



October 19-20, 2011

Room 5 State Office Building

LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

October 19, 2011

Call to order:

Representative Morrie Lanning, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 9:05 a.m.

Commission Members Present:

Representatives Phyllis Kahn, Mary Kiffmeyer, Morrie Lanning, Mary Murphy, and Steve Smith
Senators Roger Chamberlain, Theodore Daley, Sandra Pappas, Lawrence Pogemiller, and Julie Rosen

Agenda Items

Approval of Commission meeting minutes.

Rep. Kiffmeyer moved approval of the September 21-22, 2011, meeting minutes. **MOTION PREVAILED.**

Lawrence Martin, Executive Director, Legislative Commission on Pensions and Retirement, informed members that the Milliman contract has been executed, and that the Minneapolis police and fire consolidation was approved by all parties and consolidation is scheduled to occur December 31, 2011.

Potential revision of interest and other actuarial assumptions.

Patrice Beckham, and Brent Banister, Cavanaugh MacDonald Consulting, the consulting actuarial firm for the Teachers Retirement Association (TRA), provided presentation materials entitled "Minnesota Teachers Retirement Association Interest Rate Assumption" and reviewed the materials. In response to questions from members, Ms. Beckham and Dr. Banister indicated that they will provide additional information about Vermont's select and ultimate interest rate assumption as it becomes available.

Dr. Tom Stinson, Minnesota State Economist, testified in support of reducing the interest rate actuarial assumption from 8.5% to 8.0%.

Howard Bicker, Executive Director, State Board of Investment, summarized the recent SBI Investment Advisory Council discussion of the interest rate actuarial assumption. Mr. Bicker indicated that the IAC spent a good portion of the meeting discussing this issue, and although a vote was not taken, the IAC is leaning toward a more conservative assumption.

Patricia Anderson, Minnesota Free Market Institute, testified in support of moving to a lower interest rate actuarial assumption.

Review of the 2010 replication actuarial valuations for MSRS-General, PERA-General and MERF; and Review of the of the remaining 2010 statewide and major local retirement plan actuarial valuations.

William Hogan and Tim Herman, Milliman, provided a handout of the "Presentation of Actuarial Review of 2010 Valuations to Minnesota Legislative Commission on Pensions and Retirement," presented their findings, and responded to questions from members.

Mr. Hogan requested clarification from the Commission regarding the interpretation of the 90% COLA threshold and its projection, and requested direction regarding the request by Mercer to use beginning-of-year decrement timing for the 2011 valuations for MSRS and PERA rather than the mid-year decrement timing required by the Commission's Standards for Actuarial Work.

Mr. Martin reviewed the Commission's Standards for Actuarial Work, noting that the Commission authorized Mercer to use beginning-of-year decrement timing for the 2010 valuations.

Bonnie Wurst, Mercer, requested the Commission to authorize the use of beginning-of-year decrement timing for the 2011 actuarial valuations for MSRS and PERA. Ms. Wurst noted that Mercer will not be the consulting actuary for the plans after this year.

David Bergstrom, Executive Director, MSRS, testified in support of the Mercer request for a one-year extension of the decrement timing exemption.

Mary Vanek, Executive Director, PERA, testified in support of the Mercer request, noting that without the exemption the 2011 valuation reports would likely be delayed.

Mr. Hogan indicated that Milliman could, on a temporary basis, estimate the impact of the difference.

Rep. Kiffmeyer moved to grant the Mercer request to allow beginning-of-year decrement timing for the 2011 MSRS and PERA actuarial valuations. **MOTION PREVAILED.**

Potential retirement plan design changes: recently established hybrid retirement plans in other states.

Edward Burek, Deputy Director, Legislative Commission on Pensions and Retirement, reviewed the staff memo on other states' hybrid retirement plans.

Laurie Hacking, Executive Director, TRA, and former Executive Director of the Ohio Public Employees Retirement System, provided additional information on the Ohio retirement plans design and employee participation.

Kim Crockett, Minnesota Free Market Institute, testified in support of balancing all stakeholder interests including the state, state employees, and the taxpayers; in support of balancing the retirement needs of employees versus the state as employer and provider of core governmental services; to question whether the state of Minnesota should guarantee an 85% income replacement in retirement; that the current system deprives state employees of choices; and to encourage a shift away from the current pension rules that penalize those who don't make state service a career.

Recess:

The meeting recessed at 5:00 p.m.

October 20, 2011

Call to order:

Chair Lanning called the meeting back to order at 9:05 a.m.

Commission Members Present:

Representatives Phyllis Kahn, Mary Kiffmeyer, Morrie Lanning, Mary Murphy, and Steve Smith
Senators Roger Chamberlain, Theodore Daley, Sandra Pappas, Lawrence Pogemiller, and Julie Rosen

Agenda Items, continued

Retirement accounting changes in recent Governmental Accounting Standards Board exposure drafts.

Cecile Ferkul, Deputy Legislative Auditor, Financial Audit Division of the Office of the Legislative Auditor, provided three handouts: a printed copy of her presentation "Overview of GASB's Pension Related Exposure Drafts," and two GASB documents, "GASB At A Glance" and "Proposed Statement of the Government Accounting Standards Board: Plain-Language Supplement." Ms. Ferkul reviewed the proposed changes contained in exposure drafts. In response to members' questions, Ms. Ferkul indicated that she would research and provide information on the GASB members.

David Bergstrom, Executive Director, MSRS, testified that there is a difference between accounting standards and actuarial funding standards, and that the Commission may want to look at the funding standards it wants to use.

Laurie Hacking, Executive Director, TRA, testified that there will be a great deal of confusion and that a lot of explaining and education will need to take place before 2014.

Chair Lanning asked the fund directors to provide funding standard recommendations to the Commission. Ms. Hacking responded that they will need time to work with their actuaries and the Office of the Legislative Auditor, and since GASB won't finalize its exposure draft language until June 2012, providing a recommendation before then would be premature, and she suggested it would be a good topic for 2012 interim review.

Mary Vanek, Executive Director, PERA, testified that because city and counties primarily utilize a December 31 fiscal year, which presents a significant issue for PERA as they will have to recalculate all of the June 30 actuarial numbers for December 31.

Kim Crockett, Minnesota Free Market Institute, testified to urge the Commission to consider changes to the asset smoothing method, the 30-year amortization period, and the rate of return assumption as ways of preparing for the GASB changes.

Mr. Martin reviewed the current five-year asset smoothing and noted that the technique appears to conform to the proposed GASB exposure draft asset smoothing period limitation.

Resumed consideration of October 20, 2011, agenda item: Review of the 2010 actuarial valuations.

Jay Stoffel, Executive Director, DTRFA, testified to a concern raised by Milliman regarding the calculation of liabilities for active members, and that their actuary, The Segal Company, is working with Milliman to address the issue for the 2011 actuarial valuation. Mr. Stoffel also indicated that DTRFA's most recent experience study was done in 2007, and they intend to have an experience study performed following the June 30, 2011, valuations.

Potential revisions of the PERA privatizing government entity retirement coverage law.

Mary Vanek, Executive Director, PERA, testified and provided a copy of her presentation materials, "Explanation of Chapter 353F and Associated Issues." Linda Habel, Division Manager, PERA, was also present and available to answer questions.

Ms. Vanek informed members that PERA is currently with four privatizing entities, referring members to the options presented in Slide 12, and she reviewed the situations of two affected individuals, one of whom will likely request special legislation. Ms. Vanek indicated that she will work with staff to develop alternatives to H.F. 1759 (Smith, by request); S.F. 1181 (Rosen, by request), which was introduced toward the end of the 2011 Session to get the issue before the Commission.

Non-Agenda Item

Discussion of November meeting agenda topics.

Rep. Lanning polled members about issues they would like to see included on the November agenda.

Jay Stoffel, Executive Director, DTRFA, and Laurie Hacking, Executive Director, TRA, volunteered to provide information on potential select and ultimate interest rate actuarial assumptions for their plans.

Adjournment

The meeting adjourned at 11:55 a.m.

Lisa Diesslin, Commission Assistant