Legislature passes 2016 Omnibus Pension Bill

MAY 23 – The Minnesota House of Representatives on Sunday passed the 2016 Omnibus Pension Bill (SF588) on a vote of 129-3. The Senate version of the 2016 Omnibus Pension Bill passed out of that chamber Thursday on a 61-1 vote, with Sen. Eric Pratt the lone no vote. The bill now goes to Gov. Mark Dayton.

Legislative Commission on Pensions and Retirement (LCPR) chair Tim O'Driscoll (R-Sartell) summarized the provisions of the bill, whose major changes call for the investment return assumption for Teachers Retirement Association (TRA) to be lowered to 8 percent, and for the cost-of-living adjustment for retirees of TRA to be lowered to 1 percent for one year and for the Minnesota State Retirement System (MSRS) to be lowered to 1.75 percent for one year beginning Jan. 1, 2017.

The bill contains a half-percent employer contribution rate increase for the St. Paul Teachers Retirement Fund Association (SPTRFA) as well as changes to provisions dealing with disability eligibility, Minnesota State Colleges and University system and language to bring the state retirement systems into compliance with federal tax law. The bill also extends TRA's amortization date and eliminates a provision that would trigger higher COLA payments when or if the pension systems reach a 90 percent funded level.

O'Driscoll said that the pension commission earlier this year received actuarial experience studies detailing demographic and economic recommendations that require "heavy financial lifting" – referring to sustainability packages supported by MSRS and TRA retirees, active employees, boards and employer units. These original sustainability packages reflected shared sacrifice and offset deficiencies created by increased life expectancies and decreased investment expectations.

"We have set that aside for this year since it's not a budget year," opting instead for a limited sustainability measure that reduces the retiree COLA for MSRS and TRA for one year beginning Jan 1, 2017, O'Driscoll said. This limited sustainability measure saves the systems $81.5 million, he added.

On Thursday, Senate bill author and pension commission vice chair Sen. Sandy Pappas, D-St. Paul, said that public employees are living longer and therefore retirees will be collecting pension checks for a longer period of time. She added that it is a normal part of pension oversight to periodically adjust employer and employee contribution rates and retiree cost-of-living adjustments.

Pappas said that the TRA and SPTRFA sustainability plans are expensive because they require more from school districts and state agencies. As it became clear that money would not be available, Pappas said, the current bill was scaled back and has no money attached to it. The goal is to return next year to discuss further adjustments, Pappas said.

“The governor believes this [a comprehensive sustainability package] needs to happen, if not this year then next year,” she said, adding that the stopgap measure provides time to consider what kind of adjustments in school aid and agency budgets will be required to offset increased employer contributions.

On the House side, Rep. Mike Nelson, D-Brooklyn Park, introduced an amendment to delete the provision reducing the COLA for TRA and MSRS retirees. Nelson said that when action is necessary to garner savings for the state’s pension plans, shared sacrifice is normally involved.

“What this plan does is take it out of the hide of retirees only. Their COLAs are being cut, their future raises are being cut, and the employers aren’t putting any more money in and the employees are not putting any money in,” Nelson said. “It’s not fair.”

Nelson said legislature is missing an opportunity, given the budget surplus, to “put more money into the pension plans so our retirees can be safe and secure in their retirement plan.” This fix only nibbles around the edges of the problem, he said. “We should be putting money into this plan now to help fix this problem.”

O’Driscoll encouraged a no vote on Nelson’s amendment, adding that the COLA reduction would represent the first step toward a more comprehensive solution. The Nelson amendment failed on a narrow 62-68 vote. Nelson later expressed disappointment in the failure of his amendment, but said that since this appears to be the best pension bill that could be achieved this year, he urged a yes vote.

A partisan skirmish erupted after Rep. Joe Atkins, D-Inver Grove Heights, introduced an amendment to raise the base benefit amount for 83 police and fire survivor recipients. Atkins argued that these people do not receive Social Security and the proposal is an effort to “do right by these members.” The cost would be $2.4 million, which Atkins said can be harmlessly absorbed by the Public Employee Retirement Association’s (PERA) Police & Fire Plan.

O’Driscoll said that he had received a letter from PERA laying out concerns about this idea, and that PERA’s board does not believe the proposal is financially sound. Prompted by Rep. Tony Albright, the House Speaker ruled the amendment not germane, and House minority Democrats expressed outrage at the notion of not allowing a pension-related amendment to an omnibus pension bill. The procedural vote stood, and the Atkins amendment was ruled non-germane.

Rep. Phyllis Kahn, D-Minneapolis, introduced an amendment directing the Minnesota State Board of Investment to develop climate change risk management strategies in its investment approach. O'Driscoll read a letter from SBI Executive Director Mansco Perry urging the legislature not to tie the hands of the SBI in making investment decisions. The Kahn amendment failed.

In the Senate on Thursday, Sen. Pratt, R-Prior Lake, asked Pappas about the origins of the 8 percent investment assumption. Pappas said that the pension funds, their actuaries and boards – as well as the pension commission – consults with the SBI. Minnesota's investments have done very well, are well managed, and are designed with a long-term strategy in mind, Pappas said. The pension commission felt that lowering the rate was a good cautionary move.

Pratt said that the assumption is still too high, and that even investment guru Warren Buffett says that over the long term, the market assumption for returns shouldn't exceed 7 percent. "These plans aren't sustainable under their current assumptions, and this is one of those assumptions that are still too high," Pratt said. He added that he is glad the retiree COLA is being dropped to 1 percent for TRA.

Pappas said that with the Consumer Price Index, a measure of inflation, 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 we realize that the COLA is expensive, she said. She invited Pratt to bring his expertise to the pension commission, and encouraged him to consult with SBI's Perry about the investment return issue.

Sen. Mary Kiffmeyer, R-Big Lake, said that large retiree COLAs during boom times in the stock market and the economy "robbed the core" of the pension funds of money that needed to be retained for a rainy day and that legislature was complicit in those decisions. She said there should be a standard that all retirees can count on so that one group of retirees does not get a severe reduction in their COLAs while previous retirees almost double their pensions in a few years.

Sen. Terri Bonoff, D-Minnetonka, also expressed concern about the 8 percent investment return assumption and said she shares Kiffmeyer's concerns about keeping promises to retirees. Bonoff said she has been approached by investment advisers who are concerned that the pensions are underfunded. She asked Pappas for her view about the long-term viability of the state's pensions.

Pappas said that SBI's Perry has been quoted as saying that 8 percent is "not unreasonable." Because of the amount of money the state invests ($65 billion in pension fund assets) and the clout that comes with it, Minnesota is able to get a good rate of return.

Sen. Dave Thompson, R-Lakeville, said that the pension systems are unmanageable and that Pratt is correct that it's dangerous to assume an 8 percent rate of return. "If you drop the rate, projections look bad," he said. "And not only do we have economic insecurity, now we've got an aging population that's going to put stress on the system."

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. Those who run Minnesota's public pension plans and investments do an extremely good job and in good faith, he said, but "the system is just unworkable."

Pappas pointed out to Thompson that transitioning from a defined-benefit pension to a defined-contribution model would cost billions of dollars because benefits would have to continue to be paid out even if no new contribution revenue is flowing in.

Sen. Julie Rosen, R-Vernon Center, said the pension bill is a good compromise made necessary after the commission "received a sucker punch" in the form of hard-to-stomach mortality studies. "When you do reform in pensions it's very slow, like trying to turn the Titanic," Rosen said. "And you have to do it deliberately and with seriousness and make sure those funds stay viable."