August 17-18, 1994
Room 15 Capitol

29th Meeting

LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Senator Phil Riveness, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 2:20 P.M.

Commission members present:

Representatives Mindy Greiling, Bob Johnson, Phyllis Kahn, Gerald Knickerbocker, and Leo Reding
Senators Phil Riveness, and Roy Terwilliger

2. **First Class City Teacher Fund Phase-out or Consolidation Options Report**
Sen. Riveness introduced Ron Hackett and Phil Kapler from the Department of Finance to begin the presentation on this report.

Mr. Hackett referred members to a one page, two-sided outline, a condensed version of the report, and the complete report which were included in members' packets. He reviewed the background on the Technical Advisory Committee and provided a brief overview of the 12 options the Technical Advisory Committee reviewed for the report.

Sen. Riveness commented on two of the options reviewed by Mr. Hackett. One of the options would redirect the State's contribution to MERF, to the MTRFA when MERF becomes fully funded. The second option would authorize the City of Minneapolis to issue bonds, give the bond proceeds to MERF for investment, and capture the differential from the investment to fund the MTRFA. Discussion followed and Mr. Hackett continued the overview.

Mr. Kapler referred members to the summary document and provided background information on the material compiled by the Technical Advisory Committee to aid in consideration of 11 options and their cost. He testified that an LCPR staff memo dated August 16, 1993, identified the options that the Technical Advisory Committee classified as fund elimination or modification options and those options were numbered 8 through 14 in the report. The Technical Advisory Committee identified options 2 through 7 which Mr. Kapler described as administrative efficiency or regional function sharing proposals rather than consolidation or phase-out options. He testified that the Committee expanded the definition of consolidation a great deal by considering those options. (The first option was to maintain the funds as they currently are without change.)

Sen. Riveness questioned whether the task force had flagged any particular options as more desirable so that the Pension Commission would have some guidance when considering the options laid out in the report. Mr. Kapler responded that the task force did not make a recommendation and that every effort was made to keep the report as objective as possible. Sen. Riveness then asked whether any option provided for administrative consolidation without benefit integration and did that option lay out what would be the considerations and cost implications. Mr. Hackett stated that numbers 2, 6 and 11 were administrative consolidations.

Mr. Kapler reviewed option 6 on page 37 in the full report and then referred members to page 24. Sen. Riveness stated that the Technical Advisory Committee did not seem to identify any options that would appear to have any administrative savings or provide any real cost savings for the public. Discussion followed. Rep. Reding stated that even if TRA administered the first class teachers plans, the administrative cost per member would be higher than TRA's administrative cost per member because TRA would be administering a smaller fund. Ron Hackett referred members to page 18 in response to Rep. Reding's comments. He noted that the "Normal Cost" for coordinated members of TRA is 7.89%, for MTRFA it is 7.56%, for StPTRFA it is 6.25%, and for DTRFA it is 7.40%. Sen. Riveness stated that a normal cost range from 7.89% to 6.25% is substantial and asked if this was an apples to apples comparison. Mr. Hackett stated that it might not be an apples to apples comparison.

Eugene Waschbusch, StPTRFA, stated that differences in the pre and post earnings assumptions on investments accounts for some of the difference in normal cost. Discussion followed.

Dick Wasko, retired StPTRFA member, and Paul Christianson, active StPTRFA member, introduced themselves to the Commission. Mr. Wasko testified that the unfunded liability for MTRFA and StPTRFA is a significant problem and is compounded every year that those funds continue to operate. He noted that benefit total costs for all the teacher plans are similar though the specific benefits for each plan are quite different. He further testified that this report was based on coordinated members and not basic members of these funds and that members of the Technical Advisory Group have a vested interest in maintaining the funds as they currently are.

The meeting adjourned at 3:25 P.M.

August 18, 1994
Room 15 Capitol

Senator Phil Riveness, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 10:20 A.M.

Commission members present:

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

Further Consideration of Alternative Actuarial Assumptions

Sen. Riveness asked Lawrence A. Martin, LCPR Executive Director, to briefly introduce and update members on this topic. Mr. Martin reviewed the staff memo which provided members with some options for Commission action on revised actuarial assumptions and he reviewed the actions of the Commission actuary and the funds' actuaries since the Commission's last meeting. Mr. Martin noted that if the Commission changed the actuarial assumptions for the three major funds and wanted the new assumptions used for the 1994 valuations, they would need to make those changes at this meeting. Mr. Martin stated that the Commission should continue to review the actuarial assumptions for the ten other plans whose assumptions have not been considered during this process and also should consider the assumption changes for the three statewide funds which were originally recommended but have not been fully agreed to by all the actuaries involved.

Sen. Riveness restated that the assumption changes being recommended have been reduced to only those assumption changes that have been fully agreed to by all the actuaries and some of the changes not now being considered are major, such as salary and payroll growth assumptions. He would like the Commission to continue consideration of further assumption changes.

Mr. Thomas Custis, Milliman & Robertson, Inc., testified that the assumption changes he was recommending were fully agreed upon by all the actuarial consultants, created assumptions structurally consistent between the three statewide funds but still were plan specific, and they were substantive assumptions with regard to funding. He testified that several initial recommendations were not included because there wasn't agreement between himself and the other actuaries that changes were necessary and where there was agreement, there were substantial concerns about the impact on costs which he and the other actuaries could not fully explain in view of the aggregate gain and loss experience of the funds. He briefly reviewed each of the recommended assumption changes.

Sen. Riveness asked why the MSRS and TRA payroll growth is assuming a reduction from 6.5% to 5%, however, PERA's payroll growth assumption is only being reduced from 6.5% to 6%.

Mary Vanek, PERA, testified that they have analyzed where the growth in their membership might have occurred and it seems to be in the number of county employees and particularly in the number of school district employees. They will continue to monitor the situation.

Rep. Kahn asked whether a change in the method of valuing assets for purposes of the actuarial valuation process may have masked the funded condition of the pension plans.

Mr. Custis responded that the methodology has not changed. The actuarial value of assets for the valuation process is based on a combination of 1/3 of the market value of assets plus 2/3 of the cost value of assets. Discussion followed.

A quorum was present.

David Bergstrom, MSRS Executive Director, testified on behalf of PERA, TRA, and MSRS in support of the actuarial assumption changes recommended by Mr. Custis. Discussion followed.

Sen. Riveness suggested that if the Commission decided to authorize the assumption changes recommended by Mr. Custis for the major funds, he would like to add a requirement to the motion that other funds have experience studies performed so that any needed assumption changes could be considered at a later date by the Commission.

Mr. Custis testified that experience studies for the Judges, Legislators, and Elective State Officers plans may not be necessary but these plans will require some analysis to determine whether actuarial assumptions changes are necessary.

Sen. Riveness asked Mr. Martin to review the motion for changing actuarial assumptions for the statewide plans. Mr. Martin stated that the first part of the three part motion would approve the mortality change, the salary growth, and the payroll growth actuarial assumptions as recommended by Mr. Custis. The second part of the motion mandates a quadrennial experience study for DTRFA, MTRFA, StPTRFA, MERF, and PERA-P&F by February 1, 1995. The third part of the motion authorizes the Commission actuary to prepare recommendations for actuarial assumption changes after completion of the quadrennial experience studies.

Rep. Kahn moved the motion as reviewed by Mr. Martin. **MOTION PREVAILED.** (The motion is included as part of these minutes.)

1. **Approval of Minutes of July 12 and 13, 1994 Meeting**
Rep. Reding moved approval of the minutes. **MOTION PREVAILED.**

Sen. Riveness updated members on the Salary Review Committee meeting which took place immediately prior to yesterday's Pension Commission meeting.

Sen. Riveness noted that the Pension Commission's next double meeting would be September 21 and 22, 1994. He stated that the meeting on the 22nd would be a joint Legislative Audit Committee and Legislative Commission on Pensions and Retirement meeting to hear the report by Allan Buamgarten concerning oversight of local pension funds.

The meeting adjourned at 11:30 A.M.

Jean A. Liebgott

Jean Liebgott, Secret

Representative Kahn moves the following:

a. that the Commission authorize, under Laws 1994, Chapter 528, Article 1, Section 14, the following actuarial assumption changes or restructurings for use in the July 1, 1994 actuarial valuations for the State Employees Retirement Plan (MSRS-General), the Public Employees Retirement Association (PERA), and the Teachers Retirement Association (TRA):

<u>MSRS-General</u>

Payroll growth, salary increase, active member mortality and retired member mortality as indicated in a letter from Douglas S. Parr, FSA, William M. Mercer, Inc., to David Bergstrom, dated July 28, 1994,

<u>PERA</u>

Payroll growth, salary increase, active member mortality, disabled member mortality, and retired member mortality as indicated in a letter from J. Daniel Petersen, Gabriel, Roeder, Smith and Company, to Laurie Hacking, dated August 17, 1994,

<u>TRA</u>

Payroll growth, salary increase, active member mortality, disabled member mortality and retired member mortality as indicated in a letter from Ira M. Summer, FSA, W.F. Corroon, to Gary Austin, dated August 1, 1994;

b. that the Commission require the preparation, by February 1, 1995, of quadrennial experience studies for the following retirement plans:

Public Employees Police and Fire Plan
Duluth Teachers Retirement Fund Association
Minneapolis Teachers Retirement Fund Association
St. Paul Teachers Retirement Fund Association
Minneapolis Employees Retirement Fund; and

c. that the Commission authorize the consulting actuary retained by the Commission to prepare recommendations for additional actuarial assumption changes and restructurings for the various statewide and major local public pension plans following the completion of the additional quadrennial experience studies.