November 19, 1999
Room 200, State Office Building

3rd 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 1:10 P.M.

Subcommittee members present:

Representatives Rich Stanek and Mary Murphy
Senator Dean Johnson

Agenda Items Discussed:

2. Minneapolis Fire Department Relief Association Governing Law Recodification and Additional Post Retirement Adjustment Mechanism Establishment

Bob Johnson, representing the Minneapolis Fire Relief Association (MFRA), stated that they will hold off on the recodification bill until they have had a chance to meet with the LCPR staff. Representative Stanek asked if this can be done before the next subcommittee meeting scheduled for December 10, 1999. Brian Rice, an attorney with Best & Flanagan and general counsel for Minneapolis Fire Relief Association (MFRA), suggested meeting with the LCPR staff to determine whether there is time to complete recodification before the final subcommittee meeting. If they cannot meet the subcommittee schedule, they will withdraw this bill.

Mr. Rice passed out a memo responding to the seven issues of this bill that need to be addressed per Ed Burek's staff memo. The first issue was the need for change. Mr. Burek's memo suggests that the current benefits are adequate. Mr. Rice noted MFRA is 105% funded and this benefit increase proposal could help members pay for high health care costs. Issue number two, nature of the benefit, is a very complex issue and is contingent on the performance of the fund. Mr. Rice stated the members are used to the investment related post-retirement provision. If a permanent funding cost was created, it would potentially affect city and state contributions. On the third issue, impact on other funds, Mr. Rice said he didn't think PERA-P&F would want to model itself after these provisions, because it isn't guaranteed, and it puts a lot of risk on the retirees. Mr. Rice noted that MFRA is no longer eligible for additional amortization state aid since they have reached 100% funding. If they did become underfunded, some additional amortization aids would again begin, but Mr. Rice noted that that was an unlikely occurrence because of the use of 110% funding as the trigger for the additional payout, rather than 105% as proposed earlier. Besides the 10% cushion, there is a 5 year pay-out period. On issue five, the future normal cost reduction, the city is allowed to reduce its future normal cost contributions. Mr. Burek questioned the wisdom of doing this. Mr. Rice admitted this is a questionable practice. In the event of underfunding in the future, a 15-year revised amortization period was put in this bill. Mr. Rice was open to a better suggestion from Mr. Burek.

Mr. Rice noted the City of Minneapolis did not contribute the correct portion of the normal cost to MFRA for the last ten years, which is about a $3 million total shortfall. This was an error by the actuary for MFRA. MFRA hopes that the legislature will clarify this issue in Section 4 of the bill. Mr. Rice said the city of Minneapolis has not taken a position on this bill yet. Walt Schirmer, Executive Secretary, MFRA, noted that they could go to court and lose as well as win on this issue. Representative Stanek said he heard from the City of Minneapolis and they couldn't meet until December 13, 1999, to discuss this issue. He believes that Mr. John Moir, City of Minneapolis Finance Director, can provide a reasonable opinion on what Minneapolis might do.

Mr. Mark Meyer, consulting actuary with Van Iwaarden Associates hired by the MFRA, reviewed private sector reaction to overfunding situations. Mr. Meyer noted the IRS prohibits contributions to a private fund once that fund reaches a certain level. He suggested that when MFRA reaches 110% funding, no further contributions from the city be required.

To the extent that there was an underpayment of normal cost, the problem would have been dealt with in part by the higher amortization payments that resulted. Mr. Meyer suggested a fixed-period amortization of 15 years. Mr. Lawrence Martin, Executive Director of the Legislative Commission on Pensions and Retirement, noted one large difference between the private and public sector. The Federal tax laws are there to protect the Federal Treasury and may not reflect good pension policy. The prohibition on employer contributions has as much to do with not allowing tax deductions for those employer contributions as it does any actuarial principle. He noted that under the Guidelines Act, in 2010 any unfunded accrued liability has to be made up in that year. Mr. Martin said 15 years would be a significant lengthening of what the current law allows.

Representative Mary Murphy questioned whether the city knew they were undercontributing. Mr. Edward Burek, Deputy Director, Legislative Commission on Pensions and Retirement, said this is unknown. He said the 1990 legislation specified that employee contributions after 25 years of service go to health insurance accounts. Mr. Burek said very little was specified beyond that and the fund's actuary did not take account of this provision. Gabriel, Roeder, Smith & Company did send a letter to MFRA saying they may have made a mistake. Mr. Burek noted this is a joint responsibility of the City and the relief association.

Representative Stanek asked the staff to review the 11/4/99 memo. Mr. Burek began by noting this plan has a fairly complex benefit structure. The post-retirement adjustment provisions are not well structured to maintain benefit adequacy. Rather, they are likely to over-compensate. He reviewed the actuarial summary and explained the 13th check. This proposal would be in addition to the 13th check. Mr. Burek discussed PERA-P&F and State Patrol arguing for some form of additional increase if this bill is passed. Mr. Burek then reviewed Table 2 and Table 3 of the November 4th memo. He explained that the annual benefit is large, both in terms of annual benefit and in terms of lifetime value. He stated that if the goal is to increase benefits, MFRA should remove the salary cap. Mr. Burek said providing higher benefits to the members in the local plan is a clumsy and expensive way to address health care costs. Active members have a health care account to address this issue. It would be less expensive to go to the City and ask for additional support to address the health care needs of the retirees in this plan.

On page 10 of the memo, Mr. Burek estimated the impact of the proposal in addition to the 13th check. The benefit is sizable and Mr. Burek suggested the Subcommittee consider the necessity of the benefit increase considering the value of the annuities currently being paid. He reviewed the uncertain nature of this benefit increase and noted the funding ratio of this plan can change very quickly. He said there aren't any recognized liabilities with this proposal but the members of the plan are at risk because their benefits will fall if the funding ratio falls. Mr. Burek said the retirees may eventually come to the City or to the State requesting assistance to make them whole.

Mr. Brian Rice responded to Mr. Burek's points. He said the variability in the funding level is dealt with by a 5-year rolling average mechanism. Mr. John Moir, City of Minneapolis, responded to the past normal cost contribution issue, noting a bill passed in 1990 that allowed firefighters with 25 years of service to contribute their member contribution to a health insurance account. They never indicated there was an increased liability to the employer and this bill would clarify that the employer is not liable for the diversion that was requested by the relief association. Regarding forgiveness of future normal cost reduction, Mr. Moir said the plan is fully funded so if the members get an increase, Minneapolis taxpayers should get relief. He suggested indexing benefit increases to PERA-P&F.

Representative Stanek wants to leave the December 10th Subcommittee meeting with a final bill to give to LCPR during the December Commission meeting.

Mr. Moir stated that the error in the normal cost contribution was mechanical, not a policy call. He said the City did address this to some extent by paying more in amortization.

Representative Stanek suggested that MFRA come up with a plan before the next meting. Mr. Rice asked to meet with the LCPR staff before the Subcommittee meeting of December 10, 1999.

The meeting adjourned at 3:15 P.M.

Lisa Diesslin

Lisa Diesslin, Secretary