December 10, 1999 4th Meeting
Room 200 State Office Building

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 1:52 P.M. Rep. Stanek said that today the Subcommittee will put together both of the bills and present them to the full Commission at the next meeting on January 11, 2000.

Subcommittee members present:
Representatives Rich Stanek and Mary Murphy
Senator Don Betzold

Agenda Items Discussed:

2. **Minneapolis Fire Department Relief Association Governing Law Recodification and Additional Post Retirement Adjustment Mechanism Establishment**
Mr. Brian Rice, an attorney with Best & Flanagan and general counsel for Minneapolis Fire Relief Association (MFRA), stated a meeting was held and Mr. Edward Burek, Deputy Director, Legislative Commission on Pensions and Retirement, put together an amendment based on their revisions. Mr. Rice asked that Mr. Burek review amendments LCPR99-296 and LCPR99-297 for the Subcommittee members. Rep. Stanek moved consideration of Amendments LCPR99-296 and Amendment LCPR99-297.

Mr. Burek began by recommending the Subcommittee adopt one of the two mentioned amendments. The purpose of either one is to replace entirely the definition of net total excess asset amount and Mr. Burek noted it was a key concept in this proposal. This is the portion of assets available for distribution under this benefit bill. The amendments differ in only a few words and Mr. Burek said he is trying to specify in paragraph (b) a very definite trigger mechanism when any amount is payable under this provision. Paragraphs (a) and (b) specify the sequence so a new benefit can be determined. Paragraph (a) also defines total excess asset amount as follows: in LCPR99-296, this is the actuarial value of assets; LCPR99-297 uses the market value of assets. In LCPR99-297, the "pot" would be a little bigger if market value exceeds the actuarial value of assets, and would be the opposite if the actuarial value was higher than market value.

Mr. Rice testified that the fund prefers LCPR99-297, market value of assets. Representative Murphy questioned the history of market value versus actuarial value. Mr. Burek said more often than not the market value would be better. Mr. Rice agreed that this is true if the market is good, otherwise the actuarial value would be better if the market was down.

Rep. Stanek moved LCPR99-297 as amended. **MOTION PREVAILED.**

Mr. Burek suggested that the Subcommittee consider amendments LCPR99-281 and LCPR99-292. He stated that LCPR99-281 would allow the Subcommittee to recommend a different percentage of the excess assets for distribution. Amendment LCPR99-280 specifies 20% of these assets be distributed. LCPR99-281 allows the Subcommittee to recommend another percentage for distribution. A larger percentage would allow a larger portion of assets above 110% to be distributed; a smaller percentage would make for a smaller distribution of excess assets.

Mr. Rice testified in support of 20% and stated the board of trustees has reviewed this and approves it. Senator Betzold expressed concern and suggested this percent be lowered. Walter Schirmer, Secretary, Minneapolis Fire, testified they are a closed fund and they want to give 20% of excess assets to their members. Mr. Rice said 4% of members die each year so 20% seemed like a fair amount. Senator Betzold suggested language saying "up to 20%." Mr. Burek said that benefit recipients would likely pressure the fund to pay the maximum amount.

Mr. Mark Meyer, consulting actuary with Van Iwaarden Associates hired by the MFRA, testified that the change in the trigger mechanism from 105% to 110% made him comfortable with the 20% excess asset payout amount.

Mr. Burek reviewed LCPR99-292, an alternative method of approaching the benefit improvement by increasing the percentage of the total assets to be distributed under the 13th check, which would keep the system more simple. Page 2, lines 17-25 of LCPR99-292 is the operative language for this provision. A maximum of 1.6% or 1.7% would be comparable to the additional post mechanism. The increase would be based on the entire assets of the fund rather than any asset amount over 110%.

Mr. Rice said he supports the extra post mechanism rather than the alternative method in LCPR99-292 even though it would be complex to administer.

Rep. Stanek laid over Amendment LCPR99-292 for future consideration.

Mr. Burek said the remaining amendments address the normal cost contribution issue and the amortization issue relating to the City of Minneapolis. Amendment LCPR99-282 deletes Section 4 of LCPR99-280, which allowed the city to have prior low normal cost contributions grandfathered in at the understated level. It also waives the city's responsibility to fully fund their share of normal cost. The impact of LCPR99-282 is to require Minneapolis to make the full normal cost contribution as specified in general law. LCPR99-283 is a modification of LCPR99-282 and would remove retroactivity for the City from July 1, 1990 to the present, but would allow the city to make contributions below full normal cost in the future.

Mr. Rice said MFRA requested the City to pay $3 million in past contributions, to correct the deficient normal cost contributions that had been received. The City said they would challenge this in court if MFRA imposes this on them. In the meantime, the City and the fund have agreed to forgive past under-contributions if the City agrees with the benefit increase.

Rep. Murphy thinks the actuary, Gabriel, Roeder, Smith & Company, should be sued. She would like to forgive past under-contributions but require correct future city normal cost contributions. Mr. Burek said a new amendment would need to be drafted. Rep. Murphy stated she thinks the city should be able to understand that if mistakes are being made they should be held responsible. Rep. Stanek requested the staff to prepare an amendment to help Rep. Murphy feel more comfortable with this issue.

The Subcommittee discussed the provision in the bill that would relieve the City of any normal cost contribution requirements if a benefit is paid under this bill in the given year. Mr. Martin provided an analogy and said that this would be different than the normal way LCPR handles overfunded plans which is to recognize a portion of that overfunding as a deduction in their future contributions. Discussion followed.

Mr. Burek moved on to Amendment LCPR99-284 which would delete sections 4, 5 and 6. These sections would have changed the City's normal cost contribution requirements and give Minneapolis a rolling amortization which would work in conjunction with existing special law. With the existing special law and the proposed provision in Section 6, Minneapolis would not have to address an amortization requirement for a year. If in the following year there is still a need for amortization, Minneapolis would have to address it, but the payments would be stretched out over 15 years instead of 10 years. Rep. Stanek questioned the purpose of 15 years versus 10. Mr. Rice said this to cover all the bases in case of future underfunding. Mr. Meyer testified there is no need right now to make this change. Mr. Burek said deleting Section 6 would leave general law in place.

Rep. Stanek moved to delete Section 6 from LCPR99-280. **MOTION PREVAILED.**

Mr. Burek discussed Amendment LCPR99-285 which would repeal the existing waiver and require the City to begin funding this plan immediately if there were an unfunded obligation rather than delaying that for one year. He noted under existing law, the State would have to make contributions immediately under the additional state aid program, and he suggested that the Subcommittee might consider this as a fairness issue.

Senator Betzold said he felt comfortable letting the current law stand and not pass Amendment

Mr. Marsh agreed that there was only one tax increase in the last 100 years, but he argued it was a major increase and that it affected only township mutuals and no one else in the insurance industry. He said if the benefits continued to go up, the township mutuals need relief from the higher taxes.

Rep. Murphy moved Amendment LCPR99-286. **MOTION PREVAILED.**

Rep. Murphy moved Amendment LCPR99-257. **MOTION PREVAILED.**

Mr. Martin referred to LCPR99-267 which makes technical changes to LCPR99-253. Rep. Stanek asked that the articles be reviewed. Mr. Zikmund stated they are not ready to proceed on investment reporting yet. He supports the language in Amendment LCPR99-267. Dino Howard, State Auditor's Office, stated that currently small reliefs provide raw data to the State Auditor's Office and the State Auditor's Office calculates the time weighted rate of return. This amendment would require the relief associations to calculate the time weighted rate of return for each asset class. The Auditor's Office is not comfortable with reporting numbers provided that have not been verified. Rep. Stanek asked that MARAC, LMC and the State Auditor's Office agree on this issue before the next Legislative Commission on Pensions and Retirement meeting.

Rep. Stanek moved to delete Article 2 from Amendment LCPR99-253. **MOTION PREVAILED.**

Rep. Stanek moved the inclusion of Articles 3, 7, 8 &10 in Amendment LCPR99-267 as amended. **MOTION PREVAILED.**

Rep. Stanek moved the deletion of Article 11 from LCPR99-253. **MOTION PREVAILED.**

Rep. Stanek moved Amendment LCPR99-253 as amended. **MOTION PREVAILED.**

The meeting adjourned at 4:25 P.M.

Lisa Diesslin

Lisa Diesslin, Secretary

LCPR99-285. Rep. Stanek said he was not prepared to move Amendment LCPR99-291. Mr. Burek said that since the Subcommittee took no action on these two amendments, LCPR99-293 and LCPR99-294 were not needed and did not need to be discussed.

Rep. Stanek moved Amendment LCPR99-280 as amended to go to the full Legislative Commission on Pensions and Retirement. **MOTION PREVAILED.**

1. **Volunteer Firefighters; Various Changes to the Volunteer Firefighter Laws**
Rep. Murphy requested the insurance group testify on this issue. Marcus Marsh, a representative of the Minnesota Association of Farm Mutual Insurance Companies, provided historical background on mutual funds' tax and noted that even though they pay only 1% of premiums it is on the entire insurance line rather than just fire insurance and it is a much larger base, two or three times more than when they paid a 2% tax on fire insurance only. Mr. Marsh said they would like to see excess dollars come from the State general fund if benefit costs exceed what current rates generate. He then introduced Mr. Tom Danielson, Mr. Mickel Nelson, Mr. Bricker Johnson, Mr. Dean Nelson, and said they would briefly summarize their concerns with this bill and their perspective as a volunteer firefighter and a mutual insurance representative.

Mr. Danielson testified in opposition to increases in flexible service pension maximum in this bill since it only affects 1% of total volunteer firefighters. He stated the benefits should be increased for all rather than such a few. He felt it would be more beneficial to increase the minimum pension benefit, rather than the maximum range, and he was opposed to any fire premium tax increase. He said the average annual benefit for a firefighter in Houston County is $600.

Mr. Mickel Nelson testified in support of increasing the benefits for all departments that pay only $300 a year for benefits, like their department in Upsala. He said he would like to see more equity, while this bill only benefits a handful of metro area fire departments.

Mr. Johnson said that as a firefighter in Underwood, they average 57 to 63 calls per year. He said this increase would not affect the Underwood Fire Department. As the township mutual manager, he questioned where the funding is going to come from for this increase. He said the average annual benefit for a volunteer firefighter in Underwood is $900.

Mr. Dean Nelson testified that this bill will require township mutuals to pay the increased taxes without getting any benefit from the increase. He said his township averages between 70-125 calls per year.

Mr. Marsh said Amendment LCPR99-257 will give township mutuals some security and will protect them from some potential future premium tax increases.

Mr. Martin noted that the main document for this bill is LCPR99-253 which is a "delete everything" amendment with 15 articles. He also reviewed amendments LCPR99-267 and LCPR99-286. Mr. Martin said Mr. Marsh is requesting LCPR99-257 which is a new Section 1, adding language to Article 1 having to do with fire state aid. He noted amendment LCPR99-286 downsizes the increase in the service pension maximums that had originally been proposed in LCPR99-253.

Mr. Nyle Zikmund, MARAC, testified that they are neutral on LCPR99-257. He said they do not have any intention of increasing the premium tax and that MARAC issued a letter to that effect and sent it to township mutuals last year.

Rep. Murphy asked Mr. Willette, a representative of the League of Minnesota Cities, if when the cities negotiate with the reliefs to raise benefits, do they then count on paying the whole cost of the increase? Mr. Willette testified that if the benefits are beyond what the fund can support, the law is clear the municipal contribution makes up the difference.

Mr. Martin noted that volunteer fire plans have been in existence for over 100 years and the state has raised the insurance premium tax once in all those years; benefits have increased significantly during that time. Mr. Martin said if you raise the bar for the best financed volunteer fire reliefs, you are raising the bar for the rest of the state and those less well-financed fire reliefs will argue for additional aid; the most likely source being the insurance premium tax.