



August 12, 2008
Room 10 State Office Building

6th Meeting

LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Call to order:

Representative Mary Murphy, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 10:05 a.m.

Commission Members Present:

Representatives Mary Murphy, Phyllis Kahn, and Steve Smith
Senators Don Betzold, Dan Larson, and Ann Lynch

Commission Members Absent:

Representatives Michael V. Nelson and Paul Thissen and Senator Mary A. Olson
(There is currently one vacant Senate position)

Agenda Items

Review of the Commission's Principles of Pension Policy

Representative Murphy invited the fund administrators and other interested parties to the table to participate in the discussion.

• Principle II.A.1. Purpose of Minnesota Public Pension Plans

Mr. David Bergstrom, Executive Director, MSRS, testified that the three statewide retirement system directors are comfortable with the current policy; and of the two potential alternatives, they prefer the second alternative.

Mr. Lawrence Martin, Executive Director, Legislative Commission on Pensions and Retirement, reviewed the two potential alternatives for amending the principle, and provided some history regarding out-transitioning and mandatory retirement.

Ms. Vanek informed members that they have been meeting with League of Minnesota Cities personnel regarding phased retirement and incentives to stay or return to work, and that the counties are also interested in joining in the discussion. Ms. Vanek indicated that there are approximately 2,300 PERA Coordinated members and 800 Police & Fire members who have returned to work after retirement.

Mr. J. Michael Stoffel, Executive Secretary, DTRFA, observed that in the past five to six years it has become apparent that people are working longer because of increased health care costs, and there is a trend of working beyond reaching the Rule of 90. Mr. Stoffel said that there is an argument to be made for recognizing that trend in the principles.

Senator Lynch moved to amend Policy Principle II.A.1. to reflect the proposed language on page 3, lines 9 to 17, of staff memo LM071708-1. **MOTION PREVAILED.**

• Principle II.B.1. Creation of New Pension Plans

Mr. Martin reviewed the principle.

Senator Betzold raised a question concerning the principle language on page 6, lines 2 to 4, regarding volunteer firefighter plans and whether there is a need to keep the current language.

Mr. Martin indicated that the principle language is a reflection of current law allowing new volunteer firefighter plans to be created, and that there has been no proposed legislation to change that policy.

Representative Kahn asked if new volunteer firefighter retirement plans have been created recently.

Ms. Rose Hennessey Allen, Pension Director, Office of the State Auditor, responded that between one to three new plans have been created in each of the past few years, mostly covering small communities in rural Minnesota. Ms. Allen indicated that some of the plans were created for new fire departments and some created for existing departments that did not have a retirement association.

Representative Kahn asked for an update on the status of the voluntary statewide volunteer firefighter retirement plan advisory board.

Ms. Vanek responded that the first meeting will be August 18.

Mr. Bergstrom expressed a concern that the proposed language "to correct inadequate or inappropriate prior retirement coverage" may encourage a number of requests to create new plans or to expand existing plans.

Representative Murphy indicated that such interest already exists, referring to an email from Sherry Munyon on behalf of the Minnesota Association of County Probation Officers, and asked if there are other groups talking about new plans.

Ms. Vanek responded that there have been discussions in recent years regarding emergency dispatchers and post-sentencing/probation officers. Ms. Vanek raised the question of creating new plan or if there are other ways to accommodate some of the requested benefit enhancements in the existing plan. As an example, Ms. Vanek said that prior to the creation of the PERA-Local Government Correctional Plan, a higher level disability benefit was allowed for correctional officers in PERA-General accompanied by a higher contribution rate.

Senator Lynch moved to retain the language of Principle II.B.1. unchanged.

Representative Murphy referred to the defined benefit/defined contribution plan discussion on page 4 of the staff memo, and asked the fund directors to provide feedback from discussions at the conference they attended about potential federal law changes and whether there is a trend to move to defined contribution plans for public employees.

Ms. Laurie Hacking, Executive Director, TRA, responded that there has been a decline in defined benefit plans in the private sector, hastened by dramatic changes in accounting standards for those private sector plans. Ms. Hacking indicated that there has been some discussion about making public sector defined benefit plans use those same accounting rules, which would dramatically increase required contribution rates, and that the three statewide retirement systems will be working with the Governmental Accounting Standards Board and other entities with jurisdiction over this area to urge them not to put those accounting standards on public sector plans. Ms. Hacking explained that because of concern by the federal government about private sector corporations going out of business, there is a push to make them fund their pension plans more fully and on a more immediate termination basis; whereas in the public sector, governments are unlikely to go out of business.

Senator Lynch renewed her motion to not amend Principle II.B.1. **MOTION PREVAILED.**

- Principle II.B.3. Consolidation of Public Pension Plans by a Minnesota Public Employer

Mr. Martin reviewed the principle.

Representative Murphy asked plan directors with sub-plans if having fewer sub-plans is easier.

Mr. Bergstrom responded that fewer is always easier, but the Commission has done a good job of consolidating plans when appropriate. Mr. Bergstrom went on to express his belief that II.B.3.a. is not really a principle but more of a negative statement inferring that Minnesota's system is irrational rather than rational.

In response to a question from Senator Betzold, Mr. Martin explained that the new language in II.B.3.a. on page 9, line 4, is an attempt to reflect what has been the Commission's apparent view based on looking at the legislation.

Senator Lynch conveyed her belief that II.B.3.a. is really a political statement, that the language on page 9, lines 6 to 10, strengthens the intent of the principle.

Mr. Philip Kapler, Executive Director, SPTRFA, observed that, from his perspective, paragraph (b) on page 9 is more of a policy preference than a principle, and that the principle does not set forth what the public policy objective is to be achieved.

Mr. Stoffel agreed with Mr. Bergstrom and Senator Lynch that paragraph (a) is more of a political statement and somewhat negative and suggested striking "more rational." Mr. Stoffel also testified to the importance to DTRFA of the reference to the voluntary nature of a consolidation. Mr. Stoffel's suggestions to improve the statement are to keep the word "voluntary," there should be a statement that consolidations should be effected only after a vote of the trustees, membership, and employers of the fund being consolidated, there be no loss of benefits to protect the employees, and conveyed DTRFA's concern regarding the possibility of increased contribution rates upon consolidation.

Mr. Brian Rice, representing the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association, testified regarding the term "voluntary" that he has understood "voluntary" to mean an election for members so in his opinion it is not necessary to spell out. Mr. Rice also agreed with the previous comments regarding paragraph (a) and also agreed that handling potential consolidations on a case-by-case basis as in proposed paragraph (c) is best.

Representative Kahn asked that the Commission look at Minnesota's investment policy at some point.

Mr. Stoffel suggested that the steps in the law to effect the consolidation of a local police or fire plan are very thorough and represent a good model to follow in any kind of consolidation, particularly the layers of voting by the members and trustees.

In response to a question by Senator Betzold, Mr. Martin speculated on the possible reasoning behind the inclusion of the statement "benefit from a more rational public pension plan structure."

Senator Betzold asked Mr. Stoffel to provide his suggestions to the Commission in writing.

Representative Murphy informed members and the audience that the principle would be revisited and invited anyone with further thoughts to submit written suggestions to the Commission before the next meeting.

- Principle II.C.1. General Preference for Defined Benefit Plans Over Defined Contribution Plans

Mr. Bergstrom testified on behalf of the three statewide plan administrators that they are comfortable with the language of the principle as it exists.

Mr. Martin reviewed the principle and the proposed potential revisions. Mr. Martin also provided history on defined benefit/defined contribution retirement coverage for legislators and elected officials.

Mr. Bergstrom indicated that there was concern by the Department of Finance concerning the funding of the Legislators Retirement Plan and the Elective State Officers Retirement Plan, and that the abolishment of those plans appears to have been driven more by the reluctance to fund them properly rather than by any policy considerations.

Mr. Kapler added that the context was established by discussion about pre-funding those programs and the logic did not seem to compel pre-funding for elected officials, and the expectation of long-term employment for general employees does not apply to elected officials and a defined contribution plan recognizes short-term service.

Ms. Jan Alswager, Government Relations Manager, Education Minnesota, expressed her opinion that the proposed new wording on page 11, line 2, is not necessary, but actually weakens the principle.

Mr. Brian Rice, representing the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association, agreed with Ms. Alswager, particularly because a budget crisis always seems to be a "compelling consideration." Mr. Rice also observed that, in his opinion, the legislature has been generous to other elected officials in terms of pay raises and retirement benefit improvements, and that legislators should not always have to have the worst plan. Mr. Rice recommended deleting the new language in paragraph (a) and deleting the elected officials phrase on lines 9 and 10 of page 11.

Mr. Bergstrom testified to his concern regarding the "where financial considerations" phrase, and suggested deleting the new language on page 11, lines 9 to 11, after "career,".

Mr. Kapler recommended careful consideration regarding the elected officials language.

Representative Murphy informed members that the principle would be revisited and that the Commission would review the next three principles at the next meeting.

Mandated Study of Teacher Retirement Benefits (Laws 2008, Ch. 349, Art. 1, Sec. 7)

Representative Murphy referred members to the materials in the packets, and asked for a representative from the Minnesota Taxpayers Association to speak to their letter.

Mr. Aaron Twait, Research Director, Minnesota Taxpayers Association, representing the association on behalf of Executive Director Mark Haveman, testified that the letter makes their organization's position fairly clear, and that he would bring any questions back to Mr. Haveman.

Representative Murphy requested more information on the paragraph 4 benchmark analysis comparison.

Senator Lynch asked Mr. Twait to communicate to Mr. Haveman that she is troubled by the strong inference in paragraph 3 that such plans are overly generous and that she believes it is grossly inadequate to suggest that the problem facing public education is a result of the generosity of the teacher retirement plans.

Ms. Alswager testified that it appears that the merger of the active and retired funds is likely to take place, which makes it even more important to look at educators' benefits. Ms. Alswager added that it is important to look at the cost savings to districts of provisions such as the Rule of 90, and she referred to the Legislative Auditor's 1994/1995 report on early retirement incentives which made a general statement that such incentives were not a big cost savings except in the teaching profession.

Ms. Hacking distributed and reviewed a handout on the Framework of Benefit Adequacy on behalf of the statewide retirement systems. Ms. Hacking also indicated their openness to other suggestions for assumptions, and offered any help they could provide to the Commission.

Representative Murphy indicated that it is the preference of the Commission to study benefits not just for teachers but to include MSRS and PERA public employees hired after 1989, and that the full Commission would consider the topic rather than forming a subcommittee. Representative Murphy also informed members that a future meeting would include a presentation by the State Demographer.

Mr. Martin reviewed his August 6, 2008, memo on broad approaches to the study.

Ms. Sarah Lewerenz, AFSCME Council 96, expressed her appreciation of including other employees.

Non-Agenda Item

Senator Betzold thanked Senator Larson for his service on the Commission, which will end November 5.

Representative Murphy thanked Senator Larson for his service.

Representative Murphy mentioned that there is an article in Governing Magazine on Public Pension Prowess that may be of interest to members.

Approval of Prior Commission Meeting Minutes

Senator Betzold moved approval of the July 23, 2008, meeting minutes. **MOTION PREVAILED.**

Adjournment

The meeting adjourned at 12:57 p.m.