

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: October 25, 2006
Meeting Time: 10:00 A.M.
Meeting Place: State House, 200 W. Washington St.,
Room 404
Meeting City: Indianapolis, Indiana
Meeting Number: 4

Members Present: Rep. Lawrence Buell, Chairperson; Rep. Woody Burton; Rep. Thomas Kromkowski; Sen. R. Michael Young; Sen. Gary Dillon; Sen. Allie Craycraft; Sen. Larry Lutz; Kip White; Randy Novak.

Members Absent: Rep. Win Moses; Steve Meno; Gary Lewis.

Representative Buell, Chair, called the meeting to order at 10:15 a.m. The first order of business was Preliminary Draft (PD) 3389 (Exhibit A) dealing with the Indiana Excise Police, Gaming Agents, and Conservation Enforcement Officers' Retirement Plan. The Chair called upon staff to explain the contents of PD 3389 and the changes contained therein from an earlier version. Representative Buell recognized Mr. Ernest Yelton, Executive Director of the Indiana Gaming Commission. Mr. Yelton said that this is his third time to appear before the PMOC on the issue of changes to the Excise Police, Gaming Agents, and Conservation Enforcement Officers' Fund. Mr. Yelton called upon Ms. Mary Beth Braitman of Ice Miller and counsel for the Fund. Ms. Braitman distributed Exhibit B. Exhibit B, *Indiana Excise Police, Gaming Agents, and Conservation Enforcement Officers' Plan*, highlighted the changes contained in PD 3389 on a section-by-section basis. Exhibit B contained the one proposed change from PD 3389 as drafted. The proposed change was: the employee contribution rate was changed from 6% to 4% after an actuarial study determined that 4% was what was needed, and not 6% as contained in PD 3389;. Ms. Braitman next distributed Exhibit C, *the Fiscal Impact of PD 3389, with the proposed changes*.

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.

The Chair called upon Mr. Mike Crider, Executive Officer with the Department of Natural Resources. Mr. Crider distributed Exhibit D, *Conservation Officer Retirement Fund*. Exhibit D highlights some of the contents of PD 3389, along with information about boat fees and watercraft excise taxes.

Representative Buell called upon Mr. David Heath, Chairman of the Alcohol and Tobacco Commission. Mr. Heath commented briefly about PD 3389 and the proposed changes.

Representative Buell called for the disposition of PD 3389, including today's proposed changes. A motion was made and seconded, and PD 3389 passed by a unanimous voice vote.

The Chair addressed the next topic on the agenda, the proposed restructuring of the Judges' Retirement System. Representative Buell called upon the Honorable Thomas Felts, Judge, Allen County Circuit Court. Judge Felts made comments about the proposed restructuring plan and said that the Indiana Judges' Association has put forth before the PMOC many times two proposals; one allowing full-time magistrates into the 1985 Judges' Benefit System; and the other providing a cost-of-living adjustment (COLA) for those judges in the 1985 Judges' Benefit System.

Representative Buell recognized Mr. William Sheldrake, President of Policy Analytics, LLC, and Mr. Doug Todd of McCready & Keene, Inc., actuaries and benefit consultants. Mr. Sheldrake distributed Exhibit E, a Power Point presentation, *Restructuring the Indiana Judges' Retirement Systems: Analysis and Options*. The Judges' Association requested an analysis of options and comparisons with other states, including COLAs in other states and options in Indiana, along with incentives to remain on the bench. The presentation did not cover the proposed legislation, PD 3476 (Exhibit F). Mr. Sheldrake told the PMOC that Mr. Todd of McCready & Keene partnered with Policy Analytics, LLC, to produce the study. They assessed each system change individually and advised the Judges' Association on the effects of the changes. They did not act as an advocate.

In response to a question from Senator Lutz, Mr. Sheldrake said that there were approximately 70 magistrates and about 280 judges. In response to a question from Senator Young about the proposed accrual rate of 2% for service between 22 and 26 years when the accrual rate was only 1% for service between 12 and 22 years, Judge John Baker of the Indiana Court of Appeals, District 1, was recognized by the Chair. Judge Baker responded that the increased accrual rate was designed to close the gap between what the Indiana Judges Pension Plan would provide (68% after 26 years of service) and what other neighboring states are providing their judges (generally in excess of 70%).

Representative Buell told the PMOC that while PD 3476 contains many creative and worthwhile ideas, the PMOC is not in a position to vote on it today. Representative Burton commented that the defined contribution plan is a good way to go. Representative Buell commented that the creation of a defined contribution plan is the wave of the future for pension plans and that he would endorse, in concept, the creation of a defined contribution plan. Representative Burton made a motion to endorse the creation of a defined contribution plan in concept. The motion was seconded and passed by a unanimous voice vote.

The next agenda item was PD 3336 (Exhibit G). PD 3336 has the following provisions:

(1) It allows a person serving as a full-time magistrate on July 1, 2007, and requires a person who begins serving as a full-time magistrate after that date, to become a participant in the Judges' 1985 Benefit System; (2) it allows magistrates who are participants in the Judges'

1985 Benefit System to purchase, at full actuarial cost, service credit for prior service covered by an Indiana public employees' retirement fund; and (3) it increases the monthly benefit payable to participants, survivors, and beneficiaries of the Judges' 1985 Benefit System by the same percentages and under the same conditions as the monthly benefit is increased for members of the Public Employees' Retirement Fund. After a brief discussion, Representative Buell called for disposition of PD 3336. A motion was made and seconded, and PD 3336 passed by a vote of seven to one.

Next on the agenda was PD 3310 (Exhibit H). PD 3310 has the following provisions:

(1) For a member of the 1977 Police Officers' and Firefighters' Pension and Disability Fund who retires after June 30, 2007, the bill increases from 1% to 1.25% the amount by which the retirement benefit increases for each six months of active service greater than 20 years and less than 32 years; and (2) to pay for the benefit increase, the bill increases from 6% to 8.5% the percentage of the salary of a first class patrolman or firefighter that must be contributed by or on behalf of a 1977 Fund member or converted member.

Representative Buell told the PMOC that the provisions contained in PD 3310 were passed by the PMOC at an earlier meeting. Mr. Tom Hanify of the Indiana Professional Firefighters Union spoke in favor of PD 3310, as did Mr. Leo Blackwell of the Indiana Fraternal Order of Police. Mr. Matt Brase of the Indiana Association of Cities and Towns also supported PD 3310. Representative Buell called for the disposition of PD 3310. A motion was made and seconded, and PD 3310 passed by a unanimous voice vote.

PD 3309 (Exhibit I) was the next agenda item. PD 3309 has the following provision: It extends until January 1, 2011, additional distributions from the Pension Relief Fund ensuring that at least 50% of the pension liability of each unit of local government is paid from the Pension Relief Fund.

Representative Buell told the PMOC that the provisions contained in PD 3309 were passed by the PMOC at an earlier meeting. Mr. Tom Hanify of the Indiana Professional Firefighters Union spoke in favor of PD 3309, as did Mr. Leo Blackwell of the Indiana Fraternal Order of Police. Mr. Matt Brase of the Indiana Association of Cities and Towns also supported PD 3309. Representative Buell called for the disposition of PD 3309. A motion was made and seconded, and PD 3309 passed by a unanimous voice vote.

PD 3308 (Exhibit J), the next agenda item, has the following provision: It extends the pilot program for the Defined Contribution Plan of the Legislators' Retirement System until July 1, 2010.

Again, Representative Buell told the PMOC that the provisions contained in PD 3308 were passed by the PMOC at an earlier meeting. Representative Buell called upon Ms. Andrea Unzicker, Chief Legal Counsel for PERF, for any comments about PD 3308. Ms. Unzicker had none. Representative Buell called for the disposition of PD 3308. A motion was made and seconded, and PD 3308 passed by a unanimous voice vote.

A Proposal by the Retired Indiana Public Employees Association (RIPEA) to the Pension Management Oversight Commission (Exhibit K) was the next agenda item. Mr. Philip Conklin, Legislative Representative for RIPEA, was recognized by the Chair to address the PMOC. In his presentation, Mr. Conklin referred to Exhibit K, telling that RIPEA would increase the PERF multiplier for the first time in over 40 years. Mr Conklin said that PERF was created in 1945, with a benefit multiplier of 1% of a five-year average compensation with a 3% mandatory contribution by the employee on the first \$8,500 of earnings (maximum of \$255). In 1959, the

multiplier was adjusted by the General Assembly to 0.6% on the first \$3,000 of earnings, plus 1.1% on all compensation exceeding \$3,000. In 1970, Mr. Conklin said that the multiplier was fixed at 1.1% on total compensation with the 3% employee contribution to be on all compensation.

Referring to a Wisconsin study of 68 public employee pension plans, Mr. Conklin told the PMOC that the PERF multiplier was the lowest in the nation at 1.1 %, with only three plans of the 68 having a multiplier as low as 1.5 %, and an average multiplier of 1.79 %. Commenting further on the Wisconsin study, Mr. Conklin said that of the 68 plans studied, 54 compute their retirement benefits on the average of three years or less, while Indiana uses the highest five years or 20 quarters. He said that vesting for the 68 plans revealed that 50 were vested with five years or less, four plans had eight years, and 14 plans required ten years of service. Indiana requires ten years of service.

Concluding his remarks, Mr. Conklin presented the recommendations of RIPEA. They are the following: (1) that PERF utilize a multiplier of 1.67 %, which would set a standard for the defined benefit of 50% of the average compensation utilized for benefit purposes for 30 years of service (The current ratio for 30 years of service is less than 32%); (2) correspondingly, compensation for retirement benefits is recommended to be computed on a 12-quarter average, or three years rather than five years; (3) the recommendations are suggested to be effective July 1, 2008, and apply to all service and retirements after that date; (4) the state or local unit would each have to opt into the "Enhanced Benefit Formula" or leave their employees on the present plan; and (5) any employer that would become a new member of PERF after 2008 would be subject to the new multiplier.

Mr. Conklin said that McCready & Keene, the PERF actuaries, provided the following cost estimates which could affect the annual assessments to the state and local governments:

- (1) Utilize the three-year average rather than the five-year average for all employees retiring after July 1, 2008, and it would, of course, apply to all active members of PERF and not present retirees - .654 percentage point increase in average assessments;
- (2) For implementation of the 1.67% multiplier for all service after July 1, 2008, the projected increase in the assessment base would be 2.047 percentage points; and
- (3) To reduce the vesting from ten to eight years, a very small increase.

Mr. William Murphy, Executive Director of RIPEA, commented that policy makers should look at where Indiana should be regarding retirement for public employees and the Enhanced Benefit Formula provides an avenue to get there. Mr. Steve Moberly, Executive Director of the Indiana Retired Teachers Association, told the PMOC that when considering any changes, please include the Teachers' Retirement Fund as well. Mr. Dave Larson spoke in favor of the RIPEA proposal. Mr. Tom Miller, private citizen, addressed the PMOC and spoke in favor of the RIPEA presentation.

Representative Buell called upon Dr. Al Gossard, Deputy Director of the Office of Fiscal and Management Analysis, Legislative Services Agency, and Mr. Chuck Mayfield, Senior Fiscal Analyst, Office of Fiscal and Management Analysis, Legislative Services Agency. Dr. Gossard said that his presentation, *Comparison of State Employee Pension Programs*, was part of one of the assigned topics to the PMOC, which was to study the factors used to compute public employee pensions. Dr. Gossard's and Mr. Mayfield's presentation consisted of the report entitled *A Comparison of State Employee Pension Programs* (Exhibit L); a Power Point presentation *State Employee Pension Comparison Study - Defined Benefit Plan* (Exhibit M),

and *Appendices (A Comparison Study of State Employee Pension Programs)* (Exhibit N). The presenters and the PMOC members engaged in a discussion about pension plans. The Chair thanked Dr. Gossard and Mr. Mayfield for their work and their presentation.

The last agenda item was the approval of the draft copy of the Final Report. Representative Buell said that the Final Report will include today's actions. Representative Buell called for disposition of the Final Report. He called for a roll call vote. The Final Report was adopted by a vote of 8 to 0.

After the vote, Representative Buell recognized Representative Kromkowski and Senator Craycraft and thanked them for their many years of service to the PMOC. Both are retiring from the General Assembly.

The Chair adjourned the meeting at 12:36 p.m.