MINUTES OF FEBRUARY 29, 1984 LCP&R MEETING
Room 81 - State Office Bldg.
2:00 P.M.

Rep. John Sarna, Chair, opened the meeting. He introduced Dan Lass from the Minneapolis Employees Municipal Fund staff, for MERF's comments on the Department of Finance bill.

MERF/Don Lass/Johnson Higgins Comments:
Mr. Lass told the Commission that MERF supports MSRS and PERA's position on the Department of Finance bill: the study did not look in enough detail as to what the actual effects of the bill are; whether or not the benefits are really adequate, the actual effects of the COLA, the wisdom of changing the interest and salary assumptions, what the real effects are on the individual plans of changing from level dollar to level percent of payroll, whether it is good pension policy and does it save money, and also that benefit adequacy is the number one issue.

Mr. Lass informed the Commission that MERF went to Johnson-Higgins and gave them all the information on actual final salary, actual medical costs, etc. and requested that they do an analysis. Mr. Lass introduced Mr. Hanf, actuary from Johnson-Higgins, whose specialty is the subject of benefit adequacy, who went over material on this subject, including a presentation of slides.

Mr. Hanf said the goal is to replace spendable income; that they use a single standard regardless of male/female; that they use a consistent goal for everybody regardless of what plan or marital status they are in. He stated that MERF retirees are going out with less than the Coordinates.

Dan Lass talked about the proposal to go from a level dollar to a level percent funding basis; that this proposal is not appropriate for a closed plan such as MERF's. He reminded the members that the fire and police are a closed plan and questioned why this was not proposed for them; that there is an inconsistency here. He does not see how this saves the state any money; that there is a policy issue here as to what generation of taxpayers will have this burden to pay. Regarding the COLA proposal, he stated that any COLA less than 4% is a clear reduction in benefits. Regarding increasing assumptions, that a slower approach is more appropriate. Concerned about proposed change in amortization.

Ron Hackett, Dept. of Finance, responded to some of the issues raised in the MERF presentation. He stated that he is somewhat familiar with the type of program that gives out these numbers; that these numbers as given by MERF are based on an assumption that there is going to be a reduction in employer and employee matching contributions to normal cost. He cannot see how the current statutory contributions are effecting the cash flow and that when the interest and salary assumptions are changed, as they have done, the normal cost will go down approximately 25%; that that for Minneapolis will be worth in excess of $3 million per year and that if the normal cost goes down by $3 million and the employer and employee matching contributions are not adjusted to reflect that decrease in contribution, that $3 million excess will be available to pay off the unfunded liability.

PERA - Mike McLaren/Dave Roenisch Comments:
Mke McLaren, Executive Director of PERA said that the average salary for Basics is approximately $19,500 while the average salary of retirees in general is approximately $23,000. There are about 10,800 Basic members left. Mr. McLaren introduced Dave Roensich, the PERA actuary.

Mr. Roenisch spoke about some major judgment points the Commission should make in reviewing and making a decision on the new proposals.

Relative to the new post retirement proposal, all four of the funds' actuaries want to stay with the present post retirement method rather than the proposed one. It is a reduction in benefits. In making an election as to post retirement, it would be a very complex decision for a retiree to make.

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Change in Actuarial Assumptions: Mr. Roenisch is not opposed to changing the actuarial assumptions to 8% and 6 1/2%, which would be equivalent to a 3% rate net of inflation and he believes that this is correct. The reason this change was not proposed by the actuary, Mr. Roenisch, is because it is his view that actuarial assumptions should be viewed in the aggregate; that this is the way the federal laws require it in the private sector. He agrees that there would be a reduction in cost to PERA because of this change. He did not propose this change in assumptions because he believes that PERA is moving in the right direction--it is becoming more funded and the support rate is adequate.

Increasing Amortization: Mr. Roenisch stated the concept of increasing amortization in the proposal is a superficially attractive and common sense notion. Pera payroll has increased at the rate of 6 1/2% every year; that "if it were a fixed mortgage he would say that would be a logical thing to do. The difficulty you have in the amortization approach is that you have to distinguish where it is appropriate and where it is inappropriate, and that calls for a distinction of whether the payroll is growing at the rate of 6 1/2% or whether the size of the group is growing at the rate of 6 1/2%. If the size of the group is stable and the payroll grows, then the obligation grows in proportion and then you have an increasing mortage, not a fixed mortgage--growing in proportion to the payroll." He also stated that in the last seven years the number of members increased 1% and the payroll increased 60% and that the majority of the adjustments have been inflationary adjustments and the total obligation has gone up. "There is no evidence whatsoever if you have a group that is increasing in size that the level amortization approach which has been used in the last 25 years has actually gone down." This is a very complex kind of thing. "The program has stayed in balance on a level dollar basis."

Mr. Roenisch suggested looking at the Coordinated support rate and determine a prudent reduction for PERA. Mr. Roensich would like to work with the Commission and the Department of Finance to develop an orderly way to make those funds available for them. It could be done on a step by step basis under the level dollar approach.

Eleanor Diebel
Secretary