

LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Call to order:

Representative Steve Smith, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 7:05 p.m.

Commission Members Present:

Representatives Sondra Erickson, Philip Krinkie, Eric Lipman, Mary Murphy, and Steve Smith
Senators Don Betzold, Keith Langseth, Cal Larson, Geoff Michel, and Lawrence Pogemiller

Agenda Items

H.F. 2458 (Smith); S.F. 1806 (Kubly): Public Pension Plans Authorized Investment Securities Expansion

Mr. Edward Burek, Deputy Director, Legislative Commission on Pensions and Retirement, reviewed the staff memo and policy issues raised by the bill and summarized the prior testimony.

The bill was laid over because a quorum was not present.

H.F. 2347 (Krinkie); S.F. 2212 (Reiter): PERA; Coverage for Lake Johanna Volunteer Fire Dept. Employees

Mr. Burek reviewed the staff memo and policy issues raised by the bill and discussed amendments.

Mr. David Johnson, representing Lake Johanna Fire Department, testified in support of the bill and provided a letter of support dated February 20, 2004, signed by the mayors of Arden Hills, Shoreview and North Oaks, the three cities provided fire service by the Lake Johanna Fire Department. Mr. Johnson said that he also worked on the Spring Lake Park issue, and was requested by PERA at that time to get a Revenue ruling to make sure there wasn't going to be an issue with respect to PERA's governmental plan status. That ruling was received and Spring Lake Park was subsequently allowed to participate. According to Mr. Johnson, the Lake Johanna governance structure is modeled specifically on Spring Lake Park, that they appeared before the PERA board, and that the board did not oppose this legislation. Mr. Johnson also said that his client has indicated they do not intend to utilize the buyback provision, so adoption of amendment LCPR04-124 deleting that provision it would be acceptable. Mr. Johnson informed members that Mr. Greg Larson, Arden Hills City Council, and Fire Chief Tim Boehlke were also available for questions.

Ms. Mary Vanek, Executive testified that PERA asked Lake Johanna to come before the Commission to have Lake Johanna specifically added as a governmental subdivision, that PERA reviewed the Spring Lake Park ruling and they are comfortable that Lake Johanna aligns with it as an instrumentality of a political subdivision, and therefore the board is comfortable that they are sufficiently governmental to be included in PERA. Ms. Vanek also indicated that amendment LCPR04-124 is acceptable to PERA.

Sen. Betzold moved amendment LCPR04-124. **MOTION PREVAILED.**

Rep. Krinkie moved H.F. 2347/S.F. 2212, as amended, be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

H.F. 2179 (Sertich); S.F. 2229 (Tomassoni): PERA; Authorizing a Onetime Second Chance Actuarial Equivalent Optional Retirement Annuity Election

H.F. 2180 (Sertich); S.F. 2228 (Tomassoni): PERA; Authorizing a Onetime Second Chance Actuarial Equivalent Optional Retirement Annuity Election in Certain Instances

Mr. Lawrence Martin, Executive Director, Legislative Commission on Pensions and Retirement, explained to members that these bills were previously heard by the Commission and the lack of a quorum prevented any action, that the two bills are alternative resolutions to the same problem, and he briefly reviewed the bills and prior testimony.

Ms. Mary Vanek, Executive Director, PERA, testified that PERA is opposed to the individual bill because Mr. Oja collected benefits at the single rate for 25 years and nine months at a single rate; his final benefit at the time of his death was \$1,919.94. Ms. Vanek said that had he chosen an optional annuity when he retired in 1978, his benefit would have been \$1,650.57. If the Commission proceeded with the legislation, Mrs. Oja would then be entitled to roughly \$825 per month. Over his lifetime, PERA paid benefits to Mr. Oja just under \$265,000; Mr. Oja contributed just under \$12,000 throughout his working career. If the Commission were to approve this benefit, PERA would have to allocate an additional \$68,000 to the post retirement fund to provide a benefit that is estimated to be paid to Mrs. Oja for 9.7 years and if she lives longer, they would have to transfer more. Regarding the broader bill and the issue of changing options or changing retirement selections, it is PERA's position to allow an individual to make a change within 60 days of their initial retirement date, but beyond that there is a risk of adverse selection against the plan.

Sen. Tomassoni testified in support of the bill, noting that the issue is not so much that Mr. Oja made a selection of a single life annuity; but that in 1974 when ERISA was passed, there was a requirement made that both spouses sign off on the pension selection at the time of the pension selection. Sen. Tomassoni suggested that the proposed legislation be limited to the class between 1974 and 1982, the time between which spouses were not notified or not required to sign off on pension selection.

Rep. Lipman asked Ms. Vanek what the magnitude of impact would be for extending the legislation to an entire class of individuals from 1974 to 1982. Ms. Vanek replied that PERA did not take their analysis that far, but the number of individuals who selected a single life annuity and retired during that timeframe was over 2000 individuals, and if they are married or married since they retired they would then be eligible to take this option, which would be expensive for the plan.

There was no action on either of the bills.

Continued Discussion of H.F. 2458 (Smith); S.F. 1806 (Kubly): Public Pension Plans Authorized Investment Securities Expansion

Sen. Kubly testified in support of his bill.

Sen. Betzold moved amendment LCPR04-104. **MOTION PREVAILED.**

Sen. Betzold moved H.F. 2458/S.F. 1806, as amended, be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

H.F. 2376 (Rhodes); S.F. 2220 (Kelley): Hopkins VFRA; Deferred Lump Sum Service Pensions Interest Rate

Mr. Lawrence Martin, Executive Director, Legislative Commission on Pensions and Retirement, reviewed the staff memo and policy issues raised by the bill, and discussed potential amendments.

Rep. Rhodes and Sen. Kelley testified in support of their bill. Sen. Kelley requested Commission consideration of adding the Golden Valley Volunteer Firefighters Relief Association to the provision or, alternatively, making the provision statewide.

Mr. George Magdahl, Hopkins Fire Marshal, and Treasurer of the Hopkins Fire Department Relief Association, testified in support of the bill.

Mr. Mark Rosenblum, Treasurer, Golden Valley Fire Relief Association, testified in support of the bill and read a written statement.

In response to a question from Rep. Lipman, Ms. Judith Strobel, Office of the State Auditor, Pension Oversight Division, testified that they do not specifically collect data on how many relief associations provide this type of interest practice, but in aggregate, about 200 of the 700 relief associations do not offer deferred interest at all, and of the remaining there is a large group that they are working with to comply with the law change that took place on May 17, 2000, and there are other groups that have complied with the 2000 law. Ms. Strobel also indicated that many relief associations have expressed an interest for greater flexibility than what would be offered by the current straight 5% piece of the three-part menu that is currently provided by statute. Ms. Strobel requested clarification on the following items: 1) whether "based on" on page 1, line 36, is another word for "used" or if there is room for a board of trustees to go up or down from the reported rate as long as that rate is still within the 5%, 2) whether or not the interest would be compounded annually and if that is the Commission's intent, to insert "compounded annually" after "five percent", and 3) with regard to retroactivity, whether or not the intent is to only address those that are deferred but have yet to be paid out.

Rep. Lipman asked Ms. Strobel if there is a danger in extending the Marshall demonstration statewide as in amendment LCPR04-113. Ms. Strobel responded that it would be appreciated by both the relief associations and the Office of the State Auditor to have greater clarification of deferred interest and what is available and LCPR04-113 would do so.

Sen. Betzold moved to amend the delete-everything amendment to H.F. No. 2376 (LCPR04-113), as follows: page 1, line 36, after "rate" delete the balance of the line; page 2, line 1, delete "based on"; and page 2, line 4, after "percent," insert "compounded annually,". **MOTION PREVAILED.**

Rep. Murphy moved to amend the delete-everything amendment to H.F. No. 2376 (LCPR04-113), as follows: page 2, line 6, after "(d)" insert "A relief association may not use the method provided for in paragraph (c), clause (3), until it has modified its bylaws to be consistent with that clause. (e)" and on page 2, line 16, strike "(e)" and insert "(f)", and to direct staff to incorporate a sunset date of December 31, 2008. **MOTION PREVAILED.**

Sen. Betzold moved H.F. 2376/S.F. 2220, as amended, be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

H.F. 2541 (Beard); S.F. 2556 (Murphy): MSRS; Modifying a Special Retirement Coverage Provision for DOT Aircraft Pilots

Mr. Burek reviewed the staff memo and policy issues raised by the bill and discussed the amendments.

Sen. Larson moved amendment LCPR04-155.

Rep. Beard and Mr. Tim Valento, a pilot affected by the legislation, testified in support of the bill.

Sen. Larson renewed his motion on amendment LCPR04-155. **MOTION PREVAILED.**

Mr. David Bergstrom, Executive Director, MSRS, testified that MSRS has no concerns with the bill, that it adds no additional cost, and that he does not believe any additional amendments are necessary.

Sen. Betzold moved amendment LCPR04-156. **MOTION FAILED.**

Sen. Betzold moved amendment LCPR04-157. **MOTION FAILED.**

Sen. Larson moved H.F. 2541/S.F. 2556, as amended, be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Amendment Limiting Teacher Covered Salary for Pension Purposes (Sen. Larson)

Mr. Martin reviewed the staff memo and policy issues raised by the amendment.

Sen. Larson testified in support of his amendment.

Mr. Gary Austin, Executive Director, TRA, testified that TRA does a stringent review of salaries during those final years, and since the Auditor's report they have increased their scrutiny. Mr. Austin said that out of the 33 cases cited, only nine of those salaries in excess of the 85% limit, so he doubts the 85% limit would alter the situation and he noted that abuse can happen for salaries below the limit as well.

Sen. Larson moved amendment LCPR04-126. **MOTION PREVAILED.**

H.F. 2844 (Kahn): Minneapolis Police; Benefit Increases and Amortization Date Revision

Mr. Martin reviewed the staff memo and policy issues raised by the bill, and discussed the amendments.

Rep. Kahn testified in support of the bill and in support of the technical amendment.

(The recording equipment malfunctioned at this point and recording was interrupted.)

Mr. Brian Rice, General Counsel, Minneapolis Police Relief Association, testified in support of the bill.

Mr. Dick Nelson testified in support of the bill and provided handouts relating to health care costs.

Mr. Patrick Born, Chief Financial Officer, City of Minneapolis, testified that the city council has not taken a position on the bill and they have directed him to work with the Minneapolis closed funds. Mr. Born said the council would not be in favor of a provision if it does not lighten the city's financial burden.

Sen. Pogemiller moved H.F. 2844 be recommended to pass and be included in the omnibus pension bill. **MOTION FAILED.**

Sen. Betzold moved to extend the amortization date from 2010 to 2020. Sen. Betzold withdrew his motion.

S.F. 2280 (Pogemiller): PERA; MAC Police Reemployed Annuitant Earnings Limit Exemption

Mr. Martin reviewed the staff memo and policy issues raised by the bill.

Mr. David Erbel, MAC Airport Police Department, testified in support of the bill.

(The recording equipment was fixed and recording resumed during Mr. Erbel's testimony.)

Ms. Mary Vanek, Executive Director, PERA, testified that the PERA board would prefer that there be a temporary window to lift for a limited period of time, but that it be extended to all members. Ms. Vanek conveyed the board's concern about the ability to bring skilled people back to employment, but they would like to have a period to monitor.

Sen. Pogemiller moved S.F. 2280, amended as follows,

Page 1, line 7, delete "TWO-YEAR" and insert "TEMPORARY"

Page 1, line 11, delete "the public employees retirement plan,"

Page 1, line 12, delete ", or the local"

Page 1, line 13, delete "government correctional plan,"

Page 1, line 16, delete "July" and insert "January"

be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Continued Discussion of the Larson Teacher Covered Salary Amendment

Sen. Larson moved to amend LCPR04-126 by directing staff to redraft LCPR04-126 to include school district administrators only. **MOTION PREVAILED.** Division was requested; upon division, the motion did prevail.

H.F. 2773 (Knoblach): MTRFA; Investment Authority Transferred to the Minneapolis School District, Other Investment Regulation Provisions Modified

Mr. Martin reviewed the staff memo and policy issues raised by the bill.

Rep. Knoblach testified in support of his bill, provided handouts materials, and offered amendment LCPR04-164.

Chair Smith asked Rep. Knoblach if he would prefer a motion to include the bill in the omnibus pension bill or a motion to move it forward as a stand-alone bill without recommendation. Rep. Knoblach replied that it would be satisfactory for the Commission to move the bill forward without recommendation.

Rep. Lipman moved amendment LCPR04-164. **MOTION PREVAILED.**

Ms. Karen Kilberg, Executive Director, MTRFA, testified that MTRFA is adamantly opposed to a reduction in benefits for their members, commented on the bill, and provided additional information. Rep. Krinkie asked Ms. Kilberg what options exist other than merging MTRFA into TRA. Ms. Kilberg replied that another option is infusing more assets/more contributions into the fund.

Ms. Cheryl Furrer, Education Minnesota, testified that Education Minnesota would accept consolidating the MTRFA Coordinated members into TRA, but that there would need to be supplemental funding going forward. Ms. Furrer expressed concern that the bill is attempting to fix the problem by hurting active members through contribution increases and retirees through a reduction in benefits.

Mr. Gary Austin, Executive Director, TRA, testified that the additional unfunded liability related to adding the MTRFA Coordinated members to TRA would be about \$300 million, and roughly \$800 million for a total consolidation of all members.

Mr. Jim Grathwol, Minneapolis Public Schools, testified in support of the amendment removing the Minneapolis Public Schools out of the business of fund management. Mr. Grathwol also commented that because there will be fewer teachers contributing to the fund, he doesn't believe they will be able to grow their way out of this problem.

Mr. Austin said that the TRA board recognizes the seriousness of the funding problem in Minneapolis and realizes TRA may have to be part of a solution and some degree of consolidation may have to happen, but the board is concerned about the need to recognize and to fund the additional cost to the TRA.

Rep. Knoblach clarified that the proposal in the bill is a reduction in the possible increase in benefits as opposed to a reduction in benefits, and if nothing is done there could be a reduction in the absolute level of benefits. Under the bill, retirees would still get the guaranteed two percent inflationary increase.

Rep. Krinkie moved amendment LCPR04-171. **MOTION PREVAILED.**

Mr. Lee Mehrkens, Executive Budget Officer, Minnesota Department of Finance, distributed a letter from Commissioner Ingison expressing general concern about the financial condition of Minnesota's public pension plans. Mr. Mehrkens reviewed Commissioner Ingison's suggestion that the Commission amend the Principles of Pension Policy to set forth criteria as to when a pension fund is in trouble and when corrective action is required, and her recommendation that no legislation be enacted that would add additional financial stress to any pension plan currently under-funded.

Rep. Lipman moved H.F. 2773, as amended, be recommended to pass and be forwarded to the House Committee on Governmental Operations. Sen. Pogemiller indicated his preference that the bill be included in the omnibus pension bill. Rep. Lipman withdrew his motion.

Rep. Lipman moved H.F. 2773, as amended, be recommended to pass and be included in the omnibus pension bill. Rep. Lipman withdrew his motion.

Rep. Krinkie moved to act in the affirmative on H.F. 2773, as amended, and that the bill be forwarded to the House Committee on Governmental Operations and Veterans Affairs. **MOTION PREVAILED.**

S.F. 2121 (Betzold): MSRS; Health Care Savings Plan Expansion

Sen. Betzold moved amendment LCPR04-160. **MOTION PREVAILED.**

Sen. Betzold moved S.F. 2121, as amended, be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

H.F. 2886 (Haas); S.F. 2796 (Betzold): Creating a Task Force to Study the Advantages and Disadvantages of the Creation of a Statewide Volunteer Firefighter Retirement Plan.

Mr. Nyle Zikmund, representing the Minnesota State Fire Chiefs Association (MSFCA) and the Minnesota Area Relief Association Coalition (MARAC), testified in support of the bill.

Sen. Larson moved H.F. 2886/S.F. 2796 be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Non-Agenda Items

Rep. Krinkie moved amendment LCPR04-168. **MOTION FAILED.**

Sen. Pogemiller moved amendment LCPR04-106. **MOTION PREVAILED.**

Sen. Pogemiller moved amendment LCPR04-088. **MOTION PREVAILED.**

Sen. Betzold moved amendment LCPR04-087. **MOTION PREVAILED.**

Final Action on Omnibus Bill

Sen. Betzold moved that the contents of the omnibus bill be recommended to pass. **MOTION PREVAILED.**

Adjournment

The meeting adjourned at 11:55 p.m.

Lisa Diesslin, Commission Assistant