

April 11, 1991
500 North
State Office Building

8th 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 7:25 PM.

Commission members present:

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

Rep. Johnson moved the Subcommittee report as amended.

Sen. Renneke questioned whether this amendment would require the pension funds to pay as high a fee as they previously paid. The response was that the amendment provides a new fee structure to allocate the cost of the actuarial valuations and experience studies and it was anticipated that this would more equitably assess the costs to the funds.

Howard Bicker, SBI Executive Director, stated that page 24, lines 21-24, required the SBI to pay for benefit projections. Discussion followed.

The motion to approve the Subcommittee report was called. **MOTION PREVAILED.**

H.F. 874 (Johnson, R.); S.F. 992 (Finn): Teachers Retirement Association; Requires TRA to Recalculate Annuities for Certain Retirees.

Edward Burek, LCPR Deputy Executive Director, reviewed his memo on this bill. Mr. Burek stated that this bill would set a precedent by taking a benefit improvement passed in 1989 for several funds and applying it retroactively to a small group in a single fund. He further noted that this bill would have an actuarial impact on TRA.

Rep. Johnson spoke in support of the bill.

Sen. Renneke questioned the purpose of the bill. Mr. Burek responded that the bill would cover certain people who retired before passage of the rule of 90 and had a reduction in their benefit due to retiring prior to reaching the normal retirement age. These people would like their benefit recomputed under the rule of 90.

Ted Enger, a Bemidji teacher, provided additional information.

Rep. Reding stated that it would not be fair to ask other TRA members to pay for a benefit improvement for people who retired before the law was passed.

Rep. Johnson moved H.F. 874. Rep. O'Connor spoke in support of this bill. **MOTION FAILED.**

H.F. 1195 (Thompson); S.F. (): Statewide Funds; Rule of 85 Option.

Rep. John Sarna spoke in support of this bill. Rep. Sarna stated that this bill would permit a person who was at least age 55 with 30 years of service to retire under the Rule of 85. Rep. Sarna further stated that the employing unit would be required to pay the full actuarial cost to the pension fund to prevent any increase in the fund's unfunded actuarial accrued liability due to this benefit. The employer would benefit by reducing the payroll by the salary amount of these higher salaried employees.

Sen. Morse questioned what the projected actuarial cost would be for this bill. Rep. Sarna did not have cost projections.

The bill was **LAI D O V E R.**

H.F. 1551 (Erhardt); S.F. 1308 (Storm): Edina Volunteer Firefighters Relief Association; Modifying Survivor Benefit Coverage.

Lawrence Martin, LCPR Executive Director, reviewed this bill. Mr. Martin stated that this bill would provide continued retirement benefits for a surviving spouse who remarried. He further stated that this bill would provide continued benefits for surviving children to an age specified in the relief association bylaws rather than discontinue benefits for children who had reached the age of 18.

Rep. Reding moved H.F. 1551. **MOTION PREVAILED.**

H.F. 954 (Jaros); S.F. 679 (Solon): PERA; Permit Service Credit to St. Louis County Employee for 1956 Maternity Leave.

Sen. Solon reviewed his bill and noted that this bill would permit a St. Louis County employee to buyback two months service for a period in 1956 when the employee was forced to terminate service due to St. Louis County Civil Service rules in effect at that time.

Sen. Morse questioned why the employee was requesting only two months. Mr. Burek responded that current law provides for a two month maternity leave so this buyback would be consistent with current law.

Laurie Hacking, PERA Executive Director, stated that PERA advised this employee to request this bill since the employee terminated service whereas current employees go on temporary leave of absence.

Rep. Jefferson moved H.F. 954. **MOTION PREVAILED.**

H.F. 684 (O'Connor); S.F. 449 (Solon): Duluth and St. Paul Teachers Retirement Fund Association; Thirteenth Check.

Sen. Solon reviewed this bill and introduced Mr. Ed Blanck, DTRFA Secretary, to further review this bill.

Mr. Blanck stated that the goal of this bill was to provide a mechanism that would consistently offset the effects of inflation for retirees. It would change the mechanism by which the thirteenth check is paid from a conditional basis dependent on investment performance to an unconditional automatic payment.

Rep. O'Connor spoke in support of the bill.

Sen. Morse asked if there was any other way to provide an increase for retirees. Mr. Blanck stated that this was the best mechanism under the current circumstances.

Sen. Waldorf supports a mechanism that would provide reliable increases for retirees. Discussion followed.

Eugene Waschbusch, Secretary StPTRFA, spoke in support of this bill from the viewpoint of StPTRFA. Mr. Waschbusch stated that up to 1% of StPTRFA assets can be distributed to their retirees through their current thirteenth check mechanism. In 1986 the surplus investment gain was \$18,980,646 and \$1.2 million of that was paid to retirees. In 1987 the investment gain was \$37,480,000 and \$1.5 million was paid to retirees. The surplus in 1988 was \$20,800,000, in 1989 \$22 million, and in 1990 \$39 million. In 1990 StPTRFA paid \$2.8 million to retirees through the thirteenth check. He further stated that what they are asking is to be able to provide a post retirement increase in years of poor investment gain up to a maximum of 1% dependent on the Board of Trustees approval. Discussion followed.

Rep. O'Connor moved H.F. 684. **MOTION PREVAILED.**

H.F. 409 (Reding); S.F. 430 (Morse): Police State Aid; Requiring Self-Insurers to Pay Equivalent of Automobile Insurance Premium Tax; Expand Uses of State Aid.

Rep. Reding reviewed the bill and amendment for members. He noted that this bill would require self insurers in the state to pay a premium tax which would go towards funding PEIP. Mr. Martin reviewed the memo, bill and amendment, LCPR91-86.

Rep. Reding moved amendment LCPR91-86. **MOTION PREVAILED.**

Dick Nelson, Police Council, spoke in support of the bill and noted that the list attached to the staff memo did not include 2500 vehicles the telephone company recently reported which would increase the amount raised by this tax to fund PEIP.

Rep. Reding moved H.F. 409. **MOTION PREVAILED.**

H.F. 401 (Reding); S.F. 338 (Waldorf): Legislators Retirement Plan; Continuation of Surviving Spouse Benefit Upon Remarriage.

Lawrence Martin reviewed the bill and amendment. Mr. Martin noted that this bill would permit a legislator's surviving spouse benefit to continue if the spouse remarried. Mr. Martin referred members to amendment LCPR91-69 which is a delete everything amendment that includes all the statewide plans, consolidated relief associations and first class city teacher plans in the provision to permit surviving spouse benefits to continue upon remarriage. Discussion followed.

Mr. Martin went on to note that the actuarial subcommittee report amendment (passed earlier at this meeting) could be amended to this bill.

Sen. Waldorf moved to add the actuarial subcommittee amendment (SA91-103) to this bill. **MOTION PREVAILED.**

Mr. Martin reviewed amendment LCPR91-105. This amendment would double the amount of the surviving spouse benefit for the Legislators Plan. The surviving spouse benefit would increase from 50% to 100% and the family maximum would increase to 150% of the legislators accrued benefit.

Rep. Reding asked about the possibility of a joint and survivor benefit in the Legislators Plan. Mr. Martin responded that due to the setup of the Legislators Plan it would be difficult to accommodate a change of this type.

Sen. Waldorf asked if there is a cost to this benefit. Mr. Martin stated that there is a cost of approximately 1.03 to 1.05% of payroll. Discussion followed.

Sen. Morse moved to amend LCPR91-105 by deleting page 2, line 4, "150" and reinstating "100". **MOTION PREVAILED.**

Rep. Knickerbocker moved amendment LCPR91-105 as amended. **MOTION PREVAILED.**

Rep. Knickerbocker requested a review of amendment LCPR91-44. Mr. Martin stated that this amendment does not permit payment of past benefits only reinstatement of those benefits upon application.

Sen. Waldorf moved H.F. 401 as amended. **MOTION PREVAILED.**

H.F. 1022 (Reding); S.F. 903 (Finn): Teachers Retirement Association; Permit Certain Persons to Transfer Coverage from IRAP to TRA.

Russ Stanton, State University and Community College representative, reviewed the bill. Mr. Stanton stated that over 400 faculty members made the irrevocable choice to switch from TRA to the IRAP. One person possibly did not understand the materials provided and elected the IRAP, which was very much against his best interest, and now wants to resume membership in TRA.

Rep. Reding requested that H.F. 1022 be laid over.

H.F. 1534 (Reding); S.F. 1224 (Waldorf): Permit Unclassified Employee to Remain in Unclassified Pension Plan.

Ed Burek reviewed the staff memo on the bill and noted the bill permits unclassified employees who are members of the unclassified plan and then take new unclassified positions which are covered by the MSRS general plan can elect to continue coverage in the unclassified plan.

Doug Mewhorter, MSRS Assistant Director, stated that this bill could affect several employees if it permitted employees to move from an unclassified position to a classified position and retain unclassified plan coverage but it would affect only a few people if it permitted an employee to move from an unclassified position covered by the unclassified plan to an unclassified position covered by the general plan and retain unclassified plan coverage.

Sen. Waldorf moved to amend H.F. 1534, page 1, line 15, after "full time" insert "unclassified". **MOTION PREVAILED.**

Sen. Waldorf moved H.F. 1534 as amended. **MOTION PREVAILED.**

Rep. O'Connor moved amendment LCPR91-96. This amendment doubles the Chisholm police and fire and Hibbing police and fire surviving spouse benefits and provides a local approval clause. **MOTION PREVAILED.** It was agreed to add this amendment to H.F. 401.

H.F. 897 (Jefferson); S.F. 861 (Pogemiller): Minneapolis Employees Retirement Fund; Change Interest and Salary Assumptions, Amortization Date, Provide Post Retirement Adjustment and Increase Survivor Benefits.

Sen. Waldorf provided background on the state contributions to MERF and noted that the state has bought into a package that requires the state to take the total risk for whatever funding is necessary to amortize the MERF fund. The cost of this package has escalated from an initial contribution of \$5.5 million ten years ago to \$10.5 million this year. Originally, the state agreed to amortize MERF by reducing the LGA by \$5.5 million. Sen. Waldorf used information received from Mr. Duke Addicks and determined that if the LGA reduction of \$5.5 million was compounded by 3% over a nine year period it would amount to \$7.2 million. On a different sheet, Sen. Waldorf noted that over that same time period the LGA actually increased by 39%. He then applied that 39% increase in LGA to the \$5.5 million and the result was \$7.6 million. He stated that that would be an equitable payment to the MERF fund. The amendment, LCPR91-97, would substitute a five year phase-down from the current level of funding to the \$7 million dollar amount thereby shifting the risk from MERF investments, administrative costs and benefit improvements from the state to the city of Minneapolis.

Sen. Pogemiller spoke in support of the original bill which caps the state contribution at \$10.9 million and against the amendment. Discussion followed.

James Hacking, MERF Director, spoke in support of the bill. He noted that this bill changes the interest and salary assumptions, extends the amortization date, provides a permanent continuation of the lump sum payments to the pre-73'ers, and provides a bounceback provision. None of the funding parties would see an increase in contributions. He believes the cap on the state contribution would put the city of Minneapolis and school district at risk in the future. Discussion followed.

Sen. Waldorf moved amendment LCPR91-97. **MOTION FAILED.**

Sen. Waldorf raised a concern regarding extending the MERF amortization date to 2020. He stated that long before 2020 MERF will not have any active members and he is concerned about how the fund will be amortized. He provided an unnumbered amendment that requires city of Minneapolis to be responsible for that funding. Discussion followed.

Sen. Waldorf moved an unnumbered amendment to H.F. 897. **MOTION PREVAILED.**

Sen. Pogemiller moved H.F. 897 as amended. **MOTION PREVAILED.**

H.F. 371 (O'Connor); S.F. 811 (Kelly): PERA-P&F; Provide Surviving Spouse Benefit for St. Paul Police Survivor Married Less Than One Year.

Larry Martin reviewed the bill and a technical amendment, LCPR91-100. This bill would waive the one year of marriage requirement and would provide a surviving spouse benefit.

Rep. O'Connor spoke in support of this bill and noted that the intention is to waive this requirement on a case-by-case basis to prevent deathbed marriages for the purpose of providing a survivor benefit.

Rep. O'Connor moved amendment LCPR91-100. **MOTION PREVAILED.**

Sen. Morse questioned whether the police relief association permitted surviving spouse benefits for officers married less than one year.

Mike Schwab, president of St. Paul Police Relief Association, responded that the police relief association provides a surviving spouse benefit for any active officer's surviving spouse.

Rep. Reding moved H.F. 371 as amended. **MOTION PREVAILED.**

H.F. 1054 (Stanisus); S.F. 813 (Knaak): TRA; Permit Purchase of Prior Service for IDS 624 Employee for Leave of Absence and Medical Leave.

Larry Martin reviewed the technical amendment, LCPR91-98 which provided for the payment of full actuarial value.

Rep. Reding moved amendment LCPR91-98. **MOTION PREVAILED.**

Rep. Stanius spoke in support of the bill. He stated that the employee took a sabbatical and a medical leave. Under the laws in effect at the time of the leaves, the employee was not permitted to buyback service credit but would have been permitted to buyback service credit under current law. Discussion followed.

Elton Erdahl, TRA Executive Director, stated that the leave in 1977-78 was taken to permit the individual to go back to school. Buybacks for these leaves was not permitted and if this bill is passed, it would set a precedent for many others. Discussion followed.

Rep. Reding moved to amend H.F. 1054 by deleting page 1, line 9, "who was", by deleting all of line 10, by deleting line 11, "school year," and by deleting line 12, "those two years" and inserting "one year". **MOTION PREVAILED.**

Rep. Reding moved H.F. 1054 as amended. **MOTION PREVAILED.**

H.F. 1533 (Reding); S.F. 1340 (Waldorf): Judges Plan; Restructuring the Funding of the Judges Plan.

Larry Martin reviewed the bill. Sen. Waldorf introduced amendment LCPR91-106 which deals with the Social Security offset. Currently a retired judge receives a dollar for dollar reduction in his pension for every dollar of Social Security the judge receives. This amendment would remove that offset, which would amount to a benefit increase, and divide the cost between the employer and employee. Sen. Waldorf moved to amend page 1, line 11, by deleting the blank space and inserting "5.625" and on page 3, line 2, by deleting "22" and inserting "23.625".

Sen. Morse moved to amend LCPR91-106 page 1, line 11, delete the blank space and insert "7". Discussion followed.

John Lindstrom, Judges Association representative, spoke in support of this bill to eliminate the Social Security offset with the increased contribution of one half of the cost. The judges would not approve of paying more than one half of the cost. Discussion followed.

The vote was taken on the Morse amendment. **MOTION FAILED.**

The vote was taken on the Waldorf amendment. The amendment and bill were **LAI D O V E R.**

H.F. 1245 (Ogren); S.F. 996 (Chmielewski): TRA; Authorize a Special Contract for IDS 100 Superintendent.

Rep. Reding spoke in opposition to this bill and stated that the Legislature passed legislation last session to prevent this type of action.

Sen. Waldorf moved H.F. 1245. **MOTION FAILED.**

H.F. 806 (O'Connor); S.F. 794 (Waldorf): StPTRFA; Permanent Post Retirement Adjustment for Pre-1978 Retirees.

Rep. O'Connor reviewed the bill. He noted that this bill provides a lump sum post retirement adjustment to basic members of the StPTRFA who retired between 1970 to 1978.

Eugene Waschbusch, Secretary StPTRFA, spoke in support of this bill and of providing a minimum benefit for these teachers. Discussion followed.

Rep. O'Connor moved H.F. 806. **MOTION PREVAILED.**

H.F. 757 (Lourey); S.F. 935 (Morse): TRA; Optional Salary Base for Annuity Calculations Derived from Statewide Average Salaries.

Sen. Morse reviewed the bill and stated that this bill would permit teachers who earn a lower salary throughout their career to retire with a benefit that would equal the average of the benefit paid to other teachers with a like amount of service credit. The cost of this benefit would be 1.99% of payroll.

Cheryl Fuhr, MEA representative, stated that this issue is one of their legislative priorities. She indicated that the MEA Board did not realize how expensive this benefit would be but at the

next board meeting they will discuss this issue and perhaps a phase-in would be the proper approach.

Sen. Morse moved amendment LCPR91-104 which sets in place a new contribution rate.

Sen. Renneke questioned whether the contribution rates were figured at full funding. Larry Martin stated that the amendment increased the employee contribution by 2% which would provide full funding by the year 2020.

The vote was taken on LCPR91-104. **MOTION PREVAILED.**

Rep. Lourey spoke in support of the bill.

Rep. Knickerbocker stated that he was uncomfortable with this bill in the face of current economic conditions for school districts. He further stated that he did not believe that this was an opportune time to pass this legislation.

Robert Perkins, Commission actuary, stated that this bill would improve the benefit of lower salaried teachers and the cost of 2% would be paid by all teachers. Sen. Renneke questioned what the benefit increase actually would be. Mr. Perkins responded that he believed the benefit increase would be approximately 10% for the lower salaried teachers.

Elton Erdahl, TRA Executive Director, stated that this bill does not treat all members equally but provides a windfall for some members. The recipients of this provision will receive a benefit for which they will never have to pay since their contributions will always be based on a lower salary. He does not believe this is good pension policy.

Rep. Knickerbocker stated that if the precedent was set to provide statewide average retirement benefits for TRA members, how could the Legislature deny the same benefit for PERA members.

Cheryl Fuhr again urged Commission members to approve this bill in order to permit the MEA Board an opportunity to discuss and respond to the 2% additional member contribution requirement.

Senator Renneke stated the teachers in his district are interested in a "high three" formula rather than the current "high five" formula and he is concerned that if this bill passed, there would not be any money left to provide a "high three" option. Cheryl Fuhr agreed that MEA members were also concerned with other retirement issues.

Rep. Reding moved H.F. 757 as amended. **MOTION FAILED.**

H.F. 127 (Reding); S.F. 370 (Pogemiller); Local Relief Associations; Statewide Thirteenth Check.

Rep. Reding briefly reviewed the bill and amendment. He stated that the amendment removes the language that dealt with five year averaging and provides for local approval. He further noted that thirteenth check legislation changes some of the actuarial assumptions to provide an additional benefit.

Sen. Pogemiller asked if the local approval clause was contained in lines three through five of the amendment. Mr. Martin responded that the local approval clause in amendment LCPR91-89 was contained in page 1, lines 3-5, lines 16-24, and page 2, lines 1-5. He further noted that the page 1, lines 6-15 delete and reinstate language provided this statewide bill with the Minneapolis criteria for investments. This would mean that any locality that approved the thirteenth check would have the same criteria that Minneapolis has except for St. Paul.

Stan Peskar, League of MN Cities, spoke in opposition to this bill and the concept of the thirteenth check. He further stated that the bill essentially defers contributions to a later date and provides a benefit increase to retirees who for the most part already have a mechanism to provide inflation protection. Mr. Peskar pointed out that none of these funds are fully funded, therefore, they do not have excess investment gains. Discussion followed.

Rep. Reding moved amendment LCPR91-89. **MOTION PREVAILED.**

Rep. Reding moved H.F. 127 as amended. **MOTION FAILED.**

H.F. 1334 (Reding); S.F. 1230 (Stumpf): Volunteer Firefighters Relief Associations; Administrative Bill.

Gus Welter reviewed the bill and an amendment which he provided to members.

Rep. Reding moved to strike Section 3 from the bill as he felt the Commission should study this benefit improvement provision further. **MOTION PREVAILED.**

Mr. Welter continued with his review.

Rep. Reding moved an unnumbered amendment to H.F. 1334. **MOTION PREVAILED.**

Mr. Martin reviewed the policy issues pertaining to this bill and amendment. The first issue was the provision eliminating first responders and limiting volunteer fire coverage to fire suppression activities only. Sen. Renneke questioned this issue being considered a policy issue since the volunteer fire funds were set up for the benefit of volunteer firefighters. Mr. Welter stated his organization has no opposition to taking in members who are both firefighters and EMP personnel but are opposed to opening coverage in the firefighters relief associations to people who do not do any firefighting. Discussion followed.

Mr. Martin continued to review the policy issues that pertained to sections 4 and 5 of the bill. Regarding section 4, Mr. Martin noted that this provision would mandate that the rate used in computing a pension be identical for every year of service rather than allow the municipality to determine whether to provide this benefit as was the previous practice. Regarding section 5, Mr. Martin noted that this provision would mandate that deferred members receive any benefit increases provided during their period of deferral rather than permit municipalities to provide this benefit at their option. It also permits deferred members to receive interest on their benefit during the deferral period. Discussion followed.

Rep. Reding moved H.F. 1334 as amended. **MOTION FAILED.**

Sen. Pogemiller requested some consideration during the interim on the part of the Commission as to including volunteer ambulance personnel and first responders in the volunteer firefighters fund.

H.F. 1533 (Reding); S.F. 1340 (Waldorf): Judges Plan; Restructuring the Funding of the Judges Plan.

Rep. Reding reintroduced the part of this bill that changes the way the Judges Plan is funded.

Rep. Reding moved the funding provision in H.F. 1533. **MOTION PREVAILED.**

Sen. Pogemiller requested Ms. Laurie Hacking, PERA Executive Director, to review an amendment. Ms. Hacking explained that the amendment allows an employee to withdraw from participating in the defined contribution plan. Ms. Hacking stated that the employee involved did not realize that participation in the defined contribution plan eliminated the ability to also participate in an IRA. PERA feels some responsibility for misunderstandings in this area since they did not provide full information. She further stated that this would not cause any financial harm to PERA since this is a defined contribution plan and the bill would simply refund the employee and employer contributions to the respective parties.

Sen. Pogemiller questioned whether this amendment would set a precedent. Mr. Martin stated that as a general rule an employer contribution is not refunded unless it is due to an error. It may set a precedent. Discussion followed.

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

The meeting adjourned at 1:35 A.M.


Jean Lieb Gott, Secretary