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Executive Director, Paul Doane, Response to Editorial – 2/12/2014 *Pioneer Press*

Kim Crockett: Minnesota: Looking at teacher-pension liabilities through rose-colored glasses

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I will not enter the fray regarding the merits of one retirement plan structure, such as a Defined Contribution (DC) approach, compared to another, such as a Defined Benefit (DB) Plan. That is an on-going "food fight" and beyond the reach of this offering. However, Ms. Crockett, in her repeated appearances before the Legislative Pension Commission (LCPR), offers various claims and facts that warrant further analysis and response.

Ms. Crockett, taking a jab at TRA's website feature titled "Teachers, what's your pension IQ?" expounded on the apparent foolhardiness of TRA's proposed absorption of the Duluth Teachers' Fund due to poorly thought out plans and uncertain costs. She urges the State to "hold off" on any merger. The cost of bringing Duluth "in", is understated "perhaps significantly, and until we know the real story, things need to slow down and get the numbers right", according to Ms. Crockett.

The problem with this line of thinking, while arguably merited in terms of "getting the numbers right before pursuing a proposed corrective course of action", is that the three teacher systems have just spent the better part of the last eight months assessing the cost impacts and exploring options. Pension funding is strewn with conflicting arguments and countering methodologies. Further complicating the task is that public pensions can be "read meat" for envious, non-DB plan, pundits who continue to believe that not only are DC plans a better option for retirees but they're more cost effective (since the taxpayer is allegedly "off the hook" from meeting long term, benefit promises). Although, I would argue, that any alleged "relief" is fleeting since in a DC world participants will surely be back knocking on Government's door when they've run out of their inadequate savings. Then… let's see which approach is less expensive!

To "hold off and wait for better numbers" couldn't be more off base. Even Ms. Crockett believes promises that are once made need to be kept. Now, pension finance is not simple. Any time you're basing current decisions on future events couched around certain assumptions, the outcome is ripe for second guessing. No one really knows the future. However, based on reasonably agreed upon assumptions, you are able to project a greater likelihood of a certain outcome than not. That is the general basis for actuarial calculations and projections. These outputs are employed by pension managers to guide current actions.

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If this practice was employed when most public plans commenced, many of them such as St. Paul's go back over 100 years, we wouldn't be having this argument. Plans would have been properly funded from the "get-go" and promised benefits based on ephemeral economic conditions would have been more limited or avoided. But, unfortunately, these concepts were less well known and certainly not often applied effectively. Thus, we have the funding shortfalls that plague most public pension plans today. It's not for the lack of remedial action that Funds today are not properly prepared to meet future obligations. In fact, it's just the opposite. Today, armed with the best actuarial forecasting information, plans are more than stepping up to meet the future liabilities of today's workforce, the so-called "Normal Cost" of a plan. St. Paul, for example, will ask its active teachers and the employer school district to contribute a combined nearly 18% of salary annually against a "normal cost" of 8% of salary!

The problem exists, that adequate funds were not set-a-side in earlier years to properly fund those past years of annual "normal costs". When those members retired and started to draw benefits, assets were inadequate to meet those prior obligations.

Now, you can sit back and say, "well… they should have known better", or policy makers were "overly generous in increasing benefits which couldn't be sustained", and so forth. Well, that may be true or not. The point is that such finger pointing doesn't solve today's problem. And neither does delaying action, as Ms. Crockett argues.

From my many years as a legislator, I learned that arguments in the political arena are not always what they appear. There's often a hidden agenda, where the approach argued seems very sound, but which cleverly can conceal a more sinister approach. I feel some of that is at stake here…. let's scuttle the DB plan concept while appearing to be trying to address weaknesses in design. Calling for more study and delay acting might have merit except for the fact that further study is only redundant to what has just been completed and to delay is tantamount to "pulling the plug". Debts owed today only grow in cost and complexity with inaction. That's what Ms. Crockett is really seeking to accomplish…..make the solution so inflated, so complex, so unacceptable to level headed people that the only sane approach is to shut it down and start anew. The State of Minnesota should not succumb to her strategy.