State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

Legislative Commission on Pensions & Retirement
November 16, 1983 Meeting
Room 83, State Office Bldg.

Representative John Sarna, chair, opened the meeting

PRESENT: Senators Collin Peterson, Allan Spear, Earl Renneke, Dennis Frederickson
Representatives Clawson, Sarna, Frank Rodriguez

Recommendations of the Winklevoss Study:

Gordon M. Donhowe, Commissioner of Finance, was invited by the Retirement Commission to explain the Howard Winklevoss recommendations which resulted from the Winklevoss study of Minnesota pensions.

Mr. Donhowe directed his remarks to understanding the Winklevoss point of view and why there should be this study re the soundness of Minnesota's public pension plans. Mr. Donhowe discussed the need for pension reform, the question of pension financing, the adequacy of benefits between the funds. He also stated that there has been repeated requests for large supplemental funding for the teachers retirement fund, that there has been a growing skepticism as to the actuarial methods applied to the funds and the accuracy of the calculations; that it should be a policy to regularly provide the legislature with consistent information on the plans as well as reliable information as to all possible benefits.

He talked about the primary interest in this Session being to achieve financial reform. "Are we adequately measuring our long time liability for pension benefits?" This generation should only shoulder its responsibility. In comparing what other states are doing, that care should be used in comparing the relevance of other states' benefits.

Mr. Donhowe added three recommendations to the Winklevoss recommendations: (1) Teachers from the first class cities are not included in the Winklevoss study and they should be; (2) COLA should contain a carry over; if inflation is less than 6%, amount of adjustment less than 3% is carried over for years when inflation exceeds 6%; (3) there should be a single source of actuarial valuation--one actuary should be retained for all plans, yet allowing each plan free to hire an advisory and consulting actuary.

The following recommendations were contained in the study as per an Executive Summary Analysis of Minnesota Pension Funds and Benefits:

1. Use more realistic investment and salary growth assumptions;
2. Continue using the current pension liability measure as a benchmark;
3. Change the funding target date to 2003;
4. Use level percent amortization of unfunded liabilities;
5. Change the post-retirement adjustment for future retirees;
6. Adjust employer contributions.

Ron Hackett, Dept. of Finance, advised the Commission as follows: That the Winklevoss report finds that there is a $53 million excess above what is necessary; that the amount is not sufficiently allocated among the funds; that the TRA retirement fund is inadequately funded. Handout #2 entitled "Current Retirement Funding Policy and Proposed Changes" was distributed (copy attached).

Mike McLaren, Exec. Dir. of Pera, commented as follows: The average Basic Plan retirement benefit is $550 per month and the Coordinated Plan average benefit is $322 per month. The private pension plans are paid for by the employer while the public plans are paid by the employee/employer. There is a need to add the health care costs.

John Chenoweth, Exec. Dir of MERF, comments on Winklevoss recommendations:

Mr. Chenoweth commented on the recent press release that stated that the taxpayer is overpaying for public pensions and pointed out that the $53 million is saved only if the Winklevoss recommendations are adopted.

Relative to the subject of adequacy of benefits, Mr. Chenoweth talked about a letter from Winklevoss & Associatess, a copy of which was distributed, which stated that only a preliminary study had been made. Mr. Chenoweth commented on the statement from Mr. Ron Hackett that Winklevoss did a complete study on the adequacy of benefits in the State of Minnesota while Mr. Chenoweth pointed out that there had not been an adequate benefit adequácy study done.

Mr. Chenoweth showed some charts which pointed out what would have happened to MERF retiree benefits if the Winklevoss recommendation had been adopted 10 years ago. The charts showed that MERF retirees would have lost buying power. Mr. Chenoweth talked about longer life expectancy; that there is an increase of 50% in the current number of people over 65. He also talked about the health care costs, stating that a MERF retiree pays $220 per month for retiree and spouse for medical coverage, but that the average MERF pension benefit is $600. He advised that the Winklevoss report did not do an adequate study on the Basic members.

Paul Groschen, Exec. Dir. of MSRS comments:

Mr. Groschen stated that the current assumptions are a little conservative. He agrees with a change in assumptions somewhat, but only for the Basic fund and not for the post retirement fund. He advised that the average benefit for new retirees is $372 per month and the average for all retirees is $229. The present post retirement plan is the "best feature" we have; that the Minnesota retirees are satisfied. The post retirement policy is not a raid on the funds; it is computed in the normal cost by the actuary. Mr. Groschen also stated that he approves a minor change in actuarial method.

Harvey Schmidt, Exec. Dir. of TRA comments:

Mr. Schmidt stated that the Winklevoss interest rate assumption recommendation is a little high. The entry age normal recommendation is OK; that he is not in agreement with the level percent of payroll recommendation. He spoke about an expanding payroll vs static payroll; that the membership in 1982 was 63,500 and in 1983 the membership was 57,800--a decreasing enrollment and decreasing payroll. Post retirement adjustments for future employees have been paid out of our normal cost. The active members have contributed to this fund. The average Basic employee benefit is $536 per month. Mr. Schmidt stated that TRA needs additional financing.

Former Sen. Mel Hansen addressed the Commission re the Winklevoss report. He stated that he does not approve of the recommendation for one actuary for all the funds; that a sizeable reduction in cost will result in a reduction in benefits to the retirees.

Keith Venner, State Employees, told the members that the unions are interested in participating in the process.

The next LCP&R meeting will take up health costs to the retirees.

Frank Rodriguez
Secretary

Eleanor Diebel
Commission Secretary