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OPINION

OUR OPINION: Keep close eye on public-sector pensions

North Dakota's overall finances are in great shape, and Minnesota's are getting better. But in both states, there's a set of long-term obligations that have wreaked havoc in other capitals and could do the same in Bismarck and St. Paul.

Opinion by Thomas Dennis
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North Dakota's overall finances are in great shape, and Minnesota's are getting better. But in both states, there's a set of long-term obligations that have wreaked havoc in other capitals and could do the same in Bismarck and St. Paul.

The obligations are the pension and health-care benefits the states will owe to their government-worker retirees.

If a recent report by the Pew Center on the States is any indication, North Dakota and Minnesota may have work to do.

Here's an important caveat: They also may not. The Pew study takes a snapshot of the states' obligations as of fiscal year 2010, the last year for which complete information on all 50 states is available.

But the North Dakota Legislature in 2011 beefed up both retirees and governments' contributions to the fund, putting it on a stronger footing. Likewise, the Minnesota Legislature made changes in 2009 and 2010, including lowering the cost-of-living increases promised to retirees. Retirees challenged that provision in court, but the court upheld the policy's constitutionality last year.

So, the bottom line is that both states have improved their condition since 2010, the time of the Pew report. But plenty of watchdogs think the reforms didn't go far enough, so the Pew numbers are a good baseline from which to track the changes over time.

In Minnesota, that baseline is pretty far back from where it should be, Pew reports.

"Minnesota consistently failed to pay its full annual pension contribution from 2005 to 2010," according to the study.

"The system was 80 percent funded in fiscal year 2010 and faced an $11 billion funding gap." That's at the low end of what a state should have set aside, Pew reports.

"The state also had a $1 billion bill for retiree health care costs, none of which was funded, well below the 8 percent national average in 2010."

The bottom line as of 2010: "Minnesota?s retirement plans had a liability of $58.8 billion, and the state has fallen $13 billion short in setting aside money to pay for it." The state needs to improve how it's paying for both obligations -- especially retiree health care, which is reason for "serious concern," Pew reports.

North Dakota, for its part, "failed to consistently pay its full annual pension contribution from 2005 to 2010," according to Pew.

"The system was 72 percent funded in fiscal year 2010 and faced a $1 billion funding gap."

Again, remember that the 2011 changes should boost that 72 percent figure over time. And a good thing, too, given that Pew declares the 72 percent figure cause for North Dakotans' "serious concern."

At the same time, "the state also had a $113 million bill for retiree health care costs, 30 percent of which was funded, well above the 8 percent national average in 2010." That earns North Dakota a rank of "top performer" on retiree health care funding, in part because the state's obligations are comparatively modest.

Pensions remain one of America's most urgent and contentious issues. Minnesota and North Dakota residents and lawmakers should take special care to make sure their recent reforms take root.

-- Tom Dennis for the Herald

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