Protecting Pensions. Serving Members.

Chair Her, Commission members,

30 October 2023
Duluth, MN

Thank you for this opportunity to speak on behalf of the Retired Educators Association of Minnesota (REAM) and its thousands of members residing in every state county. I am Lonnie Duberstein, Past President and Co-Chair of the Legislative Committee, along with Tim Moynihan and Henry Carbone, who cannot be here this evening.

What is working well as it relates to Commission hearings and what imporovements could be made?

Autonomy for Pension Boards of Trustees

Traditionally, the commission has sought to be open to public testimony, sharing notifications of meetings, understanding the serious ramifications of their charge, and posting information on its website to keep the public informed. Some "housekeeping business" taken on by the LCPR and, ultimately, the Legislature has been a time-consuming process that the Trustee Boards of each Pension System may more efficiently conduct. Most states allow more autonomy to such Boards to conduct the day-to-day business of Pensions. The energy of the Legislative Commission may be better used to focus on the oversight and adherence to the Principles of Pension Policy established by the Legislature and revised over time. Minnesota is an outlier when it comes to allowing Trustee Boards to manage Pension issues. The bi-partisan, bi-cameral structure of the Commission would continue to provide oversight involvement from both political perspectives. LCPR oversight would certainly include approving measures requiring legislative appropriations.

... the current and future landscape of public pension funds and how to prepare to keep plans whole and funded.

Actuarial Determined Contributions (ADC). . . Policy in Law

Minnesota has failed to support the public pension systems for over twenty years adequately. A group of professional actuarial experts well documents that fact. Their expertise guides decisions made by Trustee Boards to a "healthy path" going forward. Recently, when the actuaries reported a need to lower the Assumed Rate of Investment earnings, their recommendation became law.

Why has the Actuary's recommendation regarding lowering the Assumed Rate of Investment been followed by legislative action and not when they recommend the annual Actuarial Determined Contribution amount needed? The ADC investment amount to each pension system would keep public pensions on a sound fiscal path long-term. This question was posed to the LCPR in previous testimony, resonating with many members. The current Chairperson, Representative Her, embraced a future discussion of this topic. Notably, after some ideas were vetted, one-time funding was allocated to pensions. This kind of investment has been recognized for its long-term value.

We believe that ongoing ADC investments need to be codified in Minnesota Law. They should be allocated every year at the level determined by actuaries. Furthermore, the funds should go directly to the Pension Fund Systems to prevent conflicts of interest with the budgets of cities, counties, and school districts. Whole, healthy funds are worthy for retirees and a powerful incentive for recruiting and retaining vital public employees.

... protect retirement investments in our state's public pension and retirement plans to guarantee a well-funded retirement.

Cost of Living Adjustments

The Legislative *Principles of Pension Policy* were established to guide legislators in overseeing and structuring laws to support public employees' retirement pensions. A notable feature is that pensions must provide for "adequate purchasing power" during retirement. To keep up with inflation, a Cost of Living Adjustment (COLA) was instituted as the best mechanism for delivering that promise. However, it has been well documented the promise is not being kept.

Determining the annual COLA for retirees using a measure like the Consumer Price Index (CPI) would be easily understood, well respected, and non-political. The PERA General Fund uses a range of adjustments relative to the CPI number to determine the COLA. The current PERA instrument makes the base COLA 1% and the maximum COLA 1.5%. Thus providing a COLA attempting to keep pace with inflation. Another benchmark is the formula that determined Social Security COLA adjustments of 8.7% for 2023 and 3.2% for 2024. Using its own COLA Study from 2018, it is very evident the COLA is inadequate. The study stated, *"It is unlikely that the postretirement adjustments will fully cover retiree's loss of purchasing power and retirees will experience an erosion of their benefits' purchasing power."* We propose a steady COLA at a reasonably higher range to avoid the continual backsliding of purchasing power. Although low, a minimum of 2% and a maximum of 4 % would seem to be a sensible ask.

Thank you, Commission members, for offering this opportunity to speak on behalf of Minnesota's retired educators. We wish you wisdom in taking on the task of "Keeping the Promise" to retirees.