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# Minnesota Governor Signs Pension Law to Cut Deficit

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- Law is designed to slash pension funding deficit by about $3.4 billion
- Law requires increased contributions from taxpayers and public workers

Minnesota Gov. Mark Dayton (D) signed on May 31 a pension bill that aims to create more stable funding for the state's public pensions.

The new law is designed to slash the state's $17.1 billion pension funding deficit by about $3.4 billion. It does this by increasing contributions from the state government and from public employees and by lowering early retirement benefits and cost-of-living adjustments paid to state workers. Money for the government's increased funding will come, at least initially, from a state revenue surplus.

In addition, the law requires that the investment return assumptions used by actuaries to project the plans' investment performance be lowered from 8 percent to 7.5 percent. The lower the interest rate, the more contributions are needed to meet a plan's funding obligations.

Although the law divides responsibility for cutting deficits between the government and employees, state workers will pay about 75 percent of the cost. "The bill balances appropriations with benefit reforms to attract both sides of the political spectrum," Susan Lenczewski, executive director of the Minnesota Legislative Commission on Pensions and Retirement, told Bloomberg Law.

Lenczewski and others said the bill required a shared sacrifice from many parties to reach the finish line.

"None of the parties walked away from the negotiating table without taking a hit," Richard Kolodziejski, public affairs and communications director for Minnesota Association of Professional Employees, told Bloomberg Law. The bill represents a true compromise and a sacrifice from each of the 26 parties involved, which included public employers, unions, active employees, and retirees, he said. MAPE represents about 14,500 state professional employees.

Studies showed that people were living longer and the plan's funding ratios were dropping steadily, Kolodziejski said. It was clear that significant reform was needed and the law is the result of a three-year effort, he said. Some of the parties were also concerned about the effect of the plans' deficit on the state's bond rating, he added.

Minnesota's approach to tackling its pension funding problems is different than that taken by states like Texas, Connecticut, Pennsylvania, and Kentucky. Minnesota changed how the plan was funded and reduced interest rate assumptions, while the other states in controversial moves have aimed to move employees out of traditional pensions to hybrid plans, such as cash balance plans or plans that combine aspects of traditional pensions and 401(k)s.

Minnesota's three largest statewide plans are funded in a range from 70.1 percent to 81.5 percent as of July 31, 2017. Nationwide, the median and average funding levels for public plans is about 72 percent, Keith Brainard, research director for the National Association of State Retirement Administrators in Washington, told Bloomberg Law.

**Path for Pension Consensus**

Colorado also recently passed a bill that, similar to Minnesota's law, would deal with pension deficits by cutting employee benefits and increasing employee contributions. That bill passed the state Senate 34-29, as Democratic lawmakers were against its provisions requiring workers to contribute to their pensions.

Minnesota didn't face the same sort of political uncertainty: Both the state House and Senate unanimously supported the pension law.

Credit for the bill's overwhelming support may be due, at least in part, to the efforts of the state's pension commission—a bipartisan body within the legislative branch. The commission's 14 members are all lawmakers from both branches of the General Assembly and the commission's professional staff functions like a legislative subcommittee in that it hears testimony, conducts research, and drafts bills.

Commissions, such as the one in Minnesota, are culturally able to help lawmakers reach a consensus, Brainard said. They combine a "high level of pension and actuarial expertise with a robust oversight function," he said.

Other states that have commissions with a similar culture and expertise are California, Texas, Ohio, Massachusetts, and Washington, Brainard said.

Although about 25 states have pension commissions or organizations, some of these offices have functions that are more ministerial, typically requiring less pension expertise, or lack manpower sufficient to conduct more in-depth review and analysis, or both, he added.

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