



January 13, 2010

Room 112 Capitol

LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

**Call to order:**

Senator Don Betzold, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 11:00 a.m.

**Commission Members Present:**

Representatives Mary Murphy, Phyllis Kahn, Michael V. Nelson, Steve Smith, and Paul Thissen  
Senators Don Betzold, Ann Lynch, Mary A. Olson, Sandra L. Pappas, and Julie A. Rosen

**Agenda Items**

**#1. Review of the final order from the Court in City of Minneapolis v. MPRA/MFRA**

Tom Bottern, Senate Counsel and Research, reviewed the final court order in the case of City of Minneapolis v. Minneapolis Police Relief Association and Minneapolis Firefighters Relief Association.

**#3. PERA, MSRS, and TRA funding deficiencies**

Mary Vanek, Executive Director, PERA, presented information on the funded status of the PERA plans, and reviewed the board's proposed long-term sustainability recommendations:<sup>1</sup>

- *Shared responsibility and sacrifice – active members, employers, deferred members and benefit recipients will need to be part of the solution.*
  - *Reduce annual benefit recipient adjustment*
    - *Decrease annual adjustment from 2.5 percent to 1 percent until plans are again at least 90 percent funded*
  - *Increase contributions 0.5 percent*
    - *Coordinated Plan shared equally between employees & employers*
    - *Police & Fire Plan – shared between employees and employers*
  - *Reduce certain active and former member benefits*
    - *Reduce interest rate on refunds from 6 percent to 4 percent*
    - *Reduce deferred interest for current deferred members and future terminated vested members to 1 percent – currently 3 percent to age 55 and 5 percent thereafter for those hired prior to July 1, 2006 or 2.5 percent for all years for those hired after July 1, 2006*
    - *Increase vesting to five years*
    - *Eliminate interest on re-employed retiree accounts*

David Bergstrom, Executive Director, MSRS, presented information on the funded status of the MSRS plans, and reviewed the board's proposed long-term sustainability recommendations:<sup>1</sup>

- *Shared responsibility – active members, employers, deferred members and benefit recipients will need to be part of the solution.*
  - *Reduce annual benefit recipient adjustment*
    - *Decrease annual adjustment from 2.5 percent to 2 percent until plans are again at least 90 percent funded (market value)*
  - *Extend amortization to 30 years and modify some actuarial assumptions*
  - *Reduce certain active and former member benefits*
    - *Reduce interest rate on refunds from 6 percent to 4 percent*
    - *Reduce deferred interest for current deferred members and future terminated vested members to 2 percent – currently 3 percent to age 55 and 5 percent thereafter for those hired prior to July 1, 2006 or 2.5 percent for all years for those hired after July 1, 2006.*
    - *Increase vesting to five years*
    - *Eliminate interest on re-employed retiree accounts*

Laurie Hacking, Executive Director, TRA, presented information on the funded status of TRA, and reviewed the board's proposed long-term sustainability recommendations:<sup>1</sup>

<sup>1</sup> *Retirement Systems of Minnesota, "Statewide Retirement Systems Funding Updates, Presentation to the Legislative Commission on Pensions and Retirement", January 13, 2010.*

- *Shared sacrifice – active members, employers, deferred members and benefit recipients will need to be part of the solution.*
  - *Reduce annual benefit recipient adjustment*
    - *Temporary 2-year suspension (Jan. 2011 and Jan. 2012)*
    - *2 percent annual increase thereafter until plan is stabilized*
  - *Increase employee and employer contributions - phased in over 4 years*
    - *2 percent for employers – phased in 0.5% per year, July 1, 2011 – July 1, 2014*
    - *2 percent for employees – phased in 0.5% per year, July 1, 2011 – July 1, 2014*
  - *Reduce certain active and former member benefits*
  - *Reduce interest rate on refunds to 4%; reduce deferred interest for current deferred members and future terminated vested members to 2%; eliminate interest on re-employed retiree accounts.*
- *Re-evaluation of all elements in 5 years – Investment returns will have a major impact (unknown).*

Rep. Kahn asked Ms. Hacking about other states, and Ms. Hacking indicated that she would share TRA's analysis of what other states are doing to address funding deficiencies.

## **#2. Approval of November 12, 2009, meeting minutes**

Rep. Murphy moved approval of the November 12, 2009, meeting minutes. **MOTION PREVAILED.**

## **#4. MERF funding difficulties**

Luther Thompson, Executive Director, MERF, provided handout materials, informed members that MERF retirees will not receive a cost of living adjustment in 2010, and that the fund is facing a benefit default.

Leslie Thompson and Susan Hogarth, Gabriel Roeder Smith & Company, reviewed the MERF analysis of funding deficiency and responded to questions from members. The following solutions/options are outlined in the presentation:<sup>2</sup>

- *Recognize need to fund a closed plan in line with other closed Minnesota pension funds*
- *Fix Minnesota Statutes, Section 422A.101, to accurately reflect MERF's financial condition and funding requirements*
- *Increase contributions from various sources (State, Employer) to fix MERF funding deficiency*
- *MERF does not have a proper mechanism for adequately assigning the financial requirements of the Retiree Benefit Fund*
- *Other Closed funds in Minnesota have a mechanism for assuring any deficiencies are paid*
  - *Minneapolis Police and Firefighters (No Post Fund)*
  - *PERA Police and Firefighters consolidated accounts*
- *Solutions that are infeasible*
  - *Amending benefits (new hires)*
    - *Not available to MERF-closed plan*
  - *Increase contribution rates on members*
    - *Not available to MERF-very few active members remain*
  - *Alter asset allocation to achieve higher returns*
    - *MERF has high liquidity constraint*
  - *Increase funding from other sources*
  - *Do nothing and let the trust be depleted*
- *Statutory fix of MERF funding mechanism*
  - *Full consolidation with another statewide plan*
  - *Consolidation account with statewide plan*
  - *MERF stand alone plan but contract administrative services with statewide plan*
- *Pay-As-You-Go plan*
- *Do nothing: MERF defaults resulting in alternative non-legislative solutions*

--The meeting recessed at 1:15 p.m.--

Sen. Betzold called the meeting back to order at 1:35 p.m.

## **#9. LCPR10-003: MnSCU; Retirement-related administrative provisions**

Edward Burek, Deputy Director, Legislative Commission on Pensions and Retirement, reviewed the bill and distributed amendment LCPR10-003-2A, which was requested by MnSCU. Mr. Burek indicated his understanding that the interested parties agree to the amendment.

Russ Stanton, Director of Governmental Relations, Inter-Faculty Association, testified in support of the -2A amendment, in support of an amendment proposed by SB I, and in support of the bill.

<sup>2</sup>Gabriel Roeder Smith & Company, "Minneapolis Employees Retirement Fund (MERF) Analysis of Funding Deficiency," January 13, 2010.

Rep. Kahn moved amendment LCPR10-003-2A. **MOTION PREVAILED.**

Howard Bicker, Executive Director, State Board of Investment, requested an amendment to clarify that MnSCU can contract with the State Board of Investment. When it was pointed out that such authority is contained in the bill, Mr. Bicker testified in support of the bill as it stands.

Mr. Burek reviewed amendment LCPR10-003-1A, noting that the amendment is not necessary because there are apparently no affected plan members.

Rep. Kahn moved LCPR10-003, as amended, be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

**#7. S.F. 1601 (Olson, M.); H.F. 1793 (Nelson): TRA; Adding a second retired member to the board of trustees**

The bill was not heard at the request of Sen. Olson.

**#8. LCPR09-071: Statewide and major local retirement plans; Deadlines for filing annual actuarial valuations and quadrennial experience studies**

Lawrence Martin, Executive Director, Legislative Commission on Pensions and Retirement, reviewed the staff memo and policy issues raised by the bill.

Mary Vanek, Executive Director, PERA, requested the Commission's consideration of a December 31 deadline for actuarial valuations rather than the proposed December 1, and a June 30 deadline for experience studies rather than the proposed May 1 deadline.

David Bergstrom, Executive Director, MSRS, testified in support of the proposed December 31 and June 30 deadlines.

Laurie Hacking, Executive Director, TRA, testified in support of the proposed December 31 and June 30 deadlines.

State Auditor Rebecca Otto testified in support of the proposed December 31 and June 30 deadlines.

Mr. Martin reviewed the potential amendments, and suggested the following oral amendment to implement the deadline dates requested by the plan administrators: page 1, line 14, delete "first" and insert "last", page 19, strike first" and insert "last" and delete the new language and insert "12th".

Rep. Thissen moved to amend LCPR09-071 on page 1, line 14, delete "first" and insert "last", and page 1, line 19, strike first" and insert "last" and delete the new language and insert "12th". **MOTION PREVAILED.**

Rep. Murphy moved LCPR09-071, as amended, be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

**#5. LCPR10-008: PERA; Retirement-related administrative provisions**

Mr. Burek reviewed the staff memo and policy issues raised by the bill.

Mary Vanek, Executive Director, PERA, testified in support of the bill and responded to members' questions. Ms. Vanek also testified that amendment LCPR10-008-2A is not necessary.

Sen. Rosen moved to amend LCPR10-008 on page 10, line 32, delete "will" and insert "may". **MOTION PREVAILED.**

Sen. Betzold recommended voting on the individual sections of LCPR10-008 due to time constraints.

Rep. Nelson moved LCPR10-008, Section 1, be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Rep. Murphy moved Section 2 be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Sen. Rosen moved Section 3, amended on page 4, line 2, delete "the mayor of a city" and insert "city mayors", be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Rep. Nelson moved LCPR10-008, Section 4 be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Rep. Kahn moved LCPR10-008, Section 5 be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Sen. Rosen moved LCPR10-008, Section 6, as amended, and Section 8, be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Rep. Murphy moved LCPR10-008, Section 7 be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Sen. Pappas moved LCPR10-008, Section 9, amended on page 14, line 33, before the period insert "no more than four renewals may occur", be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Rep. Murphy moved LCPR10-008, Section 10 be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Rep. Murphy moved LCPR10-008, Sections 11 and 12 be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Rep. Murphy moved LCPR10-008, Section 13 be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Rep. Murphy moved LCPR10-008, Sections 14 to 16 be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Sen. Rosen moved amendment LCPR10-008-11A. **MOTION PREVAILED.**

Rep. Murphy moved LCPR10-008, Sections 17 to 21, as amended, be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Rep. Murphy moved amendment LCPR10-008-13A, amended on page 1, line 4, to insert "June 23, 2009" into the blank. **MOTION PREVAILED.**

Rep. Kahn moved amendment LCPR10-008-14A. **MOTION PREVAILED.**

Rep. Murphy moved LCPR10-008, Section 22, as amended, be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Rep. Kahn moved LCPR10-008, Section 23, be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

Rep. Murphy moved LCPR10-008, Section 24, be recommended to pass and be included in the omnibus pension bill. **MOTION PREVAILED.**

**#6. S.F. 889 (Betzold); H.F. xxx (S0889-E2): MSRS-Unclassified; Changes in membership transfer authority**

This item was not heard.

**#10. S.F. xxx; H.F. xxx (LCPR10-005): MSRS; Retirement-related administrative provisions**

This item was not heard.

**Adjournment**

The meeting adjourned at 3:15 p.m.

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Lisa Diesslin, Commission Assistant