December 6, 2000
Room 200, State Office Building

8th Meeting

LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Representative Harry Mares called the meeting to order at 1:15 p.m.

Commission members present:

Representatives Harry Mares, Philip Krinkie, Mary Murphy, and Rich Stanek
Senators Don Betzold, Dean Johnson, LeRoy Stumpf, and Roy Terwilliger

1. **Approval of Minutes of Commission Meetings of February 3, February 8, February 22, February 28, and June 27, 2000**

   Sen. Terwilliger moved approval of the minutes of the Commission Meetings of February 3, February 8, February 22, February 28, and June 27, 2000. **The motion prevailed.**

2. **Review of House Floor Amendment to S.F. 2796, HDA-657 (Contents of H.F. 2618 (Storm and Dorn); S.F. 2309 (Hottinger): TRA; Service Credit Purchase For Professional Teacher Organization Service)**

   Mr. Lawrence Martin, Executive Director, Legislative Commission on Pensions and Retirement reviewed the staff memo and policy issues raised by the amendment. He recommended the following revisions to the language: 1) make the specific reference to labor organizations in Subdivision 4 more generic, and 2) delete Subdivision 9.

   Mr. Russ Stanton, Director of Governmental Relations, Inter-Faculty Organization (IFO), testified in support of the amendment, noting that the original bills were produced at the request of the IFO. He provided a handout on the issue that was distributed to members.

   The issue was laid over for the 2001 Legislative Session.

3. **Update on St. Paul Teachers Retirement Fund Association Consolidation Discussions**

   Mr. Eugene Waschbusch, Secretary-Treasurer, St. Paul Teachers Retirement Fund Association (StPTRFA), gave background on previous discussion on the possible consolidation of StPTRFA with the Teachers Retirement Association (TRA).

   Mr. Ian Keith, President, St. Paul Federation of Teachers Local 28, gave background on recent history and current discussion on the issue.

   Mr. Waschbusch said that discussions continue among the directors of the Duluth Teachers Retirement Fund Association (DTRFA), Minneapolis Teachers Retirement Fund Association (MTRFA), Teachers Retirement Association (TRA), and St. Paul Teachers Retirement Fund Association (StPTRFA). They are working in cooperation with Education Minnesota but have not yet come to any conclusions. He said that they will report back to Education Minnesota, the trustees of the various funds, the union representatives, and representatives of the cities involved, and that they hope to have something in agreement that they can bring to the Commission.

4. **Consideration of PERA Funding Difficulty and Remedial Options**

   Mr. Lawrence Martin, Executive Director, Legislative Commission on Pensions and Retirement reviewed the items included in members' packets relating to this topic.

   Mr. William Hogan, Milliman & Robertson, Inc., summarized the results of the July 1, 2000, Actuarial Valuation Report for PERA. He referenced two significant components to the funding that the report produces and referred members to Tables 9, 10, and 11 in the report. Mr. Hogan noted that, due to experience studies, there were some assumption changes in various areas, including changes in the incidence of separation from employment prior to retirement, and changes in life expectancy, incidence of disability and other miscellaneous items.

Rep. Mares asked Mr. Hogan what the effect would be in extending the amortization target date. Mr. Hogan replied that the impact of extending that date would be to lower the percentage of the required contribution. If the date were extended to 2030 or 2031, he estimated that the reduction would be in the neighborhood of four-tenths of one percent. That change would give more time to let the experience assumptions play out and would delay the achievement of full funding, but that would not necessarily be detrimental to the retirement security of the individuals covered under the fund, but would rather be more of a public policy question for the Commission to consider.

Mr. Hogan continued his summary of the valuation report. He pointed out that the funding ratios (assets to liabilities ratio, accrued liability ratio and projected ratio) have all gone down, primarily due to the change in the assumptions. Although they are down from where they would like them to be, he would not view their decline as a situation of panic or emergency.

Mr. Martin asked Mr. Hogan what portion of the change in the unfunded actuarial accrued liability (Table 10, Item F) had to do with the change in the actuarial value of assets. Mr. Hogan replied that Item F would relate solely to the asset method change.

Additional testimony on the issue was given by the following individuals:

a. Ms. Mary Vanek, Executive Director, PERA, responded to questions with respect to the increase in the terminated non-vested members. She said that those members have existed for quite some time. They have always provided to the actuary the dollar value of the liability associated with those members with is their contributions plus interest, but the data wasn't clean in their old data structure so they did not always provide the detailed records. When PERA converted their database a year ago, they cleaned up their records, and now they provide to the actuary detailed information which is now reflected in the number of individual records.

   In response to Sen. Stumpf's question on gains and losses with respect to investment performance, Ms. Vanek said that they have a document that reflects the information over time, and she will forward that document to the Commission.

   Ms. Vanek provided a written copy of her testimony to members, which covers the following issues:

   - PERA Study About The Plan And Membership

   - PERA Board's Legislative Committee Recommendation, to be reviewed by the PERA Board on December 14, 2000. PERA will notify the Commission when the Board takes action on the recommendation.

b. Mr. Keith Carlson, Executive Director, Metropolitan Inter-County Association, distributed materials containing his formal testimony. He pointed out that the State dictates the cost for the pension benefits and the benefits the employees ultimately receive. For that reason, they believe the State has to play a role in solving the funding problem. He noted that PERA employers already pay the highest employer contribution rate of 5.18%, compared to TRA at 5% and MRSR at 4% despite the fact that their retirees all receive identical benefits. He also referred to the $25 million of the employer contributions diverted from the fund to the General Fund in 1983-84, noting that the employees have been repaid over the years through benefit increases, but that did not benefit the employers. He said that they endorse several of the aspects of PERA's proposal and encourage the Commission to look toward the State as a significant participant in dealing with the PERA shortfall.

c. Mr. Bob Johnson, representing Teamsters Local 320, and Ms. Sue Mauren, Executive Treasurer, Teamsters Local 320, testified against a contribution increase. Mr. Johnson said that they were representing the 10,000 PERA-Coordinated members, who are the lowest-paid city and county workers in the state. He introduced Ms. Mauren, who thanked the Commission for taking the time to discuss this problem, and that their members consider this to be a serious issue. She asked the Commission to consider a wide range of options to resolve the issue and asked that the burden of fixing the problem not fall on the employees who have the least ability to pay for the solution. Sen. Stumpf asked Ms. Mauren to comment on PERA's recommendation to change the vesting period from three years to five years. Ms. Mauren noted that it was five years at one time and she would like to take some time to analyze why it changed and what the impact would be of such a change. She also asked the Commission to consider that public employers are having problems recruiting and retaining new employees and increases in contributions or changing the vesting period will have an impact on many issues they are facing in the public sector in the current tight labor market.

d. Mr. Eric Willette, League of Minnesota Cities, testified that he agreed with much of the testimony of Ms. Vanek and Mr. Carlson. He said city officials are very concerned with the issue, and they are interested in looking at ways to minimize the need for employer and employee contribution increases. A number of items in the PERA proposal have already been discussed at the League of Minnesota Cities and would be supported.

e. Mr. Steve Hunter, American Federation of State, County, and Municipal Employees (AFSCME), testified on behalf of the over 25,000 members who are local government employees. He expressed concern about an increase in employer and employee contributions, expecting that employers will likely try to get the money back at the bargaining table through reduced wages and/or benefits. He said the PERA proposal is a step in the right direction. Specifically, they support extending the amortization date. They support, in principle, the pro-rating of part-time service, but they have questions about the details. They support a significant contribution from the State, and expressed a concern over the impact on property taxes. He noted the union has not yet had an opportunity to look at the vesting proposal or the enhanced refund option, but given their goal to keep contribution increases to a minimum, his expectation is that they would adopt a position in support of both.

f. Mr. Kevin Corbid, Association of Minnesota Counties, testified that there is nothing in the PERA recommendation that the association has taken a position not to support. He said that the county commissioners don't just view this issue in terms of what it's going to do to their own budget or the impact on property taxes, but they are just as concerned about how their active employees will be affected.

Ms. Vanek returned to respond to additional questions from members regarding member union representation, membership eligibility, deferred benefits and contribution refunds, and PERA's procedures for collecting receivable assets.

Rep. Mares thanked Commission members for their service and support. He then asked Mr. Martin to comment on a recent court ruling. Mr. Martin reminded members of a bill last session that would have extended the Improved Money Purchase Savings Clause to a number of TRA members employed during the 1969 school year who had elected some other benefit option. A lawsuit was filed in Ramsey County District Court; there was an initial motion on the part of the State to dismiss for failure to meet the statute of limitations, the motion was granted, and the lawsuit was dismissed. The ruling has been appealed, but is unlikely to come to a conclusion before the end of the next Legislation Session.

The meeting adjourned at 3:20 p.m.

Lisa J. Diesslin

Lisa Diesslin, Secretary