November 12, 1991
Room 10 State Office Building

18th 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 7:15 P.M.

Commission members present:

Representatives Richard Jefferson, Gerald Knickerbocker and Leo Reding
Senators Steven Morse, Earl Renneke, and Gene Waldorf

Minutes of the Commission Meetings from March 5, 1991 to July 1, 1991.

Rep. Jefferson moved the minutes from March 5, 1991 to July 1, 1991. **MOTION PREVAILED**

Rep. Reding asked for a moment of silence in honor of Edward Blanck, Executive Director of the Duluth Teachers Retirement Fund Association, who recently passed away.

Review of Pension Proposals and Issues; Representatives of the Minnesota Education Association.

Cheryl Furrer, MEA Lobbyist, stated that MEA represents 83% of the K through 12 teachers in the state as well as the faculty of the Community College System, the Technical College System and the University of Minnesota Duluth Campus. Ms. Furrer stated that MEA's presentation would highlight the retirement improvement issues MEA believes are necessary to bring Minnesota teachers up to a comparable level with teachers around the nation. The first issue was an increase in the service credit formula from 1.5% to approximately 2%. The second issue was early retirement incentives, particularly early retirement with medical insurance and the Rule of 85. The third issue was to revise the high five to a high three. The fourth issue was the equalization factor provision to reduce retirement income disparity. Ms. Furrer provided two handouts, an MEA Retirement Booklet and a report prepared by The Wyatt Company.

Bob Ostrup, President of MEA, continued with the presentation. Mr. Ostrup stated that MEA recognizes that the contribution levels are low. He stated that MEA's surveys and meetings with members indicate that members are willing to increase contributions possibly by 2%.

Alve Jentrud, MEA Member Services Staff, spoke on the topic of pre-retirement planning. He stated that an individual with a $38,000 high five average salary and thirty years of experience retiring with full benefits would receive $17,100 annually and under early retirement $15,200 annually.

Mike Donahue, Chair of the MEA Retirement Task Force, referred members to page eight in the MEA handout which provided a 1989-1990 comparison between Minnesota and 33 other coordinated state systems. The comparison showed Minnesota retirement benefits ranked 31st out of the 34 states. Taking into consideration Minnesota teachers higher average salary in comparison to the national average, Minnesota ranked 22nd out of the 34 states. Mr. Donahue stated that the goal for retirement income was to replace 80% to 85% of salary minus deductions for Social Security and TRA contributions. Discussion followed.

Robin Schmidt, fifth grade teacher from Arlington/Green Isle school system, referred members to the handout prepared by The Wyatt Company. She noted that of the 58 statewide and local systems, 56% have a formula of 2% or better. Ms. Schmidt's presentation touched on automatic COLAs, retirement eligibility (Rule of 80 and 85), post retirement medical insurance, and long term care coverage. Discussion followed. Ms. Schmidt also stated that in her conversations with other teachers, they have expressed a willingness to contribute up to an additional 2% if their pension benefits were increased to 83% of their salary, and the employer put in an additional 1%. Rep. Reding stated that if employers pension contribution increased, fewer dollars would be available for salary increases.

Bruce Richardson, a teacher from Austin and Chair of the Governmental Relations Council of MEA, spoke on the issue of early retirement incentives. Mr. Richardson stated that more teachers at maximum salary would retire early if they were provided with incentives such as medical insurance or the Rule of 85. This would benefit the school district by permitting replacement of potentially less enthusiastic, older, higher salaried teachers with younger, more enthusiastic, lower salaried teachers. Discussion followed.

Consideration of Purchases of Prior Service Credit; Determination of Full Actuarial Value Purchase Payment Amount.

Lawrence A. Martin, LCPR Executive Director, reviewed the staff memo and background on purchases of prior service credit. Mr. Martin stated that Commission staff had requested that several of Minnesota's public pension plans provide the full actuarial purchase payments for several hypothetical buyback situations for comparison purposes. Mr. Martin continued with a review of the hypothetical comparisons and a graph. He then reviewed the five observations provided in the staff memo. He concluded by stating that additional analysis was needed to explain the various results between the funds and the outcome of the study might be to have the Commission-retained actuary standardize the calculation of full actuarial value. Discussion followed.

Consideration of the Administrative Expenses and Investment Performance of Minnesota Public Pension Plans: Comparison of Administrative Expenses; Comparison of Total Rate of Return ınvestment Performance Results.

Lawrence Martin reviewed the comparison of statewide and local public pension plan administrative expenses. He referred members to the tables on pages two through four in the staff memo. The tables ranked pension plans by their administrative expense per participant.

Brian Rice, Minnesota Police Pension Council, questioned whether the State Board of Investment's investment expenses were included in the major funds administrative expenses. Mr. Martin answered that perhaps the major fund directors could answer that question. Mr. Rice stated that he did not believe they do include SBI's investment expenses in the major fund administrative expenses. Discussion followed.

Edward Burek, LCPR Deputy Executive Director, reviewed the staff memo on compliance with time-weighted rate of return reporting requirements. Mr. Burek stated that the purpose of the time-weighted rate of return report is to provide uniform investment performance figures. He stated that compliance with the reporting requirements had been poor and that a possible solution might be to institute a penalty for non-compliance such as withholding some or all of the pensions fund's state aid. Mr. Burek also suggested improving the knowledge of why this information is required. A further solution may be to reduce the complexity of the formula or require the funds to use a professional service.

Gary Norstrem, St. Paul City Treasurer, stated that the St. Paul Police Relief Association uses Standard Valuations and it was his understanding that the time-weighted rate of return report had been submitted. He further stated that he would see to it that a report was provided.

Mr. Burek then referred members to the handout provided by the State Board of Investment comparing the SBI time-weighted rates of return with those of the Wilshire 5000 and Salomon BIG.

Rep. Reding questioned how to get at a situation like MERF's. Mr. Burek responded that possibly the MERF Board did not understand the results they received or maybe they did not get rate of return information for the internally managed portfolio.

The meeting adjourned at 10:10 P.M.

Jean Liebgott

Jean Liebgott, Secretary