November 22, 1983 Meeting
Benefit Adequacy Subcommittee
Room 123, Capitol - 10 AM

MINUTES

Sen. Collin Peterson, Chair, opened the meeting.

PRESENT: Senators Collin Peterson, Allan Spear, Earl Renneke
Representatives John Sarna, James Metzen, Frank Rodriguez

Staff Material on Benefit Adequacy - Staff Memo
Karen Dudley went over the memo. Staff was directed to compare Minnesota benefits to the benefits of other states and also to compare the benefits of the various Minnesota plans to each other. This is just the preliminary work.

Jim Heidelberg, Assistant Executive Secretary, presented a slide study covering the following general topics:

1. What is Benefit Adequacy?
2. Major Differences in Benefit Structure of TRA, PERA, MSRS
3. Interstate Benefit Comparisons
4. Post Retirement Income Compared to Pre Retirement Net Income

Relative to discussion as to comparisons of the states being made with Social Security amounts included, staff was directed to get a ranking as to how much is paid in.

Testimony from the Funds:

Harvey Schmidt, TRA, distributed copies of statistical studies of the teacher retirement systems of the various states throughout the nation, also several other studies re distribution of monthly benefits.

Mr. Schmidt stated that 40% of TRA retirees have less than 20 years of service; 54% less than 25 years of service; and 67% have less than 30 years of service. There are 11,400 members in the Variable Annuity plan and the benefits are less than the formula TRA now has. The average rate of interest is 5.7%. The average benefit for the Basic plan is $536 and $345 for the Coordinated plan. The annuity rate for the TRA annuitant on the Variable Annuity money purchase plan is 6.1; the Deferred Comp program annuity rate to buy an annuity is 9.6. Changing the formula to a rule of 85 or 90 does nothing for the Variable Annuity. Mr. Schmidt would like to take a look at the Variable Annuity program. Relative to discussion as to raising benefits, Mr. Schmidt stated he wants benefits equal to PERA and MSRS. TRA needs financing to amortize the deficit; if no financing, the benefits cannot be raised. Mr. Schmidt complimented staff on its benefit adequacy research.

Mike McLaren, PERA, commended the staff on a good job re benefit adequacy. Mr. McLaren spoke about the private sector. He summarized from a Wyatt Company report on the top 50 largest corporations: 48 of the 50 corporations have no employee contributions, 47 have unreduced benefits at age 62, 27 of the 50 provide unreduced age 60 benefits, 11 at age 55. 46 of the 50 corporations provide some sort of retirement benefit at age 55, either full or reduced. 50 companies provide an average of 17 1/2% of final pay with 15 years of service.

In comparing funds within Minnesota, comparing the percentage of the plan participants in PERA who are actually eligible for those levels of benefits as opposed to the percentage in other plans, such as TRA and MSRS, a very low percentage of PERA people would fall in the categories pointed out in the staff study. There is a difference in the demographics as can be seen in the salary differences. Over 75% of PERA members retire with less than 20 years of service. There are 10,000 Basic members still employed and there will be Basic members retiring for at least 25 years. The average PERA benefit is $322 per month.

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Paul Groschen, MSRS, stated that of the 12,000 retirees, 300 retirees have 30 years of service. The average retiree has around 22 years of service. State employees pensions should at least be comparable to PERA. Teachers tend to be a longer service group. The state employees want to pay the 4% asked by the state, deriving a benefit from a normal cost of 8%. They want the rule of 90 early retirement package. Normal cost is 7.02% for MSRS. Plan was improved to 1% of pay. Employees will pay more.

John Chenoweth, MERF, told the Commission that his fund asked to be excluded from the Winklevoss study and asked what they should be compared to. There is a need to look at the adequacy of benefits. Need to look at the private sector. Need to establish a formula that evaluates what is taking place. The Winklevoss study is inadequate and is "based on the assumption that all benefits are adequate".
Mr. Chenoweth showed charts which compared MERF with the other state plans. Mr. Chenoweth suggested that all the funds put money in to get outside evaluation of the funds;"one that we have input into to get equal fair treatment". He stated he was pleased with the work of the subcommittee and is willing to be of assistance.

Sen. Spear discussed the need for the staff to compare MERF to the other two Basic plans, taking into consideration differences in employee contributions.

Sen. Peterson stated that the staff will look at what we are paying for these benefits. How much does the dollar buy?

Mr. Peterson talked about one area of concern of the Winklevoss study which assumes that all benefits were "fine"; that it is to be determined whether they are "fine" and then draw our own conclusions.

John Allers, School Service Employees, expressed appreciation for the work of the subcommittee and is pleased that the subcommittee is looking at the problems of what is an adequate benefit.

Karen Dudley reviewed directions from the subcommittee as follows:

1. Comparison of the benefits to what the employees pay for them plus what the actuaries have said is the cost of that benefit package.

2. Staff will be putting together some charts that give an idea, using the concept of benefit adequacy to the pre-retirement standard of living. Will have to be done for the Basic programs and MERF will be put in with that group.

Sen. Peterson directed staff to prepare research in the private sector in terms of what the dollar is buying in benefits and what the dollars that we are putting in are buying in benefits.

Also, staff is to cost out a number of benefit changes.

Frank Rodriguez
Commission Sec.

Eleanor Diebel
Administrative Sec.