

MINUTES

June 28, 1983 Meeting

Room 118, Capitol

9:30 A.M.

The chairman, Sen. Collin Peterson, opened the meeting.

PRESENT: Senators Peterson, Donald Moe, Spear, Frederickson, Renneke  
Representatives Sarna, Frank Rodriguez, Wigley, Clawson, Metzen

Recommendation of the Winklevoss & Associates Study for the Department of Finance

Ron Hackett, Department of Finance, explained the Winklevoss Study. Mr. Hackett explained that \$160,000 was authorized for the Winklevoss study of the retirement associations. Dr. Winklevoss is associate professor of insurance and actuarial science and one of the leading experts in the defined contribution plan. He explained that a tight state budget and financial needs of the major pension funds, especially the need for supplemental funding for the teachers retirement fund, became the concern of the Finance Department and that they wanted a systematic analysis as to the cost of such concerns. He advised that a forecasting model to serve as a tool to evaluate pension requests was needed.

Mr. Hackett explained three recommendations by Winklevoss and Associates: (1) retain the Entry Age Normal Funding Method with level percent supplemental cost recognizing best estimate of future payroll growth, (2) maintain current mechanism for existing nonactive members. New entrants to the nonactive population to receive an automatic COLA equal to 1/2 of inflation up to a maximum of 3%, (3) a change in the valuation assumptions as follows: Interest rate 8.0%, salary rate 6.5%, COLA 3.0% rather than the current interest rate assumption of 5%, salary rate of 3.5%, and the COLA based on excess earnings. Excess contributions are being made to three of the funds and insufficient contributions to the teachers retirement. In total, approximately \$46 million in excess contributions being made--\$9 million excess being made to MERF, \$14 million to MSRS, and 3.8 million to PERA, and that the teachers need an additional \$15 million.

Comments from the fund directors: Paul Groschen, Executive Director of MSRS commented on the post retirement mechanism that ties retirees to the capital market; increases based on yield, not on market value; that yield is insensitive to inflation.

Harvey Schmidt, Executive Director of TRA, commented that the 8% and 6.5% suggested assumptions are rather high, and that he is concerned that the normal cost will be reduced; that 6% salary has been past experience.

Dan Lass, MERF, commented that investment managers should be accountable to the retirees; that it is good to have retirees benefits based on investment performance rather than straight cost of living.

It was agreed that Dr. Winklevoss will be invited to make his presentation to the Commission on July 18th (to be changed if Dr. Winklevoss is not able to come then).

Rep. Sarna renewed his motion that the Commission proceed with the hiring of a Commission actuary with the assistance of the Personnel Subcommittee and bring the recommendation back to the full Commission. Motion carried.

The chairman appointed the following members to the Benefit Adequacy Subcommittee: Rep. John Sarna, Chair, Rep. Metzen, Rep. Wigley, Sen. Spear, Sen. Frederickson.