



# Retirement Systems of Minnesota

Minnesota State Retirement System • Public Employees Retirement Association • Teachers Retirement Association

For immediate release  
May 3, 2006

## **MINNESOTA'S PUBLIC PENSION FUNDS PROVIDE MODEST BENEFITS AT A RELATIVELY LOW COST TO TAXPAYERS**

(St. Paul, MN) Directors of Minnesota's three statewide public pension funds stated that solid funding and excellent investment performance have permitted a fiscally sound approach to financing modest pension benefits for public employees at a relatively low cost to Minnesota taxpayers. However, they fear pension increases given retirees in the 1990s give a false impression of the situation today.

Minnesota public pension benefits rank below the national average at retirement, noted the directors of the Minnesota State Retirement System (MSRS), the Public Employees Retirement Association (PERA), and the Minnesota Teachers Retirement Association (TRA). The retiree increases were brought on by market forces that are not likely to be seen again and pending legislation would prevent a recurrence of the phenomenon.

"Those increases of the 1990s give a false image of public employee pensions overall," noted Mary Most Vanek, director of PERA. "The same market forces and benefit formula that resulted in those generous increases 10 years ago are today giving retirees benefit increases below the rate of inflation. It will likely remain that way for several more years and we're taking steps to better control such fluctuations in the future."

David Bergstrom, director of MSRS, noted that retirees of the three funds participate in the Post Retirement Investment Fund. "The Post Retirement Fund holds over \$21 billion in assets to pay promised benefits to retirees and an additional \$21 billion is in reserve to pay benefits for current workers," he said. "It is important to remember that our retirement plans are pre-funded, and not pay-as-you-go like social security. This helps keep the tax burdens off our children and grandchildren."

As for taxpayers' cost for the active funds of the three retirement systems, "It is a small piece of the equation," noted Laurie Fiori Hacking, TRA director. "Our members' contributions and our investment earnings pay for approximately 84 percent of our pension benefits today," she said. "Only 16 cents out of every dollar comes from employer contributions and ultimately the taxpayer.

As a percentage of overall government spending, less is spent on public pensions today than was the case 15 years ago.”

The three directors offered additional comments and data regarding Minnesota’s public pension systems.

### **High investment earnings lower taxpayer costs**

- Investment earnings of the three statewide public pension systems have been excellent, averaging 10.3 percent per year for the past 20 years and 15.2 percent per year for the past three years. These returns exceed the funds’ target actuarial return of 8.5 percent.
- Unlike social security’s pay-as-you-go system, Minnesota’s public plans are pre-funded, allowing investment earnings to pay for the bulk of pension payments.
- In 2005, pension contributions made by Minnesota’s state and local governments represented only 2.0 percent of total state and local government spending, down from 2.7 percent in 1990.

### **Funding of Minnesota’s public plans improving**

- The three statewide public pension plans are well-funded, with an average funding ratio of 90 percent for the fund supporting active worker benefits. A 90 percent funding ratio means that funds are available to pay 90 percent of promised pension benefits, similar to having 90% of a home mortgage paid.
- Solid funding plans have been adopted by the Legislature and the systems to erase the effects of the 2001-2002 market decline and return the funding ratio for all three systems to 100 percent.
- Due to excellent investment returns, high cost-of-living increases were paid to retirees in the 1990s. The Minnesota Legislature, however, is expected to pass legislation this session that will permanently reform the Post Fund formula by capping future COLAs at 5 percent per year. Recent increases since the market downturn have been less than inflation.
- The Minnesota Legislature has also developed a comprehensive solution to the Minneapolis Teachers Retirement Fund Association (MTRFA) funding problem. This proposal would transfer all MTRFA members to TRA and assign investment responsibilities to the State Board of Investment (SBI).

### **Modest benefits help attract and retain key employees**

- Minnesota’s public pension plans provide modest pension benefits, averaging \$1,483 per month (\$17,796 per year).

- Pension benefits are important to attracting and retaining employees for critical jobs such as police officers, firefighters, teachers and public health workers.
- Public employer pension contributions, financed by taxpayers, pay for only 16 cents out of every pension benefit dollar paid out. Minnesota public employees contribute toward their pension benefits with their own contributions.

### **Statewide Retirement System Benefits**

	MSRS General	PERA Coordinated	TRA	Average
Average Monthly Benefit	\$1,148	\$878	\$2,424	\$1,483
Average High-Five Salary at Retirement	\$41,000	\$33,800	\$50,800	\$41,870
Average Length of Service at Retirement	21 years	19 years	25 years	22 years

For further information, contact:

Mary M. Vanek, PERA Executive Director, 651-296-8358

Dave Bergstrom, MSRS Executive Director, 651-284-7888

Laurie Hacking, TRA Executive Director, 651-296-6523

###