State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

April 9, 1991 — 7th Meeting
Basement Hearing Room
State Office Building

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 7:15 PM.

Commission members present:

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

H.F. 1584 (Lourey); S.F. 1458 (Waldorf): Various Funds; Administrative Bill.

Rep. Becky Lourey reviewed this bill for the Commission. Rep. Lourey noted that the bill encompassed the administrative changes for four public pension plans.

Ed Burek referred members to page five of the staff memo and the policy issues raised by this bill. The first policy issue raised dealt with a new subdivision to MSRS law which would permit an employee on leave of absence to pay the employee and employer contribution based on full salary and, if not paid within one year of the leave of absence, an additional six percent interest. The provision does not place a time limit on when the payment must be paid and therefore could have a cost implication for the fund.

Paul Groschen, Executive Director of MSRS, stated that the Governor has requested that employees take leaves of absence without pay and if this absence without pay would fall within an employee's high five years the employee would suffer a reduced benefit.

Sen. Renneke stated that this was a policy change and asked if this was solely for MSRS and also asked about the time limit for buyback. Mr. Groschen stated that it was a policy change, applied to MSRS only, and that he preferred not to set time limits on this provision since time limits cause some people to fall outside of the time limits.

Mr. Burek continued his review noting a change in the refund after death provision which made this provision consistent with other refund provisions. Mr. Burek noted that a proposed increase in deferred annuities augmentation for the Elected State Officers Plan may be equitable but is a benefit improvement rather than an administrative change.

Mr. Burek went on to review the PERA policy issues contained in this bill. He noted that service credit for paternity and adoption leaves will involve a cost to PERA. Issues two and three were resolved with PERA prior to the meeting. The fourth policy issue is an increase from five to six percent on refunds for PERA members who terminate employment. The fifth policy issue permits PERA-P&F consolidation account members to receive partial postretirement adjustments. The fourth and fifth changes would make these plans consistent with other groups. The sixth policy issue permits members of the Public Employees Defined Contribution Plan to make changes in their investment options at any time rather than restrict them to the twice a year changes that all other plan members are restricted to. The seventh policy issue restricts a designated beneficiary of a member of the Public Employees Defined Contribution Plan from changing the investment options after the death of the member although the money can be withdrawn at any time.

Mr. Burek noted that Article 3 of this bill deals with MTRFA and these provisions are also contained in H.F. 399 (Reding) which was heard and passed by the Commission at the April 4, 1991 meeting.

Mr. Burek went on to the MERF provisions in Article 4 which he noted were also in H.F. 571, S.F. 656, which is the second item on this agenda. The first provision changes the SBI, MERF, and police and fire fund investment law to permit MERF to invest in commingled trusts. Mr. Burek questioned whether this change would more appropriately be added to MERF law. Mr. Burek went on to state that Howard Bicker, Executive Director of SBI, does not seem to be concerned about this change. Provision two exempts MERF real estate investments from Minnesota Statutes 11A.24, Subdivision 6.

James Hacking, Director of MERF, responded to questions regarding MERF's exemption for real estate investments. Mr. Hacking referred members to provision four in Mr. Burek's memo as he felt provision two and four were related. Mr. Hacking stated that MERF currently has $80 million invested directly in mortgages backed by residential condominiums in Minnesota, mostly in the metro area. He further stated that if MERF must foreclose on one of these condominiums MERF needs to have the ability to make new mortgage loans on them because generally the buildings the condos are in do not meet the guidelines to qualify for FHA or Fannie Mae loans. If MERF does not have this ability to make new loans, any condominium that becomes available through default or foreclosure will only be able to be rented rather than sold. Discussion followed regarding whether the language in the bill prohibited MERF from investing in whole new real estate mortgage investments even after the July 1, 1991 date. Mr. Hacking offered an amendment to page 41, Section 2, the new language as follows:

> "Except to the extent authorized for the Minneapolis employees retirement fund under section 422A.05, subdivision 2c, paragraph a, an investment otherwise authorized by this section must also comply with the requirements and limitations of section 11A.24, subdivision 6."

Sen. Waldorf recapped the legislation noting that the PERA provisions are unique to this bill, the MERF provisions are contained in H.F.571, the MTRFA provisions were passed in H.F. 399 at the 4/4/91 meeting, and two of the provisions for MSRS are benefit improvements the other provisions are administrative and unique to this bill. This bill was temporarily laid aside until additional members returned from other meetings.

<u>H.F. 571 (Jefferson); S.F. 656 (Pogemiller): Minneapolis Employees Retirement Fund; Various Changes to Benefit, Administrative, and Investment Practices.</u>

Rep. Jefferson moved H.F. 571 and the delete everything amendment, H571A1.

James Hacking referred members to H.F. 571 and the delete everything amendment H571A1 noting that the language is identical to Article 4 in the previous bill.

Sen. Waldorf questioned whether the Commission members wanted to deal with MERF's housekeeping bill separately or include the provisions in Rep. Lourey's administrative bill. This bill was temporarily laid aside until additional members returned from other meetings.

<u>H.F. 897 (Jefferson); S.F. 862 (Pogemiller): Minneapolis Employees Retirement Fund; Change Interest and Salary Assumptions, Amortization Date, Provide Post Retirement Adjustment and Increase Survivor Benefits.</u>

Rep. Jefferson moved H.F. 897 and amendment, H897A1, for which Rep. Jefferson provided copies.

James Hacking made a presentation on H.F. 897 and provided handouts for members. Mr. Hacking stated that as of 11/30/90 the active member fund at MERF had $231.7 million at market value under management with 39% of the fund in common stocks, 32% in cash, 2% in bonds, and 27% in relatively illiquid higher risk real estate and venture capitol. Mr. Hacking continued by stating that of the 62 million dollars invested in real estate and venture capitol 41 million of those investments are in serious financial trouble. Mr. Hacking spoke specifically about some of those investments. Mr. Hacking stated that under the worst case scenario (the active fund would end FY'91 with only $197 million in assets), the state contribution to MERF which was $1.8 million for FY'90 could increase by over $1 million. He then referred members to the second handout. This bill would limit the state's contribution to no more than $10,955,000. Any excess contribution requirement over that amount would be picked up by the city and the school district. To counteract the high impact on the city and school district, MERF is proposing to change their current salary growth and interest assumptions from 3 1/2% and 5% respectively to 4% and 6%. MERF further proposes to extend the amortization date for full funding from 2017 to 2020. The presentation on the bill continued.

Sen. Waldorf and Sen. Stumpf questioned Mr. Hacking. Discussion followed.

Robert Perkins, Commission Actuary, questioned what the $197 million example market value compared with from 7/1/90. Mr. Hacking responded that he thought it was about $230 million. Mr. Perkins believed it was $250 million. Mr. Perkins also asked at what point does MERF adjust the cost value when the market value declines or goes to zero. Mr. Hacking responded that many of the examples were illiquid assets and until they have actual knowledge of the value of the investments they do not make adjustments. Discussion followed.

Duke Addicks, City of Minneapolis, referred to an amendment, SCSO862A-1, which would clarify who could bring a lawsuit based on fiduciary breach. Mr. Herman, an attorney representing Minneapolis, explained that the amendment would permit only the city of Minneapolis and the state of Minnesota to bring lawsuits on behalf of the MERF fund, beneficiaries, and taxpayers against the former Executive Director and MERF Board of Trustees. Discussion followed.

Rep. Reding moved amendment SCSO862A-1. **MOTION PREVAILED.**

Rep. Jefferson moved amendment H897A1. **MOTION PREVAILED.**

Sen. Waldorf moved to lay over H.F. 897 as amended till the meeting of 4/11/91.

Since most members had returned from other meetings, the Commission returned to item number one for a vote.

<u>H.F. 1584 (Lourey); S.F. 1458 (Waldorf): Various Funds; Administrative Bill.</u> Larry Martin noted that there was a question on whether to keep Article 4 dealing with MERF in this bill or to consider it as a separate bill under the second item on the agenda. He also read the oral amendment offered by Mr. Hacking.

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

Sen. Waldorf moved to amend H.F. 1584 by removing all provisions relating to any pension fund other than PERA. **MOTION PREVAILED.**

Rep. Reding requested that the Commission consider an amendment to add a member of the PERA-P&F to the PERA Board. Dick Nelson, Police Council, spoke in support of this amendment.

Sen. Waldorf moved the amendment. **MOTION PREVAILED**

Rep Reding requested that the Commission consider an amendment to clarify the benefits provided to the survivors of a Mankato firefighter. Rep. Reding moved the amendment. **MOTION PREVAILED**

Sen. Waldorf moved H.F. 1584 as amended. **MOTION PREVAILED.**

<u>H.F. 571 (Jefferson); S.F. 656 (Pogemiller): Minneapolis Employees Retirement Fund; Various Changes to Benefit, Administrative, and Investment Practices.</u> Larry Martin explained the oral amendments to page 1 line 21 after "Except" insert "to the extent authorized" and page 1 line 22 after "fund" insert "under section 422A.05, subd. 2c, paragraph a".

Rep. Jefferson moved this amendment and the delete everything amendment, H571A1. **MOTION PREVAILED.**

Rep. Jefferson moved H.F. 571 as amended. **MOTION PREVAILED.**

<u>H.F. 1025 (Reding); S.F. 900 (Morse): Teachers Retirement Association; Eliminate Additional Employer Contribution to TRA for Employees Participating in IRAP.</u>

Larry Martin reviewed his memo and the background on this bill.

Russ Stanton, representing the faculty of the state universities and community colleges, stated that there are three groups of people affected by this bill. He noted that 1644 people are in the Individual Retirement Plan, 1283 were new members who were never TRA members and the majority of the others were TRA members for less than three years who when they transferred from TRA to IRAP only transferred their contributions plus 6% interest. They do not feel that they should continue to contribute through the employer additional contribution toward funding the TRA unfunded accrued liability. This would save the community colleges $1.3 million.

Sen. Renneke questioned whether the employees who left TRA for IRAP left an actuarial accrued liability. Mr. Martin responded that two of the three groups did not leave a TRA liability, but the third group has a deferred benefit coming from TRA and may have left TRA a liability.

Elton Erdahl, Executive Director of TRA, provided handouts to members and reviewed the information. He stated that TRA originally opposed the IRAP since all new community college and state university teachers are covered under the IRAP and the loss of their turnover gains amounts to a permanent loss of funding for TRA. TRA agreed not to oppose the bill if TRA continued to receive the 4.8% at that time currently 3.64% employer additional contribution. Mr. Erdahl continued with his presentation in opposition to this bill and requested that the funding status of TRA be protected. Discussion followed.

Rep. Reding moved H.F. 1025. **MOTION PREVAILED.**

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

Rep. O'Connor moved to bring up H.F. 886 and a new amendment, H886A4. Rep. O'Connor reviewed the new amendment for members and moved reconsideration of H.F. 886.

Sen. Waldorf questioned the new amendment and the funding ratio. Larry Martin responded.

Rep. O'Connor moved the new amendment, H886A4. **MOTION PREVAILED.**

Rep. O'Connor moved H.F. 886 as amended. **MOTION PREVAILED.**

The meeting adjourned at 11:15 P.M.

Jean Liebgott

Jean Liebgott, Secretary