Implications of Pension Finance on Education Finance

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A Big Picture Frame of Reference: Two Funding Gaps

	2017 MNDOT Highway Capital Investment Plan	**State and Local Pensions**
Funding Shortfall	$18 billion	$20 billion **
Nature of Funding Gap	Evolving gradually over the next 20 years	As of July 1, 2016
Key rate of interest influencing growth rate of funding gap	Around 5.0%	8.0% and higher

** current market value basis

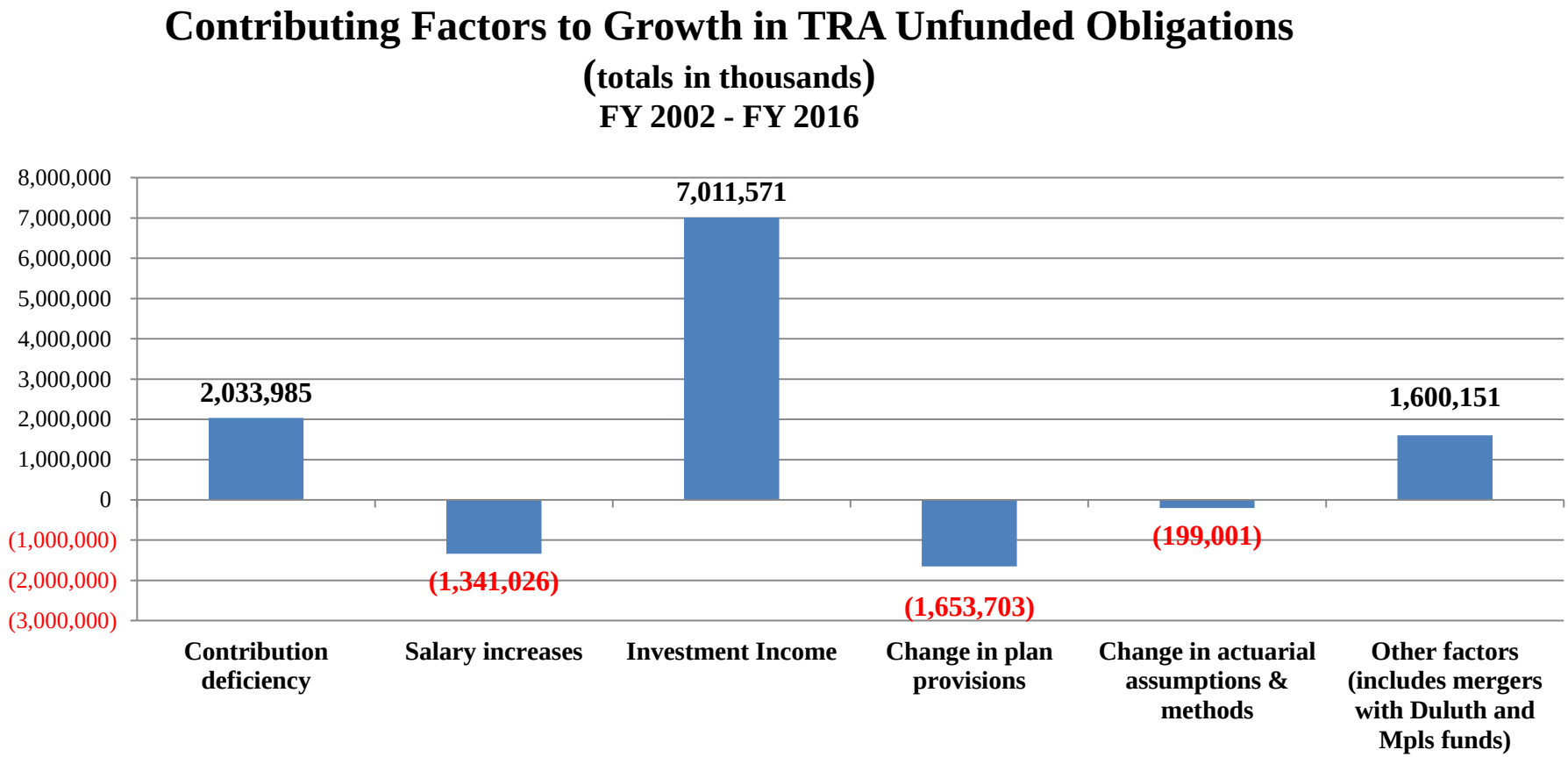
TRA Snapshot

Assets TRA should have under management now just to pay for benefits already earned:	$26.7 billion **
TRA pension assets under management	$19.4 billion
Shortfall	$7.3 billion
Per Pupil	About $9,000

That shortfall is based on investments achieving an average annual return of 8.5% per year going forward

** Current market value basis

Putting Past Fixes in Perspective



Over this period, combined contribution rates increased 50% from 10% to 15% of salary

Putting Proposed Fixes in Perspective: Special Challenges of a Mature Plan

TRA Cash Flow Analysis (2016)

Total Cash In (all contributions and other)	**$ 743,334,000**
Total Cash Out (benefits, refunds, and expenses)	$1,741,322,000
2016 TRA Cash Flow Before Investment Returns	($ 997,988,000)
2018 Proposed Employer Contribution Increases (covered 95% by state aid)	$22,600,000

It will be exceptionally difficult to successfully invest our way out of this problem

You only get investment returns on the assets you have to invest

If a pension plan is underfunded, a 15% annual return generates fewer investment dollars than if it was 100% funded.

The problem is compounded when liabilities grow at the same rate as expected returns

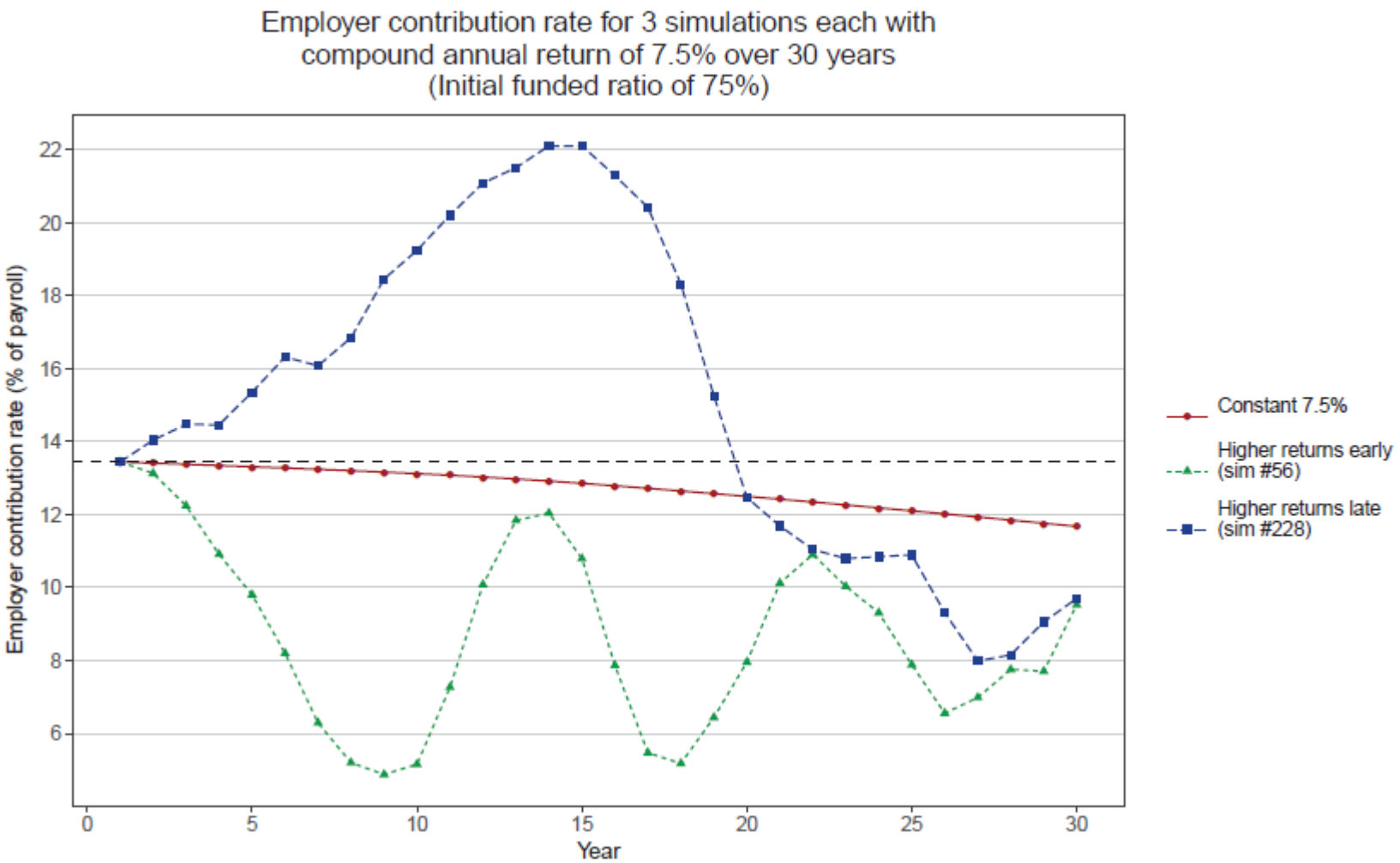
Putting Proposed Fixes in Perspective:

Holding school districts harmless from higher pension costs will get expensive very quickly

Cost of contribution increases in out-biennium (FY 20-21): $158 million
Cost of contribution increases in FY20-21 assuming 2.5% payroll growth: $177 million

For reference, Governor's proposed general education funding increase for FY18-19 is $371 million

Even if we do achieve an average compound annual investment return of 8.0% over the next 30 years, the likelihood of needing much higher pension contributions in the future is very real



Source: Rockefeller Institute of Government

What does it all mean for E-12 Finance?
Absent more substantive reform, an almost certain future of much higher pension contributions

There is an economic reality lurking regardless how we choose to model it

Pick a rate, any rate -- the economic cost of the pension plan doesn't change.

The question is not "if" E-12 finance will be impacted but "when"

Actuarial methods and assumptions can accomplish amazing things in pushing responsibility on to future taxpayers and their kids