



May 7, 1991
Room 118 Capitol

10th 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 10:10 A.M.

Commission members present:

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

Rep. Reding stated that there have been several newspaper articles dealing with the possibility that the State Board of Investment may invest in Northwest Airlines and this has caused a great deal of concern to various public pension groups throughout the state. He then introduced Howard Bicker to discuss the procedure which the SBI is required to follow to invest pension funds.

Howard Bicker, Executive Director of the SBI, started by clarifying that the maintenance facility in Duluth and the engine facility in Hibbing are to be funded by state bond issues and do not have anything to do with the State Board of Investment nor is SBI involved with subsidies. He also stated that as of this date, NWA has not presented the SBI with a proposal. He continued to state that if a proposal from NWA did come in, it would be analyzed by staff and by various experts that SBI would bring in to analyze the various aspects of the proposal. The proposal would also be analyzed by various committees and the SBI advisory council, and ultimately brought to the SBI Board for a decision. Mr. Bicker further noted that if NWA brings in a proposal, the negotiations and deliberations that the board goes through would be public. This proposal would have to stand on its own merits, meet SBI's fiduciary obligations, and be approved by the board.

Rep. Johnson questioned what criteria the SBI would use to determine whether to make this type of investment. Mr. Bicker responded that first they would find out how Moody's and Standard and Poors would rate this debt, they would look into NWA's financial status, they would negotiate terms, and, since NWA is a private company, they would get an independent financial advisor to provide a written opinion as to whether this would be a good investment for everyone concerned.

Sen. Waldorf questioned what limits the SBI was under in loaning or providing money to NWA. Mr. Bicker stated that the alternative investment component of the SBI statute permits SBI to utilize up to 35% of their portfolio in this area which includes real estate, venture capital, resource funds, and non-rated debt. He further stated that currently SBI has more than \$14 billion in assets of which 35% could be invested in alternative investments. Sen. Waldorf asked if investing in NWA would require SBI to liquidate other holdings. Mr. Bicker responded that SBI usually has 3% of the alternative investment component in cash. This amounts to approximately \$500 million and, according to the newspaper, NWA may request \$200 million so this would not present a problem for the SBI.

Rep. Knickerbocker questioned whether there was a need for legislative changes to make this proposal fit. Mr. Bicker stated that he did not anticipate requiring any additional legislation. Discussion followed.

Rep. Reding questioned how many private placements SBI has currently. Mr. Bicker responded that as far as debt private placements, SBI does not currently have any.

Rep. Johnson questioned who is on the Board of the State Board of Investments. Mr. Bicker responded that the SBI Board consists of the Governor, the Secretary of State, the Attorney General, the State Auditor, and the Treasurer. He further noted that the board has an Investment Advisory Council consisting of 17 members which includes the directors of the statewide pension funds and private citizens.

Sen. Renneke questioned the amount of money invested in private placements. Mr. Bicker estimated that SBI currently has 1.5 billion in private placements (limited partnerships, etc.).

Sen. Waldorf questioned at what stage the board is consulted regarding an investment. Mr. Bicker responded that the board establishes policy, determines percentages of asset allocation, decides on individual investment manager retentions, and approves significant investments but is not involved in day to day investment decisions. Sen. Waldorf questioned what would be a significant dollar investment. Mr. Bicker responded that the Board would be involved in private placement investments ranging from \$10 to \$100 million. Sen. Waldorf questioned how much SBI had invested in a leveraged buyout firm by the name of Covert, Kravitz, Roberts Company. Mr. Bicker responded that SBI had committed \$300 million over a five year period and has received some of that back.

Sen. Frank questioned the difference between public placement bonds and private placement bonds. Mr. Bicker responded that private placement bonds are privately negotiated whereas, public placement bonds are bonds whose terms have been set and sold to whomever is interested. Sen. Frank questioned how far back in NWA history would SBI go in their investigation. Mr. Bicke stated that the capital structure includes Wings (a holding company involved in the takeover), and NWA (which is comprised of four subsidiary companies), and SBI would have to look at the entire capital structure.

Glen West, MAPE Business Agent, stated that some years ago MAPE passed a position paper which requires the retirement funds that are under the control of the SBI to be held to the highest fiduciary standards set in law. He continued by stating that Mr. Bicker's answers had reassured him.

Rep. Johnson asked if public employees were represented on the SBI Advisory Council. Mr. Bicker responded that the three pension fund directors, one retiree, and two active members constitute six members of the 17 member advisory council.

Elliot Seide, AFSCME Council 6, stated that they have received more than one hundred calls on this issue. The AFSCME Council 6 Executive Director, Peter Benner, was attending a meeting in Duluth on Saturday and heard a lot of concern about this investment of pension funds. These members stated that active funds not retired funds should be used and SBI should have first claim on any NWA assets in case of a takeover or bankruptcy. Mr. Seide requested that the Legislature consider the issue of having direct active public employee representatives on the Board of SBI as well as on the Advisory Council.

Rep. Reding and Sen. Waldorf discussed the status of the Commission's actuarial bill and what might be needed to get the bill moving.

The meeting adjourned at 11:05 A.M.


Jean Lieb Gott, Secretary