State of Minnesota

Report of

PUBLIC RETIREMENT STUDY COMMISSION

A

Legislative Interim Commission

To Study

Public Employee Retirement Systems

Submitted to the
Legislature of the State of Minnesota *January, 1961*

Members of the Senate
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EXECUTIVE SECRETARY

January, 1961

The Honorable Elmer L. Andersen, Governor
and Members of the Legislature of the
State of Minnesota:

The work of the Minnesota Public Retirement Study Commission has been conducted as authorized under Chapter 829, Minnesota Session Laws of 1955, as amended by Chapter 13, Extra Session Laws, 1957, and further amended by Chapter 82, Extra Session Laws, 1959.

A summary of the Commission's report and recommendations is hereby respectfully transmitted.

PUBLIC RETIREMENT STUDY COMMISSION

By Fay Geo. Child

Fay George Child
Chairman

FGC:mp

LEGISLATIVE INTERIM COMMISSION

TO STUDY

PUBLIC EMPLOYEE RETIREMENT SYSTEMS

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Geo. V. Stennes & Associates
Consulting Actuaries
Gerald G. Toy
Associate assigned to Commission
Minneapolis, Minnesota

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AN ACT

CREATING AN INTERIM COMMISSION TO STUDY EMPLOYMENT RETIREMENT SYSTEMS AVAILABLE TO EMPLOYEES OF THE STATE AND POLITICAL SUBDIVISIONS OF THE STATE, AND APPROPRIATING MONEY THEREFORE, AS AMENDED BY EXTRA SESSION LAWS 1957, CHAPTER 13.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. There is created a commission to be called legislative commission to report on retirement benefit plans available to government employees. The commission shall consist of five members of the senate to be appointed by the committee on committees of the senate and five members of the house of representatives to be appointed by the speaker.

Sec. 2. The commission shall study the various retirement benefit plans available to employees of the state and employees of the various political subdivisions, political corporations, and school districts of the state, including within the scope of its enquiry the governing law, management, financial condition, and benefits of all such plans, any federal program for which such employees or any of them could be eligible, and such related matters as the commission deems proper for full legislative understanding and action.

The commission shall report fully to the governor and to the legislature and include in the report its recommendations in respect to any matter within the scope of its enquiry.

Sec. 3. Said legislative commission shall make its report to the governor and the sixty-first session of the legislature between November 15, 1958 and January 15, 1959.

Sec. 4. For the accomplishment of its purpose and the performance of its duty the commission and its committees may hold hearings at such times and places as may be convenient for the purpose of receiving evidence, and the commission and its committees may issue subpoenas in the manner provided by its rules. The commission is authorized to secure directly from any board or executive officer managing any retirement program and from any executive department or agency of government, or from any official or employer of the state, such information as it may require, and

all such boards, departments and agencies, officials, and employees are authorized and directed to furnish such information directly to the commission or to a committee thereof upon request made by the chairman.

Sec. 5. Members of the commission will serve without pay but they shall be allowed and paid for their actual and necessary expense incurred by them in their performance of their duty. The legislative research commission shall extend to it all practicable assistance. It shall have the authority to employ legal counsel, a secretary, and such other expert, professional, and clerical assistance as it may deem necessary to pay therefor; it may purchase stationery and other supplies, and it may do all things reasonably necessary and convenient to carry out the purpose of this act.

Sec. 6. There is hereby appropriated out of any money in the state treasury not otherwise appropriated $45,000 for the biennium commencing July 1, 1957, or so much thereof as may be necessary to pay expenses incurred by the commission. For the payment of such expenses the commission shall draw its warrant upon the state treasurer, which warrants will be signed by the chairman or by such other or additional member of the commission as the rules of the commission may provide, and the state auditor shall then approve and the state treasurer pay such warrants as and when presented.

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Act of the 1959 Legislature Continuing the Commission

(The continuation of the Commission by the 1959 session was accomplished as part of Extra Session Laws, Chapter 82, which covered a number of interim commissions. That part of the 1959 Laws pertaining to the Public Retirement Study Commission is set forth below.)

INTERIM COMMISSIONS
Created by the 1959 Session

Extra Session Laws, Chapter 82, SF 42

Section 1. Subdivision 1. Commissions of the legislature to study, investigate, and consider governmental and related problems, existing laws, and the need for additional legislation in connection therewith including law revision and codification where necessary, are established in accordance with the provisions of this section.

Subd. 2. The interim commissions established by subdivision 1 are:

(9) RETIREMENT INTERIM COMMISSION, a continuation of the commission established by Laws 1955, Chapter 829, as amended, to consider the retirement systems and plans available to employees of the State and its various political subdivisions, agencies, governmental corporations, and school districts, their governing laws, management, financial condition, benefits, and federal programs to which public employees are eligible, and related matters.

Subd. 7. Each of the foregoing commissions shall make a report to the legislature convening in January, 1961, as early in the legislative session as possible and may make additional reports thereafter to the extent that availability of funds permits. Each of such interim commissions shall cease to exist upon final adjournment of the 1961 regular session of the legislature, except as the law otherwise provides.

Sec. 2. Subdivision 1. The sums of money hereinafter set forth or so much thereof as may be necessary are hereby appropriated from the general revenue fund in the State treasury or from such other funds in the State treasury as are designated in this subdivision, to the interim commissions named in Section 1 and to the State officer herein named, to be available for expenditure until fully expended notwithstanding the provisions of any law to the contrary.

Name of Commission	Amount
RETIREMENT INTERIM COMMISSION; of the amount appropriated, $2,000 or so much thereof as may be necessary may be expended by the commission in payment of retirement study expenses incurred prior to the final enactment of this act.	$47,000

Subd. 2. Expenses of each of the interim commissions shall be approved by its chairman or such other members of the commission as it may provide and such expenses shall then be paid in the same manner as other State expenses are paid.

Sec. 3. None of the provisions of this act shall in any way affect any commission or committee of the Legislature or any branch thereof now existing or hereafter established under any other law.

Sec. 4. This act is in effect upon its final enactment.

RECOGNITION AND APPRECIATION

This report would be incomplete if the Commission did not call attention to the considerable amount of assistance and cooperation received from a number of the pension funds, from many individuals, and from several organizations.

The State Association of County Commissioners and the League of Minnesota Municipalities maintain standing committees on pension problems. Both of these organizations contributed to the work of the Commission through suggestions and appearances and also in sharing their findings. Both organizations adopted statements of recommended pension policy which are published in the appendix of this report.

A number of other organizations cooperated with the Commission, devoting considerable less time and effort to the problem. The Commission would like to commend each of these organizations.

SERA and TRA supplied the Commission with considerable material as a result of their experience and their actuarial surveys and other actuarial services. The actuaries of SERA, PERA, and TRA appeared before the Commission. The staff officials of the three major pension funds, frequently accompanied by members of the Board of Trustees of the respective funds, attended most of the Commission's meetings and participated in discussion of material.

In June, 1960, the Commission requested all pension funds that contemplated submitting proposed legislation to the 1961

session of the Legislature to submit such proposed legislation to the Commission by September 1 and include therewith actuarial estimates of the effects of such proposals. The major funds, as well as a number of the smaller funds, including local fire and police funds, complied or arranged for later compliance.

The spirit of cooperation on the part of the Game Wardnes Association was particularly notable during the interim. A number of individuals and individual officers cooperated with and were very helpful to the Commission. The Commission would like to cite a number of such persons but to do so would run the risk of inadvertently offending someone through oversight. The Commission, however, hopes that the assistance to the Commission by four individuals was sufficiently above and beyond the degree of others who deserve commendation that offense will not be taken if specific mention is made of these individuals.

Mr. R. J. Whaling, County Auditor of Itasca County, devoted a considerable amount of time and effort, and a high degree of competence, to study and suggestions for the improvement of collection of PERA employer contributions. The Commission recommendations, while not precisely following Mr. Whaling's suggested procedure, draw heavily on his work.

Mr. Robert E. Blixt, Executive Secretary of the State Board of Investment, appeared before the Commission on several occasions and assisted the Commission in preparation of material in his field.

The Commission wishes to express appreciation to Mr. Albert W. Gray, Vice President and Trust Officer of the Midland National

Bank, Minneapolis, for the carefully prepared and helpful information he brought to the Commission's study.

The cooperation and assistance received from Mr. Harry Groschel, Director of Social Security Retirement Division of the State Administration Department is greatly appreciated.

Again, the Commission wishes to commend, without singling out individuals, the staff and board members of the three major pension funds for their spirit of cooperation.

The representatives of employee groups who appeared before the Commission were so uniformly cooperative that the Commission must commend them generally.

Special commendation should be herein registered for the devoted and proficient work done by the capable staff of the Commission.

The members of the Commission hereby pay special tribute to Senator Harry L. Wahlstrand who, until the last few months of the interim, devoted his time and unusual talents to the furtherance of good pension practises.

Fay Geo. Child

Fay George Child
Chairman of Commission

PRINCIPLES OF PENSION POLICY

Each of the Public Retirement Study Commissions working during the last three bienniums has been confronted with a considerable number of problems that would not have arisen if all pension plans had been required to conform with the same set of basic principles. A considerable proportion of the problems involving a feeling of discrimination by groups of employees or by the membership of one fund as contrasted to another would not have arisen had their been more uniformity of treatment.

This Commission recommends to the Legislature as a constructive guide in all pension legislation the following set of principles, most of which were adopted by each of the preceding Public Retirement Study Commissions:

There should be uniformity as to pension treatment of the various groups of public employees.

> Historically, extra public-financed benefits added to one fund have led to discontent and demands for similar extra treatment for members of other funds. This compounds inequities, disrupts financing, and leads to demands on the legislature for "equivalent benefits."

Equity should be established and maintained within each pension fund.

> The benefit "formula" and provisions should not be such that some members receive "considerably more for their money" than others with resultant extra deficits to the fund.

Age 65 should be considered the normal age for retirement.

Beside being the OASDI age, the "employability" of the average person plus the considerably higher costs of providing a reasonable level of pensions at a lower age all indicate 65 as the best age around which to build retirement goals for general employees, except insofar as it may be desirable to modify this principle with respect to safety employees.

In all cases of optional retirement at ages less than 65, benefits should be on a basis of full actuarial discount.

No employee should receive a "bargain" at the expense of other employees and the fund because of early retirement, except insofar as it may be desirable to modify this principle with respect to safety employees. This has been a material cause of additional deficits to many pension funds.

Thirty years should be considered the minimum period of service necessary for a pension plan to provide the "normal level" of pension benefits.

The government has no obligation to provide a lifetime level of retirement to an employee for only a few years of public service.

Fifty per cent of average salary is a fair "normal level" of benefits for a pension fund to provide for an employee of 30 years' service.

Pension plans were not intended to provide by government subsidy the level of retirement an employee might desire. Some area of private responsibility should remain.

Governmental employer support of normal level pension costs should not exceed equal matching of the employee's contribution to his pension.

To provide a greater share of the benefits at governmental expense tempts employees to work for extra benefits and marginal benefits because the cost to the employee is small. Pensions should not become "hidden extra salary."

Future pension obligations of all retirement funds in the State should be financed on a basis of normal level costs during the working lifetime of covered members.

If this is done:

Labor costs of current services will not be postponed to a future generation of taxpayers.

Retired former employees would have, as security for their pension, assets accumulated during their employment rather than an amendable, repealable law.

A funded method will quickly reflect actual costs of further "liberalization" of pension benefits. Deferred financing masks costs of unsound liberalizations.

Considerably smaller long-range dollar costs are required because current funds for future pensions are invested at interest. The actual dollar outlay may be cut by as much as 50% if funds are regularly set aside in advance and invested at interest to meet pension obligations before they fall due.

If this is not done:

Taxpayers and legislators a generation hence may not feel obligated to keep the unfinanced promises of a previous generation.

Complimentary to the previous recommendation that pension plans in the future be currently funded, the Commission further recommends that the laws heretofore enacted be continued or, if necessary, be amended, so as to amortize the unfunded accrued liability over a period not to exceed 40 years.

An extended period of amortization will, in time, accomplish the necessary objectives and will facilitate financing of unfunded liability within a containable level of annual cost.

A period of greater than 40 years approaches the level of perpetual interest on the deficit.

Deficits as to retired people should not be financed over a greater period than the life expectancy of retired persons.

Raises in pension benefits to retired persons should be recognized as a form of assistance and not disguised as pensions. Such grants should in all instances be separately financed and never charged to the pension funds.

Benefits of this type are purely a form of assistance, neither foreseen nor financed by employees or employers in the normal operation of a pension plan.

Unless additional adequate financing accompanies any grants of such assistance benefits, they would constitute a raid on the pension fund through extra deficits and would be to the detriment of the fund.

Unless the merit of such grants is sufficient to warrant separate financing, the tendency of "something for nothing now and someone pay later" would invite financial chaos in all the pension funds.

THE IMPORTANCE OF ACTUARIAL SURVEYS

An adequate actuarial survey is not just the best way, it is the only method by which anyone can find out the real liabilities of a pension fund, the real cost of a pension fund, the costs of component features of the total benefit schedule, and whether or not the financing of a fund is adequate or inadequate.

Until the 1957 session of the Legislature required by law that each public employee pension fund in Minnesota procure and submit an actuarial survey, the essential information necessary to a sound and intelligent understanding of the public employee pension funds in Minnesota was simply not generally available.

> The vast majority of funds had never had any actuarial analysis.
>
> Some funds had had partial actuarial surveys at various times in the past.
>
> Very few funds had ever had a complete actuarial survey.

Until the Public Retirement Study Commission published in 1959 summaries of the actuarial surveys required by the 1957 session, even such limited actuarial information as had been procured at times in the past was not generally known or available to the Legislature, to other public officials, to the public or to the members of the funds.

This Commission recognizes the requirement of actuarial surveys

as a most important legislative step in sound planning for Minnesota pension funds. Some of the funds have, since 1957, increased their own use of actuarial information and have provided essential data to this Commission.

The substantial progress of the 1957-1959 sessions of the Legislature toward more equity within each pension fund and toward more sound financing of many of the funds would have been impossible except for the actuarial information on which these measures were based.

Prior to 1957, every Minnesota public employee pension fund was found to be increasing liabilities at a more rapid rate than assets. The rate of adverse development varied, but all developments were adverse.

As a result of the action taken by the last two sessions of the Legislature:

> SERA has become the first major pension fund in which the financing is sufficient, not only to keep pace with the accrual of liabilities, but to slowly, over an extended period of years, eliminate the accumulated deficit.
>
> As a result of legislative awareness and legislation already enacted, plus recommendations of this Commission which are being made in this report, the outlook for PERA and TRA is substantially brighter than at any time in the past.
>
> A few local pension funds equipped with the knowledge from actuarial surveys have made varying degrees of improvement.

The 1957 legislation required an actuarial survey to reveal the condition of each fund as of January 1, 1958. These surveys

disclosed that as of that date:

> The total net pension liability of all pension funds created by the Legislature for local as well as statewide public employees amounted in round figures to $619 million.
>
> Assets accumulated amounted in round figures to only $180 million.
>
> The total liabilities of these 57 local and statewide pension funds up to January 1, 1958 thus exceeded the assets by some $438 million.

This $438 million figure, variously called "unfunded liability" or "actuarial deficit," is a real, not a theoretical, measure of the accrual of net liabilities in excess of the accrual of assets according to long-range average level standards of costs.

These same actuarial surveys showed that even after the considerable improvement in financing enacted by the 1957 session of the Legislature the combined pension funds of Minnesota were increasing pension liabilities at the rate of $54 million per year while financing was at the rate of only $41 million per year. A considerable part of this $13 million per year increase in deficits was in local pension funds.

Progress has been made since the 1959 session by the three major statewide funds assisted to a varying extent by use of actuarial services. As of the 1960 fiscal anniversary date of these funds, their total liabilities on a level-normal-cost basis are estimated at approximately $400 million. Assets were some $175 million and hence their combined deficits were approximately $225 million. These figures are estimates from surveys dated in 1958

and 1959. New complete surveys in 1962 are important to replace estimates with measurements.

Since 1958 there has been an annual increase in assets, as well as in liabilities, of the three major funds. An evaluation of this experience by a competent actuarial survey is needed to indicate accurately the financial support necessary to completely finance these funds.

The 1959 session made changes in a number of pension plans. Some of the changes were extensive, such as the enablement of coordination with OASDI for Teachers and the creation of the Police and Fire section of PERA. It is reasonable to suppose that the 1961 session of the Legislature will likewise enact changes in some of the pension funds.

Only through a complete actuarial survey of each fund as of a date after the 1961 session will it be possible to accurately measure the effects, both good and bad, of changes in the pension funds since January 1, 1958. This is likewise the only means by which the effects of changes in interest rate on investments, changes in mortality, and changes in the rate of employee resignations and withdrawals can be detected and intelligent adjustments determined. By compensating for the effects of the changes through early minor adjustments before a long period of years elapse, the Legislature can prevent small trends from becoming compounded into large and often painful adjustments.

The 1957 Public Retirement Study Commission recommended to the Legislature that an actuarial survey be required of each pension

fund not less often than once in every four years. The Legislature provided for only one set of actuarial surveys as of January 1, 1958, but continued the Public Retirement Study Commission to continue study and make recommendations. It has been found that because of numerous, and in some instances extensive, changes in pension benefits at the last two sessions, the importance of the original recommendation as to a requirement for a complete survey of each fund not less often than every four years has been substantiated and enhanced.

In addition, the current Commission is recommending that the published financial statement of each pension fund include an actuarial evaluation sheet estimated in each instance on the basis of the basic findings of each fund's most recent actuarial survey.

The relatively minor cost of actuarial services, as compared to the multi-million-dollar annual pension transactions, is one of the best investments that can be made. In view of the value of the information provided, the services of an actuary to the Commission have not been just invaluable, they have been absolutely essential.

If actuarial surveys are to be of maximum value to the Legislature, to members of the pension fund, to concerned governmental officials generally, and to the public, the Commission emphatically recommends that such actuarial surveys must meet certain standards:

1. All surveys in the State should be uniform as to nature of content and requirement as to nature of findings.

2. Each survey must include a complete finding as to average level long-range costs and required financing.

3. Each survey must include a complete disclosure of pension liabilities of the fund based on its membership and accrual of pension benefits, corresponding to the average level long-range costs of the plan.

4. Each survey must include a breakdown as to experience, costs, and other attributes of fundamental factors and types of benefit in the benefit plan.

The only method of actuarial approach which meets all of the requirements set forth above is the level-normal-cost approach. In the surveys made as of January 1, 1958, every actuarial report received by the Commission, except the survey of one fund, interpreted the 1957 statute to mean a level-normal-cost approach. Failure to recognize average level long-range costs will inevitably result in ultimately higher costs. It is important that surveys of all funds be on a comparable basis and that the financial statements of the various funds be as fully understood as possible by all concerned.

Because four years will have elapsed since the surveys required by the 1957 Legislature, and because of the additional reasons already cited,

THE COMMISSION RECOMMENDS THAT PROPER LEGISLATION BE ENACTED TO PROVIDE:

That each pension fund or association organized under the laws of the State of Minnesota for the purpose of paying pensions or retirement benefits, except for volunteer firemen's relief associations

which confine retirement benefits to a single sum, shall be required to procure an actuarial survey showing the condition of each fund as of January 1, 1962, and as of January 1 at four-year intervals thereafter;

That the January 1, 1962 surveys shall be delivered to the proper committee or commission of the Legislature dealing with retirement plans not later than June 1, 1962, and subsequent surveys shall be similarly delivered as of June 1 following the survey;

That, in addition, each local pension fund shall be required to deliver a copy of each such survey to the governing body of its local jurisdiction not later than the date it delivers a copy to the prescribed legislative body;

That no actuarial balance sheet shall include as an asset any amount representing the present value of contributions to be made for the purpose of amortizing the deficit in the fund;

That each survey shall be performed by an approved actuary as set forth in Chapter 11, Special Session Laws of 1957; and

That all actuarial surveys required by law shall be on a level-normal-cost basis.

Nothing in such legislative requirements should prevent any

pension fund from procuring actuarial surveys at such other times as any fund may determine.

The Public Retirement Study Commission does not desire to interfere with home rule on the part of political subdivisions of the State. However, the local pension plans have all been created by laws enacted by the State Legislature with the result that the Commission feels the responsibility to provide that local governing bodies receive information concerning their pension funds and to alert local officials to the consequences of unsound pension fund conditions. The Commission feels the policy should be established whereby not only should an analysis of pension funds be made for the Legislature, but for the information of local officials. This is the reason that the Commission's recommendations as to actuarial surveys apply to all pension funds created by law and is also the reason why, in the following section relative to reporting by pension funds, the Commission recommends standard reporting procedure for all funds, including local funds.

This report, in several sections, calls attention to the fact that benefit provisions of each local fund unavoidably will exert influence on other local funds and State funds as well.

FINANCIAL REPORTS OF MINNESOTA FUNDS

As was pointed out in the preceding chapter on the importance of actuarial surveys, the true financial condition of a pension fund cannot be known without accurate periodic financial statements. This is true because liabilities of pension funds are intangible; the dollars paid out as a result of benefits promised today will not be disbursed until many years into the future. Recognition of these liabilities is vital to sound planning and financing of pension funds.

The Commission believes that proper recognition of cost and liabilities is possible only through periodic actuarial surveys which should be required by law at least every four years, according to the Commission's recommendation. It also recognizes that it is important to have accurate financial statements at more frequent intervals.

Many Minnesota public employee pension plans publish annual reports to members that become available to the public. Sometimes wide publicity is given to such reports through newspapers and other media. These reports can be extremely misleading unless they are based upon accurate evaluation of all liabilities as well as assets.

For example, a relatively new pension plan with few retirants can publish a statement showing rapid growth of assets because small benefits are currently paid while contributions are coming in which may very well be inadequate in the long run, but are more than

adequate for the short term. If, however, recognition were given to the accrual of full liabilities on a level cost basis over the working lifetime of covered employees, an accurate balance sheet would show whether assets were accumulating fast enough to cover liabilities as they accrue.

A report can be not only inaccurate but very misleading if it fails to measure full liabilities, since asset growth alone is not sufficient to measure the condition of a fund.

The annual financial statement of PERA for the year ending June 30, 1960, is an example of how a report can show a rapid accumulation of assets and thus give an unrealistic impression of the status of the fund. The misleading impression arises because no increase in total liabilities is shown in the report. The liabilities shown in the report do not include even liabilities or reserves for people already retired and drawing benefits, to say nothing of the liabilities or reserves accrued for members not yet retired. A realistic report on the status of this Fund would have shown that the increase in liabilities of the Fund according to a level advanced funding basis was more than the increase in its assets.

Some Minnesota plans have already published reports showing accurate recognition of all liabilities. Through these reports on an annual basis it is possible to trace the progress of the fund and to see whether provision for contributions is sufficient to cover the costs of the plan.

As a result of its consideration of the problem above,

THE COMMISSION RECOMMENDS THAT LEGISLATION BE ENACTED TO INSURE THAT:

Any Minnesota public employee pension fund making a financial report shall include accurate recognition of all accrued liabilities as required in the Minnesota law regarding actuarial surveys.

Two years after each actuarial survey is completed in accordance with the law, each Minnesota public employee pension fund shall make a standardized report of its financial status. This report shall contain the same actuarial balance sheet information that is required in the law regarding actuarial surveys, except that estimates of accrued liabilities may be made by an approved actuary without a complete actuarial survey. This shall not in any way preclude publishing of annual reports meeting the same requirements.

INVESTMENT OF PENSION FUNDS

"The investment of the assets of public employee funds is of considerable importance, not just to public employees but to all of the taxpayers of the State."

The above statement is reproduced from the Public Retirement Study Commission's report to the 1957 Legislature.

The two previous Public Retirement Study Commissions recommended a new and differently constituted investment board. The 1959 session conferred on the present State Board of Investment authority and a number of responsibilities the Commission recommended should be vested in whatever agency handled investment of pension funds. Notably, this included the responsibility to sell, exchange, and manage investment portfolios of the pension funds in addition to the previous responsibility limited to the initial purchase of securities. The Board of Investment was also enabled to engage a professional staff to implement its broadened responsibility.

Approximately one year ago, the State Board of Investment retained as Executive Secretary Mr. Robert Blixt, formerly of the University of Minnesota investment staff. The present Board, with the essential assistance of its augmented staff headed by Mr. Blixt, has, in less than a full year, effected such improvement in the investment of pension funds as to demonstrate emphatically the soundness of the objectives of the previous Public Retirement Study

Commission's recommendations.

The members of the State Board of Investment deserve commendation for the sound policies pursued and the effective use of its staff in discharging their enlarged authority and responsibility.

There has been a marked improvement in both the quality of securities purchased and the interest return obtained.

> No security has been purchased that was not rated "A" or better by one or more recognized investment rating authorities.
>
> The Board has been able to sell some securities and reinvest in securities of both better quality and yield.
>
> Diversification of securities held has been improved.
>
> Interest return on investments in top-grade securities has averaged from 1/2% to 8/10% better than yields previously being obtained.

The choice of securities and yield of invested pension funds is very important - not just to the members of the pension funds but to the taxpaying public. Employees and taxpayers must provide all of the funds needed for pension benefits that are not provided by interest yield on investments.

The combined assets of SERA, PERA, and TRA now exceed $165 million and are increasing at the rate of nearly $25 million per year. The Investment Board has invested approximately $25 million in the past eleven months. The average yield of this $25 million new investment has been just over 4.8% interest. The average interest earned on the total invested pension fund assets for a

period of years prior to 1959 was slightly less than 3%. The new investments made by the Investment Board have already raised the average yield on all pension fund assets to above 3%. It is obvious that the accomplishments of the present Board, including the sale and exchange of securities of previously invested assets to such extent as is advisable, have already bettered the condition of the pension funds investment-wise. It is equally obvious that such performance must be continued for a period of years to attain maximum potential value to the pension funds and the public. This will be true to an increasing degree as total assets of the funds increase.

Illustrated on the basis of the present $165 million of pension assets of the three major funds, an increase in average interest yield by 1/2% interest will bring to the benefit of the funds $825,000 greater income per year. An increase totaling 1% interest will enlarge the annual income to the funds by $1,650,000. In the light of the increase in interest income already obtained and the far more considerable increase in total interest return that will follow continuation of the quality of performance of the State Investment Board, the annual cost of the staff necessary to enable such performance is not only insignificant but becomes one of the most remunerative investments that could possibly be made by this State or the pension funds.

No Constitutional amendment is required to diversify and improve the yield as to the investment of the pension funds, which are entirely controlled by statute. The total assets of pension

funds now under the investment authority of the State Board of Investment will, in a few years, exceed the amount of the State trust funds so that in the future the securities and yield of pension funds will be of equal or greater importance to the public than the investment of trust funds.

The investment requirements of retirement funds, particularly as to the proportion of liquid assets needed, differs materially from the requirements of savings banks, trust companies, and insurance companies. The proportion of assets that must be invested with a view to potential immediate liquidity is far greater in other types of funds than in pension funds. The current income of pension funds is relatively constant and measurable and the requirements as to disbursements are accurately foreseeable as to both time and amount. It is therefore sounder practice to specify the permitted types and proportions of investment appropriate for pension funds than to simply enable pension funds to invest in securities permitted for trust companies, insurance companies, and savings banks. The proportions of various types of investments suitable for such institutions may in some instances be far different from the proportions suitable for pension funds.

The Commission is therefore recommending specific legislation for the investment of the assets of the pension funds under the jurisdiction of the State Board of Investment. The Commission is informed that in general principle this legislation coincides to a considerable extent with the thinking of the Governor's advisory commission on investment of State trust funds. The

proposed legislation does not seek extreme liberalization to as great an extent as has been enacted in some states but seeks to make possible selection of investments based on quality and yield in accordance with proved sound practices.

The principal objectives of the Commission are to remove those restrictions that now prevent investments in some of the highest quality securities available and to enable the maximum yield commensurate with the primary objectives of security and the needs of the pension funds.

Among several states that have studied the problem of investment of public funds, including pension funds, and have revised their laws in recent years are such states as New York, New Jersey, Wisconsin, Arizona, New Mexico, and California. New York, after four years of careful study, extensively revised its investment laws as to pension funds. The other states have done likewise in recent years. In Minnesota, as well as most other states, there has been recent revision in investment enablement as to insurance companies, trust funds, and savings banks, and more revision appears in prospect. The legislation proposed contains a number of limits designed to insure diversification as well as quality of investment.

The State Board of Investment has already demonstrated that with the assistance of personnel trained and experienced in investment management, it can not only increase the yield but can improve the quality of invested funds.

THE COMMISSION THEREFORE RECOMMENDS THAT APPROPRIATE

LEGISLATION BE ENACTED TO MODERNIZE AND EXTEND THE INVESTMENT LAWS APPLICABLE TO PENSION FUNDS SO THAT HIGH-QUALITY SECURITIES, AT PRESENT NOT AVAILABLE TO SUCH FUNDS, WILL BE MADE AVAILABLE WITHIN SOUND LIMITATIONS FOR PENSION-FUND INVESTMENT.

POLICY AS TO PROPOSED PENSION CHANGES

Adherence to sound pension policy can not be accomplished unless each contemplated change in pension benefits or financing can be measured against fundamental principles. Each contemplated change in benefits or financing should be analyzed as to its direct result and, in addition, its effect on the pension plan generally. This would be impossible except by the use of actuarial and legal analysis and consideration of the human elements involved. Many of the inequities in present laws have resulted from the Legislature having to rely on superficial, inaccurate estimates as to the significance of contemplated amendments to the pension laws. Partial information in many instances is more misleading than out-and-out misinformation.

Among the most difficult problems of the Public Retirement Study Commission, and ultimately the Legislature, is the fact that increases in benefits of one pension fund invariably result in similar requests from the other funds, thus compounding the costs and the problem.

THE COMMISSION SUBMITS THE FOLLOWING RECOMMENDATIONS AS FURTHERING A CONSTRUCTIVE APPROACH TO PENSION CHANGES:

Every proposed change in any pension plan for public employees should be submitted to the Commission for study and analysis at a sufficiently early

date to allow the Commission ample time for study, analysis, and report to the Legislature. Local bills should be channelled through the Commission so that an analysis could be made available to the governing body of the subdivision of government and the Legislature.

Any proposed change involving or affecting the cost of any of the various pension systems should be accompanied with an estimate of the financial effect of such proposed change prepared by an approved actuary as defined by statute.

THE COMMISSION FURTHER RECOMMENDS:

No increase in pension benefits in regard to any public employee pension fund should be granted until:

(a) There is established and operating adequate financing to cover the normal level cost of the present level of benefits plus at least enough financing to prevent the increase in any deficit that exists in the fund; and

(b) Adequate measures to finance any proposed increase in normal level costs and increased deficits, if any, are enacted concurrently with any increase in benefits.

QUESTION OF LIMIT ON SALARIES FOR PENSION CREDIT AND DEDUCTION PURPOSES

For members of the three major statewide pension funds - SERA, PERA and TRA - $4,800 is the maximum annual earning from which pension deductions can be made and pension benefits earned.

The Boards of all three Funds and most of the membership organizations from any one of the three Funds submitted to this Commission requests for an increase in the $4,800-a-year ceiling on earnings for pension credit. Several requests were for complete removal of any ceiling on earnings for pension purposes.

A number of factors are relevant to careful consideration of the problem:

> The cost to the governmental employers would be the matching of employee contributions on earnings covered over the present per-employee limit on salary up to $4,800 a year.
>
> If the limit were raised to $6,000 a year, the estimated additional yearly employer cost as to present membership and salary scales would be approximately:

SERA annual cost (to only employers)	Approx. $300,000 per year
TRA annual cost (to only employers)	Approx. $600,000 per year

> PERA records do not show the amount of earnings over $4,800 per year but, of 31,000 members checked, almost 11,000 earned $400 a month or more.

> Limits higher than $6,000 per year would result in an additional increase in employer cost.

Initial yearly costs due to higher limits would increase in the future if higher wage and salary scales added to both the number of employees earning over $4,800 per year and the margin of additional earnings for those already over that amount.

Persuasive arguments to increase or remove the salary limit for pension purposes were advanced to the Commission. A number of arguments indicating postponement and further study were also noted:

Spokesmen for organizations representing the political subdivisions under PERA requested postponement of the question for study during the next interim.

The State itself provides employer financing for both SERA and TRA, this being the legislative responsibility.

An additional point considered by the Commission is that it appears likely that Congress may make changes in OASDI, perhaps involving salary limits as to coverage and rates of OASDI taxes, which would be relevant to consideration of salary limits in the Minnesota pension plans.

The Commission wishes to call attention to the fact that increases in salary limits for pension purposes, if once adopted, are practically irreversible.

THEREFORE, THE COMMISSION RECOMMENDS THAT THE 1961 SESSION OF THE LEGISLATURE POSTPONE ACTION AS TO INCREASES IN SALARY LIMITS FOR PENSION PURPOSES AND THAT THE MATTER BE GIVEN CAREFUL STUDY DURING THE NEXT INTERIM.

MEMBERSHIP IN MORE THAN ONE PENSION FUND FOR PUBLIC EMPLOYEES

Instances continuously arise where members of a pension fund for public employees retire and later seek to return to employment or change positions from the jurisdiction of one pension fund to another. At the present time, the provisions of the various funds vary in this respect.

Complete reciprocities whereby persons in public employment could move from position to position and fund to fund, accumulating a composite pension for a public career, are highly desirable. This is extremely difficult to accomplish in a workable manner because of varying conditions between funds - the coordination of Social Security in some instances and not in others and the difficulty of preventing financial inequities between funds.

It is highly undesirable that a person continuing public employment should actually be drawing a pension from one tax-supported fund while accumulating pension rights in another public-supported fund.

The minimum service requirement for retirement under SERA, TRA and PERA is ten years. Instances frequently occur where persons with a considerable period of total service in public employment have less than ten years' service in one or more of the individual funds and are thus prevented from receiving the pension benefits their total period of public service should

enable. This situation would be partially remedied if the minimum period of ten years' service applied to combined service in the three funds for eligibility purposes.

Not as a complete solution to the problem but as a step in a desirable direction,

THE COMMISSION RECOMMENDS THAT LEGISLATION BE ENACTED TO PROVIDE:

That any person entitled to receive a pension in a public employees' fund should be ineligible to hold any public position or office, other than elective, unless his pension payments, if any, from all public-employee pension funds of the State of Minnesota are suspended during the period of his employment; provided, however, that temporary employment not in excess of sixty days in any calendar year may be permitted without the suspension of pension payments.

That whenever a member who is retired from one public-employee pension fund assumes employment under jurisdiction of a different tax-supported pension fund, he shall contribute to and acquire pension credit in the new fund.

That whenever a retired member of a fund returns to employment under jurisdiction of the same fund, he shall not be permitted to contribute to or earn

pension credit during that period of employment subsequent to his initial retirement from that fund.

That upon retirement from public service all pension payments suspended by reason of return to public employment, if any, shall be resumed from date of retirement from final position.

That any public employee with combined service of ten or more years in PERA, SERA or TRA shall be deemed to have met the requirement of minimum service for retirement under each such fund. Each such fund shall thereupon pay retirement benefits appropriate to the service under that fund.

UNEMPLOYMENT COMPENSATION AND RETIREMENT FUNDS FOR PUBLIC EMPLOYEES

A need exists for clarification as to the status regarding unemployment benefits of public employees retiring on pension. Some jurisdictions have mandatory retirement ages established by statute or ordinance. Other jurisdictions have mandatory retirement ages established by policy. Some governmental jurisdictions have retirement ages with machinery for exceptions in certain cases at the option of the employer. A number of jurisdictions simply retire employees, usually at age 65 or over, without a specific statute, ordinance, or stated policy. This condition, under the present unemployment compensation laws, allows many cases to be subject to individual interpretation, with resulting injustice between individuals and jurisdictions.

This problem has not as yet attained full proportion, because prior to the 1959 session the State had extended unemployment coverage to State employees but not to employees of the subdivisions. To date, only a few of the subdivisions have adopted unemployment coverage as enabled by the 1959 legislation.

As more subdivisions with their varying policies and laws adopt unemployment coverage, the confusion will increase considerably. It is important that remedial measures be considered before an increased number of persons are affected.

THE COMMISSION THEREFORE RECOMMENDS THAT THE UNEMPLOYMENT COMPENSATION LAW BE AMENDED TO PROVIDE THAT AN EMPLOYEE MEMBER OF ANY PENSION FUND ESTABLISHED FOR PUBLIC EMPLOYEES UNDER THE LAWS OF MINNESOTA WHOSE EMPLOYMENT IS TERMINATED AFTER HIS ATTAINMENT OF "NORMAL RETIREMENT AGE" AND WHO IS ELIGIBLE FOR PENSION BENEFITS UNDER ANY SUCH FUND SHALL NOT BE ELIGIBLE TO UNEMPLOYMENT COMPENSATION BENEFITS. NORMAL RETIREMENT AGE SHOULD BE DEEMED TO BE AGE 65 EXCEPT WHERE EXPRESSLY STATED DIFFERENTLY IN THE LAWS GOVERNING ANY PARTICULAR PENSION FUND.

STATE EMPLOYEES RETIREMENT ASSOCIATION

SERA is coordinated with Social Security as to all members eligible for Social Security coverage. The SERA members ineligible for Social Security coverage are so few in number as not to constitute a material factor in consideration of the plan. The few members not under OASDI are still under the SERA plan in effect before coordination. If recommendations of this Commission to the 1961 session are adopted, only approximately fifty members will still be under the old plan.

The financial progress of SERA since the 1957 Legislature is already an illustration of the constructive results of sound pension financing.

Before the laws enacted by the 1957 session of the Legislature took full effect, the deficit (unfunded liability) of SERA was found by the SERA actuary to be $45.9 million. This was as of December 30, 1957 - immediately before the effective date of coordination with OASDI.

Coordination of SERA with OASDI following the membership referendum in October, 1957, resulted in a considerable reduction in the SERA deficit.

The actuarial survey ordered by the Legislature to show the condition of the Fund as of January 1, 1958, therefore showed the condition of the Fund immediately following coordination.

The findings of the actuarial survey as of January 1, 1958, and 1959, and its comparison with the actuarial measurement of SERA as of January 1, 1960, demonstrate the progress in the financing of the Fund since the 1957 session.

The following tabulation shows the actuary's findings as of December 30, 1957, before coordination, and then as of January 1, 1958, just after coordination. The actuary's findings as of January 1, 1960 show the results after two years' operation on the present coordinated basis.

As of:	Required Reserve (Net Pension Liabilities)	Assets	Deficit (Unfunded Liability)
12/30/57	$88,365,321	$42,323,450	$45,998,758
1/ 1/58	69,050,626	42,323,450	26,727,175
Reduction in deficit due to coordination:			$19,271,583
1/ 1/ 60	72,350,420	48,704,693	23,645,726
Two-year reduction in unfunded liability due to level of financing provided:			$ 3,081,449

SERA, on its own volition, had an actuarial survey as of December 31, 1959. The Commission actuary concurs with the findings of the SERA actuary.

The 1957 and 1959 Legislatures, the SERA Board of Trustees, and the State employee members are all justifiably pleased over the improvement in financial soundness of SERA.

SERA is the only one of the three major State pension funds now being financed at a rate sufficient to meet currently accruing liabilities and to steadily reduce the deficit resulting from past underfinancing. Continuation of this progress will be an excellent investment in soundness of the Fund and long-range reduction in State costs!

The SERA part of the combined SERA-OASDI pension plan has a level current cost which slightly exceeds the rate of normal financing now provided:

Level normal cost is equal to		6.3% of payroll
Normal financing provided:		
Employee contributions	3%	
Employer contributions	3%	6.0% of payroll
Rate of excess normal level cost over current financing provided:		.3% of payroll

Total annual payroll from which SERA pension deductions were made was $89 million in 1959.

The .3% of pay by which normal level cost exceeds normal contributions adds to the deficit at that rate which in 1959 amounted to approximately $267,000.

The State contributes 2% of payroll in addition to the 3% of pay employer contribution for the purpose of financing the past unfunded liabilities, but because of the .3% of pay normal cost in excess of normal financing, approximately $267,000 per year of the State contribution to finance the deficit is required for the current new deficit, leaving only 1.7% of payroll to be applied to the past service unfunded liabilities.

There are several additional important reasons why the present level of SERA financing should be continued:

Because the annual rate of cost of OASDI (the other portion of the total SERA coordinated plan) is scheduled to increase in 1963, 1966 and 1969, it

is important that the SERA deficit be reduced as rapidly as possible.

Because the major portion of the SERA deficit (Approx. 80% in 1958) is unfunded liabilities to retired former employees, at least this portion of the deficit should be financed during their lifetime.

Since SERA is the first major Minnesota pension Fund to reach and become an example of a sound basis of financing , it is important to keep it so.

The SERA actuary has estimated that if the present benefit plan and rate of financing is continued, this deficit will be eliminated 15 years sooner than if the 2% rate (to finance the deficit) were reduced to 1½% of pay. As a result, the State will save $9,000,000 in employer costs if the 2% rate is continued.

THEREFORE, THE COMMISSION STRONGLY RECOMMENDS THAT THE PRESENT 2%-OF-PAYROLL RATE TOWARD FINANCING OF SERA UNFUNDED LIABILITIES, AS ADOPTED BY THE 1959 LEGISLATURE, BE CONTINUED.

Adherence to the principle that employer financing of level normal cost for general pension funds should not exceed equal matching of employee contribution would require an increase in employee contribution of .15% of pay to a total rate of 3.15% of pay.

The principal reason this is not recommended at this time is that the State Board of Investment, operating as enabled by the 1959 statutory amendments, has been successful in increasing the interest return on the invested assets of the pension funds, and it is contemplated that this increased interest return will soon be sufficient to meet the 6.3%-of-pay current cost.

Request for Changes in SERA

The SERA Board and staff, from time to time during the interim, submitted a number of recommendations and requests for change in the SERA law. A considerable majority of the recommendations and requests were to clarify the law, to further administrative improvement or to remedy inequities to a limited number of members.

The Commission found most of these recommendations and suggestions to be constructive. Several of the SERA requests that, in the opinion of the Commission, deserve specific mention are as follows:

> The Commission concurs in the request that members of the Crop Improvement Association be transferred from the old SERA plan to the coordinated plan, since these persons have Social Security through their Association.
>
> Congress amended the Social Security Act to remove the provision that disability benefits were only payable to persons 50 years of age or over after the SERA request was received to continue this benefit beyond the scheduled expiration date of July 1, 1961. Consequently, the Commission is recommending that disability benefits based on earned pension credit be continued but that the $50-per-month supplementary disability for persons disabled under age 50 be allowed to terminate, as now scheduled, as to persons becoming disabled after July 1, 1961.
>
> Legislation will also include a revision in the definition of "disability" to conform to the policies adopted by SERA in the administration of this benefit. This is very similar to the OASDI definition.
>
> The Commission concurs in the request for refundment of employees' contributions in cases where SERA members have changed their employment to the jurisdiction of other funds for State employees.

SERA's request for recognition of service in SERA and the other two major funds is covered in the general section of this report.

The Commission concurs in the recommendation of SERA that the "buyback" provision be allowed to expire as of June 30, 1961, as now provided in the law.

The request of SERA, like those in behalf of TRA and PERA, for an increase in the ceiling of $4,800 per year salary from which pension deductions and credits can be obtained is treated in a section of this report dealing with general matters pertaining to more than one fund.

The Commission wishes to direct attention to the fact that when public employees' pension funds are coordinated with OASDI, disability and survivor's benefits are provided under OASDI and hence the failure to mention extensively such benefits does not indicate that coordinated members of SERA and TRA are not provided such coverage.

THE COMMISSION RECOMMENDS THE ADOPTION OF LEGISLATION PREPARED AT COMMISSION INSTRUCTIONS TO ACCOMPLISH THE CONSIDERABLE NUMBER OF REMEDIAL AND ADMINISTRATIVE PROVISIONS ADOPTED BY THE COMMISSION, INCLUDING THOSE SUGGESTIONS OF SERA WHICH THE COMMISSION HAS APPROVED.

RETIRED STATE EMPLOYEES ASSOCIATION

REQUEST FOR INCREASED BENEFITS

The Retired State Employees Association submitted for Commission consideration a proposed bill designed to increase pension payments to State employees who retired before January 1, 1955. The proposal is for a $25-a-month increase, limited to pensioners receiving less than $108.50 per month as a life annuity, with the further limitation that the increase will be smaller in amount if necessary so as not to cause the payments of the pensioners affected to exceed $108.50 per month.

The bill proposes that the additional benefits be financed by appropriating to SERA additional funds to cover the increased benefits so that there would be no effect on the funds otherwise provided for financing SERA. SERA would be charged with the administration of the additional benefits.

The Commission actuary estimated that the immediate present value of this bill, if enacted, would be approximately $700,000. The bill proposes that the State appropriations be made each biennium, over the remaining lifetime of the specific retirants, to cover the funds needed for disbursement of the additional benefits during that biennium.

The Commission calls attention to the fact that in another section of this report entitled "Principles of Pension Policy," this Commission adopted a principle adhered to by the two previous

Public Retirement Study Commissions which is directly applicable to this request of the Retired State Employees Association. This principle is:

> "Raises in pension benefits to retired persons should be recognized as a form of assistance and not disguised as pensions. Such grants should in all instances be separately financed and never charged to the pension funds."

This bill meets the specifications in that it does not change the general pension plan of SERA and it provides for financing separate from and in addition to the financing provided for the SERA plan.

The Commission recognizes the need of former employees retired under small pensions to have some means of at least partially coping with the increased cost of living.

THE COMMITTEE THEREFORE RECOMMENDS THIS BILL AS A MEASURE OF DIRECT ASSISTANCE TO FORMER EMPLOYEES WITH LIMITED PENSIONS AND NOT AS A CHANGE IN THE SERA PENSION PROGRAM.

TEACHERS RETIREMENT ASSOCIATION

The Teachers Retirement Fund now has attributes of two retirement plans as a result of the 1959 enabling act. Teachers had an option to select a plan coordinating TRA with OASDI. Teachers not so electing could remain in what was called the "basic TRA plan," which was previously the only plan available to members of TRA. The teachers under the basic plan contribute 6% on pay up to a maximum of $4,800 per year under the principle that the State will match this amount. Teachers under the coordinated plan contribute to the TRA part 3% of pay up to $4,800 maximum under the same principle of State matching. These teachers contribute under OASDI and the State matches the employee OASDI tax.

The Teachers Retirement Fund, prior to 1957 legislation, received only such taxpayer financing as was necessary each year to enable payment of the annuities due to retired teachers.

The 1957 session increased the State tax levy for TRA to $4,993,000 in contrast to the previous year's levy of $767,000. Tax support on this higher level has been maintained each year since 1957.

The TRA actuarial survey made in compliance with legislative action and showing the condition of the Fund as of January 1, 1958, was, as far as the Commission can learn, the first adequate actuarial survey of TRA. This survey found that as of January 1, 1958, TRA had a total liability of $111.1 million and assets of $38.7 million, which left unfunded accrued liability (deficit) of

$72.4 million. This deficit included a $12.3 million liability for a "second savings clause" created by the 1957 session contrary to Commission recommendations. This clause was eliminated by the 1959 session.

The 1959 Legislature established TRA under the individual option or "split system" of coordination with OASDI. This is of far-reaching significance to the Fund since by Federal law all new teachers must be placed under the coordinated system. The "basic system" will therefore diminish steadily as to number of members covered. Thus the "basic system" will in time reach a point of non-existence.

Other important 1959 TRA legislation and its effect on TRA finances is also indicated in the comparative tabulation which follows later in this report.

TRA had an actuarial survey of the Fund as of June 30, 1959, projected forward to show the effect on the Fund of the adoption of coordination with OASDI by those teachers who so chose.

Since this survey, additional teachers have chosen the coordinated plan and so the figures in the following table are not precise as to present conditions in TRA. They are sufficiently close to be considered good approximations. The following tabulations were prepared by the Commission actuary, based on the January 1, 1958, and the June 30, 1959, actuarial surveys of TRA.

Statistical Data

The following table is a summary of 36 tables of complete statistical data which appear in the TRA actuarial survey as of June 30, 1959.

Also given for comparative purposes are the same data as of January 1, 1958.

		As of 6-30-59		
Membership	As of 1-1-58	Basic Plan	Coordinated Plan	Total Both Plans
Active members	22,015	17,857	6,823	24,680
Annuitants	1,443			1,524
Inactive members	2,981	3,618	94	3,712
Total	26,439			29,916
Financial				
Total payroll	$103.4 million	$82.8 million	$36.5 million	$119.3 millio
Participating payroll ($4,800 maximum)	94.3	77.7	31.5	109.2
Annuities (annual)	1.5			1.6
Accumulated deductions (including interest)	$ 30.4 million			$ 41.2 millio

The table on the following page shows the figures for the 1958 and 1959 surveys.

Comparison of 1958 and 1959 Surveys by Commission's Actuary

(Amounts in millions of dollars)

	As of 1-1-58	As of 6-30-59 Basic Plan	As of 6-30-59 Coordinated Plan	As of 6-30-59 Total
Liability for deposits (past service)	$53.4	$56.5	$13.4	$69.9
Liability for inadequate annuity purchase rates (past service)	12.8	10.4	0	10.4
Shortage in employer deposits to 7-1-59	3.0	0	0	0
Liability for supplemental annuities (1959 law)	0	8.6	1.3	9.9
Liability for inadequate annuity purchase rates (future service) (repealed in 1959)	12.3	0	0	0
Liability for annuities in force	16.7			17.2
Contingent liability for unpaid arrears	12.9	8.6	.7	9.6
Total liability	$111.1 million			$117.0 million
Assets	38.7			56.7
Unfunded accrued liability	$ 72.4 million			$ 60.3 million

It is of considerable interest to consider reasons for the reduction in deficit. The major reasons are outlined below. Some legislative action resulted in increased liability; but the net effect of legislation was to reduce the deficit.

1959 Legislation tending to increase the deficit	Increase in liability
(1) Supplemental annuities	$ 9.9 million
(2) $25 monthly increase in certain retired members' annuities	.7 million

1959 Legislation tending to decrease the deficit	Decrease in liability
(1) Repeal of "second savings clause" allowing inadequate annuity purchase rates for future service	$12.3 million
(2) Making Social Security option available*	13.7 million

*The current TRA liability was reduced by this action; but increasing Social Security taxes are to be paid in the future.

Other items affecting the deficit are the following:

(1) Interest on the existing deficit at 3% per year

(2) Turnover gain (after deducting costs of survivor and other benefits)

(3) Investment return in excess of Fund expenses (if different from 3%)

(4) Mortality of annuitants (if different from valuation basis)

The net effect, according to the analysis by the Commission actuary, has been a reduction in deficit of 12.1 million dollars since the survey as of January 1, 1958.

The normal cost of this plan is 12% for members of the Basic Plan and 6% for members of the Coordinated Plan, shared equally by employer and employee, as stated in the TRA Survey.

It is significant that the reduction in the TRA unfunded liability (deficit) since 1958 is not the result of the annual financing through teachers' contributions plus State tax levies, but the reduction is due, primarily, to the 1959 repeal of the "second savings clause" and the enablement of coordination with Social Security. State taxes, until July 1, 1961, are only sufficient to match teachers' current salary deductions and make no provision to meet the 3% interest accruing on the unfunded liability. Thus, the unfunded liability, by June 30, 1961, as a result of current under-financing, will have increased to approximately $63.9 million as contrasted to the $60.3 million figure as of June 30, 1959.

As of July 1, 1961, the present law provides for such additional tax levies towards financing the deficit in TRA as will equal 1%

of covered payroll under the basic plan and 1½% of covered payroll under the coordinated plan. This scheduled financing will, if followed, provide additional income to TRA approximately as follows:

TRA Total Payroll as of June 30, 1960

	Payroll	Approx. Additional Financing Per Year
TRA payroll total	$117,557,500	
Payroll under basic plan	72,632,000	$ 726,320
Payroll under coordinated plan	44,925,500	673,882
Total annual amount toward financing deficit:		$1,400,202

The $63.9 million deficit will increase by 3% interest each year unless financing equal to this 3% interest is provided in addition to normal level financing. Three per cent interest on the $63.9 million deficit amounts to $1.9 million. Therefore, the financing of the deficit presently scheduled to take effect July 1, 1961, will yield only approximately $1.4 million per year instead of the $1.9 million per year required to prevent the deficit from increasing. This annual increase is slightly more than a half million dollars. The Commission actuary has calculated that to amortize the deficit of TRA over 40 years will require $2.6 million per year of financing applicable to the deficit. This would require an average deficit financing at the rate of 2.4% per year of the combined basic and coordinated TRA payroll.

The TRA actuary, in preparation for the 1961 session, has estimated that for the year 1961-62 TRA basic payroll will be at the rate of $72 million per year and coordinated payroll will be at the rate of $56 million per year. This is a $12 million increase

in coordinated and a slight decrease in basic payroll due to new teachers under the coordinated plan and additional switch to the coordinated plan on the part of teachers formerly under the basic plan. The significance of the figures will not be materially altered by this projected estimate of future developments.

TRA, as to those members under the basic plan, is comparable to PERA where present legislation requires financing of the deficit at the rate of 2½% of payroll. TRA coordinated is comparable to SERA where the present law provides financing towards the deficit at the rate of 2% of payroll.

THE COMMISSION THEREFORE RECOMMENDS THAT THE LEGISLATURE PROVIDE, IN ADDITION TO THE NORMAL LEVEL COST OF TRA, FINANCING TOWARDS THE TRA DEFICIT AT THE RATE OF 2½% OF PAYROLL IN REGARD TO THOSE TEACHERS UNDER THE BASIC PLAN AND 2% OF PAYROLL IN REGARD TO THOSE TEACHERS UNDER THE COORDINATED PLAN.

Request for Changes in TRA

The Commission received a considerable number of requests for changes and additions to TRA and devoted a great amount of Commission and staff time to the study thereof. The TRA Board of Trustees submitted a long list of suggestions and requests, a large portion of which could be classified as remedial or administrative.

The Minnesota Education Association presented a number of requests and the Minnesota Federation of Teachers presented requests, some of which would be extensive in their effects on TRA.

Preliminary to a discussion of the requested changes and the Commission's recommendations thereon, it is important to call attention to a discussion elsewhere in this report entitled Policy as to Proposed Pension Changes. The key provisions set forth in that section that are particularly relevant to a discussion of requests as to TRA are reproduced here:

> No increase in pension benefits in regard to any public employee pension fund will be recommended until:
>
> (a) There is established and operating adequate financing to cover the normal level cost of the present level of benefits plus at least enough financing to prevent the increase in any deficit that exists in the fund; and
>
> (b) Adequate measures to finance any proposed increase in normal level costs and increased deficits, if any, are enacted concurrently with any increase in benefits.

Because the present level of financing of TRA, including the additional financing scheduled to become effective July 1, 1961, is not sufficient to prevent an increase in the TRA deficit, the Commission in good conscience could not recommend some of the suggested changes in TRA which would involve a material increase in costs to that Fund. To do so, would violate the principle in paragraph (a) above. In addition, even the most costly proposals did not include "adequate measures to finance any proposed increase in normal level costs and increased deficits" in accordance with the principles in

paragraph (b) above. The Commission is therefore strongly of the opinion that until the objectives as to adequate financing embodied in the recommendation just above these paragraphs is reached, further increases in costs would be extremely adverse to TRA and, in the long run, to the membership of that Fund.

A number of the changes suggested by each teacher organization and the TRA Board were duplicates or were similar in intent with minor variations. In other instances requests on the same subject varied somewhat in approach so that the Commission sought to take the best of each suggestion. For these reasons, and because in some instances the Commission recommendations vary somewhat from all requests made, the following paragraph will discuss recommendations of the Commission by subject matter rather than by source of request.

RECOMMENDATIONS OF THE COMMISSION THAT ARE ADMINISTRATIVE OR OF LIMITED SIGNIFICANCE WILL BE INCLUDED IN COMMISSION-PREPARED LEGISLATION WITHOUT SPECIFIC MENTION IN THIS REPORT. THE COMMISSION CALLS ATTENTION TO THE FOLLOWING PROVISIONS WHICH WILL BE INCLUDED IN SUCH LEGISLATION:

<u>The TRA Board would be increased from five to seven members by the addition of two additional teacher-selected members.</u>

<u>All funds of TRA would be credited annually with interest as earned to the last full 1/4%, with any carry-over interest included in the distribution</u>

the following year. This includes members' accounts for the purpose of death and retirement benefits.

The present excess earnings reserve account would be discontinued except for annual carry-over, if any. The amount in that account at present would be distributed as interest to individual employees' accounts.

Service credit would be allowed for a fractional year of service of 20 or more days, in the proportion that the days of service bear to 180 days, as a full year.

Teachers under leaves of absence could accrue allowable service credit up to one year (provided previous leaves did not exceed one year) on the condition that the employer's contributions are made by the employing authority or by the teacher and that the employee's contributions are made by the teacher.

Teachers granted a sabbatical leave; or leave for educational purposes, foreign scholarships or interchange teaching service; or leave to participate in the National Service Foundation may obtain retirement credit up to three years in any ten consecutive years by payment of employee contributions during the period of such leave.

Temporary and substitute teachers would be allowed to be, and become, members of TRA.

The TRA Board is authorized to provide an optional annuity, including an accumulated deduction refundment settlement. This would have the effect of a refund of the balance of employee contributions if death occurs before the amount in the teacher's account is paid out.

Survivors benefits would be available to the dependent spouse and minor children of a disabled teacher who dies prior to age 65. A disabled teacher attaining age 65 would be deemed to be under normal retirement and would be enabled to select any optional annuity available to normal retirees.

Survivors benefits for teachers under the basic plan would be related to the salary on which deductions were made at the ratio of 30% of average salary as a widow's benefit plus 30% for the first minor child plus 20% for each additional minor child with a total maximum widow and childrens benefit of $250 a month or 100% of the salary upon which deductions were based, whichever is the smaller, such benefits not to be available in cases of members contributing on less than an average salary of $75 per month per year.

A teacher would be required to name as beneficiary his surviving spouse or dependent children, if any; if there are none, he could name any beneficiary he desired.

A teacher returning to service would be eligible, after 18 months, for survivor-benefits coverage and, after five years, for disability coverage.

When a retiring teacher selects an optional annuity in lieu of a life annuity, the same proportion of the life annuity that would have been computed, according to the pre-1957 tables, would likewise be computed according to pre-1957 tables.

Several minor requests are in a measure accomplished by the recommendation that Section 24 of the Extra Session Laws of 1959, Chapter 50, be repealed, as requested by the TRA Board. This will favorably effect administration and will eliminate the implication that all disability and survivors benefits are to be paid by interest forfeited by withdrawing teachers.

Requests for an increase in the present ceiling of $4,800 salary per year for the purpose of making contributions and earning pension credit were received in behalf of TRA as were like requests concerning SERA and PERA. Because the question is similar for all three funds, it is treated in a section of this report relating to general matters pertaining to all funds.

Requests requiring change in the Federal Social Security law are beyond the power of the Legislature and are therefore not included in any recommendations.

Several requests submitted by various teacher organizations

would, if granted, have the effect of materially increasing the deficit in TRA or would substantially increase the normal level cost. Such requests are not being recommended because they were not accompanied with recommendations as to financing and could not even be financed within the increased level of financing recommended by this Commission.

Several of the requests mentioned immediately above were also quite complicated as to application and should not be adopted without further study and analysis; consequently, it would be more appropriate for them to be studied in the next interim than for action to be recommended at this time.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

The first actuarial survey of the PERA fund, made as of June 30, 1955, was made by the Fund's actuary and was delivered to the Public Retirement Study Commission in 1956. The Commission learned that at that time PERA was, by a considerable margin, the most under-financed of the three major statewide funds.

PERA was shown to be accumulating liabilities on a level normal cost basis at the rate of 14% of employee pay per year. The Fund was receiving financing at the rate of 4% of pay, which was entirely employee contributions with no employer financial support. PERA contributions and PERA benefits are based upon pay per employee up to but not in excess of $4,800 per year. Wherever this report refers to per cent of pay, these limits apply, even though not specifically designated.

The first actuarial survey showed that as of June 30, 1955, the unfunded liability (deficit) of PERA amounted to $128.1 million. The 1957 and 1959 sessions of the Legislature took steps that have considerably improved the condition of PERA.

Employee deductions were increased from 4% to 6% of pay.

Employer annual financing was instituted on a scale increasing each year until July 1, 1959, and thereafter continuing on a level basis of normal contributions at the rate of 6% of pay plus contributions

towards financing the deficit at the rate of 2½% of pay. Total employer annual rate is 8½% of pay. As to PERA members in the Police and Fire section, the employer normal rate is 9% of pay instead of 6%. The additional 2½% of pay toward deficit financing is the same.

Bargain provisions whereby some members of PERA received benefits out of proportion to other members and out of proportion to employee contributions were equitably adjusted. The 1957 session adopted for PERA the same general level of benefits as it adopted for SERA in which Fund employees had for years contributed 6% of pay.

PERA benefits were improved by the addition of disability and survivor benefits deemed necessary to round out the plan.

If the 1957 and 1959 Legislatures had not varied in several material respects from the recommendations of the Public Retirement Study Commission, the PERA deficit would, as of the present, be less than it was on June 30, 1955, and the present annual rate of financing would have been sufficient to finance the Fund and reduce the deficit (unfunded liability).

The 1957 Legislature accepted this part of the Commission report but felt it had a moral obligation to employees of long

service so a "savings clause" was added. The Commission actuary estimated the cost of the "savings clause" to be approximately $13.5 million. This amount equals the entire increase in the PERA deficit since 1955.

Significant data in round numbers as to PERA financing, nevertheless, show considerable improvement in the financial condition of that Fund.

As of:	Required Reserve (Net Pension Liabilities)	Assets	Deficit (Unfunded Liability)
6/30/55	$144 million	$16 million	$128.1 million
1/ 1/58	$161.6 million	$26.1 million	$135.5 million
*6/30/59 (Approx.)	$194.4 million	$48.9 million	$141.5 million

*NOTE: The 1959 figures are estimates by the Commission actuary based on the January 1, 1958 actuarial survey.

The PERA employer contributions did not reach the present 8½% of pay level until July 1, 1959. Assets, even though not increasing quite as fast as liabilities, were still, by 1959, three times the total assets of 1955, which figure represented the assets accumulated by PERA in its first 26 years of existence since PERA assets increased very little from June 30, 1955 to June 30, 1957. Before 1957 the deficit was increasing by over $10 million per year. The rate of annual growth in deficit, notwithstanding the "savings clause," has been slowed as shown in the table. The following data as to financing shows the PERA deficit is now increasing at a rate of 1% of pay or approximately $1,275,000 per year.

The Commission actuary's estimate of PERA financing needs for the present benefit program, compared to the rate of financing in effect since July 1, 1959, is as follows:

Required annual interest at 3% to prevent $141.5 million deficit from increasing is $4,245,000 or	3.3% of pay
Normal level cost for each current year	12.2% of pay
Total financing necessary to prevent increase in the unfunded liability (deficit)	15.5% of pay
Present rate of financing is 6% employee plus 8½% employer or	14.5% of pay
Under-financing of PERA at present rate is $1,275,000 per year or just under	1.0% of pay

NOTE: Total payroll on which pension deductions and contributions are based is estimated at $129.1 million per year.

The insufficiency of PERA financing breaks down as follows:

PERA benefits are accruing on a level normal cost basis at the rate of	12.2% of pay
Total normal financing (Employee 6% plus employer 6%)	12.0% of pay
Shortage in financing annual normal level cost	.2% of pay

3% interest necessary to prevent increase in $141.5 million past-service deficit	3.3% of payroll
Present rate of employer contributions towards financing deficit	2.5% of payroll
Shortage in employer financing of 3% interest on deficit	.8% of payroll

The 1957 and 1959 Commissions, and again this Commission, have adopted the principle "Governmental employer's support of normal level pension costs should not exceed equal matching of the employee's contribution to his pension."

Employee financing of PERA normal level cost is thus short 1/10% of payroll since equal matching of normal level cost would require 6.1% employee contribution. Employer financing is thus short 9/10% of payroll to finance one-half normal cost plus deficit financing cost.

A shortage in financing of any pension fund, including PERA, can only be remedied by an increase in financial support or by a reduction in items of the benefit program or by a combination of both.

This Commission is recommending three measures designed to reduce the shortage in financing of PERA. If the Legislature adopts these recommendations and does not increase costs by other measures, it is hoped by the Commission that these recommendations will be found to be sufficient to finance PERA. The next actuarial survey recommended for 1962 should determine the accuracy of these predictions

THESE RECOMMENDED MEASURES ARE:

Improvement in the laws and procedure as to investment of the assets of pension funds designed to further increase interest return on investments, and

Adjustments in disability and survivors benefits under PERA.

Because this Commission considers it very important that PERA and all other public pension funds be established and maintained on an adequate basis, a statement of fundamental pension policy (discussed elsewhere in this report) is recited here.

> No increase in pension benefits in regard to any public employee pension fund will be recommended until:
>
> (a) There is established and operating adequate financing to cover the normal level cost of the present level of benefits plus at least enough financing to prevent the increase in any deficit that exists in the fund; and
>
> (b) Adequate measures to finance any proposed increase in normal level costs and increased deficits, if any, are enacted concurrently with any increase in benefits.

In line with this fundamental policy,

> THE COMMISSION STRONGLY RECOMMENDS NO INCREASES IN PERA BENEFITS SHOULD BE CONTEMPLATED UNTIL FINANCING IS ON AT LEAST A MINIMUM ADEQUATE BASIS TO PREVENT AN INCREASE IN THE DEFICIT AND AFTER SUCH AN OCCURRENCE, ANY INCREASE IN BENEFITS SHOULD BE ACCOMPANIED BY ADEQUATE MEASURES AS TO CURRENTLY FINANCE INCREASED COSTS.

Explanation of PERA Actuary's Report

Because the 1958 survey of PERA was prepared on a different basis than the actuarial surveys submitted by other Minnesota pension funds, there have been questions from a number of PERA members and public officials. A brief outline of the significance of the different approach used by the PERA actuary may be helpful.

The PERA actuary used an actuarial method designed to find only current costs of currently accruing benefits. His method did not reveal the long-range costs of the benefit program. The actuaries of all of the other funds interpreted the 1957 law requiring actuarial surveys as requiring the use of what is known as the level-normal-cost method of approach, which method requires a finding as to long-range pension liabilities and long-range financing.

The PERA actuary's method is not suitable for the purpose of enabling the Commission to determine an adequate level rate of employee and employer contributions or the unfunded liability inherent in the level rate of support. According to the PERA actuary's method, financing would have to be increased periodically with the result that higher annual financing would be necessary and a greater amount of total dollars would have to be contributed than if financing were provided on the level-normal-cost basis. It would have been misleading to compare the PERA actuarial survey of 1958 with level-normal-cost surveys of other funds such as SERA and TRA which showed a complete finding of total liabilities and costs. The 1959 report of the Public Retirement Study Commission published

the Commission actuary's adjustment to the level-normal cost basis of the survey prepared by the PERA actuary. The section of this report dealing with actuarial surveys more adequately explains the desirable attributes of such surveys.

Miscellaneous Requests as to PERA

The Commission devoted considerable time and study to numerous requests and suggestions from legislators, employee groups, and employer organizations such as the Minnesota League of Municipalities, the State Association of County Commissioners, and the Minnesota School Board Association.

The PERA Board of Trustees submitted a number of major requests and suggestions which were considered in detail by the Commission. Many proposed changes in the PERA law designed for clarification or administrative improvement will be included in the Commission's proposed legislation although not individually enumerated in this report.

Some requests and proposals, even though meriting consideration, can not be recommended for the reason that PERA financing must, in the opinion of the Commission, be improved to adequately cover the present level of benefits before additional costs can be added to PERA.

Some requests are sufficiently involved as to make advisable further study in the next biennium.

Some proposals, including several forwarded by the PERA Trustees without recommendation, were considered but not approved because they would increase inequities within the Fund or because they were not

in accord with sound pension policies.

The Commission's specific and general recommendations will cover in whole or in part, a majority of requests and suggestions submitted.

PERA Board Request for Extension of the "Savings Clause"

The Board of Trustees of PERA has adopted as one of their legislative requests that the "savings clause," which is Section 353.46, Subdivision 1, Minnesota Statutes 1957, be extended so that every member of PERA as of July 1, 1957, can invoke the provisions of this clause in contrast to the present provision that only members with ten years of allowable service as of June 30, 1957, can invoke this clause. PERA members now covered by this clause can if they wish at the time of retirement choose to retire under the provisions of the PERA law in effect prior to the 1957 session of the Legislature instead of retiring under the present provisions of the law. This clause permits those members it effects to have the advantages of the benefits enacted by the 1957 and 1959 sessions, such as disability and surviving widow and children benefits, but at the same time allows the option of retiring under the "old law" whenever it is to their advantage to do so. The present clause covers some 6,000 members of PERA who had ten years of service on June 30, 1957. The first Public Retirement Study Commission, reporting to the 1957 session, found that the old law in PERA provided excessively costly benefits to those employees who retired with short periods of service. The excessive cost was greatest at the old law minimum of retirement after

as little as five years' service, diminishing as length of service increased so that there was no excess cost for retirement benefits after 30 years of service.

This request, if granted, would allow every PERA member, as of June 30, 1957, to retire with five instead of the present ten years' service. Benefits would be two and a half times those that could be financed by 12% contributions for those retiring with ten years' service or less. Benefits would be two thirds greater than financing warrants for those retiring on 20 years' service. Retirement annuities would be equal under the old and the new law for those retiring with thirty years' service.

The Commission considered the following significant information before arriving at its conclusion regarding this request for extension of the "savings clause."

> The Commission actuary estimated that the total cost of granting this proposal would amount to $40 million. This cost could be financed by adding to PERA required annual financing a rate of 3.3 additional per cent of payroll, diminishing each year to .8 additional per cent of payroll in 15 years and continuing at the rate of .8 additional per cent of payroll for 25 additional years. An alternate level rate of financing would be to increase PERA financing by 1½% of payroll for 40 years, but this alternate method would require employer contributions to PERA long after most of the employees under the savings clause had not only retired but probably had become deceased.
>
> The PERA request would expand the "savings clause" to cover some 17,900 more members, in addition to the 6,000 now covered by the clause.
>
> The cost would be triple the $13.5 million cost of the original "savings clause," which was added at the 1957 session.

The nearly 18,000 additional PERA members that would be covered by this request have, since 1957, had the benefit of disability and surviving widow and children benefits, which experience has shown cost 2.4% of payroll. They would thus be allowed to combine the most expensive features of the old program that did not have these benefits with the most expensive additional features of the new program.

Survivor and disability benefits were added in contemplation of the new law, not in addition to the old law.

The greatest benefits under this request would go to public employees with the shortest tenure of public service with no additional benefits to those with 30 years or more of service, but with the cost spread over all employees and employers.

PERA employees, prior to June 30, 1957, contributed only 4% of pay for more costly benefits than were provided by SERA or TRA whose members contributed 6% of pay. The shortage in employee contributions constitutes a material part of the total deficit of PERA and is considered a liability of the employers.

This request does not conform to the Commission's recommended policy that increases in benefits be accompanied by proposals for financing.

Public officials representing governmental subdivisions of the State have expressed opposition to an increase in the rate of employer-financing.

To illustrate the cost of the PERA "savings clause" request, the Commission compiled figures on an actual case of an employee with nine years and nine months of service before June 30, 1957, who will be 65 years of age in 1963. Without the "savings clause," this PERA member will, in 1963, receive a pension of $81.16 a month, which will cost PERA $10,806. This employee will have contributed $3,886, including interest, and thus will receive a pension worth

$6,920 more than his contributions. If the PERA request for a "savings clause" should be adopted, the employee's pension would be $148 a month and would cost PERA $19,707. The employee contributions would be the same - $3,886 - so he would receive a pension costing $15,821 more than his own contributions and interest. In addition, this employee would have had disability and survivors benefits from 1957 to 1963. He would receive $5 in pension value for each dollar of his accumulated deductions instead of the standard recommendation of $2 of pension for each $1 of contribution. Even without the "savings clause," this employee would receive $2.78 of pension value for each dollar he contributed. This illustrates the reason for the $40 million cost of the PERA request.

Because of the reasons cited and because of the fact that PERA is not entirely adequately financed as it now stands, the Commission can not in good conscience recommend raising the employer contribution rate to a total of 10% of pay. Without such financing, starting now, the deficit would over the ensuing years increase to such a degree that even 10% employer contributions would not be adequate to finance PERA.

THE COMMISSION THEREFORE RECOMMENDS TO THE LEGISLATURE THAT THE "SAVINGS CLAUSE" NOT BE AMENDED.

Purchase of Prior Service Credit

Prior to July 1, 1957, PERA members had unlimited privilege of "buyback" service credit for any public employment in the State. From July 1, 1957 to June 30, 1958, the privilege of "buyback" was extended except that employee contributions had to be made at the new rate of 6% of pay and had to be matched by the employer.

Because of complaints by employees that these privileges were not generally understood, the 1959 session re-opened the "buyback" privilege for not over ten years of prior service with employers liable for matching employee's 6% contributions. This provision in the law expires July 1, 1961.

The PERA Board of Trustees has requested that the "buyback" be changed to allow purchase of an unlimited amount of service before becoming a member of PERA and that the time for expiration be extended to July 1, 1963.

The Commission considered a number of facts before arriving at conclusions.

> The request, if granted, would extend the privilege, already twice extended, to employees who have had a legal right to join PERA and buy back prior service without employer consent since 1947, except for the year July 1958 to July 1959.
>
> Persons whose public service terminated many years ago would, if this were allowed, be able to re-enter public employment and, because of the savings clause, "buy back" benefits relatively greater than present employees are earning for

current service. "Buying back" under the savings clause would cause considerable deficit to PERA notwithstanding employer matching. The savings clause was intended to protect PERA members of long standing who were public employees in 1957 and presumably were approaching and counting on a certain schedule of benefits. It was not designed to protect former employees who were not members of PERA but who might return to public service at some later time.

If the above PERA request were granted, it would subject local subdivisions of government to unexpected charges for employer matching as to public service performed many years ago. As an example, if a person was earning $300 per month over a period of ten years for service ending ten years ago, it would cost the subdivision approximately $3,800 to purchase this prior service credit. If such service was still farther in the past, the cost would be increased at 4% compound interest.

Many subdivisions would be charged for matching in regard to employees who had long since left the employ of the subdivision - in some instances as long as 20 to 30 years.

Representatives of the Minnesota School Board Association and the Minnesota League of Municipalities recommended to the Commission that the "buyback" privilege should not be extended and, in any event, that the ten-year limit on "buyback" service should not be increased.

The SERA Board of Trustees has recommended that for their Fund the "buyback" provisions in the SERA law be allowed to lapse as of July 1, 1961.

THEREFORE, THE COMMISSION RECOMMENDS THAT THERE BE NO EXTENSION OF THE "BUYBACK" PROVISIONS IN THE PERA LAW WHICH ARE SCHEDULED TO EXPIRE AS OF JULY 1, 1961.

Provisions for Regular "Short-Year" Employees

Because there are in PERA a number of school-district employees, and others, who are regularly employed but who work less than twelve months of each year, and because school teachers working similar schedules are given full-year coverage,

THE COMMISSION RECOMMENDS THAT LEGISLATION CLARIFY THE LEAVE-OF-ABSENCE PROVISIONS AND PROVIDE THAT EMPLOYEES WHO REGULARLY WORK NINE OR MORE MONTHS OF EACH YEAR BE DEEMED EMPLOYED A FULL CALENDAR YEAR FOR PENSION PURPOSES.

Survivors' Benefits in PERA

Survivor benefits payable to dependents of deceased employees, first added to PERA by the 1957 session of the Legislature, have proved to be much more costly in PERA than was anticipated at the time of adoption and likewise more costly than experience has proved these benefits to be in TRA.

The annual cost had been estimated to be 1.8% of payroll while two and a half years' experience has proved, according to the Commission's actuary, that the cost is approximately 2.5% of payroll. There are two principal reasons for the greater cost than had been anticipated. First, the 1957 Legislature added to the cost by providing a $65-a-month life income to all dependent spouses instead of only to the mother of one or more minor children. The second

important reason is that PERA contains in its membership a considerable number of part-time employees.

It was planned that the survivor benefits plus disability could be financed by what is called turnover gain to the pension fund. Turnover gain principally consists of the interest or accumulated deductions which withdrawing employees forfeit to the Fund, plus contributions that have been made to the Fund by various employers in behalf of those employees who withdraw. This turnover gain is insufficient to finance these benefits.

The value of claims for survivors' benefits arising to PERA beginning July 1, 1957, are as follows:

First year	$2,934,000
Second year	2,533,000
First half of third year	1,087,000

Another reason for high cost to PERA for survivors' benefits is that PERA, unlike either SERA or TRA, contains a considerable number of part-time employees. The survivors' benefits were established at the same flat rate for all members. Several related factors should be cited:

Part-time employees making small total pension contributions would receive benefits for their survivors which had been contemplated for full-time employees.

These full-time benefits offered part-time employees would in some instances exceed in cost the entire employee-plus-employer contribution to PERA, leaving unfinanced all other benefits including pensions.

The vast majority of part-time employees are covered under Social Security in their private employment and will not need to rely on side-line public employment to make entire provision for their families.

There is a general principle followed by insurance companies and supported by numerous laws and court decisions that benefits from a contingency such as death or disability should not result in indemnity of greater value than the hazard insured against. Social Security follows this principle when it provides that, except at the minimum level of $50-a-month income, total family benefits may not even equal the income on which the benefits were based. The Commission is of the opinion that this principle should be followed by the pension funds.

The Commission is desirous of protecting the well-being of persons who earn a substantial portion or all of their income from PERA to the end that the present family maximum of $200 a month total for all survivors' benefits be adjusted upward.

THE COMMISSION THEREFORE RECOMMENDS THAT LEGISLATION BE ENACTED TO PROVIDE AS FOLLOWS:

That the PERA law be amended so as to limit both optional and required membership in PERA to persons earning, in covered public employment, at least $75 a month or its equivalent on an annual basis.

That the amount of survivors' benefits be determined as a percentage of the average earnings on which the deductions had been made to PERA as follows:

Widow's benefits	=	30% of earnings, not to exceed $65 a month.
Children's benefits payable because of minor children up to age 18	=	30% for the first minor child, not to exceed $65 a month plus 20% for each additional minor child, not to exceed $45 a month for each such additional child.

The total of all widow's and children's benefits not to exceed whichever is the lesser of the average salary of the member from which deductions had been made or $250 per month.

Disability Provisions

The two material deficiencies in disability benefits determined upon careful study are:

1. The PERA Board has apparently been more conscientious in the administration of this than would be required under the terms of the statute. The legal definition in the law is sufficiently ambiguous as to allow wide latitude in interpretation. This places an undue burden on the Board.

2. The level of PERA disability benefits is not, in the opinion of the Commission, excessive for full-time public employee members. For reasons similar to those cited for survivor's benefits, the level of disability benefits should be adjusted as to employees - usually part-time - where the flat benefit may exceed the total salary.

THE COMMISSION RECOMMENDS THAT THE ONLY CHANGES THAT SHOULD BE MADE IN THE DISABILITY BENEFITS ARE:

Legislation should be enacted revising the statutory definition of disability along the lines

this coverage is being administered and further providing that in no case shall disability benefits exceed the average salary from which employee deductions have been made.

Survivor-benefit coverage should be extended to disabled members in the event of death of a disabled member prior to age 65.

On or after attainment of age 65, a disabled member's status shall become that of a retiring member, with the various optional annuities available to such member.

Question of Increased Ceiling for Pension Purposes

The request of the PERA Board for an increase in the present $4,800 per year ceiling as to earnings subject to pension credits and deductions is similar to like requests by employee representatives in SERA and TRA.

The subject matter will therefore be covered in a section of this report dealing with general pension matters (see section on general recommendations).

Social Security and PERA

The 1957 and 1959 Public Retirement Study Commission reports dealt at some length with the question of coordination of Minnesota

pension plans and OASDI. These two reports were in agreement on several basic items of policy relative to Social Security.

> Neither report recommended for or against the coordination of OASDI with SERA, TRA or PERA.
>
> Each report set forth emphatically the principles that should govern any coordination between existing pension funds and OASDI which the Legislature might enable.

Following the 1957 session, SERA, by an all-or-none referendum, became entirely coordinated with OASDI except for a very few employees not eligible for OASDI coverage. TRA was enabled by the 1959 session, pursuant to an act of Congress amending Social Security, to adopt the "split system" whereby each individual employee chose whether or not he would select a reduced TRA plan and coordination with OASDI or would remain in the TRA basic plan. Thus, TRA membership is divided between those in the coordinated plan and those in the basic plan. Approximately one third of the TRA members eligible to vote elected the coordinated plan on the first referendum.

The coordinated plan enabled by the Legislature for SERA and the coordinated plan enabled for TRA both followed the principles recommended by the 1957 and 1959 Public Retirement Study Commissions.

The 1959 report set forth these principles as follows:

> "1. Maximum combined benefits under any coordination plan must not at any time exceed for any person the most that a similar person can acquire in the future entirely under the coordination combination.
>
> "To conform to this principle, reduced level of benefits payable by the pension fund must be effective in all respects simultaneously with the effective date of coordination with OASDI.

* * * * * *

"2. No combination plan including OASDI should be allowed which seeks to differentiate between OASDI benefits earned as a public employee as against those earned elsewhere. Such measures would be contrary to the principles on which OASDI is based and are fallacious. Such provisions in the laws of several states have proved severely disruptive as well as unsound.

"3. A pension fund and OASDI should be entirely separate as to benefit payments and administration."

The 1959 report recommended:

"IF THE LEGISLATURE SHOULD ENABLE COORDINATION UNDER THE SPLIT SYSTEM OF OASDI WITH ANY PENSION FUND THEN, IN ADDITION TO THE RECOMMENDATION ALREADY SET FORTH REGARDING COORDINATION ENABLEMENT, THE LEGISLATURE FURTHER REQUIRES THAT:

"1. No so-called 'savings clause' be allowed in any enablement providing individual, voluntary selection.

"2. It is important that an actuarial survey of any fund for which the 'split system' is enabled should be required as of July 1, of the year following the inception of the split system."

The "split system" enabled by the 1959 session for TRA complied with the above recommendations. Both the SERA coordinated system and the TRA coordinated system conform with the additional recommendation of the two Commissions that the reduced SERA and TRA coordinated be on a basis that can be financed on a level normal cost of 3% employee contributions plus 3% employer contributions.

This Commission wishes to call attention to the fact that the State Association of County Commissioners, in their "Legislative Policy" published as an appendix to this report, stated:

"The Association makes no recommendation for or against any form of coordinated OASDI and PERA system."

The Minnesota League of Municipalities' Legislative Committee has

for the 1957 and 1959 sessions taken the same position - "neither for nor against coordination of OASDI with PERA." At the 1961 legislative conference this policy of the League was reversed by a majority of the delegates present. The League pension policy is published as an appendix to this report.

THE COMMISSION RECOMMENDS THAT NO ACTION BE TAKEN BY THE PRESENT STATE LEGISLATURE REGARDING PERA AND SOCIAL SECURITY, BUT THAT THE QUESTION, INCLUDING PROBLEMS THAT HAVE DEVELOPED IN SERA AND TRA, BE STUDIED DURING THE NEXT LEGISLATIVE INTERIM.

THE COMMISSION FURTHER RECOMMENDS THAT IF THE LEGISLATURE SHOULD DESIRE TO ENABLE A REFERENDUM ON THE PART OF PERA MEMBERS AS TO COORDINATION WITH OASDI, SUCH ENABLEMENT BE IN ACCORDANCE WITH THE PRINCIPLES OF COORDINATION SET FORTH IN THE 1957 AND 1959 PUBLIC RETIREMENT STUDY COMMISSION REPORTS AND THE ACTION OF THE 1957 AND 1959 SESSIONS UNDER WHICH COORDINATION OF TRA IS NOW OPERATING.

Police and Fire Fund of PERA

The 1959 session, in establishing the Police and Fire Fund within PERA, provided that each member employed for fire or police duties would have the option, until June 30, 1960, of transferring his membership to the Police and Fire Fund within PERA. All newly employed firemen and policemen were required to be members of this section. As of June 30, 1960, 65 firemen and 347 policemen had transferred from the general PERA category to the Police and Fire Fund. Within two weeks following this cutoff date, 344 additional policemen and firemen in PERA sought to transfer to the Police and Fire Fund.

In addition to the applicants for transfer necessarily refused, several adverse effects of the voluntary transfer previously provided became apparent:

It was difficult for eligible individuals to become sufficiently informed so as to exercise a choice.

Where only part of the members of a local police or fire department chose the Police and Fire section of PERA, the municipality was in the position of making an employer contribution of 6% for those who stayed in the general fund and 9% for those who transferred to the Police and Fire Fund. This, in some instances, led to controversy and caused some eligible members to hesitate as to exercising the choice.

The administration of PERA is unnecessarily complicated as to policemen and firemen.

Some PERA members with policemen or firemen duties also perform other functions in their communities with the

result that individual exercise of their option was in some instances embarrassing.

The Commission directs attention to the following items of information:

> The possibility of adverse effects to any member of PERA transferred to the Police and Fire Fund can be eliminated by a provision that upon retirement he may select either the benefit schedule provided for the Police and Fire Fund or the general benefit schedule of PERA.
>
> The PERA Board requests that a provision be enacted "to make compulsory the transfer of all fire fighters and police officers who are now members of the Public Employees Retirement Association to the Public Employees Police and Fire Fund."

THEREFORE, THE COMMISSION RECOMMENDS THAT ALL MEMBERS OF PERA IN WHOSE EMPLOYMENT ARE INCLUDED POLICE OR FIREMEN DUTIES SHOULD BE REQUIRED TO BE IN THE POLICE AND FIRE FUND OF PERA, WITH THE FURTHER PROVISION THAT ANY MEMBER OF THE POLICE AND FIRE FUND AS OF JULY 1, 1959, SHALL HAVE THE RIGHT, UPON RETIREMENT, TO CHOOSE TO HAVE HIS ANNUITY COMPUTED IN ACCORDANCE WITH THE PERA LAW IN EFFECT ON THAT DATE.

PERA Membership and Local Volunteer Fire Departments

The PERA law follows the principle that membership should be prohibited in two or more pension funds for the purpose of simultaneously accumulating retirement benefits. An Attorney

General's opinion holds that the PERA law makes membership in a volunteer fire department a bar to membership in PERA.

The Commission is in full accord with the intention of the law to prevent a public employee from simultaneously participating in two public pension plans at public expense. It does not appear, however, that membership by a public employee in a volunteer fire department must necessarily be considered public employment when membership in the volunteer fire department is truly volunteer and not considered a duty of employment. Under the present law, every public employee jeopardizes his PERA pension rights by being a member of a volunteer fire department. On the other hand, some of the volunteer fire departments in the State of Minnesota have increased benefits to the point where they provide substantial monthly pensions to persons retiring after 20 years of service as a volunteer fireman.

THE COMMISSION THEREFORE RECOMMENDS that the statutes be amended to provide that no member of PERA be entitled to receive retirement benefits from any other pension fund established by the Legislature until his retirement in all such pension funds has occurred, after which time benefits shall become payable on the part of all such funds.

It should be provided, however, that where the only retirement benefit provided by a volunteer fire

relief association for all members is a single lump-sum payment, such single lump-sum payment, in an amount not in excess of the amount payable for retirements as of January 1, 1961, may be permitted upon retirement from the volunteer fire relief association.

Where service in a fire department, volunteer or otherwise, is included in the duties of employment simultaneously eligible for coverage by membership in the Police and Fire Fund of PERA, such PERA member may be permitted to continue as or become a member of a volunteer firemens relief association provided such PERA member makes no contribution towards, does not participate in, and is not eligible for any benefits provided by the special fund of the firemens relief association.

(The principal reason for the recommendation last above is that employer contributions for policemen and firemen in PERA are 9% of pay normal contribution plus 2½% toward financing the deficit. Tax funds from the same municipality paid into a firemens relief association should not be used for the benefit of PERA firemen or policemen.)

A number of municipal fire departments are operated partly by paid personnel and partly by volunteer firemen. Paid personnel

are required to be members of PERA in those instances where there is not a local fund for paid firemen or a firemens relief association already operating on a dual set of benefits, one for paid personnel and one for volunteer personnel. Under the present statutes the entire fire and extended coverage insurance tax allocable to the community goes to the firemens relief association special fund. Because of the fact that some fire departments evolve usually by degrees from volunteer to partially paid and then to fully paid personnel, it would be unjust and unreasonable to allocate all of the insurance tax credits for the community to the benefit of a diminishing number of volunteers.

THEREFORE, THE COMMISSION RECOMMENDS that in any municipality where the membership of the fire department contains both volunteer and paid personnel the insurance tax allocable to that municipality shall, upon representation from the municipality, be divided on a pro rata basis according to the number of firemen in the PERA Police and Fire section and the number of volunteer members in the firemens relief association. That portion of the tax credit payable because of the firemens' membership in PERA should be paid to the municipality, and permitted to be used, for the employers' contribution to the Police and Fire section of PERA.

Collection of Employers' Contributions to PERA

The defects in the collection system of employer contributions to PERA were of minor consequence prior to the 1957 session of the Legislature because, except for a 2%-of-pay assessment in 1949, no general employer contribution had ever been collected.

Under the present collection system, even when the machinery works as intended the employer contributions to PERA are delivered, on an average, more than a year and a half after the year of service causing these contributions has ended. Operation of this machinery in regard to employees' services during the year from July 1, 1959 to June 30, 1960 illustrates: The employer liability of each political subdivision is not determined until the end of the entire fiscal year--in this case ending June 30, 1960. Collection of these employer contributions follows the course set out below:

1. The liability of each subdivision is certified to the county auditors in September, 1960.

2. The subdivisions themselves, or the county auditors, fix a levy of taxes payable in 1961 to provide the 1959-1960 employer contributions.

3. The taxes are collected principally in March, June and November, 1961.

4. Remittance to PERA is not required until December, 1961.

Important defects in this system are:

Employer contributions do not normally reach PERA until a year and a half to two and a half years after the performance of the employee services from which the contributions arise.

Delinquency in remittance cannot be detected by PERA until after the same period.

Employing subdivisions, neglecting to certify funds or place their levies, force county auditors to apply the levies.

Employing subdivisions who place the levy have been known to spend the money and fail to remit to PERA, requiring PERA to certify a double levy the following year, thus delaying PERA collection as much as four years after the period of employees' services from which contributions arise.

The present law contains no provision for interest lost due to delayed payment, or even for additional loss due to further delays in case of delinquency of remittance; neither does the law provide penalties to cover the extra cost of collecting delinquent payments.

The law invites subdivisions to hold and invest funds on hand plus the tax collections received during each year. Thus, profiting by interest earned, the subdivisions gain by delaying remittance to PERA to the latest possible date.

The present system fosters irresponsibility by employing subdivisions and does not further the home rule principle for local government.

In contrast to the cumbersome and confusing machinery for collection of employer contributions to PERA, the present law requires each political subdivision to currently deduct from employees' pay and remit monthly to PERA the employee deductions.

For the purpose of overcoming or minimizing each of the above-enumerated defects in the present system of collecting employer's contributions, and with a view to improving home rule responsibility of political subdivisions,

THE COMMISSION RECOMMENDS <u>that beginning on January 1, 1962, each employer subdivision should be required</u>

to remit the employer contributions due to PERA monthly along with the presently required monthly remittances of employee deductions from pay. It should be further provided that any employee or employer contribution not so remitted within the presently allowed 15-day grace period provided for remittances of employee contributions should be considered overdue, with a requirement that subsequent remittance should include 6% interest from the date remittance was due to the date remittance was actually made, and that interest on both employer and employee overdue contributions shall be an obligation of the employer. Any remittance due PERA that is six months or more overdue shall be deemed delinquent. In addition to the 6% interest added to all overdue remittances, the PERA Administration should add a $3 administrative cost charge to any remittance that has become delinquent. PERA Administration should so notify any such subdivision that has become delinquent. At the end of each fiscal year PERA should give final notice by mail to any subdivisions that may be delinquent as to remittances to PERA. Thirty days after the mailing of final notice to any delinquent subdivision, but not later than September 30 of each year, PERA should certify to the appropriate county auditor or, if appropriate, to the State Auditor,

the total amount due from any subdivision that is delinquent. The county auditor should make appropriate provision for including in the tax levies applied to property in the jurisdiction of such delinquent subdivision a tax levy which will be adequate to cover the delinquent amount certified by PERA plus 6% interest to the estimated date of remittance to PERA plus such estimated levy in excess of the amount thus determined as may be necessary to provide actual tax receipts equal to the total amount due PERA. The county auditor, upon collection of the amount due to PERA as described above, shall remit directly to PERA the amount due and shall apply any balance that may exist toward additional delinquencies from the same subdivisions as may have been certified by PERA; or if there be no such certification, shall remit the balance to the political subdivision with the provision that such funds may only be expended toward current or overdue contributions to PERA.

To implement the above recommendations, it should be provided that the present authority to each subdivision to levy funds for PERA contributions above other statutory limits (if any) be continued but that such levies as are fixed in the fall of 1961 should be levies to cover the estimated requirements for PERA current employer contributions during the year 1962 rather than for the past PERA requirements for the year July 1, 1960 to June 30, 1961.

This levy for service during the fiscal year ending June 30, 1961 would be waived in order to avoid double levy. All taxes payable in 1961 would be remitted to PERA as now provided. Waiving this one-year levy would reduce the accounting item of accounts receivable by PERA but the actual result would be to hasten actual receipts and increase the amounts received each year by PERA.

The foregoing recommended changes in PERA collection machinery will, if enacted, have advantages in addition to those obtained by remedy of the defects of the present system, which have already been enumerated.

Actual funds would reach PERA in regard to employer contributions earlier than if the present method of collection were continued.

The investment situation as to PERA funds would be improved because employer contributions would reach PERA in a continuous monthly flow throughout the year instead of a flood of receipts once a year.

The present employer rate of delinquency as to remittance to PERA would be reduced.

Interest on overdue collections and collection service charges would fall only on those subdivisions creating such loss of interest earnings to PERA, and administration expense to PERA, instead of such interest loss and administration expense being shared generally by all employing subdivisions as a contributing factor to the PERA deficit.

The cause of local government responsibility and good management would be well served.

The above recommendations as to PERA collections are in line with the recommendations of the State Association of County Commissioners and the Executive and Legislative Committees of the Minnesota League of Municipalities.

Recommended Policy as to Changes in PERA

PERA is different from SERA and TRA in the respect that the contributing employer is not the State of Minnesota but political subdivisions numbering in the thousands. Local funds, locally levied, are used to provide the employer contributions. Prior to the 1957 session when employer contributions were not required for PERA, the significance of PERA pension plans and costs to local units was not generally recognized. Since 1957 this is no longer the case.

The employing authorities of the PERA membership are principally organized in three different bodies: The Minnesota School Board Association, the State Association of County Commissioners, and the League of Minnesota Municipalities.

THE COMMISSION THEREFORE RECOMMENDS AS A GENERAL STATEMENT OF POLICY:

That any major changes in PERA should be submitted to employer and employee study before submission to the Legislature.

That the cost of proposed changes should be determined and submitted, as well as other analyses of the proposed changes.

That this treatment should also apply to the question of Social Security coordination of PERA.

Pension Policies of League of Minnesota Municipalities and State Association of County Commissioners

As an appendix at the end of this report the Commission is publishing the statements on pension policy adopted by the State Association of County Commissioners and the Minnesota League of Municipalities.

While the conclusions and recommendations of these two organizations are not part of the work of the Commission, the value of this publication is enhanced by adding this information.

GAME WARDENS RETIREMENT ASSOCIATION

This fund was created by the 1955 session of the Legislature by separating from SERA the game warden members and transferring pension service credits and employees' accumulated deductions to the new fund. No funds representing employer contributions were transferred from SERA. The first actuarial survey of the Game Wardens Retirement fund showed the following status as of January 1, 1958:

Membership	
Active members	144
Annuitants	12
Total	156
Financial data	
Payroll (annual)	$686,808
Annuities payable (annual)	13,653
Balance sheet data	
Accrued liability	$2,345,662
Assets	424,933
Unfunded liability	$1,920,720
Annual costs	
Level normal cost	14.6% of payroll
3% interest on the unfunded liability	8.4% of payroll
Total annual support needed to prevent increase in the unfunded liability	23.0% of payroll
Financial support now provided	
Employee contribution	7% of payroll
State contribution of 1% of receipts from game and fish license fees was provided. This currently amounts to approximately	6% of payroll
Total financial support (approximately)	13% of payroll

It is thus apparent that current financing falls short of the minimum amount necessary to maintain this fund by the rate of approximately 10% of payroll. The deficit, therefore, is increasing at the rate of approximately $70,000 each year.

The maximum salary for pension purposes is $4,800 a year. This is the amount of salary from which deductions are made and the above figures are quoted. This Commission reaffirms the statement of the previous Commission that employer financing as a proportion of receipts from licenses "is not a satisfactory basis of financial support either in principle or in amount."

The Public Retirement Study Commission report in 1959 recommended that the game wardens and the SERA members who are police officers in the Bureau of Criminal Apprehension be combined into a single pension fund to be administered by the SERA staff and to have a plan of benefits comparable to those recommended at the same time for the Police and Fire Fund in PERA.

The 1959 Legislature substantially followed the Public Retirement Study Commission recommendation as to the Police and Fire fund in PERA but took no general action as to either the game warden or the SERA members of the Bureau of Criminal Apprehension. The recommendation of this Commission as to game wardens and the Bureau of Criminal Apprehension will be set forth after a brief discussion of the Bureau of Criminal Apprehension personnel.

The police officer personnel of the Bureau of Criminal Apprehension are, at the present time, members of SERA. As police officers, they are not, under the Federal Social Security law, eligible for

coverage under OASDI and hence are part of the small group in SERA contributing to and accumulating pension credits under the SERA plan in effect before coordination with OASDI was adopted for all other SERA members. There are approximately seventeen police officer members of the Bureau of Criminal Apprehension who are under pension provisions designed for general employees which vary in several respects from pension benefits usually provided for policemen and firemen in Minnesota and for pension funds in most other states as well.

THE COMMISSION THEREFORE RECOMMENDS:

That a State Police Officers Fund be established under a board of trustees elected by the game wardens and the officers of the Bureau of Criminal Apprehension.

That the records, accounting functions, and general clerical administration of this fund be in the office of and by the staff of SERA.

That employee contributions be on the basis of 7% of salary limited to a maximum of $400 a month.

That employer normal contributions be on the basis of 10.5% of salary from which deductions are made and that employer payments towards financing of the deficit be at the rate of 2% of salary.

That qualification for normal retirement be age 58 with at least 20 years of service and that

minimum retirement requirements be ten years of service and at least age 55 with actuarial adjustment in benefits appropriate to younger retirement age.

That normal retirement annuity be computed at the rate of 2% of average salary times years of service up to 30 years of service, with additional benefits to accrue at the rate of 1% of average salary for each year of service in excess of 30 years.

That disability coverage be provided upon employment for line-of-duty disablement at the rate of 40% of average salary on which deductions are based and that disability coverage for non-duty disablement be provided after ten years of service.

That survivors benefits due to death prior to retirement or while disabled be as follows:

Widows benefits:	$65 a month.
Minor children benefits:	$65 a month for the first child and $45 a month for each additional child.
Maximum widow plus minor children benefits:	$250 a month.

The Commission calls attention to several important facets of the above recommendations:

Administrative functions and records of the Fund would be in a professionally operated pension

office instead of continuing as the responsibility of a membership too limited in numbers to warrant separate facilities.

Employer support is established in accordance with the sound principle of relating financing to accrual of pension liabilities.

Total financial support, which is now inadequate to finance even normal level cost, is raised to a rate that will provide some financing of the deficit. The next actuarial survey of this fund will reveal the extent of adequacy of financing.

MINNESOTA HIGHWAY PATROLMENS RETIREMENT ASSOCIATION

The 1943 session of the Legislature severed the Highway Patrol from SERA and created this pension Fund. Service credit under SERA was transferred so that the Fund commenced operation with a deficit. The actuarial survey required by the Legislature shows the following status of the Fund as of January 1, 1958:

Membership

Active members	329
Annuitants	21
Deferred annuitants	22
Total	372

Financial data

Payroll (annual)	$1,582,320
Annuities payable (annual)	47,112

Balance sheet data

Accrued liability	$4,014,041
Assets	1,226,695
Unfunded liability (deficit)	$2,787,346

Annual costs

Level normal cost	17.3% of total pay
3% interest on unfunded liability	5.4% of total pay
Total annual support needed to prevent increase in the unfunded liability	22.7% of total pay

Financial support now provided

Employee contribution	7.0% of total pay
Employer contribution	7.0% of total pay
Total financial support	14.0% of total pay

As of January, 1958, the rate of financing of this Fund was 8.7% of pay short of the minimum amount necessary to maintain the Fund without increasing the deficit. The Commission actuary estimates that by January 1, 1960 the unfunded liability (deficit) had increased by approximately $275,000. Due to this increase in deficit, the actual rate of financial support necessary to prevent further increase in the deficit will have to be higher than would have been necessary for the deficit as of 1958.

The 1959 session of the Legislature did not make any significant changes in the Highway Patrolmens Retirement law. This Commission is on record as recommending to the Legislature that no increase in pension benefits in regard to any public employee pension fund will be recommended until:

(a) There is established and operating adequate financing to cover the normal level cost of the present level of benefits plus at least enough financing to prevent the increase in any deficit that exists in the Fund; and

(b) Adequate measures to finance any proposed increase in normal level costs and increased deficit, if any, are enacted concurrently with any increase in benefits.

No actuarial estimates of the costs of the various suggested increased benefits in this Fund, or methods of financing them, have been received by this Commission.

The Commission does recommend certain improvements in the existing law. These improvements are within the basic framework of the existing level of benefits and are in accord, generally, with basic retirement principles.

THE COMMISSION RECOMMENDS THAT THE MINNESOTA HIGHWAY PATROLMENS RETIREMENT ASSOCIATION LAW BE AMENDED TO PROVIDE AS FOLLOWS:

That employee deductions be on the basis of 7% of salary on which benefits are based instead of total salary as at present.

That employer contributions be established at the rate of 10½% of the same salary limits.

That an additional employer contribution towards financing the deficit be established at the rate of 2% of salary up to $400 a month.

That additional pension credit for service in excess of 20 years be on the basis of 1% of salary on which deductions are made.

That disability coverage be provided upon employment for line-of-duty disablement at the rate of 50% of average salary from which deductions are made.

That disability coverage for non-duty disablement be provided after 10 years of service, based on 1/20th of normal retirement annuity times years of service.

That survivors benefits for death prior to retirement or while disabled be as follows:

Widows benefits:	$65 a month.
Minor children benefits:	$65 a month for first child and $45 a month for each additional child.
Maximum widow plus minor children benefits:	$250 a month.

Important effects of the above recommendations are:

Employee deductions will be upon salary up to $4,800 a year instead of upon total salary.

Financial support of the Fund will be considerably improved and will reduce the rate of increase in the deficit. This is in line with the general policy that, because of hazards and physical requirements of employment, the enforcement officers pay 40% of the level normal cost and the employer pay 60%.

The increase in benefits for minor children will be in line with similar benefits in other pension funds.

The Commission recommendations will also remedy a number of ambiguities and conflicting provisions in the present law without materially altering the basic plan.

COMPLICATIONS DUE TO SPECIAL LAWS

Some of the special laws enacted at the 1959 session appear to have destroyed some of the general laws of the State. Other special laws appear to have limited the application of general laws to only one municipality, equal in effect to repealing them as to general application. Other special laws appear to have amended general laws leaving them general in application, thereby extending the effects beyond the municipality intended by the special laws.

The exact extent to which each law may have had the above-enumerated effects can only be determined by a careful examination of each special law and, in many instances, by court decisions. In the absence of a court challenge, opinions of the Attorney General would be the only recourse by which an attempt could be made to determine the extent of adverse effects, if any, of some of the special laws.

It may be necessary, or at least highly desirable, that some special laws be amended or repealed. In addition to the legal effects of special laws, the adverse effects of such laws on pension funds could be summarized as follows:

1. It will be impossible for the Legislature to establish and maintain standards as to benefits, costs or financing of pension funds if special laws are enacted without benefit of study and actuarial analysis.

2. The financial chaos that must ultimately result from legal promises of large pension benefits not accompanied by financing is likely to attain proportions that will become difficult to solve on a local basis.

3. Special local pension bills frequently reach the status of being placed on "Special Orders" with a minimum amount of study and analysis, particularly if they are approved by members of the Legislature from the districts involved. This practice overlooks the fact that changes in a single pension fund have moral and political effects in regard to all other pension funds. If a pension benefit of dubious merit is obtained by one local fund, it often results in pressure upon members of the House and Senate from other districts to "get for" groups in their districts similar benefits without a provision for adequate financing, legislative study, or actuarial and legal analysis.

Possible Measures Towards Control of Special Legislation

The following measures are suggested, aimed at control of pension legislation. The points listed below are given in the order that progresses from minimum degree of control and study to more adequate measures for control and study of pension legislation.

1. A minimum degree of control would be effected if one standing committee in each legislative body received all proposed pension legislation, whether general or special in nature.

2. The quality of all legislative study would be improved if as many members as possible of the Public Retirement Study Commission who have studied pension problems could be on the committees to which pension legislation is referred.

3. Further improvement would be effected if the committees studying pension legislation were equipped with adequate staff--particularly legal and actuarial.

4. There would probably be additional improvement if the members of the Public Retirement Study Commission were included on any subcommittee to which pension legislation might be assigned.

5. The quality of study and analysis of pension legislation would be considerably improved if the House and Senate would require that all proposed pension legislation considered for passage must have been submitted to the preceding interim pension study commission in time for such commission to have been able to study and analyze the proposed legislation, and legislation submitted at a session not meeting this prerequisite would be referred to a subsequent interim legislative body for study and analysis.

STATUTORY RESERVE LIMITATION AS TO LOCAL FIREMEN AND POLICEMEN PENSION FUNDS

The Commission, in carrying on its limited study of local funds, recognize the principle of home rule. Their efforts were directed to informing and alerting the local units of government of the pitfalls inherent in local pension plans.

Local fire and police pension funds have been established and operate under some general and a number of special State laws. In most instances, actuarial information was not available when the funds were established or from time to time since the laws have been amended.

Not only have these funds been inadequately financed, but in all instances the laws involved prevent these funds from becoming adequately financed.

These laws, if not amended, will force local policemens and firemens funds to ultimately reach the point where an excessively high level of annual financing will have to be provided through future amendments if the benefits are to be paid.

These laws prevent any local community or any local fund for firemen or policemen from providing such level of financial support now as will prevent a higher level of financial support from becoming unavoidably necessary later.

Through the actuarial surveys of each of these funds as of January 1, 1958, each community and the membership of each pension

fund were informed as to the rate of financial support necessary to prevent further increase in deficit of the fund. Yet, not one of these funds can legally receive that level of support. Thus, not one of these communities or pension funds can forestall the arrival of a time when a considerably higher rate of support than would now be adequate will be needed just to pay the present level of pension benefits. The total amount of tax increases required will considerably exceed the increase that would be sufficient at this time to forestall future increases.

The present statutes define the assets of these funds as "reserves" and then provide that whenever these "reserves" reach a certain level there will be automatic reductions in the tax millage rate permitted. In the case of fire funds in the larger cities, provision is made for a reduction in part of the insurance tax proceeds payable to the fund. The amount of reserve or assets which can not be exceeded without reduction in tax income - both insurance and property - varies as to the local pension funds, but in no case is it large enough to permit any appreciable amount of sound financing. To illustrate, the maximum reserve permitted to the Minneapolis Firemens Relief Association without an immediate reduction in financial income is $500,000. Yet, the present amount of annual disbursements for pensions is approximately $1 million a year. Thus, this Fund can not even accumulate assets equal to one year's actual pension payments. In the smaller fire and police funds the maximum reserve without loss of income to the fund is comparably low. A slight variation to the above situation is

illustrated by the St. Paul Police Fund where there is no fixed millage limit but where taxes cannot be levied in excess of the amount needed to pay the following year's pensions. This Fund will not have to come back to the Legislature for future increases in millage but there is no way to increase the level of financing over the current year's requirement so as to accumulate enough assets to prevent larger future increases in millage.

The 1959 report of the Public Retirement Study Commission points out that because of large deficits caused by years of limited financing the fire funds in Minneapolis, Duluth, St. Cloud, St. Paul, Virginia, and Winona and the police funds in Minneapolis, St. Cloud, and Virginia now require, to meet currently payable pensions, considerably higher tax support than these funds would ever have needed had they been allowed to accumulate assets during the years before they had numerous retirees. If the statutes as to fire and police pension fund reserves were modified, other younger fire and police pension funds would be able to wholly or partially avoid a condition similar to these older funds.

The present statutes from time to time place individual fire and police funds in a position where they must seek to reduce assets by disbursement or otherwise to keep under these low maximum reserves in order to forestall a disastrous reduction in income.

Returning to Minneapolis as an example, if that Fund should have $1,000 more than its $500,000 reserve, it would lose, the following year, approximately $190,000 of income to the Fund. All illustrations used here are typical and could be applied now or in

the future to every police and fire fund. To further emphasize the point, if a community considered it wise to sustain a modest increase in tax support of a police or firemens pension fund in order to forestall a large future increase, the present laws would not permit such action.

The Commission wishes to point out emphatically that its following recommendations to the 1961 session of the Legislature will not solve the financing problems of the local policemens and firemens pension funds. To allow these funds to accumulate assets in excess of the present statutory limits on reserves would be only a helpful first step in the direction of permitting local communities and police and fire funds some latitude toward prevention of excessive eventual increases in pension costs. The Commission recommendations, if enacted, would not require that the maximum authorized levies be made each year but would only permit these levies in the place of the present statutory provisions prohibiting any preparation for the future. The Commission knows of no fire or policemens pension fund in this State that can be permanently, adequately financed by the maximum levy now provided.

As a preliminary step, which will at least enable local communities to have a sounder basis for future improvement in financing of fire and police pension funds,

THE COMMISSION RECOMMENDS, AS REGARDS LOCAL FIREMENS AND POLICEMENS PENSION FUNDS:

That the maximum levies now or hereafter specifically authorized, be permitted, notwithstanding any

reserve requirements in individual laws, until the assets of the fund equal or exceed the present value of each fund's pension liability; and

That no insurance premium tax for the benefit of any such fund be discontinued or diminished until the assets of the fund equal the present value of the fund's pension liability. The present value of each fund's pension liability shall be actuarially determined on a normal-level-cost basis by an approved actuary as defined in the statutes.

THE COMMISSION FURTHER RECOMMENDS:

That the problems and means of financing local policemens pension funds should be studied by the interim commission and remedial measures recommended to the local governing body and, in some instances, to the Legislature.

The Commission wishes to emphasize that while solutions as to financing of pension funds can sometimes be postponed, they inevitably compound themselves as to severity in direct ratio to the length of time they are postponed.

PROGRESS REPORT AND UNFINISHED BUSINESS

Substantial improvement in Minnesota pension funds for public employees has been accomplished since the 1955 Legislature first created the Public Retirement Study Commission.

The Commission was directed to study and analyze pension funds and to report to the Legislature as to its findings and recommendations.

Legislation adopted by the 1957 and 1959 sessions considerably improved adherence to sound pension principles and likewise improved the financing of the three major statewide pension funds and many of the smaller pension funds.

Until the Legislature ordered actuarial surveys of all funds as of January 1, 1958, the cost of pensions, the unfunded liability accumulated for past service, and possible solutions had never been ascertained in Minnesota.

In 1955 all of the funds were grossly underfinanced. SERA has now progressed to an adequate level of financing and PERA and TRA have progressed to a step short of adequate financing. Benefit plans are more in accord with sound principles. There is more equity as to comparison between funds and also within the membership of each fund.

To recount the considerable number of instances of improvement enacted by the Legislature would require more space than is available.

Notwithstanding the fact that pension progress in the major

funds in six years is gratifying, much still remains to be accomplished. Additional problems are constantly arising in connection with the fifty-seven statewide and local pension funds for public employees. There are also over four hundred volunteer firemen's relief associations, created pursuant to State laws, which need actuarial analysis.

Examples of unfinished business that should be studied during the next interim are:

Many of the members of several State Boards and and Commissions who devote approximately one half or more of the normal working year to their duties desire to be included in pension coverage.

Several requests of the Minnesota Education Association and the Minnesota Federation of Teachers are so sweeping in nature and so complicated in application that careful study and analysis should precede legislative consideration.

A request concerning some faculty members of the State teachers' colleges merits further study and consideration.

The desire of many members of all major pension funds to increase ceilings from which deductions are made needs further study.

The problem of coordination of PERA with OASDI is recommended for further study and continued liaison with employer groups.

The League of Minnesota Municipalities and the State Association of County Commissioners have both urged representation for employer subdivisions on the Board of Trustees of PERA. This question is recommended for consideration in the next interim.

There are many additional problems meriting study and doubtless the number will be increased following the 1961 session.

During the last six years the problems of the three major statewide pension funds--PERA, SERA, and TRA--have left the Public Retirement Study Commission insufficient time to more adequately study many of the other State and local pension funds.

PERA covers the employees of such a considerable number of municipal, county, and school district subdivisions of government that interim study of PERA proposals should be carried on with a maximum amount of cooperation with the associations representing these segments of local government.

Of paramount importance each interim is an analysis as to the significance of pension legislation enacted at the preceding session.

If the actuarial surveys recommended to be made by all funds as of January 1, 1962, are ordered by the Legislature, it is very important that these findings be analyzed and reported on to the next session of the Legislature.

APPENDIX A

LEAGUE OF MINNESOTA MUNICIPALITIES - PENSION POLICY

(Resolved portion of League
Resolution on Pension Policy)

RESOLVED, That the League of Minnesota Municipalities endorse as the expression of the League the attached statement on pension policy prepared by the League Committee on Personnel, Pensions and Insurance,

RESOLVED FURTHER, that the League express its appreciation to the Public Retirement Study Commission for its conscientious and time-consuming work,

RESOLVED FURTHER, that the League of Minnesota Municipalities recommend to the 1961 legislature appropriate legislation on the following aspects of pension policy referred to in the League's statement:

(1) An option for local governing bodies to determine whether part-time police and firemen should be included in the public safety group within PERA or treated as regular members.

(2) Modification of the PERA board membership to recognize the important taxpayer and public interest in and obligation to the fund by providing for non-ex officio membership of one representative from each of the official organizations of employing units, the League of Minnesota Municipalities, the State Association of County Commissioners and the Minnesota School Board Association respectively.

November 22, 1960

THE MUNICIPALITIES' VIEWPOINT TOWARD MINNESOTA PENSION PROBLEMS

1. General Comments

A. It goes almost without saying that city and village councils recognize the desirability and necessity of providing and maintaining an adequate and sound system of pensions for their municipal employees. Their obligations to their employees demand this, but such a system is necessary also for efficient administration both in attracting and maintaining competent personnel and in making it possible to retire employees before they become too old to render satisfactory service.

B. This interest in an adequate and sound pension system necessarily carries with it the moral, if not the legal, obligation to see that changes in the system do not jeopardize the financial capacity of the system to pay the promised benefits. Thus no modification of the PERA plan, whether with or without the inclusion of social security, should be considered which does not adequately meet the problem of future financing both for employers and employees.

C. To provide all parties concerned with the necessary up-to-date knowledge of the relation between the cost of present and future benefits and the sum total of contributions, interest and other income, the various pension laws should require at the cost of the respective pension systems a periodical actuarial study at least once in four years under existing conditions. Adjustments in rates or benefits structure should be made in the light of such actuarial surveys to place the funds in actuarial balance. In addition, some objective study and report on the financial implications of amendments to pension laws should be required before legislative action; the advisory committee used by the Wisconsin legislature for this purpose is one possible means by which this may be accomplished. Without actuarial advice, neither council nor the legislature can possibly realize the financial implications of proposed amendments nor can the employees themselves; yet they cannot properly discharge their duties either as employers or as elected representatives of the public in this respect without knowing these implications.

II. Amendments to PERA Law

A. It is not in the municipal interest to postpone adequate provisions for tax levies and employee contributions sufficient to finance all anticipated future pension costs since without such action, excessive levies later will be inevitable if the promised benefits are to be paid. The financing plan followed for the PERA system prior to 1957 obscured actual costs of the system and shifted to future taxpayers the costs which are a proper part of present governmental expense. While the 1957 legislature recognized this fact by providing for a substantial regular employer contribution to support the PERA fund and by increasing the employees' contribution, the most recent actuarial survey of the PERA fund made by the study commission's actuary shows that the 1957 amendments, when taken with further changes made by the 1959 legislature, fell short of placing PERA on an actuarially sound basis. However, it is to the interest of the municipalities and the public as well as the employees to see that sufficient changes are made at the 1961 legislative session, either in the financing provisions or the benefit structure or both, to prevent the actuarial deficit from increasing further. In any event, no benefits should be added without assurance to the employing units as well as the employee that their financing is also provided for. Furthermore, no benefit changes resulting in increased costs should be considered until after appropriate changes have been made to keep the present actuarial deficit from growing. Tax levies necessary to meet all employer costs should be outside per capita and millage limitations on taxes and expenditures.

B. A sound pension plan ought to provide for employer-employee matching of contributions on a 50-50 basis. Employers must necessarily assume the obligation of amortizing the actuarial deficit in the fund over a long period of time, as the present law provides; but deficits accruing because of future changes in financing or benefits should be borne equally by employer and employee.

C. For employees hired after the effective date of the 1959 law, the pension plan should be set up on the basis of providing at age 65 after 30 years of service in covered employment an annuity of approximately one-half of the salary on which deductions are made.

D. Governmental units as employers as well as representatives of the tax-paying public have a substantial interest along with employees in the PERA pension system, an interest now recognized in the statutory obligation of employers to make substantial annual contributions to the fund to amortize the actuarial deficit and to match employee payments for current costs. While

composition of the board administering the fund may appropriately recognize that employees as well as the public have a stake in the fund, the managing board should be of the fiduciary type used in many other states and not a board selected by the membership. As long as the present type of board is continued, composition of the board should be altered to provide substantial public representation, which should not be ex officio.

III. Police and Fire Pension Plans

A. The municipalities recognize that special aspects of police and fire service require pension plans which permit an earlier retirement than in the case of other municipal employees. Yet, because such plans add significantly to pension costs, police and fire pension plans should contemplate payment of no more than half salary as the basic pension after at least 25 years of service and not before age 58.

B. A single state fund for policemen and firemen is a desirable eventual legislative objective. For the present, however, existing special funds should not be abolished without providing suitable alternative provisions.No additional police and fire funds should be established in the future.

C. As in the case of PERA, financing provisions of police and fire pension funds should be revised in the light of current actuarial surveys to make them actuarially sound. The amount of the employer's share of the cost should be somewhat greater than in the case of other public pension systems because of the higher costs of a police or fire pension plan, but the employee's contribution should be no less than that paid by other employees. Considering the special aspects of police and fire service, a 60%-40% apportionment represents a fair distribution of current pension costs between employer and employee.

D. In order to make actuarial soundness possible, the required employer contribution should be on a payroll rather than a millage basis. There should be no statutory limits on the size of the funds except the actuarial measurement of pension liabilities nor any other relation between dollar balance in the fund and municipal contributions.

E. The special provisions for policemen and firemen pensions established as a public safety division within the PERA fund should conform to the basis suggested in paragraph A. However, any such provisions in the PERA law should not impose any of the burden of additional police and fire pensions on other PERA members. Because many public safety employees in small communities, particularly police officers, spend only a small portion of their full time

municipal employment in police duties and in many such cases special pension treatment of such employees may not be justified, local governing bodies should be granted the option to determine whether such employees should be enrolled in the public safety group for pension purposes or treated like other employees not performing police or fire duties.

IV. OASDI Extension to Minnesota Municipal Officials Under Public Law 227

A. Under Public Law 227 adopted by the 1957 session of congress and amended in 1960, Minnesota is authorized to permit employees now in PERA (other than policemen and firemen) to exercise an individual option to remain under PERA or come under a combined PERA-OASDI plan after a state enabling act is first adopted. New employees would then come under the combined plan automatically

B. League opinion justifies the conclusion that the municipal viewpoint is for Minnesota legislative action to take advantage of Public Law 227 in the manner outlined in IV A. The League of Minnesota Municipalities, therefore, supports state enabling legislation which will allow the municipal employees who are members of PERA to choose combined PERA-OASDI coverage on an individual option basis. The right of municipal councils to have a voice in this determination shall also be investigated and protected. If Minnesota were to consider a combined OASDI-PERA plan, the following points should be embodied in any such plan:

1. No plan should be considered which does not retain PERA on levels otherwise applicable to present members who elect not to come under the OASDI plan and which does not provide for other employees a combination OASDI-PERA plan of substantially comparable benefits. In other words, any such plan should contemplate permanent continuance of PERA, though with the smaller scale of benefits (exclusive of OASDI benefits) required under the policy recommended in paragraph 2.

2. Any combination plan considered should provide retirement and other benefits on a scale which can be financed by employer-employee contributions for current costs substantially comparable to those required under the present SERA plan.

3. No plan should be considered which would not keep for PERA purposes money contributed under the PERA law (except for amounts needed to pay employees' share of retroactive costs) or which would jeopardize the actuarial soundness of the PERA fund.

4. Any such combination plan should provide retroactive coverage under OASDI to the latest date that this can be done while providing that incumbent employees are fully insured as to eligibility for benefits by the date of the coverage agreement. The necessary enabling act should be adopted at the 1961 legislature if it is to be adopted at all. Since such an action would mean payment of substantial back contributions by employers in addition to current payments, the governmental units should be permitted to issue obligations for all or part of the total employer-employee back costs plus the initial year's current costs and to pay them off over a maximum period of five years through a levy outside millage and per capita tax limits. The law should require employees to exercise their option on coverage early enough in 1961 to permit governmental units to determine prospective OASDI costs in time for their 1961 levy, collectible in 1962.

APPENDIX B

STATE ASSOCIATION OF COUNTY COMMISSIONERS

POLICY STATEMENT ON RETIREMENT MATTERS

Adopted by the Association
at its annual meeting on
December 8, 1960

The Association recognizes that the personal interests of county commissioners as members of PERA must be subordinated to their obligations as members of the governing authority of counties in all discussions involving PERA and its effect upon county costs and employment practices.

1. Under current law an employee's contribution to PERA is set at 6% of payroll up to a maximum of $4,800 per year and the employer matches this 6% making a total of 12% of payroll which is calculated to pay current benefits. Employers pay an additional 2½% to reduce the unfunded liabilities which were incurred when the employer paid nothing into the fund. The unfunded liabilty or deficiency still exists, though the amount is in dispute. The Association agrees with the policy guides on cost of benefits and financing as set down by the present Retirement Study Commission.

   a) The Association adopts as policy that PERA benefits for the present should be limited in amount so as to be able to be financed from a maximum of 12% of payroll and opposes any legislation which would extend benefits so as to further increase the deficit in the PERA fund.

2. The Board of Trustees of PERA is made up of three state officers serving ex officio and nine others elected by the PERA membership. When the governmental units made no contribution to the fund this membership of the Board was satisfactory. Since the law now requires a matching contribution by the employer and the employing governmental unit must make up the deficiencies existing in the fund the governing bodies of the employing governmental units now have a legitimate interest in the management of the fund and should have representation on the Board of Trustees. Since elected officials representing governing bodies will always be in the numerical minority among the members of PERA, representation

from the governing bodies must be assured by means other than election by the membership at large.

a) The Association recommends that the statute covering membership on the PERA Board of Trustees be amended to give representation to the governing bodies of the contributing governmental subdivisions. These members should be elected or appointed by, and responsible to, the employer units.

3. Present statutory provisions for the collection of employer contributions and the payment of these contributions to the PERA fund are deficient in providing for timely payment to the fund and absolute assurance that each governmental subdivision does in fact make its contribution. It is suspected that some employing units have failed to make contributions entirely. The employing unit is billed for its contribution on a yearly basis; it then includes the amount of the obligation in the following year's budget and proceeds to pay the obligation, in many instances only after tax settlements are made in that following year. This means that under current statutes employer contributions even when timely paid are made at least 18 months after the corresponding employee contribution. Employer contributions for the fiscal year July 1, 1956, to June 30, 1957, (4%) are only 98% complete and for the fiscal year ending June 30, 1958, (5%) are approximately 97½% complete. Collections for the fiscal year ending June 30, 1959, are only now being received by the fund office. Present statutes provide that when the employing unit fails to levy for its contribution the county auditor may spread a levy against the taxable property in that unit. When a delinquency statement has been prepared by PERA, action to force payment may be taken by the county auditor but these procedures further delay remittance of the contribution.

a) The Association recommends that strict collection provisions be enacted and enforced to compel payment of employer contributions on a current basis. These provisions should be stringent enough to result in the collection of all accounts now delinquent without forgiveness and to prevent delinquencies in the future.

4. Trust and retirement fund surpluses may be invested by the appropriate state authorities in restricted types of securities which have a high degree of security but a correspondingly low interest return. Substantial increases in investment income could be obtained if investments were permitted in certain higher income producing securities which have a high degree of security and reliability.

a) The Association recommends legislation which will liberalize investment authority for PERA funds without lessening the security and reliability of the funds.

5. Federal law permits the combination or coordination of Old Age Survivors and Dependents Insurance (Social Security) and local retirement programs. The legislature in 1957 offered a coordinated plan for OASDI and PERA which was rejected by referendum. Under that coordinated plan the ultimate cost ceiling of 14.5% of pay would not have been reached until 1975. If the legislature were to re-offer the same plan a 15% level of cost would be reached by 1969. Although Public Law 227 permitting a so-called "split" or "individual option" system with provision for reinstatement back to 1956 was re-enacted in September of 1960, an act of the Legislature to provide for a new referendum is required if any form of OASDI and PERA coordination is to be permitted. The Association is of the opinion that the level of costs and benefits should be related to a 12% of pay level and that county board opinion is too divided to justify a conclusion as a matter of policy that a coordinated system should be sought for employees and officials of county government.

a) The Association makes no recommendation for or against any form of coordinated OASDI and PERA system.

b) The Association, anticipating the introduction of bills during the 1961 legislative session recommending some form of coordinated OASDI-PERA system, charges the Personnel Affairs Committee and the Board of Directors of the Association to prepare a policy statement expressing the county position on cost and benefit provisions consistent with county interests in a coordinated plan.

6. The Association is aware of the sincere and bipartisan effort which has been expended by the three interim commissions charged with the study of public employment retirement systems and recognizes that each of the commissions has made a sincere effort to establish an adequate level of pension benefits commensurate with certain policy guides to make the retirement fund financially secure and sound and is of the opinion that an agency of the legislature is the proper one to continue to study, evaluate and report on pension problems.

a) The Association commends the activity of the Retirement Study Commission and recommends to the legislature that this commission be continued on a permanent basis following the 1961 legislative session.

7. Various proposals to increase PERA pension benefits have been proposed, among which are the recommendations of the legislative committee of the PERA. This Association will not recommend action on such legislative proposals until an estimate of the cost of each proposal is available. Cost estimates were not available when this policy statement was adopted.