



April 4, 1991  
Room 500N  
State Office Building

6th Meeting

LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Representative Leo Reding, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 7:10 PM.

Commission members present:

Representatives Richard Jefferson, Bob Johnson, Gerald Knickerbocker, Rich O'Connor, and Leo Reding  
Senators Steven Morse, Lawrence Pogemiller, Earl Renneke, and Gene Waldorf

H.F. 323 (Johnson, R.); S.F. 418 (Waldorf): Deferred Compensation Plan; Provide certain investment options for state Deferred Compensation Plan.

Rep. Bob Johnson reviewed H.F. 323 and provided background information. Rep. Johnson then asked Howard Bicker to make some comments.

Howard Bicker, Executive Director of the SBI, commented on the Deferred Compensation Plan stating that the plan is very popular and the SBI will make every effort to work with the Commission on this issue during the interim.

Rep. Johnson moved to have the bill laid over for interim study. **MOTION PREVAILED.**

H.F. 419 (Johnson, R.); S.F. 410 (Pogemiller): Supplemental Pension or Deferred Compensation Plan; Permit payment of certain premiums on tax sheltered annuities.

Rep. Bob Johnson provided a handout on this bill and made a presentation. Rep. Johnson noted that this bill would not increase the number of employees who would be eligible for supplemental pension plans it only increases the options available to the eligible employees from the State of Minnesota's deferred compensation plan to also add the option to choose 457 deferred compensation plans and 403(b) tax sheltered annuity plans. He also noted that for over 20 years seven school districts who were grandfathered in under the 1971 law have been putting their matching contributions into a tax sheltered annuity program.

Todd Adams, Variable Annuity Life Insurance Company, spoke in support of this legislation and also reviewed for Commission members the unique features of a 403(b) tax sheltered annuity plan and a 457 deferred compensation plan. He noted that these two programs have been available for several years to school teachers and school district personnel. Since 1988, these employees have been forced to use only the State of Minnesota's deferred compensation plan if they wanted to access matching employer contributions. A 403(b) plan can be used for loan collateral and can also be rolled over into an IRA.

Rep. Bob Johnson stated that before the 1988 legislation went to conference committee it contained language permitting eligible employees to choose the state deferred compensation plan in addition to 403(b) and 457 plans. However, after the conference committee the legislation passed without the 403(b) and 457 options. Rep. Johnson introduced Norman and Marty Liestigo.

Norman Liestigo, a Bloomington teacher, spoke in support of this bill and the flexibility of tax sheltered annuities.

Marty Liestigo, an Edina teacher, spoke in support of this bill and the flexibility it provides.

Gene Persha, a Minneapolis teacher, spoke in support of this bill and in support of providing limitless options. He went on to state that Anoka/Hennepin Schools has 26 companies providing 403(b) plans, Osseo has 19, Minneapolis has 56, and St. Paul has 98. Teachers want more options.

Billy Bye, Chairman of National Benefits, spoke in opposition to this bill and in support of the state deferred compensation plan as it currently exists. He stated that on a national level, the preferred method to maintain control is for fewer options. He then introduced Jim Smith.

Jim Smith, Superintendent of West Tonka School District, spoke in opposition to this bill and is in favor of limiting the options and maintaining the current deferred compensation program.

Sen. Renneke asked if there was a possibility of monitoring this program. Billy Bye stated that SBI monitors the program and Paul Groschen, Executive Director of MSRS, administers the program on a day to day basis.

Brian Rice, representing National Benefits, spoke in opposition to this legislation. He further noted that there is a difference between 403(b) plans and 457 plans. The title to assets for 403(b) plan members is with the individual and the title to assets for 457 plan members is with the employer until they are separated from service. He also referred to the staff memo on this issue and noted that the current restriction on employer matching contributions to the State Deferred Compensation Plan is consistent with the concern of the 1971 Legislature.

Rep. Johnson moved amendment H419A1 to H.F. 419.

Albe Jemtrud, Director of Member Services for MEA, reviewed the amendment and noted that the amendment expands the options for individuals. He favors 403(b) plans over 457 plans. He further noted that approximately 90% of individuals go into fixed investments.

Rep. Knickerbocker questioned the last paragraph of H419A1. Rep. Johnson moved to amend H419A1 by deleting lines 18 to 23. **MOTION PREVAILED.**

Rep. Johnson withdrew amendment H419A1. Rep. Johnson moved technical amendment LCPR91-73. **MOTION PREVAILED.**

Rep. Reding moved H.F. 419. **MOTION FAILED.**

**H.F. 886 (O'Connor); S.F. ( ): St. Paul Police and Fire Relief Associations; Authorize thirteenth check.**

Rep. Rich O'Connor presented the bill and amendment H886A2. Rep. O'Connor stated that the amendment has been adopted by the city of St. Paul.

Sen. Pogemiller questioned why St. Paul did not use the Minneapolis thirteenth check legislation. The response was that this bill used a different funding mechanism than the Minneapolis legislation. Discussion followed.

Brian Rice, representing the St. Paul relief associations, responded to a question regarding the origin of the numbers shown in a summary of this legislation and stated that the numbers came from the Finance Officer of the City of St. Paul. Discussion followed.

Sen. Morse questioned the need for this further benefit improvement since the city, the state, and the members are making large contributions to bring this plan to full funding.

Mike Schwab, President of St. Paul Police Relief Association, stated that the retired members and survivors do have an escalator clause which provides a percentage increase based on the salary of a top grade patrol officer. Therefore, every time active members get an increase retired members and survivors also receive an increase. However, they believe the retirees and survivors should get a share of the excess investment returns.

Rep. O'Connor stated that enacting this legislation would save money for the city and the state and therefore the taxpayers.

Stan Peskar, League of Minn. Cities, spoke in opposition to H.F. 886 and extending the thirteenth check to any other municipality. He is concerned with the possibility of a "whipsaw" effect, one municipality receiving a better thirteenth check benefit than another so the original fund coming back to the Legislature to improve their benefit. Discussion followed.

William Bassett, Mankato City Manager and Chair of a Committee of the League of Minn. Cities dealing with the 13th check, spoke in opposition to H.F. 886. Mr. Bassett stated that the local police and fire funds seem to want to participate in the investment gains without also taking any of the risk by participating in the investment losses as well. Discussion followed.

Rep. O'Connor stated that this bill provides a benefit to the retirees and also, by changing the assumptions, provides a savings to the taxpayers of the City of St. Paul as well as the State of Minnesota.

Sen. Waldorf offered an amendment to H886A2, on page 1, line 15 delete "Notwithstanding" and insert "In addition to", on line 22 after "300,000" delete the word "shall" and insert "may", and after "payment" insert "only".

Rep. O'Connor moved H886A2 as amended. **MOTION PREVAILED.**

Rep. O'Connor moved H.F. 886 as amended. Rep. Knickerbocker asked what the assumptions would be changed to. The response was 4% and 6%. **MOTION FAILED.**

H.F. 579 (Garcia); S.F. 708 (Riveness); Richfield Police; Increase contributions and change pension benefit computation.

Sen. Phil Riveness spoke in support of this bill stating that the intent of the Richfield Police was to consolidate with PERA-P&F, that the bill made modest benefit changes, and that the bill provided a local approval clause.

Rep. Knickerbocker questioned whether everything was consistent with other consolidations. Larry Martin responded that these measures were being taken to set the stage for the consolidation process to begin.

Rep. Reding questioned what the current benefit percentage was and how much this improvement would increase the current benefit.

John Nelson, retired member of the Richfield Police Department, responded by stating that the college incentive pay addition would amount to a 6% increase for the members who retired.

Sen. Pogemiller moved H.F. 579 and amendment LCPR91-80. Discussion followed. **MOTION PREVAILED.**

H.F. 399 (Reding); S.F. 789 (Kroening); First Class City Teachers; Establish an employer additional contribution rate and increase the employer contribution for coordinated members.

Sen. Carl Kroening reviewed the general summary which he provided to members. Sen. Kroening noted that the amendment breaks the employer contribution into two components, an employer regular contribution and an employer additional contribution. The employer additional contribution rate is equal to the difference between the existing employer and employee contribution rates for basic members only and would expand its application to coordinated members.

Sen. Pogemiller moved amendment HA91-155. **MOTION PREVAILED.**

Sen. Pogemiller moved amendment SA91-100. **MOTION PREVAILED.**

Ron Hackett, Dept. of Finance, reviewed information which he provided to members regarding financing both the employer contributions and Social Security for TRA and school district professional staff. Mr. Hackett stated that prior to 1987 the state general fund picked up all the employer contributions for TRA and Social Security. The Finance Department believed there was an equity problem with this funding mechanism and also believed it insulated school districts from the consequences of salary decisions on retirement costs. Finance developed a more accountable funding mechanism based on the 2nd prior year actual employer contribution adjusted to Social Security rate changes, projected inflation, and changes in enrollment.

Rep. Reding questioned whether the Minneapolis and St. Paul schools were shortchanged by the new funding method because they were not paying a supplemental contribution on the coordinated members. Mr. Hackett responded that, relative to other schools, he would have

to say no because when everything was rolled into the General Education Revenue program it involved the process of averaging.

Rep. Knickerbocker questioned what the amount would be that was referred to in amendment HA91-155, page 1, line 3. Sen. Kroening responded that it would be \$2,000,000 for each group.

Morgan Fleming, Committee of 13 MTRFA, stated that the amount for FY'90 was about 2 million, for FY'91 about 2.2 million and for St. Paul about \$200,000 higher.

Sen. Pogemiller questioned why St. Paul was higher than Minneapolis. The response was that StPTRFA has more coordinated members.

Sen. Waldorf further questioned this difference.

Eugene Waschbusch, Executive Secretary StPTRFA, explained that in 1979 StPTRFA had only a few coordinated teachers so they did not receive \$226,000 in supplemental contributions. In the current fiscal year, they will not receive \$2,185,360.

Sen. Waldorf asked when the supplemental aid started for the other teacher funds.

Mr. Waschbusch stated that he could not respond for the other funds but that prior to 1975, when the state became the employer of record, the city of St. Paul had been paying an employer contribution sufficient to make the StPTRFA fully funded by the year 2009. StPTRFA was receiving about a 14.5% employer contribution and their plan was a total basic plan at that time. When the state took over the employer funding in 1975, StPTRFA funding was reduced to the same level as TRA, 10%, and StPTRFA lost 4.5% of payroll. Their employer contribution then went from 10% to 12.63% over the next three years. In 1978 they were mandated to become coordinated for all new members. They then lost the employer supplemental contribution since it was written in the law that the employee contribution would be 4.5% and the employer contribution would be 4.5%. From this point on, every time a basic plan member retires the StPTRFA loses the 4.63% employer contribution needed to bring them to full funding.

Sen. Kroening stated that the purpose of the bill as amended is to conform the first class city teacher retirement funds to the same policy that applies to all other teachers in Minnesota. Larry Martin noted that HA91-155 would be a policy change and require the state to pay the additional contribution imposed by the bill but does not provide any mechanism for the state to get that contribution to the plans.

Morgan Fleming stated that this bill as amended would need a fiscal note. Discussion followed.

Larry Martin reviewed a handwritten amendment to HA91-155. The amendment made the new language in HA91-155 a separate subdivision and it also provided that the additional funding being paid by the state under this language apply only to coordinated teachers of St. Paul and Minneapolis. The amendment also provided a mechanism for implementing the additional funding.

Rep. Reding moved the handwritten amendment to the amendment. **MOTION PREVAILED.**

Rep. Reding moved H.F. 399 as amended. **MOTION PREVAILED.**

J.F. 813 (Jefferson); S.F. 775 (Pogemiller): Minneapolis Police Relief Association; Recodify, correct and amend certain Minneapolis Police Relief Association laws.

Larry Martin referred members to a delete everything amendment, HA91-260, and a long paper handwritten amendment drawn to a short paper handwritten amendment. Mr. Martin's review noted the following points the Minneapolis police have requested in this legislation: it recodifies their special laws to become a chapter of Minnesota Statutes; it defines a surviving spouse; it provides for a surviving spouse member to be on their board of trustees; it adds a new subdivision which provides for the continuation of their board and management of their relief association to the point where the relief association drops to 100 members at which time the plan would become a trust fund (the 1980 relief association phase-out provides for phasing-out to a trust fund but this subdivision changes the timing for this occurrence); it authorizes the relief association board to change the bylaws to permit up

to a one year disability to be counted as service credit if the individual comes back to work and ultimately retires; it permits additional board members to receive a three unit salary amounting to 3.75% of the salary of a top grade patrol officer; and it provides for local approval.

Jerry Bridgeman, Secretary of the Minneapolis Police Relief Association, agreed with Mr. Martin's summary of this bill and all of the amendments offered.

Sen. Pogemiller stated that the recodification may need additional work and may be a project for another year.

Mr. Bridgeman agreed that the first attempt at recodification was poor and noted that the recodification section of the bill has been removed to provide an opportunity during interim for further work.

Sen. Pogemiller suggested that all of the amendments be incorporated into one delete everything amendment to H.F. 813 and then moved the amendment. **MOTION PREVAILED.**

Sen. Pogemiller moved H.F. 813 as amended. **MOTION PREVAILED.**

The meeting adjourned at 11:15 P.M.

  
Jean Liebgott, Secretary