Minnesota has become the latest state in the Midwest to enact major legislative reforms designed to improve the long-term health of its public retirement system. **SF 2620** received unanimous support in the state House and Senate. “[It] stabilizes pension benefits for 511,000 [Minnesota] workers, retirees and their families,” Gov. Mark Dayton said when he signed the bill in late May.

Before enactment of this legislation, Minnesota faced $16.2 billion in unfunded pension liabilities; the new law puts the state on a path to fully fund its retirement system within 30 years. The state will contribute $27 million in 2019 and $114 million during the next biennium. Under the law, too, public employers and current public workers will pay higher contribution rates. The state also reduced the cost-of-living adjustment for current retirees.

In another important change, the Legislature lowered state pension plans’ assumed “rate of return” on investments, from 8.5 percent to 7.5 percent. According to a 2018 study from the National Association of State Retirement Administrators (NASRA), three-fourths of the nation’s public pension plans have reduced their investment-return assumptions since fiscal year 2010. The average is now 7.36 percent.

“The accuracy of the return assumption has a major effect on a plan’s finances and actuarial funding level,” the study notes.

Minnesota is one of only a handful of states where investment-return assumptions are set by the legislature. These are more commonly established by boards that oversee the retirement systems.

A separate NASRA study, released in June, found that states across the country have improved their approach to funding public pension systems, strengthening sustainability and reducing costs over the long term. Researchers based these findings on an analysis of state and local governments’ actual contributions to their pension funds and comparing these amounts to “actuarially determined” or “annually required” levels. Contribution levels have improved for four straight years, and costs for public employers (though still rising) have slowed in part due to decisions to increase employee contributions or lower benefit levels.