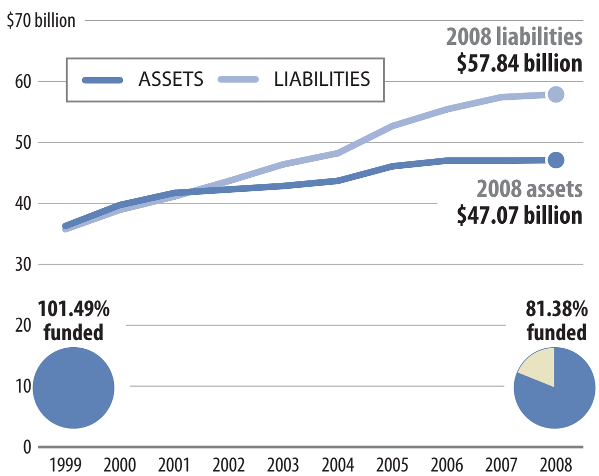
The Trillion Dollar Gap
Underfunded State Retirement Systems and the Roads to Reform
Minnesota

MINNESOTA needs to improve how it manages its long-term liabilities for both pensions and retiree health care and other benefits. Failure to fully pay the annual required contribution since 2004 has left the state with 81 percent of its total pension liability funded—just above the 80 percent benchmark that the U.S. Government Accountability Office says is preferred by experts—and five of the 10 plans run by the state were less than 80 percent funded as of the end of fiscal year 2008. In 2006, Minnesota passed legislation increasing employer and employee contributions for members of several of the state's retirement plans. That same year, it also capped cost-of-living and investment-based adjustments at 5 percent of benefits. While Minnesota has relatively limited long-term liabilities for retiree health care and other benefits—$1 billion as of 2007—it, like 19 other states, has failed to set aside any assets to cover its obligations.

PENSIONS, 1999 – 2008

Minnesota's pension liabilities grew 62 percent between 1999 and 2008, outpacing assets, which grew 30 percent in that period.



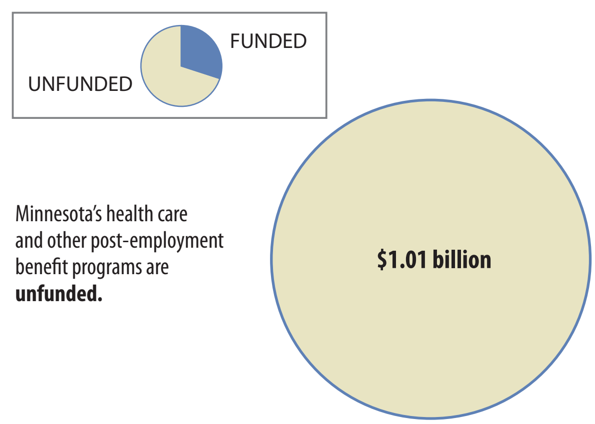
Total Bill Coming Due:	$57,841,634
Portion Unfunded:	$10,771,507
Annual Required Contribution (ARC):	$1,036,509
Percentage ARC Funded:	74.03%

Note: In thousands

PENSIONS: NEEDS IMPROVEMENT

HEALTH CARE & OTHER BENEFITS, 2007

Retiree health care and other benefit liabilities are 2 percent of Minnesota's total retirement bill but are 9 percent of the state's retirement funding shortfall.



Total Bill Coming Due:	$1,011,400
Portion Unfunded:	$1,011,400
Annual Required Contribution (ARC):	$109,982
Percentage ARC Funded:	42.44%

Note: In thousands

HEALTH CARE & OTHER BENEFITS: NEEDS IMPROVEMENT

Solid performer
Needs improvement
Serious concerns

Our grades assess states on how well they manage their retirement obligations. Each state can earn up to four points for its pension plans: two points for a funding ratio of at least 80 percent; one for an unfunded liability below covered payroll; and one for paying an average of at least 90 percent of the ARC during the past five years. Solid Performer = 4 points. Needs Improvement = 2–3 points. Serious Concerns = 0–1 points. Grading for health care and other benefits is simpler because most states have only recently begun to fund and collect data on these liabilities. States are solid performers if they have set aside assets equal to at least 7.1 percent of their liabilities (the 50-state average), or they need improvement if they have contributed less.
For more details, read the full report at www.pewcenteronthestates.org/TrillionDollarGap.

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