



# PUTTING STATE PENSION COSTS IN CONTEXT: MINNESOTA

<b>2015 Normal Cost of Minnesota Public Employee Pensions:</b>	<b>\$1,396,200,000</b>
<b>2015 Cost of Minnesota Subsidies and Corporate Tax Breaks:</b>	<b>\$1,658,648,378</b>
<b>Percentage of Pension Costs to Subsidy Costs:</b>	<b>84.2%</b>

Minnesota’s state pension plans have been growing healthier in recent years, aided by higher than forecast returns. Still, fund managers have called for changes in benefits and employee pension contributions.<sup>1</sup>

While many pension numbers are circulated in public discussion, the central issue is how much of an obligation is incurred each year to provide benefits for current government employees such as teachers and first responders. The best way to measure this is to use an amount known as employer normal cost. Such costs can be found in the annual financial reports that each public pension plan has to produce. In the case of Minnesota the main plans administered by the state are the Public Employees Retirement System of Minnesota (PERA) (which serves employees of local governments in Minnesota), the Minnesota State Employees’ Retirement System (MSRS) and the Teachers Retirement Association of Minnesota (TRS). The most recent financial reports indicate annual employer normal costs of \$665.5 million for PERA<sup>2</sup>, \$303.6 million for MSRS<sup>3</sup>, and \$427.1 million for TRS.<sup>4</sup> The total annual normal cost of these workers’ pensions is \$1.4 billion.

How should this amount be viewed? One approach is to compare it to the costs incurred by the state in supporting business through economic development subsidies and other special tax provisions. While not providing an assessment of the effectiveness of any particular subsidy or provision, this approach does provide an important perspective on public sector pensions.

While Minnesotans face state pension challenges, the state also foregoes more than a billion and half dollars per year in subsidies, tax breaks and loopholes to corporations.

Like many other states, Minnesota allows companies to import their federal taxable income into their state tax returns so when companies include write-offs tied to the federal accelerated depreciation schedule, it cost the state \$267.7 million in 2016. Similarly, federal research and development tax credits cost the state \$64.8 million.

The state offers a wide-range of sales tax exemptions offered in the name of development. Exempting equipment used in data centers (a.k.a. “the cloud”) from sales taxes cost Minnesota \$8.7 million in 2016. Additional sales tax exemptions for the state’s JOBZ program, the purchase of construction materials for sports venues and civic centers, and Greater Minnesota Business expansions cost \$8.5 million more.

Mining industry tax breaks cost \$8.7 million in 2016 and the Angel Investor Program, which rewards investors in small businesses, costs \$15 million.

Property tax abatements in Job Opportunity Building Zones cost \$13.8 million in 2016, while property tax diversions in Tax Increment Financing (TIF) Districts cost \$222 million more. These losses of tax revenue accrue mostly to local governments.

Minnesota is one of the states that allow corporations to apportion their taxable income by methods other than the traditional three-factor (payroll, property and sales) weighting. Its corporate tax system allows multi-state businesses to apportion their profits solely on the basis of where sales are made, a significant tax break for firms which have substantial assets and payroll in the state but sell to national markets. Single Sales Factor apportionment cost the state \$399.1 million in 2016, and another provision known as Throwback Sales cost \$25.2 million more.<sup>5</sup>

Minnesota’s Department of Employment and Economic Development (DEED) operates several grants based economic development programs. The state’s Transportation Economic Development Program cost taxpayers \$32.1 million in 2016. The Minnesota Investment Fund cost the state \$18.8 million; while the Minnesota Job Creation Fund, the Greater Minnesota Business Development Public Infrastructure Grant and Business Development Competitive Grant Program cost \$10.3 million, \$5.3 million and \$1.4 million, respectively.<sup>6</sup>

Another major form of corporate tax avoidance that eats into state revenues is the use of offshore tax havens. In November 2016, the U.S. PIRG Education Fund published a report in which it calculated the impact of this practice on each state. For Minnesota, the estimated cost is \$558 million.<sup>7</sup>

The total of these corporate subsidies, official tax breaks and unofficial tax dodging amounts to about \$1.6 billion per year, as summarized in the following table.

Sales Tax exemptions in Job Opportunity Building Zones (JOBZ)	\$6,400,000
Sales Tax exemptions for data center equipment	\$8,700,000
Sales Tax exemption for Greater Minnesota Business expansions	\$1,000,000
Losses pertaining to Federal Research and Development tax credits	\$64,800,000
Losses pertaining to Federal accelerated depreciation rules	\$267,700,000
Single sales factor apportionment	\$399,100,000
Throwback Sales (apportionment)	\$25,200,000
Excess of percentage over cost depletion (mining industry tax break)	\$8,700,000
Angel Tax Credits (for investment in small businesses)	\$15,000,000
Transportation Economic Development Program	\$32,100,000
Minnesota Investment Fund	\$18,800,000
Minnesota Job Creation Fund	\$10,300,000
Greater Minnesota Business Development Public Infrastructure Grants	\$5,300,000
Business Development Competitive Grant Program	\$1,400,000
Property tax exemptions in Job Opportunity Building Zones	\$13,800,000
Tax Increment Financing	\$222,000,000
Revenue loss from corporate use of offshore tax havens	\$558,348,378
<b>TOTAL</b>	<b>\$1,658,648,378</b>

In other words, the annual taxpayer cost of funding the retirement benefits of current public employees belonging to Minnesota’s three main public pension funds is 84.2 percent of the cost of economic development subsidies and corporate tax breaks and loopholes.

## NOTES

<sup>1</sup> “Pension Fixes are Already on the Table” by Laurie Hacking, Dave Bergstrom, and Doug Anderson; Minneapolis Star-Tribune (April 29, 2016) <http://www.startribune.com/counterpoint-pension-fixes-are-already-on-the-table/377642941/>

<sup>2</sup> The Public Employees Retirement System of Minnesota (PERA) has three constituent portfolios: General Employees; Police & Fire; and Correctional Employees. The normal cost for each group can be found on pages 101-102 of PERA’s 2016 Actuarial Valuation Statement, viewable here: [http://www.mnpera.org/vertical/sites/%7BCB6D4845-437C-4F52-969E-51305385F40B%7D/uploads/Complete 2016 CAFR reduced file size\(1\).pdf](http://www.mnpera.org/vertical/sites/%7BCB6D4845-437C-4F52-969E-51305385F40B%7D/uploads/Complete%202016%20CAFR%20reduced%20file%20size%281%29.pdf)

<sup>3</sup> The Minnesota State Employee Retirement System (MSRS) operates five constituent portfolios. The normal cost of each can be found in the 2016 Actuarial Valuation report for each portfolio: State Employees Retirement Fund (page 18 here: <https://www.msrs.state.mn.us/documents/10179/38010/2016+-+General+Plan/77ef2fc1-520e-472a-b94f-c0c62dc15685>); State Patrol Plan (page 18 here: <https://www.msrs.state.mn.us/documents/10179/38010/2016+-+State+Patrol/f7a1b69d-d0a7-4ee5-85fd-84dd202bbc47>); Correctional Officers’ Plan (page 17 here: <https://www.msrs.state.mn.us/documents/10179/38010/2016+-+Correctional+Plan/e3d6c3d4-7191-4712-85e2->

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[a6591f2a0cbe](https://www.msrs.state.mn.us/documents/10179/38010/2016+-+Judges+Plan/435cb6dc-9efd-412a-b64b-a89abde94fc5) ); Judges' Plan (page 20 here: <https://www.msrs.state.mn.us/documents/10179/38010/2016+-+Judges+Plan/435cb6dc-9efd-412a-b64b-a89abde94fc5> ); and Legislators' Plan (page 17 here: <https://www.msrs.state.mn.us/documents/10179/38010/2016+-+Legislators+Plan/7d001f8d-7e98-475b-99f8-85f6d12088cb> ).

<sup>4</sup> The 2016 normal cost of the Teachers Retirement Association of Minnesota (TRS) can be found on page 28 of the Plan's 2016 Actuarial Valuation Report here: <https://www.minnesotatra.org/images/pdf/2016%20MN%20TRA%20Valuation%20Report%20FINAL.pdf> .

<sup>5</sup> Subsidy figures cited to this point are for fiscal year 2016 and come from the Minnesota's Tax Expenditure Report FY2016-19. [http://www.revenue.state.mn.us/research\\_stats/research\\_reports/2016\\_tax\\_expenditure\\_links.pdf](http://www.revenue.state.mn.us/research_stats/research_reports/2016_tax_expenditure_links.pdf) .

<sup>6</sup> Data in this paragraph comes from the Minnesota Department of Employment and Economic Development Annual Program Summary Page, found here: <http://mn.gov/deed/about/what-we-do/agency-results/program-summaries/>

<sup>7</sup> U.S. PIRG Education Fund, *Picking Up the Tab: Small Businesses Bear the Burden for Offshore Tax Havens*: (November 2016); <http://www.uspirg.org/sites/pirg/files/reports/USP%20PickTab%20Nov16%201.0.pdf>

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