. She said more research needs to be done. Rep. Mares requested Ms. Blaiser to provide the staff with her research on this issue.

4. **H.F. ___ (); S.F. ___ (Neuville): TRA; Purchase of Pre-Age 25, Pre-1957 Teaching Service Credit**

Senator Neuville reviewed the background on this bill. Shirley Norgaard, Faribault, requested that she waive membership in TRA. She was not informed of the 1957 and 1959 opportunity to buy back her years of service when she was not a member. Since she didn't sign an arrears agreement, her deadline to repay was 1961. The full actuarial value of the service credit purchase that Ms. Norgaard would have to pay is \$72,000. She is asking for special legislation to do what she could have done if she had signed an arrears agreement.

Rep. Mares said the Commission will wait for a bill. He asked Gary Austin, TRA, to provide information on this issue. Sen. Neuville asked the staff for help in drafting this bill specifically for Ms. Norgaard.

5. **H.F. 2289 (Carlson); S.F. 2121 (Junge): MTRFA; Purchase of School Social Worker Independent Contractor Service Credit**

Rep. Carlson introduced his constituent Dan Larson and provided background on this bill. Rep. Carlson reviewed an amendment which made a few corrections to this bill. The amendment states Mr. Larson worked at Franklin Junior High, not St. Anthony and the reference to "independent contractor" in the bill would be changed to "hourly wage school social worker." Mr. Larson provided a handout and reviewed his work history as well as examples of his employment. He said he would like to purchase service credit for his employment in the Minneapolis school district.

Mr. Burek reviewed the staff memo on this bill and noted the author's amendment would require the Commission to consider whether the school district was at fault in not providing coverage for this person. The amendment would allow Dean Larson to buy back his MTRFA service for the cost of employee contributions plus interest and would require the school district to pay the rest of the full actuarial value. Mr. Burek said the LCPR needs more information on whether MTRFA required this person to be licensed or if they permitted social workers to be members. Mr. Burek then reviewed three amendments; the first would make technical corrections; the second would make the individual responsible for the full actuarial value of the service credit purchase; the third amendment would authorize the Commission to retain an actuary to look at the cost implications and incorporate those into this bill if necessary.

Rep. Mares directed the staff to get more information from the Minneapolis school district. He said that after this information is received, this issue will be addressed again.

6. **Commission Interim Topic: Employer Matching Contribution Tax Sheltered Annuity Programs; Conversion of Various Severance Payment Arrangements (First Consideration)**

Hank Stankiewicz, Education Minnesota, provided a handout and summarized this issue by noting that any severance cash payments received by teachers are taxed at eligibility rather than retirement. This affects thousands of teachers in Minnesota. He introduced Peg Carls, a teacher in Hutchinson, who testified about the impact this has on their lives. She and her husband have to pay taxes in April of this year on \$20,000 that they will not receive until retirement. This money discounts some teachers from college aid for their children and disqualifies some from the tuition tax credit. Mike Carls, a teacher in Hutchinson, provided examples of severe consequences resulting from this severance pay which is not actually provided until retirement.

Mr. Stankiewicz testified that four people are working full time at Education Minnesota to change contracts for teachers to eliminate the constructive receipt problem. He said ultimately the change will come at the Federal level but that is not going to occur immediately.

Tom Deans and Steve Knutson, counsel for the School Board Association, testified to the constructive receipt issue. Mr. Knutson represented the Hutchinson School District in this matter before the IRS. Mr. Knutson provided background on this issue and reviewed draft legislation LCPR99-279.

Rep. Mares stated he feels the current approach is a Band-Aid approach. He wants further review and discussion by all parties. Mr. Stankiewicz said this is a bargaining point and 80% of teacher contracts could be affected by this issue.

7. **Commission Consideration of MSRS-Correctional Plan Membership Expansion Requests Under Minnesota Statutes, Section 352.91, Subdivision 4**

Mr. Martin reviewed the staff memo on this topic. He stated this is the third time the Commission has looked at this issue. These are essentially the residual individuals who were reviewed previously by the Commission but were not approved by the Legislative Advisory Commission. Mr. Paul Larson, Department of Employee Relations (DOER), provided background on this issue and stated this has been going on for almost a year. They wish to move 40 employees into MSRS-Correctional. They have two additional dental technicians they also want transferred. Registered Nurse Practitioner is a new classification at the Department of Corrections and is a classification that DOER wants added. Sandie Blaiser, Department of Corrections, specified that this request is for the transfer to MSRS-Correctional of 27 Department of Correction employees.

Senator Stumpf moved to add Registered Nurse Practitioner to the transfer list. **MOTION PREVAILED.**

Senator Stumpf moved to forward a favorable recommendation to the Legislative Advisory Committee. **MOTION PREVAILED.**

The meeting adjourned at 1:32 P.M.



Lisa Diesslin, Secretary