PUBLIC EMPLOYEE PENSION ISSUES FOR MN TAXPAYERS – DO YOU KNOW?

1. **Public employees live in every city and town in Minnesota. They are your friends, neighbors and relatives. All Minnesota public employees, active and retired, pay taxes just like you do. This is not true for all states.**

2. Public employees strive to make Minnesota the best place to live by helping you and your family obtain an education and stay safe. Teachers and school personnel strive to help your children get the best education possible.

3. **An attribute of nations ahead of us in the education comparison world that we need to strive to obtain is respect and standing in the community equal to a doctor and dentist. So our children realize the value of an education and what it can do for them.**

4. Here in Minnesota, public employees and investments cover 86 percent of public employee pension costs. (Retirement Systems of Minnesota, FY 2017-18)

5. **Public employees did not cause the downturn in the markets or economy, but we are doing our part to correct the problem.**

6. In 2015, 169,675 Minnesota TRA retirees received a total of $1.5 billion in pension benefits from state and local pension plans. ("TRA as of June 30, 2016)

7. **Minnesota retired public employee (beneficiaries) spending supported 46,501 jobs that paid $2.2 billion in wages and salaries and generated $1.2 billion in federal, state and local tax revenue. (NIRS "Pensionomics" report, 2014)**

8. Minnesota public employee retirees' benefits during the downturn in the economy helped save jobs and businesses down Main Street of almost every city and town in Minnesota. This is why it is important to have diversity in how Minnesotans are paid, especially in a downturn in the economy.

9. **The downturn in the Minnesota economy was bad, but it would have been extreme if it weren't for the economic stimulus retired public employee pensions provided.**

10. The economic downturn in the economy hurt public employee pension investments, but Minnesota's three statewide funds are currently at a combined average 80 percent funding level. If you look at the unfunded liability of the pension funds like a mortgage on your house or car, most people would be happy to have those items 80 percent covered.

11. Minnesota passed pension reforms in 2010. These bold corrective actions are working and still have employer (taxpayer) contributions that are well below the national average.

12. **The cost of Minnesota retired public employees' benefits is modest. Employer contributions in Minnesota are 1.6 percent of state/local government spending, compared to 2.8 percent in other states. (National Association of State Retirement Administrators) Remember: The taxes Minnesota public employee retirees and the taxes of the new jobs their spending generates exceed this level.**

13. 84 percent of Americans believe the government should make it easier for employers to offer defined benefit (DB) pensions.

14. **Minnesota public employees have contributed to their pensions for decades. The current contribution rate is 7.5 percent; it rose to 7.5 percent on July 1, 2014. Some states and private sector companies have lower employee contributions – or none at all.**

15. In 1998, the Minnesota legislature paid 8 percent of TRA payroll for the employer (taxpayer) rate and a 6.5 percent employee (teacher) rate toward teacher pension funding. The national average was 8 percent employer and 5 percent employee rates. In 1998, the Minnesota legislature lowered the employer rate in Minnesota to 5 percent (3 percent of payroll below the national average). The TRA fund was 108 percent funded at the time, while the economy was doing well. The reduction in contributions, especially for the employer (taxpayer) destroyed the "rainy day" fund portion, because **the stock market goes down as well as up.** Plus, the 3 percent employer (taxpayer) reduction below the national average lowered the amount of money the State Board of Investment had to invest. This made a modest pension fund difficult to keep funded at a 100 percent level, which many people feel could still be funded near a 100 percent level with the appropriate type of investing if the employer 8 percent rate (national average for employers) had been maintained from 1998 to 1008. **Currently, Minnesota employers (local government units, school districts) pay 7.5 percent, below the national average of 15.1 percent. The employee rate is 7.5 percent as of July 1, 2016, exceeding the national average of 6 percent. Today, 1 percent of TRA payroll equals about $29 million. The actions of the 1998 legislature have created dire consequences for today's teachers and other school personnel, children, taxpayers, and other public employees.** The other Minnesota public employee pension funds had a comparable reduction in 1998. In the fall of 2010 at our REAM (Retired Educators Association of Minnesota) Conference, Howard Bicker, then executive director of the SBI, stated: "The TRA pension fund should have a 120 percent funding level to handle downturns in the market." This would be true for other Minnesota pension funds, too.

16. Minnesota public employees have a DB pension program. This type of pension plan has proven to be an economically efficient and prudent use of taxpayer funds.

17. A DB pension plan saves government money in reduced reliance on public assistance.

18. Public retiree spending has a broad, positive economic impact, both nationally and locally. Great harm would result to the Minnesota economy, especially in a down market cycle, if everyone was in a defined-contribution (DC) plan.

19. **DB pension plans are more cost-efficient than defined-contribution – or 401(k)-type – plans. Individual investors are less successful than large institutional DB investors. DB returns outpace individual returns by 1 percent to 1.7 percent annually. (Towers Watson, 2009; Morningstar, 2007.) This is because DB plans pool the longevity risks of large numbers of individuals and need only accumulate enough funds to provide benefits for the average life expectancy of the group. In addition, DB plans take advantage of the enhanced investment returns that come from a balanced portfolio over long periods of time.**