

Senator Phil Riveness, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 8:45 A.M.

Commission members present:

Representatives Mindy Greiling, Bob Johnson, Phyllis Kahn, Gerald Knickerbocker, and Leo Reding
Senators Steven Morse, Lawrence Pogemiller, Phil Riveness, LeRoy Stumpf, and Roy Terwilliger

Establishment of a Statewide Pension Plan For Emergency Service Personnel (Second Consideration)

Lawrence A. Martin, LCPR Executive Director, continued with his review of the November 30, 1993 staff memo beginning with page 4 dealing with administrative expenses.

Sen. Morse questioned the \$46.22 total annual administrative expense for volunteer fire relief associations with a lump sum benefit of less than \$50. Mr. Martin responded that the expense might be for postage and that Minnesota Statutes 69.051 permits plans with less than \$200,000 in assets to do minimal accounting and reporting. Discussion concerning administrative expenses followed.

Rep. Kahn stated that she would like to see the administrative expense broken out both on a per member and a per asset basis. Mr. Martin stated that staff could provide that information and could also provide members with the actual range of administrative expense by category rather than the average administrative expense.

Mr. Martin stated that at the next Commission meeting staff would provide members with information on the investment performance of plans with \$500,000 or more in assets. However, plans are not required to report their investment policies so comparisons are not available. Discussion followed.

Sen. Morse questioned whether the State Auditor has information on the non-farm real estate investments of Minnesota public pension plans other than plans invested by the State Board of Investment. He would be interested in knowing which public pension plans have non-farm real estate and the status of those investments in view of MERF's problem real estate investments.

Mr. Martin reviewed a comparison of fire state aid amounts received with the premium tax paid by the first class cities. Mr. Martin stated that the first class cities receive the 2% premium tax, the surcharge for the first class cities, amortization aid, and supplemental amortization aid. He also noted that Hennepin County gets approximately 46% of the fire state aid available. Discussion followed.

Robert Whetherille, Secretary for the MN State Fire Department Association, testified that the surcharge for the first class cities was a 2% charge added to a policyholder's fire insurance premium. He believes that the surcharge is no longer being collected from policyholders. At the end of the year when insurance companies report their premiums to the state, they attribute 33%-35% of the premium to fire insurance and then pay 2% of the 33%-35% to the state for fire state aid. Mr. Whetherille commented on the letter he had sent to district directors of the MN State Fire Department Association concerning the Commission's study of the policy implications in the establishment of a statewide emergency services plan. Mr. Whetherille further testified that there are approximately 70 firetowns that do not have relief associations. He testified that some of those firetowns simply cannot afford to have a relief association as they need to use the fire state aid money to buy equipment. Representatives of the fire community would like to see an indepth study into how fire departments in the state are operated. Discussion followed.

Gus Welter, MN State Fire Department Association, began his testimony by questioning why the Bloomington Volunteer Firefighters Relief Association is not included in the State Auditor's Compilation report. Mr. Welter testified that all volunteer fire relief associations are permitted to invest their assets with the State Board of Investment. Approximately 75 to 80 fire relief associations use SBI to invest their assets. He further testified that in 1989, taxes on insurance companies were reduced by 75%. Of the 750 insurance companies doing business in the State of Minnesota, 147 had their premium taxes cut to 1/2 of 1%. He would

like further study into this reduction in the fire premium tax. Mr. Welter favors local communities setting the benefit limits for their firefighters rather than the Legislature setting a maximum benefit amount in state law. Rep. Reding stated that the limits were set to assure the sound actuarial funding of relief associations. Mr. Welter requested that the Commission undertake an indepth study of the whole volunteer firefighter issue. Discussion followed.

Sen. Riveness stated that the Commission will continue to study this topic at another meeting. He would also like to look at the connection between volunteer firefighter benefits and the recruitment and retention of volunteer firefighters. Sen. Riveness stated that it is his intent to appoint a subcommittee to deal with this issue more thoroughly.

Attribution of Investment performance to Various levels of the Investment Decision-Making Process (First Consideration)

Edward Burek, LCPR Deputy Executive Director, reviewed the staff memo on this issue and requested that members change the word "contribution" to "benefit" on the third line in the sixth paragraph on page two of the memo. He then referred members to Table 1 and stated that investment returns are the largest component of revenue for pension plans and can be as much as 70% of the revenue used to finance benefits. Mr. Burek continued with his review and noted that the State Auditor's office has contracted with a private vendor to provide an investment attribution study of the first class city teacher funds for the time period of 1982 through 1992. Discussion followed.

Lisa Rotenberg, Deputy State Auditor, testified regarding the investment attribution study contracted by the State Auditor's office and the value of this kind of information to the Commission. She stated that the model being developed for the study will enable the pension funds' boards and the Commission to evaluate the funds' performance by the standards that the funds have established. This information is important to Minnesota taxpayers since they may have to make up for poor investment performance by the pension funds. The State Auditor's Office will also use the model on 1992 investment information supplied by volunteer fire relief associations for any relief association that is not primarily invested in cash, certificates of deposit or money markets. Ms. Rotenberg continued with her testimony and noted that the study is tentatively scheduled for completion in mid-February. Discussion followed.

Rep. Knickerbocker noted that the state has set only general investment standards in statute and permits a relief association to make investments that the relief association feels are in the best interests of their members. If the association is satisfied with their results, what does the Commission plan to do with the information obtained from the State Auditor's Office. He went on to say that the Commission is raising concern in the volunteer fire community with the interim study of the establishment of a statewide emergency services plan and the State Auditor's Office is raising concern by hiring a consultant to look at investment performance. Discussion followed. Ms. Rotenberg stated that Mike Stolte, the State Auditor's consultant, would be available at the next Commission meeting to describe the investment model.

Rep. Johnson brought up his concern with the Commission's oversight responsibility in light of the Legislative Audit Commission's review of MERF. He would like to have a Commission hearing to air everyone's views on what should be the scope and mission of the LCPR. Sen. Pogemiller questioned how an outside auditor will investigate whether a legislative commission had adequately met its responsibilities? Sen. Riveness stated that he is interested in learning what series of events permitted the MERF situation to occur. Sen. Pogemiller stated that there is a fundamental difference between a legislative role and an administrative role. Discussion followed.

Sen. Stumpf stated that at a previous meeting he had questioned how much of a reduction there had been in the fire premium tax. The response to his question was that in 1992 the reduction was \$718,000. He requested that copies of the memo he had received be provided to Commission members.

The meeting adjourned at 11:35 A.M.


Jean Lieb Gott, Secretary