The Legislative Commission on Pensions and Retirement (LCPR) met on Nov. 3 and Nov. 4 to hear further testimony about the statewide systems’ experience study results and defined contribution plans, among other topics.

The Tues., Nov. 3 meeting began with the introduction of Doug Anderson, the new executive director of the Public Employees Retirement Association (PERA). Anderson takes over from interim Executive Director Dave DeJonge, who has been filling in since the retirement of Mary Vanek in January. Anderson is a Minnesota native and University of Minnesota graduate who has extensive experience as a consulting actuary for both public- and private-sector pension plans.

Michael De Leon from Deloitte, the LCPR actuary, testified on the scope of Deloitte’s review of the retirement systems’ experience studies. Deloitte identified no issues identified that would cause commission’s actuary to disagree with the recommendations of the pension systems’ actuaries. The lowering of the investment return assumption to 8 percent was found to be “reasonable and supportable.”

DeLeon reviewed the financial impact of changing assumptions for the discount rate (investment return), mortality improvements, and all other changes. DeLeon noted in his comments that it would be unwise to be moving the investment return assumption every few years, and that Deloitte considers a 30-year investment horizon when analyzing this issue.

He also showed the impact of moving from older mortality actuarial tables (RP2000) to new tables (RP2014) for all three statewide plans. There was also discussion about the potential impact of using the recently published MP2015 mortality improvement scale to account for one aspect of mortality assumptions – the rate at which mortality improves for future generations.

Dave Bergstrom of the Minnesota State Retirement System, Shana Jones of PERA and Jay Stoffel of Teachers Retirement Association testified that the impact of the MP2015 improvement scale would be a slight decrease in future liabilities. However, commission chair Rep. Tim O’Driscoll (R-Sartell) requested more information from the plans regarding the financial impact of moving to the MP2015 tables.

Mark Haveman, executive director of the Minnesota Center for Fiscal Excellence, testified during public comments about the investment return assumption, noting that although lowering the investment return assumption is often perceived as a “political ploy to manufacture a problem,” it is actually more responsible to assume a lower return.

“There’s no better way to threaten long term viability of these plans than making them look cheaper than they are,” he said, adding that “there is something seriously amiss and needs to be fixed.” Haveman said the actuarial profession is failing to do its duty to the public by understating liabilities and ignoring potential harm to third parties.

On Wed., Nov. 4, the panel heard testimony from local independent actuary Jim van Iwaarden, whose firm is involved in alternative retirement plan designs. An independent investment adviser, van Iwaarden and his associates were invited to LCPR to discuss defined-contribution or 401(k)-type plan possibilities. During a two-hour presentation, van Iwaarden:

* Reviewed several recent studies done in Minnesota on the topic, including some memos by former LCPR director Larry Martin.
* Noted that COLAs are rare in private-sector DB plans.
* Commented about employer “pick-up” contributions going away in public funds in order to control costs.
* Said that Minnesota’s pension funds are among the best governed DB plans in the nation.
* Complimented the State Board of Investment (SBI) on its performance, noting that Minnesota plans’ funding ratios are higher than average compared to peers in other states.
* Said Minnesota contribution rates are lower on average than many other states.
* Showed examples of a DC/hybrid plan with an account balance of $300,000 to $400,000 for a 30-year career employee earning a salary of $50,000 every year, contributing 5.5 percent to 7.5 percent per year, and retiring at age 65. The investment earnings assumption used for this individual was 8 percent.

Sen. Sandy Pappas, D-St. Paul, pointed out that unlike SBI’s professional managers, individuals mostly would be unwilling to take on sufficient risk in order to earn a return that high. Sen. Alice Johnson, D-Blaine, remarked that DC/hybrid plans are a bad deal for women, minorities, low-income people, and unsophisticated investors.

Rep. Paul Thissen, D-Minneapolis, suggested that part of the state’s budget surplus be used to improve the pension plans’ funding ratios.

Kim Crockett, lobbyist for the Center of the American Experiment, testified during public comment regarding an update to her chapter in the CAE’s “Minnesota Policy Blueprint” that was published last year. She also elaborated upon Haveman’s remarks of the day before, warning of the “grenade” of an unreliable actuarial profession.