



November 3-4, 2015

Room 10 State Office Building

MINUTES

Day 1 - November 3, 2015

Call to order:

Representative Tim O'Driscoll, Chair of the Legislative Commission on Pensions and Retirement, called the meeting to order at 1:08 p.m.

Commission Members Present 11/3:

Representatives Anderson, Erickson, Kresha, Murphy, O'Driscoll, and Thissen
Senators Goodwin, Hayden, Johnson, Pappas, Saxhaug, and Thompson

Commission Members Absent 11/3:

Representative Albright and Senator Rosen

Agenda Items

Approval of minutes.

Rep. Kresha moved approval of the October 13-14, 2015, meeting minutes. **MOTION PREVAILED**

Introduction to Doug Anderson, Executive Director, PERA

Rep. O'Driscoll introduced Doug Anderson, the new Executive Director of the Public Employees Retirement Association (PERA).

Review of 2008-2014 experience study reports of MSRS, PERA, and TRA.

Michael de Leon, Lead Actuary, Deloitte Consulting, presented the Deloitte review of the recent experience studies for the MSRS-General plan, the PERA-General plan, and the Teachers Retirement Association. The substance of the presentation can be found in the handout entitled "*Minnesota Legislative Commission on Pensions and Retirement, 2008-2014 Experience Study Review, November 3, 2015.*"

David Bergstrom, Executive Director, MSRS, testified that their actuary estimates the impact of changing from the MP-2014 improvement scale to the MP-2015 would save about 0.2% of pay.

Shana Jones, Policy Director, PERA, testified that their actuary estimates the impact of changing from the MP-2014 improvement scale to the MP-2015 would save about 0.2% of pay.

Jay Stoffel, Deputy Executive Director, TRA, testified that their actuary estimates the impact of changing from the MP-2014 improvement scale to the MP-2015 would save about 0.35% of pay.

Mark Haveman, Executive Director, Minnesota Center for Fiscal Excellence testified to the inadequacies of actuarial methods and assumptions in that they often mask risk and do not reveal true actuarial costs, and the use of the an inaccurate discount rate virtually guarantees pension plan failure.

Approval of proposed actuarial assumption changes for MSRS, PERA, and TRA.

Jay Stoffel, Deputy Executive Director, TRA, testified that the proposed assumptions have all been approved by the respective governing boards of MSRS, PERA, and TRA, with one exception: the boards approved adoption of the MP-2014 improvement scale. Recently, the MP-2015 improvement scale was introduced and the actuaries are recommending it use, but the boards have not had an opportunity to review and adopt the scale. Mr. Stoffel also informed members that TRA will be proposing an 8% discount rate in the upcoming legislative session.

Susan Lenczewski, Executive Director, Legislative Commission on Pensions and Retirement, indicated that the chart only includes the assumptions that have been approved by the boards of the plans and are up for approval by the Commission, so the chart does not show the MP-2015 improvement scale.

David Bergstrom, Executive Director, MSRS, testified in support of the proposed assumption changes and that the MSRS board will be considering the MP-2015 improvement scale at an upcoming board meeting. Mr. Bergstrom also testified that the Commission may wish to reconsider the requirement that the Commission approve the actuarial assumption tables in the future or leave the authority with the boards.

Shana Jones, Policy Director, PERA, testified in support of the proposed assumption changes and that the PERA board will be considering the MP-2015 improvement scale at an upcoming board meeting.

Mr. Stoffel requested that the Commission approve the assumptions before June 30, 2016. He noted that if the Commission does nothing, the assumptions will automatically go into effect in the Fall of 2016, but there will be a question about which assumptions should be used for the July 1, 2016, valuations.

The item was laid over.

Approval of proposed actuarial assumption changes for specific fire relief association pension plans.

Mark Schulte, Consulting Actuary, Van Iwaarden Associates, testified in support of the proposed assumption changes which are required to be approved by the Commission. Mr. Schulte reviewed his presentation entitled "*Fire Relief Association Pension Assumption Changes.*" Assumptions are not distinct enough from plan to plan.

Sen. Pappas moved Resolution LCPR15-R2 approving the proposed assumption changes. **MOTION PREVAILED.**

Experience studies for plans other than MSRS-General, PERA-General, and TRA.

Ms. Lenczewski reviewed the issue and how the staff proposes to resolve it. The boards of PERA and MSRS are asking to have experience studies for some of their smaller plans, but there is a question on whether the Commission needs to approve those experience studies - statute does not require approval, although the Commission's Standards for Actuarial Work do appear to require approval for the Legislators Plan, the Elected State Officers Plan, and for the St. Paul Teachers Retirement Fund Association (SPTRFA). Ms. Lenczewski indicated that the standards will be updated with the help of Deloitte, and staff hopes to include consideration, and perhaps elimination, of the requirement of Commission approval of experience studies for the smaller plans.

David Bergstrom, Executive Director, MSRS, testified that the Legislators and Elected State Officers plans were closed in 1987, and that MSRS would not do an experience study for the Legislators plan because it is too small.

Ms. Lenczewski clarified that experience studies are required for the three major plans, MSRS-General, PERA-General, and TRA, and that actuarial assumption changes are required to be approved for all plans. Ms. Lenczewski informed members that, after researching the issue, Commission staff will not require retirement systems to seek Commission approval for experience studies.

Update on the Duluth Teachers Retirement Fund Association merger into TRA.

Jay Stoffel, Deputy Executive Director, TRA, and former Executive Director, DTRFA, updated the Commission on the status of the merger, which is now complete but for a few lingering administrative things, and provided the following information:

- Several approvals were required for the merger and all were unanimous votes and the approvals were filed with Secretary of State.
- \$225 million in investments were transferred to TRA between October 2014 and February 2015, illiquid assets were transferred "in kind" by the merger date, and two buildings owned by DTRFA were sold July 1, 2015.
- Five to six trial runs of merging electronic records were performed between January and May, and went live June 27-28. The Duluth school district recording and reporting was converted to TRA.
- The merger was a complete melding of those two plans; all DTRFA assets and liabilities are now part of TRA and will be reported in TRA financial report and valuation reports.

Rep. Erickson asked when the last state payment to DTRFA was made. Mr. Stoffel responded that the final payment to Duluth of \$6 million was made before the merger; about \$400,000 had historically been paid. Mr. Stoffel indicated that payments are still being paid on behalf of the former DTRFA, but are now being paid directly to TRA and will continue until TRA is fully funded.

Rep. Erickson asked about state aid to SPTRFA. Jill Schurtz, Executive Director, SPTRFA, testified that SPTRFA receives approximately \$10 million annually; \$2 million in aid has on the books for a while; another \$7-8 million was added at the same time as the Duluth aid was increased.

Update on the Epoch LIFTs supplemental public pension plan financing program proposal

Rachel Thurlow, Deputy Director, Legislative Commission on Pensions and Retirement, updated members on information the Commission requested from Epoch, what has been received to date, and what has not yet been received. Staff hopes to have another update for the next Commission meeting.

Sen. Thompson indicated that he would be willing to facilitate communication between staff and Epoch.

Recess:

The meeting recessed at 3:12 p.m.

Day 2 - November 4, 2015

Call to order:

Rep. O'Driscoll called the meeting back to order at 9:06 a.m.

Commission members present 11/4:

Representatives Erickson, Murphy, O'Driscoll, and Thissen
Senators Goodwin, Hayden, Johnson, and Pappas

Commission members absent 11/4:

Representatives Albright, Anderson, Kresha, and Senators Rosen, Saxhaug, and Thompson

Agenda Items, continued

Consideration of defined contribution retirement plan alternatives and update on existing Minnesota defined contribution retirement plans

Defined contribution retirement plan alternatives

Representatives from Van Iwaarden and Advanced Capital Group jointly presented "*Retirement Plan Alternatives.*" Presenters were:

- Jim van Iwaarden, Owner, Consulting Actuary, Van Iwaarden Associates
- Mark Schulte, Consulting Actuary, Van Iwaarden Associates
- Justin Dorsey, Principal, Advanced Capital Group, also presented
- Brad Tollander, Senior Investment Manager, Advanced Capital Group

Rep. Thissen asked how the information on slide 17 compares to current Minnesota defined benefit plans. Commission staff will prepare a comparison.

Mr. van Iwaarden testified that participants investing their own contributions generally don't have as great an investment return as a defined benefit plan does.

Sen. Johnson asked who benefits with a defined contribution plan. Mr. van Iwaarden responded that it depends on the structure of the plan, but in a defined contribution plan each employee has their own account; to the extent that money is directed to the employee, current employees benefit rather than former employees, and taxpayers can benefit.

Sen. Johnson expressed concern about women, low-income, and those not knowledgeable in investing taking their benefit a lump sum and not reinvesting, potentially leading to public assistance, and asked how that can be prevented. Mr. van Iwaarden responded that those are very valid concerns. For women, they do live longer and costs for annuities are higher. The issue needs to be addressed in the plan design, i.e., price within the plan with unisex pricing for guaranteed lifetime, and also through the plan providing lifetime income. For low-income individuals, mandatory employer contributions do address the issue. These concerns can all be addressed in either defined benefit or defined contribution plans; some designs do that better than others.

The following testimony was in response to questions from Rep. Thissen relating to lifetime income:

- Mr. van Iwaarden indicated that the chart on page 17 of the presentation could be rerun using 6% investment return.
- Mr. Dorsey testified that the state itself could create a funding vehicle for the lifetime income risk. The trend is using insurance companies, but there are other options.
- Mr. van Iwaarden noted that the smaller the private company, the more difficult it is to provide their own plan; there are fixed costs related to providing a retirement plan and for a small employer those costs are spread over fewer people. He also mentioned that some states are setting up plans for private employer participation, Illinois has one in place, other states looking at that as well.
- Mr. Dorsey pointed out that there are alternative design options for private employers, like multiple-employer plans where employers of any size to join; plan design options can be extremely diverse.

Ms. Lenczewski indicated that if members would like to have a discussion about private sector retirement plans, since one of largest companies is based in Minnesota we could invite them to a Commission meeting.

MSRS Unclassified Employees Retirement Program

David Bergstrom, Executive Director, MSRS, distributed and reviewed materials entitled "*MSRS Unclassified Plan, Presentation to the Legislative Commission on Pensions and Retirement*" and a one-page handout entitled "Minnesota Target Retirement Funds" outlining investments based on length to the retirement date you choose, with the default age 65.

In response to questions from members, Mr. Bergstrom testified that 80-85% of state employees participate in the Minnesota Deferred Compensation Plan, and that if an eligible transfers from the Unclassified Plan to the General Plan, the employee is not required to make up any investment differences.

PERA Defined Contribution Plan

Shana Jones, Policy Director, PERA, distributed and reviewed materials entitled "*PERA Defined Contribution Plan*", noting Defined Contribution Plan participants are not covered by the Section 218 agreement and don't have social security, and that administrative fees are 2% of contributions plus 2.5% of account balance.

Kim Crockett, COO, EVP, General Counsel, Center of the American Experiment, testified on the defined contribution plan subject, and provided two handouts: "*Pensions 2015, Keeping the Promise: Securing Retirement Benefits for Current and Future Public Employees*," Kim Crockett, Center of the American Experiment; and "*Defined-Contribution Pensions are Cost-Effective*," Civic Report, No. 100, August 2015, Josh, B. McGee, Senior Fellow, Manhattan Institute. Ms. Crockett noted that Minnesota has a more aggressive investment policy which produces a higher rate of return than many states, but questioned that if higher rate of return is the best policy, why are other states dropping below an 8% investment return assumption and changing their investment policy. She also indicated that assumptions seem to be driving investment policy rather than investment policy driving the assumptions.

Rep. Murphy requested a short summary of the 2011 retirement design study prepared by the retirement systems, particularly regarding transition costs.

Adjournment

The meeting adjourned at 11:30 a.m.

Lisa Diesslin, Commission Assistant