February 3, 2000 3rd Meeting
Room 400N, State Office Building

LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Representative Mares called the meeting to order at 6:12 P.M.

Commission Members Present:
Representatives Harry Mares, Mary Murphy, and Stephen Wenzel
Senators Don Betzold, Dean Johnson, Lawrence Pogemiller, LeRoy Stumpf, Roy Terwilliger

7. H.F. ____ ( ); S.F. 2255 (Kleis): PERA; Re-employed Annuitant Earnings Limitation

Senator Kleis said that this bill would raise the annuitant earnings limitation from $10,080 to $15,500 for retirees between the ages of 65-70. Sen. Kleis noted the need in law enforcement for trained officers on a part-time basis. Mr. Jim Costreva, Sheriff, Stearns County, testified in support of this legislation. Sen. Kleis said this proposal was part of PERA's housekeeping bill from last year.

Mr. Edward Burek, Deputy Director, Legislative Commission on Pensions and Retirement, said PERA, TRA, and MSRS have provisions in this year's administrative bill to address this issue, although those provisions differ somewhat from this proposal. He said there will be a number of re-employed annuitant earnings limitation options for Commission members to consider this session. Mr. Burek summarized the staff memo and pension policy issues related to the bill.

Mr. Burek discussed two amendments. LCPR00-02 is a technical amendment that clarifies the exemption from re-employed annuitant offsets for individuals age 70 or above, and by adding an effective date. LCPR00-03 makes changes similar to LCPR00-02 and revises the annuity reduction amounts of the pre-age-65 group if the exempt income limit is exceeded. An additional amendment would replace the existing systems in MSRS, PERA and TRA law, and would take the amount otherwise reduced and transfer that amount into a defined contribution plan to be invested in the SBI Supplemental Fund, and to be drawn at age 70 or above.

Rep. Mares said that this issue has been before the Commission a number of times for a number of areas. He said a good retirement program serves as a good recruitment tool, but employee shortages are a result of those good retirement programs. Rep. Mares referred members to page 10 of the staff memo, number 6d, regarding a change in the disposition of amounts in excess of the limitations. He suggested that this might be a tool to address the issue in all areas. He asked the staff to come back with a formal amendment to include all the funds.

At this time, the Legislative Commission on Pensions and Retirement moved the meeting to Room 200, State Office Building.

2. Review of July 1, 1999 Actuarial Valuations for the Statewide and Major Local Retirement Plans – Thomas Custis, FSA, Milliman & Robertson, Inc.

Mr. Custis reviewed the summary of the 1999 actuarial valuations. He said that the experiences of the funds were generally favorable, and asset returns were good. He noted that there were no bad surprises on the liability front. Mr. Custis said that the issues the Commission needs to address, such as assumption and method changes, are related to issues already before the Commission during this session. Mr. Custis said that he has spoken with the three fund administrators and that they all agree with and support the adoption of the recommended assumptions. He said the recommended change in actuarial methodology was also discussed with the fund administrators.

3. **Review of Quadrennial Projection Actuarial Valuation of the Minnesota State Retirement System – Thomas Custis, FSA, Milliman & Robertson, Inc.**

Mr. Custis explained that when the Pension Uniformity Bill was enacted, it included a requirement that the Commission actuary perform projection valuations every four years to determine, on a projected basis, what the funding of the plans would look like. They chose one fund, the MSRS General Employee plan, and did a study of the plan based on 1998 data. He summarized this information for the Commission. Mr. Custis said there is a one-quarter chance that we could see deficiencies increasing after 10 years, despite the plan being overfunded. Rep. Murphy asked what would prompt that deficiency. Mr. Custis responded that unfavorable asset experience would prompt that deficiency. He said that assets are driving this plan and we should be careful how we recognize the assets in terms of funding calculation. Rep. Murphy asked if spending the surplus now would have an affect on that. Mr. Custis said that spending the excess through additional benefits would potentially increase the volatility; and that spending by getting it out of the fund would decrease volatility. Mr. Custis presented a chart showing what would happen over time if the means to address the overfunding was to reduce the statutory contribution rate. He noted the impact over time if you "spend the excess."

Mr. Custis presented a final chart related to the accrued benefit funding ratio and what is expected to happen to the accrued benefit funding ratio over the projection period. Mr. Custis said that, because of the substantial funding excess, a decline in the active population actually has a neutral or slightly positive effect because costs are somewhat less than normal costs. Column B of this chart showed what would happen if the reduction in the contribution rate were incorporated.

Rep. Mares informed members that this is something that has to be acted on this session. He thanked Mr. Custis for his presentation.

4. **Approval of Minutes of the Commission Meeting of December 14, 1999, and Fire Subcommittee Meetings Minutes of December 10, 1999**

Rep. Wenzel moved the adoption of the December 14, 1999 meeting minutes. **MOTION PREVAILED.**
Sen. Johnson moved the adoption of the December 10, 1999 meeting minutes. **MOTION PREVAILED.**

5. **Consideration of the Report of the Fire Subcommittee:**
-- Volunteer Firefighter Relief Association Benefit and Related Changes

Mr. Martin directed the members to a staff memo dated December 20, 1999, a section-by-section summary of LCPR99-308, which is the work product of the Fire Pension Subcommittee. Of the three articles contained in LCPR99-308, the first two relate to volunteer firefighters. Mr. Martin noted that the bulk of the changes for the volunteer fire plans are in Article 1. He then briefly summarized the more significant items in Article 1. Article 2 relates to volunteer fire plans and makes two changes in the law; it provides general law authority for the consolidation of volunteer fire plans, and replaces a current provision with a provision permitting the dissolution of volunteer fire plans but providing for a municipal trust fund to cover the period of time between the dissolution and age 50.

Mr. Martin discussed two amendments. LCPR00-12 corrects a drafting error. Sen. Stumpf moved LCPR00-12. **MOTION PREVAILED.** LCPR00-29 makes two changes recommended by Mr. Nyle Zikmund of MARAC. One change clarifies that the investment arrangements are clearly held by the volunteer pension fund. The second change eliminates the provision that allows member self-direction in a defined contribution volunteer fire pension fund. Sen. Betzold moved LCPR00-29. **MOTION PREVAILED.** Sen. Stumpf moved the adoption of the first two articles of LCPR99-308, as amended. **MOTION PREVAILED.**

Mr. Burek then summarized Article 3 of the Fire Subcommittee report. He explained that this article would authorize an additional post-retirement payment in addition to the salary escalator and the existing 13th check that are used in the plan . He then reviewed two amendments. Amendment LCPR99-301, drafted to an earlier version of the report, deletes Article 3, Section 4. This amendment forgives past underpayments but prospectively requires that the normal cost contributions have to be computed under general law. Amendment LCPR99-302 would replace Section 5 of Article 3. The amendment would not allow the city to take any assets out of the fund, but it could be used as a reduction against normal cost contributions that would otherwise be paid.

Mr. Brian Rice, General Counsel for the Minneapolis Firefighters Relief Association, testified in opposition to LCPR99-301. He said the City is also opposed to this amendment.

Mr. Martin reviewed technical amendment LCPR99-308, which changes the language of the local approval clause. This revision was suggested by the Office of the Revisor, is purely stylistic, and does not change the substance of the bill. Rep. Mares directed the staff to make this change in the omnibus pension bill.

Amendment LCPR99-302 was briefly reviewed again by Mr. Burek who said the amendment establishes a negative amortization to be subtracted from normal cost that would otherwise be paid. Sen. Stumpf asked what the difference is between Amendment LCPR99-302 and the wording as it stands in the bill. Mr. Burek said the language in the original article states that if a benefit payment is made in a given year, no normal cost contribution is payable. The amendment negatively amortizes any assets in excess of full funding and that negative amortization amount will be deducted from the normal cost otherwise payable.

Mr. Rice said that if Amendment LCPR99-302 were adopted, it is likely that the City's normal cost contribution would be phased out before the plan is 110% funded and give the City relief sooner than the bill anticipates.

Sen. Johnson moved the inclusion of Article 1 and Article 2 into the omnibus pension bill. **MOTION PREVAILED.**

The meeting adjourned at 8:00 P.M.

Lisa Diesslin

Lisa Diesslin, Secretary