November 13, 1991 19th Meeting
Room 10 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 9:25 A.M.

Commission members present:

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

**Continuation of the Review of Tax Deferred Voluntary Retirement Savings Programs; Insurance Company Ratings; Mark Puccia, Senior Vice President, Insurance Ratings Group, Standard & Poors, "How Insurance Companies are Rated; A Standard and Poors Perspective."**

Mark Puccia began his presentation to the Commission and stated that his specific duty at Standard and Poors is to oversee life and health insurance ratings. Standard and Poors primarily provides debt rating services on a company's ability to pay their debt obligations. In the early 70's, Standard and Poors began rating insurance companies. S&P gave the insurance companies they reviewed a "claims paying ability" rating, which is an evaluation of an insurance company's ability to pay claims. He provided Commission members with several handouts. Mr. Puccia stated that his presentation would consist of four parts as follows:

1. what are ratings;
2. how do they arrive at those ratings;
3. the outlook for the insurance industry; and
4. a question and answer session.

Mr. Puccia stated that information on insurance companies that is available publicly is inadequate. It is critical to learn the management strategy of the insurance company. S&P evaluates insurance companies through an on-site examination and interview process. Mr. Puccia continued with his presentation.

Rep. Johnson questioned whether there should be state or federal laws passed that would set standards for rating insurance companies. He also asked if Standard & Poors ratings reflected the downturn in the insurance companies that recently became insolvent. Mr. Puccia responded that the rating services do not favor federal regulation. He believes that the different strategy in rating companies by the different rating services producing different opinions is valuable. Mr. Puccia stated that S&P's rating of problem companies have been, for the most part, accurate.

Rep. Johnson questioned who Standard & Poors is responsible to when the insurance companies pay for S&P to come in and rate them and many use the ratings in their marketing information. Mr. Puccia responded that S&P's objective is always to provide the highest quality, most accurate rating possible.

Sen. Renneke asked how often the ratings come out. Mr. Puccia stated that the ratings do not come out on a regular schedule but do come out as often as the situation warrants. Sen. Renneke questioned why Mr. Puccia seemed to downplay the difference between a AAA rating and a AA+ rating. Mr. Puccia responded that two companies, one with a AAA and one with a AA+ rating, would both be strong companies and that the difference between the two is more qualitative than substantive.

Sen. Stumpf questioned whether S&P rates Lloyds of London. Mr. Puccia responded that S&P does not rate them as Lloyds has been uncooperative but S&P will be putting out financial information on Lloyds of London.

Sen. Waldorf asked what percentage of the industry S&P rates. Mr. Puccia stated that S&P rates approximately 150 to 200 companies out of 2,000.

Rep. Hartle questioned whether other rating services rate small companies. Mr. Puccia stated that some of the other rating services do rate all insurance companies.

Sen. Stumpf questioned whether any states require a rating before permitting an insurance company to do business in their state. Mr. Puccia responded that states do not require this information. Lawrence A. Martin, LCPR Executive Director, stated that Minnesota Statutes do require insurance companies who do business in Minnesota to have a certain quality rating from a nationally recognized rating service.

Rep. Skoglund asked who pays for S&P's service. Mr. Puccia responded that they charge the companies they rate about $2,500 annually and they also have subscribers who pay for the ratings.

Rep. Reding expressed his appreciation to Mr. Puccia for his presentation and for answering members questions.

**Consideration of Credit for Extracurricular Teaching Salary and Service.**

Rep. Sviggum reviewed the extracurricular activity proposal and the perceived equity problem he hopes it will resolve. He stated that the first class city teacher fund directors and TRA director had been working with him to bring the proposal to this point. He stated that teachers, early in their careers, are often involved in extracurricular activities for which they make pension contributions which are not included in their high five and, therefore, they are not reflected in their pension benefits. This proposal would permit pension contributions made on extracurricular activities to be placed in a defined contribution plan from which teachers could draw a retirement benefit. Rep. Sviggum then addressed the policy problems noted in the Commission staff's section-by-section summary on this proposal. Discussion followed.

Bill Hanson, athletic director for Prior Lake high school and Chair of a committee of athletic directors, spoke in support of this proposal. Discussion followed.

Jim Baker, Lake City, spoke in support of this proposal.

Morgan Fleming, MTRFA Committee of 13, spoke in support of this proposal. He further stated that past extracurricular service will be difficult for MTRFA to document.

Lawrence Martin reviewed LCPR91-153, a staff memo, and a section-by-section summary. Mr. Martin noted that under the career average salary benefit formula, this was not an issue. In 1973, the career average salary benefit formula was changed to a high five average salary. Mr. Martin reviewed the policy considerations for the Commission. He further noted that there would be an actuarial cost to this proposal and that it would be in the form of foregoing the actuarial gain currently experienced by TRA and the first class city teacher funds.

Sen. Waldorf questioned whether it would be better to define extracurricular activity by rule rather than statute. Mr. Martin stated that might be more efficient and asked to whom Sen. Waldorf would give the rulemaking power. Sen. Waldorf stated that he would give it to the Department of Education.

Sen. Stumpf questioned the size of a school district's budget for extracurricular activities. Mr. Martin responded that the Duluth School District had provided numbers and their extracurricular activity budget was about 1% of their total budget. Discussion followed.

Elton, Erdahl, TRA Executive Director, stated that some school districts have hired people to coach extracurricular activities and they are not required to be teachers.

Elton Erdahl stated that early in the development of this proposal, it had been TRA's recommendation that a career average salary formula supplement be established for the extracurricular activity service rather than a defined contribution plan to eliminate the need to maintain two different types of accounts. He stated that this would ease administrative problems.

Robert Emahizer, retired Roseville teacher, spoke in support of the extracurricular activity proposal. Discussion followed.

Rep. Reding, **LAID OVER** this proposal to provide an opportunity for the fund directors to meet to make sure the administrative mechanics are acceptable before having an actuarial cost estimate worked-up.

**Review of Leave Absence Service Credit Provisions.**
This issue was **LAID OVER** to the next Commission meeting.

Sen. Stumpf announced the Volunteer Firefighter Subcommittee meeting would be held on November 18th.

The meeting adjourned at 12:25 P.M.

Jean Liebgott
Jean Liebgott, Secretary