Minneapolis Employees Retirement Fund
Legislative package to be presented to MERF Board on December 21, 2004

1. "Liquidity trigger bill"

A. Amends Minnesota Statute 422A.101, subd.4 by repealing both (a) and (b).

B. Amends Minnesota Statute 422A.101, subd.3 (d) by changing dollar amount of maximum state aid to correspond to current maximum found in 422A.101, subd.3(c).

C. Amends 422A.06, subd. 3 and 422A.06, subd. 5 to provide for the creation of an accounts payable account from the deposit accumulation fund to the reserves for retirement benefit fund and the corresponding creation of an accounts receivable account in the reserves for retirement benefit fund. Further provides that employer payments are first applied to the interest charge and then to the principal outstanding and also sets the interest rate at the assumed earnings rate of the fund which is 5% plus CPI-W up to a maximum of 3.5%.

Practical Impact

Allows MERF's four employers to systematically pay off all remaining liability to the MERF fund on a level dollar basis between now and 2020. This bill smooths the payment stream so that payments are more knowable and affordable from the perspective of the employers. This bill holds the employer harmless on when the member actually retires as the act of retirement would no longer over-ride the long term financing of the fund contained in current law. This provision holds the retirees harmless as it establishes an interest rate payable to the reserves for retirement benefit fund from the deposit accumulation fund equal to the assumed rate of return for the fund over time.

Issues for City of Minneapolis

1. MERF is willing to consider a city request to extend the amortization an additional five years to 2025 provided that the necessary actuarial work is provided by the City to show the expected payment stream and benefit to the City.

2. The ultimate savings to the City from removal of the liquidity trigger is contingent on the success of the City in negotiating with the State Legislature and the Governor's Finance staff on the appropriate level of state aid to MERF related to the payment extension implicit in the liquidity trigger bill.

While MERF and its lobbyist will actively advocate for the bill itself, as the pension plan, MERF can only advocate for full funding of the actuarial requirement each year. The relative apportionment between local units of government who are the employers of the plan and the State will require testimony and/or negotiation by the City on behalf of MERF employers.

The Blue Ribbon Commission Report calculates the current cost for MERF active members at $92 million and assumes that the State will contribute up to $7 million per year from the date of passage of the bill until 2020. This brings the new City cost to $65 million. Current state law provides that the State will contribute up to $9 million until most members of the fund have retired. The fairness of this apportionment must be presented by the City in hearings and ultimately an agreement must be reached on state contribution.

To the extent the City does not list this bill as a high priority or does not advocate this apportionment scheme, the City savings would be lower. Under its fiduciary liability statute MERF cannot testify as to the fairness of any apportionment and must rely on the City and its actuary to successfully make the case presented. Given sufficient information our lobbyist could explain the logic of the City position.

2. State Board of Investment as an alternative to private investment managers

1. Amends Minnesota Statute 422A.05, subd 2c by adding clause (d).

Practical Impact

The State Board of Investment (SBI) currently manages certain sub-funds of assets. These include broad asset classes such as international investment, domestic index investment, domestic equity active management and bonds. State and local employees can elect deferred compensation coverage and select one or more of the SBI sub-funds as their investment vehicle. In addition, all volunteer relief associations and police and fire funds have the authority to invest all or a portion of their assets in the SBI sub-funds.

As MERF considers investment mandates, it seeks the authority to consider investment in an SBI sub-fund as an alternative to employment of an independent investment manager. In all cases MERF would evaluate relative performance and cost to make the ultimate allocation decision. Any investment by MERF would be subject to rules and approval by the SBI.

Issues for the City of Minneapolis

The city should support consideration of the SBI funds as an option for investment of pension assets. While the pension fund must consider both return and cost to make the ultimate decision, an additional option may prove valuable as the fund assets are expected to decrease over the next fifty years as the membership declines.

3. Removes salary cap for Executive Director of MERF fund

A. Eliminates inclusion of MERF in Minnesota Statute 43A.17, subd. 9 which places MERF under the political subdivision compensation limit.

Practical Impact

Local pension plans are not deemed to be political subdivisions subject to the 43A limits. John Chenoweth caused concern at the legislature related to compensation and fringe benefits including a Jaguar. MERF was inserted into the law at that time. No other local pension plan is subject to 43A.

MERF's personnel policies now mirror the personnel policies of the City. There are no generous car allowances or other perks at MERF. Employees at MERF receive increases based on the AFSCME contract. The board will propose to give the executive director increases based on what the retirees receive which is generally equal to CPI-W.

The closed nature of the MERF plan and its small specialized staff size makes continuity of staff important. Retaining an executive director long term ensures continuity in management. The director's ability to use some of her time in both accounting and legal areas due to her background results in low cost operations. The executive director has not had a raise in three years and wants to maintain the purchasing power of her compensation.

MERF's director receives regular mileage reimbursement at the government rate, plus city health care, dental care and life and disability insurance at MERF expense