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Minnesota state pensions: A realistic scenario

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Counterpoint

We agree with the Minnesota Taxpayers Association ("A worse-case scenario," Jan. 22) that pension reform should not be based on envy or hostility toward dedicated public employees, but rather should be rooted in principles of sustainability, sound management and good government.

However, to rely on this group as the definitive source of information on the state pension system's financial status is to have a distorted view of the plans' health.

As trustees of statewide retirement systems that serve half a million Minnesota public employees, we have worked hard with legislators, unions, retirees and active workers to ensure that the "worse-case scenario" envisioned by the Taxpayers Association never happens.

We take our fiduciary responsibility to Minnesota taxpayers and public employees very seriously. We continually monitor the funds' health and the actuarial assumptions that undergird our projections.

It is in that spirit of stewardship that we asked the Legislative Commission on Pensions and Retirement in 2009 for support in developing reform legislation to ensure that the state's pension plans are sustainable for present and future retirees and are a stable element of Minnesota's economy.

It took extraordinary bipartisan effort at the State Capitol and shared sacrifice on the part of active and retired public workers, but in 2010, a pension reform bill was passed that saves the state and local governments $5.9 billion and has already had a dramatic positive impact on the three statewide systems -- the Public Employees Retirement Association (PERA), the Minnesota State Retirement System (MSRS) and the Teachers Retirement Association (TRA).

It is in Minnesota's best interest to let these reforms continue to work to improve the funds' financial status.

You've read the "worse-case scenario." Here is the accurate scenario:

• The funded ratios for all three systems have increased significantly since 2009. PERA's general fund has improved from 53.8 percent in 2009 to 76 percent in 2011. MSRS has gone from 65.6 percent funded to 87 percent funded.

And TRA has jumped from 59.8 percent funded to 78 percent. Cost-of-living adjustments for PERA and MSRS members have been lowered until the plans are 90 percent funded; at TRA, the adjustments were withheld for two years, then will also be lowered until the plan is 90 percent funded.

As recently as 2007, MSRS was 99 percent funded and TRA was 93 percent funded. The losses that the systems experienced as a result of the severe downturn were not different from what other investors experienced.

• We're different here. Many of the states making headlines for being in deep trouble with their pension plans -- including Rhode Island and Illinois -- did not attend to their financial problems in a timely manner, and many did not require employees to substantially contribute to their plans.

In Minnesota, public employees have always contributed nearly half of the required funding. Within PERA, active members are required to contribute 6.25 of their pay; within the MSRS, 5 percent, and within the TRA, 6 percent (rising in 0.5 percent increments annually until the rate reaches 7.5 percent).

• Many states are just now getting around to raising their normal retirement ages, which typically have been age 60 or 62. The normal retirement age in Minnesota has been 66 since 1989. As with Social Security, there are penalties for early retirement.

• Minnesota public-sector retirees are self-sufficient members of our communities who are able to pay taxes, support Minnesota businesses and contribute to Minnesota charities. Spending by public retirees generates $738.3 million annually in federal, state and local tax revenue.

Public retiree spending supports $4.5 billion in total economic output in Minnesota and supports 31,274 jobs that paid $1.8 billion in wages and salaries. Each dollar paid out in public pensions supports $1.43 in economic activity in Minnesota, according to the National Institute on Retirement Security's 2009 state-by-state "Pensionomics" analysis.

• Without the modest pension that Minnesota's public employees receive, many would be forced to rely on taxpayer-supported public assistance.

• The Legislative Commission on Pensions and Retirement has begun discussions on "hybrid" retirement plans but has not yet designed the features of such a plan for Minnesota. That will be a challenge, because Minnesota already has a lower-cost pension plan compared with those in states that have moved to hybrids.

• While it's true that Minnesota's investment return assumption is higher than many states' at 8.5 percent, the State Board of Investment has exceeded that rate in 20 of the past 31 years, averaging more than 10 percent a year during that period.

None of us would deny that we are in a moment of deep pessimism and uncertainty in the financial markets. But managing retirement plans requires that we refrain from short-term panic and take a patient, long-term view as investors.

Minnesota can be proud of a public employee pension system that is low-cost compared with those in other states and proactive about correcting pension issues before they become problems.

But while we continually monitor funding ratios and investment return assumptions, we shouldn't lose sight of some big-picture issues.

There's a retirement crisis brewing in this country, and some would advocate a race to the bottom in which every worker is income-insecure in their older years.

Rather than argue that public-sector workers -- most of whom are paid less than their private-sector counterparts -- don't deserve a pension, perhaps we should be asking this:

"Don't private-sector workers deserve a secure retirement, too?"

Thomas Marshall is president of the PERA board of trustees. Mary Benner chairs the MSRS board of directors. Martha Lee Zins is president of the TRA board of trustees.

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