November 5, 1999
Room 200 State Office Building

1st Meeting

Fire Subcommittee
of the Legislative Commission on Pensions and Retirement

MINUTES

Representative Rich Stanek, Chair of the Fire Subcommittee, called the meeting to order at 12:33 P.M. Rep. Stanek noted that three additional meetings have been scheduled to study the topics delegated to the Subcommittee. He suggested that today the Subcommittee should get an overview of both issues from Minneapolis Fire and the volunteer firefighter representatives. He stated that the November 9, 1999 meeting would deal with volunteer firefighter issues, the November 19th meeting, would deal with Minneapolis Fire issues, and the November 23rd meeting would deal with the Subcommittee's recommendation on the topics or further information might be requested.

Subcommittee members present:
Representatives Rich Stanek and Mary Murphy (Representative Harry Mares also attended this meeting)
Senators Don Betzold and Dean Johnson

Agenda Items Discussed:

2. **Minneapolis Fire Department Relief Association Governing Law Recodification and Additional Post Retirement Adjustment Mechanism Establishment**
Brian Rice, an attorney with Best & Flanagan and general counsel for Minneapolis Fire Relief Association, began his testimony by noting that the staff memo included background, a summary of the benefit increase proposal, the actuarial status of the Minneapolis Fire Relief Association, and the draft benefit improvement document. He provided a few copies of the Van Iwaarden asset liability modeling for members to share and promised to bring more copies the next time this issue came before the Subcommittee. He also provided each member with a summary of the 110% Supplemental Benefit Proposal and reviewed the historical background of local relief associations funding and the sources of the funding. He reviewed the current funding requirements and investment strategy and returns of the Minneapolis Fire Relief Association. Mr. Rice noted that when he first heard the benefit increase proposal based on investment performance, he questioned whether the fund could handle the benefit increase as well as the current committments in the future without state amortization funding and with the city contributions declining. Mr. Rice then introduced Mark Meyer to review information in the Van Iwaarden asset liability modeling document which Minneapolis Fire had commissioned to help them determine their fund's potential future funding status.

Mark Meyer, consulting actuary with Van Iwaarden Associates hired by the Minneapolis Fire Relief Association, referred members to page 4, Table 1, in the staff memo dated November 4, 1999. The table provided the actuarial status of the Minneapolis Fire Relief Association and showed the fund to be 105% funded. He noted that the fund does require a normal cost contribution but does not require an amortization contribution. He referred members to the Asset Modeling Study and briefly reviewed the future assets and liabilities of the fund. He testified that the study projects the assets and liabilities of the fund using the expected rate of return will remain around $300 million for the next 30 years.

Mr. Rice added that the results Mr. Meyer noted were achieved using the statutory assumption investment return of 6% with a 4% salary increase assumption. Mr. Rice testified that the key is that if the funds can achieve a higher return than 6%, a benefit increase can be provided without impacting the solvency of the MFRA. He continued his testimony in support of the 110% investment return benefit increase and reviewed some of the protections included in the bill to protect the City and prevent impairment of the base benefits. He noted that the City will still be required to contribute its share of normal cost any time the MFRA funding level exceeds 110%. Mr. Rice also noted that the fund's former actuarial firm had erred in its handling of MFRA member contributions for members with more than 25 years of service whose contributions no longer go into the pension fund but into a separate health insurance account. The City of Minneapolis calculated its contribution based on those actuarial valuations by taking the normal cost and subtracting 8% and thereby has probably been underfunding the employer share of the MFRA for the past eight or nine years. He recapped by testifying that the members of the MFRA would only get this benefit increase if the investments performed well. He further testified that the City of Minneapolis would also get some relief through this bill. Mr. Rice testified that there is some risk, if investment returns were poor, that the State might again need to provide additional aid.

Rep. Stanek asked if MFRA would be meeting with the City of Minneapolis prior to November 9, 1999. Mr. Rice requested that Rep. Stanek schedule the City and the MFRA for the Subcommittee's November 19, 1999 meeting to allow additional time for MFRA representatives to meet with the City of Minneapolis. Mr. Rice also requested that staff invite the City of Minneapolis representatives to the November 19th meeting. Mr. Rice testified that with regard to the recodification legislation, if the Subcommittee did not have adequate time to deal with that issue the MFRA would agree to hold off on it this Session. Rep. Stanek agreed to let the MFRA and City of Minneapolis come back before the Subcommittee at the November 19th meeting. Mr. Rice also testified, in response to an issue raised in the staff memo, that the MFRA did writeoff a $5 million investment in Technimar at the end of 1998 but that the loss did not impact the City because of MFRA's overfunded status.

Bob Johnson, representing the MFRA, testified that the 110% benefit is not a permanent ongoing benefit. The benefit will only be provided if the MFRA funding ratio exceeds 110%. Mr. Rice continued with his comments supporting this legislation.

Rep. Murphy asked if some members of the MFRA oppose this legislation? Mr. Rice testified that they have had two meetings with the general membership and although some high ranking members might prefer the benefit provided by PERA-P&F, the majority of MFRA members support this legislation.

1. **Volunteer Firefighters; Various Changes to the Volunteer Firefighter Laws**

Rep. Stanek requested that the people interested in this issue come forward and he noted that they would have a further opportunity to testify at the Subcommittee's November 9th meeting.

Nyle Zikmund, Spring Lake Park Fire Chief and President of the Minnesota Area Relief Association Coalition (MARAC), reviewed the events leading up to drafting this legislation. Lawrence A. Martin, LCPR Executive Director, referred members to page four of the staff memo which provided a brief summary of the 15 changes proposed in this legislation. Mr. Zikmund reviewed the changes. He began by noting that of the 700 volunteer firefighter plans in the State, approximately 15% of them are defined contribution plans and do not have a cap on benefits while the others are defined benefit plans and do have a cap. He testified that the proposal would double the defined benefit cap. The second proposal would replace the current investment reporting requirement with the pre-1998 requirement but would apply to all volunteer firefighter funds.

Rep. Stanek asked whether the State Auditor's office had a representative at this meeting. Mr. Burek stated that the State Auditor's Office was unable to attend today's meeting but they would have a representative at the November 19th Subcommittee meeting. Rep. Murphy asked if the rate of return audits were being used by the fire community? Mr. Burek stated that he did not know if they were being used but that they should be used to assist the funds in managing their assets.

Mr. Zikmund continued to review the proposed changes. He reviewed the provision dealing with data privacy and the open meeting law. Rep. Stanek asked whether this provision would require this bill to go to the Civil Law Committee in the House and its counterpart in the Senate? Sen. Betzold responded that the provision would require hearings before the House and Senate committees. He recommended that the provision be introduced as a stand alone bill rather than as part of this larger bill so that only the appropriate issue would be dealt with by the smaller committees. Mr. Zikmund agreed and continued with his review of the final proposed changes.

Rep. Murphy referred members to proposal "e." dealing with survivors and asked what happens to the money if a firefighter does not have a surviving spouse or child currently. Mr. Zikmund responded that the money stays in the fund.

Eric Willette, a representative of the League of Minnesota Cities, testified that the League can support most of the provisions in this proposal. He testified that the League is opposed to doubling the flexible service credit maximums and would recommend that the LCPR study the issue of the appropriate service credit maximum based on a policy analysis. The League could support the change to the investment reporting requirements provided that the data practices provision allows full access to the detailed information currently required to be reported. The League also has a philosophical concern with adding administrative expenses by including MARAC in the list of authorized special fund expenses.

Rep. Mares told a story of an acquaintance of his who recently retired from a volunteer fire organization after having made 12,000 fire calls. His lump sum pension amounted to less than $10 per call. Rep. Mares requested that consideration be given to that issue when the League considers the service credit maximums.

Marcus Marsh, a representative of the Minnesota Association of Farm Mutual Insurance Companies, requested that the people who wish to testify on this issue from his organization be allowed to testify at the November 23rd Subcommittee meeting. Rep. Stanek agreed. Mr. Marsh testified that the farm mutual insurance companies are concerned about increasing the flexible service maximum to $11,000. He provided background on the tax on mutual insurance companies. He testified that at one time the mutual insurance companies paid a 2% tax only on the fire portion of insurance policies. In the late 80's the tax was changed to ½ percent and in 1995 it was changed to a 1% premium tax on all lines of insurance which ended up costing two to three times more than the original 2% tax on the fire only premium and cost four times as much for one of their large companies. They are concerned about doubling the service credit maximum and support protective language for the mutual insurance companies. Rep. Stanek asked if Mr. Marsh had language he wanted the Subcommittee to review. Mr. Marsh responded that he did not have the amendment in proper form for the bill at this time.

The meeting adjourned at 2:07 P.M.

Jean Liebgott, Secretary