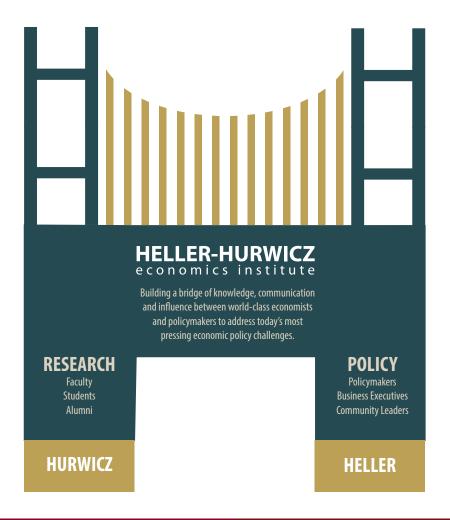# Pension Policy Initiative

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Analyzing Pension Policy Tradeoffs

- Minnesota faces a pension funding challenge
- Heller-Hurwicz Economics Institute can play a role in analyzing these tradeoffs
- Project goal: a solid research foundation for policy choices
- Dual policy goals:
    - Secure retirement income for employees
    - Less volatility in state budgets

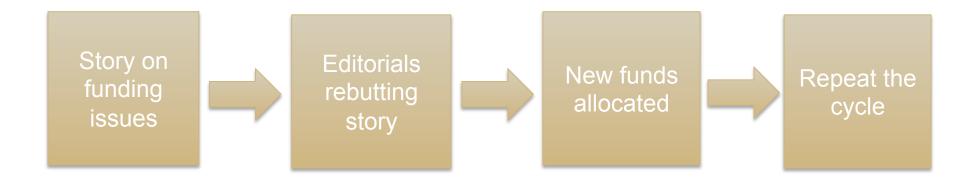# Heller-Hurwicz Economics Institute Acts As A Bridge

Minnesota's Pension Funding Challenge?

- "New Math Deals Minnesota's Pensions the Biggest Hit in US"- *Bloomberg News, August 31, 2017*

- "Minnesota's Public-Pension Is In Crisis, New Data Shows"- *StarTribune, September 8, 2017*

- MN Pension Commission Balks at Negative Bloomberg Report"- *Alphanewsmn, September 1, 2017*

Effects of Persistent Underfunding

- Budget uncertainty
- Opportunity costs
- Rating agencies and bond issuance

Pension Policy Groundhog Day

Story on funding issues → Editorials rebutting story → New funds allocated → Repeat the cycle

An Alternative To Groundhog Day

- Start by re-designing the system
  - New research
  - Practical experience
- Develop a transition plan
  - Identify affected stakeholders
  - Look at practical experience
- Evaluation measures
  - Retirement security
  - Reduce budget uncertainty

The Pillars of Pension Systems

Savings Rate	Investment Return	Retirement Income

Defined Benefit and Defined Contribution are implementation choices.

Successful Pension Systems Are Transparent

- Dutch pension system
  - Predominantly DB
  - Market-based discount rate
  - Risk-based rules for portfolio allocations
  - Funded at 168% of GDP
- Australian pension system
  - Predominantly DC
  - Transparent (and high) contribution rates
  - Pooled pension vehicles
  - Funded at 126% of GDP

Funding data source: WillisTowersWatson, Global Pension Survey 2017

HELLER-HURWICZ
economics institute

UNIVERSITY OF MINNESOTA
Driven to Discover℠

Our Project Analyzes Tradeoffs

Deliverables
Two academic conferences
Quarterly policy briefs
Three policy forums (open to public)
Dedicated website
Two policy workshops

Practical policy backed by cutting-edge research

Tangible Practical Issues and Questions

- Tradeoffs between savings rates, investment returns and retirement income

- Impact of alternative glidepath choices

- Understanding annuity pricing

- Connecting paths of contribution rates and budget volatility

- Alternative governance choices

Conclusions

- Minnesota has pension funding challenges
- Address the challenges by avoiding Groundhog Day
- The HHHE pension policy initiative can support policy design
- Ultimate goals:
  - Secure retirement
  - Reduced budget volatility