

November 29-30, 1994
Room 15 Capitol

32nd 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 2:24 P.M.

Commission members present:

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

Consideration of First Class City Teacher Retirement Fund Association Post Retirement Adjustment Mechanisms and Proposed Revisions (First Consideration)

Edward Burek, LCPR Deputy Executive Director, reviewed the staff memo on this issue. He noted that the policy of a pension benefit is to replace a high percentage of pre-retirement income. The policy of a post retirement mechanism is to maintain the purchasing power of the benefit throughout retirement. Mr. Burek then summarized the three first class city teacher post retirement mechanisms and the State Board of Investment post fund mechanism (the mechanism for TRA). Mr. Burek noted that current post retirement mechanisms only by chance meet the policy requirement of maintaining a retiree's purchasing power and they are poor at tracking inflation. He stated that the DTRFA and StPTRFA post retirement mechanisms are strongly influenced by the asset levels of those funds since they divide up to one percent of their assets to provide a thirteenth check and use a split the pie method to determine the amount of the thirteenth check. The StPTRFA requires a six percent yield before the fund is authorized to pay a thirteenth check. A yield based trigger puts emphasis on consistently achieving a certain yield, it can influence the fund's portfolio mix, and it may work against long term asset growth. Mr. Burek noted that a yield based trigger may distort investment decisions. Discussion followed. Lawrence A. Martin, LCPR Executive Director, asked for clarification of the 6% asset base and how StPTRFA values assets for its yield figure. Eugene Waschbusch, Secretary/Treasurer of the StPTRFA, responded that assets are valued at cost for yield based returns and are valued at market for total rates of return. Discussion continued.

Mr. Waschbusch began his presentation and provided handouts to Commission members. He testified that StPTRFA is the only first class teacher fund that does not provide a guaranteed post retirement benefit increase. He then reviewed StPTRFA's proposed post retirement mechanism which contained a guaranteed post retirement increase component. Mr. Waschbusch referred members to a chart on page four of the handout that showed that StPTRFA retiree's income had fallen considerably short of increases in the consumer price index. He continued with his testimony on the application and impact of the proposed post retirement mechanism calculations. Questions and discussion followed.

Mr. Martin asked what would be the result of three or four negative investment earning years on the proposed post retirement mechanism calculations. Mr. Waschbusch stated that there is a potential problem but they might do as SBI does which would be to perform an annual evaluation of the retiree portion of assets or else book a negative rate into the future until the fund became whole before an additional increase above the guaranteed rate could be paid.

Rep. Greiling questioned how the proposed post retirement mechanism compares with private sector plans. Mr. Waschbusch responded that he believes that 90% of private sector plans do not have a guaranteed post retirement increase.

Sen. Morse asked how this mechanism would impact the balance of the St. Paul Teacher's fund. Mr. Waschbusch stated that actuarial work was done on the cost of this proposal as introduced last year by Rep. Dawkins and the cost was 2.2% of payroll.

Rep. Johnson stated that 2.2% of a \$40,000 income would be approximately \$900. He asked

whether Mr. Waschbusch expected that cost to be divided between the employer and employee. Mr. Waschbusch responded affirmatively.

Sen. Riveness stated that the proposal would provide a post retirement enhancement that would be effective upon passage and that would be of immediate benefit to current retirees but would be paid for by active members and the employer contribution. Discussion followed.

J. Michael Stoffel, DTRFA, began his presentation and provided a handout. He testified that the DTRFA pensions are not keeping up with inflation or even with the other funds. The policy issues that the DTRFA Board are looking at are benefit adequacy and the erosion of retirees' purchasing power. He stated that the 1993 early retirement incentive caused DTRFA to triple the number of retirements for that year. They lost high salaried teachers who were replaced by lower salaried teachers, had to pay high pensions to the new retirees, lower salaried teachers made lower contributions, the asset base did not grow, and investment earnings were low so their one percent remained stable. Another policy issue the board is looking at is financing. They are considering an employee contribution increase of one percent and a matching one percent employer contribution increase. Mr. Stoffel continued with his presentation and noted that DTRFA is fully funded. Rep. Greiling asked if there was information on the erosion of purchasing power for the active teachers and how that compares with the retirees. Mr. Stoffel stated that he does not have hard data.

Dick Wasko, Gordy Grant, John Pearson, members of the StPTRFA For Retirement Fairness came forward. Mr. Wasko made a statement on behalf of their organization and noted that their purpose in organizing was to help St. Paul teachers achieve equity in benefits and a meaningful cost of living adjustment. Mr. Wasko spoke in opposition to the StPTRFA proposed post retirement adjustment mechanism and testified that it provides an inadequate solution to retirees trying to keep up with the cost of living. He stated that the proposal does not address alternative, long range, and permanent solutions to funding, member benefits, contributions, and possible consolidation.

Mr. Grant testified that the StPTRFA For Retirement Fairness is working on organizing but it has been difficult because their assets are limited. He further noted that the first class teacher funds are moving toward making changes proving that their organization is having an impact but he is opposed to the current StPTRFA proposal. Mr. Wasko provided members with handouts and continued with his testimony. Discussion followed.

Sen. Riveness stated that although DTRFA and StPTRFA may not have kept up with TRA retirees or the CPI, the financial impact of consolidating StPTRFA into TRA is too expensive. The StPTRFA proposal appears to be an effort to move in the right direction.

Mr. Grant testified that StPTRFA's unfunded liability affects active and retired teachers. He recommended that all parties keep the future and an eventual solution to the problem in mind when looking at these proposals. Discussion followed.

The meeting adjourned at 4:25 P.M.

November 30, 1994
Room 15 Capitol

Senator Phil Riveness, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 10:25 A.M.

LCPR 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

Rep Reding moved that the LCPR send a letter to the Senate Sergeant at Arms when the Senate chairs the Commission and the House Sergeant at Arms when the House chairs the Commission requesting that Pension Commission meetings have a Page assigned to them.
MOTION PREVAILED.

A. Volunteer Fire Regulation Revision and Clarification - Selection of Issues For Further Development (Third Consideration)

Lawrence A. Martin, LCPR Executive Director, noted that the staff memo briefly summarized all 31 issues identified at the previous two Commission meetings on this topic. He stated that the Commission now needs to determine which issues it wishes to pursue further and on which it would like more staff work.

Sen. Riveness recommended the Commission pursue A-2, A-3, A-7, B-1, and A-5.

Sen. Morse also recommended B-9 and is interested in what the Commission would be pursuing in the area of B-1 (Increase Fire Insurance Premium Tax To Two Percent For All Insurers.)

Rep. Reding stated that when the 2% tax was decreased for township mutual insurance companies, the effect was to shift the taxes away from the mutuals onto local units of government. His last choice on this item would be to require municipalities to continue to make up the difference. Rep. Reding also recommended C-1 for further review. Mr. Martin briefly summarized this item. Rep. Reding asked whether this is a method of circumventing the cap on volunteer fire pensions. Mr. Martin stated that converting a defined benefit plan to a defined contribution plan is an alternate way of providing a split-the-pie pension benefit that is not subject to benefit limitations. Rep. Reding stated that he is concerned about this issue and would like the Commission to clarify for volunteer fire associations what the process and terms should be to convert a plan.

Rep. Johnson asked for discussion on item B-3. Mr. Martin stated that this topic was recommended by the State Fire Department Association. The association proposed development of a second actuarial liability table with an investment return assumption of less than 5%. This may add confusion to currently complicated laws and it may be perceived, from a policy standpoint, as the Commission giving approval to investment returns of less than 5%. Discussion followed and Rep. Johnson stated that he would like to keep the options open on further discussion of some of the items recommended by the State Fire Department Association and the League of Minnesota Cities even though the Commission may not select them today for further study.

Rep. Kahn recommended an issue that was not included in the 31 issues identified in the staff memo. She would like to see a study of the recruitment procedures used by volunteer fire departments to recruit new members and how open department membership is to all members of a community. Discussion followed.

Rep. Knickerbocker moved to direct the LCPR staff to expand on volunteer firefighter issues B-9, A-2, A-3, A-7, B-1, A-5, and C-1. **MOTION PREVAILED.**

B. Consideration of Federal Tax Code Compliance For Certain Section 403(b) Annuity Plans - Commission Discussion of Potential Report Conclusions and Recommendations (Third Consideration)

Mr. Martin provided background on this issue and referred to a draft of the Commission's report due to be completed and distributed by January 15, 1995. He noted that the Commission needs to determine its recommendation and whether draft legislation may be required. Mr. Martin then reviewed the four options identified by staff as potential Commission recommendations.

Rep. Johnson recommended Option C. He stated that after reviewing the previous meeting's expert testimony from Andrew Larson (Universal Pensions), Richard Skillman Washington D.C.), Mark Meyer (William M. Mercer), and Michael King (Universal Pensions), Option C seems to be the proper choice.

Sen. Pogemiller recommended Option D.3.

Sheryll Soderdahl, Teachers Security Alliance, testified that the alliance is an alliance of professionals who assist public school employees to prepare for financial independence at retirement. She testified in support of Option D.3. She stated that Option C would just be one more mandate to the school districts and she would like to avoid that situation.

Mr. Hengelfelt testified in support of Option D.3. He stated that it would be the safest way to

protect teachers, school districts, and the state from problems that might arise if the 403(b) matching contribution program did not meet federal regulations.

Steve Jacobson testified in support of Option D.3. and read a memo he had faxed to member

Mark Meyer testified that he agreed with previous testimony that the addition of matching employer contributions complicates compliance requirements. Mr. Meyer stated that MEA retained William M. Mercer to assist school districts in meeting federal compliance requirements and this assistance was provided in the form of the book the TSA Guide For Minnesota Public School Districts. He testified in support of Option A and his second choice Option C, although Option C is unnecessary since school districts must comply with federal regulations whether the state acts or not. Sen. Pogemiller asked Mr. Meyer what the overriding public policy reasons were for the state to continue the 403(b) matching contribution program. Mr. Meyer testified that his position at this meeting was to explain the federal regulations that apply to the state's 403(b) matching program.

Rep. Johnson moved to recommend Option C and requested that Mr. Martin find the language passed last session mandating this study. Mr. Martin referred members to the language enacted in the 1994 session. Rep. Johnson read the language mandating this study.

Rep. Knickerbocker recommended Option B because it would keep the issue alive and permit incorporation of any federal regulation changes that might come along. Sen. Riveness stated that he is reluctant to answer this mandate with a recommendation for further study.

Rep. Kahn stated her support for Option C and her belief that it allowed for broadening if the federal regulations were broadened.

Sen. Pogemiller asked Rep. Johnson what the policy reasons were for continuing the employer matching contribution program. Rep. Johnson responded that his original bill did not restrict the number of qualified insurance companies to ten. The original bill would have allowed the market to drive the 403(b) employer matching contribution program and the number of insurance companies involved. Discussion followed and Sen. Pogemiller stated that he is concerned that the state will ultimately be responsible for any problems with federal compliance. He believes the issue is employer matching contributions and those contributions are a trade-off in addressing salaries and class size. Sen. Riveness stated that as a result of the testimony at Commission meetings on this issue, he has come to the conclusion that either these plans are not at risk or school districts, with minimal requirements, can meet the requirements. He further noted that in some instances, trade-offs have been made at the collective bargaining table and this option has been deemed valuable.

Rep. Johnson moved to recommend Option C. **MOTION PREVAILED.**

The meeting adjourned at 11:35 A.M.


Jean Lieb Gott, Secretary