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February 22, 1995

Representative Richard H. Jefferson, Chair
Legislative Commission on Pensions & Retirement
557 State Office Building
St. Paul, MN 55155

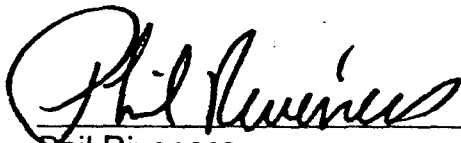
Senator Roy W. Terwilliger, Secretary
Legislative Commission on Pensions & Retirement
115 State Office Building
St. Paul, MN 55155

Dear Representative Jefferson & Senator Terwilliger:

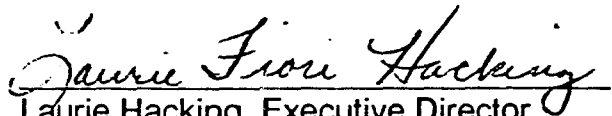
Re: Letter of Transmittal for Salary Study Advisory Committee Report

Enclosed is the report of the Salary Study Advisory Committee as required by Laws 1994, Chapter 538, Article 1, Section 12, Subdivision 2.

Sincerely,



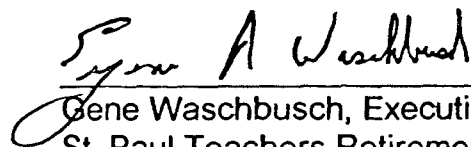
Phil Riveness
Senator, District 40



Laurie Hacking, Executive Director
Public Employees Retirement
Association



Bob Johnson
Representative, District 4A



Gene Waschbusch, Executive Director
St. Paul Teachers Retirement
Association



Lawrence A. Martin, Executive Director
Legislative Commission on Pensions &
Retirement



David Bergstrom, Executive Director
Minnesota State Retirement System

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SALARY STUDY ADVISORY COMMITTEE REPORT

A Report to the Minnesota Legislature
Mandated by Laws 1994, Chapter 538, Article 1, Section 13, Subdivision 2

Senator Phil Riveness
Representative Bob Johnson
Lawrence Martin, LCPR
Laurie Hacking, PERA
Gene Waschbusch, St. Paul TRA
David Bergstrom, MSRS

**SALARY STUDY ADVISORY COMMITTEE REPORT
LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT
February 1995**

Laws of Minnesota, Chapter 528, Article 1, Section 13, Subdivision 2, established a salary study advisory committee. The committee's goal was to review the definition of salary "in an effort to treat public employees in a fair and equitable manner and to protect the financial integrity of the public pension plans."

Members of the salary study advisory committee are:

Senator Phil Riveness, Chair
Legislative Commission on Pensions and Retirement
Representative Robert Johnson, Vice-chair
Legislative Commission on Pensions and Retirement
Lawrence Martin, Executive Director
Legislative Commission on Pensions and Retirement
Laurie Hacking, Executive Director
Public Employees Retirement Association
Gene Waschbusch, Executive Secretary
St. Paul Teachers Retirement Association
David Bergstrom, Executive Director
Minnesota State Retirement System

The committee focused on only the public pension funds that continue to enroll new members. The local police and fire funds and the Minneapolis Employees Retirement Fund were not the focus of the discussion, and the committee recommendations do not include the closed funds.

The definition of salary for retirement purposes is important for two reasons. First, the salary paid to the plan participants is an important element in the funding of the plan. Employee and employer contribution rates are set as a percentage of the overall covered payroll--or total of all salaries for plan participants--to establish what contributions are necessary to fund plan benefits. These contributions are then invested, with an assumption that interest will be earned at a specified rate. Secondly, we use an average of the highest five consecutive years' salaries on which to base a retirement benefit.

The advisory committee was to review the appropriateness of the current definitions of salary. Consideration was to be given on what, if any, changes in the definition may be

needed to prevent future manipulation of salary, especially in what would normally be a participant's high five average years.

FINDINGS

The committee met twice, on August 17, 1994, and again on November 29, 1994.

At the August 17 meeting, the attached EXHIBIT A was discussed. It compares what is considered salary by the Public Employees Retirement Association (PERA), Minnesota State Retirement System (MSRS), Teachers Retirement Association (TRA), St. Paul Teachers Retirement Association (St.PTRA), Duluth Teachers Retirement Association (DTRA), Minneapolis Teachers Retirement Association (MTRA), and Minneapolis Employees Retirement Fund (MERF). The comparison shows that in the most part, the definition of salary for the various plans is quite similar.

All plans include the following in their definition of salary, if applicable:

- Base Salary
- Overtime/Compensatory Time
- Extra Curricular Pay
- Back Pay
- Used Vacation
- Used Sick Leave
- Performance Bonus Pay
- Holiday Pay
- Longevity Pay or Stability Pay--compensation paid for long service

The following items are not considered salary by any of the retirement funds:

- Severance Pay
- Retirement Bonus
- Employer Paid Fringe Benefits (Flexible Spending Accounts, Cafeteria Plans)
- Wellness Payments
- Payments in Lieu of Employer Paid Insurance
- Payments to School Administrators for Special Service on Weekends or Holidays

The committee identified several salary issues that were treated differently by certain funds.

- 1) Employer matching contributions to the Deferred Compensation Program (MSRS).

Committee Recommendation: Should not be included as salary. Generally, employer contributions are not considered salary, and stopping deductions on

employer paid deferred compensation amounts would be consistent with this philosophy.

- 2) Amounts donated to employees to pay for medical procedures through a vacation donation program (MSRS).

Committee Recommendation: Should not be included as salary. Represents the cash-out of unused vacation that is generally not eligible salary otherwise. Also, withholding deductions on amounts contributed for the benefit of making funds available for emergency medical procedures reduces the amount of the contribution and has no impact on the pension fund or the party donating the vacation.

- 3) Fees paid to employees in lieu of salary (PERA, MSRS, TRA, and St.PTRA).

Committee Recommendation: Delete reference to fees from MSRS law. Language on fees for MSRS is no longer necessary since no covered employees are paid directly by fees. St. Paul TRA and Teachers Retirement Association salary definition no longer includes fees and no covered employees are paid directly by fees.

Fees paid to court reporters under PERA are already specifically excluded. Other fees included in the definition of salary include fees charged by a city for the services of a building inspector or tax assessor. The fees are paid to the governmental agency, and not directly to the individual providing the service. Therefore, these fees simply represent another source of revenue for the governmental subdivision. Language on fees must remain in law to cover independent contractors.

- 4) Salaries paid to employees receiving compensation under a federal grant program (PERA).

Committee Recommendation: No change. Employees usually participating in programs funded through grants are often already public employees and the grant money is only a portion of the budget for the special program. Grants that cover the majority of a budget for a special program will generally have language written into the grant that the funds are not to be used for funding a pension plan for the employees. In those cases, grant funds are not considered salary.

- 5) Auto allowance (St.PTRA).

Committee Recommendation: Should not be considered salary, but no action is necessary. Deductions on auto allowances were eliminated effective July 1, 1994, under the provisions of Chapter 542.

The committee reviewed what is included under the definition of salary in other states. The attached chart (Exhibit B) shows that each state has a unique definition of salary. The information confirmed that the Minnesota public pension plans use a fairly consistent definition of salary which is very similar to the definition in other states. The fact that Minnesota uses a high five average salary rather than a high three or one-year average salary reduces the opportunity for salary manipulation.

In compliance with Laws of Minnesota 1994, Chapter 528, Article 1, Section 13, Subdivision 2, the committee offers this report, and requests passage of the attached law which will put into law the committee's recommendations.

	PERA	MSRS	TRA	St. Paul TRA	Duluth TRA	Mpls. TRA	MERF
Base Salary	X	X	X	X	X	X	X
Overtime/Comp Time	X	X	X	X	X	X	X
Extra Curricular			X	X	X	X	
Back Pay	X	X	X	X	X	X	X
Deferred Comp. Employer Match		X		N/A	N/A		N/A
Used Vacation	X	X	X	X	X	X	X
Unused Vacation		*					Yearly-- not at term.
Used Sick Leave	X	X	X	X	X	X	X
Unused Sick Leave							Yearly-- not at term.
Workers Comp. Payments	Volun- tary EE & ER	Volun- tary EE & ER		Volun- tary EE & ER			
Housing Allowance, Clothing Allowances, etc.				Auto			
Vacation Donation		X					
Lump Sum Performance Bonus	X	X	X	N/A	N/A	X	N/A
Holiday Pay	X	X	X	X	N/A	X	
Per Diem	X	**		X			
Longevity Pay - Stability Pay	X	X	X	X	X	N/A	X
Federal Grants (unless prohibited)	X						
Fees to Employees	X	X	X	X			

None of the funds require deductions on the following: Severance Pay or Retirement Bonus, Employer Paid Fringe Benefits (Flexible Spending Account, Cafeteria plans etc.), Wellness Payments, Payments in lieu of Employer-paid Insurance, Payments to school administrators for service on weekends or holidays.

*State Patrol: Deductions are taken from lump sum payment of vacation and overtime at point of termination, and the number of hours of salary replace lower salary hours from the start of the average salary period five years ago.

**Legislators: Have deductions taken from per diem only while in regular or special session, and this counts as salary in the "5 high year" average salary calculation.

	CO PERS	HI ERS	IL SERS	IA PERS	MO FSRS	ND PERS	ND TFR	OH PERS	OH SERS	OH STRS	OR PERS	OR TRS	SD ERS	VA RS	WA PERF	WA TRF	WI RF
1. Base Salary	Incl	Incl	Incl ³	Incl ⁴	Incl ⁷	Incl	Incl	Incl ¹³	Incl ¹³	Incl ¹³	Incl	Incl	Incl ¹⁷	Incl	Incl ¹⁹	Incl ¹⁹	Incl ²¹
2. Overtime/Comp Time	Incl				Excl	Excl											
3. Extracurricular Pay					Excl												
4. Back Pay	Incl ²																
5. Def Comp/403(b) Eee Cost	Incl						Incl	Incl	Incl	Incl	Incl ¹⁴	Incl ¹⁶	Incl ¹⁶		Incl	Incl	Incl ²²
6. Def Comp/403(b) Err Match							Incl	Incl	Incl	Incl	Incl	Incl	Incl		Incl	Incl	Incl
7. Section 125 Deductions			Incl				Incl	Incl	Incl	Incl	Incl	Incl	Incl				
8. Used Vacation	Incl							Incl	Incl	Incl	Incl	Incl	Incl				
9. Unused Vacation		Excl	Excl	Excl			Excl	Incl ⁹	Excl	Excl				Incl	Excl	Excl	
10. Used Sick Leave	Incl							Incl									
11. Unused Sick Leave	Excl		Excl				Excl	Incl ⁹	Excl	Excl	Excl	Excl	Incl		Excl	Excl	Excl
12. Work Comp. Payments							Excl						Excl				
13. Disability Leave Pay								Incl									
14. Work Related Injury Pay	Incl																
15. Housing Allowance	Excl						Excl	Incl ¹¹									
16. Clothing Allowance	Excl																Excl
17. Meals Allowance								Incl ¹¹	Excl	Excl			Excl				
18. Laundry Allowance								Incl ¹¹	Excl	Excl							
19. Auto Usage Payments	Excl						Excl										
20. Expense Reimbursement	Excl							Excl		Excl			Excl				
21. Tuition Reimbursement	Excl							Excl	Excl	Excl							
22. Moving Exp. Reimbursement								Excl	Excl	Excl			Excl				
23. Other Fringe Benefits	Excl																Excl
24. Vacation Donation																	
25. Lump Sum Perf. Bonus	Incl ¹¹																Incl
26. Merit Pay	Incl ¹¹																
27. Holiday Pay	Incl																
28. Unused Holiday Pay			Excl														
29. Per Diem Payments			Excl ⁶														
30. Payments By Other Gov't																	Excl
31. Longevity/Stability Pay																	
32. Payments For Property																	Excl
33. Federal Grants	Incl																
34. Commissions	Excl							Incl ¹⁰									
35. Fees To Employees								Incl ¹⁰									
36. Administrative Leave	Incl																
37. Sabbatical Leave	Incl																Incl
38. Personal Leave	Incl						Excl	Incl									
39. Annual Leave	Incl																
40. Insurance Payments	Excl						Excl	Excl	Excl	Excl	Excl	Excl	Excl				Excl
41. Dependent Care Assistance	Excl																
42. Employer Retirement Contrib																	Excl
43. Bonuses Unrelated to Serv.	Excl		Excl	Excl	Excl					Excl	Excl	Excl	Excl				Excl
44. Early Retirement Incentives	Excl		Excl	Excl	Excl		Excl	Excl ¹²	Excl ¹²	Excl	Excl	Excl	Excl				Excl
45. Christmas Bonus	Excl																
46. Cash Awards	Excl									Excl	Excl						
47. Honorariums	Excl																
48. Severance Pay	Excl		Excl	Excl			Incl			Excl	Excl	Excl		Excl	Excl		Excl
49. Unemployment Compens.																	Excl
50. Damage Pay	Excl																Excl
51. Pmts Beyond Member's Death	Excl									Excl	Excl			Incl ¹⁸	Excl		Excl
52. Non-Cash Remuneration				Incl ⁵					Incl ¹⁵	Incl ¹⁵							Incl ²⁰
53. Acceleration Pay or Pay Advance									Excl	Excl							
54. Employer Paid Member Contrib.													Incl				Excl ²³
55. Change in Comp. Method Pay																	

1 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

2 Section 1. Minnesota Statutes 1994, section 352.01, subdivision 13, is amended
3 to read:

4 Subd. 13 **SALARY.** "Salary" means the periodical compensation paid to any
5 employee before deductions for deferred compensation, supplemental retirement plans,
6 or other voluntary salary reduction programs. It also means wages ~~and includes net~~
7 ~~income from fees.~~ Lump sum sick leave payments, severance payments, lump sum
8 annual leave payments and overtime payments made at the time of separation from
9 state service, payments in lieu of any employer-paid group insurance coverage,
10 including the difference between single and family rates that may be paid to an
11 employee with single coverage, and payments made as an employer-paid fringe
12 benefit, and workers' compensation payments, employer contributions to a deferred
13 compensation or tax sheltered annuity program, and amounts contributed under a
14 benevolent vacation or sick leave donation program are not salary.