MINNESOTA STATE

GASB STATEMENT NO. 67 and 68
UNFUNDED PENSION LIABILITIES

EXECUTIVE SUMMARY

The objective of this paper is to provide updates concerning the June 30, 2024 financial statements for the Minnesota State Colleges and Universities (Minnesota State). Minnesota's pension plans report plan performance and health using accrual accounting methods for projecting funding status. Beginning in fiscal year 2015 financial reporting, the Governmental Accounting Standards Board (GASB) required public entity reports to present certain data annually using a new accounting methodology. Financial results using this method are a "point in time" picture and will fluctuate significantly year over year due to market swings, annual investments returns, changes in the discount rate, changes in life expectancy rates and other changes in actuarial assumptions. Each of these changes will impact the calculated unfunded pension liability.

Minnesota State's financial statements in fiscal year 2024 were reported by the pension plans based on revised assumptions and recent actuarial reports undertaken by the plans. The plans information substantially affected the Minnesota State financial condition and outlook as reported in fiscal year 2024. The purpose of this white paper is to show the impact on this year's financial statements to senior board and system leadership in conjunction with the release of the fiscal year 2024 financial statements.

INTRODUCTION

Minnesota State adopted the new accounting standard in fiscal year 2015. The new standard addresses the accounting and financial reporting of the unfunded liabilities associated with state and local government sponsored defined benefit retirement pension plans. The standards were implemented nationally for all cities, counties, states and other public entities including public systems of higher education and standalone higher education institutions.

The implementation of this new standard has had a wide spread negative impact on the reported financial condition of colleges and universities across the country.

The major credit rating agencies have not changed their core credit underwriting analytics and standards but have expanded narratives and adjustments to reflect the GASB related impacts.

The Higher Learning Commission (HLC) has asked that we provide Composite Financial Index (CFI) calculations both with and without the adjustments related to the GASB No. 68 statement. In addition, the HLC has requested the CFI be calculated with and without adjustments for the effect of GASB No. 75, Other Postemployment Benefits.

DEFINED BENEFIT PENSION PROGRAM

Minnesota State employees participate in both defined benefit and defined contribution type retirement plans. A defined benefit type plan has a guaranteed employee benefit at retirement, calculated based on years of service, salary and age at retirement. A defined contribution type plan has an employee benefit at retirement, based on how well the employee directed investments in the plan have performed over the years.

Minnesota State, as an employer, and certain employees, make contributions to three principal cost-sharing, multiemployer defined benefit pension plans. They are: Minnesota State Retirement System (MSRS), Public Employees Retirement Plan (PERA), and Teachers Retirement Association (TRA). Defined benefit plans are the primary, and only, retirement plans provided to classified employees upon hire. Each cost sharing multiemployer plan has its own board of directors and is governed by statute acting through the Legislative Commission on Pensions and Retirement and the State Board of Investment. The three major defined benefit plans available to Minnesota State employees, cover approximately 48.8 percent of Minnesota State employees.

GASB STATEMENTS NO. 67 and 68 – ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS

Minnesota State has a present obligation to pay deferred benefits in the future – a total pension liability – once employees have earned it. When the total pension liability exceeds the fiduciary net position of the plan available for paying benefits, a net pension liability is created. This liability is required to be reported on the System wide financial statements along with an allocation for the Revenue Fund. An allocated amount is also reported in the Minnesota North College student housing program at the Itasca campus.

GASB Statement No. 67 includes a specific requirement for the discount rate that is used for the purpose of the measurement of the total pension liability. This rate considers the ability of the pension fund to meet the benefit obligations in the future. To make this determination, employer contributions, employee contributions, benefit payments, expenses and investment returns are projected into the future. For all three plans, assets of the plans are projected to be sufficient to meet future benefit payments.

The 2018 Omnibus Pension Bill was passed and contained significant changes to improve the sustainability of state's defined benefit pension plans.

These changes resulted in a stabilization of the total pension liability from fiscal year 2022 to 2024.

The table below illustrates the plan fiduciary net position as a percentage of the total pension liability (funding status of the plan):

Plan	**FY2024**	**FY2023**	**FY2022**
TRA	76.42	76.17	86.63
MSRS	94.54	90.60	99.53
PERA	83.10	76.67	87.00

The plans allocate the results of these adjustments to Minnesota State for inclusion in our annual financial statements. The current year net pension unfunded liability is based on the actuarial calculations that were performed at the beginning of the year, then adjusted for current year contributions. This is consistent practice across all of the pension plans.

SYSTEMWIDE SUMMARY ADJUSTMENT TO FISCAL YEAR 2024 AND 2023 STATEMENTS

		FY2024		**FY2023**
Liabilities				
Net Pension Liability	$	341,987,000	$	374,740,000
Deferred Inflows	$	97,110,000	$	135,236,000
Assets				
Deferred Outflows	$	153,055,000	$	187,853,000
Net Position Impact	$	**286,042,000**	$	**322,123,000**

The fiscal year 2024 financial statements reported a $286M reduction to net position/fund balance, compared to an $322M reduction in the fiscal year 2023 financial statements.

The fiscal year 2024 system financial statements reported a $36M decrease to salary/benefits expenses, thus increasing the Net Operating Margin by $36M, compared to a decrease to salaries/benefits expenses and corresponding increase to Net Operating Margin of $150M in the fiscal year 2023 financial statements.

The above changes had a substantial impact on the reported financial condition of the system colleges and universities. The adjustments have been distributed to all college and universities and reflected in individual financial statements.

ALLOCATION TO THE COLLEGES AND UNIVERSITES

MSRS provides the GASB No. 68 information at the state of Minnesota level, with several component unit exceptions (i.e. University of Minnesota). TRA provides the GASB No. 68 information at the Minnesota State level, and further has it split by each institution. PERA provides the GASB No. 68 information at the Minnesota State level, but does not split it among all the institutions. All three plans follow GASB No. 68 allocation rules, allowing yearly contribution amounts by each employer for the allocation.

Minnesota Management and Budget determined the Minnesota State percentage of the state allocation for MSRS, then Minnesota State will allocate this among all the institutions. For PERA, Minnesota State will allocate among all institutions as well, since the information received will be at the Minnesota State level only. All allocations will be calculated on yearly employer contribution amounts.

The Minnesota State financial reporting staff has allocated the related adjustments to the individual colleges and universities for financial reporting purposes. The adjustment allocations are calculated by dividing each institution's employer contributions by the plan's total employer contributions. The allocation is done separately for each plan.