



Postemployment Benefits for Public Employees

Update to 2007 Evaluation Report

Problems Identified

- **Reported Funding Adequacy Misleading.** Funding ratios had 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.
- **Insufficient Legislative Changes.** 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 but were estimated to double that. Most of the 24 jurisdictions with estimated liabilities, and most others likely to have liabilities, were not setting aside money to fund the liabilities.

Changes Implemented

- **Reporting Requirements Improved.** Following legislation passed by the 2007 Legislature, the Pension Commission changed its standards and now requires valuing Postretirement Fund assets consistent with accounting principles.
- **Additional Reform Recommended.** A joint committee of the three statewide pension plans' boards studied the Postretirement Fund in 2007. Its recommendations to the 2008 Legislature largely comply with OLA's recommendations to eliminate investment-based increases in postretirement benefits and enhance inflation-based benefit increases.
- **Postretirement Benefits Adjusted.** The 2007 Legislature temporarily changed the calculation of postretirement benefits for the St. Paul Teachers' Retirement Plan. It also required the Pension Commission to study the St. Paul Teachers' Plan's postretirement benefit formula and report back in 2009 with recommendations for longer-term changes.

Action Needed

- **Replace Investment-Based Pension Increases.** The Legislature should make changes to fully fund the Postretirement Fund and replace investment-based increases in the postretirement benefit formula with enhanced inflation-based increases.
- **Change Local Plans.** Following the study due in 2009, 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.
- **Allow Irrevocable Trusts.** The Legislature should allow local governments to establish irrevocable trusts to fund liabilities arising from healthcare and other benefits for retirees.