December 29, 2021

Dear Members of the Pension Commission:

The Public Employee Pension Coalition (PEPC) is a coalescence of retiree, member advocate, and labor organizations with interests in our state's public employee pension plans. Each undersigned organization cares deeply about the long-term sustainability of our pension plans as a means for our members to achieve a dignified and fulfilling retirement after deferring compensation throughout their careers in public service. We wish to express our opposition to any proposals which lower the assumed rate of return for our pension funds without first doing a comprehensive analysis and having up to date experience studies.

In 2018, after years of analysis, debate, negotiations, multiple executive vetoes and eventually, cooperative good-faith compromise, our coalition supported the omnibus pension bill which is now current law. It was a tremendous all-around effort from the Legislature, executive branch, plan administrators, staff and members of the LCPR, all of our organizations and more which culminated in an omnibus pension bill with two dominant themes: Shared Sacrifice and Promises Made, Promises Kept.

The burden of the sacrifices from that agreement fell disproportionately on workers and retirees while the so-called sacrifices shouldered by employers represented long overdue funding increases which could have reasonably occurred independent of any benefit reductions. According to a 2020 issue brief from the National Association of State Retirement Administrators (NASRA), in fiscal year 2018, Minnesota ranked 47th in the nation for "government contributions to pensions as a percentage of all state and local government direct general spending". At 2.3%, Minnesota was contributing less than 45% of the national average.

Two major motivators of the 2018 pension reforms were recommendations to change actuarial assumptions to account for a shifting economic and demographic landscape. First, we were told assumed rates of return for the various plans were unsustainable. Second, we were told life expectancy was increasing and pensioners would be drawing benefits longer. Since the 2018 pension changes, the actual return on investment has been more than 2.5 times the assumed rate. Of course, the emergence and spread of the COVID-19 virus has impacted life expectancy. According to a study published by Oxford University and the International Journal of Epidemiology, of 29 countries studied, males in the United States experienced the largest loss of life expectancy at birth during 2020, a reduction of 2.2 years. Thus far, the actuarial assumptions used to inform the 2018 changes have missed the mark on both these points.

Another assumption, foundational to the 2018 agreement, is no longer consistent with what we're observing: stable, modest inflation. According to the Federal Reserve Bank of Minneapolis (FRBM), the annual percent changes to the Consumer Price Index (CPI) for years 2013-2018 were 1.5%, 1.6%, .1%, 1.3%, 2.1% and 2.4% (averaging 1.5%). The dominating school of thought during the 2018 pension reform negotiations was that these low rates of inflation would continue into the foreseeable future. Similar to the two previous assumptions, this one has not come to fruition.

The FRBM CPI estimate for 2021 is for a 4.8% increase; Social Security benefits are going up 5.9% in 2022; Xcel Energy proposed a three-year rate increase in excess of 20%; and Medicare premiums are increasing 14.5% on January 1, 2022. Between a lingering pandemic, supply chain challenges, a tight labor market and many unpredictable variables, it is common knowledge that prices are on the rise and no economic oracles exist to assure us this trend will cease anytime soon. The 2018 agreement included an LCPR study on postretirement adjustments; the findings of that study showed significant loss in purchasing power over a retiree's lifetime, even prior to the rise in inflation we're seeing now. The ceiling on COLAs, agreed to in the 2018 pension bill, no longer appropriately tracks with inflation; the dignified and fulfilling retirements, which these benefits are designed to deliver for our members, are in danger.

The Legislative Commission on Pensions and Retirement Principles of Pension Policy (LCPR Principles) states "Retirement benefits should be increased during the period of retirement to offset the impact of economic inflation over time in order to maintain a retirement benefit that was adequate at the time of retirement" and that "Ad hoc postretirement adjustments should be funded separately from the regular defined benefit public pension plan financing and should not be added to the unfunded actuarial accrued liability of the defined benefit public pension plan." The LCPR Principles clearly outline the solution: The Legislature should authorize additional spending on our public pensions to fulfill the promises to retirees. Addressing this problem should top the list for any changes to the 2018 pension agreement.

In "Appendix A: Investment Return Assumption by Plan" of a different NASRA issue brief, this one titled, "Public Pension Plan Investment Return Assumptions," you can see Minnesota's rates are equal to, lower than, or within .1% of 26.9% of the 130 plans listed. Our assumed return rates are not outliers when compared to counterparts from other states and there is no pressing need to lower the assumption rates as a solitary adjustment to our pension framework prior to a full analysis.

The next round of experience studies, which are scheduled to be completed next year, will provide updated data and analysis on life expectancy, the impact of inflation, various demographic assumption changes and more. We encourage policymakers to proceed with extreme caution when considering any deviations to the assumed rate of return without the full 2022 experience study completed. The focus should be on the most pressing concern, additional state funding to address the lost purchasing power of retirees' pension benefits and keeping our promise of a dignified, fulfilling retirement.

In Solidarity,

AFSCME Council 5
AFSCME Council 65
AFSCME Minnesota Chapter 5 Retirees United
Education Minnesota
Education Minnesota Retired
Inter Faculty Organization (IFO)

Middle Management Association
Minneapolis Committee of Thirteen
Minneapolis Regional Retiree Council
Minneapolis Retired Teachers Chapter 59
Minneapolis Federation of Teachers, Local 59
Minnesota AFL-CIO
Minnesota AFL-CIO State Retiree Council
Minnesota Alliance for Retired Americans
Minnesota Association of Professional Employees
Minnesota Government Engineering Council
Minnesota Municipal Retirement Association
Minnesota Nurses Association
Minnesota Professional Fire Fighters
Minnesota Police Fraternal Association
Minnesota Retired State Employees Association (MRSEA)
Retired Educators Association of Minnesota
Teamsters Local 320

CC:
Governor Tim Walz
Commissioner Jim Schowalter, Minnesota Management and Budget
Senator Jeremy Miller, Majority Leader, Minnesota Senate
Senator Melissa Lopez Franzen, Minority Leader, Minnesota Senate
Representative Melissa Hortman, Speaker, Minnesota House of Representatives
Representative Ryan Winkler, Majority Leader, Minnesota House of Representatives
Representative Kurt Daudt, Minority Leader, Minnesota House of Representatives
Doug Anderson, Executive Director, Public Employees Retirement Association
Erin Leonard, Executive Director, Minnesota State Retirement Association
Jay Stoffel, Executive Director, Teachers Retirement Association
Susan Lenczewski, Executive Director, Legislative Commission on Pensions and Retirement