Dayton vetoes 2016 pension bill

Putting onus solely on current retirees ‘not fair,’ he said.

Gov. Mark Dayton has vetoed the 2016 Omnibus Pension Bill, which contained a provision to lower the retiree cost of living adjustment (COLA) from 2 percent to 1 percent for one year for TRA and from 2 percent to 1.75 percent for retirees in the Minnesota State Retirement System (MSRS) plan.

“These measures were part of sustainability plans that called for shared commitments among employers, current employees and retirees in order to secure the financial health and stability of the MSRS and TRA pension plans,” Dayton said in a letter to the legislature explaining the rationale for his veto.

Shared responsibility “remains an important principle in maintaining the soundness of Minnesota’s pension plans,” he added.

“Unfortunately, [the pension bill] contains only one piece of the overall sustainability plans, placing sole responsibility for reducing plan liabilities on current retirees. It is not fair, and I cannot agree to it.”

Dayton said that legislation in the 2017 session will be necessary to address the current pension plan funding projections, and that it must contain shared participation and be funded in order to earn his signature.

The original sustainability package proposed by TRA to the Legislative Commission on Pensions and Retirement (LCPR) did reflect a shared-responsibility approach and featured not only a COLA cut for current and future retirees (today’s active teachers), but also an employer contribution rate increase. All of TRA’s stakeholder groups supported the original proposal with the stipulation that the cost of the employer rate increase be offset by an increase in state aid formula for schools to avoid negative impacts on school programs.

LCPR chair Rep. Tim O’Driscoll (R-Sartell), Pappas (D-St. Paul), and other lawmakers acknowledged that the proposed stopgap measure was inadequate and said that a more comprehensive sustainability package must be passed in 2017. O’Driscoll said one reason for the failure to pass a more complete package this year is the fact that it was not a budget year and that the original sustainability package would require “heavy financial lifting.”

During debate on the House floor, Rep. Mike Nelson, D-Brooklyn Park, said the measure that passed both chambers took sustainability “out of the hide of retirees only,” and that it was not fair.

The pension commission this year received actuarial experience studies detailing demographic and economic assumption changes made necessary because of increased member life expectancies and decreased investment expectations. With retirees living longer and collecting pensions for a longer period of time, the system takes on added costs and must make periodic adjustments to maintain financial stability.

The original proposal recommended by the TRA board would reduce TRA’s 2 percent COLA to 1 percent for five years and then to 1.75 percent in subsequent years. The board’s proposal also calls for an increase in TRA employer contribution rates from 7.5 percent to 8.5 percent accompanied by increased state aid through the school aid formula to offset those increased costs, estimated at $43 million annually. The combination of these measures would comprehensively address the problem created by the experience study findings.

"To maintain TRA's long-term funding stability, we need to return next year to pursue a balanced, shared-responsibility approach that will address TRA's financial challenges," said Laurie Hacking, executive director of TRA.

Pappas and O'Driscoll said that the original TRA sustainability plan is expensive because it requires more from school districts, and as it became clear that money would not be made available this year, the bill was scaled back. The stopgap bill was designed to provide time to consider what kind of adjustments in state aid to school budgets will be required to offset the needed increase in employer contributions, they said.

Pappas said that with the Consumer Price Index, a measure of inflation, at under 2 percent, LCPR members have been torn about cost-of-living increases for retirees. "In our pension principles, we really believe we need to retain the buying power of the retirees' paycheck in order to not have it erode," but the COLA is expensive, she said.

There was a bit of back-and-forth on the Senate floor as legislators questioned Pappas about TRA's 8 percent investment assumption, with some asserting it was too high. Pappas said that the pension funds, their actuaries and boards – as well as the pension commission – consult with the Minnesota State Board of Investment (SBI), which has an excellent record of strong management and an appropriately long-term investment horizon.

Sen. Dave Thompson, R-Lakeville, said that the pension systems are "unmanageable" and "unworkable," and that it's dangerous to assume an 8 percent rate of return. Thompson said the legislature should discontinue the defined-benefit program and go to a defined-contribution plan such as the 401(k)-type plans found in the private sector.

Pappas pointed out that transitioning from a defined-benefit pension to a defined-contribution model would cost billions of dollars in the near term because benefits would have to continue to be paid out even though no new contribution revenue is flowing into the closed DB plan.

Longtime LCPR member Sen. Julie Rosen, R-Vernon Center, said the pension bill that went to Dayton was a good compromise.

"When you do reform in pensions it's very slow," Rosen said, as debate on the bill drew to a close. "And you have to do it deliberately and with seriousness and make sure those funds stay viable."