

Members

Rep. Lawrence Buell, Chairperson
Rep. Woody Burton
Rep. Thomas Kromkowski
Rep. Win Moses
Sen. R. Michael Young
Sen. Gary Dillon
Sen. Allie Craycraft
Sen. Larry Lutz
Steve Meno
Kip White
Gary Lewis
Randy Novak



PENSION MANAGEMENT OVERSIGHT COMMISSION

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MEETING MINUTES¹

Meeting Date: September 18, 2006
Meeting Time: 10:00 A.M.
Meeting Place: State House, 200 W. Washington St.,
Room 404
Meeting City: Indianapolis, Indiana
Meeting Number: 3

Members Present: Rep. Lawrence Buell, Chairperson; Rep. Woody Burton; Rep. Thomas Kromkowski; Rep. Win Moses; Sen. R. Michael Young; Sen. Gary Dillon; Steve Meno; Kip White; Gary Lewis; Randy Novak.

Members Absent: Sen. Allie Craycraft; Sen. Larry Lutz.

The Chair, Representative Larry Buell, called the third meeting of the Pension Management Oversight Commission (PMOC) to order at 10:15 a.m. Staff made a correction to the September 5 minutes regarding the unfunded accrued liability created by the newly proposed Supplement Retirement Plan for Department of Correction employees assigned to hazardous duty from \$11.4 M to \$111.4 M.

Representative Buell called upon Ms. Andrea Unzicker, General Counsel of the Public Employees' Retirement Fund (PERF) to speak on the Legislator Defined Contribution Plan Pilot Program. Ms. Unzicker spoke on behalf of Mr. David Adams, Executive Director of PERF who was ill and unable to attend today's meeting. Ms. Unzicker distributed Exhibit A (DC Pilot Program). Ms. Unzicker said that there are two options: (1) Extend the current noncode statute to 2008 or (2) Implement the statute permanently. She said that this would require revisions to another statute and it would end the reporting requirement on the program to the PMOC. Senator Young asked about the effect of a permanent change to the statute; that is, extend permanently without the annual reporting requirement. The Chair commented that PERF already reports annually to the PMOC. In response to a question from Representative Burton,

¹ Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of \$0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is <http://www.in.gov/legislative/>. No fee is charged for viewing, downloading, or printing minutes from the Internet.

Ms. Unzicker said that immediate implementation is not possible. She said that three to five years is the current time line to implement the necessary changes systemwide, according to the PERF technical people. Ms. Unzicker said that PERF will have definite time lines next year, but she is not certain yet.

Representative Buell suggested extending the pilot program one year to give PERF an opportunity to do more study. He said that PERF will be able to report back next year. Additional discussion ensued, with Senator Young making a motion for a three-year extension to the pilot program, with annual reporting. Representative Burton inquired about locking in a third-party administrator. Ms. Unzicker said that can't be done at this time. Senator Young's motion was seconded to extend the pilot program for three years, along with the preparation of a preliminary draft for the next meeting. The motion passed unanimously.

Mr. Ernest Yelton, Executive Director of the Indiana Gaming Commission, was recognized to address the PMOC on proposed changes to the State Excise Police, Gaming Agent, and Conservation Officers' Retirement Fund. Mr. Yelton told the PMOC that the ability to purchase service from other funds is very important to the Gaming Commission. He said that most crimes associated with the Gaming Commission are money laundering and other money crimes. Mr. Yelton said that the Gaming Commission would recruit civilian PERF members and city police officers and firefighters with the requisite experience. Exhibit B (Indiana Excise Police, Gaming Agents, and Conservation Officers Plan) was distributed to members. Mr. Yelton requested favorable action on the service credit purchase formula which is included in Exhibit B. In response to a question from the Chair, Mr. Yelton said that the fiscal impact on the purchase of service is neutral because it would be at full actuarial cost.

Mr. Mike Crider of the Department of Natural Resources next addressed the PMOC. Mr. Crider told the members that the DNR is looking at enhancements; retirement at an earlier age and an increase in the employer contribution rate from 16.5% of payroll to 20% of payroll. Mr. Crider continued by saying that the fees from the Bureau of Motor Vehicle boat registrations are not sufficient to cover the requested enhancements. He said that the requested enhancements will be coupled with an increase in employee contribution from 3% of the first \$8,500 to 6% of total compensation.

In response to a question from Mr. Meno, Mr. Crider said that the disability requirement requested is for service-related disabilities only. In response to a question from Senator Young, Ms. Mary Beth Braitman of Ice Miller, representing the State Excise Police, Gaming Agent, and Conservation Officers' Retirement Fund, explained the differences between the 1977 Police Officers' and Firefighters' Disability and Pension Fund and the Excise Police, Gaming Agent, and Conservation Officers' Retirement Fund. PERF has an offset similar to the state's Long-Term Disability Plan. The State Police and the 1977 Police Officers' and Firefighters' Disability and Pension Fund have an immediate benefit without service credit.

Responding to a question from Mr. Lewis, Ms. Braitman said that the proposed employee contribution increase to 6% of compensation is similar to the 1977 Police Officers' and Firefighters' Disability and Pension Fund and other public safety plans. Mr. Meno inquired how the additional employee contribution will be used. In response, Ms. Braitman said it would be used to fund the formula benefit, and not the Annuity Savings Account. Ms. Braitman further responded to a question from Senator Young by saying that the members of the State Excise Police, Gaming Agent, and Conservation Officers' Retirement Fund can't be put into the 1977 Police Officers' and Firefighters' Disability and Pension Fund because of different platforms. In response to a staff question, Mr. Crider said that the proposal would require an increase in the boat registration fees, the amount of which has not been determined. Mr. Crider estimated that the needed increase would be \$5 or less. Responding to a question from Senator Young, Mr.

Crider explained how the current fee is assessed. An excise fee of \$25 is distributed to the county in which the water craft is registered. The \$5 identification fee is used for the State Excise Police, Gaming Agent, and Conservation Officers' Retirement Fund.

Ms. Braitman discussed Exhibit B and the basic formula and explained the proposed changes. One change would eliminate the cut back in the current formula percentage for service in excess of 25 years. Mandatory retirement would be at age 60. Normal retirement age would drop from age 55 to age 50 with 25 years of service for an unreduced benefit. There would be an increase in the employee contribution as previously discussed. Also, there would be a cost-of-living adjustment (COLA), which tracks the PERF COLA already. Ms. Braitman said that the purchase of service is similar to the Emergency Medical Technicians (EMTs) to the 1977 Police Officers' and Firefighters' Disability and Pension Fund. She said that the purchase is designed to be at full actuarial cost. Ms. Braitman said that this is especially significant to the Gaming Agents since they are new to the Fund. She said that the disability credit would be similar to that of PERF. Senator Dillon asked about employer contribution rates of other public safety funds. Ms. Braitman said that the 1977 Police Officers' and Firefighters' Disability and Pension Fund employer contribution rate is 21% of pay, with a 6% employee rate, while the State Police employer contribution rate is 18%, with a 6% employee rate. Representative Buell asked if it is fair to characterize this proposal as moving away from PERF and moving toward police and fire plans, but not as favorable as those plans? Ms. Braitman answered yes, that is fair.

Representative Kromkowski commented that he had thought about funding the proposal and considered alternatives to a boat registration fee increase. He requested other ways be explored to fund the proposal. He said that he remembered the outcry with the last boat registration fee increase and the effect on sport fishermen. Ms. Braitman said that the boat fee only funds conservation officers' pensions, but it does not fund Gaming and Excise police. In response to a question from Representative Burton, Mr. Yelton said that of the 141 gaming agents, 131 are funded by the casino boats and 10 are funded by the Gaming Commission. Ms. Braitman commented that the employers are authorized to pick up all or any part of the contribution increase. Mr. Doug Todd, actuary for the Fund, said that he did not have any cost data, but would have these data for the next meeting.

Mr. Yelton said that funding for the Excise Police comes from bartending fees. He said that most of increase in the proposal can be paid from the bartending fee for the Excise Police. Mr. Crider said that DNR is already in a negative position on funding the Conservation Officers portion of the Plan. He suggested that employees reduce their deferred compensation contribution in favor of an increased pension contribution. He said that the C&E Fund is a better benefit. Mr. Crider said that the proposed changes will allow early retirement, which is not now an option. In response to a question from Mr. White, Mr. Crider said that in lieu of a pay increase, the DNR intends to pick up a portion of the employee contribution increase if a new funding source is approved. He said that they are already in a deficit position because the boat fee no longer picks up the entire cost. Representative Buell requested a bill draft and fiscal note be prepared on the proposed changes for the next meeting. Representative Kromkowski said that he supports the changes, but he wants to review the final product. He recalled the problems the last time boat fees were increased.

Representative Buell addressed the topic of matching funds for municipalities in the 1977 Police Officers' and Firefighters' Disability and Pension Fund. Mr. Tom Hanify of the Indiana Professional Firefighters Union told the PMOC that great strides have been made in meeting the crisis of funding for the Old Plans. He said that cigarette taxes, a portion of lottery revenues, and alcohol taxes are the sources for the current pension relief funding. Mr. Hanify said he is asking that the 50% guarantee for the Pension Relief Fund be maintained. Mr. Tom

Miller of the Indiana Professional Firefighters Union echoed Mr. Hanify's remarks. He said that all parties have worked hard over the last 30 years to assure funding for pension relief. Mr. Leo Blackwell of the Indiana Fraternal Order of Police also echoed the comments of Mr. Hanify and Mr. Miller. Mr. Matt Brase of the Indiana Association of Cities and Towns said that he wanted to answer a question posed by Senator Young at the last meeting; that is, are river boat revenues used for pensions? Mr. Brase said that the answer is both yes and no. He said that some river boat revenues are put into the general fund and that pensions are paid from the general fund. Others use river boat revenues for infrastructure and other designated uses.

Representative Burton asked about the impact of an additional \$20 M per year of lottery revenues. Mr. Doug Todd of McCready & Keene, Inc., actuaries for the Police and Fire Funds and the Pension Relief Fund, said that \$20 M per year would take care of the gray area on the charts, which Mr. Todd distributed as Exhibits C, D, E, F, G, and H. These charts showed Pension Relief under the current statute, along with an increase of \$10 M per year, an increase of \$20 M per year, the 50% guarantee extended one year through 2009, the 50% guarantee extended two years through 2010, and the 50% guarantee extended permanently. In response to a question from Senator Dillon, Mr. Todd said that it does not matter if the money comes in a lump sum or an annual payment. He said that \$20 M per year would fund all of the shortfall, except for \$9 M, on a statewide basis. Mr. Todd also said that the gray areas in the charts represent the shortfall. Representative Buell suggested additional funding and decreasing the 50% overtime. Representative Moses commented that we must look at individual jurisdictions. He said that some need more "blue" than others. Indianapolis may be O.K., but other jurisdictions may have a big jump. Representative Buell said that we must start the process now because of the long lead time on city budgets.

Representative Burton wanted to know what the PMOC is recommending. Representative Buell said that we must show the legislature a way to meet the needs of the cities and towns. Representative Buell said that we must let the cities and towns know that the 50% guarantee will be continued for at least another year. He said that it probably would not be lump-sum funding. Representative Kromkowski made a motion to extend the 50% guarantee formula for two years. The motion was seconded and passed unanimously. The staff was directed to prepare a bill draft incorporating the motion.

The Chair next addressed the topic of benefit enhancement for the 1977 Police Officers' and Firefighters' Disability and Pension Fund. Mr. Tom Hanify described the benefit enhancement as contained in HB 1313 of the 2006 Session. Mr. Hanify said that to cover the increased benefit, employee contributions would necessarily increase from 6% of pay to 8.3% of pay. Mr. Doug Todd commented that the 6% would need to increase to 8.5%, based on a more recent cost analysis. In response to a question by Mr. Meno, Mr. Hanify said that some employers pick up the employee contribution. He said that it may be a bargaining issue. Senator Young suggested drafting a bill to require the employee to pick up the increase. Mr. Hanify said that mandating such a payment takes away the cities' flexibility in bargaining. Mr. Leo Blackwell said that he supports Mr. Hanify. Representative Kromkowski moved the enhancement proposal. It was seconded and passed, with a bill draft to be prepared for the next meeting.

Representative Buell distributed a preliminary draft of legislation (PD 3134). Senator Young made a motion to approve PD 3134 as submitted. The motion was seconded and passed unanimously.

The Chair announced that the agenda for the next meeting would contain the PERF multiplier, proposals from the Judges' Association, and bill drafts from today. The next meeting will be Wednesday, October 25, 2006, at 10:00 a.m. The Chair adjourned the meeting at 11:55 a.m.

