March 12, 1984
Room 81 - 12:00 Noon

MINUTES

Rep. Sarna, Chair, opened the meeting.

PRESENT: Representatives Sarna, Clawson, Rodriguez, Metzen
Senators Spear, Renneke, Frederickson, Collin Peterson

James Bordewick, Commission Actuary
Mr. Bordewick told the Commission that he agrees with the Minneapolis Municipal Employees Fund's conclusions; that with a closed group of people like MERF, that a level percent of pay as proposed by the Finance Department does not work very well. He is in favor of using a level dollar amount rather than the level percent of pay.

(Transcript of Mr. Bordewick's comments):

"I had a chance to review the projections for MERF that were presented a couple of weeks ago, and although I interpret them a little differently, I guess I've come to the same conclusions. First of all, let me tell you how I interpret them and I have talked to the fund actuary about this.

The bottom line here, 2014, shows a difference of around $300 million in what's called projected unfunded liability. Now, if these contribution schedules are correct, the present plan and the proposed plan, to me says that MERF will have $300 million dollars more in accumulated assets in the present plan than under the proposed plan; and I base this on the fact that the unfunded liability is made up of two parts; one is the accrued liability, and from that is subtracted the assets of the plan. The accrued liability is independent of what you contribute. It is based on a number of people in the plan, their salary, service, etc., and how many members are alive at that time. This does not take into account this unfunded liability projection on the basis of people that are going to terminate or die or whatever, so I concluded by that these contributions accumulate to $300 million less one way than the other. I checked with the actuary on how he determined the payroll projection, and he assumed that people would retire, terminate, die, but when he went over to get the present unfunded liability he didn't make that same set of assumptions, so that is a little inconsistency in the projections that way. Even though I interpreted it differently, I guess I came to the same conclusion that with a closed group of people like MERF, a level percent of pay amortization schedule does not work very well. The thing is that what you want to do is to try to fund the closed group as rapidly as possible, and you can do that more by using a level dollar amount than by using a level percent of pay as proposed by the Department of Finance."

Sarna: "I guess what you are saying is that you agree with Dan's presentation last week that long ago we had a $300 million liability in that fund."

Ron Hackett, Department of Finance, explained that the City of Minneapolis retained an actuary to look at MERF funding proposal. The Minneapolis actuary suggested an alternative of changing the MERF termination date to 2001 rather than 2017. The year 2017 target date could result in cash flow problems.

John Chenoweth, Executive Director of the Minneapolis Municipal Employees Retirement Fund, stated that the City of Minneapolis did hire an independent actuary; that the Department of Finance made a $300 million error. The City of Minneapolis did not adopt the recommendations of their actuary.

Rep. John Clawson, author of the Dept. of Finance Bill, explained the highlights of changes in the revised bill. (See copy attached).

E. Diebel
Staff Secretary