

Governor Dayton's Blue Ribbon Panel on Pension Reform

Myron Frans | Commissioner

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Context: Minnesota's Pension Systems

Pension System Status

Governor's Blue Ribbon Panel

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The Impact of Pensions in Minnesota

- Minnesota's public pension plans – MSRS, TRA, PERA, and SPTRFA – cover public school teachers, police officers, firefighters, state patrol and correctional employees, and other state and local employees, over 530,000 active and deferred members across the four systems.
- Both public employees and their employers contribute towards employee pensions.
- Nearly 185,000 recipients received over \$3.9 billion in pension payments statewide in fiscal year 2015.

Pension System Status

Plans' Funded Status

- Minnesota pension plans currently have unfunded liabilities, or obligations that are higher than their assets.
- Because the actuarial analyses used to calculate assets and liabilities use an 8% investment return assumption, the unfunded liabilities of the funds are understated.
- When looking at the plan status with a more realistic assumption, the calculated funded status of the plans worsens.
- Although Minnesota is doing better than many plans across the country, the unfunded liabilities that exist need to be addressed to ensure the long term stability of the plans.

Mortality Improvements

- Many of the plans have recently completed experience studies (periodic reviews of assumptions used to value pension plans).
- These experience studies revealed that plan participants are living longer in retirement than had been previously assumed. While that is good news for beneficiaries, this also increases pension liabilities.
- This improvement in mortality necessitates a course correction for the plans.

Investment Return Assumption

- Recent analysis conducted both nationally and in Minnesota looked at the assumed rate of return used by public pension plans.
- Given recent market history and an environment of low interest rates, many public pensions have reduced their assumed rate of return in recent years.
- Minnesota pension plans and the Minnesota State Board of Investment (SBI) have also acknowledged that an 8% investment return assumption/discount rate is likely no longer realistic.

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- Governor Mark Dayton asked a Blue Ribbon Panel of independent business, legal, academic, and financial professionals to review the status of Minnesota's pension plans and recommend strategies for improvement.
- The Panel was provided information on the national context of pension funding and reform, Minnesota's pension plans and the funding proposals approved by each pension plan's board of directors.
- The Panel held a series of meetings and consultations in November and December of 2016.
- Upon completion of their work, the Panel provided recommendations to the Governor.

Blue Ribbon Panel Members

- Professor Colleen Manchester, Carlson School of Management at the University of Minnesota
- Tom Borman, Attorney at Mason Edelman Borman & Brand
- David Crosby, Managing Director at Piper Jaffray
- James Campbell, Retired President/CEO of Wells Fargo
- Brenda Brannan, Chief Wealth Management Officer at North Shore Bank of Commerce in Duluth, MN
- Samuel L. Kaplan, Former Ambassador and Attorney at Kaplan Strangis & Kaplan
- Morrie Lanning, Former MN Representative and former Chair of the Legislative Commission on Pensions and Retirement

Blue Ribbon Panel's Findings

- MN Pension Plans are Currently Underfunded.
- An Assumed Rate of Return and Discount Rate of 8% is Too High.
- An Adequately Funded Pension Plan is in the Best Interest of the State.
- Action is Needed Now to Improve Pension Funding in Minnesota.

Summary of Recommendations

- **Support Investment Return and Discount Rate Assumptions at 7.5%.** The Panel believes it is prudent to lower the rate immediately.
- **Support Changes to Improve Plan Funding.** Plan changes designed to put the plans on a positive funding path should be supported as a comprehensive package.
- **Support Funding Needed at the State Level to Support Employer Obligations.** Because the State of Minnesota is both an employer and a partner in the funding of local governments and school districts, the Panel recommends increased pension funding for state agencies and employers.
- **Support Study of Reform Strategies to Mitigate Pension Risk.** In the future, mechanisms to reduce risk in Minnesota's pension plans should be examined.

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