TRA's Perspective
Pre '69 Teachers Additional Benefit Bill (HF 914/SF 543 and 838)
"IMP Bill"

Savings Clause — The IMP "savings clause" that was passed in 1973 legislation created an unanticipated "windfall" for a limited number of TRA members (approx. 4,000). The 2005 IMP bill creates a greater inequity by doubling the number of members who would receive the very expensive windfall and opens the door for thousands of other teachers who will expect similar treatment.

Fiscal Impact — The fiscal impact on Minnesota TRA is an immediate present value increased liability of an estimated **$212,125,500**. This fiscal impact will directly and adversely affect the pension funding of approximately 72,000 current active teachers, who are not included in this bill by about $3,000 per member by enhancing the benefits of approximately 4,000 members (active and retired) at an average present value cost of approximately $50,000 per member.

Equity Considerations — While the advocates claim to be seeking "equitable treatment," it is clearly unfair to increase the liability and the potential for increased payroll contributions of 72,000 TRA active teachers to pay for a benefit increase given to the 4,115 members (3,785 retirees) covered by this bill.

Most of these retirees already received generous benefits calculated under the Rule of 90, a provision allowing them to retire at an early age without a benefit reduction. In addition, many of these retirees have received very substantial benefit increases after retirement. Conversely, most of the 72,000 active TRA members who will shoulder the $212 million increase in liability are not covered by a Rule of 90 and will have to teach until age 66 to receive an unreduced benefit.

A similar argument could be made by a larger group of teachers who began teaching after the 1968-69 school year and elected VAF participation until that option was closed in 1974. These people would likely demand consideration for a similar benefit enhancement.

TRA Funding Status — The July 1, 2004, TRA actuarial valuation shows that TRA's funding ratio is 100.01 percent funded, with only a $1 million difference between its actuarial value of assets and its accrued liabilities. However, the actuarial value of assets does not include $549 million in deferred asset losses in its smoothing calculation. For the July 1, 2005, actuarial valuation, most of these deferred asset losses will be recognized and TRA's funding ratio will most likely drop below 100 percent with a significant unfunded liability. Passage of this proposed legislation will substantially increase this unfunded liability.

Legislative History — The Legislative Commission on Pensions and Retirement (LCPR), under three different chairmen, repeatedly heard the Improved Money Purchase Plan issue from 1999 to 2004. The LCPR never recommended or included any IMP legislation in its pension bills during that period of time.

Legal Decisions — Seeking a legal remedy, the advocates filed a lawsuit in 2000 to correct what they perceived as an inequity resulting from the "savings clause." The Ramsey County District Court in its Order dated November 15, 2000 denied their claim. On May 19, 2001, the Minnesota Court of Appeals affirmed the District Court decision. The Minnesota Supreme Court denied further review on August 15, 2001.

TRA Board Policy — TRA's policy has consistently been and is as follows: **Consistent with sound pension policy principles and the Board's fiduciary responsibility, the Board opposes any unanticipated benefit improvements for a group of teachers that does not include adequate and appropriate legislative funding.** (An unanticipated benefit improvement means benefits not currently allowed by statute and not accounted for in the actuarial assumptions or funding structure.)

(OVER)

Historical Background of TRA Benefit Elections

During the period from 1969 through June 30, 1972, the teachers included in the bill all made an affirmative election to get out of the Improved Money Purchase Program (IMP). They are now seeking coverage by the very plan they elected out of.

Many of these advocates are receiving the defined benefit (Formula) option they elected, even though it has been greatly improved since they made their election. Over 70 percent of those that submitted an election form selected the Formula option. The rest elected full or partial participation in the Variable Annuity Fund (VAF) – a totally separate investment account.

In 1973, legislation increased Formula benefits dramatically when they were changed from “career average” to “High-5 average” salary – Formula benefits basically doubled with this change.

In 1974, poor VAF investment returns coupled with the improved Formula caused immense legislative pressure for all members to at least be partially covered by the new High-5 Formula. Consequently:

- Five plans were reduced to two plans: full Formula or ½ Formula/ ½ VAF
- Those who elected VAF became one-half Formula and one-half VAF
- All new teachers made High-5 Formula.

In 1978, after three consecutive negative investment years in 1974, 1975 and 1976, the legislative pressure by teachers to be allowed to get out of the VAF was very intense. In 1978, legislation passed whereby:

- All future contributions would go to Formula, unless members specifically requested to continue contributing to the VAF.
- Only about 140 out of over 11,000 VAF participants elected to stay in VAF.

In 1985, some of the 140 members electing VAF in 1978 were able to get legislation passed to allow a second chance to get out of the VAF. About 70 of the 140 opted out of the VAF as a result of the 1985 legislation.

In 1989, members with past service (1969 – 1978) contributions to the VAF were receiving lower retirement benefits than their full Formula co-workers. Consequently, lobbying remained very intense to liquidate the VAF completely and have all service covered by the High-5 plan. As a result of 1989 legislation:

- The VAF account was liquidated
- VAF accounts for all members were transferred to High-5 formula accounts
- All past and future service is now covered by High-5 formula
- This transfer resulted in a $120 million actuarial loss to the fund
- The VAF transfer in 1989 only included one-half of the member contributions from 1969 – 1978, plus accumulated earnings – not a lot of money on an individual basis.

At no time as the VAF was phased out during 1974, 1978 or 1989, did any member that TRA is aware of ever express any opposition to the phase out steps. To the contrary, members were finally satisfied.