Jan. 25, 2018

Commission explores public pension privatization

An organization that spends millions of dollars on a state-by-state effort to privatize public pensions is now playing a significant role in pension discussions at the Minnesota state capitol.

The Legislative Commission on Pensions and Retirement (LCPR) heard testimony on Wednesday from a University of Minnesota research fellow whose pension policy research is funded in part by the anti-pension Laura and John Arnold Foundation. Also testifying was the executive director of the Oklahoma Public Employees Retirement System, whose state's transition away from pensions to a private, defined-contribution system was partly due to a push from the Arnold Foundation.

The Feb. 19 LCPR meeting is set to include testimony from a representative of the Pew Charitable Trust. Pew has received $9.7 million from the Arnold Foundation to support its Public Sector Retirement Systems project (http://www.pewtrusts.org/en/projects/public-sector-retirement-systems), according to Governing magazine (http://www.governing.com/topics/mgmt/gov-john-arnold-pensions.html).

The Arnold Foundation has directed nearly $28 million to fund pension policy research nationwide and millions more in personal donations from the Arnolds to support political candidates and ballot initiatives aiming to switch public workers to 401(k)-style plans, according to Governing magazine.

Kurt Winkelmann, a former managing director at Goldman Sachs, is leading the inter-disciplinary research project on pension policy design at the University of Minnesota's Heller-Hurwicz Economics Institute. Winkelmann told the LCPR that his project's goal is to "provide a solid research foundation for choices" in retirement plan design and take advantage of cutting-edge tools for developing pension policy.

The dual policy goals, he said, are secure retirement income for employees and reducing volatility in taxpayer expense. Referring to a few 2017 news articles debating the nature and extent of Minnesota's public pension challenges, Winkelmann compared the state's pension policy to the Bill Murray movie, "Groundhog Day." An article appears about funding issues, op-ed rebuttals ensue, new funds are allocated at legislature, and the cycle repeats, he said.

Using Arnold Foundation funding, the project will include academic conferences with experts and researchers, quarterly policy briefs (four of which have been published at https://cla.umn.edu/heller-hurwicz/pensions-initiative), three policy forums that will be open to the public, and two workshops to "help policymakers with pension policy," Winkelmann said.

Sen. Sandy Pappas, D-St. Paul, asked Winkelmann whether he has ever studied Minnesota pensions before, or if this is a new endeavor. She asked whether he intends to familiarize himself with the history and reform record of Minnesota's pensions. Winkelmann affirmed that you can't talk about changes unless you spend some time studying how you got from Point A to Point B.

Winkelmann touched on the privatization of public pensions in Pennsylvania and Rhode Island, but was unable to answer in-depth questions about those states. He also mentioned the success of pension systems in the Netherlands and Australia and the transparency of those plans.

Sen. Warren Limmer, R-Maple Grove, asked whether Winkelmann believes Minnesota lawmakers are doing something that's not transparent, noting that reporting requirements for actuarial valuations for pension plans are set in statute. Winkelmann responded by touting a market-based rate (around 4 percent). Pension systems use an assumed rate of return on investment that's higher than the market rate because long-term average investment return performance is typically higher than 4 percent.

Testifying via Skype was Joseph Fox, executive director of the Oklahoma Public Employees Retirement System, which closed its defined-benefit plan to new state employees hired on or after Nov. 1, 2015. From 2010 to 2015, legislators studied pension reform and ultimately made changes to raise the retirement age and eliminate retiree cost-of-living adjustments, among other things. OPERS has not paid a COLA since 2008.

Today, state employees have a mandatory contribution rate of 4.5 percent but may opt to contribute more. The employer contribution for all new state employees is 16.5 percent of payroll. Of this total, only 6 percent to 7 percent goes to the employee retirement account. The remainder (9.5 percent to 10.5 percent) goes into the closed legacy fund.

Rep. Tony Albright, R-Prior Lake, asked how fees are reported to participants in the defined-contribution plan, who choose from a menu of investment options through Vanguard. Fox said the fee structure is transparent; participants can access fee disclosure in all records and by viewing their individual accounts. Fox said the system's board was very concerned about fees.

Pappas said that the 2011 DB/DC study commissioned by the LCPR and conducted by the three Minnesota statewide retirement systems should be reviewed for new commission members who might be unaware of the estimated cost of transitioning public employees from the defined-benefit plan to private savings plans. (That cost, in 2011 dollars, was estimated at $3 billion.)

Pappas asked Fox whether Oklahoma has done a cost-benefit analysis of the switch to private retirement plans and if the change was worth it. Fox said the state has not conducted a cost-benefit analysis. The driving force behind the move, he said, was the "changing face of public pensions in the country." "Reform has been in the air for a decade now," Fox said.

Sen. John Jasinski, R-Faribault, asked whether the change has affected the ability of Oklahoma's public sector to attract employees. Fox said his state has been under a hiring freeze, but admitted that new employees are unhappy about the mandatory defined-contribution plan once they become aware of the differences between the benefits of a DB plan versus a DC plan.

The LCPR next meets on Feb. 6, when it will hear from the National Association of State Retirement Administrators (NASRA), the head of the South Dakota Retirement System, and the Minnesota state demographer. On Feb. 19, a representative of the PEW Charitable Trust will address the panel.