

JOINT MEETING WITH ASSEMBLY WAYS & MEANS AND SENATE FINANCE

8:30 AM March 22, 1973

Meeting called to order by Senator Lamb at 8:40 AM.

Mr. Sidney Kaufmann, President of Actuarial Systems, Inc., appeared before the Committee to report his findings on the Public Employees Retirement Fund. Mr. Kaufmann explained that the basic problem with the fund is that if the status quo is maintained (6% and 6% retirement contributions, 5% return on investment and current benefit schedules) the fund will deplete all of its assets by 2031. With no changes in the System, it will be bankrupt by 2031.

To solve this problem, Mr. Kaufmann presented a number of recommendations to the Committees. These recommendations are summarized below:

1. Accept the fact that the System is fiscally unsound and take immediate action to place the System on the road to recovery.
2. Adopt a funding policy to stabilize the past deficit for present members.
3. Freeze the member contribution rate at the current level and increase the employer contribution rate one percent (1%) per year until the total employer/member contribution rate is sufficient to fund the then current benefits, exclusive of any interim benefit increases.
4. Add the cost of all future benefit increases to the member contribution rate concurrent with the implementation of the increased benefit, and assure that all proposals for such increases be reviewed and the costs estimated prior to adopting such increases.
5. Perform an annual actuarial valuation commencing July 1, 1973, to measure the effect of increased contribution rates and actual investment performance; and, based upon the results of such valuations, adjust the employer contribution rate upward or downward effective July 1 of the year following the valuation.
6. Implement many of the recommendations in the Harris, Kerr, Forster report.
7. Do not adopt a current disbursement (pay-as-you-go) funding policy or sustain the present partial funding approach.
8. Do not assume that changes in the investment policies and statutes will guarantee an immediate and dramatic increase in the rate of investment return.
9. Contribution rates for members should be established on either an equitable aggregate basis, or separate by a combination of entry age, gender and occupation. In any event, the aggregate of all such contributions should be at least equal to the contributions under the aggregate basis.

The following bills and recommended changes were discussed:

S.B. 140: There were no changes suggested. The bill allows for certain types of investments, that were previously prohibited by statute, by the investment counselor using prudence, discretion and intelligence, as he would for his own investments.

S.B. 143: Mr. Reems felt that this would hamper investment of revolving fund moneys. He suggested deleting lines 7 through 17; line 20 and 21 the words "and for no other purpose.", and; lines 28 thru 35.

S.B. 161: Page 6, line 4; Executive Officer, unclassified employee; that the salary be established at the aximum level allowed for an unclassified salary. Page 8, line 5 and 6; delete the words "of either". Page 9, line 31; change "evaluation" to "valuation". Page 10, line 43 to 44 should read "an investment counselor not otherwise retained by the Board". Page 11, line 1; deleting the words "or of the investment counsel firm"; line 2 reducing "\$50 per day" to "\$25 per day"; line 5 changing the word "twice" to "once".

S.B. 135: Mr. Richard Morgan suggested the following language instead of that presently at lines 5, 6 and 7. "An adequate income to public employees who have qualified for retirement or have suffered disability so they may sustain themselves with dignity."

S.B. 402: No changes recommended. The bill would at least give the Legislature an accurate accounting of the status of the Legislative Retirement Fund.

S.B. 321: The inclusion of these additional types of benefits for fireman would be compounding the deficit of the retirement fund; ie new benefits with insufficient funding or contributions.

S.B. 358: Opposed because it provides for no source of funding.

Meeting adjourned at 10:45 AM.