



September 17, 2008  
Room 10 State Office Building

8<sup>th</sup> 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 10:08 a.m.

**Commission Members Present:**

Representatives Mary Murphy, Steve Smith, and Paul Thissen  
Senators Don Betzold, Dan Larson, Ann Lynch, and Mary A. Olson

**Commission Members Absent:**

Representatives Phyllis Kahn and Michael Nelson  
(There is currently one vacant Senate position)

Agenda Items

**Ongoing Study of Public Employee Benefits (Laws 2008, Ch. 349, Art. 1, Sec. 7)**

- Presentation on Aging in Minnesota – Government Workers and Teachers

Mr. Tom Gillaspay, State Demographer, presented demographic information and distributed copies of his presentation materials. Mr. Gillaspay then responded to questions from members.

- Presentation on K-12 Education Funding:

Mr. Greg Crowe, House Fiscal Analyst, Mr. Tim Strom, House Research, and Mr. Eric Nauman, Senate Fiscal Analyst, distributed materials and presented information on historical and current K-12 education funding and teacher retirement benefits, and responded to questions from members.

**Approval of Prior Commission Meeting Minutes**

Senator Betzold moved approval of the August 21, 2008, meeting minutes. **MOTION PREVAILED.**

**Review of the Commission's Principles of Pension Policy**

- Principle II.C.8. Post-Retirement Benefit Adequacy

Mr. Lawrence Martin, Executive Director, Legislative Commission on Pensions and Retirement, reviewed the principle and the potential alternatives for amending the principle.

In response to a question from Mr. Philip Kapler, Executive Director, SPTRFA, Mr. Martin clarified the meaning of "on an actuarial basis."

Mr. J. Michael Stoffel, Executive Secretary, DTRFA, cautioned against the language in items (b) and (d) in Alternative #1 on page 23 of staff memo LM071708-1 with regard to investment performance.

Mr. David Bergstrom, Executive Director, MSRS, testified that he would be more comfortable with lines 14-23, and agreed with Mr. Stoffel about lines 1-10.

Senator Betzold moved to amend Policy Principle II.C.8. to reflect the proposed language on page 23, lines 14-23, of staff memo LM071708-1.

Ms. Laurie Hacking, Executive Director, TRA, testified that there is a new index under development on an experimental basis as an alternative to the Consumer Price Index, but most experts don't believe it to be reliable or accurate at this time.

Mr. Kapler recommended keeping item (d) as is and on line 22, delete "should" and insert "may."

The fund directors distributed their recommended alternative language for the principle:

"II.C.8. Post-Retirement Benefit ~~Adequacy~~ Increases

- a. The retirement benefit should be ~~adequate~~ subject to periodic increases during the period of retirement.
- b. ~~To the extent it is financially feasible,~~ post-retirement benefit adequacy increases should ~~function to replace~~ help offset the impact of economic inflation over time in order to maintain a retirement benefit that was adequate at the time of retirement.
- c. The system of periodic post-retirement increases should be funded on an actuarial basis.
- d. ~~In order to replace inflation, The post-retirement adjustment system should follow a valid recognized economic indicator."~~

Senator Betzold withdrew his motion.

Mr. Brian Rice, representing the Minneapolis Firefighters Relief Association and the Minneapolis Police Relief Association, testified that the current principle is good as is, and that the recommended language proposed by the fund directors is better than the proposed alternatives in the memo.

Mr. Floyd Olson, retiree, testified that he agrees with Mr. Rice, that some of the previous legislation has been inconsistent with both the principles and the Legislative Auditor's report, and that the Commission should continue to follow the inflationary factor.

Mr. Rice commented that in item (b) in the language proposed by the fund directors "To the extent it is financially feasible" is a nice idea, but in reality it is never financially feasible.

Mr. Morgan Fleming, Middle Management Association, testified that he is unsure whether a 2.5% cost of living adjustment is adequate or not.

Mr. Stoffel recommended inserting into the language proposed by the fund directors "long-term" after "impact of" and before "economic inflation".

Senator Betzold moved to adopt the language proposed by the fund directors, amended to delete "to the extent financially feasible" and to insert "long-term" after "impact of".

Mr. Kapler commented that he understands the reason to insert "long-term," but he has concerns as to the meaning of "long-term." Mr. Kapler indicated long-term is taken care of by capping.

Senator Betzold withdrew his motion.

Representative Thissen offered the following language:

"Retirement benefits should be increased during the period of retirement to offset the impact of economic inflation over time in order to maintain a retirement benefit that was adequate at the time of retirement. The system of periodic post-retirement increases should be funded on an actuarial basis."

Senator Betzold requested staff to draft Representative Thissen's suggestion.

- Principle II.C.10. Purchases of Prior Service Credit

Mr. Martin reviewed the principle and the potential alternative for amending the principle.

Mr. Bergstrom testified that he is comfortable with most of the proposed changes, but recommended striking "or an omission" in the second bullet point.

Mr. Stoffel testified that he has no major problems with the proposed changes, but commented that in the second bullet point at the end of the fourth line "appropriately calculated" is not needed.

In response to a question from Representative Thissen why we don't let anyone buy into the public employee pension plans, Mr. Bergstrom responded that the pension plans exist to cover public employees when they are employed rather than to function as an investment house.

Mr. Kapler added that pension plans have inherent risks for which they try to project and plan for those costs, and that those risks are acceptable to assume for employees only.

Senator Betzold moved to amend Policy Principle II.C.10. to reflect the proposed language on page 27, lines 1-21, of staff memo LM071708-1. **MOTION PREVAILED.**

- Principle II.C.13. Reopening Optional Annuity Elections

Mr. Martin reviewed the principle and the potential alternative for amending the principle.

Mary Vanek, Executive Director, PERA, testified in support of the proposed change. Ms. Vanek also informed members that PERA will be bringing forward a bill to address marriage dissolutions allowing a bounce-back.

Senator Betzold moved to amend Policy Principle II.C.13. to reflect the proposed language on page 28, lines 1-4, of staff memo LM071708-1.

Representative Thissen and Senator Lynch both commented that the proposed language doesn't seem to add anything new or change the intent of the principle.

Senator Betzold withdrew his motion.

Representative Murphy announced that the next "chunk" of principles would be discussed at the next Commission meeting.

### **Adjournment**

The meeting adjourned at 1:00 p.m.