

## **Ten Reasons Why Minnesota Should Continue Its Provisions Permitting Purchase of Prior Service**

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1. Forty-nine (49) out of 50 of the statewide retirement systems that serve K-12 public school teachers allow teachers to purchase out-of-state service; only Hawaii does not (based on a 1998 NCTR study).
2. Purchase of prior service has proven to be a very popular option in Minnesota, especially with our teachers. TRA has 936 members who have purchased service during the last four years.
3. The provisions allow teachers an opportunity to retire earlier if they choose rather than forcing them to work additional years in order to achieve an adequate pension.
4. The provisions allow teachers with similar years of public service to retire at the same age with similar benefits - even though some of their service may not be in Minnesota public schools.
5. The provisions are consistent with sound pension policy including the "Principles of Pension Policy" of the Legislative Commission on Pensions and Retirement (LCPR).
6. Employers support the provisions, in particular during tough financial times. Budget gains can be achieved by long service teachers retiring rather than forcing layoffs of quality young educators.
7. Current federal government pension policy and trends favor expanding public pension fund portability options.
8. Since January 1, 2002, service purchases can be made using tax-sheltered transfers from 403B and 457 Plans.
9. Purchasing service provides a favorable option to our members in planning their retirement without additional cost to the pension funds or the taxpayers of Minnesota.
10. Extending the provisions enables Minnesota public pension plans to have portability capabilities that are comparable to most public pension funds throughout the nation.

## **Ten Reasons in Support of the Current Methodology For Calculating the Cost for Purchase of Service**

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1. In 1998, the current methodology was jointly developed and endorsed by the Commission actuary and the actuaries of the three statewide plans. These actuaries represented four of the nation's largest public pension actuarial firms:
  - Milliman USA
  - Mellon Human Resources & Investor Solutions (formerly Buck Consultants)
  - Gabriel, Roeder, Smith & Company
  - Mercer Human Resources Consulting
2. There is no perfect method for calculating full actuarial cost - it is not an exact science.
3. While most funds use some sort of actuarial equivalent basis for calculating cost, Minnesota's method is among the most sophisticated and precise.
4. The mandated purchase of service analysis provided each year by the Commission actuary, by their own admission, generates unreasonable and unreliable results (Attachment A).
5. After four years experience, the actuaries continue to assert that the methodology provides a fair and reasonable cost to the member without negative impact to the Fund (Attachments B1, B2 and B3).
6. The payment methodology is consistent with Principle II.C.10 of the Commission's Principles of Pension Policy, which require that the payment "must equal the actuarial liability to be incurred by the Pension plan for the benefit associated with the purchase..."
7. The current cost method assumes retirement at earliest age for unreduced benefit (e.g., Rule of 90). Deviations from the targeted retirement dates favor the retirement fund, not the member, thereby protecting the pension fund from unintended results.
8. Many members may complain that the cost is "too expensive" and choose not to purchase service. However, no TRA member has made a purchase and later asserted that they were excessively charged.
9. Before purchasing service, many members consult with their financial advisors to determine if the cost is reasonable and the purchase is prudent.
10. If the current methodology is deemed to be unacceptable, what alternative method of calculating this cost would be more suitable and who would develop the alternative?

# Attachment A

**TABLE 1-E: ANALYSIS OF SERVICE CREDIT PURCHASES  
MADE IN PERIOD ENDING JUNE 30, 2002**

Excerpt from the State of Minnesota  
Summary of 2002 Valuations  
as presented by Milliman USA  
January 2003

## Teachers Retirement Plan

	TRA Number	TRA Employer Unit	Service Purchased	Employee Payment	Employer Payment	Change in Accrued Liability	Gain/(Loss) to Plan
	249002	101-00037	2.000	\$ 6,399	\$0	\$ 9,072	(\$2,673)
	252252	055-00535	1.000	\$ 4,552	\$0	\$ 3,746	\$806
	255387	101-00028	2.000	\$ 21,003	\$0	\$ 15,477	\$5,526
	259516	025-00256	3.710	\$ 14,709	\$0	\$ 12,705	\$2,004
	260437	027-00279	5.000	\$ 11,622	\$0	\$ 536	\$11,086
	266609	012-00129	2.530	\$ 9,190	\$0	\$ 7,734	\$1,456
	274486	007-00077	1.200	<u>\$ 5,967</u>	<u>\$0</u>	<u>\$ 3,645</u>	<u>\$2,322</u>
<b>Active subtotal:</b>				<b>\$7,108,651</b>	<b>\$0</b>	<b>\$ 5,723,700</b>	<b>\$1,384,951</b>
Deferred Vested Members:	168451	027-00272	1.000	\$ 8,809	\$0	\$4,677	\$4,132
	198394	090-00903	6.000	\$ 71,370	\$0	\$248,550	(\$177,180)
	210646	082-00834	0.540	<u>\$ 4,812</u>	<u>\$0</u>	<u>\$2,103</u>	<u>\$2,709</u>
<b>Deferred Vested subtotal:</b>				<b>\$84,991</b>	<b>\$0</b>	<b>\$255,330</b>	<b>(\$170,339)</b>
Retired Members:	066144	101-00023	0.950	\$9,800	\$0	\$8,110	\$1,690
	099587	062-00621	2.000	\$43,839	\$0	\$79,222	(\$35,383)
	099608	002-00011	0.170	\$4,048	\$0	\$62,902	(\$58,854)
	100558	056-00549	0.520	\$12,758	\$0	\$43,637	(\$30,879)
	102629	062-00622	0.070	\$2,015	\$0	\$62,921	(\$60,906)
	104889	029-00309	2.000	\$30,126	\$0	\$56,072	(\$25,946)
	104980	027-00279	1.510	\$42,351	\$0	\$70,321	(\$27,970)
	115852	047-02396	0.140	\$2,679	\$0	\$44,273	(\$41,594)
	120010	019-00191	1.300	\$29,933	\$0	\$60,700	(\$30,767)
	120186	040-00394	0.980	\$15,956	\$0	\$35,116	(\$19,160)
	120683	027-00271	0.040	\$855	\$0	\$27,420	(\$26,565)
	121339	027-00277	1.000	\$15,689	\$0	(\$40,249)	\$55,938
	122899	056-00544	1.000	\$22,129	\$0	\$32,431	(\$10,302)
	123103	002-00014	0.610	\$20,562	\$0	\$49,635	(\$29,073)
	123533	002-00014	0.650	\$20,562	\$0	\$51,718	(\$31,156)
	124240	082-00833	0.790	\$23,287	\$0	\$51,039	(\$27,752)
	124352	002-00011	0.346	\$1,143	\$0	\$4,544	(\$3,401)
	125145	081-02168	1.220	\$23,045	\$0	\$32,899	(\$9,854)
	131240	022-02860	0.560	\$12,764	\$0	\$32,352	(\$19,588)
	133240	031-00318	1.000	\$23,350	\$0	\$39,489	(\$16,139)

**TABLE 1-E: ANALYSIS OF SERVICE CREDIT PURCHASES  
MADE IN PERIOD ENDING JUNE 30, 2002**

**Teachers Retirement Plan**

TRA Number	TRA Employer Unit	Service Purchased	Employee Payment	Employer Payment	Change in Accrued Liability	Gain/(Loss) to Plan
133459	062-00622	0.450	\$8,645	\$0	\$36,574	(\$27,929)
134236	019-00197	1.800	\$38,640	\$0	\$38,581	\$59
137076	002-00011	0.910	\$17,256	\$0	(\$81,753)	\$99,009
137438	062-00624	0.190	\$3,226	\$0	(\$36,680)	\$39,906
138720	082-00834	1.950	\$36,877	\$0	(\$166,628)	\$203,505
174252	082-00833	1.530	\$34,736	\$0	\$15,062	\$19,674
200382	101-00023	1.000	\$9,488	\$0	\$7,426	\$2,062
209256	070-00719	1.710	\$19,410	<u>\$0</u>	<u>\$16,438</u>	<u>\$2,972</u>
<b>Retired subtotal:</b>			<b>\$525,170</b>	<b>\$0</b>	<b>\$633,572</b>	<b>(\$108,402)</b>
<b>TOTAL (TRA)</b>			<b>\$7,718,811</b>	<b>\$0</b>	<b>\$6,612,602</b>	<b>\$1,106,210</b>



**Milliman USA**  
Consultants and Actuaries

**Attachment B1**

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Brookfield, WI 53005-6069  
Tel +1 262 784.2250  
Fax +1 262 784.7287  
www.milliman.com

October 2, 2003

**PERSONAL & CONFIDENTIAL**

Mr. Gary Austin  
Executive Director  
Teachers Retirement Association  
Suite 300  
60 Empire Drive  
St. Paul, Minnesota 55103-1855

**RE: Service Credit Purchases**

Dear Gary:

We are aware that the methodology for calculating service credit purchases is due to "sunset" on June 30, 2004 and that it is on the subcommittee's agenda for consideration on Tuesday, October 7, 2003. In anticipation of that meeting, you requested a letter of commentary on the issue from us.

In developing the methodology that is currently employed, the fund administrators had asked Milliman USA for significant input. Accordingly, we are very familiar with the operation of this calculation. We believe that the methodology being applied is both reasonable and appropriate. From our perspective as the commission actuary, we do not anticipate any issues or problems associated with extending the use of the current methodology beyond the "sunset" date.

If you have any questions, please do not hesitate to call. One of us would be willing to attend a subcommittee or LCPR meeting at which this issue would be discussed if requested by Larry Martin or Representative Smith.

Sincerely,

Thomas K. Custis, F.S.A.  
Consulting Actuary

William V. Hogan, F.S.A.  
Consulting Actuary

TKC/WVH/bh

cc: Larry Martin

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525 Market Street, 34th Floor  
San Francisco, California 94105

October 2, 2003

Mr. Gary Austin  
Executive Director  
State of Minnesota  
Teachers Retirement Association  
60 Empire Drive, Suite 400  
St. Paul, MN 55103

**Re: Service Credit Purchases**

Dear Gary:

In 1998, Krystyna Upstill, EA, MAAA of Buck Consultants worked jointly with Tom Custis, the Commission's actuary, from Milliman USA, and the actuaries from the Minnesota State Retirement System and the Public Employees Retirement Association, in developing the methodology currently being used for calculating the cost for purchase of service for TRA members.

Later, Buck Consultants developed a software program to calculate the cost for the Service Credit Purchase used by TRA. All work was done under the direct supervision of Michael Moehle, FSA, EA, MAAA. We worked closely with the Commission's actuary to make certain that the program was performing the Service Credit Purchase cost calculation in accordance with the final methodology that was established under the statutes.

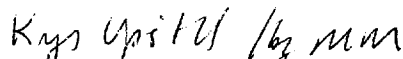
We believe that the methodology currently being applied reflects TRA's statutory benefit provisions and key economic actuarial assumptions, and, in our opinion, provides a fair and reasonable cost to the member while, in the aggregate, will not have any negative impact on the TRA fund.

Please call us if you have any questions.

Sincerely,



Michael Moehle, F.S.A., E.A., M.A.A.A.  
Principal and Consulting Actuary



Krystyna H. Upstill, E.A., M.A.A.A.  
Principal and Consulting Actuary

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# MERCER

Human Resource Consulting

## Attachment B3

800 LaSalle Avenue, Suite 2100  
Minneapolis, MN 55402-2012  
612 642 8600 Fax 612 341 0232  
www.mercerHR.com

October 6, 2003

Mr. Dave Bergstrom  
Executive Director  
MN State Retirement System  
60 Empire Drive, Suite 300  
St. Paul, MN 55103-1805

Ms. Mary Most Vanek  
Executive Director  
Public Employees Ret. Assoc. of MN  
60 Empire Drive, Suite 200  
St. Paul, MN 55103

Subject:

**Service Purchase Methodology in Minnesota Statutes Section 356.55**

Dear Dave and Mary:

The Legislative Commission on Pensions and Retirement is in the process of reviewing Minnesota's service credit purchase provisions. One of the components to be reviewed is the methodology used to estimate full actuarial value of purchased service, which is stated in Minnesota Statutes, Section 356.55.

Mercer has worked with the current methodology since its implementation in 1998, and it is our opinion that this methodology is reasonable. It balances the need for precise calculation with the cost of administrative complexity. The data that we have examined does not seem to consistently produce actuarial gains or losses. Service purchase methods very similar to this are used in other states.

Please let me know if you would like to discuss.

Sincerely,



Bonnie Wurst

Copy:  
Steve McElhaney, Sheri Wroblewski – Mercer

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