

Midwestern Intergovernmental Audit Forum

Minnesota Public Pension Plans

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I. Overview - Government Pension Plans in Minnesota

- A. State Plans – Minnesota State Retirement System (MSRS), Public Employees Retirement Association (PERA), Teachers Retirement Association (TRA)**
- B. Local Plans**
 - 1. Volunteer Firefighters'**
 - 2. Large Teacher, Firefighter and Police Office Pension Plans associated with the first Class Cities**
- C. *State Auditor's Report on Pension Funds***
 - 1. New approach in 2005**
 - 2. Application of analysis and comparison lead to a number of recommendations**

II. Funding and Related Issues

- A. *Almost all Minnesota Pension Plans base benefit increases on investment performance.***
 - 1. How investment based benefit increases work**
 - 2. How they contribute to the deterioration of the plan's funding level**
 - 3. Report recommendations regarding this structural flaw in pension plans and legislative reactions.**

B. Use of the State Board of Investment (SBI)

- 1. SBI's low administrative expense and history of investment return make it an ideal tool for local pension plans in the state.**
- 2. Investment return of Minneapolis Teachers and Volunteer Relief Associations as compared to the consistent returns of the SBI.**
- 3. Recommendation and legislative response.**

C. Administrative Expenses

- 1. Concerns about the Minneapolis Police and Fire Relief Association were annual administrative costs exceed \$800 per plan member.**
- 2. Proposed legislative caps on administrative expenses.**

D. Minneapolis Teachers Pension Plan

- 1. The worst funded pension plan in the state now facing a crisis.**
- 2. Contributing factors**
 - a) Benefit formula – benefit increases took place without any funding requirements**
 - b) Bad investment return**
 - c) Failure to fund – this plan's history includes a number of public employers, none of which was ever responsible for a complete funding.**
- 3. Legislative Proposals**
 - a) Two proposals last year**
 - b) This year's proposal – Minneapolis Teachers absorbed into TRA**
 - c) Action on the part of Minneapolis Teachers retirement board to create a golden parachute for its executive director resulting from a proposed legislative changes.**

III. Local Government OPEB Liability

- A. *Anticipating implementation of GASB #45, local governments have been obtaining actuarial studies and some have been creating trusts.***
- B. *No Minnesota statutory authority currently exist for local units of government to create trusts to hold and invest their public funds.***
- C. *Last year we met with local government officials to develop a legislative plan to provide authority to create trusts and authority to invest public funds using a different investment standard***
 - 1. *We gained a sense of the extent of OPEB liability, example – City of Duluth***
 - 2. *There was a consensus that there was a need for a different investment standard applicable to funds being invested for OPEB liability. Many public entities preferred a revocable trust over an irrevocable trust.***
 - 3. *Most public entities, though not all, agreed there should be statutory authority to allow local units of government to create trusts for OPEB liability***
- D. *Legislation proposed in 2006***
 - 1. *Current legislation provides authority for trust but only within PERA with funds invested by SBI***
 - 2. *Trust can be either revocable or irrevocable***
 - 3. *A lot of legislative resistance to investment requirements with SBI.***
- E. *Our position is based on the lessons learned in the Pension Report***
 - 1. *Avoid duplication of effort and cost with regard to investments and***
 - 2. *Take advantage of the huge, professionally managed state investment mechanism***

3. **Given the disparity of investment returns, the cost associated with duplication of investment effort, it is sound public policy to maximize the advantages to future pensioners as well as tax-payers by using the State Board of Investment.**

IV. Broader Pension Plan Outlook

- A. Status of Pension Report recommendations***
- B. Continue use of Pension Reports to improve the operation of government pension plans in the state of Minnesota.***
- C. Lessons learned in Pension Reports apply to investment and funding for OPEB liabilities.***