

Postemployment Benefits for Public Employees

Update to 2007 Evaluation Report

Problems Identified

- **Funding Ratios Misleading.** Funding ratios made statewide pension plans appear better funded than they really were. The ratios did not reflect a \$4 billion deficit as of July 2007 in the Postretirement Fund used to pay retiree pensions.
- **Deficit in Postretirement Fund.** Legislative changes in 2005 and 2006 would not solve the Postretirement Fund's deficit or eliminate the risk of future deficits.
- **Large Unfunded Liabilities.** Two dozen local jurisdictions had accumulated \$1.5 billion in liabilities for nonpension retiree benefits, primarily retiree healthcare. Liabilities for other localities had not yet been documented. Most jurisdictions with liabilities and others likely to have them were not setting aside money to fund them.

Changes Implemented

- **Reporting Requirements Improved.** Following legislation adopted in 2007, the Legislative Commission on Pensions and Retirement changed its standards and has since required valuing Postretirement Fund assets consistent with accounting principles.
- **Additional Reform Enacted in 2008.** The 2008 Legislature passed legislation that largely complies with OLA's recommendations to eliminate investment-based increases in postretirement benefits and enhance inflation-based benefit increases. It required dissolving the Postretirement Fund under certain negative economic conditions, and those conditions occurred in 2008. Benefit increases are now fixed at 2.5 percent and do not depend on investment returns, as OLA recommended, but neither do they respond to changes in inflation. Legislation pending in 2009 would revise statutes to allow the Fund's June 30, 2009 merger into the three active statewide retirement funds.
- **Postretirement Benefits Being Reconsidered.** The 2007 Legislature temporarily changed the calculation of postretirement benefits for the St. Paul Teachers' Retirement Plan and required a study of the postretirement benefit formula. Legislation is pending in 2009 over how to calculate this plan's benefit increases for the long term.
- **Funds Authorized.** The 2008 Legislature authorized local governments to establish trust funds for retiree health care and other postemployment benefits, as OLA recommended.

Action Needed

- **Change Local Plans.** The Legislature should change formulas for local teacher pension plans' postretirement benefits by disallowing investment-based benefit increases when the local funds have large deficits.