Background Information on Types of Retirement Plans
(Defined Benefit, Defined Contribution)

1. Introduction. Pension plans, whether in the public sector or in the private sector, thus are classified as being of one of two types, either a defined benefit plan or a defined contribution plan. The question is whether the pension plan is focused on the certainty of inputs or outputs. There are two major factors or elements in designing retirement plans. These are the level of the benefits, the outputs, and the level of contributions, the inputs. When one factor is fixed or made pre-determinable, the other factor is automatically made variable. If the level of benefits or computation of benefits is fixed or established by formula in law, the plan is a defined benefit plan, and the contribution rate is variable, adjusted as necessary to ensure that the liabilities of the plan are covered. If the level of contribution is fixed, the plan is a defined contribution plan. With a defined contribution plan, the benefit level is unspecified. The benefit level will ultimately be determined through the investment markets, which will determine the growth of the assets prior to distribution.

2. Defined Contribution Plans, in General. A defined contribution plan is a pension plan where the funding for the pension plan is fixed as a dollar amount or as a percentage of payroll and the fixed element of funding leaves a variable element, which is the benefit amount that is ultimately payable. Under a defined contribution plan, the plan member bears the inflation and investment risks. If there is poor investment performance, the plan member's pension assets will be depressed. If inflation impacts the immediate pre-retirement standard of living, the plan member's benefit will be less adequate in meeting the person's pre-retirement standard of living. The employer loses any turnover gain potential, where past plan funding becomes more concentrated on a subgroup of total plan membership. A defined contribution plan favors employees who are very employment-mobile, where employment changes beyond a single employer or a multiple-employer group. It also favors short-term employees in comparison to defined benefit plans. It also favors employees with very stable and modestly increasing salary histories and employees who work considerably beyond the plan's normal retirement age. An Individual Retirement Account (IRA) or an Internal Revenue Code Section 403(b) tax-sheltered annuity is an example of a defined contribution plan.

3. Defined Benefit Plans, in General. A defined benefit plan is a pension plan where the pension benefit amount that is ultimately payable is pre-determinable or fixed using a formula or comparable arrangement. The fixed element of the benefit amount leaves a variable element, which is the funding required to provide that benefit. As a defined benefit plan, the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) and the employing units covered by the plan have the inflation and investment risks. If the investment return on plan assets is poor or if inflation produces ever-increasing final salaries and benefit payouts, that risk is borne by the plan and its associated employers. The member has the turnover risks. If a plan member terminates with modest service having been rendered or at an early age, the member will receive either no benefit or an inadequate benefit. A defined benefit plan favors long-term or long-service employees. It also favors employees who receive regular promotions and sizable salary increases throughout their careers or who achieve substantial salary increases in their compensation at the end of their career. It also favors employees who retire at or before the plan's normal retirement age. The General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) is also an example of a defined benefit plan.

4. Private Sector Trend toward Defined Contribution Retirement Plans. Defined contribution pension plans predominate in the private sector, while defined benefit pension plans predominate in the public sector. The U.S. Department of Labor, in a study by the Bureau of Labor Statistics entitled *National Compensation Survey: Employee Benefits in Private Industry in the United States, 2002*, indicates that 36% of all private sector employees are covered by a defined contribution plan and that only 18% of private sector employees are covered by a defined benefit plan. A 2007 study by the Center for Retirement Research at Boston College, *Why Have Defined Benefit Plans Survived in the Public Sector*, found that 88% of private sector workers who were covered by a retirement plan at their workplace had defined benefit retirement plan coverage in 1975, but that percentage dropped to 33% 30 years later. The Employee Benefits Research Institute, in a 2007 report, *Facts From EBRI: Basics of the Pension Benefit Guaranty Corporation*, found that the number of single-employer defined benefit plans in the United States exceeded 112,000 retirement plans in 1985, while the number was 27,650 in 2009. In a study entitled *Employee Benefits in State and Local Governments, 1998*, the Bureau of Labor Statistics reported that 90% of public employees were covered by a defined benefit plan and only 14% of public employees are covered by a defined contribution plan. In both Bureau of Labor Statistics studies, the total of the percentages for the two types of plans exceeds the total number of employees covered by pension plans because some employees are covered by more than one plan.

In the private sector as a whole, currently, defined contribution plans are prevalent, while in the public sector as a whole, defined benefit plans predominate. However, many of those private-sector defined contribution plans have been established and are maintained by sole proprietor businesses or similar small employers. Among industrial employers in the private sector and other large employers, defined benefit plans are more prevalent. Public sector pension plans, which are typically very large single employer or multiple employer pension plans, tend to follow the private sector industrial model in establishing defined benefit pension plans. In the private sector, defined contribution plans, in the form of Internal Revenue Code Section 401(k) plans, are relatively common and generally function as supplemental thrift or savings plans. In the public sector, supplemental defined contribution pension plans also occur frequently.

Looking at the history of public pension plans, a checkered picture emerges. Among public pension plans that were established in the 19th century, generally public safety employee pension plans, a defined benefit plan along the lines of the federal military pension plan predominated. In the early portion of the 20th century, with the growth principally of teacher pension plans, defined contribution plans predominated, following the private insurance company annuity model. With the growth of general or non-uniformed public employees in the early middle portion of the 20th century, combinations of defined contribution and defined benefit plans were instituted, frequently with an annuity derived from accumulated member contributions and investment income and an additional benefit funded by employer contributions. In the immediate period after World War II, following the private sector large industrial corporation model, most new public pension plans were defined benefit plans. In recent years, there has been a mixed trend, with the creation of new pension plans of both types and some conversions from defined benefit plans to defined contribution plans or vice versa.

5. Minnesota Defined Benefit Plans and Defined Contribution Plans. In Minnesota, public pension plans by both number and membership are predominantly defined benefit pension plans. The following sets forth a listing of Minnesota defined benefit public pension plans and of Minnesota defined contribution public pension plans:

Minnesota Defined Benefit Plans	Applicable Statute(s)	Year Established
1. General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General)	Sec. 352.01-352.76	1929
2. MSRS Correctional State Employees Retirement Plan (MSRS-Correctional)	Sec. 352.01; 352.90-352.955	1973
3. MSRS Military Affairs Retirement Plan	Sec. 352.01; 352.85	1980
4. MSRS Transportation Department Pilots Retirement	Sec. 352.01; 352.86	1982
5. MSRS State Fire Marshal Division Employees Retirement Plan	Sec. 352.01; 352.87	1999
6. MSRS State Patrol Retirement Plan	Ch. 352B	1943
7. MSRS Elective State Officers Retirement Plan	Ch. 352C; 352D	1967
8. MSRS Legislators Retirement Plan	Ch. 3A; 352D	1965
9. MSRS Judges Retirement Plan	Ch. 490	predecessor plans in 1931, 1943, and 1949; current plan 1973
10. General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General)	Sec. 353.01-353.505; 353.67-353.87	1931
11. Public Employees Police and Fire Retirement Plan (PERA-P&F)	Sec. 353.01; 353.61-353.6691	1959
12. PERA-MERF Division	Sec. 353.01; 353.50	original hybrid plan 1919; successor defined benefit plan 1955; administrative consolidation 2010
13. PERA Local Government Correctional Service Retirement Plan (PERA-Correctional)	Ch. 353E	1999
14. PERA Statewide Lump-Sum Volunteer Firefighter Retirement Plan (PERA-SVFP)	Ch. 353G	2009
15. Teachers Retirement Association (TRA)	Ch. 354	original predecessor defined contribution plan 1915; successor defined contrib. plan 1931; current defined benefit plan 1969
16. Duluth Teachers Retirement Fund Association (DTRFA)	Ch. 354A	1909
17. St. Paul Teachers Retirement Fund Association (SPTRFA)	Ch. 354A	1909
18. Volunteer firefighter relief associations (about 625)	Sec. 69.771-69.775; Ch. 424A	before 1905
19. University of Minnesota Faculty Supplemental Plan	No statutory provision; Board of Regents action	N/R[1]

[1] *N/R means no establishment date is reported.*

Minnesota Defined Contribution Plans	Applicable Statute(s)	Year Established
1. Unclassified Employees Retirement Program of the Minnesota State Retirement System (MSRS-Unclassified)	Ch. 352D	1971
2. PERA Defined Contribution Retirement Plan (PEDC)	Ch. 353D	1987
3. Individual Retirement Account Plan (IRAP)	Ch. 354B	1988
4. College and University Supplemental Retirement Plan	Ch. 354C	1967
5. State Arts Board Individual Retirement Account Plan	Ch. 354D	1994
6. Minnesota Humanities Center Individual Retirement Account Plan	Ch. 354D	1994
7. Minnesota Historical Society Individual Retirement Account Plan	Ch. 354D	1996
8. Volunteer Firefighters Relief Associations (about 75)	Ch. 424A	N/R
9. Ambulance Personnel Longevity Plan	Sec. 144E-40-144E.48	1993
10. Hennepin County Supplemental Retirement Plan	Sec. 383B.46-383B.52	1969
11. University of Minnesota Faculty Plan	No statutory provision; Board of Regents action	N/R
12. Public Employee Supplemental Thrift Plan through State Deferred Compensation Plan or selected tax-sheltered annuity programs	356.24	1988
13. Housing and Redevelopment Agency Retirement Plans	No statutory provision	N/R
14. Pre-1971 School District Supplemental Retirement Plans (total of 8)	No statutory provision; grandparented by Sec. 356.24	N/R

The MSRS Unclassified Program is the oldest defined contribution retirement plan of those remaining in effect (TRA converted from a defined contribution retirement plan to a defined benefit retirement plan, in the late-1960s). The plan principally covers individuals who are employed in potentially politically sensitive positions where employment longevity was not insured and the state employee may not meet the vesting period then in effect, ten years of allowable service. The plan was created at the request of the state agency and department heads. It includes the option for members who do achieve ten or more years of state employment to receive a MSRS-General deferred benefit plan retirement annuity.

The Public Employees Defined Contribution Plan now largely functions to provide pension coverage for local public officials who were not eligible for PERA-General coverage or who elected not to become a PERA-General member, growing out of a predecessor deferred contribution plan for local ambulance service personnel. The Public Employees Defined Contribution Plan does not include an option to convert to PERA-General.

6. Principles of Pension Policy Indicating a General Preference for Defined Benefit Plans Over Defined Contribution Plans. The Principles of Pension Policy of the Legislative Commission on Pensions and Retirement express a general preference for defined benefit plans over defined contribution plans.

   Pension Policy Principle II.C.1. reflects the current development of Minnesota public pension plans, with defined benefit pension plans predominating and with defined contribution pension plans limited largely to situations to provide portability, to reflect politically vulnerable public employment, or to implement supplemental plan coverage.

   Specifically, the applicable principle states:

   C. Pension Benefit Coverage
      1. General Preference for Defined Benefit Plans Over Defined Contribution Plans
         a. Defined benefit plans, where they currently exist, should remain as the primary retirement coverage for Minnesota public employees.
         b. Defined contribution plans are particularly appropriate where interstate portability or private sector-public sector portability is a primary consideration of the public employee group, where the public employee group lacks civil service or analogous employment protections, or where the defined contribution plan is a supplemental pension plan.

7. Basic Operation of Defined Benefit Plans. These plans are called defined benefit plans because the benefit is defined in the benefit plan, which in Minnesota is generally specified in law. Law for these plans states that the benefit payable from these plans is to be computed by multiplying three factors: the high-five average salary, the accrual rate, and years of covered service. The high-five average salary is the average salary over the five-year period which produces the highest average. For individuals who work full time up to retirement, the high-five years are generally the five years just prior to retirement or termination of service. This follows because salaries tend to increase over time due to inflation and due to merit raises and promotions. In some cases where individuals work overtime in mid-career but then cut back near retirement, the high-five may not be the last five years.

The accrual rate or rates are stated in statute. It is the percentage of the high-five average salary which the person receives per year of service.

To illustrate using an example, in the Public Employees Police and Fire Retirement Plan (PERA-P&F), the accrual rate is 3.0%. This means that individuals who retire from that plan receive 3.0% of the high-five average salary for each year of service they provide. If the high-five average salary is $50,000 and the individual provided 30 years of covered service, then the annual pension benefit for the individual (providing that the member is at least at the normal retirement age for this plan, age 55) is $45,000. This is computed by multiplying $50,000 x 30 years x 3.0%, which equals $45,000.

PERA-P&F is a public safety plan and is not coordinated with Social Security; the employee and employer do not pay into the Social Security system, and the individual does not accrue a Social Security benefit due to the public safety employment. The accrual rate in PERA-P&F, and also in the similar State Patrol Plan, is high, set at 3.0% per year of allowable service credit. The rate is high in recognition that the person will not be receiving any Social Security benefit in retirement due to the public safety employment. General employee plans, such as TRA and the first class city teacher plans, or MSRS-General and PERA-General, are coordinated with Social Security, and the Minnesota public plan provides a lesser benefit in recognition that part of the person's retirement income will be coming from Social Security. The accrual rate assuming the person retires at normal retirement age in these general employee plans (age 65 if the person started covered employment before July 1, 1989, or age 66 if the employment began after June 30, 1989) is 1.7%, although TRA is somewhat higher at 1.9%, for recent employment.

Since defined benefit plans pay benefits that are determined by high-five average salary, the accrual rate or rates, and years of service, the value of the specific benefit paid to any individual is not a direct function of the employee and employer contributions made specifically for the individual. Rather, the plan actuary needs to predict the required contributions for the entire covered group, given the liabilities expected due to the demographics of the group, the likelihood that individuals entering the plan will eventually draw plan benefits, the mortality of plan participants, and other factors. Thus, the benefits are defined, but the contributions are not. Those contributions are adjusted in law over time as necessary to meet the liabilities created by the plan.

For individuals who tend to not change jobs, at least not between different employers, and who provide long service, defined benefit plans is the coverage preferred. The benefit is predictable, and the long service leads to a sizable benefit. Defined benefit plans tend to penalize short-service employees. When individuals terminate after several years of employment, often the best financial option available to the individual is to take refund from the pension plan. By taking a refund, the individual gives up any right to a pension from the plan. The refund consists of the employee contribution plus 6% interest. This does not make the terminating employee whole; the plan keeps the employer contributions made on behalf of the individual and all investment earnings above the interest paid on the refund. The retained moneys are used to offset some of the liabilities of the remaining plan membership. These retained amounts are referred to as turnover gain. Without turnover gain, the contribution requirements to our defined benefit plans would be much higher.

8. <u>Basic Operation of Defined Contribution Plans</u>. There are several state-level defined contribution plans. These are the Unclassified State Employees Retirement Program of the Minnesota State Retirement System (MSRS-Unclassified), the Public Employees Defined Contribution Plan, and the individual retirement account plans (IRAPs). MSRS-Unclassified provides coverage to post-1997 legislators, pre-1997 legislators who elect this coverage, judges who have exceeded the maximum years of service permitted under the Judges Retirement Plan, and various unclassified employees. The Public Employees Defined Contribution Plan provides coverage largely to local elected officials. The IRAPs provide coverage to higher education faculty within the Minnesota State Colleges and Universities System (MnSCU) who choose this coverage, Minnesota Historical Society employees, and supervisory and professional employees of the State Arts Board and Minnesota Humanities Center.

   In a defined contribution plan, the contribution is determined, but the benefit is not. The plan specifies in law the employee and employer contribution rates that will be paid to an account for the individual. This account is invested in stocks, bonds, and other investments offered through mutual fund-like options that the plan makes available to its membership. In Minnesota plans, the individual selects these investment options.

   The value of the account when the individual terminates or retires is unknown; that will depend upon how long the individual works and upon the returns provided by the investment markets on the contributed amounts. Thus, the benefit is undetermined. At retirement, the individual can take the value of the account and purchase an annuity, or, under MSRS-Unclassified, create an annuity payout by rolling the account's value into the MSRS-General fund, which pays the benefit that can be supported by that account value and which provides post-retirement increases during retirement.

Employment-mobile employees often prefer defined contribution plan coverage. When they change jobs, they retain the full value of their account and it can move with them. The pension portability of defined contribution plans is an attractive feature to these employees.

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9. Principal Impetuses of Defined Contribution Retirement Plans in the Public Sector.

   a. Public Sector Defined Contribution Plans. In attempting to identify the circumstances that have prompted the public sector to establish defined contribution retirement plans, the Commission staff has discerned that defined contribution plans can function as supplemental retirement coverage, can be the outcome of compliance with a federal government model plan design, can represent a public sector replication of the nonprofit and private sector higher education models, occur where local retirement plans are broadly permitted when small governmental units are involved, represent a response to state aid incentives or accommodations to regulatory practices, or as a means to downsize significantly underfunded defined benefit public sector retirement plans.

   b. Defined Contribution Plans as Supplemental Retirement Coverage. The most prevalent use of defined contribution plans nationwide, as in Minnesota, appears to be as retirement coverage that supplements primary defined benefit plan coverage. This use of defined contribution plans as vehicles for supplemental retirement coverage appears to have its basis in a determination by relevant policymakers that the existing defined benefit plan coverage provides an inadequate benefit for a given participant group, or in a determination by relevant policymakers that the further development of defined benefit plan coverage is inappropriate, or in response to a persuasive sales or marketing effort by an insurance, an investment, or a third-party plan administration vendor.

      Supplemental defined contribution plans can be a strategy for correcting perceived inadequacies in the primary defined benefit plan coverage for a participant group. In the late 1960s and early 1970s, in Minnesota, before the conversion of the major Minnesota defined benefit public pension plans from a career average formula to a final average formula, a number of supplementary defined contribution pension plans were established to correct for the modest benefit coverage provided by the statewide plan, such as the Hennepin County Supplemental Plan, the State College and University Faculty Supplemental Plan and supplemental pension plans established by eight local school districts. While defined contribution plans can be used in this manner and many supplemental defined contribution plans nationally are likely to have this as their policy rationale, the practice is not an optimal solution to a policy problem, which is the reason for the enactment of the general prohibition on supplemental public pension plans contained in Minnesota Statutes, Section 356.24. Supplemental pension plans tend to be created by or for a particular employer or for a particular employee group within a multiple-employer defined benefit pension plan arrangement. By virtue of its lack of comprehensiveness, the typical supplemental defined contribution plan practice leads to differing pension benefit levels for various groups within a broader comparable type of public employees, with inevitable upward spiraling competitive pressures, and differing pension funding levels for similar taxpayer groups.

      A channeling of future benefit improvement pressures into a supplemental defined contribution plan rather than improving the existing defined benefit plan is a viable strategy for policymakers to attempt to incorporate some greater fiscal discipline into future pension improvements. The New Hampshire Legislature is reported to have implemented the change for the various New Hampshire public pension plans in the mid-1980s. The result is that the defined benefit plan will guarantee some amount of benefit adequacy, which is the chief advantage of a defined benefit plan, while the defined contribution plan will provide some of the portability and equalization of the advantages of pension coverage overall plan participants that typifies defined contribution plans, while limiting to a greater extent the financial exposure of the public sector from benefit improvements to a known budgetable amount.

It is also clear that supplemental defined contribution plans in the form of deferred compensation programs can represent the impact of strong marketing efforts by outside vendors on associations of governmental units. In Pennsylvania in the mid-1980s, deferred compensation program marketers made strong sales efforts within various governmental associations to attract an expanded client base, with some success. In Minnesota, the existence of deferred compensation programs in 80 of 87 counties, many with the same investment managers and options, is likely to be indicative of similar sales efforts within the Association of Minnesota Counties. While counties may be able to make some policy argument for the need creation of these deferred compensation programs, their existence in rural counties with modest public employee compensation such as Beltrami, Cass, Chippewa, Clearwater, Cook, Grant, Kittson, Koochiching, Lac Qui Parle, Lake of the Woods, Lincoln, Mahnomen, Murray, Norman, Otter Tail, Polk, Red Lake, Rock, Roseau, Todd, Traverse, Watonwan, and Yellow Medicine raises the strong suspicion of the results of an orchestrated sales effort rather than the independent analysis of and decision about the adequacy of existing Public Employees Retirement Association (PERA) retirement coverage for its employees by each county.

c. Compliance with Federal Model. A sizable number of public sector defined contribution plans exist among local housing or redevelopment agencies, where the plan follows a federal model promoted by the federal Department of Housing and Urban Development (HUD). Because of the extent of federal funding of local housing and redevelopment associations (HRAs) in the past, HRA employee pension plans tend to follow the federal model. Since the late 1960s, HUD has favored defined contribution pension plans. A fair proportion of academic inquiry into public pension practices and issues has been done under contract with the Urban Institute, associated with HUD. It is likely, then, that HUD-induced defined contribution pension coverage is a result of an analysis of pension policy alternatives by the federal agency. In Minnesota, new hires of the St. Paul Housing and Redevelopment Association were shifted by state law from the separate St. Paul HRA defined contribution plan to the Public Employees Retirement Association (PERA) in 1977, but the St. Paul HRA lobbied for a return of new entrants to its defined contribution plan and the required legislation was enacted in 1981.

d. Duplication of Higher Education Model. Public pension coverage for public university and public college faculty and upper-level administrators frequently follow the private and nonprofit sector practice of utilizing defined contribution plan coverage, frequently through the use of the Teachers Insurance and Annuity Association-College Retirement Equity Fund (TIAA-CREF). The coverage generally either is exclusive defined contribution plan coverage or is the inclusion of defined contribution plan coverage as an alternative to the defined benefit plan coverage otherwise applicable to governmental employees at that level.

The use of defined contribution plans for public sector higher education faculty and upper-level administrators is a reflection of the prevalence of that type of coverage in the remainder of the higher education universe and the need to achieve parallel coverage, apparently largely for portability concerns. In the private and nonprofit higher education sector, the policy underlying faculty retirement coverage dates back to the turn of the century and the work of the Carnegie Foundation in pursuing retirement coverage for teachers at all levels, which resulted in the creation of TIAA and the subsequent creation of CREF when it was determined appropriate for retirement savings to be invested in equity (stock) securities as well as debt (bond) securities. Following the insurance company model prevalent at the time, TIAA was created as a defined contribution plan. The use of a defined contribution plan also accommodated the situation of the use of a single fund for multiple employing units with varying levels of employer contributions. Since employment mobility among higher education types tends to be among other higher education institutions, rather than other governmental employers within a given state, portability considerations suggest the use of defined contribution plans within the public sector higher education field.

The University of Minnesota has utilized a defined contribution plan for its faculty members and upper administrators for decades, with a defined benefit supplemental pension plan established during the 1960s and revised in the 1970s to augment the defined contribution benefits of older faculty members who were not advantaged to the same degree as younger faculty members by improvements made in the defined contribution plan in the early 1960s and to augment the defined contribution plan benefits of female faculty members who were victims of adverse salary practices that occurred before the late 1970s. The Minnesota State University System and the Minnesota State Community College System shifted to defined contribution plan coverage in the form of the Individual Retirement Account Plan (IRAP) in the late 1980s. Technical College faculty members were added to IRAP in the mid-1990s, when IRAP was also shifted from being the exclusive type of pension benefit coverage for new hires to an option as an alternative to defined benefit plan coverage by the statewide Teachers Retirement Association (TRA) or by one of the first class city teacher retirement fund associations. The creation of IRAP was as a result of active lobbying by the union representatives of State University and State Community College faculty.

e. Phenomenon of Small Government General Employee Defined Contribution Plans. In some states with a large number of local pension plans, like Arkansas, California, Florida, Michigan, and Pennsylvania, there is a general trend for a fair proportion of the general (non-public-safety, non-uniformed) employee pension plans to be defined contribution plans. It is very rare for local public safety employee pension plans, except as noted in the following subsection, to utilize defined contribution plans.

   While it is difficult to impute reasons for this trend for local government general employee defined contribution plans, from my four years of experience with Pennsylvania, public pension plans where this phenomenon has occurred, there are likely to be several reasons. For the local general employee defined contribution plans that were created long ago, the plans likely follow local or regional trends (analogy to a local higher education pension plan or a local business pension plan) or the plans likely follow the preferences of local insurance agents (who tend to favor money purchase or defined contribution plans) or other vendors. For more recently created local general employee defined contribution plans, the plans tend to follow the Individual Retirement Account (IRA) or Simplified Employee Pension Plan (SEP) models arising out of federal income tax regulation following the enactment of the Employee Retirement Income Security Act of 1974 (ERISA) that have been in vogue since the mid-1970s. In states with statewide local employee public pension plans, the public pension plan practice tends to follow the defined benefit model more customary for public pension plans generally.

f. Response to State Aid or Other Regulatory Practices. Defined contribution public pension plans sometimes are established based on advantages derived from particular pension state aid or other regulatory program practices. This phenomenon has occurred among Minnesota volunteer firefighter relief associations in the late 1980s and early 1990s and may occur in other jurisdictions.

   In the late 1980s, the Legislative Commission on Pensions and Retirement was discussing the placement of a maximum or cap on fire state aid allocation based on pension cost, which prompted several volunteer firefighter relief associations to shift to defined contribution plans because there is not externally generated pension cost figures for defined contribution pension plans. No pension cost-related caps on fire state aid were ever enacted, however. Also, the uppermost maximum lump sum or monthly benefit service pension amounts specified in Minnesota Statutes, Section 424A.02, have been interpreted as not applying to defined contribution plans, thereby providing an incentive for volunteer firefighter relief associations that receive a large relative amount of fire state aid per firefighter to convert from defined benefit plans to defined contribution plans in order to realize larger individual benefit levels.

   Similar applications of the federal Internal Revenue Code Section 415 limits on benefits (defined benefit plans) or contributions (defined contribution plans) to public pension plans could also induce a shift from defined benefit plans to defined contribution plans for some perceived regulatory advantage.

g. Downsizing of Significantly Underfunded Defined Benefit Public Plans. Several newly created or newly converted defined contribution public pension plans have been cited favorably in the media or by other commentators for their attempt to impose fiscal discipline through that type of pension plan, frequently as a change from defined benefit public plans that have been viewed as being overgenerous in their benefit level and that have been historically underfunded. The plans are the Montgomery (Maryland) County Employees Retirement Plan, cited by a 1995 Forbes magazine article, and the Nebraska State Employees Retirement System, the Nebraska County Employees Retirement System, and the West Virginia Teachers Defined Contribution Retirement Plan, cited by the National Conference of State Legislators in a recent legislator's guide to public pensions. None of these plans apply to public safety employees or other specialty (legislators or judges) employees. The creation of defined contribution pension plans for general employees to replace significantly underfunded defined benefit plans is also currently being considered by a special task force for the District of Columbia government.

   The West Virginia Teachers Defined Contribution Retirement Plan was fashioned for newly hired teachers to replace a prior defined benefit pension plan that had never been properly funded in the past, and was implemented in 1991. Unless the turnover of teachers in West Virginia is very great currently, the experience with the revised defined contribution retirement plan has not been sufficiently long to determine the impact of the new defined contribution pension plan on the funding status of the prior defined benefit plan or the contribution of the new defined contribution pension plan to the total retirement coverage adequacy of post-1991 West Virginia teachers.

Various commentators over time have suggested an exploration of replacing defined benefit plans by defined contribution plans to gain fiscal discipline and financial control over pension obligations. In the past, this suggestion has been forwarded by the Citizen's League, the League of Minnesota Cities, and the Minnesota Chamber of Commerce, and the Minnesota Free Enterprise Foundation. The recommendation of replacement defined contribution plan coverage usually comes from employer representatives or from outside business, taxpayer, or general good government groups, and not from public employee groups. During the process of reviewing the Pension Policy Principles of the Legislative Commission on Pensions and Retirement in 1995, representatives of the various employee groups were essentially unanimous in opposing defined contribution plans except as supplemental pension coverage and were unanimous in supporting defined benefit plans.