

The 2015 Minnesota  
**POLICY  
BLUEPRINT**

Prescription For Prosperity



# KEEPING THE PROMISE: PENSIONS 2017

Presentation Based on 2016 LCPR Data





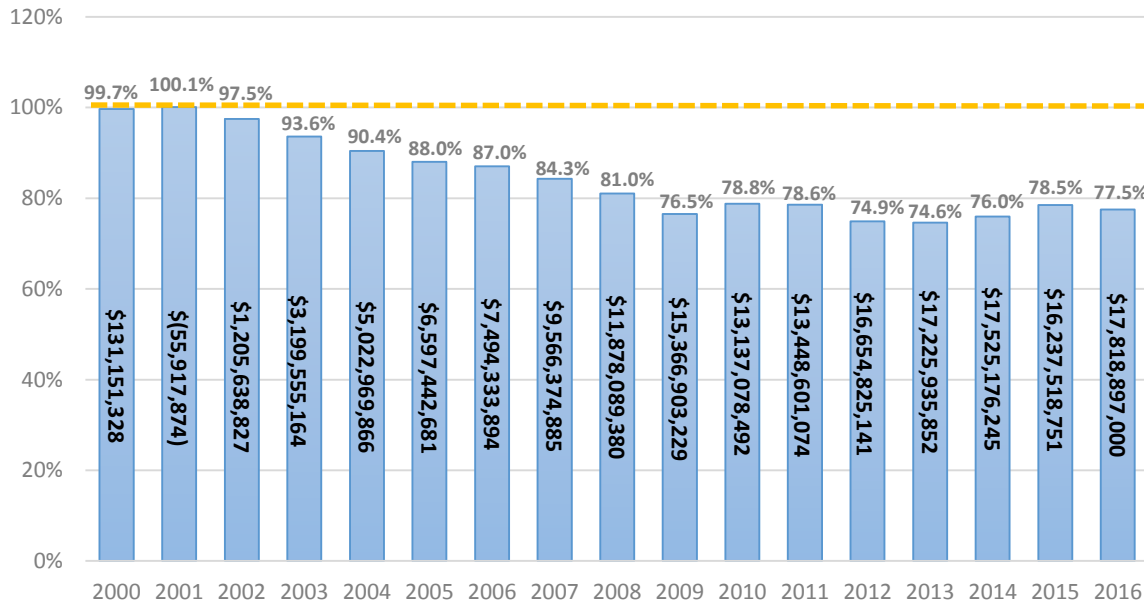
# WHO'S COUNTING ON US?

- 318,849 active public employees
- 311,152 retirees, survivors, and disabled people
- **11.5%**  
of Minnesota's  
population  
(630,001 people)



# SCOPE OF THE PROBLEM

Figure 1: Historical **ACTUARIAL VALUE** Funding Ratios for All Plans, Leading to \$17.8 Billion Unfunded Liability



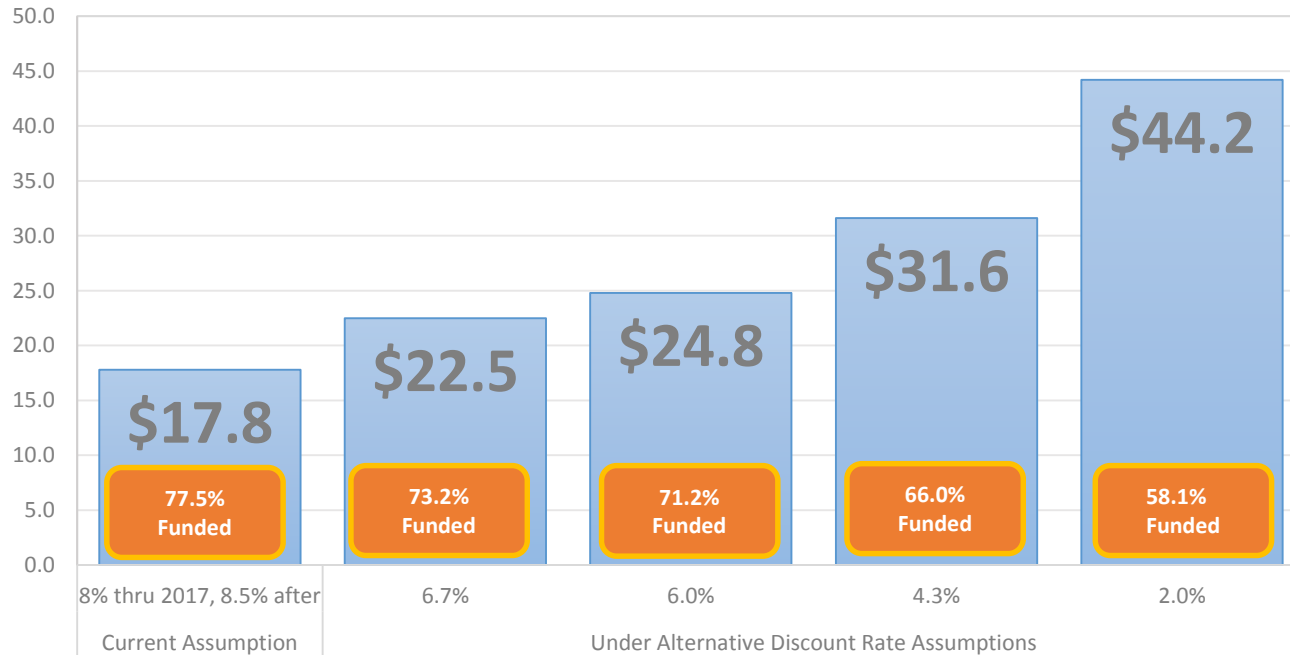
\$17.8 Billion

MAKING PROMISES WITHOUT PAYING FOR THEM



# SCOPE OF THE PROBLEM

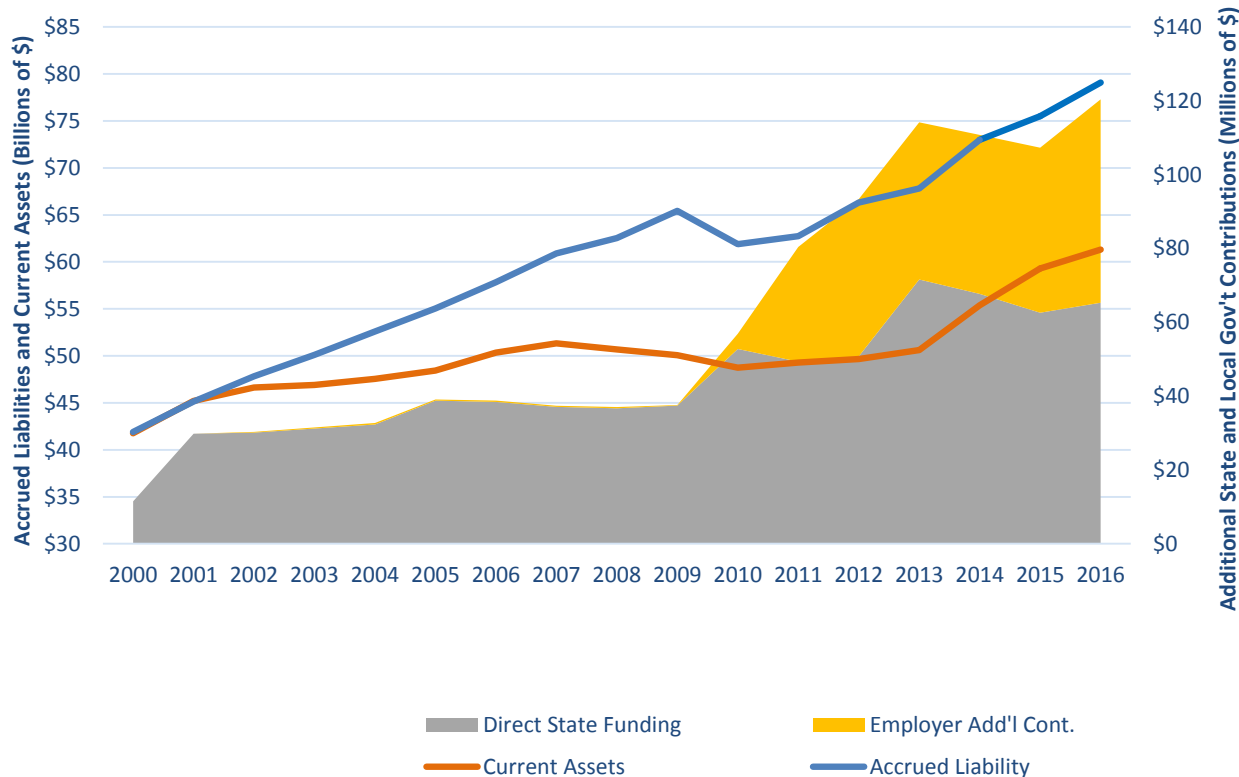
Figure 2: **ACTUARIAL VALUE** of Unfunded Liability for All Plans When Using Standard Pension Assumptions (Billions of \$)



SHIFTING COSTS  
TO OUR  
CHILDREN AND  
GRANDCHILDREN

# CROWDING OUT OTHER PRIORITIES

Figure 3: Unfunded Liability is Already Crowding Out Other Spending Priorities

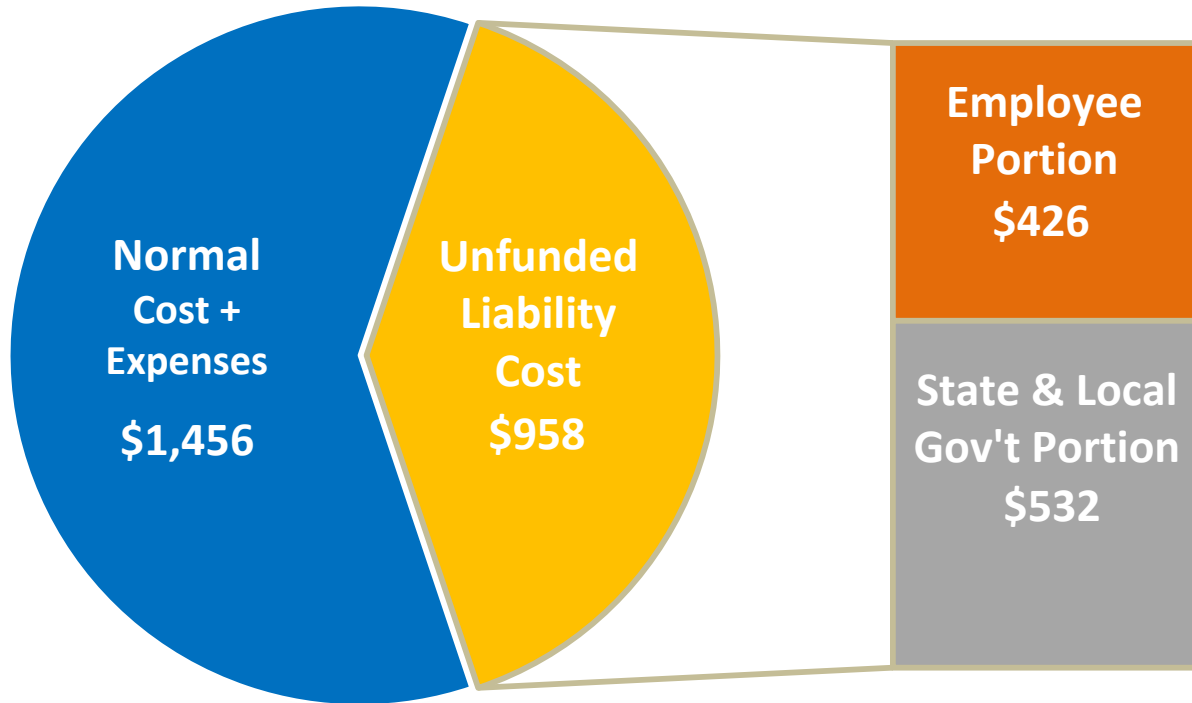


WARREN BUFFETT  
CALLS PENSION  
PROMISES A  
“GIGANTIC  
FINANCIAL  
TAPEWORM”

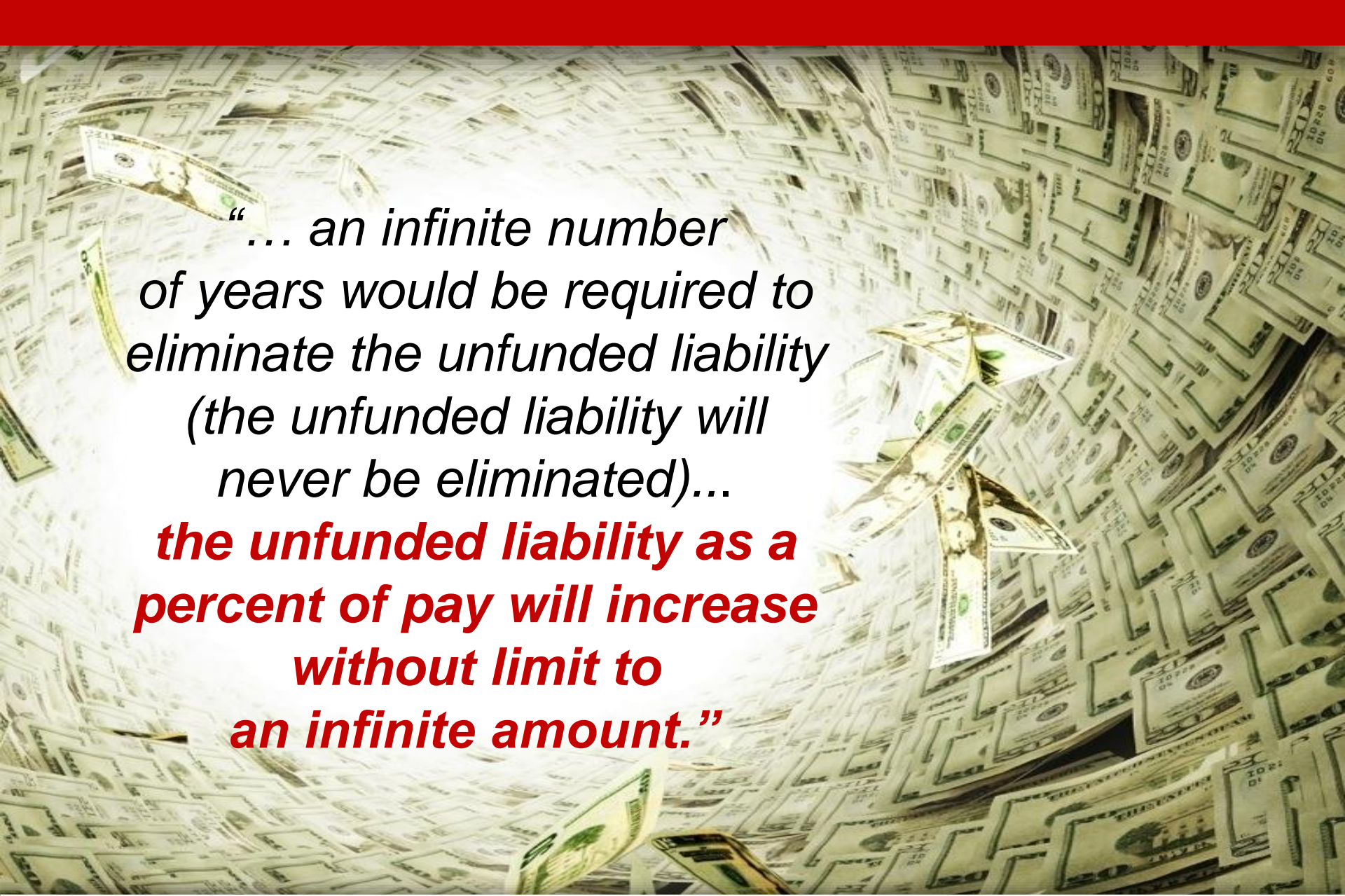


# CROWDING OUT OTHER PRIORITIES

Figure 4: Substantial Portion of 2016 Pension Contributions Pay Unfunded Liability Cost (Millions of \$)



MINNESOTA IS  
IN A HOLE AND  
JUST KEEPS  
DIGGING



*“... an infinite number of years would be required to eliminate the unfunded liability (the unfunded liability will never be eliminated)...*

***the unfunded liability as a percent of pay will increase without limit to an infinite amount.”***



# CROWDING OUT

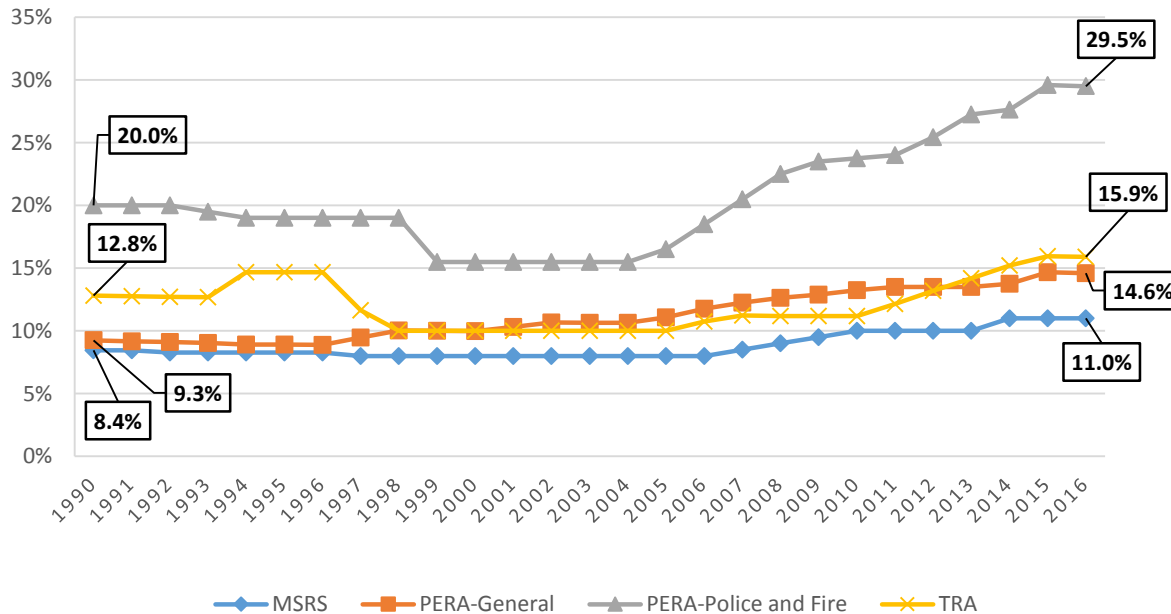
WHAT ELSE COULD WE BUY FOR \$1 BILLION?



# PAYING MORE BUT FALLING BEHIND

LEGISLATORS  
ARE NOT  
GOOD AT  
MANAGING  
PENSIONS

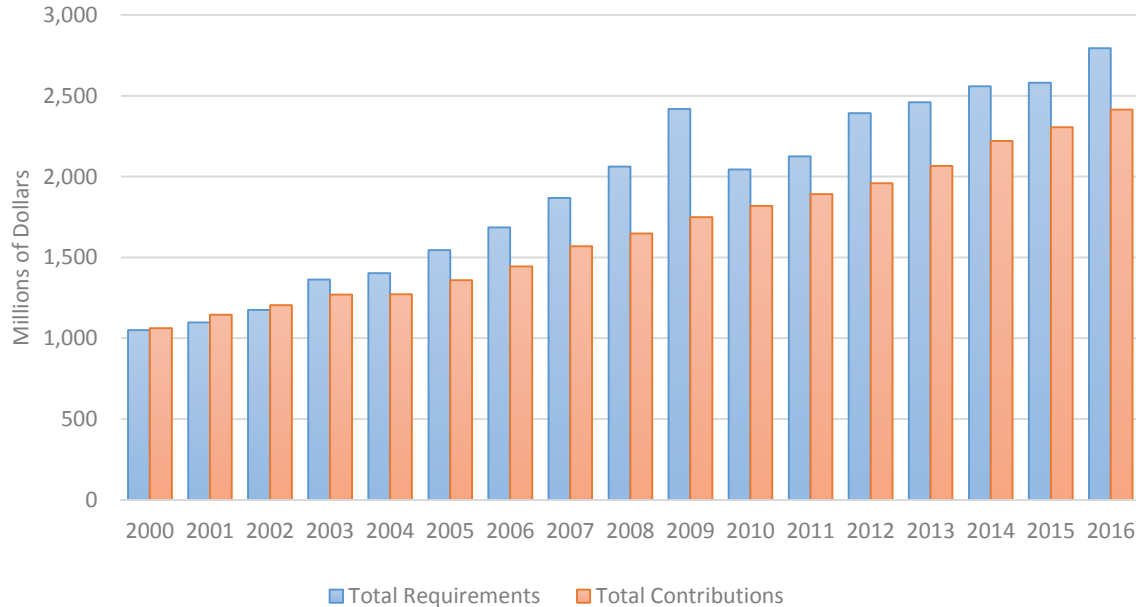
Figure 5: Contributions are Rising as a Percent of Payroll for the Major Pension Funds





# HOW DID WE GET INTO THIS MESS?

Figure 6: Actual Contributions Continually Fail to Make the Required Contributions Necessary to Fully Fund Minnesota Pensions (All Plans)

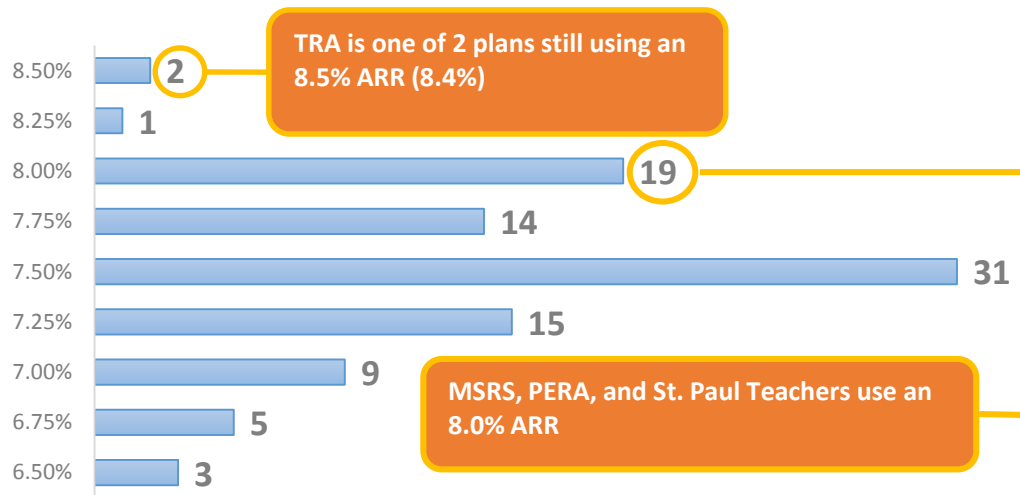


FALLING SHORT:  
BORROWING  
FROM THE  
FUTURE

# HOW DID WE GET INTO THIS MESS?

MINNESOTA'S ASSUMED RATE OF RETURN IS EXCESSIVE

Figure 7: Minnesota Pension Plans Continue to Use the Highest Assumed Rates of Return on Investments



Distribution of Investment Return Assumptions Among Public Pensions, NASRA Survey Results



# MINNESOTA LEGISLATURE HAS TRIED TO FIX THE PROBLEM

- Fixing giveaways
- Sustainability measures in 2010
- Market crash did not cause pension problem
- Solid returns have not closed the gap

# CONSEQUENCES

- “Crowding Out” effect
- Increased borrowing and scrutiny
- Putting pension assets at risk
- Pension problem will hurt job creation in public and private sector



# DESIGNING A SOLUTION

- Transparent
- Affordable
- Predictable
- Fully funded

# THE SOLUTION MUST ADDRESS ALL STAKEHOLDERS

- Retirees
- Current and future employees
- Current and future taxpayers
- State and local governments





# RECOMMENDATIONS

- Fully fund the defined benefit plan for retirees and current employees
- Close the plans
- Stop adding new liabilities



# RECOMMENDATIONS

Accurately state and fully disclose the true cost of pensions for reporting purposes

- Use realistic assumptions
- Make public pension data transparent and accessible
- No more cash bailouts





# RECOMMENDATIONS

Create a defined contribution plan for all new public employees

- Offer a wide range of options
- Implementation by the Legislative Auditor

# RECOMMENDATIONS

Preserve and grow pension assets;  
pay down unfunded liability

- COLAs
- Don't chase unrealistic returns
- Fix the debt payment
- Review borrowing to pay for benefits







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