



July 21, 1986
Room 15
State Capitol

MINUTES of the July 21, 1986 Meeting:

The chair, Senator Donald Moe, opened the meeting at 2:15 p.m.

PRESENT: Senators Donald Moe, Lawrence Pogemiller, Earl Renneke, Allan Spear,
Darril Wegscheid
Representatives Terry Dempsey, Gil Gutknecht, Gerald Knickerbocker,
Wayne Simoneau, Steve Sviggum

Senator Moe introduced the agenda as follows:

Commission action on Actuarial Standards;
Final Commission action on the Guidelines Concerning the duties of the
Commission Actuary;
Reactions from St. Paul Teachers, Police, Firefighters and City to the
Legislative Auditor's report.

The Commission reviewed the minutes of the June 25th meeting.

Senator Pogemiller moved approval of the minutes as prepared. Motion carried.

Senator Moe introduced Larry Martin to provide background on the Standards for Actuarial Work. Mr. Martin commented the Commission is responsible for providing standards for actuarial work. The Commission is also required by law to review the standards annually and prepare any necessary changes to the standards. The standards have been circulated to all the pension fund administrators with a request for comments. No comments were received.

Senator Moe introduced Mr. Bob Perkins to explain the recommended changes to the Standards for Actuarial Work. Mr. Perkins reviewed the ten items from his memo. Questions and discussion followed.

Senator Moe moved to adopt the amendments to the Standards for Actuarial Work as proposed by the Commission actuary. Representative Gutknecht asked to have item number five delayed for approval until the meeting next week. Senator Moe accepted this delay. The motion to adopt the amendments with the exception of item number five carried.

Senator Moe introduced the next item on the agenda, the Guidelines Concerning the Function of the Commission Actuary.

Mr. Martin updated the Commission on the comments received on the proposed Guidelines since the Commission tentatively adopted them May 19th. To date only one comment was received and that was from the Department of Finance. Copies of the correspondence from the Department of Finance and the response from staff were included in the packets for the Commission. The two items of concern to the Department of Finance went beyond the scope of the Guidelines.

Senator Wegscheid moved final acceptance of the Guidelines Concerning the Function of the Commission Actuary as presented. The motion carried.

Senator Moe introduced the next item on the agenda concerning the comments and reactions to the Legislative Auditor's report.

Senator Moe introduced Mr. Heidelberg to update the Commission on the status of the reconciliation of the rate of return figures for the Duluth Firefighters Fund. To date, the State Auditor and Dain Bosworth have reconciled most of the differences between their numbers and, according to the State Auditor, Dain Bosworth has agreed with the State Auditor's numbers for the years in question except for 1982. The rate of return figure as calculated by the State Auditor for the four year period ending in 1984 is 4.8% as was reported by the Legislative Auditor's report. The rate of return figure for the five year period ending in 1985 is 6.2%. Dain Bosworth and the State Auditor disagree on the 1982 figure and using the 19% figure that Dain Bosworth used for 1982, the rate of return for the four year period ending in 1984 changes to 5.9% and for the five year period ending in 1985 changes to 7.1%. Discussion followed. Action will continue to provide the Commission with an update on this issue.

Senator Moe introduced Lyle Farmer of the St. Paul Teachers. Some of the points of Mr. Farmer's testimony were as follows:

With regard to the Legislative Auditor report's criticism of the absence of objectives, Mr. Farmer stated the St. Paul Teachers have had verbal objectives for some time and will now put them in writing.

Mr. Farmer introduced Mr. Eugene Washborg who will be the Secretary/Treasurer of the St. Paul Teachers Retirement Fund to succeed Mr. Farmer in September when Mr. Farmer retires.

Senator Moe introduced Dick Feider, Director of the St. Paul Police Relief Association. Some of the points of Mr. Feider's testimony were as follows:

With regard to the Legislative Auditor report's criticism of the St. Paul Police Relief Association's lack of written investment procedures and asset allocation mix, Mr. Feider responded that they will write a policy.

In response to the criticism of the St. Paul Police Relief Association not having a professional evaluator, Mr. Feider responded that since the suggestion was made by the Legislative Auditor the Association has hired Mr. Dean Derby of Standard Valuations, Inc.

Mr. Feider responded to the question regarding the St. Paul Police Relief Association's giving discretion to outside managers and he agreed they do give discretion to their outside managers and will continue to do so.

Mr. Feider introduced the following other members of the Association that accompanied him to the meeting: Mike Markeson, Vice President, Ron Ryan, Secretary, John Murkado, representing both retired and active members of the fund, Gary Norstrem, ex officio Treasurer and now also a voting member of the fund since his appointment by the Mayor.

Senator Moe recognized Dick Johnson, the President of the St. Paul Firefighters Relief Association. Some of the points of Mr. Johnson's testimony are as follows.

The St. Paul Firefighters have 30 members including 5 retirees on their Board of Trustees and they meet monthly. They hired an actuary, a money manager, and an evaluator before the Legislative Auditor reviewed their Association.

Mr. Johnson, in response to a question regarding the St. Paul Firefighters Relief Association delegating full investment decision making discretion to Stein, Roe & Farnham, stated that Stein, Roe & Farnham operate under a standard mainstream advisory agreement, use the same guidelines as the State Board of Investment, they receive updated copies of the Association's annual report, their State Auditor's Report, actuarial report and State Board of Investment prospectus. Before action is taken on any new money sent to Stein, Roe & Farnham, the Association's treasurer and Stein, Roe & Farnham's employee, Al Bryant, discuss the action to be taken.

With regard to the question regarding the investment objectives of the St. Paul Firefighters Association, Mr. Johnson provided the Commission with copies of the Association's objectives as well as Stein, Roe & Farnham's 1982 comments before entering into an agreement with the Association. Mr. Johnson also stated the Association is working on more explicit and detailed objectives.

Mr. Johnson went on to state, although it may be true that the fund's performance does not effect retiree's pay, the Association is concerned about the performance of the fund.

Senator Moe introduced Mr. Gary Norstrem. Some of the points of Mr. Norstrem's testimony are as follows:

Mr. Norstrem stated cooperation is the key between the City of St. Paul and the Associations. He went on to comment the City is happy that both the Firefighters and Police Association have chosen to be mainly invested in the supplemental retirement accounts at the state because the income share account has been a good steady performer.

In reference to the asset allocation by St. Paul Police Relief Association, Mr. Norstrem stated that although the St. Paul Police Relief Association does not have a written policy, the Association does follow almost the same asset allocation the State Board of Investment does.

Senator Moe commended Mr. Norstrem as a municipal official who has actively participated in the pension funds of his city and asked for his comments.

Mr. Norstrem responded the obligation is on the city to make the approach to the local police and fire funds rather than the city officials wait to be approached. He believes it is the city's responsibility to take the initiative with the funds.

The meeting adjourned at 5:05 p.m.

Wayne Simoneau
Commission Secretary
Jean Liebgott
Staff Secretary