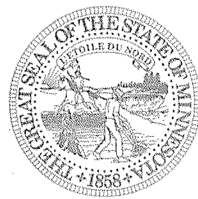
State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT



TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director

RE: Continued Commission Staff Review of Minnesota Taxpayers Association Report "Public Pensions in Minnesota: Re-Definable Benefits and Under-Reported Performance."

DATE: August 23, 2006

Introduction

On May 3, 2006, in conjunction with an investigative report by KARE-11 television that had been in preparation for at least three weeks, the Minnesota Taxpayers Association issued a report that had been in preparation for months entitled "Public Pensions in Minnesota: Re-Definable Benefits and Under-Reported Performance."

On May 4, 2006, the Legislative Commission on Pensions and Retirement invited Lynn Edward Reed, Executive Director of the Minnesota Taxpayers Association and an author of the report, to review the report at a special Commission meeting held for that purpose. At that meeting, the Commission Chair, Senator Lawrence J. Pogemiller, committed the Commission to a more complete review of the report during the 2006-2007 Interim.

This memorandum represents the Commission staff's contribution to a more complete review of the Minnesota Taxpayers Association pension report. This memorandum will include a summary of the findings and recommendations of the report, a general critique of the report, and a detailed presentation of errors, omissions, and related problems with the report.

Summary of Findings and Recommendations of the Minnesota Taxpayers Association Pension Report

Minnesota Taxpayers Association Findings

1. Extent of Unfunded Pension Liabilities. Six of Minnesota's largest public employee pension funds, which cover 600,000 people, had $9.8 billion in unfunded liabilities in June 2005 – about 21 percent of total liabilities for the six funds. This includes $6.1 billion for current state employees and employees and retirees covered by teacher pension funds in Duluth, Minneapolis and St. Paul, and $3.7 billion for current retirees covered by three state plans.

2. Funding Levels and Contribution Deficiencies. Funding levels for the six pension plans range from 98 percent fully funded down to 45 percent funded. At the time, five of the six plans suffer from contribution deficiencies, meaning current contributions made by employees and employers (taxpayers) are not enough to close the existing funding gap. However, one fund (PERA) has already increased employer and employee contributions to begin closing the gap, and 1 is pending (MSRS).

3. Investment Performance-Related Post-Retirement Adjustment Practices. Minnesota is the only state that requires turning exceptional – and volatile – investment gains into permanent benefit increases for retirees. When annual investment returns exceed 8.5%, revenue over that is added to benefits of current retirees. Between 1994 and 2006, this practice committed $4.87 billion in fund assets to permanent benefit increases that continue, regardless of future fund performance. This is in addition to $3.52 billion inflation-driven benefit increases over the same period. (Wisconsin's main pension fund is the only other fund we are aware of with a similar requirement. But the fund also reduces benefits in response to exceptional investment losses.)

   These mandatory investment performance bonuses have had a profound impact on Minnesota's public employee pension plans. Mandatory investment performance bonuses have:

   1) contributed $4.87 billion to the total liabilities of the funds;
   2) created tremendous generational inequity, giving public employees who retired prior to 2001 generous pension increases that post-2001 retirees have not, and likely will not, see;
   3) pushed Minnesota's per capita state and local employee retirement payments to fifth highest in the nation in 2002 – up from 25th in 1992; and
   4) put taxpayers on the hook for future benefits even after markets recover, because exceptional investment income will still be dedicated for additional benefit increases.

Minnesota Taxpayers Association Recommendations

1. To improve the Monitoring and Reporting of Pension Health and Spending in Minnesota:

    a. Require Governors' proposed budgets to list pension contribution costs separately.
    b. Initiate value-added performance auditing, which would translate annual investment rates of return into actual pension dollars gained or lost, and would quantify those results over time.
    c. Move public pension fund monitoring from the State Auditor's Office to an agency with personnel not directly elected by the voters.
    d. Develop and report funded ratios and unfunded liability totals for both the basic funds and the "post-retirement" fund, which applies to retirees covered by the state-managed pension plans.

2. To Improve the Design and Function of Minnesota's Defined Benefit Pension System

    a. Apply standards used in the financial planning industry to set replacement income guidelines for public pension plans
    b. Permanently end benefit increases based on superior investment returns and provide only capped inflationary adjustments.
    c. Develop quantifiable standards of replacement income to be achieved through pension benefits.
    d. When the Basic Funds are under-funded and the Post Fund is fully funded, transfer only the fractional reserves necessary to keep the Post Fund "whole."
    e. Should surpluses for both the basic and post funds return, give first priority to reducing employee and employer contributions, followed by establishing self-managed accounts.

General Critique of the Minnesota Taxpayers Association Pension Report

The Commission staff has several criticisms of the recent Minnesota Taxpayers Association report on public pension plan funding and investment of a general nature, which are:

1. Tone. The report has an alarmist tone, obviously attempting to create concern not by the force of the facts and figures that the Minnesota Taxpayers Association assembled and attempted to analyze, but by presenting large dollar numbers without any context for comparison or by citing pension "disaster" examples from other jurisdictions. Page 1, paragraph 2, is an example of this "lack of context" technique, where billion dollar payouts and billion dollar contribution levels are cited, without any information as to the number of people involved or the percentage of covered payroll represented by the numbers. Page 8, the final paragraph, is an example of the non-Minnesota disaster reference, where Illinois (a state with a reputation for poor funding practices,) Washington State (a state with a long reputation for addressing unfunded pension liabilities,) and Alaska are offered as examples of apparent fiscal distress, but without any sense of the public pension plan populations involved, the overall funded status of the plans involved, the manner in which pension liabilities for those plans are calculated, or what the total actuarial requirements and contribution levels for those plans are. The examples are not even footnoted as to source, so no verification of the examples is easily done.

2. Timing: Rush to Publication. The timing of the release of the report, obviously hurried to coincide with a television station's coverage of the pension problem issue as an audience hook during "sweeps" week, raises questions about the report's commitment to accuracy and balance. The Minnesota Taxpayers Association apparently provided a draft copy of its report to that same television station early in the preparation process, before the Minnesota Taxpayers Association had received the comments and suggestions from the Commission staff that the Minnesota Taxpayers Association had requested and before it had an opportunity to address the numerous omissions and errors noted by the Commission staff in that initial review. The Commission staff was given only a handful of days over the Easter/Passover holiday to review the initial draft and to provide its comments.

3. Inappropriate Taint from Report Sponsorship. The report was sponsored by the Minnesota Association of Realtors and the Minnesota Chapter of the National Association of Industrial and Office Properties, with the Minnesota Association of Realtors having a very prominent financial role. The Minnesota Association of Realtors appears to have received an advanced or preliminary draft of the report, had advance information about the timing of the issuance of the report, coordinated a mass e-mail legislative contact campaign to coincide with the release of the report, and pursued considerable legislative efforts related to report recommendations during the closing days of the 2006 Legislative Session. While the Minnesota Taxpayers Association protests that its funders do not shape or influence its studies, the use of specific report sponsorship rather than a practice of reports funded from generalized membership or organizational contributions raises the sense of inappropriate

influence by the funder that is difficult to dissolve or avoid. When the funder appears to receive advance notice of the report's release and utilizes the release of the report as part of efforts related to the organization's lobbying activities, the connection between the funder and the report taints the report, even if the report is factual, objective, and well crafted.

4. Apparent Minnesota Taxpayers Association Staff Predispositions. When beginning their study of Minnesota public pensions, the staff of the Minnesota Taxpayers Association met with the Commission staff to discuss a number of Minnesota public pension topics. While the Commission staff did not take notes of the extended meeting with Mark Haveman and Aaron Twait, the tone of the Minnesota Taxpayers Association staff questions and the approach taken by the Minnesota Taxpayers Association staff at that meeting indicated a highly suspicious mentality and the strong likelihood that the report authors had a predisposition that Minnesota public pension plans were a significant problem and reflected considerable misdeeds or omissions by the Legislature. Lynn Edward Reed, the Minnesota Taxpayers Association Executive Director, indicated in his May 2006 testimony before the Legislative Commission on Pensions and Retirement that the purpose of the report was simply to present available data about a policy area for which his organization had little prior understanding, but the initial interview between the Minnesota Taxpayers Association staff assigned to the project and the Commission staff hinted strongly that the report was drawing on previously held beliefs by its authors that Minnesota public pensions are seriously flawed and that the legislative involvement in pension policy was misguided.

5. Incomplete or Half-Hearted Response to Earlier Commission Staff Review. At the explicit request of the Minnesota Taxpayers Association director, the Commission staff reviewed the initial draft of the report and provided an extensive and specific set of comments, concerns, and suggestions. Some of those comments became footnotes in the document, with some of the Commission staff-supplied information attributed and with some of the Commission staff-supplied information not attributed, but the reaction by the Minnesota Taxpayers Association to some comments was to eliminate portions of the factual assertions without changing the expressed conclusion that was allegedly based on those factual assertions. An example of this phenomenon is the discussion of the income replacement ratios of Minnesota public pensions and the adequacy or over-adequacy of the benefits provided by those plans appearing on pages 29 to 32. The Commission staff criticized the draft report as having provided no documentation or citation to an assertion about financial advisors as to the optimal target replacement ratio and criticized the report for mixing Minnesota percentage of "highest five successive years average salary" replacement ratios with Social Security final year before retirement ratios and comparing the improperly mixed total with the replacement ratio target, which is a final year of salary computation, and for including in their comparison a contrived amount attributable to the Minnesota Deferred Compensation Program in order to boost the total determined ratio to an amount in excess of the cited replacement ratio goal. In response to the Commission staff criticism, the report now cites one academic work that in turn quotes a public pension researcher summarizing his understanding of the recommendations of financial planners rather than citing any financial planning publications or journals directly. The comparison of replacement ratios in the final report retains the mix of "high five final salary" ratios with one year final salary ratios, drops the Deferred Compensation Program portion, but continues to assert that Minnesota pension plans provide an overly generous level of benefits and does not address identified problems with the calculated Social Security and overall replacement ratios between plans that do not match expected results based on differences in average covered salaries. The report also retains generalizations based on a single hypothetical public employee, a male at age 66 with an uninterrupted public service career and compensated at a computed average salary amount, when the single hypothetical is too narrow an slice of potential public employee work careers on which to base a generalization on an entire pension plan.

6. Different in Tone, Structure, and Content from Other Minnesota Taxpayers Association Reports. The report on Minnesota public pensions prepared by the Minnesota Taxpayers Association differs in its tone, structure, and content from other recent reports prepared by the Minnesota Taxpayers Association. The Commission briefly staff reviewed five other Minnesota Taxpayers Association reports that were recently prepared, Determining the Cost of an Adequate Education in Minnesota, Understanding Education Finance 2007-2004, 2030 Study, Hidden Funds Study, and State Spending Guide. None of the five other reports prepared by the Minnesota Taxpayers Association and reviewed by the Commission staff had the pronounced negative tone of the retirement report, generally do not include specific findings as the retirement report did and where findings were presented, the findings were less adversarial, and generally lacked recommendations. The 2006 Minnesota Taxpayers Association pension report was an improvement over its 1997 Minnesota Taxpayers Association pension report, which was a generally superficial treatment of a selected compendium of disconnected subjects, which provided potential users with only a limited addition to their understanding of the topic, and which was an unsubtle promotion of defined contribution retirement plans.

7. Report Suffers from Multiple Authors and Poor Overall Editing. The cover of the report indicates that it was prepared by three or four authors and the document has shifts in style, voice, and extent of footnoting, suggesting a piecemeal effort by several authors. The document would have benefited from more extensive and more consistent editing. An example of the impact of the multiple authorship can be seen in the inconsistent manner of handling specialized terms. Some uses of specialized terms actually are reflected in the use of bold face type, early in the document, but that special designation of defined terms is not utilized as the document continues. The use of bold type for specialized terms is essentially limited to pages 5-9 and only again is used with respect to one term on page 18 and never again. The specialized terms, which frequently are not the actual terms of art, also are not used consistently. An example is the term "contribution surplus," for which the phrase "contribution sufficiency" is also used interchangeably (compare the discussion on page 9 with the headnote on Table I and the headnote for Figures 4 and 5 for example). The phrase "contribution surplus" is potentially more value laden than the phrase used by the Commission staff and consulting actuaries performing the various actuarial valuations of the studied retirement plans. The referenced phrase "investment gains" on page 7 actually means "investment performance," but the referenced phrase confuses the analytic point with "actuarial gains." In Section 3, terms that should have been defined in the appendix glossary were either defined in place or undefined. Tighter editing could have produced a more consistently styled and formatted document.

8. Recurring Use of Unsourced/Undocumented Factual or Policy Assertions. The report includes numerous assertions about public pension "facts" and numerous assertions about sound pension policy, but many of those assertions lack any indicated source or documentation, or where the documentation is provided, the source is frequently a derivative news article rather than an academic or scholarly publication or research document. If the intent of the report was to provide information to the general public about a topic of importance for which there has been limited visibility historically, as indicated in the testimony before the Commission by Lynn Edward Reed, the Minnesota Taxpayers Association Executive Director, a reader should expect assertions in the report about retirement facts or best retirement plan practices to be substantiated by references to the available academic and research data. The report actually references few scholarly or direct research publications or documents, but instead frequently identifies a press article as its source if any source is indicated at all. For instance, page 1 of the report contains numerous assertions in its three paragraphs, with no source indicated for the assertions in the first paragraph about the complexity and invisibility of public pension plans, with a reference to a general speech by the Chicago Federal Reserve Bank president, an economist whose expertise is primarily in foreign trade and international management, to a public forum on public pension obligation growth rather than its actual source, the U.S. Census Bureau, no source for assertions about 2002-2003 public sector pension obligation growth information, and a press account unrelated to Minnesota as a source for the impact of public pension obligations on essential public services in the second paragraph, and numbers and a chart apparently derived from the U.S. Census Bureau in the third paragraph.

9. Skewed Assessment of Current Minnesota Pension Plan Health. The report evaluates Minnesota public pension accrued liability and asset values at or near the bottom of a "bear" investment market and discovers that the recent investment market downturn had a disadvantageous impact on Minnesota public pension plan health. The report largely ignores recent Legislative and Commission actions to address statewide retirement plan contribution deficiencies by providing for member and employer contribution rate increases. Not surprising, Minnesota pension plans demonstrate some current strains due to the recent market turndown. When the markets return to historic rates of return, which will occur sometime in the future, some of the current perceived funding problems will be moderated or eliminated. The charts on pages 11 and 12 are illustrative of the broader situation, with significant and steady funding progress by all scrutinized retirement plans noted for the period 1975-2001, including the Minneapolis Teachers Retirement Fund Association, but the report elects to focus on the post-2001 recession period as if the current or recent recession will become a permanent state of affairs.

10. Evidence of Biased Analysis of Minnesota Public Pension Decision Making. The report, alleging a public pension funding crisis, attributes to the Legislature virtually all of the responsibility for the disaster that it perceives is looming. Although much of the recent funding problem is largely a result of a melt-down in the investment markets, the report blames the Legislature for setting the interest rate assumption at a too optimistic 8.5 percent, higher than the most common interest rate actuarial assumption in the public sector, a conclusion drawn from one source, for employer contribution rates that have been increased too frequently, for too many pension benefit increases that have been authorized by the Legislature, for post-1985 benefit levels that have been too costly, and for the design of Minnesota pension plans that are overly generous. The report criticism of the Legislature is lodged despite the provision of information that the investment return of the State Board of Investment has exceeded 8.5 percent over the past ten and 20 year periods (and information that the stock market has

averaged well over 8.5 percent for the period 1926-1999,) without any presentation on the comparative interest rate actuarial assumption practices in the private sector, despite the fact that the employer contribution rate for most Minnesota public employee pension plans is modest, equaling the cost of two or three weeks vacation, even with the recently enacted or pending contribution increases, despite the fact that the Legislature has only enacted major widespread benefit increases on three occasions during the past 33 years (i.e., 1973, 1989, and 1997,) and despite evidence that Minnesota ranks at the top of the bottom third of states in the relative generosity of its benefit plans currently and historically. The Legislative Commission on Pensions and Retirement and the Legislature have been the principal focus for pension policy making and reform historically because of the inability or unwillingness of the Executive Branch to address pension issues, whether it was the brush with insolvency by PERA in 1955-1957, the need for consistent and reliable actuarial reporting and funding in the 1960's, the resolution of the local police and paid fire pension plan coverage and funding issue from 1969 to 1987, the need for specific pension fiduciary regulation in 1989, the lack of investment performance reporting until 1990, the needed consolidation of local police and paid fire plans with PERA-P&F in 1999, and the need for a formulation of approaches to resolve the Minneapolis Teacher Retirement Fund Association funding crisis from 1993 to the recent legislation.

11. Disconnected Discussion of Public Pension Asset Management Accountability. While conceptually the value-added audit discussed in the report merits more attention and may be valuable, this portion of the report seems unconnected with the earlier portion of the report, the shift in the style and language in this section indicates that it probably was prepared by the technical assistant on the project, and virtually nothing from this portion of the report was eventually translated into the report's recommendations. The involvement of that consultant mars the report, because the same consultant was a contractor with the State Auditor's Office in the past and has unresolved disputes and grievances from that relationship, and, although briefly disclosed in a footnote, the conflict of interest potential was essentially ignored in the report. The outline of investment problems by the Minneapolis Teachers Retirement Fund Association is consistent with the investment portfolio problems criticized by the Commission staff in publicly circulated documents repeatedly since 1990.

12. Report Recommendations Do Not Flow Well From The Report, Appear To Be Cobbled Into The Report, and Are Internally Inconsistent. The recommendations of the Minnesota Taxpayers Association report are problematic because they do not flow seamlessly from the report, because they appear that they could have been formulated by another author, and because they are internally inconsistent. For example, the recommendation that the Governor be required to include in proposed budgets a list of the pension contribution costs separately was never discussed specifically in the report and the general criticism that the Governor's office is not supplying appropriate leadership on pension issues never arises in the report. Also, the report is very critical of the current contribution deficiencies that exist within the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General), and the first class city teacher retirement fund associations, and is very critical of the selection of an 8.5 percent actuarial interest rate assumption in 1989, but the recommendation section does not include any favorable suggestion that any retirement plan contribution rates be increased and does not include any suggestion about an actuarial interest rate assumption downsizing, which would work to increase contribution rate deficiencies. The introduction to the recommendations section includes a statement of conclusions that are not consistent with some of the assertions contained in the body of the report, such as the general approval of the pronounced purpose of Minnesota public pension plans as a generalized recruiting and retention tool, which was essentially dismissed in the initial paragraph on page 32. The inclusion of recommendations that relate to specific topics that were not discussed at all in the body of the report, the failure to make recommendations on specific topics that were extensively addressed in the body of the report, and the recitation of generalizations in the recommendations section at variance with generalizations set forth in the report are suggestive that the recommendations were prepared at a time different from the time during which the report was prepared, were prepared by different authors than the authors preparing the bulk of the report, and/or were prepared after consultations with or reflective of policy ends of outside parties.

13. Problematic Specific Recommendations.

The proposed requirement that the Governor's proposed budget include a pension contribution breakout is unlikely to induce the Governor to be more involved in pension policy, since the breakout figure is likely to be a contrived number and since the breakout only would involve the MSRS-administered plans, not PERA, TRA, or the first class city teacher plans.

The recommended calculation of separate funding ratios for the active member fund and the retire member fund represents a lack of understanding of the claim that a deficit in the Minnesota Post Retirement Investment Fund has on any future investment gains, from which the deficit will be retired, while the active member unfunded accrued liability must be amortized from contributions. It is also inconsistent with a recommendation to eliminate investment performance-based adjustments, since the existence of two funds is only needed if there is a need to account for separate investment performance.

The recommended addition of a value-added performance audit may be valuable if there are a suitable number of potential vendors for that service, so that the recommendation does not become a sole source contract for a Minnesota Taxpayers Association consultant.

The recommended shift of pension monitoring responsibilities to an office other than the State Auditor's Office is indicated as arising out of the 1994 campaign for that office. While having a single office responsible for pension plan monitoring may provide some unspecified advantages, the office to take on this responsibility is not specified and the policy basis for making the change as arising from one election campaign is slim.

The recommendation to end the investment performance-based adjustments from the Minnesota Post Retirement Investment Fund and the comparable first class city teacher plans and replace that feature with a capped inflation adjustment is based on a misconception that the Minnesota Post Retirement Investment Fund increases plan liabilities and taxpayer risk while correctly identifying that the Minnesota Post Retirement Investment Fund has inter-generational inequities, and does not address the legal problem of implementing legislated benefit reductions, which would likely necessitate a greater inflation-based adjustment mechanism in trade for the proposed discarding of the investment performance-based adjustment component.

The recommendation for the development of benefit replacement ratio standards assumes that a final salary replacement ratio is the sole appropriate benefit adequacy measure for all levels of pre-retirement income. That conclusion is not necessarily universal.

The recommendations to under-transfer reserves to the Minnesota Post Retirement Investment Fund are inconsistent with the recommended elimination of investment performance-based adjustments, since the only reason for having segregated funds for active members and retired members is only necessary to account for investment performance.

14. Failure to Include Generalized Links to Pension Commission Website. The report is based, in large part, on information provided to the Minnesota Taxpayers Association staff by the staff of the Legislative Commission on Pensions and Retirement, including a considerable amount of information that also appears on the Commission's website, but the Minnesota Taxpayers Association failed to include any link to the Commission website beyond a single reference to the website in a footnote at page 31 relating solely to the Commission's Principles of Pension Policy. Either the Minnesota Taxpayers Association staff was uninformed about the extent of information available about Minnesota public pensions on the Commission website or declined to provide a link to the Commission website in a potential attempt not to contradict their assertions (page 1, initial paragraph) that Minnesota public pensions are "largely out of the public eye." The Commission website includes a collection of overview documents presenting information on a broad range of retirement topics, Commission staff issue memoranda for virtually every retirement bill heard by the Commission during the past four legislative sessions, and all of the recent actuarial valuations and experience studies. Although no general link to the Commission website is included, the report did contain three very prominent links to the Minnesota Taxpayers Association website and two links (including one very prominent link) to the Asset Allocation, Inc., website. The Minnesota Taxpayers Association website is largely advertisement for the organization and the Asset Allocation, Inc., website is a purely commercial website. The Commission's website is wholly devoted to providing retirement plan-related demographic, actuarial, financial, and policy information. The announced purpose of the Minnesota Taxpayers Association report was to increase public information and knowledge on Minnesota public pension plans, and if that goal was actually driving the report, the inclusion of a link to the Commission website would have occurred. The failure to include a general link to the Commission website suggests that information provision may not have been the primary motivation for the report.

15. Failure of the Report to Provide Any Comparative Private Sector Pension Practice Information or Comparative "Best Practices" Information. Although the Minnesota Taxpayers Association has extensive connections to the private sector, its public pension report fails to provide any comparative information about relevant private sector pension practices or relevant "best practices" in either the

public sector or the private sector. In discussing the size of defined benefit plan retirement annuities, the report provides no information about private sector or "best practice" practices, nor does the report present information on the funding of private sector defined benefit plans, the use of economic actuarial assumptions by private sector defined benefit plans, investment procedures and investment performance reporting by private sector pensions plans, or post-retirement adjustment practices in the private sector. The Minnesota Taxpayers Association report could have made a contribution to the information base on retirement and could have arrived at better-founded findings about Minnesota public sector benefit and funding practices if it had take the extra step to draw on its private sector resources and to identify the additional research needed to determine "best practices."

16. Report Fails to Address a Whole Range of Pension Problem Areas. While the Minnesota Taxpayers Association report spent much effort criticizing the Legislature for pre-retirement and post-retirement benefit levels that it believes are overgenerous, the statewide plan structure of separate active member and retirement member investment funds, and the limited utilization by the State of a "value-added performance auditing" approach championed by a Minnesota Taxpayers Association consultant, the report does not address a whole range of issues that merit attention and frequently lack a constituency demanding review and improvement. Some of these pension areas are the multiplicity of retirement plans and retirement plan administrations, the manner in which retirement plan governing boards are selected, the extent of representation of members, employers, and taxpayers on retirement plan governing boards, the limited extent to which the statewide retirement plans function as other executive branch agencies, the largely unregulated functioning of local retirement plan administrations, the significant recent growth in retirement plan administrative expenses, the extent of lobbying and campaign contributions by various pension interests, the inconsistent definition between retirement plans of allowable service credit and covered salary credit, the setting of appropriate normal retirement ages for the long term, the extent to which phased-retirement should be accommodated, the extent of disability benefit utilization abuses, the appropriate allocation of retirement plan funding costs between member contributions and employer contributions, the appropriateness of the current State Board of Investment commitment to active investment management, and the adequacy of the provision of membership information and of pre-retirement benefit counseling.

Critique of Specific Points in the Minnesota Taxpayers Association Pension Report

Cover Page. The portion of the title "Re-Definable Benefits and Under-Reported Performance" is either meaningless or misleading. The report never clarifies what "benefits" are re-definable or what "re-definition" is being suggested. The report also never clarifies what "performance" is under-reported. Section 3 of the report actually suggests that investment performance reporting is under-analyzed and is misunderstood.

Cover Page. Three authors are indicated, with the role of Mike Stolte indicated as a provider of technical assistance. Information available to the Commission staff suggests that Mike Stolte actually was the primary author of Section 3 of the report.

Acknowledgement Page, Initial Acknowledgement Paragraph. While the portion of the acknowledgement section relating to Mike Stolte includes a link to the Asset Allocation, Inc., website, the acknowledgement of the Legislative Commission on Pensions and Retirement, Public Employees Retirement Association (PERA), or State Board of Investment fails to include similar website links, although all three have websites with pertinent public pension information.

Acknowledgement Page, Authorship Indication. The same potential misindication of the role of Mike Stolte as appears on the cover page is repeated on this page.

Unlike other recent Minnesota Taxpayers Association reports reviewed by the Commission staff, no primary author to contact with questions is indicated and no general invitation for reader questions is set forth. This potentially undermines the announced Minnesota Taxpayers Association purpose for the report to increase general taxpayer information if questions are not invited and if questions that arise have no clear avenue to be addressed.

Page 1, Initial Paragraph. The initial introduction sentences suggest that Minnesota public pensions receive insufficient public attention, but do not present a clear picture of the availability of information on Minnesota public pensions. On the Commission website, during the legislative session, all introduced pension bills are identified, their status is noted, and the Commission staff issue memoranda are also linked. As the omnibus retirement bill or bills are being assembled by the Commission, the working document containing the omnibus legislation, with a summary, is available on the website and as the omnibus bill proceeds, its status is noted and subsequent amendments are linked. Additionally, all

statewide and major retirement plan actuarial valuations are available on the Commission website and summaries of accounting, actuarial, demographic, and investment performance date are also available.

Page 1, Second Paragraph. The growth in pension payouts for all public pension plans is not necessarily surprising, since the post-World War II baby boom generation was entering their early retirement eligibility period during the period 2000-2004. The source for the information indicated was not the primary or ultimate source, the Census Bureau, but rather was a Federal Reserve Bank official with little or no apparent expertise about public plans and benefits as a economist specializing in international trade and was from an introductory or keynote speech to state and local government pension forum sponsored by the bank. Census Bureau numbers always must be considered with an understanding of their limitations in obtaining information, such as the definition of a "public pension plan" used by the Census Bureau, which may differ from a more generally used definition. The 2002-2003 contribution amounts also are not surprising, factoring in the impact of the 2000-2001 stock market downturn. The source for the 2002-2003 contribution numbers was not noted, but the same numbers appeared in the Moskow speech and appear from the printed copy of the speech to have the Census Bureau as the ultimate source. The source for the budget squeeze assertion is a press account, Business Week, rather than an academic or scholarly source, and that press account focused on eight states, combined actual pension plan obligations with post-retirement health insurance obligations, and presented anecdotal information about which the reporter drew global generalizations. The report's education background was a bachelor's degree in creative writing and the reporter has at least six year's experience as a financial affairs reporter. As part of a number of pieces of evidence about the nature and magnitude of a potential problem, the cited information may be adequate to substantiate a perception of a problem or even a crisis, but the limited evidence presented is not sufficient substantiation when it relies on secondary rather than primary sources in each case.

Page 1, Third Paragraph. The indicated growth, from Census Bureau data, does not necessarily support the "crisis situation" perception set forth in the report. The growth is a function of many different demographic, financial, or decision-making factors, including the early retirement of public employees who were hired in the 1960s and 1970s. The payout figures also are inflated because they include highly variable refund payments. The Census Bureau numbers are generally indicative of a phenomenon, but because of data collection limitations and problems, are not absolutely indicative of the phenomenon. The assertion that pension benefit payouts mirror long-term liability increases is not supported by evidence presented in the report or cited in the report and is unlikely to be true, since liabilities grow with respect to both active members and retirement members, not just retirement members who give rise to retirement payouts.

Page 2, Initial Paragraph. The Council of State Governments was incorrectly cited as the source for a nationwide total amount of unfunded actuarial accrued liabilities, when the actual source was Stateline.org, a media outlet founded by the Pew Charitable Trusts in Washington, DC. The actual Stateline.org article does not cite a specific source for the figure, but attributes the figure to "experts," following up that sentence with quotes from a fiscal analyst with the Southern Office of the Council of State Governments, who had prepared a 2004 report for the Southern Office of the Council of State Governments entitled America's Public Retirement Systems: Stresses in the System. That report, however, does not attempt to total the unfunded accrued liabilities of the 105 public pension plans that responded to the group's questionnaire. Since there are approximately 800 public pension plans in Minnesota, and only two responded to the Council of State Governments Southern Office questionnaire, on that basis alone, no number derived from their 2004 report would be definitive. Presenting a gross number for the nation in a report focused on Minnesota, unless it is intended for shock value, is not useful or accurate, since:

1. Included Overfunded and Underfunded Plans. Any cumulative unfunded actuarial accrued liability figure will net any overfunding against underfunding. Thus, the assets of the Council of State Governments Southern Office reported 1,215.5% funded Idaho Public Employees Retirement System cannot actually be used to defray the liabilities of the Council of State Governments Southern Office reported 8.4% funded Washington State Judicial Retirement System, even though adding up columns of numbers will do so;
2. Accrued Liability Calculated Under Different Actuarial Methods. Different actuarial methods are used in the public (and private) sector and different actuarial methods produce results that are not comparable.
3. Accrued Liability Calculated Under Different Interest Rate Assumptions. Even where the same actuarial method is used, the use of different interest rate assumptions will understate or overstate actuarial liabilities.
4. Assets are not Carried at Fair Market Value. Asset values frequently are an actuarial calculation which differs between plans and may overstate or understate the fair market value of the assets.

5. Fails to Disclose Each State's Ability to Pay. Some sizable unfunded actuarial accrued liabilities are currently being funded responsible by some states and not by others, so any total does not reveal any actual fiscal threat to the associated state.

The "pension benefit as contract" sentence indicates a misconception about the legal view of public pensions in many states, since statutory, state constitutional, or federal constitutional limitations on modifications frequently apply beyond benefits already earned and that any benefit reduction frequently can only be imposed on public employees yet unhired.

The "increased contribution" sentence overstates the situation, since State fiscal affairs are not static, and contribution increases are more easily accommodated during periods of increasing revenues or with rate phase-ins. In Minnesota over the past 30 years, when the Legislative Commission on Pensions and Retirement has sought additional public pension contributions, opposition has typically been from the Department of Finance and the Governor's Office, where there is little or no commitment to pension fund solvency historically.

The "higher investment return" sentence is much too limited and pessimistic. As Section 3 of the report indicates or implies, pension plans that follow their own investment policies faithfully can achieve enhanced investment returns, as the Minneapolis Teachers Retirement Fund Association (MTRFA) could have, and pensions plans that utilize passive (indexed fund) investment strategies over active investment strategies generally can boost performance.

Page 2, Second Paragraph. The questions posed in the paragraph were not specifically treated in the report and were not really answered by the report.

Page 3, First Paragraph. The reference to the relative number of Minnesota pension plans compared to other states is not particularly relevant to the report, but since a comparison is made, the Minnesota Taxpayers Association could have provided actual comparative data even if the documentation has the Census Bureau, with problems in its definition of a plan, as its source. The statement that there are 18 statewide plans in Minnesota is incorrect (depending on how "plan" is defined and depending on whether only defined benefit plans are counted or not) and is not supported by Appendix C, where only 19 "plans" are indicated, not the referenced 22 plans. The loose reference to locally administered police and professional firefighter plans provides an imprecise sense of the number of plans (five) with two of those included in Appendix C.

Page 3, Second Paragraph. Although proliferation of plans is not a topic considered in any depth by the report, the brief discussion presents an unsourced analysis, contains a criticism, and reflects in its choice of language a biased perspective by the Minnesota Taxpayers Association. The incremental nature of the addition of public pension coverage to the public employee benefit package, a perspective of the Legislative Commission on Pensions and Retirement staff that was communicated to the Minnesota Taxpayers Association staff, is demonstrably true for Minnesota, but is not necessarily true in other states. If the Legislative Commission on Pensions and Retirement staff was the source of this analysis, that source should be documented. If Minnesota is to be criticized for extending public pension coverage on an incremental basis, without as much subsequent rationalization as may be desired, that topic should have been given more treatment than a four-sentence paragraph. The "given different benefit set" reference belies a perspective bias potentially hostile to public employees as a class and incognizant of the depth and breadth of public employment compared to private sector employment compared to private sector employment. Benefit coverage differences in Minnesota relate to demonstrated differences between employment risks and hazards and normal working lifetime expectations, with public safety (police and fire) personnel having larger benefit accrual rates, earlier retirement ages, and no concurrent Social Security coverage compared to general employees. An observer of the 2006 Session would have several examples of the care with which alternative retirement coverage decisions are made and the level of substantiation needed before such alternative retirement coverage is determined to be appropriate (see February 27, 2006, Legislative Commission on Pensions and Retirement deliberation on Laws 2006, Chapter 271, Article 2, relating to a proposed expansion of the Correctional State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-Correctional).

Page 3, Third Paragraph. The footnote related to "first class city" would have been better set forth as a defined term in the Glossary of Terms and is a reaction of sufficient shock to indicate a general lack of familiarity with respect to the longstanding statutory four-class system of city classification.

Page 3, Last Two Paragraphs. The description of the first class city teacher plans and the description of TRA are sufficiently different to lead a casual observer to believe that the TRA membership differs from the membership of the local teacher plans, when the two eligibility provisions essentially replicate each other.

Page 4, First Paragraph. The description gives the impression that the Public Employees Retirement Association (PERA) administers a separate plan for police officers and a separate plan for firefighters, rather than the reality of the Public Employees Police and Fire Retirement Plan (PERA-P&F).

Page 4, Second Paragraph. The description indicates that the Minnesota State Retirement System (MSRS) administers a separate or special retirement plan for University of Minnesota employees. An error was noted by the Commission staff in the draft on this point, but this description does not improve the situation. For the University of Minnesota, faculty members and upper-end administrators are covered by the University Faculty Retirement Plan (with some older professors also covered by the University Faculty Supplemental Plan), operated by the Board of Regents and established by Regent action rather than by legislation, and all other University personnel are covered by the Public Employees Police and Fire Retirement Plan (PERA-P&F) if they are police officers or by the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) if they perform any other employment function.

Page 4, Third And Fourth Paragraphs. The disclaimer that the report assumes continued defined benefit plans for Minnesota public pension plans and the indication that the report does not enter the debate seems disingenuous. Risk to the taxpayer is obviously an important policy issue for the Minnesota Taxpayers Association. The debate over defined contribution plans or defined benefit plans is principally a debate over who will bear the long-term investment performance risk, either the plan sponsor or the plan membership. Retirement benefit coverage is really only a specialized type of insurance. If the goal is to minimize plan sponsor/taxpayer risk over future long-term investment performance, that investment risk inherently will be shifted to the plan membership and that future can be best accomplished by a shift to defined contribution plans.

Page 5, Second Paragraph. The Minnesota Taxpayers Association asserts that Minnesota taxpayer concern arises because Minnesota public pension plans invest billions of dollars, but omits in the balance of the report any critical review of the administrative efforts and investment performance of the State Board of Investment and instead focuses on legislated benefit improvements. A review of the structure, purpose, policies, staffing, use of consultants, and contracting of the State Board of Investment and how those features translate into investment performance is more consistent reporting practice based on this expressed concern.

Page 5, Fourth Paragraph. The footnoted item, relating to the form of the retirement annuity and optional annuity forms, is generally true for the six studied retirement plans, but not true for some programs of those plans and not true for other Minnesota public pension plans, especially public safety plans. The basic programs of the St. Paul Teachers Retirement Fund Association (SPTRFA) and of the Minneapolis Teachers Retirement Fund Association (MTRFA) both have automatic retiree survivor benefits, as do the Legislators Retirement Plan, the Elective State Officers Retirement Plan, and the various public safety employee retirement plans. Annuity forms (single life with optional forms or multiple life) is a topic with liability issues and should have been specifically treated in the report.

Page 6, Sidebar. The Legislative Commission on Pensions and Retirement was an interim commission before 1967 and was established as a recurring/permanent Commission in 1967. A citation to Minnesota Statutes, Section 3.85 would have been appropriate, as would a link to the Commission website. The footnote at the end of the sidebar makes the footnote appear that it applies only to that last sentence, while it likely applies to the entirety of the sidebar.

Page 6, Footnote 8. The treatment of the nature of the public pension obligations to retired members and active members is not an inconsequential matter and perhaps is not best handled in a footnote. The Commission staff reaction to the preliminary draft of the report is referenced here and later in the report, but that communication is not generally available to interested readers. The Commission will provide a copy of the document upon request, but the Minnesota Taxpayers Association could also be of assistance and post the document on its website and link to it.

Page 7, Initial Full Paragraph. In pension terminology, "investment gains" generally refers to actuarial gains caused by investment performance in excess of the applicable interest assumption, but that is not the sense that the phrase is used in the report. The use of the phrase "investment performance" or "investment returns" would be accurate and would avoid the confusion.

Page 7, Second Full Paragraph. The discussion of state aids makes the phenomenon sound like a one-time appropriation rather than an open and standing appropriation. Few, if any, state aids to public pension plans have been ad hoc or one-time appropriations.

Page 7, Fourth Full Paragraph. The report asserts that "most states" do not use a current disbursements funding system and fund pension plans on an actuarial basis. While that appears to be true, in the main, the assertion should either be footnoted with an identified source or the sentence should be limited to Minnesota. Within Minnesota, however, current disbursements or "pay as you go" funding is used in a few instances, such as the Constitutional Officers (Elective State Officers) Retirement Plan, the Legislators Retirement Plan for retirees since 2003, the Eveleth Police and Fire Retirement Trust Fund, and the Thief River Falls Police Retirement Trust. It may be interesting to note that the sole identifiable Pawlenty Administration pension initiative has been the 2003 conversion of the Legislators Retirement Plan from a terminal funded plan (full actuarial value payment from the State General Fund upon each legislator's retirement) to a "pay as you go" retirement plan. The paragraph is incorrect that "actuarial" funding is an accounting tool. Actuarial funding is a budgeting tool or a mathematical tool, but it is not necessarily well received by the accounting trade, who dislike its numerous assumptions and fluidity and attempt to regulate it in "generally accepted accounting principle" pronouncements. The discussing of "accruing" a pension liability and of accrued liabilities of a public pension plan never mentions or observes the concept of present value that underscores all actuarial calculations. The report indicates an uncritical acceptance of the actuarial valuation of assets as "current assets." Contrary to the report's assertion that it limits "market volatility," the Minnesota "current asset" definition, in using a five-year recognition period for appreciation or depreciation, does not match the historically normal investment market period or periods from peak to peak or trough to trough.

Page 7, Final Paragraph. The report makes a number of assertions about the actuarial valuation process without providing any source for the assertions.

Page 7, Footnote 10. The report provides an incorrect view of the number of plans that receive "state aid." Except for the police state aid received for some State Patrol Retirement Plan members, no retirement plan administered by the Minnesota State Retirement System (MSRS) receives state aid or gives rise to employer receipt of state aid. The Duluth Teachers Retirement Fund Association (DTRFA) also no longer receives state aid. The Commission website, in www.commissions.leg.state.mn.us/lcpr/documents/generalinfo/Stateaid.html, provides a complete list and summary of pension-related state aids.

Page 8, First Full Paragraph. The paragraph should indicate that the discussion of experience studies reflects Minnesota practices, since a general reader would have no ability to discern that limitation based on the regular mixing of generally applicable assertions with Minnesota-specific assertions in the previous paragraphs. The statutory requirement in Minnesota for experience studies is that they are prepared quadrennially and, since 1987, apply only to the three largest statewide retirement plans. The assumption approval process could be presented more simply and accurately by indicating that economic actuarial assumptions are specified in statutes and demographic actuarial assumption changes may be requested by the retirement plan governing board, by the consulting actuary retained jointly by the major pension plans, or by the actuarial advisor to a retirement plan and must be approved by the Legislative Commission on Pensions and Retirement before becoming effective under Minnesota Statutes, Section 356.218, Subdivision 18. The assertion that an actuary has no "direct control" over actuarial assumptions is technically true, but fails to also indicate that an actuary who believes that an actuarial assumption is inappropriate and is material can qualify the opinion of the actuary expressed in the valuation and may also provide an additional or supplemental actuarial valuation prepared under a different assumption or set of assumptions under Minnesota Statutes, Section 356.23.

Page 8, Third Full Paragraph. The report attributes various amortization target dates for Minnesota public pension plans to the actuarial valuation reports. More correctly, Minnesota Statutes, Section 356.215, Subdivision 11, governs the amortization target date and any automatic resetting of the date. The report fails to critically evaluate the Minnesota practice of using a level percentage of covered payroll amortization formula, implemented on the recommendations of the Department of Finance in 1984, which produces a contribution below the full interest on the unfunded accrued liability amount in the initial portion of the period, with a considerable ballooning of the amortization amount at the end of the amortization period.

Page 8, Last Full Paragraph. The recitation of anecdotes from other states about unfunded pension liability problems serves no clear purpose within the report unless the recitations are intended to covey fear and panic. The three anecdotes lack any indicated source or documentation, so they are difficult to verify. The anecdotes fail to indicate the actuarial method used in the calculations or the economic actuarial assumptions used. The anecdotes do not provide any context for analysis, such as the per plan member liability amount or as the per capita amount. Although Illinois is included, states with historic pension funding problems (New Jersey, Pennsylvania, Ohio, West Virginia, Massachusetts) were omitted.

Page 8, Footnote 11. The Commission staff is responsible for conveying to the Minnesota Taxpayers Association staff the information that the lump sum volunteer firefighter relief associations use a

"cookbook" version of an actuarial method. The intent was to convey the notion in shorthand that volunteer firefighter relief association officials are required to estimate plan liabilities and costs without resorting to a consulting actuary using a simplified actuarial cost method developed by a prior consulting actuary retained by the Legislative Commission on Pensions and Retirement. Monthly benefit volunteer firefighter relief associations are required by Minnesota Statutes, Section 69.773, to obtain an actuarial valuation of the plan every four years from an approved consulting actuary.

Page 9, Third Paragraph. The discussion of the calculations of accrued liability for a public pension plan omits any discussion of the calculation of the present value of future benefits, the initial actuarial valuation calculation under any actuarial cost method, or the present value of future normal cost contributions, the key additional calculation under the entry age normal cost actuarial method. The use of the analogy of a boat trip to the actuarial valuation budgeting process was developed and has regularly been used by the Commission staff over the years. If the Minnesota Taxpayers Association did not arrive at the analogy independently, the report should attribute the analogy to its source.

Page 10, First Paragraph. The difficulty in explaining the importance of investment performance arises because the report never deals with the concept of present value used in calculating accrued liabilities. The boat analogy does not fully capture the present value portion of the actuarial valuation process.

Page 10, Second Paragraph. The portion of the report appears to settle on the funding ratio as the primary or sole measure of the health of a pension fund, thereby concluding that MSRS-General and TRA are both healthy, even though MSRS-General has a relatively huge contribution deficiency and TRA has a significant contribution sufficiency. Focusing on funding ratios is akin to measuring the financial health of any person by calculating their percentage equity in their residence without also examining whether or not they are able to lower their monthly mortgage payment.

Page 11. The report provides information on various issues for differing periods, electing to present funded ratio information from 1975 on this page. By omitting the period before 1975, the report misses the full measure of the last major recession followed by a relative economic stagnation period surrounding the 1974 OPEC-driven oil boycott. Actuarial information for the period before 1975 was available from the Commission office to the Minnesota Taxpayers Association, but was not utilized for an unexplained reason.

Page 12, Second Paragraph. The report incorrectly asserts that the funded ratio reported in an actuarial valuation may understate the liabilities for which participating employers and the taxpayers are responsible. The existence of the Minnesota Post Retirement Investment Fund actually shifts the investment risk for retiree benefits from the retirement plan to the retirees, since any investment loss (i.e., performance under 8.5 percent annually) becomes a claim on any future investment gain (i.e., performance in excess of 8.5 percent annually) before any future investment performance-related post-retirement adjustment will be payable.

Page 12, Third Paragraph. The report expresses concern that total unfunded actuarial accrued liabilities are larger in inflation-adjusted dollar amounts that they were in 1975, implicitly criticizing the Minnesota public pension system about its commitment to sound funding practices. Additional analysis leads to a different conclusion. The presentation of a comparison of the 1975 unfunded actuarial accrued liabilities in inflation-adjusted dollars with the actual 2005 unfunded actuarial accrued liabilities in dollars fails to put any context around the numbers. No comparison is made between 1975 inflation-adjusted dollars to 2005 dollars in retirement plan covered payrolls, a chief driver of pension plan actuarial accrued liabilities and unfunded actuarial accrued liabilities, or in governmental revenues, the ability of Minnesota government to pay for accruing retirement liabilities. With respect to covered payrolls, the $1.746 billion 1975 total figure for the six plans, if adjusted for inflation using the same factor as the report uses, would be expected to be $6.443 billion in 2005, while the actual 2005 total six retirement plan covered payroll was $10.520 billion. The unfunded actuarial accrued liability figure in 2005 was 46 percent greater than the expected 1975 inflation-adjusted figure, while the covered payroll figure in 2005 was 63 percent greater. The Minnesota Taxpayers Association is in a better position to calculate the comparable governmental revenue inflation adjusted figure.

Page 14, First Paragraph. Although omitted from the Minnesota Taxpayers Association analysis, a review of the contribution sufficiencies/deficiencies for the six plans over time demonstrates more than just the favorable impact of strong investment markets. In years where the graphs show highly similar direction in the slope of the contribution sufficiency/deficiency change, the factor involved is likely to be largely or wholly investment performance (or rare identical demographic factors). Where there is a sharp difference in the slope for one or a subset of the plans over any period, some other factor than general market investment performance is the likely causal factor and the Commission staff would argue that the most frequent causal factor is contribution rate adjustments prompted by the Legislative Commission on Pensions and Retirement. For TRA, the implementation of needed contribution rate increases is the cause of the significant

contribution sufficiency/deficiency progress in 1983-1984 and 1996-1999. A similar explanation applies to MTRFA and SPTRFA in 1983-1984, to MTRFA in 1993-1994 and 1996-1999, and to PERA in 2004-2005. Although the report is highly critical of the Legislature and the approval of past benefit increases, the two recent major benefit increases (1989 and 1997) do not appear in either graph as a significant factor, which is consistent with the Commission practice, unnoted entirely in the report, of addressing funding shortfalls and adding additional required funding whenever benefit increases are recommended.

Page 15, Last Paragraph. The report incorrectly asserts that beyond contributions, there are only two other factors that have the potential for increasing funding burdens on taxpayers. The report omits the impact of demographic factors as a general element and fails to discuss the cost sharing impact on all governmental units of personnel decisions made by some governmental units. For instance, much of the funding problem of PERA is due to recent demographic changes related to the age and length of service at which local government employees turn over (i.e., terminate employment before retirement) with turnover at early ages and short service producing significant actuarial gains and with turnover at later ages and longer service diminishing or eliminating those actuarial gains. If public employees change from a pattern of relatively high utilization of early normal retirement or early reduced benefit retirement to accommodate longevity developments and workforce supply developments, that shift, reflected eventually in retirement age assumptions, could reduce pension plan funding requirements.

Page 15, Footnotes 15, 16, and 17. The footnote in each case includes a portion of each legislator's office telephone number, without explaining what the number means. It is unclear why this information is pertinent to the footnote, and if arguably pertinent, why the full telephone number is not indicated. Footnotes 15 and 17 reference pending legislation without indicating what engrossment of that bill is being referenced. Good practice in citing pending legislation, which is subject to periodic amendment, is to include a reference to the applicable engrossment. The engrossment is noted on the bill title page and as a header on every bill page.

Page 15, Footnote 18. The cited memorandum is published on the internet at the Commission's website. The report should either include of link to the document or should identify the document by the applicable bill number so an interested observer could find the document.

Page 16, First Paragraph. The paragraph implies that no public pension change occurs without Commission action, but the Legislative Commission on Pensions and Retirement is not always the source of pension changes. When significant portions of the Commission membership reach different conclusions about a pension issue, pension legislation may still be enacted, such as the 1975 imposition of legislation oversight over the benefit practices of the first class city teacher retirement fund associations, the generally applicable 1980 closure of local police and paid firefighter relief associations to new members, and the 1989 benefit improvements.

Page 16, Second Paragraph. The paragraph argues too strenuously that the Legislature is the primary decision maker with respect to public pension plans. Clearly, the Legislature is the forum where parties interested in public pension topics frequently converge, commingle, and interact on those topics. If the Legislature has the primary role in the public pension debate, that is more likely to be a function of the Executive Branch's historic disinterest in the topic. The current role of the Legislative Commission on Pensions and Retirement, shifting from a purely interim study and recommendation-formulation body without any role in crafting the final pension legislation to a more fully developed legislative entity, is a function of the complexity of the issue area, of the need for the development of legislative expertise on the topic, and of the legislative economy achieved by concentrating that legislative expertise into a single body. If the report is to fully analyze legislative decision making on pensions, the significant reforms and solutions enacted over the years should be noted. These include the replacement of the prior retirement plans with plans coordinated with Social Security in 1957, the first mandatory level of employer contributions for PERA-General in 1957, the standardization of actuarial method, assumptions, and reporting requirements in 1965, the requirement that public pension plan financial and actuarial results be publicly disclosed in 1965, the extension of actuarial reporting requirements to local pension plans in 1969, the introduction of actuarial funding requirements for local police and paid firefighter relief associations in 1969, the introduction of actuarial funding requirements for volunteer firefighter relief associations in 1971, the extension of legislative oversight of the first class city teacher retirement plans in 1975, the general revision of volunteer firefighter relief association governing laws in 1979, the closure of local police and paid firefighter relief associations to new members in 1980, the authorization of voluntary local police or paid firefighter relief association consolidations with PERA in 1987, the codification of public pension fiduciary regulation in 1989, the additional contribution requirements for MTRFA and SPTRFA in 1993, 1996, and 1997, the merger of the local police and firefighter consolidation accounts into PERA-P&F in 1999, the transfer of membership for charter school teachers in cities of the first class to TRA in 2004, and the consolidation of the MTRFA into TRA in 2006.

Page 16, Last Paragraph. The report suggests that there are five variables that produce increases or decreases in pension plan unfunded actuarial accrued liabilities, and the list generally covers the entirety of factors, the separation of the factors into five and the aggregation of some factors is not attributed to any academic or scholarly source, seems to be arbitrary, and may have been formulated to pursue a perspective. The listing of variables omits changes in actuarial methods (ranging from the underlying base actuarial valuation method to the change in amortization periods or the change in the definition of the actuarial value of assets.) The listing also highlights investment performance distinct from all other actuarial gains or losses form departures from actuarial assumptions (salary increase, termination, mortality, retirement age, optional annuity selection, disability, etc.).

Page 17, First Full Paragraph. The report totals unfunded actuarial accrued liability increases and decreases for the six plans for the period 2001-2005. The choice of 2001 for the start of the analysis does not provide a general reader with much perspective on the actual development of unfunded actuarial accrued liabilities and produces a picture that greatly emphasizes investment losses because it only covers the recent stock market decline period. Some explanation of why 2001 was selected as the starting point should have been provided to clarify or justify that the date was not selectively produced.

Page 17, Second Full Paragraph. The two tables do not explain how to read the indicated positive or (negative) numbers in the footnotes or in the text and the report should have explained the difference. The indicated 2001-2005 unfunded actuarial accrued liability increases occurred primarily (almost wholly) from investment losses, with contribution deficiencies as a distant second place. If the thrust of this section of the report is to review the effort of the Legislature and the Legislative Commission on Pensions and Retirement in performing oversight, the presented analysis does little to further understanding, since the source of most of the unfunded actuarial accrued liabilities has been a bear investment market, where the Executive Branch in the form of the State Board of Investment has total responsibility and authority and where the Legislature has no control. Since the experience of a bear investment market is so recent, it has not factored into the selection of a new actuarial assumption. Contribution rates are within legislative control and the Legislature increased the contributions with respect to four of the six pension plans in the study in 2005 and 2006.

Page 18, First Paragraph. The report is generally correct that investment experience losses are the primary cause of increased unfunded actuarial accrued liabilities of the six plans. The phrase "expected rate of return on invested cash" is sloppy writing, when what was meant was the "assumed investment performance rate on invested plan assets." The three contributing factors are incorrect or misprinted, with a failure to identify employer contribution rates as inadequate, by giving the impression that contributions that were due and owed were not paid rather than the contribution rate being insufficient, by indicating that the significant generally applicable actuarial assumption changes 2001-2005 were mortality table strengthening, and by indicating "other variations from actuarial assumptions in place" applied to PERA only. In fact, any unfunded actuarial accrued liability increase from lost contributions indicates that both the member and the employer rates are insufficient. The 2002 actuarial assumption changes approved by the Legislative Commission on Pensions and Retirement were broader than just mortality assumption changes, with significant changes including the salary rate assumption for the teacher plans, the pre-retirement termination assumption for PERA-General, and the introduction of Combined Service Annuity portability liability loading assumptions for essentially all statewide and major local retirement plans.

Page 18, Second Paragraph. This paragraph begins a generalized assault on the interest rate actuarial assumption as being too high, a criticism that does not ultimately become part of the report's recommendations. According to the Business Week article that was favorably cited by the Minnesota Taxpayers Association in the report (June 13, 2005, actually quoting Deveraux A. Clifford, managing director of Greenwich Associates), private sector retirement plans used interest rate actuarial assumptions that averaged 8.9 percent in 2002, which were subsequently reduced to 8.3 percent in 2004. In that context, and when Minnesota public pension plans have averaged investment returns in excess of 8.5 percent since it was set in 1989, the current interest actuarial assumption is not so significant a departure from national norms. Given the absence of a recommendation on the issue and the lack of any real reason to believe that the current investment horizon will continue in its post-2001 doldrums indefinitely, making the recent bear market losses a temporary phenomenon, the balance of the next several pages seem out of place.

Page 20, First Full Paragraph. The table presents an accurate rendition of the applicable retirement plan interest rate assumption changes, but provides little historical perspective. It may be useful to note that when the significant interest assumption rate increase was enacted in 1984 (from 5.0 percent to 8.0 percent), the argument for a larger investment actuarial assumption was largely forwarded by the Department of Finance to help resolve various plan funding problems, which also retained Howard Winkelvoss, an actuary and a professor at the Wharton School at the University of Pennsylvania, as an

advisor, who reportedly was recommending even a higher interest actuarial assumption, but that higher rate was resisted by the Commission. In 1989, the modest increase in the interest rate actuarial assumption was approved only after the Commission conducted a full set of interim hearings on the topic, including taking testimony from the Executive Director of the State Board of Investment, the State Economist, and a representative of the Minneapolis Federal Reserve Bank.

Page 20, Second Full Paragraph. The sole argument for a lower interest rate actuarial assumption, beyond the 2001 bear investment market, is that the Minnesota interest rate actuarial assumption is not the most popular choice among 127 retirement plans (including seven pension plans from Minnesota) that responded to a survey from the National Association of State Retirement Administrators and the National Council on Teacher Retirement. The Minnesota Taxpayers Association did not make any specific policy argument for using this voluntarily reported "body count" appraisal. The report treated each retirement plan as providing an equivalent response, whether the retirement plan was the 897 active member, $263.3 million in assets, Charlotte, North Carolina, Firefighters Retirement Plan or the 806,644 active member, $168.4 billion in assets, California Public Employees Retirement System. The individual retirement plan results were not provided, so it is not possible from the published report to generate a membership-weighted or an asset-weighted set of results. The Minnesota Taxpayers Association also did not provide any information about interest rate actuarial assumptions in private sector defined benefit retirement plans or about alleged "best practices" in selecting actuarial assumptions, including interest rate actuarial assumptions.

Page 21, Table 7 and First Full Paragraph. The Minnesota Taxpayers Association sought actuarial work from the Public Employees Retirement Association (PERA) estimating the impact of a one-half of one percent reduction in the interest rate actuarial assumption and became obviously defensive when PERA suggested that any interest rate change also should be accompanied with a review of the salary increase actuarial assumption and of the payroll growth actuarial assumption, with the Minnesota Taxpayers Association arguing that the Minnesota Legislature previously approved interest rate actuarial assumption changes without making salary increase or payroll growth assumption changes. The Minnesota Taxpayers Association argument about the appropriateness of suggesting an interest rate actuarial assumption change as well as an indication of the PERA criticism of the suggestion was set forth only in a footnote. Considering interest rate actuarial assumption changes without also considering salary increase and payroll growth impacts is not a sound practice, since the same economic factors (chiefly inflation) drive both. The Minnesota Taxpayers Association basic argument, in the footnote, is that the 1989 interest rate actuarial assumption change was made by the Legislature without also changing the salary assumption. That assertion is accurate, but the Minnesota Taxpayers Association assertion should not be interpreted as meaning that the Legislature and the Legislative Commission on Pensions and Retirement did not consider the appropriate salary increase actuarial assumption when considering the change. During the 1988-1989 interim, as part of the preliminary stages of considering what became the 1989 benefit and assumption changes, the Commission did undertake a considerable oversight review of a range of retirement topics, including all actuarial assumptions. The Minnesota Taxpayers Association never appeared to have reviewed the Commission files related to that interim study, where the appropriate salary increase assumption was discussed and considered.

Page 21, Second Full Paragraph. The report indicates that, with an interest rate assumption change, "TRA would perhaps move from surplus to deficit..." This is an example of a loose use of pension terminology, even though the report glossary defines the phrase "contribution deficiency (sufficiency)." From the context of the sentence, it is clear that the "TRA surplus" referred to is the current contribution sufficiency.

Page 21, Footnote 21. The footnote indicates the broad results of additional actuarial work undertaken by The Segal Company at the request of PERA, but does not include any specific results as set forth in Table 7. The study would make a potentially useful contribution to legislative and other policy deliberations, but is given no airing. The failure of the Minnesota Taxpayers Association to include the results of a broader assumption review could suggest that those results did not further the goal of the Minnesota Taxpayers Association assault on the 8.5 percent interest rate assumption and were omitted on that basis. The Minnesota Taxpayers Association criticism of the interest rate assumption occurs in a context, either at or after the potential depth of a bear market, and seems caught in the moment despite a long-term performance pattern that justified the 1989 assumption change in fact.

Page 22, First Full Paragraph. The Minnesota Taxpayers Association report is correct that the interest rate actuarial assumption is a very important assumption for a defined benefit plan. The Minnesota Taxpayers Association concern, presumably, is that the taxpayers may bear the liability when investment returns decline. The report fails to address the issue of what person or entity ought to bear any pension fund investment risks, which is a major policy issue arising out of any employer-sponsored retirement arrangement. The alternatives are either the employee, whose career is shorter than the life of the

employing unit or retirement plan and falls less than neatly within changing economic periods that are outside individual control, or the employer, which will exist over the long term and which can better accommodate periods of investment declines.

Page 22, Table 9 and Second Full Paragraph. The extent of expressed concern over the interest rate actuarial assumption seems out of place, driven potentially to create a crisis even where one is not obvious. The selectivity of the report in concentrating on the interest rate actuarial assumption and not on any other assumption, such as the salary increase actuarial assumption or the mortality actuarial assumption, is indicative of that selectivity, which appears prompted by a need to convey a sense of crisis in order to gain public attention and to gain the organization greater potential visibility and greater potential membership and financial support opportunities.

Page 23, First and Second Paragraphs. By commenting that prudence requires the use of conservative assumptions after criticizing the interest rate assumption as being too high, the report implicitly is alleging a lack of prudence by the Legislature. After spending a fair portion of the report criticizing the choice of the interest rate assumption in 1989, the report concedes that actual post fund investment performance indicated that the assumption choice was not actually overly optimistic, especially for the statewide retirement plans.

Page 23, Second Full Paragraph. The reported State Board of Investment investment performance numbers are attributed to the Legislative Commission on Pensions and Retirement staff in the footnotes. The State Board of Investment would be the primary, and better, source of the information and the Minnesota Taxpayers Association should have obtained the information directly from the State Board of Investment or utilized the published annual State Board of Investment financial report, available from the State Board of Investment, from the Legislative Reference Library, or from the Legislative Commission on Pensions and Retirement staff. This is another example of the Minnesota Taxpayers Association not using the optimal source for its data or its factual assertions. If the Minnesota Taxpayers Association intends to be judged by media and reporting standards, this practice is probably acceptable, but if the Minnesota Taxpayers Association intends to meet research standards, this derivative or indirect source practice is faulty and unacceptable.

Page 23, Third Full Paragraph. The report makes uncritical and laudatory comments about the State Board of Investment, without making any presentation of the actual documentation on which those assertions might be based. Before boldly asserting that the State Board of Investment is the "gold standard," some presentation of State Board of Investment investment performance over an extended period of time and from bull market peak to bull market bottom should have been set forth, with comparable data for other Minnesota pension plans and for other public and private sector institutional investors. An analysis of the State Board of Investment under the "value added audit" measure recommended later in the report also should have been presented before this uncritical praise is showered on the State Board of Investment. It is not clear that the State Board of Investment has added value through its active investment activities over a passive investment strategy over time and over various market cycles. The report appears to have a hostile predisposition to the legislative process and this potentially unwarranted praise of the State Board of Investment, an executive branch agency is a further indication of potential operational bias by the Minnesota Taxpayers Association in the context of its study. The report indicates that an 8.5 percent interest rate actuarial assumption would be less risky if the State Board of Investment invested all pension fund assets or if all pension funds were as efficient as the State Board of Investment. This assertion is made without any evidence provided that the State Board of Investment is efficient or by what standard investment efficiency is to be judged. If investment by the State Board of Investment makes the 8.5 percent interest rate actuarial assumption less risky and no longer the target of criticism, since the State Board of Investment invests 95 percent of the pension fund assets as of June 30, 2006), why was this critical discussion of the interest rate assumption presented in the report at all?

Page 23, First Bulleted Paragraph. The expressed cautionary note appears to be a Minnesota Taxpayers Association response to the Legislative Commission on Pensions and Retirement staff commentary provided on April 20, 2006. If economists are to be believed, the recent recession began before the 9/11/2001 attacks, based on a "bursting" of the "dot.com" bubble, and was made worse by the terror attacks, but is presumably a temporary phenomenon in the long run. Since the "South Sea Bubble" of 1711-1720, there have been recurring recessions and depressions between periods of economic expansion and growth. During each downturn period, the phenomenon undoubtedly appears to be endless, but ultimately change occurs. If the Minnesota Taxpayers Association actually believes that future investment gains are futile, then funding pension plans on an actuarial basis, which is premised on the present value of future obligations based on investment returns available at its core, should be scrapped and current disbursements (i.e., "pay as you go") funding should be reinstituted. The mixing of the "real" rate of return concept in the discussion of the interest rate actuarial assumption blurs the whole point of the actuarial funding of pension funds, which is the production of actuarial investment returns rather than the production of real rates of return. Thus, periods of

zero "real" rate of return are not zero actual rate of return periods and do not necessarily constitute stagnancy. The calculation of "real" rates of return uses the rate of increase in the Consumer Price Index, which matters to a pension plan only if it indexes retiree benefits to inflation and only if active member salary increases replicate inflation. Any replication will not be exact and will generally be delayed, both of which will have important consequences. The assertion of three 20-year periods of stagnancy during the twentieth century has as its sole indicated source a 1997 speech by a former market forecaster who has become a partisan Congressional staffer. This continues a pattern in the report of substantiating important assertions with less than primary sources, which either is an example of lazy research if the assertions are true or is an example of dubious assertions.

Page 23, Second Bulleted Paragraph. The discussion of Roger Ibbotson appears to depend wholly on a single Fortune magazine article rather than any careful or critical review of the scholarly literature on him. There is no documentation of the reference to "an increasing number of economists." If the criticism is true, other documentation and better documentation of the assertion should exist.

Page 24, First Paragraph. The Fortune article criticizing Ibbotson that is used to suggest that future investment performance will be less substantial than nine percent. The cited source relies on one identified challenger, Rob Arnott, who is a California active money manager and the editor of the Financial Analysts Journal, but does not quote from his one published piece on the topic, Managing Assets in a World of Higher Volatility and Lower Returns, CFA Institute Conference Proceedings, July, 2004. The quote in the report, which is the most overstated line in the December 26, 2005, Fortune story, is not a quote and is not attributed, so it represents the conclusion of the reporter, Justin Fox. While lower equity returns than Ibbotson estimates are possible, the potential doom outlined in the article if Ibbotson's projection method is wrong must be interpreted in light of Ibbotson's highly successful track record since 1974.

Page 24, Inset Box. The inset box uncritically frames the funding problem argument that was long pursued by the Minneapolis Teachers Retirement Fund Association (MTRFA), making the 1975 legislation the culprit for all subsequent difficulties. The view expressed fails to account for other factors before 1975, in 1975, and after 1975. Before 1975, MTRFA had significant funding problems, with insufficient employer contributions long term (see MTRFA Board of Trustee minutes 1945-1948). During the period 1957-1972, the MTRFA contribution deficiency averaged 5.43 percent of covered payroll and the plan set its own benefits locally without legislative involvement. In 1974, MTRFA posted its only contribution sufficiency other than 1997, but that result was largely a function of the 1973 increase in the interest rate actuarial assumption. In 1975, with a reduction in the employer additional contribution, a contribution deficiency reemerged and the plan was in the middle of processing a major benefit increase that was blocked by the 1975 legislation. The 1975 legislation was part of a legislative effort, led by then House Speaker Martin O. Sabo, that was hoped to result in structural changes in the first class city teacher plans and that incorrectly anticipated tax relief for Minneapolis when the results of the mandated 1975-1976 interim Commission study actually resulted in an MTRFA-Basic Program benefit improvement and in no structural changes beyond the creation of a Coordinated Program for newly hired teachers. The creation of the Coordinated Program, essentially replicating the Teachers Retirement Association (TRA) Coordinated Program, resulted in a net decrease in the MTRFA total financial requirements after 1976. The MTRFA obstructed the work of the Commission during the 1975-1976 interim and was routinely uncooperative thereafter. Additional funding for MTRFA occurred concurrently with that of TRA in 1978 and 1984. Significant additional direct funding for MTRFA specifically was provided by the Legislature in 1993, 1996, and 1997, despite unsuccessful MTRFA litigation against the State over funding in the early 1990s, bringing the MTRFA total support to an actual contribution sufficiency in 1997, which was subsequently squandered by MTRFA. In attempting to assemble a workable consolidation proposal to resolve the MTRFA funding problem, TRA attempted to work with the MTRFA executive director and board, with very limited cooperation by MTRFA. Additional evidence of the uncooperative attitude on the part of MTRFA can be seen in the recent diversion of $1.5 million in MTRFA assets into an unauthorized liquidating trust primarily or solely for the benefit of the MTRFA board and executive director.

Page, 24 First Full Paragraph. The paragraph discusses member and employer contribution rates and incorrectly implies that contributions are voluntary and that a failure of commitment by members and employers to make full contributions is responsible for funding problems. In fact, if there is a contribution deficiency, the reason for the deficiency is that once adequate contribution rates have been surpassed by increased funding requirements, generally due to demographic changes or actuarial losses. Because there is some ebb and flow in actuarial results year-to-year and because both members and employers argue against precipitous contribution rate increases, the legislative effort to increase contributions usually lags the initial occurrence of a contribution deficiency and usually occurs after a clear contribution deficiency trend line is established.

Page 24, Second Full Paragraph. The mortgage analogy, appropriate for a discussion of an unfunded actuarial accrued liability, is misleading and incorrect in the sense used here. The normal cost and administrative expense portion of the total financial requirements are not akin to a mortgage payment, but the amortization requirement is akin to a mortgage payment.

Page 25, First Paragraph. The cost differential between the Teachers Retirement Association (TRA) and the Minneapolis Teachers Retirement Fund Association (MTRFA) was also true in the mid-1970s and was what spurred the House Speaker Martin O. Sabo to have the 1975 first class city teacher legislation amended onto a TRA bill. The 1975 legislation represented the first attempt by the Legislature to convey to MTRFA the notion that it must better live within its means. Setting forth the contribution rates without referencing proposed contribution increases and without referencing contribution deficiencies fails to convey the entirety of the comparative "paddling effort" needed.

Page 25, Second Paragraph. Table 11 appears faulty and the magnitude of the conclusion reached about Table 11 is consequently flawed. While Table 11 numbers for 2002 and 2003 can be found in the respective actuarial valuations, the insufficient contribution amounts for 2004 and 2005 cannot readily be found in those valuations and appear to be incorrect. The headnote on Table 11, indicating results for "2001-2005" is also incorrect, since it actually covers the 2002-2005 valuations. The footnote relating to interest payment costs or gains provides no clarity and should be explained more fully or should be dropped.

Page 25, Footnote 25. The footnote does a very poor job of explaining the difference between Basic programs and Coordinated programs and does not explain the Duluth Teachers Retirement Fund Association (DTRFA) plan coverage situation at all.

Page 26, First Partial Paragraph. The report makes an assertion that member contribution increases have implications for "high five" salaries and future pension benefits as if the point was self-evident. The report should more clearly set forth its notion about the "high five" and pension benefit implication.

Page 26, First Full Paragraph. Greater clarity would be achieved in looking at benefit changes if the report contrasted, as the first group, the plan provisions governing the calculation of the retirement benefit amount at the time of retirement and, as the second group, the plan provisions governing post-retirement adjustments.

Page 26, Second and Third Full Paragraphs. The discussion only applies to Minnesota, since a minority of public pension plans utilize a five-year period for the final average salary base determination. The report incorrectly suggests that the Legislature "has direct influence" over the multiplier. The Legislature has more than "influence." The Legislature sets the benefit accrual rate or multiplier, and it also specifies the definition of covered salary, sets the final average salary period, and specifies the definition of allowable service or service credit. The report is critical that the Legislature approved benefit improvements in 1994, 1995, and 1997, even though the affected retirement plans had unfunded actuarial accrued liabilities at the time. The criticism ignores that TRA members had a contribution increase that totally covered the actuarial cost of the benefit improvement in 1994, that DTRRA had a contribution sufficiency that covered the actuarial cost of the 1995 benefit improvement, and that the 1997 legislation involved benefit reductions (in the form of a reduced Consumer Price Index portion of the post-retirement adjustment mechanism for the three statewide plans), a reduction of a portion of the TRA contribution sufficiency to fund new state aids to other plans, and member and employer contribution increases for PERA-General, MTRFA, and SPTRFA. In searching for analogies, if the Minnesota Taxpayers Association opposes any benefit changes when there are unfunded actuarial accrued liabilities, it must also oppose an addition to a person's house if the person still has an original house mortgage, even if the person can afford the additional financing costs. Footnote 31 suggests that benefit uniformity as a goal was the appraisal of the Commission staff rather than a general stated policy position of the Legislature. The headnote for Laws 1997, Chapter 233, Article 1, is "Pension Uniformity Provisions" and "uniformity provisions" was the way that the proposal was sold to the Legislature by the proposal's proponents. Table 12 is correct on its face, but misleading with respect to the 1989 benefit increase, where the "old multiplier" was actually retained for the "Rule of 90" alternative benefit tier while the "new multiplier" was restricted to the later retirement age "level benefit" tier.

Page 27, First Paragraph. The report attempts to present a "cost" for benefit changes from 1985 to 2005. It is clear that the intent of this exercise was to produce a very large number, which it does. However, the reason for the selection of 1985 as the start date is unclear (except that the format and contents of Minnesota retirement plans was first made uniform in 1985). The methodology has so many assumptions built into it, with potential problems for each assumption, that it makes it a very questionable exercise. There is no attempt made to square the Minnesota Taxpayers Association estimates with the actuarial cost estimates for the various benefit increases generated before the benefit increases or the actuarial cost of benefit increases presented in the actuarial valuation after the benefit increase occurred. The methodology used to generate

Table 13 and summarized in Appendix D does not appear to have been validated either conceptually or practically, since there is no presentation of any examples of the use of a similar methodology in academic or scholarly works and since there is no evidence that there was any cross-check used to indicate that the calculations are realistic. Even though the exercise was successful in producing a large number to represent benefit increases over 20 years, $1.7 billion, the increase for all affected individuals for 20 years was only 7.6 percent greater than it apparently would have been if none of the increases 1985-2005 had been granted. A 7.6 percent total increase for 20 years of pension policy making is hardly indicative of a process that is out of control. The whole exercise confuses the term "cost" with "benefit payout," which is apparently what the process is intending to measure. Since the stated purpose of the report indicated by Lynn Edward Reed at the Commission hearing on the report in May 2006 was to increase public understanding of a policy making topic, the relatively cavalier manner in which various terms are used in the report, including "cost" for "annual annuity payroll" or "benefit payout" does not add to any general public understanding of the topic.

Page 28, Last Bullet Point. The last bullet point indicates that the report authors either do not understand the concept of "present value" or have a policy argument against using present value calculations. It is hard to believe that the Minnesota Taxpayers Association would pursue a current disbursements or "pay as you go" funding method or that the Minnesota Taxpayers Association is promoting that actuarial pension funding requirements and consequent contribution levels ignore the investment earnings on accumulated pension assets. The bullet point also suggests that employee contributions are paid for from tax dollars. Clearly, increases in member contributions provide an impetus for employee collective bargaining organizations to recapture the contribution increase in the form of future wage increases, but no more than the cost of living, Social Security contribution increases, or medical-dental insurance coverage cost increases.

Page 29, First Paragraph. The report suggests that the important question is the question of the rationale for retirement benefit increases, but offers only one possible rationale, which is the achievement of a pre-retirement income replacement ratio. The report then discusses the three-legged stool model of appropriate retirement coverage, without providing any source that discusses the model from an academic, scholarly, or policy standpoint. The report then jumps to a "70-80 percent replacement" as its measure based on a single academic article where the actual replacement ratio amount was a generalization that prefaced a different analysis, which was unsourced in that document, and from its context in that document, clearly was a target or minimum from a participant perspective rather than a maximum, as the Minnesota Taxpayers Association attempts to convert it.

Page 29, Second Paragraph. The paragraph suggests that public sector retirement plans are predominantly contributory while private sector retirement plans are predominantly non-contributory. While the Commission staff understands that the statement is generally true, it would not be difficult for the Minnesota Taxpayers Association to provide a source for generalizations that it recites and thereby provide readers with a better discussion of the policy issues raised.

Page 30, First Full Paragraph and Thereafter. The report attempts to judge the adequacy of the Minnesota public pension plan benefits, but does so by using a single public pension plan retiree in 2005 for each pension plan. The report does not provide any argument why the use of a single hypothetical is a valid basis for making the generalizations that it makes or for drawing the conclusions that it draws. There is no argument or rationale presented on why 30 years of service credit is the appropriate "average" new retiree situation. The report presents no clear indication on how the age cohort salary information for a multiple-year period was translated into the "average" hypothetical. While the cohort translation could provide a reliable hypothetical progression, the absence of any particular information about the calculations does not provide a reader with a basis to judge the validity of the hypothetical. Similarly, the report is unclear about the manner in which the pre-1985 salary figures were determined. Since Social Security is a modified career average formula, with early years adjusted to a "current" figure based on increases in the national average wage, early career salary figures play a very significant role in the calculation. The absence of specifics about the manner in which the hypothetical salary history was generated is a very significant deficiency. The hypothetical led to the results presented in Table 14, with replacement percentages of the hypothetical "highest five successive years average salary" for the various retirement plans. The purpose of Table 14 is obviously to contrast the results with the "target" replacement rate generalization set forth on page 29. The target replacement rate figures are based on a final salary figure, while the highest five successive years' average salary figure is likely to be a significantly different figure. At a five percent annual salary increase, a base line increase actuarial assumption for many of the covered plans, a highest five successive years average salary figure is 91 percent of the final year's salary. The Social Security replacement percentages presented in Table 14 appear high compared to PERA-General for MSRS-General and for DTRFA. Based on average plan membership salary figures, MSRS-General and DTRFA are relatively highly paid. Social Security provides the highest replacement rates for the least well paid employees. Without more information on

the calculations, the unexpected results contained in Table 14 suggest that the procedures used to generate them are potentially flawed. Footnote 39 should be clarified that it applies to the New Law Coordinated Program members of DTRFA rather than "coordinated members" without any further clarification.

Page 31, Second Paragraph. The "only information available" statement indicates a lack of diligence in collecting data by the Minnesota Taxpayers Association. Information on Deferred Compensation (Internal Revenue Code Section 457) or Tax Sheltered Annuity (Internal Revenue Code Section 403(b)) participation and actual savings rates and accumulations are available, but just are not available from one source or a handful of sources. If a survey of public employing units was conducted (either through the League of Minnesota Cities, the Association of Minnesota Counties, and the Minnesota School Boards Association or through direct employer contacts), the Minnesota Taxpayers Association could have gathered the applicable data. The average Deferred Compensation Program information provided by MSRS gives the potentially incorrect impression that every public pension plan retiree has an additional $60,000 of retirement savings at retirement.

Page 31, Third Paragraph. The paragraph is actually a disclaimer, but is not given very much emphasis. Perhaps the disclaimer should be given more emphasis.

Page 31, Fifth Paragraph. The paragraph criticizes the Legislative Commission on Pensions and Retirement, in its pension policy principles, providing that retirement benefits be adequate, as lacking any way to evaluate adequacy in an empirical or quantifiable manner. This criticism immediately follows the disclaimer paragraph that replacement ratios are an imperfect mechanism to measure pension adequacy and retirement security. The paragraph criticizes the Commission's functional definition as being too "mechanistic," as if an adequacy measure other than a replacement ratio could be more mechanistic. The failure of the Minnesota Taxpayers Association's suggested replacement ratio can be seen in the most superficial analysis of Social Security, where the replacement ratio (against a career average salary computed using past salaries indexed to the average wage growth over time) at the lowest salary levels is 90 percent and at the highest salary levels is 15 percent above $47,460 and no replacement at all above $87,900, according to the most recent (2004) Social Security Handbook. From the principles and from actual practice, the Commission's de facto definition of retirement adequacy is the maintenance of a subsistence level of retirement income through Social Security, the provision of a margin above subsistence based on an increasing portion of a person's final average salary targeted toward a 30-year career public employee, and the provision of an opportunity for a public employee to gain retirement flexibility or further augment the margin of retirement income above subsistence through the availability of a thrift or retirement savings account.

Page 31, Final Paragraph. The "some would argue" phrase disguises a re-argument of a prior criticism offered by the Commission staff. The Commission's pension policy principles, in setting forth the purpose of a public pension plan to provide a benefit that is adequate to perform recruitment, retention, and systematic out-transitioning functions, specify a method for evaluating benefit adequacy and handling benefit requests. Despite the impression of cavalier policy making that the report may be attempting to convey, the Minnesota Legislature has not been particularly active in granting benefit improvements, with only six major benefit change years during the 51 years since the Commission was created (1957 (with coordination with Social Security and restructuring the various plans, actually a benefit wash), 1969 (a revamping of TRA benefits), 1973 (the shift from a career average salary to the highest five successive years average salary), 1989 (the creation of the "Rule of 90" benefit tier), 1997 (the "benefit uniformity" increases, with a post-retirement adjustment downsizing paired with a benefit accrual rate increase), and 2006 (TRA benefit accrual rate increase paired with MTRFA consolidation).

Page 31, Footnote 40. The footnote, referring to Minnesota state employees, is incorrect. There are less than 50,000 state employees, including University of Minnesota and Metro Council employees. The figure of 80,000 Minnesota Deferred Compensation Plan participants, if correct, includes both state and local government employees. The footnote totally misses the large portion of teachers who likely participate in comparable tax-sheltered annuity programs under Section 403(b) of the Internal Revenue Code.

Page 32, First Bullet Point. The Commission's recruitment, retention, and out-transitioning goals for public pension plan coverage correctly cannot be reduced to a simple mathematical formula, such as the final salary replacement ratio apparently favored by the Minnesota Taxpayers Association, but the Commission's approach attempts to integrate retirement plan policy making into broader personnel policy making, which is something unaddressed by the Minnesota Taxpayers Association. The actual goals underlying the criticisms by the Minnesota Taxpayers Association in the report are not disclosed, although reduced employer public pension cost appears to be one of those underlying goals. Since the Minnesota Taxpayers Association goals are not explicitly disclosed, there is no way to determine how subjective or appropriate those goals might be. The Minnesota Taxpayers Association contention that recruitment and

retention is an important pension consideration for some public employees and its dismissal of that consideration for many other public employees is an assertion that lacks any documentation or substantiation. Information is available from the State Demographer and elsewhere about the imminent prospect of large-scale State employee retirements and the need to replace existing public employees.

Page 32, Second Bullet Point. The Minnesota Taxpayers Association is highly critical of the consolidation of MTRFA into TRA, but is not correct that the TRA benefit increase "had nothing to do with teacher recruitment, retention, or some empirical determination that [the] current retirement plan benefit design will fail to provide for a secure retirement." Testimony accompanying the MTRFA/TRA consolidation proposal before the House Governmental Operations and Veterans Affairs Committee and the State Government Finance Committee from Education Minnesota provided information that significant features of the TRA retirement plan were substandard nationally, which, if accurate, could constitute the basis for the TRA benefit increase. The use of the pejorative reference to "bailout" in connection with the MTRFA/TRA consolidation proposal does disclose either an inappropriate Minnesota Taxpayers Association bias underlying the report or a lack of careful scrutiny and editing necessitated by the unnecessary Minnesota Taxpayers Association rush to produce the report to coincide with TV news "sweeps" week and a TV station's interest in highlighting the topic during "sweeps" week.

Page 32, Third Paragraph. The discussion of "inflation" increases with respect to the statewide retirement plans is accurate and appropriate, but the use of "inflation" increases that are granted irrespective of the level of inflation for the first class city plans points out the incomplete thought process used to assemble the report or a lack of good editing. The last sentence about the payment of automatic increases irrespective of investment income indicates some confusion about how these post-retirement adjustments are funded or some confusion in the making the point about a deficiency in the first class city teachers retirement plan post-retirement adjustment mechanisms. The inflation component post-retirement adjustments for the statewide retirement plans and the automatic adjustments for the first class city plans are funded on an actuarial basis because this portion of the overall adjustment mechanism is included in the present value of future benefits, the baseline actuarial calculation for nay actuarial cost method, and that is included in the actuarial accrued liability and in normal cost, meaning that members and employers fund this portion of the adjustment mechanism in the regular contribution rates. For the statewide plans, if there are investment losses in the Minnesota Post Retirement Investment Fund related to past post-retirement adjustments, including the inflation component, that loss becomes a first claim (i.e., a functional lien) on any future favorable (i.e., in excess of 8.5 percent) investment income. For the first class city teacher plans, there is no similar claim on future favorable investment income to accommodate any unfunded actuarial accrued liability attributable to the post-retirement adjustment mechanism, including the automatic percentage increase portion.

Page 32, Final Paragraph. The summary of the Minnesota Post Retirement Investment Fund smoothing mechanism, while not purely inaccurate, does not actually provide any useful information to understand the accounting for annual increases. An example generated by the Minnesota Taxpayers Association or actual figures from the State Board of Investment for any five-year period as a table or included in an inset box would have been a helpful addition to the presentation. Additionally, the presentation does not cover the "first claim on future favorable investment performance" feature of the Minnesota Post Retirement Investment Fund. That feature is a key financial protection in the mechanism when there is a sustained period of unfavorable investment performance.

Page 33, First Paragraph. The summary, which apparently was intended to contrast between the Minnesota Post Retirement Investment Fund and the first class city teacher retirement plans on the point of whether there are segregated assets or not, actually does a poor job of conveying that information and gives the incorrect impression that the Minnesota Post Retirement Investment Fund provides investment-related adjustments based on investment yield, when the investment-related adjustments are actually based on the total rate of return.

Page 33, Second Paragraph. The report accepts the Wisconsin public pension plan study uncritically, apparently without understanding that the comparisons are superficial, because they are limited to only a few benefit components and features. The uncritical attitude towards the Wisconsin study appears to be because it advances the report's intended perception that Minnesota public pension plans are misdesigned and mismanaged, no matter how limited the slice of the public pension universe is covered in it. Of the estimated 9,000 public pension plans in existence nationwide, the Wisconsin survey covers only 85 and provides generalizations based on that limited sample. The report also favorably notes that the Wisconsin Retirement System provided for benefit reductions during periods of poor investment performance, but does not provide any details of the Wisconsin Retirement System post-retirement adjustment mechanism and does not provide any statutory cross-references, suggesting that any basis for the favorable comment was not carefully researched by the Minnesota Taxpayers Association.

Page 33, Third Paragraph. The implicit criticism in this paragraph is that Minnesota does not "run with the pack" and does not unthinkingly replicate the design practices of other pension plans. The report does not discuss what it views as a legitimate reason for providing post-retirement adjustments that might assist in understanding its criticism or fashioning revisions if the criticisms appear well placed. The report also does not discuss how the post-retirement adjustment mechanisms of public pension plans in other states match its identified post-retirement adjustment goal. In Minnesota, in Pension Policy Principle II.C.8, the Commission indicates its goal in a post-retirement adjustment mechanism is the maintenance of the adequacy of a retirement benefit that was adequate at retirement and was subject to inflationary pressures. The paragraph does not identify that purpose as having any role in benefit design plan and does not criticize it, but appears to look favorably on adjustment mechanisms in other states that provide non-compounding percentage increases and on "ad hoc" adjustment procedures. Neither approach is consistent with the post-retirement adequacy goal enunciated by the Legislative Commission on Pensions and Retirement.

Page 33, Fourth Paragraph. The report seems overly concerned about the existence of two funds or accounts (active or basic and post-retirement), which is a feature of the Minnesota Post Retirement Investment Fund that is undertaken wholly for accounting reasons, since the segregation of assets representing retirement benefits in a "retiree account" facilitates the identification and accurate determination of investment performance on retiree assets. The 1969 creation of the predecessor of the Minnesota Post Retirement Investment Fund was an attempt to address a benefit need with a significant potential cost in the most frugal way possible, through funding potential increases by relying on fortuitous investment performance in excess of the applicable actuarial assumption and by not relying on any additional member of employer contribution.

Page 33, Last Paragraph. The report incorrectly identifies as a "cost" to the retirement plan the transfer of assets between the active account to the retiree account. The "cost" of the Minnesota Post Retirement Investment Fund is not the transfer, but is the dedication of investment performance in excess of a post-retirement interest actuarial assumption rate. If the post-retirement interest rate actuarial assumption is an appropriate estimate of future investment performance, investment performance above that level is a fortuitous event and its reduction to another purpose is no real cost. Earlier in the report, the Minnesota Taxpayers Association criticized the current post-retirement interest rate actuarial assumption as being too aggressive, which provides a further argument that the dedication of investment performance in excess of the assumption represents truly fortuitous gains and is not a "cost" as criticized by the report. The transfer provisions of the current Minnesota Post Retirement Investment Fund are just accounting-related implications of that dedication. Without the dedication, favorable investment performance would become an actuarial gain akin to mortality gains or any other actuarial gain and would not translate into additional benefits and additional liabilities.

Page 34, First Paragraph. The paragraph contains an estimate apparently of the cumulative total of the post-retirement adjustments payable from the Minnesota Post Retirement Investment Fund. Although the source is listed as actuarial reports on file with the Pension Commission, the numbers appear to actually reflect calculations that were made by the Minnesota Taxpayers Association. The calculations suggest that investment component increases exceeded inflation component increases by 40 percent. Although the note on Table 15 indicates that the source is "actuarial reports from the Pension Commission," it is unclear by whom those numbers were assembled and the Commission staff would be hard pressed to replicate the numbers without more detail on the procedures used by the Minnesota Taxpayers Association to assemble the numbers.

Page 34, Second Paragraph. The paragraph asserts that the bull market of the 1990s was "market volatility" rather than "long term superior investment performance," without presenting any factual basis for that assertion and without citing any investment professionals, scholars, or academics for concurring opinions. From the sense of the balance of the paragraph, the Minnesota Taxpayers Association's sense of volatility is any variability in investment return. Since no information is presented by the Minnesota Taxpayers Association about how the calculations were done for a consistent investment return rather than the actual more variable investment return, it is impossible to assess whether or not the alternative benefit payout calculation by the Minnesota Taxpayers Association is likely to be correct.

Page 35, First Paragraph. The paragraph indicates that the rationale for post-retirement adjustments must be examined, limits that examination to a statement that "[b]enefit adjustments in order to protect retirees from inflation may be a reasonable plan feature," and then criticizes the funding mechanism used to fund post-retirement adjustments as flawed. The three sentences in the report devoted to the topic do not even constitute a superficial treatment of the issue.

Page 35, First Bullet Point. The bullet point paragraph incorrectly contends that the current method of funding post-retirement adjustments from investment gains will "have devastating and debilitating effects of pension fund health," based on the potential 27-year period for the Minnesota Post Retirement

Investment Fund to recover from 2000-2002 investment losses. Because the current deficit in the Minnesota Post Retirement Investment Fund is an absolute priority claim on any future "excess" investment performance until the deficit is eliminated, the current situation is not devastating or debilitating to fund health. For retirees, if future inflation exceeds 2.5 percent markedly and consistently, a 27-year delay in investment component adjustments would be problematic. Because the first class city teacher retirement fund association adjustment mechanism has no similar future excess investment performance claim or lien akin to the Minnesota Post Retirement Investment Fund, the adjustment procedure does have direct impacts on the plan's funding, especially if plan assets equal or are less than the present value of retiree benefits.

Page 36, First Paragraph. The paragraph appears to attempt to explain why the Legislature designed the Minnesota Post Retirement Investment Fund, but instead of presenting any factual information or analysis, the paragraph really represents largely uninformed speculation that provides the average reader no advantage. The predecessor to the Minnesota Post Retirement Investment Fund was created in 1969 and was significantly revised in 1980, 1992, and 1997. Files related to those legislative changes are maintained either by the Minnesota Historical Society (pre-1980) or by the Commission (post-1979), were available to the Minnesota Taxpayers Association, but apparently were not utilized. If they had been reviewed, there would have been some factual information for the Minnesota Taxpayers Association to impart and there would have been less uninformed speculation.

Page 36, Second Paragraph. While the paragraph insists that Minnesota pension benefit expenditures were greater than the national average, there are a number of unexplained factors in addition to post-retirement adjustment generosity that could be the explanation and there is no analysis to suggest what extent Minnesota may have been an outlier among the 50 states. The simple existence of a difference does not implicitly indicate a problem and all the Minnesota Taxpayers Association has done in the paragraph is to suggest the broad outline of a difference.

Page 37, Figures 9 and 10. The charges include refunds to terminating employees as well as retirement annuities, which can distort the results, at least at the margins.

Page 38, First Paragraph. Implicit in the paragraph and Figure 11 is an unargued and unproved contention that an increasing rank of Minnesota among the 50 states in per capita benefits payments constitutes a problem. This portion of the report is new, having been added since the initial draft of the report was circulated. If the information is so pertinent, it is puzzling why the information was not included earlier, especially since the information is dated (covering the period up to 2002 only). The data includes refunds, which can distort results. Differences between the states as to normal retirement ages and the hiring patterns of "baby boom" public employees during the 1960s and 1970s may have more to do with the results than inappropriate benefit amounts or poor pension plan designs. Also, as is likely the case, if Minnesota provides a public pension benefit that is less generous at retirement than other states, but has provided larger post-retirement adjustments during investment boom years, the growth pattern observed would be expected and would not intrinsically constitute a problem, unless it is the goal of the Minnesota Taxpayers Association to pressure the Legislature for the provision of less generous benefits, even if the benefits are less adequate.

Page 38, Second Paragraph. The paragraph is purely speculative and the speculation is not necessarily helpful. The financial health of the Minnesota Post Retirement Investment Fund could be as dismal as portrayed, but its condition eroded in a one- or two-year period and could be revived in a similar period of high investment returns. The speculation about the comparative effect of inflation-based adjustments is only true if higher future inflation is likely. The Federal Reserve Board is predicting inflation to be around 2.5 percent for this year and around 2.25 percent in the future (Bernanke testimony to Congress, July 19, 2006), so this speculation may be unwarranted. The speculation in the paragraph does not incorporate information presented by the Minnesota Taxpayers Association on page 33. The Wisconsin comparative study found that a significant proportion of their sample were plans that provided only "ad hoc" post-retirement adjustments, which are dependent on the extent of political demand by retirees for granting an increase and on the amount of revenue available to fund a post-retirement increase. If anything like one-fifth to one-quarter of the major public retirement plans utilize totally discretionary "ad hoc" adjustments, there is no sound means for discerning what the national average of per capita retirement benefit payments might be or what Minnesota's relationship to that average might be.

Page 39, First Paragraph. The issue of post-retirement structure, financial health, and taxpayer response is suggested to be a "new" issue, but this is really the same issue discussed over the last several pages of the report.

Page 39, Second Paragraph. While scrutiny is an important concern for retirees and was cited as an advantage by the Legislature when the predecessor to the Minnesota Post Retirement Investment Fund was created, the paragraph overstates the practical impact of the creation of a retiree asset fund or account. Because retirees are already in "pay" status and active members are not, retirees have a practical priority to draw on retirement plan assets, whether a plan has one fund or two funds. Also, in times of financial problems, courts tend to give priority to retirees over active members, since active members have greater flexibility to readjust their future financial affairs than retirees can.

Page 39, Third And Fourth Paragraphs. As discussed previously, a deficit in the Minnesota Post Retirement Investment Fund is a different legal responsibility than a retirement plan unfunded actuarial accrued liability, because the Post Fund deficit has a claim against all future "excess" investment performance while the unfunded actuarial accrued liability is a responsibility of the plan contributors.

Page 39, Fifth And Sixth Paragraphs. A funding ratio is not the best measure of the health of pension plans and including the Post Fund deficit with the retirement plan unfunded actuarial accrued liability to calculate a funding ratio does not provide any new or useful information. This point was raised by the Commission staff with respect to the initial circulated draft report, but was ignored in the main text of the final document, but was included as a footnote, where it was dismissed as only "actuarially" appropriate.

Page 40, First Paragraph. The John Smith hypothetical is wholly incorrect. If the present value of future benefits for John Smith is $100,000, based on his age, the plan's mortality assumption, and an 8.5 percent interest rate actuarial assumption, then the transfer to the Minnesota Post Retirement Investment Fund will be $100,000. The "discounted prorated 6%" item is wholly erroneous, as is footnote 55 about the "inflationary component" being fronted by the Minnesota Post Retirement Investment Fund. The inflationary adjustment is part of the actuarial accrued liability of the retirement plan, the plan's normal cost, and the required reserve calculation, is funded through the retirement plan but if the Minnesota Post Retirement Investment Fund investment performance is less than8.5 percent after John Smith's retirement, this investment loss becomes a claim against any future excess investment income. When the Minnesota Post Retirement Investment Fund transfer occurs in the situation of an underfunded plan, the transfer does not "cheat" other plan members. A pension plan is a risk pool and no particular dollar of pool assets is directly related to any particular dollar of pool liabilities. The "extract more from taxpayers" comment demonstrates a persistent bias in the report. PERA has a large unfunded accrued liability and a total contribution rate that is 1.67 percent of covered pay less than the total actuarial requirement, meaning that past contribution rates were insufficient and that current contribution rates are insufficient. The taxpayers are part of the contributors to a retirement plan and should not be able to evade responsibility for these past and current funding shortfalls by diminishing the benefits to PERA retirees.

Page 40, Second Paragraph. The paragraph continues a complaint about the Minnesota Post Retirement Investment Fund, which is a structural representation of a dedication of "excess" investment performance to post-retirement adjustments, and follows a complaint that the current 8.5 percent interest rate actuarial assumption is too optimistic. If the interest assumption is set realistically, "excess" investment performance is truly a fortuitous event and using it to fund post-retirement adjustments where post-retirement adjustments are needed or useful is not irrational, just as using the investment gain to buy down any unfunded actuarial accrued liability is not irrational. The Legislature promised the excess investment income for post-retirement adjustments in 1969 and has modified the arrangement in 1973, 1992, and 2006, with only the 2006 change having a significant impact on adjustment payouts. If the Legislature wishes to reverse the 1969 decision, it will need to at least informally trade another benefit for the current Minnesota Post Retirement Investment Fund arrangement to conform with the Sylvestre or Christensen Minnesota Supreme Court decisions.

Apparently the Minnesota Taxpayers Association does not perceive any dissonance in its criticism that the Legislature was overly optimistic in using an 8.5 percent interest rate actuarial assumption and in its criticism that the Legislature has dedicated investment performance in excess of 8.5 percent as post-retirement adjustments rather than reserving the performance for reducing the retirement plan unfunded actuarial accrued liability. If the Minnesota Taxpayers Association does not believe that investment performance returns in excess of 8.5 percent will occur in the future with any regularity, it is unclear why it pursues so vigorously the dedication of excess investment returns to funding a post-retirement adjustment mechanism that only grants increases when there is excess investment income and that puts a lien on all future investment income when there are significant or persistent investment losses.

Page 41. Although the Minnesota Taxpayers Association is not apparently a lobbying organization, it is pursuing a legislative proposal to reduce "full" Minnesota Post Retirement Investment Fund reserve transfers. The proposal actually would reduce benefits for retirees in order to reduce possible or actual

demands on the public for additional employer contributions. If that benefit reduction is the actual intention, the proposal should take that benefit reduction straight on rather than packaging it in this bogus "fund health preservation" language.

Page 42, First Paragraph. The topic of this section has substantive merit, is open to being accomplished without additional legislative enactments, and deserves appropriate consideration by the Governor as chair of the State Board of Investment and by the State Auditor as the oversight agent for the State in local pension fund affairs. The topic suffers from the fact that Mike Stolte was involved in the history recounted in the section, but that involvement was only loosely disclosed, and suffers from the fact that Mr. Stolte has a potential business interest in any future implementation of the analysis model.

Page 43, Second Paragraph. The analysis of this portion of the section would have benefited from a discussion of differences between total time-weighted rates of return, dollar-weighted rates of return, investment yield, and investment opportunity costs. It also could have benefited from a discussion between the measurement of investment performance for investment monitoring purposes and for actuarial and funding purposes.

Page 43, Fifth Paragraph. The assertions about the results available under passive or active investment strategies would benefit either from a demonstration of why they are true or by including citations to scholarly or academic works supporting the proposition.

Page 44, Second Paragraph. The largely uncritical homage to the State Board of Investment in this paragraph is undeserved, since the State Board of Investment historically appears to be either an average investor or a slightly below average investor and needed to be thoroughly redesigned and revamped only 20 years ago because it had performance and management problems.

Page 45, First Paragraph. The value added audit presentation would have benefited from some listing or other indication of other pension funds and investment funds that use the analysis tool and some examples of the oversight, monitoring, and performance improvements that resulted elsewhere by virtue of the use of the tool. If value added audits represent a growing "best practice," the case for the tool is best made by citing actual case studies of the tool's implementation and use.

Page 46, Inset Box. The inclusion of the inset box in the middle of the Minneapolis Teachers Retirement Fund Association (MTRFA) and analysis presentation does not add to understanding the MTRFA investment problem. If the inset box needed to break up any text, the break would have been better placed in the middle of page 44.

Page 47, First Paragraph. The reference to "deficit" in this paragraph is really a reference to an "unfunded actuarial accrued liability." The report would benefit from better editing and the consistent use of terminology.

Page 47, Second Paragraph. The assertion of positive funding impact on MTRFA from different investment practices is not necessarily true because it ignores the liability-producing effect of the MTRFA post-retirement adjustment mechanism when the plan's invested assets had fallen below the required reserves for retirees.

Page 48. Exhibit #1 would have been more understandable if it appeared on this page rather than on page 49.

Page 49, Second Paragraph. A study by the Institute of Internal Auditors is referenced, but no citation to that study is provided in a footnote or elsewhere.

Page 49, Inset Box. Value added performance auditing as a tool is limited by its reliance on the investment policy assembled by the pension fund board. The analysis does not appear to rigorously review whether the investment policy of the fund was appropriately constructed and whether the policy well matches the financial situation of the pension fund.

Page 50, Inset Box. The narrative provides an inadequate explanation of investment "opportunity" costs compared to investment losses or negative investment performance. The ending paragraph of the box presents too much editorialization and again misses the unfortunate additional net liability impact of the MTRFA post-retirement adjustment mechanism.

Page 51, First Paragraph. The disclosure of Mike Stolte's status as a participant in the history being reviewed should not have been limited to a footnote. Any disclosure also should include the persistent efforts by Mr. Stolte before 1992 to spark legislation and executive branch interest in his analytic tool.

Page 51, Second Paragraph. Although the St. Paul Pioneer Press articles are documented with citations, the balance of items in the section lack appropriate citations to the proposed legislation or the legislative enactments involved.

Page 51, Fourth Paragraph. This paragraph discusses a State Auditor's report, but rather than citing the report directly or quoting the report directly, the paragraph cites a derivative newspaper article. The pertinent information discussed is the results of the report and would be best represented by a citation to the State Auditor's report or by the inclusion of excerpts from the State Auditor's report. If the pertinent information was the reaction to the report rather than the report, then a newspaper citation would be appropriate.

Page 51, Fifth Paragraph. The presentation risks conveying the potential perception by a general reader that the Minnesota Taxpayers Association is taking sides in a dispute with a one-sided presentation by one of the participants. The presentation would have been improved by better editing for balance and by the provision of Auditor Dutcher's point of view, argument, or defense of a presentation that is largely critical of her.

Page 51, Sixth Paragraph. The conclusions about the resistance to value added performance audition represents Mr. Stolte's informed and involved speculation, but the presentation is an uncritical and unsubstantiated assessment of the situation. The alleged loss of local control is unlikely to be the real issue with the reporting, but the potential for volunteer firefighter relief associations becoming the subject of outside critical scrutiny is more likely to be the real issue for the volunteer fire community.

Page 52, Third, Fourth, and Fifth Paragraphs. The commentary presented does not resolve the data management and administration issue. If Mr. Stolte has experience with assembling the data from his consulting time or before, the issue could have been addressed with hard information rather than assertions by Mr. Stolte. If Mr. Stolte's prior assertions that the State Board of Investment's primary consultant, Richards & Tierney, has the value added analysis capability and actually uses it, presenting documented evidence of that capability and its use by the State Board of Investment should also settle the issue.

Page 53, First Paragraph. If the ability to beat the market assertion is true, some documented and quantitative source for the conclusion should be available and should have been cited. The use of a citation to a press account about a Morningstar finding rather than a direct cite to Morningstar also continues a troubling practice evident in the report. If Morningstar researched the issue and produced findings, those direct findings should be cited, not a press account of the Morningstar research.

Page 53, Fifth Paragraph. Without the presentation of more detail on the nature and course of the dispute between Auditor Dutcher and Mr. Stolte, which is the only apparent "history" on the topic, the contention underlying the suggested change is not fully substantiated and is not fully convincing.

Page 53, Footnote 67. The citation appears incorrect. The correct citation appears to be Minnesota Statutes, Section 354A.06, Subdivision 7.

Page 54, First Full Paragraph. The source of the investment portfolio figures is not clearly sourced. The national figures are not necessarily representative of Minnesota, which began investing in equities in a significant way in the late 1960s. The current stock investment figure for Minnesota appears low, with the Fiscal Year 2005 equity portfolio share for the Combined (Active Member) Investment Fund administered by the State Board of Investment of 75 percent as indicated in the July 1, 2005, MSRS-General actuarial valuation. No source is cited for the report's number for Minnesota "large public pension plan" stock investments.

Page 54, Footnote 68. The Useem and Mitchell paper citation lacks any publication date, so a general reader would have no clear indication of the currency of the critique. The 2000 paper is actually drawn from 1992 and 1993 national surveys and actually focuses on two retirement funds, one in California and one in South Carolina. The footnote also includes a substantive comment suggesting that interest rate actuarial assumptions are driving public pension plans to higher risk equity investments. The Useem and Mitchell document does not support the footnote comment, containing no mention of interest rate actuarial assumptions in attempting to discern how governance policies affect investment strategies and how investment strategies affect financial performance. The cause of higher interest rate actuarial

assumptions and the effect of greater risk equity investments indicated in the footnote comment is undocumented speculation by the Minnesota Taxpayers Association and should be clearly indicated as such in an author's note, rather than appearing to reflect the opinion of an outside authority.

Page 54, Footnote 69. The citation to Minnesota Statutes, Section 11A.2, Subdivision 6, is incorrect. The correct citation is Minnesota Statutes, Section 11A.24, Subdivision 6. The bad citation is another example of inadequate fact checking or rushed editing of the report.

Page 55, Four Bullet Points. The four criticisms in the bullet points appear to differ in tone and style from the rest of this section, suggesting that they have been lifted from some other source, but that source is not cited. If the criticisms were generated by the Minnesota Taxpayers Association, the criticisms lack any disclosed documentation or substantiation in the report.

Page 55, Final Paragraph. This paragraph continues the speculative theory that the magnitude of pension liabilities and the established interest rate actuarial assumption drives pension plan investment managers into high risk alternative investments, without presenting any documentation of the theory at large beyond a simple quote from an Arizona public pension plan administrator and without presenting any Minnesota documentation. In Minnesota, where the State Board of Investment manages pooled retirement investment funds including well funded plans, MSRS-General and TRA, and a poor funded plan, PERA-General, there is little clear evidence that the State Board of Investment is particularly sensitive to liability levels or actuarial assumptions. There is more evidence that the State Board of Investment is sensitive to its total time-weighted rate of return numbers compared to the Trust Universe Comparison Results (TUCS) range of results. If there is a connection between liabilities and actuarial assumptions and the level of alternative investments, one would expect a different progression of investments from a poorly funded plan like the Minneapolis Teachers Retirement Fund Association (MTRFA). Not limited to a statutory investment legal list until the 1990s, MTRFA invested heavily in alternative investments (in the form of commercial real estate with net net net leases to fast food and other consumer businesses) from the 1960s into the mid 1980s, then dismantled this direct commercial real estate portfolio in the 1990s, when its funding problems grew. Given the amount of time the Minnesota Taxpayers Association committed to information gathering in the Pension Commission office, it is reasonable to assume that the Minnesota Taxpayers Association committed time and resources to information gathering from the State Board of Investment, yet the report contains no specific information about any link of liabilities and actuarial assumptions with State Board of Investment alternative investment strategies and no evidence that members of the State Board of Investment were interviewed on the topic.

Page 56, First Paragraph. The embrace of the defined benefit plan goals of recruitment, retention, and protection against indigence is inconsistent with the dismissal of the Commission's similar State public pension purposes found on page 32 of the report, suggesting that the recommendation portion of the document was assembled by other than the author(s) of the main portion of the report and that there was minimal or rushed editing of the document. The cited drawbacks to defined benefit plans also are inconsistent with the report's disclaimer of any intent to enter into the defined benefit plan/defined contribution plan debate indicated on page 4 of the report. The Minnesota Taxpayers Association, in its criticisms, appears to value simplicity in a program over the program's ability to accomplish the goals and purpose for the program. To someone who understands public pension plans, these programs do not appear to be any more complex, confusing or Byzantine than Minnesota property taxes, Minnesota income taxes, Minnesota sales and excise taxes, or Minnesota public school funding, which are all subjects of recent Minnesota Taxpayers Association studies and which were not criticized in the respective reports as being indecipherable, confusing, Byzantine, or complex. The Legislative Commission on Pensions and Retirement and the Commission staff shares the Minnesota Taxpayers Association regard for high levels of accountability and transparency, which is why proposed pension legislation is readily available in advance, Commission hearings are open public meetings, all proposed pension legislation is accompanied by full Commission staff background information and issue analyses memoranda in advance and publicly available, maintains a website with considerable pension information, and retains full files on past pension policymaking that are available to the public in the Commission office. Better or less rushed editing of the document would avoid unintelligible sentences such as "Defined benefit systems are complex… in their… complexity."

Page 56, Fourth Paragraph. The paragraph is incorrect when it asserts that taxpayers pay significant portions of benefits and bear the ultimate risk of lower investment returns. For the six plans evaluated in the report, members pay the largest share of the actuarial cost of their actual benefit coverage (i.e., normal cost plus administrative expenses) in five of those plans currently, as follows:

Plan	Normal Cost and Expenses	Member Contribution	Member Contribution as Percent of Normal Cost and Expenses
MSRS-General [1]	9.00	4.00	44.4%
PERA-General [2]	8.01	5.30	66.2
TRA	8.36	5.00	59.8
DTRFA	9.83	5.50	56.0
MTRFA	9.80	5.74	58.6
SPTRFA	9.47	5.73	60.5

Source: 2005 plan actuarial valuations

[1] *Member and employer contributions are scheduled to increase to 5.00 percent each over the next four years. The MSRS administration also reportedly have raised questions about the allocation of the present value of future benefits between accrued liability and normal cost by the jointly retained actuary, The Segal Company, based on the advice of its consulting actuary, Mercer. If the normal cost and expenses figure remains at 9.00 percent in the future, a 5.00 member contribution rate translates into a member share of the funding burden of 55.6 percent of the total. If the normal cost and expenses figure declines in the future, the member share will increase.*

[2] *Member contributions are scheduled to increase to 6.00 percent by 2008 and employer contributions increasing to 7.00 percent by 2010.*

Taxpayers bear only some of the investment risk, the risk related to active members. The Minnesota Post Retirement Investment Fund, repeatedly criticized in the report as causing investment risk to taxpayers, actually shifts the investment risk for retirees to the retirees, since investment returns under 8.5 percent become a lien or claim on any future investment returns in excess of 8.5 percent.

Page 56, Bullet Point Paragraph. Adding contribution numbers to the Governor's budget only affects one of the six reviewed plans and, even for that plan, MSRS-General, the addition would do nothing to redirect responsibility for pension policymaking to the Governor's office. Better selection of Governor's appointees to the MSRS and PERA boards and more diligence by the State Auditor on the PERA board and by the Department of Education and Department of Finance representatives on the TRA board probably would do more to influence good pension administration and policymaking responsibility than the recommended reporting suggestion, but those options are not discussed in the report.

Page 57, Second Paragraph. Since the Governor's role on the State Board of Investment was not discussed in the report and since the role of the State Board of Investment with respect to public pension costs also was not discussed, it is unclear what basis exists of the argument that the Governor's membership on the State Board of Investment reinforces the recommendation. If greater participation is sought by the Governor, requiring the Governor to appoint the retirement system executive directors, as the Governor appoints other State agency heads, will help and will offset the tendency for those positions to be subservient to employee groups who dominate the respective boards or who influence them.

Page 57, First Bullet Point. The discussion of this recommendation is factually incorrect on all points. Since the factual underpinning is incorrect, the balance of the paragraphs in the bullet point are difficult to assess.

Page 57, Second Bullet Point. The recommendation does not require any additional legislation and is better directed to the Office of the State Auditor. If the State Auditor wished to implement value added performance auditing, it could be done administratively by that office and could be done immediately.

Page 58, Bullet Point Paragraphs. The recommendation of removing the State Auditor from pension fund monitoring because the office is a political office is hard to reconcile with the earlier recommendation for greater involvement in pension policy making by the Governor. The recommendation appears to have arisen from a single dispute that occurred twelve years ago and that dispute is a slim factual basis for making a significant change.

Page 58, Fifth Full Paragraph. The paragraph is disingenuous when it suggests that the Minnesota Taxpayers Association is "not completely convinced of the value of separate accounts within pension funds." The report at large and this paragraph specifically focus on an accounting technique (i.e., fund segregation to determine respective investment earnings) when the real policy issue is whether investment performance in excess of the criticized interest rate actuarial assumption is appropriate to be dedicated to provide additional post-retirement adjustments to retirees or not.

Page 59, First Bullet Point. Without specifying the replacement "capped inflationary adjustments" proposal, the proposed end of investment-driven post-retirement adjustments can result in a benefit reduction that legally could be imposed on new hires, but if imposed on current plan active or retired members, is likely to

be successfully challenged by the affected members in subsequent litigation. The allegation that past Minnesota Post Retirement Investment Fund investment-related post-retirement adjustments increase taxpayer risk is only true if greater post-retirement adjustments extend retiree lifetimes (i.e., increases the risk of future mortality assumption losses) or if the investment markets never recover from an investment decline. If intergenerational integrity is simply a measure of the absolute dollar amounts of retirement benefits payable to groups of retirees, going to a CPI-based adjustment mechanism and comparing benefits of retirees who experienced high inflation with those who experienced nominal inflation would also produce comparable "inequities" to those produced by different investment performance periods.

Page 59, Second Bullet Point. Although the report never demonstrated the connection between final salary replacement ratios and the purpose or purposes of retirement coverage, this recommendation makes a replacement ratio the sole criterion to evaluate pension benefit adequacy. The policy basis for the recommendation has not been adequately established. When utilized to analyze a defined contribution plan retirement benefit, a replacement ratio cannot be determined until the actual date of retirement, is dependent almost wholly on investment results that may be idiosyncratic to each retiree, and applies only if the accumulated defined contribution plan assets are converted into an annuity purchased from an insurance company or from a comparable arrangement that shifts both investment and mortality risk from the retiree to another party.

Page 60. The various recommended alternative procedures outlined are made irrelevant and unnecessary if the earlier recommendation of replacing the current inflation- and investment-components post-retirement adjustment mechanism with an inflation-based adjustment mechanism only. Without an accounting need to segregate investment pools to determine investment performance, two funds and transfers between them would no longer be needed.

Page 61, "Accrue" Definition. While the definition is not incorrect in the broadest sense, "accrue" in pension terms means the time when a pension liability is recognized as a funding obligation.

Page 61, "Accrued Liability" Definition. The term under the Entry Age Normal Cost Actuarial Method used in Minnesota is that portion of the present value of future benefits that remains after subtracting the present value of future normal cost contributions. The current definition fails to reference any present value calculation at all and is not technically correct.

Page 61, "Annual Salary" Definition. "Covered salary" is a term of art in Minnesota, while "annual salary" is not in Minnesota. "Annualized salary" is a term that refers to the process of converting the salary amounts for plan members with less than one year of service credit.

Page 61, "Assumed Rate of Return" Definition. The definition is actually the "interest rate actuarial assumption." The rate of 8.5 percent is correct for the plans covered by the report, but is not correct for most plans (i.e., volunteer firefighter relief associations) in Minnesota.

Page 61, "Current Assets" Definition. The specified definition was the definition that was actually in force about seven years ago, but no longer applies. See Minnesota Statutes, Section 356.215, Subdivision 1, Paragraph (f).

Page 61, "High Five Average" Definition. The determination period is five successive years, not five consecutive years. With continuous service, there is no practical difference. With an end of career break in service, "successive" means that no $0 earning years are used.

Page 61, "Investment Gain and Loss" Definition. The definition is correct from an investment perspective, but is not correct for actuarial gains and losses related to the interest rate actuarial assumption.

Page 61, "Normal Cost" Definition. "Normal cost" is a calculated value in some, but not all, actuarial cost methods. The presented definition, vague and imprecise, is generically accurate for the "normal cost" produced by the Entry Age Normal Cost Actuarial Method used in Minnesota.

Page 62, "Year of Service" Definition. The definition combines the definition of "allowable service" and the definition of a "year of service." Since the length of the report does not seem to be a consideration, it would be advisable to define both terms separately. For MSRS-General and PERA-General, allowable service is credited on a monthly basis for any month in which compensation is paid from which retirement contributions are deducted and a year of service credit is rendered with 12 months of service. For TRA and the local teacher plans, allowable service is c credited on a daily basis, with a five-hour minimum for a full day and a 170-day minimum for a full year.

Pages 61-62. Some glossary terms either were not used in the report or were used so infrequently that their inclusion in the glossary is of little value.

Page 62. The table missed the special arson investigator retirement plan, administered by MSRS, established in 1999. Footnote * is inaccurate; there are separate exhibits for each of the applicable plans as part of the MSRS-General actuarial valuation. Footnote ** is inaccurate; the "fund" is not being kept open for new consolidations, but statutory authority exists for the remaining four local police and fire relief associations and their respective municipalities to approve a proposed future consolidation with PERA. Those occurrences are unlikely.

Page 68, Footnote **. The footnote gives the impression that the first class city teacher 13th checks were payable back to 1978. The mechanisms generally were not authorized until the early 1980s.

Page 69, First Paragraph. The "prior to 1975" reference actually only means "between July 1, 1973, to July 1, 1975." Table 18 does not capture the pre-July1, 1973, benefit plan provisions.

Page 69, Third Paragraph. The Appendix cross-reference is lacking, reflective of sloppy editing.

Page 69, Fourth Paragraph. The 1975 changes applied to all first class city teacher plans, not just MTRFA. MRTFA-only references do not clarify the history and actually mislead a general reader.

Page 70, Generally. The page omits all references to benefit and other changes applicable to MSRS and PERA, without any explanation for that decision.

Page 70, 1977. The first class city teacher coordinate plans, obliquely referenced, were not "modeled" on the TRA Coordinated Program, but replicated the program by the use of statutory cross-references to TRA law. The "early retirement incentive" portion could be confused as having something to do with benefits provided by the applicable retirement plan, rather than employment benefits provided by the applicable school district, and funded by the school districts and the state outside of the retirement plans. The mobility provisions were also changed by subsequent legislation.

Page 70, Footnote 72. The assertion that Laws 1975, Chapter 306, Section 30, granted benefit increases to MTRFA is incorrect. Laws 1975, Chapter 306, Section 31, required a study of the first class city teacher retirement fund association benefits by the Legislative Commission on Pensions and Retirement, but nothing was approved in 1975 that was contingent on something that happened in 1976.

Page 71, 1979. MTRFA and SPTRFA coordinated programs were not established in this year, but a coordinated program for all three first class city teacher retirement fund associations was converted from a string of statutory cross-references to full statutory language replicating the substance of TRA law.

Page 71, Table 19. The heading "eligibility requirements" would be more correctly indicated as "normal retirement eligibility requirements."

Page 71, Table 20. The table does not provide clarity in summarizing contribution rate changes.

Page 71, Third Paragraph. The early retirement incentive discussion, related to a benefit program established outside of the retirement plans, seems misplaced or misemphasized, especially when all other 1970s PERA and MSRS provisions were omitted from this portion of the report.

Page 72, Second Paragraph. The change related to the funding of the Minnesota Post Retirement Investment Fund deficit, not the unfunded actuarial accrued liabilities of the retirement plans as incorrectly asserted.

Page 72, Third Paragraph. The summary fails to note that the 40-year cap on service credit was enacted with a delayed effective date and never went in effect before its repeal.

Page 72, Fifth Paragraph. The summary totally missed the four percent reduction in employer retirement contributions that was also enacted as part of a budget balancing provision.

Page 72, Footnote 96. The correct footnote is "Third Special Session Laws 1982, Chapter 1, Article 2, Section 2, Subdivision 1, Paragraph (v)."

Page 73, First Paragraph. The summary missed the points that the adjustment was an ad hoc increase for pre-1973 retirees only and that this was not the first ad hoc pre-1973 retiree increase.

Page 73, Fourth Paragraph. The summary fails to indicate that the post-retirement adjustment was an amendment to the previously enacted MTRFA 13th Check.

Page 73, Fifth Paragraph. In what should have been an accurate summary rather than a commentary, there appears a clear expression of opinion and policy judgment. This again illustrates the clearly inadequate editing process used in preparing the report.

Page 73, Sixth Paragraph. A special pre-1973 retiree ad hoc post-retirement adjustment is again included as if it were a generally applicable provision.

Page 74, Initial Partial Paragraph. The summary does not indicate that the MTRFA, DTRFA, and SPTRFA adjustments are 13th check provisions.

Page 74, First Full Paragraph. The summary misses the features that the employer contribution change was a redirection of a former state direct appropriation to the retirement plans to an additional state educational aid and that the teacher retirement direct appropriation/replacement new school district aid program applied to TRA-covered school districts also.

Page 74, Second Full Paragraph. The pre-1973 special ad hoc adjustment change is totally misconstrued as applicable to early retirees, when the provision extended past ad hoc adjustments to pre-1973 deferred retirees.

Page 75, Second Paragraph. Elimination of the mandatory retirement age was not done "in conjunction" with the federal Age Discrimination in Employment Act of 1967, but as a result of changes in that federal enactment.

Page 75, Fourth Paragraph. The 1989 summary does not clearly set forth the two separate tiers structure of the benefit change. It incorrectly indicates that the "Rule of 90" provision was eliminated for post-1989 hires covered by MSRS-General and TRA, when the actual provision was the addition of a "Rule of 90" for MSRS-General and TRA only for pre-1989 hires. The prior permanent "Rule of 90" provision for PERA-General was restricted to pre-1989 hires.

Page 75, Fifth Paragraph. The paragraph essentially replicates the prior paragraph, but incorrectly asserts that there is a "current law" third tier.

Page 75, Sixth Paragraph. The paragraph again unnecessarily replicates the two-tier benefit increase provision.

Page 76, Second Paragraph. Further unnecessary repetition of the two-tier benefit increase.

Page76, Fifth Paragraph. The paragraph is commentary rather than an objective recitation of legislated changes.

Page 77, First Paragraph. The summary gives an inaccurate impression that there was no employer budget impact from the benefit changes, notwithstanding earlier references to member and employer contribution rate increases.

Page 77, Fourth Paragraph. The summary presents a primarily structural change within the statute as a substantive change. The total first class city teacher retirement fund association basic program employer contribution rates were not changed, but simply broken into two parts (regular contribution and additional contribution). A one percent MTRFA and SPTRFA coordinated program additional employer contribution rate was added.

Page 78, First Paragraph. The state did not "guarantee" an additional contribution, but established a direct state aid program for MTRFA and SPTRFA. The multi-year total state aid figures make for a confusing presentation.

Page 78, Fifth Paragraph. The summary misconstrues an early retirement window as a permanent benefit increase.

Page 79, Second Paragraph. The MSRS-General contribution rate changes were merely a statutory update rather than a change, since Laws 1990, Chapter 591, Article 2, Section 2, had previously granted the MSRS board the authority to increase contributions and the Laws 1994, Chapter 528, Article 1, Sections 4 and 5, changes replicated that earlier administrative contribution rate increase.

Page 80, First Paragraph. The summary is generally accurate in presenting the redirection to MTRFA and SPTRFA of local police and paid fire amortization state aid freed up by some of those plans becoming fully funded, but the suggestion that this change was a "diversion" is incorrectly and unnecessarily pejorative. Better editing would result in the elimination of this type of value-laden language that is inconsistent with an objective presentation of information.

Page 80, Second Paragraph. The reference to "tiered benefit program" is a reference to a benefit tier that is usually known as "Rule of 90" tier, as distinct from the "level benefit" tier.

Page 81, First Paragraph. The cumulative total state aid totals do not add clarity to the summary.

Page 82, Second Paragraph. The summary weaves a description of legislation with additional unnecessary commentary that reflects a general anti-Legislature bias that is otherwise evident in the report.

Page 82, After Third Paragraph. The summary omits any mention of legislative changes to retirement plans in 2002, 2003, and 2004.

Page 92, Last Paragraph. The reference to "[a] provision was inserted" is inaccurate. More accurately, a provision was enacted.

Page 83, Table 27. The table misses the DTRFA level benefit tier.