

June 27, 2000  
Room 316, Capitol

7<sup>th</sup> Meeting



LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Representative Harry Mares called the meeting to order at 1:10 p.m.

**Commission members present:**

Representatives Harry Mares, Mary Murphy, Rich Stanek, and Stephen Wenzel  
Senators Don Betzold and Dean Johnson

1. **Approval of Minutes of Commission Meetings of February 3, February 8, February 22, and February 28, 2000.** As there was not a quorum present, the approval of minutes was laid over.
2. **Commission Interim Topic: PERA Funding Deficiency (First Consideration)**

Representative Mares introduced the topic by stating that initial testimony would be taken on the topic, and that it is the intent of the Chair to form a working group to study the issue during the Interim. The purpose of the study will not be to lay blame, but rather to look at the history, weigh alternatives, and to come up with options to present to the 2001 Legislature. Rep. Mares referred to a letter on the topic from Commissioner Wheelock, and the letter was distributed to Commission members.

**a. Commission Staff Issue Memorandum: Background Information Relating To The Projected PERA Funding Deficiency**

Mr. Lawrence Martin, Executive Director, Legislative Commission on Pensions and Retirement, reviewed the initial staff memo on the pertinent history and related information. The memo summarizes the development of the membership, benefits, and funding of PERA; summarizes the results of the 1992 and 1996 PERA experience studies and the subsequent PERA actuarial assumption and method changes; outlines the projected need for additional PERA funding support; and outlines the broad options for securing additional PERA funding resources.

**b. Thomas K. Custis, F.S.A., Milliman & Robinson, Inc., Consulting Actuary: Presentation on PERA Funding Issues**

Mr. Custis, the actuary retained by the Legislative Commission on Pensions and Retirement, said that he was asked to help clarify the meaning and implications of what has been identified as a potential longterm problem for PERA. He reviewed the written materials he provided on the following issues:

- i. Summary of the July 1, 2000, Assumption Changes and the Rationale Behind the Changes
- ii. Estimate of Funding Impact
- iii. History Behind Recommendations Regarding Separation Rates
- iv. Relationship of Service to Separation Rates
- v. Comparison of Key Characteristics Among Major Statewide Plans

Rep. Murphy asked Mr. Custis what the effect would be of not allowing employees who separate from service to take a refund of contributions. Mr. Custis replied that there would be a modestly favorable effect, but that would not have a big impact. Mr. Martin noted that there would be a bigger impact if those who take a refund were not allowed to repay the refund.

**c. Mary Vanek, Executive Director, PERA**

Ms. Vanek provided testimony on PERA's perspective on the issue, emphasizing that they do not believe there is a "magic bullet" to resolve the shortfall. Her presentation included testimony on the following issues:

- i. Factors driving the need for a contribution increase
- ii. Comments on issues raised in the Commission staff memorandum
- iii. PERA Board's position and items for further discussion

Rep. Mares noted that he hopes that the PERA Board will participate in the discussions to follow. Rep. Mares referred to page 12 of the Commission staff memo concerning membership changes, noting the increase in deferred retirees and nonvested former members. Ms. Vanek said that the numbers, as prepared by the actuary, are based on statuses that are assigned to members and their actual credited service. PERA is in the process of breaking down that grouping by ages and years of service to determine whether they are truly deferred or if they are short service people who are simply leaving their money there. Rep. Mares asked Ms. Vanek to provide a written statement of her testimony for the Commission files.

**d. Other Testimony**

Mr. Keith Carlson, Executive Director, Metropolitan Inter-County Association, distributed a handout concerning the implications of a proposal put forth by the PERA Board. Rep. Murphy asked if there were copies of this proposal available, and Rep. Mares asked Mr. Martin to respond. Mr. Martin said that during the early part of the 2000 Legislative Session, PERA was pursuing changes in the contribution rates to address the funding problem. Their recommendation was drafted by Commission staff and was included in a Commission meeting packet in February as an amendment. This amendment was not acted upon or reviewed by the Commission. Ms. Vanek stated that it is still the PERA Board's standing proposal until they come up with an alternative. Mr. Carlson continued his testimony, asking the Commission to consider the implications of any proposal brought forth, as well as impressions that are out there among local governmental officials, employers, and active members of PERA.

Rep. Wenzel referred to the \$25 million borrowed by the State from the fund in 1982, and noted that while it was paid back to members by way of benefit improvements, the \$25 million was never directly repaid. He asked if there an assumption at that time that the money would be repaid to the fund. Mr. Martin said that there was nothing in the 1982 legislation indicating that it was a debt the state was assuming would be repaid at some future date. The legislation was litigated in 1983 when the Minnesota Supreme Court upheld the legislation. Mr. Martin said the subject merits study in the working group, but it is a more complicated issue than simply stating there is a debt the State owes PERA.

Mr. Jim Ufer, Hennepin County Director of Budget and Finance, testified on behalf of Hennepin County that history, precedent, fairness and equity, and all options should be considered before a decision is made. He read a resolution that was passed by the Hennepin County board concerning the PERA proposal. Rep. Mares noted that the resolution is based on a proposal that was never taken up and that he would not ask PERA to withdraw that proposal, but rather put it on the table for further discussion.

Rep. Mares announced that the Commission would not meet again until September, and he asked that all interested parties become involved with their suggestions and information. The July 1, 2000, actuarial valuation data should be available in October, and no final decisions on this matter can be made until the receipt of that data.

The meeting adjourned at 3:00 p.m.

  
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Lisa Diesslin, Secretary