State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

February 22, 1984 Meeting
Legislative Commission on Pensions and Retirement
2:00 P.M., Room 51

MINUTES:

Rep. John Sarna, Chair, opened the meeting.

PRESENT: Senators Donald Moe, Dennis Frederickson, Allan Spear, Collin Peterson
Representatives John Sarna, John Clawson, Frank Rodriguez

Continuation of the study of the Department of Finance Bill.

Karen Dudley, Exec. Sec. continued going over the staff memo re this bill. Discussion and questions followed.

The subject of treating legislators and constitutional officers the same as other state employees was brought up.

Ron Hackett, Department of Finance, explained the finance proposal further and answered questions.

Relative to the post retirement increase mechansim when there is no advantage to do this, Ron Hackett stated that the increases would be more predictable; that it would be a way of spreading risks and make inflation adjustments; that based only on excess earnings, the employee absorbs all the risks.

Comments from the Funds:

Mike McLaren, Exec. Dir. of PERA, talked about the unfunded liability; that the unfunded liability generated from the employer not paying into the plan for the first 25 years and not from retirement increases.

Relative to the constant standard of living assumption, Mr. McLaren stated that the Winklevoss study did not do an adequate benefit adequacy study--they did an analysis of what the plan purports to do but did not do an analysis of what the plan does.

Problems with Medicare A was discussed. The Basics have Medicare as a result of the other spouse working. There are about 9,000 Basic members and the number is going down at the rate of 600-700 a year.

75% of the Basic members get outside Social Security

The current funding will amortize in 7 to 8 years.

On the Winklevoss payroll projections, PERA is already $2 million behind that projection.

There absolutely will be increased costs as a result of the new amortization schedule. He does not at this time know what goes into the unfunded liability and what goes into the normal cost.

As to the post retirement plan, Mr. McLaren stated that prior to 1980 the post adjustments were locked in and that it is not true that the 3% will outperform the current plan.

Mr. McLaren told the Commission that the PERA actuary would like some time with the Commission.

Chuck Anderson, Secretary of the Police Pension Council, made a statement that the Police Pension Council has agreed to work with the Department of Finance and do a cost analysis of the Winklevoss proposal. No benefits to be altered within the local association and that any increase as a result of the Winklevoss study shall be paid by the State of Minnesota. They have taken no position on the bill until the analysis is completed.

Mr. Anderson was asked by the Highway Patrol to state that the Highway Patrol has voted to oppose the bill.

Harvey Schmidt, Exec. Dir. of TRA, reviewed the normal cost of the present system and what it would be with the new assumptions. The teachers would be concerned having their contribution rates remain unchanged. Mr. Schmidt also expressed concern about the option for retirees and the deadline of 1990.

Mr. Schmidt was asked to review the history of the TRA financing.

Because of inadequate or nonexistent school district financed employer contributions prior to 1957, significant benefit increases over the last decade and actuarial experience losses due primarily to rapidly increasing salaries, the teachers retirement funds had substantial deficits from full funding. In 1967 the total employer financing for TRA and for social security contributions for teachers covered by TRA was shifted to state general revenue financing, and at the same time, the state began to participate in the financing of the three first class city teachers retirement fund associations equal to the amount contributed by the state to TRA. Since 1973 the support for TRA and the three first class city teachers retirement fund associations from member and employer contributions has been insufficient to meet the full amortization financing requirements. The support for TRA from member and employer contributions has been insufficient to meet full frozen deficit financing requirement. In 1973 the five high years went through and the deficit increased.

Paul Groschen, Executive Director of MSRS.
Mr. Groschen responded to a suggestion made earlier re putting the legislators and the constitutional officers in the same plan. He stated that this would lose a tax qualification; that it would be considered discriminating.

The suggested interest and salary assumptions in the Winklevoss proposal should be more conservative; that it would be shifting the cost to future generations. Mr. Groschen commented that the present post retirement is "perfect"--the yield follows inflation. He believes there should be improvements in benefits for the first ten years; that the spouse's benefit should be improved; that the members are willing to pay half their share of any increase necessary. The employees are agreeable to paying more and do not want to pay less.

Stan Effron, League of Minnesota Cities, advised that the League has not taken a position on the Winklevoss bill.

Frank Rodriguez
Secretary

Eleanor Diebel
Staff Secretary