LEGISLATURE PUBLIC EMPLOYEE PENSION ISSUE – DO YOU KNOW?

1. Public employee pension funds serve ½ million people – one in 10 Minnesotans.

2. 86 percent of Minnesota public employee retirement pension fund revenue comes from employees and investment earnings.

3. **The 2008-09 economic downturn had a serious impact on pension funding, but is currently at a combined average of about 80 percent for the three Minnesota statewide systems – which is manageable. 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.**

4. The 2010 and 2013 pension reforms and strong market returns have helped improve funding.

5. **The 2010 and 2013 pension reforms have cut costs for the three statewide pension funds by $6.44 billion.**

6. 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 (7.5 percent as of July 1, 2014), 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.

7. The average TRA pension is $2,263 a month.

8. **Teachers and other public employees did not cause the downturn in the markets or economy, but we are doing our part to correct the problem.**

9. In 2012, 169,675 Minnesota retirees received a total of $3.8 billion in pension benefits from state and local pension plans. (National Institute on Retirement Security state-by-state "Pensionomics" report, 2014)

10. **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). All Minnesota public employees, active and retired, pay taxes just like you do. This is not true for all states.**

11. 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.

12. **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.**

13. Our DB pension plan keeps retirees self-sufficient and off public assistance, saving state government money.

14. Our DB pension plan helps keep teacher households and other public employee households out of poverty and out of the "near poor" category.

15. **DB pension plans are more cost-efficient than defined-contribution – or 401(k)-type – plans, creating savings for teachers, taxpayers and other public employees. 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.**

16. **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.**

17. In Minnesota, public employees and investments cover 86 percent of public employee pension costs. (Retirement Systems of Minnesota, FY 2016-17)

18. **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.**

19. Later normal retirement age in Minnesota – age 66. Many states have only recently raised their normal retirement age. In Minnesota, pensions are reduced for every year before age 66 that a person retires, except the diminishing percentage of public employees who still qualify for "Rule of 90."

20. "Rule of 90," which allows a public employee to retire when their age plus years of service equal 90, was eliminated in Minnesota in 1989.

21. A key attribute of countries ahead of the U.S. in educational rankings: teacher respect and a status equal to doctors and dentists.

22. States that have tried a defined contribution (DC) plan for public employees have found their unfunded liabilities increasing drastically. This is because obligations under the DB plan continue even if contributions are siphoned away from the DB and into a DC.

23. **The Minnesota State Board of Investment (SBI) has averaged 10.2 percent returns since 1980 – surpassing its private- and public-sector peers and exceeding the pension funds' target 8.5 percent assumed rate of return.**

24. To insure that our DB plan will have enough assets to pay future benefits, it is important that the annual required contributions (ARC) be contributed to the pension trust in full each year. Some states are in trouble because they took pension holidays. This type of behavior creates underfunded consequences when the fund's remaining assets can't cover all of the fund's current and future liabilities.

25. DB pensions are extremely valuable to employers who have specific human resource goals for their workforce. Because of their deferred nature, retirement benefits encourage employees to stay with an employer. This helps lower administrative costs for constant training of new employees.

26. Public sector managers in particular may benefit substantially from human gains that DB pension plans provide. Government employees exist to provide essential services – safe streets, clean drinking water, good schools – to citizens and residents. These jobs tend to be quite specialized, which requires longer tenure.

27. DB pension plans are able to reinforce public sector employers' human resources goals to recruit and retain a qualified, highly skilled workforce necessary to deliver public services.

28. Attacking teachers and other school personnel because of their pensions hurts our schools; offering decent pensions to employees helps our schools retain experienced and talented teachers and staff for the benefit of our children.

29. **Studies that compare salaries and benefits for similar jobs between the public and private sectors show that government workers lag. In a 2016 examination of whether benefits close the wage gap between public and private sector workers, the Center for State and Local Government Excellence found that state and local government workers have a wage penalty of 17 percent. Pension contributions help close the gap, but total compensation for public-sector workers is still about 4 percent less than that in the private sector.**