

August 22, 23 and 24, 1982 Meetings
Holiday Inn
Detroit Lakes, Minnesota

MINUTES

August 23, 1982 - 9:30 A.M.

The chairman, Sen. Collin Peterson opened the meeting.

PRESENT: Senators Dennis Fredrickson, Donald Moe, Collin Peterson,
Earl Renneke, Allan Spear
Representatives Dick Kaley, Leo Reding, James Rice, Frank
Rodriguez, John Sarna

The summaries of Commission action during the 1982 Session were distributed.

Establishing a Uniform Defined Contribution Public Employee Retirement Plan (Based on SF 1473 (Sen. D.M. Moe))

Sen. Donald Moe explained the purpose of SF 1473. Sen. Moe also noted the plan's advantages:

1. Will secure a sound credit rating for the State of Minnesota;
2. Eliminate bias in favor of senior, highly paid employees; most present plans penalize short-term, highly mobile, or low-paid employees;
3. The administration of the state's pension system would be simplified; and the Legislature would have only one statute governing the entire system;
4. System allows complete portability without loss of benefits.

(See attached copy of Sen. Moe's explanation entitled "A Universal Public Employees' Retirement System")

Harvey Schmidt, Executive Director of TRA, discussed the pension deficit being financed on a decreasing payroll; the vesting period of two years was mentioned rather than immediate vesting.

The following presented the views of organizations, etc. relative to the Defined Contribution Plan:

Chuck Anderson, West St. Paul Police and Board of Directors for the Minnesota Peace & Police Officers Assn., presented a paper outlining his association's objections.

Jim Welna, St. Louis Park Police, discussed his group's objections.

Stan Peskar, League of Minnesota Cities, stated that his board has considered the basic concept of the defined contribution plan and approved it as a way to prevent further financial crises in the future, removes the problems of portability, and encourages financial responsibility on the part of the participants.

Tom Gelbmann, St. Paul Fire, questioned as to how surviving widows and children will be provided for in this plan

Dorothy Shmiera, Candidate - 10A

PEPRA Developments: Pension Plan Reporting and Accountability Act; the federal legislation establishing reporting, disclosure and fiduciary standards for state and local public employee plans:

Karen Dudley, Executive Secretary, went over a research memo relative to PEPRA, which deals with two federal legislative proposals moving through Congress which would affect Minnesota public employee pension funds, H.R. 4928 (Erlenborn) and H.R. 4929 (Burton)

The summary of PEPRA states that the PEPRA bills would require employee plans to do the following:

- a) Submit actuarial valuations, disclosures of unfunded plan liabilities, and auditing and financial reports annually to the Secretary of Labor;
- b) Supply plan participants with a summary description of plan provisions, and, upon request, other information about plan benefits and vesting;
- c) Give all interested persons, including taxpayers and plan participants, access to financial statements, records of plan asset holdings, and any other relevant plan documents;
- d) Continue compliance with current Internal Revenue fiduciary standards;
- e) Replace current fiduciary standards with ERISA prudent person rule (Prudent expert rule) and ERISA-like co-fiduciary standards;
- f) Establish a five percent of plan assets limitation with respect to securities, obligations and real property of the employer; and
- g) Exempt legislators and certain other persons from fiduciary responsibilities

Chuck Anderson, told the Commission that the police are opposed to the bills in present form.

Lyle Farmer, St. Paul Teachers, - opposed to the bills.

Rep. Sarna moved that the Commission go on record and notify the Minnesota Congressmen and Senators and the Committee in Washington of the Commission's stand; that we are complying with most of the requirements. Carried

It was the consensus of the Commission that Minnesota is complying with most of the provisions of the two bills, HR 4949 and HR 4928, and that it is opposed to the provisions of the bills.

The staff was directed to write the necessary letters for the Minnesota Delegation in Washington, stating the Commission's objection to the legislation.

August 24, 1982 Meeting - 9:30 A.M.

PRESENT: Senators Peterson, Renneke, Moe, Fredrickson, Spear
Representatives Kaley, Reding, Rodriguez, Rice, Sarna

Questions Relating to Benefits Paid to Pre-1973 Retirees

Karen Dudley, went over the staff memo and discussion followed.

A number of questions arose relative to the benefits paid to the pre-1973 retirees and benefit recipients. Some of these questions are:

1. Should future benefits be paid on a per year of service basis?
2. Should basic retirees who receive no social security benefits receive the same benefit as coordinated retirees who receive social security benefits which are indexed to the Consumer Price Index?
3. Should the lump sum benefits paid to pre-1973ers be paid more often than once a year?
4. Should proportionate benefits be payable to the estates of pre-1973ers who lived for a portion of the year of payment?

There was discussion relative to the cost of administering the various alternatives for a solution to the problem of the pre-73ers. This information comes from the various funds.

Testimony:

Dr. Byron Murray, retired educators, spoke about the limitation in the amounts the members were permitted to contribute to their accounts back in 1951 and on through the earlier years. Dr. Murray agrees that a recomputation of the pre-1973 benefits could result in a loss for some retirees and gain for others, but would not want it to result in a loss.

Bob Schultz, Rochester, spoke relative to the limit on the amount of contributions permitted to the funds in the early days.

Jeanette Fair, Hennepin County Retired Teachers, discussed the small early retirement contributions.

August 24, 1982 Meeting Minutes continued:

Harvey Schmidt, Executive Director of TRA, advised that the Governor's Budget should include money set aside for the retirees.

Mildred Oliphant, Rochester REAM, read a letter received from Governor Quie in which it was stated that \$23 Million had been set aside in the 1981-82 Budget to provide lump sum bonus payments for the pre-1973ers and that he planned on including the pre-1973ers in the 1983 Budget.

Exclusion of Public Employee Pension Contributions from Gross Income for Taxation

Karen Dudley went over the staff memo and discussion followed:

The memo included three major suggestions as to how the public sector pension fund employee pension contributions can be excluded from federal income taxation during the public employee's active working lifetime:

1. Change in Federal Tax Law. The federal Internal Revenue Code could be amended to provide for the exclusion of public sector pension fund employee contributions from the computation of federal adjusted gross income.
2. Conversion to a Noncontributory Plan. The employing unit would assume the public sector pension fund employee contributions in connection with the elimination of a future salary increase or a reduction in the current present gross salary.
3. Tax Sheltering Employee Contributions. Current public sector pension funds could be modified so that employee contributions could be tax sheltered and not included in gross income for tax purposes, under Revenue Rulings 77-462 and 81-36.

Mike McLaren, Executive Director of PERA, stated a preference for number 3 alternative.

Volunteer Firefighters - Effect of Laws 1982, Chapter 460, Section 8, on the Payment of Pensions to Volunteer Firefighters

Karen Dudley went over the staff memo and discussion followed.

The memorandum explains the problems relative to the payment of pensions to volunteer firefighters resulting from the passage of SF 1591 (C. Peterson) which became Chapter 460, Laws 1982. Section 8 of the bill added language to clarify that service pensions and disability benefits shall not be paid to volunteer firefighters who continue to perform the duties of a firefighter.

Gus Welter, Secretary of the Minnesota State Fire Department Association, pointed out some of the problems in the law since the first authorization of firefighters' pensions was enacted. He explained the need for a change in the definition of volunteer firefighter--suggested setting up a definition section in the volunteer firefighters bill. Mr. Welter submitted some suggested language for a change in the law.

Testimony:

Frank Bednar, Coon Rapids Fire Relief Association President, compared the problem with the police who belong to PERA and the police association, and stated that it is discriminatory against the firefighters who are paid firefighters

Stanford Anderson, Minnetonka Fire Marshal, told the Commission there are only 3 or 4 individuals involved in his association.

Richard Benson, City Clerk of Pelican Rapids, stated the association's objections to being required to return unused money to PERA and the State. The association feel it is subsidizing the larger departments in the state.

Complications Involving Implementation of Language Governing Purchase of Service Credit

Karen Dudley reviewed the staff memo and discussion followed.

The memo explains the controversy resulting from the implementation of the provisions permitting the purchase of service credit for prior military service by members of the Minneapolis Teachers Retirement Fund and the statewide Teachers Retirement Fund. The Minneapolis Teachers Retirement Fund has a different set-up. TRA's benefit structure requires the payment of reduced benefits at age 62 with

fewer than 30 years of service, whereas MTRFA pays a money purchase benefit to members retiring before age 60 with fewer than 30 years of service.

The requirement that the actuaries for the funds compute the necessary reserves was brought up. The need for the actuaries to advise the Commission on this computation of needed required reserves was discussed.

Personnel Business

Senator Collin Peterson moved that the present Secretary for the Commission be given the title of Administrative Secretary with no increase in present salary.
Motion carried

Sen. Collin Peterson moved that the Legislative Commission on Pension and Retirement grant a cost of living increase for the Commission staff as per the recommendations of the Legislative Coordinating Commission, retroactive to July 1, 1982. The cost of living increase for Karen Dudley shall be based on her salary in effect on June 30, 1982.
Motion carried

Sen. Collin Peterson moved that Karen Dudley be promoted to the title of Executive Secretary of the Legislative Commission on Pensions and Retirement, salary of the position to be reviewed and decided upon later.
Motion carried

Sen. Frederickson questioned the League of Minnesota Cities interpretation of the bill dealing with disabilitants coming back into the work force. Some cities are setting standards that are too high for letting disabilitants come back on less hazardous positions.

Stan Peskar, League of Minnesota Cities, has sent out a survey which quoted the law relative to this and will check the survey.

Eleanor Diebel
Secretary