



May 4, 2006
Room 112 Capitol

8th Meeting

LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Call to order:

Senator Lawrence Pogemiller, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 8:30 a.m.

Commission Members Present:

Representatives Mary Murphy, Dennis Ozment, Steve Smith, Paul Thissen, and Lynn Wardlow
Senators Don Betzold, Keith Langseth, Cal Larson, Geoff Michel, and Lawrence Pogemiller

Agenda Items

Report Presentation by the Minnesota Taxpayers Association: "Public Pensions in Minnesota: Re-Definable Benefits and Under-Reported Performance"

Members and audience were provided copies of the Commission staff review of the Minnesota Taxpayers Association report and copies of a press release issued jointly by the Minnesota State Retirement System, Public Employees Retirement Association, and Teachers Retirement Association.

The two KARE11 television news report segments by were played for Commission members.

Mr. Lynn Reed, Executive Director, Minnesota Taxpayers Association (MTA), provided a brief history of the association and what led to the preparation of the report. He indicated that approximately 60 percent of MTA funding comes from corporate and individual member dues and that MTA needs to raise the remaining 40 percent every year. The MTA began the 501(3)(c) Minnesota Center for Public Finance Research as a way to begin to get foundation grants and additional funding for research. Mr. Reed indicated that three of MTA's steady supporters over the years have been the National Association of Industrial & Office Properties (NAIOP), the Minnesota Association of Realtors, and the Lincoln Institute of Land Policy. He said they try to pick study topics that will have good leverage for promoting sound public policy, but they also have to choose topics that will be of interest to someone to be willing to pay for. Mr. Reed stated that the boards of both the Center and of the MTA are insistent that they keep absolute independence from any funder, the funder will have no say in the direction of the study or the results. He indicated that the Minnesota Association of Realtors and the Minnesota Chapter of the National Association of Industrial & Office Properties both provided funding for this study.

Mr. Reed referred to the 1997 study on public pensions, which he believes was far below the quality of the current study. He acknowledged the two researchers for the study, Mr. Mark Haveman and Mr. Aaron Twait, and also Mr. Myron D. (Mike) Stolte, Asset Allocation, Inc., who was hired as a fiduciary auditor to examine the performance of Minneapolis Teachers Retirement Fund Association (MTRFA). Mr. Reed indicated that MTA viewed the study as an educational piece for MTA staff as well as for the public. Mr. Reed said one of MTA's convictions is that this area is not understood by those who study government, and that the chances of the public at large having any grasp of the topic is pretty low.

Mr. Reed provided an overview of the organization of the study and began a summary of the results.

Senator Michel thanked Mr. Reed for what Senator Michel believes is a wake-up call for many levels of government.

Senator Betzold said that he welcomes the organization's interest in this area, but noted the TV sweeps week timing of the publication of the report.

Senator Larson pointed out that teacher pension funding problems have been around for 20 years.

Senator Pogemiller indicated the Commission's intent to work in a bipartisan fashion to try to make the public pension funds stable and that the Legislature is close to passing legislation to address the post-retirement adjustment and MTRFA issues.

Mr. Reed continued his summary of the study results.

Mr. Lawrence Martin, Executive Director, Legislative Commission on Pensions and Retirement, pointed out that the footnote to the chart on page 1 ("Figure 1: Minnesota's Retirement Fund Payments as a Percent of Total State and Local Spending") indicates that the numbers include not purely pension benefits paid to retirees but also include refunds, and refunds are not normally included when calibrating pension benefits paid. Mr. Martin clarified that refunds paid include member contributions plus interest but do not include employer contributions paid on the member's behalf.

Mr. Reed responded that he assumed the majority of the amount would be retirement benefits, and didn't think there would be a huge amount of dollar variation in terms of the portion of total spending. He then continued his review of the report findings. Mr. Reed expressed his opinion that there's plenty of blame to be spread around, that the public hasn't been involved, and that no Governor since 1981 that he can remember has been involved in this issue.

Senator Pogemiller pointed out the irony that the one group that spends a lot of time on this issue takes the criticism for anything that goes wrong and those who are not "at the dance" walk away. He recommended a little sensitivity would be helpful and suggested MTA's funders spend more time participating in trying to help deal with these difficult issues. Senator Pogemiller said that he doesn't agree that public pension funds are in trouble because, with a few exceptions, Minnesota's major funds are in relatively good shape. He also said he believes it is unwise to attempt to create panic among Minnesotans on pensions is not a wise thing to do, and that doesn't think there is a need for panic; there's a need for constant vigilance, attempts to reform, improve, try to deal with changing circumstances, which is what the Commission tries to do on a bipartisan basis.

Mr. Reed responded that he does not see a great deal of panic in the report but he understands the nature of the media business and the need to get people to watch, but MTA had no control over the television teaser or anything about the KARE11 coverage. Mr. Reed acknowledged that MTA staff was honestly grateful for the exposure as a non-profit organization that fills a niche that is difficult to fund.

Rep. Murphy said that within a few hours after the press conference, she received communications from constituents informing her of their "outrage." In talking with other representatives, Rep. Murphy was told that they also received constituent communications, it seemed most of the constituents knew what was contained in the report, and they all used the word "outrage." Rep. Murphy asked Mr. Reed what kind of outreach the MTA did to inform constituents of the report and how everyone all selected the term "outrage" to define the report.

Senator Betzold confirmed that it was an identical e-mail, and when a form e-mail comes out word for word it tells him somebody has been told what to say.

Senator Pogemiller asked Mr. Reed if MTA or one of its funders had done an action alert. Mr. Reed replied that he did not send out an action alert but he did send a PDF version of the report to MTA members and to the press prior to the press briefing, and that he did not know whether one of the study funders sent an action alert.

Senator Pogemiller asked Mr. Reed how Channel 11 knew about the report before the press conference when no one else did and had already run a series on it, and the copy of the report KARE11 provided to Senator Pogemiller before they interviewed him was a draft that had no recommendations and had a lot of missing numbers. He asked Mr. Reed how that happens if MTA is trying to be non-partisan and simply trying to provide information. Senator Pogemiller asked Mr. Reed who prompted Channel 11 to do this and how did they know about the report, since it had not yet been released. Mr. Reed replied that there were two funders who would know about the report. Senator Pogemiller asked Mr. Reed if one of the funders sent out action alerts, to which Mr. Reed responded that he did not know.

Senator Pogemiller asked if any of the funders of the report were in the room and if any of them would be willing to comment on the action alert.

Senator Betzold said that he thought the funders did not control the content, but that apparently they are actively participating in some way. Mr. Reed asked to respond to Senator Betzold's comment. Mr. Reed said that many of their reports are used by lobbyists. Senator Pogemiller asked Mr. Reed if MTA gave copies of the report to lobbyists before it was presented to the public. Mr. Reed said that they did provide courtesy drafts of the report to people who were being interviewed, but did not distribute the report before it was released. Mr. Reed said MTA is not a lobbying group but rather an advocacy group for sound policy, and MTA does not let others control the content of their studies. Mr. Reed acknowledged MTA does put its reports out according to MTA bias, that they try to be open about their

biases for good use of taxpayer dollars and for an accountable tax system, but what the lobbyists do with the reports is up to those lobbyists. He said MTA makes its reports available to their members, many of whom are lobbyists, and those lobbyists use the reports as they see fit.

Mr. Glenn Dorfman, representing the Minnesota Association of Realtors, one of the funders of the report, testified that the Minnesota Association of Realtors did send out an action alert with the word "outrage" and that he had received nothing more than the summary that was handed out.

Senator Betzold stated that receiving numerous identical e-mails is not effective. Senator Betzold asked Mr. Dorfman when he got the report, to which Mr. Dorfman responded that he got an outline of the report two days prior. Senator Betzold wondered how KARE11 got the report, and stated that it seemed odd to him that if MTA is claiming that the people who funded the report had no influence into it, why did their funders get the report ahead of the public release so they could look it over. Senator Betzold said that it strains the credibility of the MTA.

Senator Pogemiller agreed that there does appear to have been some coordination of activities with the news media prior to the release of the report. Senator Pogemiller recommended to Mr. Reed that it probably would be better not to do so. Senator Pogemiller also commented that Mr. Reed may or may not be aware of the relationship with the Governor's office and the KARE11 reporter; pointing out that one of the report's recommendations is to transfer the responsibility of pension system monitoring from the State Auditor to the Governor.

Mr. Reed said MTA cooperated with KARE11 when they were approached by KARE11 to do an exclusive, that MTA staff doesn't know how KARE11 found out, but that it was probably through a funder. Senator Pogemiller asked Mr. Dorfman if he went to KARE11; Mr. Dorfman replied that he did not.

Mr. Reed said their board discussed the KARE11 request and that the board was not unanimous about cooperating. Mr. Reed said he would take Senator Pogemiller's recommendations back to the board.

Senator Betzold asked Mr. Reed if KARE11 urge MTA to get the report out by early May. Mr. Reed responded that it was indeed for sweeps week, but that did not influence the accuracy of report and that MTA would welcome criticism about the correctness of the report.

Mr. Dorfman testified that they have listened to the pension debate for four to five years about how there is no money, particularly for schools, and that his group thought it would be a good idea to find out where all the money is. Mr. Dorfman expressed his hope that the Commission consider the recommendation to require the require Governor to list pension dollars as a line item in the budget, rather than buried in compensation, so pension dollars compete with all other budget items.

Senator Pogemiller pointed out that the Commission website and the State Auditor have all of this cost and budgeting information available to the public and have for years, and that he is not clear what is "outrageous." Mr. Dorfman responded that he believes it is outrageous that TRA and many of the other state funds have done so well and the Minneapolis and St. Paul funds have not done so well.

Senator Betzold noted that last fall when the Governor was calling for a special session for a Gophers stadium, Senator Pogemiller was calling for a special session to address the Minneapolis Teachers Retirement Fund Association funding problem. Senator Betzold said this is an issue the Commission has been discussing and trying to solve for years, and indicated that the press has not been interested in the topic until recently.

Senator Pogemiller asked Mr. Dorfman if the Realtors Association supports any solution to the MTRFA funding problem. Mr. Dorfman responded that the proposed solution is a reasonable solution, but that there needs to be additional reforms included so the problem doesn't manifest itself elsewhere, that there needs to be a cap, and that total pension dollars need to be listed in the Governor's budget.

Senator Langseth observed that a result of the media coverage is the perception that the entire system is as bad off as Minneapolis, and that perception is not what the reality is.

Senator Pogemiller asked Mr. Reed if he was aware that in 2005, pension contributions by state and local government represented two percent of total state and local spending, while in 1990 it was 2.7 percent, so in the last decade the amount of state and local taxes going to public pensions has gone down almost by a third. He asked Mr. Reed if there is something "outrageous" about that. Mr. Reed responded that he was aware of those figures, that he believes it is outrageous that the plans are under funded, and he suggested the current figure should be about three percent. Senator Pogemiller pointed out that one of the study's funders believes too much money is going to public pensions but Mr. Reed

seems to believe it is not enough, and asked Mr. Reed to clarify his position. Mr. Reed said he believes not enough is being spent and MTA wants this issue to be debated publicly so if taxes need to be raised it is visible and understood so taxpayers know the cost. Mr. Reed also recommended that if a bonus is paid, it be in the form of a 13th check so it is not part of the base. Senator Pogemiller pointed out that the Commission debated 13th checks about a decade ago, and at that time the 13th check was viewed as a bad thing. Senator Pogemiller said the Commission could re-examine the 13th check, but noted the perspective depends on what point in time one considers these items due to market changes, and also that the Commission and the pensioners often have different perspectives about what is right and what is wrong. Senator Pogemiller said the Commission tries to figure out a way to have a stable system over the years that accomplishes all objectives regardless of markets swings.

Mr. Reed continued reviewing the recommendations.

Senator Pogemiller asked Mr. Reed what he considers to be "outrageous." Mr. Reed said he believes it is outrageous to pay bonuses out of a fund that is dying. Mr. Reed continued reviewing the recommendations.

Senator Pogemiller asked Mr. Reed to clarify for full disclosure that value-added performance auditing is a product MTA's consultant, Mr. Stolte, sells. Mr. Reed responded that Mr. Stolte does have a vested interest in value-added performance auditing. Mr. Reed also stated he believes the State Board of Investment is largely doing this and that is why they are doing so well. Mr. Reed continued reviewing the recommendations.

Mr. Martin commented that the report proposes ending the Post Fund, not just capping the Post Fund.

Mr. Reed concluded reviewing the recommendations.

Senator Pogemiller thanked Mr. Reed for appearing before the Commission, and indicated that the Commission would invite Mr. Reed and the Minnesota Taxpayers Association back for further review of the report and its recommendations.

Adjournment

The meeting adjourned at 10:10 a.m.



Lisa Diesslin, Administrative Secretary