Setting the record straight about pension finances

An article published by Bloomberg News ("New Math Deals Minnesota's Pensions the Biggest Hit in the U.S.," Aug. 31, 2017), uses numbers reported under the Governmental Accounting Standards Board (GASB) rules to paint an incomplete and misleading picture of the financial health of Minnesota's public pension plans.

The key point to understand about numbers reported under GASB rules is that the true health of a pension plan is determined not by GASB annual accounting rules but by funding policy.

GASB reporting is not intended to provide a picture of the funded status of a pension plan. Instead, funded status is determined by an actuarial funding methodology, the objective of which is to achieve an ultimate funded status of 100 percent. If the TRA reforms currently pending in the legislature are enacted, TRA will be on that positive funding trajectory.

In response to an increase in TRA liabilities caused by longer member lifespans and reflected in the GASB numbers, the TRA Board of Trustees proposed $1.6 billion in benefit reductions and $92 million in annual contribution increases. Unfortunately, the TRA proposed financial reforms failed to be enacted during the past two legislative sessions (2016-2017). TRA will renew its request for reforms in the 2018 session.

Enactment of proposed pension reforms by the legislature would significantly improve the numbers reported under GASB rules – as will the strong 15.1 percent fiscal 2017 investment return.

The Bloomberg article claims that Minnesota has experienced "lackluster" investment returns. In fact, the State Board of Investment has averaged an 8.7 percent annual return over the past 30 years, consistently outperforming its peers (public fund median over 30 years is 8.3 percent). Returns over 35 years have averaged 10.2 percent per year.

Recent numbers reported for GASB purposes lag one year and reflect investment returns from fiscal year 2016, which were indeed lackluster at -0.10 percent. However, for the fiscal year that ended on June 30, 2017, the SBI returned 15.1 percent (public fund median for FY 2017 was 12.4 percent). GASB results for FY2017 thus will swing dramatically in the other direction. The year-to-year GASB numbers will fluctuate wildly and do not provide appropriate guidance for oversight of pension funding, which is best viewed through a very long-term lens.

Minnesota's pension funds are not in crisis but do need constant monitoring and adjusting and, with help from the state legislature and the governor, will be on sound footing for many years to come.