H.F. 3926
(Thissen)

S.F. 2997
(Betzold)

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): Teachers Retirement Association (TRA)
Relevant Provisions of Law: Minnesota Statutes, Chapter 354
General Nature of Proposal: TRA; "Rule of 90" benefit tier extension to post-1989 hires
Date of Summary: April 4, 2008

Specific Proposed Changes

- The proposed legislation extends the "Rule of 90" benefit tier to post-1989 hires.

Policy Issues Raised by the Proposed Legislation

1. Consistency with Pension Policy Principles.
2. Conformity with 1989 benefit increase agreement.
3. Actuarial condition of TRA and the actuarial cost of the benefit increase.
4. Affordability of the increased contribution rates.
5. Equity within TRA.
6. Comparability between TRA and other teacher retirement plans.
7. Comparability between TRA and other non-teacher general employee retirement plans.
8. Appropriateness of encouraging "Rule of 90" early retirements given the current labor force trends.
9. Collateral impacts of encouraging early retirements.

Potential Amendments

No Commission staff amendments.

State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Lawrence A. Martin, Executive Director LAM

RE: H.F. 3926 (Thissen); S.F. 2997 (Betzold): TRA; "Rule of 90" Benefit Tier Extension to Post-1989 Hires

DATE: April 3, 2008

Summary of H.F. 3926 (Thissen); S.F. 2997 (Betzold)

H.F. 3926 (Thissen); S.F. 2997 (Betzold) amends various portions of Minnesota Statutes, Chapter 354, the statutory chapter governing the Teachers Retirement Association (TRA), to make the following changes:

1. Age 65 Normal Retirement Age. The TRA normal retirement age, currently age 65 for pre-July 1, 1989 hires and the Social Security full benefit age, not to exceed age 66, for post-June 30, 1989 hires, is set at age 65 for all members irrespective of date of hire (Section 1);
2. Increased Member and Employer Contribution Rates. The current TRA member and employer contribution rates are all increased by a yet-to-be-specified amount, effective July 1, 2009 (Sections 2 and 3); and
3. TRA "Rule of 90" Expansion. The current TRA "Rule of 90" early normal retirement age provision is extended beyond pre-July 1, 1989 hires to include all TRA members, along with the age 62 with 30 years of service early normal retirement age provision and subsidized early retirement reduction rate in the "Rule of 90" tier benefit calculator (Section 4).

Background Information

Background information that may be of assistance is attached. Information on the current "Rule of 90" and related provisions is contained in **Attachment A**. Information on the 1989 pension legislation, when aspects of the "Rule of 90" benefit package were merged with aspects of the alternative "level benefit" package, is contained in **Attachment B**.

Analysis and Discussion

H.F. 3926 (Thissen); S.F. 2997 (Betzold) raises several pension and related policy issues, as follows:

1. Consistency With Policy Principles. The policy issue is the extent to which the proposed legislation is consistent with the Pension Policy Principles of the Legislative Commission on Pensions and Retirement. The Principles indicate that:
   - the purpose of Minnesota public pension plans, in addition to public employee recruitment and retention assistance, is to assist in the systematic outtransitioning of public employees at the normally expected conclusion of their working careers (II.A.1.);
   - the normal retirement age be set in a reasonable relationship to the employability limits of the average public employee (II.B.4.); and
   - early retirement incentives should be appropriately targeted and should not be subsidized by the public pension plan (II.B.5).

   The "Rule of 90," when initially enacted for the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) in 1982 and when extended to the existing (pre-July 1, 1989) memberships of the statewide general employee and first class city teacher retirement plans in 1989, was not accompanied by any studies, research, or other relevant documentation of a decline in the expected limits of Minnesota public employee working careers and clearly promoted early retirement with a subsidy. To be consistent with the Commission Principles, an extension now, to post-July 1, 1980 public sector hires, should be accompanied by some documentary showing of its consistency with general public employee work career limits if it is to conform with the Commission's Pension Policy Principles. If the argument for the extension is not based on public employee employability limits, but is based on presumed salary savings from early retirement, making it an early retirement incentive program, the funding should be provided wholly or primarily from the public employers who would obtain the salary savings to conform with the Commission Policy Principles against public pension plan subsidies of early retirement incentives.

2. Conformity With 1989 Benefit Increase Agreement. The policy issue is the extent to which the extension of the 1989 "Rule of 90" benefit package beyond pre-July 1, 1989 hires violates the legislative understanding under which the 1989 benefit increases were enacted. As **Attachment B** sets forth, the 1989 benefit increase package was a merging of two different approaches to providing a retirement benefit increase and contained certain constraints on the "Rule of 90" in an attempt to gain sufficient support in both the House and the Senate to be enacted. Those constraints were a limit of the "Rule of 90" benefit package to existing public employees in 1989, thereby phasing out the benefit tier over time (Laws 1989, Chapter 319, Article 13, Sections 9, 10, 33, 34, 58, 59, 75, 77, 78, and 94), an increase in the normal retirement age to match the Social Security full benefit age as it increases under the 1986 Social Security Amendments (Laws 1989, Chapter 319, Article 13, Sections 2, 29, 53, 71, and 95), and an automatic elimination of the "Rule of 90" benefit tier for all applicable retirement plans when a period review and report on "Rule of 90" utilization indicates utilization of the benefit tier in excess of 45 percent of those eligible for the tier (Laws 1989, Chapter 319, Article 13, Section 96). The agreed-upon constraints have been relaxed over time, with the affected retirement plans successfully seeking the repeal of the "Rule of 90" quadrennial utilization review and automatic tier repeal upon over-utilization provision, in 1993 (Laws 1993, Chapter 280), when utilization approached the repeal trigger percentage, and with the affected retirement plans successfully seeking a maximum of age 66 on the indexation of the normal retirement age to the federal Social Security full benefit age in 1997 (Laws 1997, Chapter 233, Article 1, Sections 16, 37, and 47, and Article 3, Section 1). The proposed expansion would eliminate the last constraint fashioned in 1989 as part of the 1989 benefit increase legislative deliberations.

3. Actuarial Condition of TRA and Actuarial Cost of the Benefit Increase. The policy issue is the current actuarial condition of the Teachers Retirement Association (TRA), the likely actuarial cost of the proposed "Rule of 90" benefit package, and the affect that the benefit improvement will have on the retirement plan. The following summarizes the actuarial condition of TRA in 2006 and 2007:

	TRA 2006		TRA 2007		Change 2006 - 2007	
Membership						
Active Members		79,164		77,694		-1,470
Service Retirees		41,009		42,679		1,670
Disabilitants		630		636		6
Survivors		3,044		3,223		179
Deferred Retirees		11,773		12,636		863
Nonvested Former Members		21,956		22,914		958
Total Membership		157,576		159,782		2,206
Funded Status						
Accrued Liability		$20,679,110,879		$21,470,314,497		$791,203,618
Current Assets		$19,035,611,839		$20,111,778,892		$1,076,167,053
Unfunded Accrued Liability		$1,643,499,040		$1,358,535,605		($-284,963,435)
Funding Ratio	92.05%		93.67%		1.62%	
Financing Requirements						
Covered Payroll		$3,707,900,584		$3,814,373,772		$106,473,188
Benefits Payable		$1,224,212,024		$1,273,093,384		$48,881,360
Normal Cost	9.43%	$349,678,399	9.37%	$357,343,265	-0.06%	$7,664,866
Administrative Expenses	0.33%	$12,236,072	0.29%	$11,061,684	-0.04%	($-1,174,388)
Normal Cost & Expense	9.76%	$361,914,471	9.66%	$368,404,949	-0.10%	$6,490,478
Normal Cost & Expense	9.76%	$361,914,471	9.66%	$368,404,949	-0.10%	$6,490,478
Amortization	2.34%	$86,764,874	1.92	$73,235,976	-0.42%	($-13,528,898)
Total Requirements	12.11%	$448,679,345	11.58%	$441,640,925	-0.52%	$7,038,420
Employee Contributions	5.51%	$204,456,479	5.51%	$210,143,378	0.00%	$5,686,899
Employer Contributions	5.23%	$193,832,020	5.72%	$218,013,895	0.49%	$24,181,875
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	0.51%	$18,819,110	0.49%	$18,819,110	-0.02%	$0
Other Govt. Funding	0.07%	$2,500,000	0.07%	$2,500,000	0.00%	$0
Administrative Assessment	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	11.31%	$419,607,609	11.79%	$449,476,383	0.47%	$29,868,774
Total Requirements	12.11%	$448,679,345	11.58%	$441,640,925	-0.52%	($-7,038,420)
Total Contributions	11.31%	$419,607,609	11.79%	$449,476,383	0.47%	$29,868,774
Deficiency (Surplus)	0.80%	$29,071,736	(0.21%)	($7,835,458)	0.05%	($-36,907,194)

No benefit increase cost estimate has been provided by TRA to the Commission staff, but an educated estimate from TRA of the likely actuarial cost estimate would be an increase in the annual financial requirement of the plan of about 1.5 percent of covered pay. Combined with the 2007 TRA actuarial valuation results, the benefit increase would necessitate an increase in contributions (member, employer, or both) of at least 1.30 percent of covered pay.

4. Affordability of Increased Contributions. The policy issue is the affordability of the contribution increases that would be required to maintain sound actuarial funding after an extension of the "Rule of 90" package to post-June 30, 1989 hires covered by the Teachers Retirement Association (TRA). If the overall net increase in the annual actuarial cost of TRA is 1.30 percent of covered pay and that cost was met by equal member and employer contribution rate increases, the TRA member contributions for most members would increase from 5.5 percent of covered salary to 6.15 percent of covered salary and the TRA employer contributions for most TRA-covered employers would increase from 5.5 percent of covered salary to 6.15 percent of covered salary, or $24.8 million annually for each group and increasing over time. For the average TRA member, who has a covered salary of $49,094.83, the TRA member contribution rate increase would be $319.12 annually. For the average TRA-covered employer (TRA-covered payroll divided by 551 employing units), with a current aggregate TRA-covered salary figure of $6.9 million, the TRA employer contribution rate increase would be $44,997.15 annually. As drafted, the TRA employer contribution rate increase would not be accompanied by an increase in the general state education aid funding provided to school districts, so the employer contribution increase would be borne entirely from existing revenue sources.

5. Equity Within TRA. The policy issue is the impact of the proposed benefit increase on equity concerns within the Teachers Retirement Association (TRA). The equity concerns relate to the actual or the perceived lack of equal or comparable treatment between TRA members. Because the funding of the TRA benefit plan occurs on a group basis, all members pay a larger member contribution than they would pay if TRA did not have the "Rule of 90" benefit package proposed to be extended to post-June 30, 1989 hires by this legislation. For the 74 percent of the TRA membership, based on TRA cumulative active service credit earned through June 30, 2007, who were likely hired after June 30, 1989, they complain about bearing the additional funding obligation for a benefit applicable to a minority of plan members and feel that they have been inequitably treated. If the "Rule of 90" benefit package was extended to the entire TRA membership, more plan members would be covered by that part of the overall TRA benefit plan, but because of individual differences in entry age and teaching career duration, not all TRA members can qualify for the "Rule of 90," the primary component of the "Rule of 90" benefit package, and, because of a variety of individual considerations, only a portion of the TRA members eligible for the "Rule of 90" will actually retire under the "Rule of 90." Thus, for some portion of the TRA membership, the extension of the "Rule of 90" benefit package to post-June 30, 1989 hires will address some equitable concerns, but will still leave many TRA members to continue to bear a higher member contribution by virtue of the "Rule of 90" benefit package but will never be eligible to use the "Rule of 90" or will be unable to use the "Rule of 90" when eligible. The truth about pension plans, as specialized insurance pools with liability and cost averaging, is that there are endless cross-subsidies where every member or virtually every member could contend that they are treated inequitably.

6. Comparability Between TRA and Other Teacher Retirement Plans. The policy issue is the current lack of comparability between the Teachers Retirement Association (TRA) and the two first class city teacher retirement fund associations and the greater lack of comparability between TRA and the other two teacher retirement plans if the "Rule of 90" benefit package was extended only to post-June 30, 1989 hires in TRA. In 2006, TRA received a benefit increase that no other Minnesota public pension plan shared, with its benefit accrual rate for post-July 1, 2006, service increased from 1.7 percent of the highest five successive years average salary to 1.9 percent of the highest five successive years average salary. If the "Rule of 90" benefit package, with the 2006 benefit accrual rate increase applicable to post-July 1, 2006 service, is extended to post-June 30, 1989 hires as proposed, the degree of difference between TRA and the other teacher retirement plans is made that much greater. The Duluth Teachers Retirement Fund Association (DTRFA), with a funding ratio of 86.8 percent and a contribution deficiency of 3.24 percent of covered pay (total actuarial requirement of 14.53 percent of covered pay compared to total support of 11.29 percent of covered pay), and the St. Paul Teachers Retirement Fund Association (SPTRFA), with a funding ratio of 73.0 percent and a contribution deficiency of 8.03 percent of covered pay (total actuarial requirement of 24.10 percent of covered pay compared to total support of 16.07 percent of covered pay), are not well positioned actuarially or financially to undertake either benefit increase without significant member and employer contribution rate increases.

7. Comparability Between TRA and Other Non-Teacher General Employee Retirement Plans. The policy issue is the lack of comparability between the Teachers Retirement Association (TRA) and the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General) and the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General). The policy issue is substantially identical to issue #6, except that it relates to the non-teacher general employee retirement plans. Before 1989, PERA-General had an unlimited "Rule of 90" and had it limited in 1989 to pre-1989 hires, and MSRS-General, TRA, and the first class city

teacher retirement fund associations were granted in 1989 the "Rule of 90" for pre-1989 hires, placing all of the general employee pension plans on a par. In 1997 (Laws 1997, Chapter 233, Articles 1 and 3), the self-described "uniformity" pension legislation, all of the general employee retirement plans received identical benefit improvements and remained largely comparable. That comparability was disrupted in 2006, with the benefit accrual rate increase for TRA, and would be further disrupted if this "Rule of 90" benefit package was extended to post-1989 hires covered by TRA. The Combined Service Annuity, the inter-Minnesota public pension coverage portability provision, works optimally when each pension plan includes comparable benefit eligibility provisions and identical benefit computation provisions. With a "Rule of 90" benefit package extension for TRA only, a post-1989 hire with service in a number of general employee retirement plans could qualify for an unreduced "Rule of 90" annuity for the TRA portion of the benefit, but would be required to take a full actuarial reduction early retirement annuity for the portions of the benefit from all other retirement plans.

8. <u>Appropriateness of Encouraging "Rule of 90" Early Retirement Given Current Labor Force Trends and Needs</u>. The policy issue is the appropriateness of an extension of the "Rule of 90" benefit package as proposed in light of current and likely future labor force trends and needs. Pension coverage, under the Commission's Pension Policy Principles, is intended to augment the public sector personnel and compensation systems. If the pension benefit plan encourages early retirement at a time when the working lives of employees are lengthening, the benefit plan will do a disservice to the employment system by robbing it of valuable workers and to the workers by prematurely inducing them to reduce their productive years. Specifically, in public education, where shortages are forecasted for some subject areas, such as mathematics, science, and special education, and replacement teachers are difficult to recruit, especially in rural schools, the pension system by encouraging early retirement may require the personnel system to counter that early retirement encouragement by increased compensation or other inducements in order to retain teachers in specific areas.

9. <u>Collateral Impacts of Encouraging Early Retirement</u>. The policy issue is the appropriateness of encouraging early retirement by extending the "Rule of 90" benefit package in light of the collateral impact that early retirement produces. At a minimum, these collateral impacts are increased pressure on public employers to provide retiree heath insurance coverage, increased pressure on the pension benefit program to provide greater and more regular post-retirement adjustments, and increased pressure on the pension system to permit receipt of retirement benefits without terminating employment first or to relax or eliminate reemployed annuitant earnings limitations for retirees returning to employment on a part-time or full-time basis. Recent accounting changes have increased the visibility of post-retirement benefit programs and have increased the pressure on employers to fund them on a systematic basis. Post-retirement health coverage benefits are expensive, especially for retirees who begin drawing benefits well in advance of the earliest age for receipt of Medicare benefits at age 62 as can occur under the "Rule of 90." The Minnesota Post Retirement Investment Fund, which provided sizable post-retirement adjustments from the late 1980s through 2001, has been unable to provide comparable adjustments since the 2000-2001 recession and the bearish investment market, appears unlikely to recover in the near term, and has prompted retirement administrators to propose scrapping it with little of significance to replace it. Pressure on the reemployed annuitant earnings limitations has already prompted the Legislature to eliminate the benefit forfeiture aspect of the prior limits, but that 1989 change has not stemmed continuing pressure to increase the earnings limitation amount significantly. More retirees appear to be arranging a post-retirement employment return with their employers, causing contentious disagreements with retirement plans over the employment termination requirement of current retirement benefit plans. Early retirement provisions that favor or require long service credit periods, such as the "Rule of 90," also have resulted in recent increased requests for prior service credit purchase authorizations.

Attachment A

Background Information on the "Rule of 90"

The "Rule of 90" benefit tier is an early normal retirement age provision that was initially enacted for the General Employee Retirement Plan of the Public Employees Retirement Association (PERA-General) in 1982 and that was extended in 1989 to all other general employee (non public safety employee) Minnesota public pension plans, for pre-July 1, 1989, hires only.

The historic reason for creating and maintaining pension plans, in the private sector or the public sector, is to augment an employer's personnel and compensation system by assisting in the recruitment of new qualified employees, the retention of existing qualified employees, and the systematic out-transitioning of existing employees at the conclusion of their normally expected working careers. The pension system does this by providing retirement annuities (and frequently other casualty or ancillary benefit coverage) that are deemed adequate in view of both the employer and the employees and that are deemed affordable by the employer. This traditional pension plan purpose apparently underlies the development of public pension plans in Minnesota, although it never has clearly been articulated in law.

The systematic out-transitioning of existing employees at the conclusion of their normally expected working careers is the basis for setting normal retirement ages. The Commission's Principles of Pension Policy indicate that the normal retirement age of Minnesota public pension plans should be set in accord with the employability limits of the average public employee, and indicate that the normal retirement age generally should differentiate between general public employees and set at an earlier age for protective and public safety employees.

Age 65 has come to be the traditional age at which many employees are expected to retire. It is, however, unclear why this age has become the regularly expected retirement age for many public retirement plans. Age 65 does not appear to represent an empirically determined conclusion about when most employees retire from the experience of employees before the creation of Social Security and the significant expansion of employment-based pension coverage in the 1930s. Before the 1930s, retirement for most people appears to have been a function of a physical inability to continue in employment, at whatever age that occurred. Until recent decades, the most impoverished sector of the American population was older people. Since the 1960s, in both larger corporate pension plans and public employee pension plans, the trend has been to institute normal retirement ages earlier than age 65. In the counter direction, based on considerations of lengthening expected lifespan and of the related cost of providing benefits for ever-lengthening retirement periods, Social Security has instituted a later full benefit retirement age, as follows:

Social Security

Year of Birth	Normal Retirement Age	Year of Birth	Normal Retirement Age
Before 1938	Age 65	1955	Age 66, 2 months
1938	Age 65, 2 months	1956	Age 66, 4 months
1939	Age 65, 4 months	1957	Age 66, 6 months
1940	Age 65, 6 months	1958	Age 66, 8 months
1941	Age 65, 8 months	1959	Age 66, 10 months
1942	Age 65, 10 months	1960 and later	Age 67
1943-1954	Age 66		

The following compares the normal retirement ages applicable to the various general employee Minnesota public pension plans:

Retirement Plan	Normal Retirement Age Provisions
1. General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General)	If hired before July 1, 1989: Age 65; Age 62 with 30 years of service; or "Rule of 90" If hired after June 30, 1989; Social Security full benefit age, with a maximum age of age 66
2. General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General)	If hired before July 1, 1989: Age 65; Age 62 with 30 years of service; or "Rule of 90" If hired after June 30, 1989; Social Security full benefit age, with a maximum age of age 66
3. Teachers Retirement Association (TRA)	If hired before July 1, 1989: Age 65; Age 62 with 30 years of service; or "Rule of 90" If hired after June 30, 1989; Social Security full benefit age, with a maximum age of age 66

4. Duluth Teachers Retirement Fund Association (DTRFA)	If hired before July 1, 1989: Age 62 with 30 years of service; or "Rule of 90" If hired after June 30, 1989; Social Security full benefit age, with a maximum age of age 66
5. St. Paul Teachers Retirement Fund Association (SPTRFA)	a. Basic Program: Age 65; Age 60 with 25 years of service; or "Rule of 90" b. Coordinated Program: If hired before July 1, 1989: Age 65; Age 62 with 30 years of service; a "Rule of 90" If hired after June 30, 1989: Social Security full benefit age, with a maximum age of age 66
6. Minneapolis Employees Retirement Fund (MERF)	Age 65; Age 60 with 10 years of service; or any age with 30 years of service
7. Legislators Retirement Plan	Age 62
8. Elective State Officers Retirement Plan	Age 62
9. MSRS Military Affairs Department Retirement Plan	Mandatory federal military retirement age or age 65
10. Transportation Department Pilots Retirement Plan	Age 62
11. Judges Retirement Plan	Age 65

The age 62 with 30 years of service and the "Rule of 90" provisions are early normal retirement age provisions, where a benefit unreduced for early retirement is provided at an age before the generally applicable normal retirement age. The age 62 with 30 years of service early normal retirement age provision was added to the statewide general employee retirement plans in 1973 as the first generally applicable early normal retirement age provision. The "Rule of 90" early normal retirement age provision was enacted for the General Employees Retirement Plan of the Public Employees Retirement Association (PERA-General) in 1982 (Laws 1982, Chapter 519, Section 2). In 1989 (Laws 1989, Chapter 319, Article 13), the "Rule of 90" provision was extended to the General State Employees Retirement Plan of the Minnesota State Retirement System (MSRS-General), the Teachers Retirement Association (TRA), and the coordinated programs of the first class city teachers retirement fund associations, applicable only to pre-July 1, 1989, hires. That restriction was also made applicable to PERA-General in 1989.

The "Rule of 90" tier and the "Level Benefit" tier compare as follows:

	Rule of 90	**Level Benefit**
Normal Retirement Eligibility:	Age 65 and three years of allowable service. Age 62 and 30 years of allowable service. "Rule of 90," where the sum of age and allowable service equals or exceeds 90. Proportionate requirement annuity is available at age 65 and one year of allowable service.	The greater of age 65 or the age eligible for full Social Security retirement benefits (but not to exceed age 66) and three years of allowable service. Proportionate retirement annuity is available at normal retirement age and one year of allowable service.
Retirement Amount:	1.2% of average salary for each of the first 10 years of allowable service and 1.7% of average salary for each subsequent year.	1.7% of average salary for each year of allowable service.
Early Reduced Retirement Eligibility:	Age 55 and three years of allowable service. Any age with 30 years of allowable service.	Age 55 with three years of allowable service.

Retirement Amount:	The greater of 1.2% of average salary for each of the first 10 years of allowable service and 1.7% of average salary for each subsequent year with reduction of 0.25% for each month the member is under age 65 at time of retirement (age 62 if 30 years of allowable service). No reduction if age plus years of allowable service totals 90; **OR** 1.7% of average salary for each year of allowable service assuming augmentation to age 65 at 3% per year and actuarial reduction for each month the member is under age 65.	1.7% of average salary for each year of allowable service assuming augmentation to age eligible for full Social Security retirement benefits at 3% per year and actuarial reduction for each month the member is under the full Social Security benefit retirement age but not to exceed age 66.

Plan members hired before July 1, 1989, have the option to receive the greater of their "Rule of 90" tier benefit or the "Level Benefit" tier benefit. Plan members hired after June 30, 1989, only have the "Level Benefit" tier benefit.

Attachment B

1989 Pension Legislation: "Rule of 90" vs. Level Benefit Increase

In 1989 (Laws 1989, Chapter 319), the Legislature enacted a controversial omnibus retirement bill that included a major benefit increase (see Article 13).

The 1989 benefit increase legislation included the following:

a. Reduction in Vesting Requirement. The vesting period is reduced from five years to three years. Normal retirement, early retirement, disability, portability, and survivor benefit provisions are changed to three year service eligibility rather than five year.

b. Increased interest on refunds. Interest on refunds of member contributions taken when an individual leaves employment is increased to six percent from five percent.

c. Increase in Deferred Annuity Augmentation. Under prior law, individuals who have vested and then leave employment prior to retirement can have a deferred annuity, leaving their contributions in the retirement plan and eventually receiving an annuity at retirement age. Deferred annuities augmented at three percent per year during the deferral period. Under the new law, augmentation increases to five percent on January 1st of the year after the member reaches age 55.

d. Automatic Bounce-Back, Joint and Survivor Annuity. The new law provides a subsidized, automatic bounce-back annuity for individuals selecting a joint and survivor annuity. If the designated beneficiary of a joint and survivor annuity dies before the annuitant, the ex-employee's annuity automatically bounces back to the single life annuity level.

e. New Level Benefit Formula, Post-1989 Employees. New employees will receive a level formula of 1.5 percent credit for all years of service, rather than the current one percent for each of the first ten years of service, followed by 1.5 percent thereafter. If the individual retires before the normal retirement age, the benefit is actuarially reduced. The normal retirement age for new employees will be automatically changed to correspond to the Social Security retirement age, as that changes over time. The normal retirement age for existing employees remains at age 65.

f. Current Benefit Formula with Three Percent Early Retirement Reduction. A benefit accrual of one percent for each of the first ten years, plus 1.5 percent for each year thereafter, with three percent annual reduction for early retirement, or

g. Level Benefit Formula with Actuarial Reduction. 1.5 percent for all years of service, with actuarial reduction for early retirement, or

h. Rule of 90 with Current Benefit Formula Rates. If age plus years of service equal at least 90, the benefit accrual is one percent for each of the first ten years of service, followed by 1.5 percent per year thereafter, with no early retirement reduction. Use of the "Rule of 90" must be reviewed periodically. If use exceeds 45 percent of the members eligible to retire under that provision, the provision is voided.

i. Contribution Rate Increases. The employee contribution rate for members increased.

j. Interest Assumption Increases. The pre-retirement interest rate assumption is increased to 8.5 percent for the following retirement plans: the Legislators Retirement, MSRS-General, MSRS Military Affairs, MSRS Transportation Department Pilots, MSRS-Correctional, MSRS State Troopers, Elective State Officers, PERA, PERA-P&F, PERA-Local Correctional, TRA, and Judges Retirement. For the Minneapolis, St. Paul, and Duluth teacher funds, the pre- and post- retirement interest assumption is increased to 8.5 percent.

k. Amortization Date Extended. For all the above mentioned funds, the amortization period is extended to the year 2020.

The 1989 benefit increase legislation was reviewed as a proposal by the Legislative Commission on Pensions and Retirement, but was not recommended by the Commission because of personal disagreements on the Commission that limited its function. The 1989 legislation built on Commission hearings on benefit adequacy, pension funding, and pension administration issues that occurred during the 1988-1989 Interim. The 1987-1988 and 1989-1990 membership of the Legislative Commission on Pensions and Retirement was as follows:

1987-1988

Senate	House
Donald M. Moe (St. Paul)	Karen Clark (Minneapolis)
Lawrence J. Pogemiller (Minneapolis)	Bob A. Johnson (Bemidji)
Earl W. Renneke (LeSueur)	Gerald Knickerbocker (Hopkins)
Gene Waldorf (St. Paul)	Leo J. Reding (Austin)
Darrel Wegscheid (Apple Valley)	Wayne Simoneau (Fridley), Chair

1989-1990

Senate	House
Donald M. Moe (St. Paul), Chair	Bob A. Johnson (Bemidji)
Steven Morse (Dakota)	Gerald Knickerbocker (Hopkins)
Lawrence J. Pogemiller (Minneapolis)	Rich O'Connor (St. Paul)
Earl W. Renneke (LeSueur)	Leo J. Reding (Austin)
Gene Waldorf (St. Paul)	Wayne Simoneau (Fridley)

The 1989 benefit increase legislation took a somewhat tortured path to enactment. Benefit increase proposals were introduced as S.F. 1329 (Pogemiller); H.F. 1302 (Simoneau) and were heard by the Commission, but the bill was laid over without further action on April 12, 1989. Eventually, S.F. 783 (Solon) became the vehicle bill. S.F. 783 (Solon), a bill introduced to authorize a fifth year incentive plan for teachers in the Duluth public schools, passed the Senate on May 1,1989, on a 67-0 vote. On the House floor, S.F. 783 (Solon), a non-pension bill, was amended with a "delete-everything" amendment that included the various retirement benefit increase proposals that were assembled by the Pension Subcommittee, chaired by Representative Bob A. Johnson, and by the House Governmental Operations Committee, chaired by Representative Wayne Simoneau, and was returned to the Senate on May 19, 1989, four days before the adjournment deadline for the 1989 Legislative Session. Although the Duluth teacher salary provision was not retained by the House in S.F. 783 (Solon), Senator Sam Solon moved that the Senate concur in the House amendments on May 19, 1989. Senator Lawrence J. Pogemiller made a substitute motion for the Solon concurrence motion that the Senate not concur in the House amendment and that a conference committee be named. The Senate approved the Pogemiller motion to not concur on a vote of 34-33. Current, past, and future Commission members voted as follows:

For Pogemiller Motion	Against Pogemiller Motion
Langseth	Johnson, D.E.
Moe, D.M.	Larson
Morse	Metzen
Pogemiller	
Renneke	
Spear	
Stumpf	
Waldorf	

Subsequently, five Senators were appointed as a conference committee, Senators Solon, Moe, D.M., Moe, R.D., Pogemiller and Renneke. The House failed to appoint conferees and on May 22, 1989, the final day of the legislative session, Senator Gen Olson moved to recall S.F. 783 (Solon) from the House and the Olson motion was approved on a 35-28 vote, with current, past, and future Commission members voting as follows:

For Olson Motion	Against Olson Motion
Johnson, D.E.	Langseth
Larson	Moe, D.M.
Metzen	Morse
Renneke	Pogemiller
	Spear
	Stumpf
	Waldorf

The House returned S.F. 783 (Solon) to the Senate later on May 22, 1989, and Senator Gen Olson then moved that the Senate reconsider the vote on the Pogemiller non-concurrence motion of May 19, 1989. The Olson reconsideration motion prevailed on a voice vote, whereupon Senator Sam Solon moved that the Senate concur in the House amendments. Senator Richard Cohen moved to table the Solon motion, but the Cohen motion failed on a 23-37 vote, with current, past, and future Commission members voting as follows:

For Cohen Motion	Against Cohen Motion
Langseth	Johnson, D.E.
Moe, D.M.	Larson
Morse	Metzen
Renneke	Stumpf
Spear	
Waldorf	

The Senate then approved the Solon concurrence motion on a 37-28 vote, with past, current, and future Commission members voting as follows:

For Solon Motion	Against Solon Motion
Johnson, D.E.	Langseth
Larson	Moe, D.M.
Metzen	Pogemiller
Morse	Renneke
	Spear
	Stumpf
	Waldorf

On final passage on S.F. 783 (Solon), the Senate approved the bill and sent it to the Governor on a 40-26 vote, with the following votes:

Those who voted in the affirmative were:

Anderson	Decker	Knutson	McQuaid	Purfeerst
Beckman	Dicklich	Kroening	Mehrkens	Ramstad
Belanger	Frank	Laidig	Metzen	Samuelson
Benson	Frederick	Lantry	Morse	Schmitz
Bernhagen	Frederickson, D.F.	Larson	Novak	Solon
Bertram	Johnson, D.E.	Lessard	Olson	Storm
Brataas	Johnson, D. J.	Marty	Pariseau	Taylor
Chmielewski	Knaak	McGowan	Piper	Vickerman

Those who voted in the negative were:

Adkins	Davis	Langseth	Peterson, D.C.	Stumpf
Berg	DeCramer	Luther	Peterson, R.W.	Waldorf
Berglin	Diessner	Merriam	Pogemiller	
Brandel	Freeman	Moe, D.M.	Reichgott	
Cohen	Gustafson	Moe, R.D.	Renneke	
Dahl	Hughes	Pehler	Spear	

Bonnie Wurst, ASA

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February 11, 2008

Mr. John Wicklund
Assistant Executive Director, Administration
Minnesota Teachers Retirement Association
60 Empire Drive, Suite 400
St. Paul, MN 55103-4000

Subject: Cost Study – Delayed Funding / Equalization of Benefits

Dear John:

We recently estimated the financial impact of equalizing benefits for Tier I and Tier II members to be 1.6% of pay. This cost represents the contributions needed to cover the additional unfunded liability and normal cost. Please refer to our letter dated February 11, 2008 for more information.

We also estimated the cost of delaying funding for a 2-year period. If contribution increases are not effective until 2 years after the benefit improvement, the cost increases to 1.8% of pay. We estimated this amount by rolling forward the additional liability due to the benefit improvement with interest and normal cost, and amortizing over 28 years instead of 30.

Results are based on financial and participant data provided by TRA. Baseline results are as of July 1, 2007. We used the assumptions, methods, and plan provisions (except as noted) as summarized in the 2007 valuation report prepared by the Segal Company on November 28, 2007 and the letter from Mercer dated February 11, 2008.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details, as may be appropriate. The undersigned credentialed actuary meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

Sincerely,

Bonnie

Bonnie Wurst, A.S.A.

Enclosure

Copy: Mark Schulte, Julie Thompson, Jim Verlautz, Sheri Wroblewski – Mercer

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

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MERCER

MARSH MERCER KROLL
GUY CARPENTER OLIVER WYMAN

February 11, 2008

Mr. John Wicklund
Assistant Executive Director, Administration
Minnesota Teachers Retirement Association
60 Empire Drive, Suite 400
St. Paul, MN 55103-4000

Subject: Cost Study – Equalization of Benefits for Tier I and Tier II Members

Dear John:

We estimated the financial effect of equalizing benefits for Tier I and Tier II members of the Teachers Retirement Association Fund. The results are described below and summarized in Exhibit I, attached.

Background – Current Benefits

Coordinated members hired on or after July 1, 1989 (Tier II members) are currently entitled to benefits based on a formula multiplier of 1.7% for service prior to July 1, 2006 and 1.9% for service after July 1, 2006 (Level Formula). This benefit is actuarially reduced for retirement prior to Social Security normal retirement age, not to exceed age 66.

Coordinated members hired before July 1, 1989 (Tier I members) are currently entitled to the greater of the following benefits:

1. The Level Formula described above for Tier II members, actuarially reduced for commencement prior to age 65; or

2. Benefits based on a formula multiplier of 1.2% (1.4% for years after July 1, 2006) for the first 10 years, 1.7% for each additional year earned prior to July 1, 2006, and 1.9% for each additional year earned after July 1, 2006 (Step Formula). The Step Formula benefits are reduced 3% per year for retirement prior to age 65 (age 62 if 30 years), or unreduced if age plus service totals 90 (Rule of 90).

Equalization of Benefits Study

In this cost study, Tier II members would be entitled to the same benefits as the Tier I benefits described above. Under this proposal, the actuarial accrued liability would increase by $436,000,000 and the required contribution would increase by 1.6% of pay.

The cost of the proposed benefit improvements will ultimately depend on actual retirement experience. We anticipate fewer Rule of 90 retirements among Tier II members than Tier I members. This expectation is based in part on the national trend toward later retirement ages, longer life expectancies, and the rising cost of health care. The retirement rates described above are summarized in Exhibit II, attached.

Results are based on financial and 2007 participant data provided by TRA. All values were determined as of July 1, 2007 using the assumptions, methods, and plan provisions (except as noted) as summarized in the 2007 valuation report provided by the Segal Company on November 28, 2007. Results are based on a full funding amortization date of June 30, 2037. The actuarial value of assets reflects the deficiency in the Post Fund.

Benefits for Basic members were unchanged; as were benefits for retired and terminated members. Former Minneapolis Teachers Retirement Fund Association (MTRFA) members were included in our analysis, with the proposed changes affecting active MTRFA Coordinated members only.

We are available to answer any questions on the material contained in the report, or to provide explanations or further details, as may be appropriate. The undersigned credentialed actuary meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report.

Sincerely,

Bonnie

Bonnie Wurst, A.S.A.

Enclosure

Copy: Mark Schulte, Julie Thompson, Jim Verlautz, Sheri Wroblewski – Mercer

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

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Teachers Retirement Association
Exhibit I - Equalize Benefits for Tier I & Tier II Employees
(000's)

	Baseline 7/1/2007 Valuation	**Study** Greater of Tier I or Tier II Benefits for All Members	Change from Baseline
Actuarial Accrued Liability	21,537,000	21,973,000	436,000
Actuarial Assets	18,794,000	18,794,000	-
Unfunded AAL	2,743,000	3,179,000	436,000
Funded Percentage	87.3%	85.5%	-1.8%
Total Normal Cost	352,000	390,000	38,000
Required Contribution			
Normal Cost	9.2%	10.2%	1.0%
Amortization of UAAL	3.8%	4.4%	0.6%
Expense Assumption	0.3%	0.3%	0.0%
Total	13.3%	14.9%	1.6%
Statutory Contribution	11.8%	11.8%	0.0%
Sufficiency (Deficiency)	-1.5%	-3.1%	-1.6%

Teachers Retirement Association
Exhibit II - Assumed Retirement Rates for Plan Study

	Valuation Assumption		Study 1 - Tier II Members Benefit Equalization Study	
Age	Rule-90*	Non-Rule 90	Rule-90**	Non-Rule 90
55	50%	9%	50%	9%
56	50%	9%	35%	9%
57	50%	9%	35%	9%
58	50%	9%	35%	9%
59	50%	12%	35%	12%
60	50%	12%	35%	12%
61	50%	20%	35%	20%
62	50%	20%	50%	20%
63	50%	20%	50%	20%
64	50%	20%	50%	20%
65	50%	50%	50%	50%
66	35%	35%	35%	35%
67	35%	35%	35%	35%
68	35%	35%	35%	35%
69	35%	35%	35%	35%
70	35%	35%	35%	35%
71+	100%	100%	100%	100%

* Tier I Employees Only

** In Year that Rule of 90 is Attained, Assumed Retirement Rate is 50%

State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-FIFTH SESSION

HOUSE FILE NO. 3926

March 10, 2008
Authored by Thissen, Bigham, Moe, Kalin, Wardlow and others
The bill was read for the first time and referred to the Committee on Governmental Operations, Reform, Technology and Elections

A bill for an act
relating to retirement; Teachers Retirement Association; extending the "Rule of 90" benefit tier to post-1989 hires; amending Minnesota Statutes 2006, sections 354.05, subdivision 38; 354.42, subdivisions 2, 3; 354.44, subdivision 1; Minnesota Statutes 2007 Supplement, section 354.44, subdivision 6.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2006, section 354.05, subdivision 38, is amended to read:

Subd. 38. **Normal retirement age.** "Normal retirement age" means age 65 for a person who ~~first became~~ <u>is</u> a member of the association ~~or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989. For a person who first becomes a member of the association after June 30, 1989, normal retirement age means the higher of age 65 or "retirement age," as defined in United States Code, title 42, section 416(l), as amended, but not to exceed age 66~~<u>, irrespective of the person's date of first membership</u>.

<u>**EFFECTIVE DATE.** This section is effective July 1, 2008.</u>

Sec. 2. Minnesota Statutes 2006, section 354.42, subdivision 2, is amended to read:

Subd. 2. **Employee.** (a) The employee contribution to the fund is an amount equal to the following percentage of the salary of a member:

(1) ~~after July 1, 2006,~~ for a teacher employed by Special School District No. 1, Minneapolis, <u>after July 1, 2006, and before July 1, 2009,</u> 5.5 percent if the teacher is a coordinated member, and 9.0 percent if the teacher is a basic member<u> and after June 30, 2009, ... percent if the teacher is a coordinated member, and ... percent if the teacher is a basic member</u>;

(2) for every other teacher, after July 1, 2006, 5.5 percent if the teacher is a coordinated member and 9.0 percent if the teacher is a basic member and after June 30, 2009, ... percent if the teacher is a coordinated member and ... percent if the teacher is a basic member.

(b) This contribution must be made by deduction from salary. Where any portion of a member's salary is paid from other than public funds, the member's employee contribution must be based on the entire salary received.

EFFECTIVE DATE. This section is effective July 1, 2008.

Sec. 3. Minnesota Statutes 2006, section 354.42, subdivision 3, is amended to read:

Subd. 3. **Employer.** (a) The regular employer contribution to the fund by Special School District No. 1, Minneapolis, after July 1, 2006, and before July 1, 2007, is an amount equal to 5.0 percent of the salary of each of its teachers who is a coordinated member and 9.0 percent of the salary of each of its teachers who is a basic member. After July 1, 2007, and before July 1, 2009, the regular employer contribution to the fund by Special School District No. 1, Minneapolis, is an amount equal to 5.5 percent of the salary of each coordinated member and 9.5 percent of the salary of each basic member and after June 30, 2009, an amount equal to ... percent of the salary of each coordinated member and ... percent of the salary of each basic member. The additional employer contribution to the fund by Special School District No. 1, Minneapolis, after July 1, 2006, is an amount equal to 3.64 percent of the salary of each teacher who is a coordinated member or is a basic member.

(b) The employer contribution to the fund for every other employer is an amount equal to 5.0 percent of the salary of each coordinated member and 9.0 percent of the salary of each basic member before July 1, 2007, ~~and~~ 5.5 percent of the salary of each coordinated member and 9.5 percent of the salary of each basic member after June 30, 2007, and before July 1, 2009, and ... percent of the salary of each coordinated member and ... percent of the salary of each basic member after June 30, 2009.

EFFECTIVE DATE. This section is effective July 1, 2008.

Sec. 4. Minnesota Statutes 2006, section 354.44, subdivision 1, is amended to read:

Subdivision 1. **Requirements as to age and service.** (a) Any member or former member who ceases or has ceased to render teaching services in any school or institution covered by the provisions of this chapter, and who has attained the age of at least 55 years with not less than three years allowable service, or who has received credit for not less than 30 years allowable service regardless of age, is entitled upon written application to a retirement annuity.

(b) Irrespective of the person's date of first membership before July 1, 1989, or after June 30, 1989, a member or former member who ceases or has ceased to render teaching services with an employing unit covered by this chapter who has credit for at least 30 years of allowable service, irrespective of age, is entitled, upon filing a written application, to a retirement annuity under this section.

EFFECTIVE DATE. This section is effective July 1, 2008.

Sec. 5. Minnesota Statutes 2007 Supplement, section 354.44, subdivision 6, is amended to read:

Subd. 6. **Computation of formula program retirement annuity.** (a) The formula retirement annuity must be computed in accordance with the applicable provisions of the formulas stated in paragraph (b) or (d) on the basis of each member's average salary under section 354.05, subdivision 13a, for the period of the member's formula service credit.

(b) This paragraph, in conjunction with paragraph (c), applies to a person who ~~first became~~ is a member of the association ~~or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989~~, irrespective of the person's date of first membership, unless paragraph (d), in conjunction with paragraph (e), produces a higher annuity amount, in which case paragraph (d) applies. The average salary as defined in section 354.05, subdivision 13a, multiplied by the following percentages per year of formula service credit ~~shall determine~~ determines the amount of the annuity to which the member qualifying therefor is entitled for service rendered before July 1, 2006:

	Coordinated Member	Basic Member
Each year of service during first ten	the percent specified in section 356.315, subdivision 1, per year	the percent specified in section 356.315, subdivision 3, per year
Each year of service thereafter	the percent specified in section 356.315, subdivision 2, per year	the percent specified in section 356.315, subdivision 4, per year

For service rendered on or after July 1, 2006, the average salary as defined in section 354.05, subdivision 13a, multiplied by the following percentages per year of service credit, determines the amount the annuity to which the member qualifying therefor is entitled:

	Coordinated Member	Basic Member
Each year of service during first ten	the percent specified in section 356.315, subdivision 1a, per year	the percent specified in section 356.315, subdivision 3, per year
Each year of service after ten years of service	the percent specified in section 356.315, subdivision 2b, per year	the percent specified in section 356.315, subdivision 4, per year

(c)(i) This paragraph applies only to a person who ~~first became~~ is a member of the association ~~or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989~~, irrespective of the person's date of first membership, and whose annuity is higher when calculated under paragraph (b), in conjunction with this paragraph than when calculated under paragraph (d), in conjunction with paragraph (e).

(ii) Where any member retires prior to the normal retirement age under a formula annuity, the member ~~shall~~ is entitled to be paid a retirement annuity in an amount equal to the normal annuity provided in paragraph (b) reduced by one-quarter of one percent for each month that the member is under normal retirement age at the time of retirement except that for any member who has 30 or more years of allowable service credit, the reduction ~~shall~~ may be applied only for each month that the member is under age 62.

(iii) Any member whose attained age plus credited allowable service totals 90 years is entitled, upon application, to a retirement annuity in an amount equal to the normal annuity provided in paragraph (b), without any reduction by reason of early retirement.

(d) This paragraph applies to a member ~~who has become at least 55 years old and first became a member of the association after June 30, 1989, and to any other member who has become at least 55 years old and~~, irrespective of the person's date of first membership, whose annuity amount when calculated under this paragraph and in conjunction with paragraph (e), is higher than it is when calculated under paragraph (b), in conjunction with paragraph (c). For a basic member, the average salary, as defined in section 354.05, subdivision 13a, multiplied by the percent specified by section 356.315, subdivision 4, for each year of service for a basic member shall determine the amount of the retirement annuity to which the basic member is entitled. The annuity of a basic member who was a member of the former Minneapolis Teachers Retirement Fund Association as of June 30, 2006, must be determined according to the annuity formula under the articles of incorporation of the former Minneapolis Teachers Retirement Fund Association in effect as of that date. For a coordinated member, the average salary, as defined in section 354.05, subdivision 13a, multiplied by the percent specified in section 356.315, subdivision 2, for each year of service rendered before July 1, 2006, and by the percent specified in section 356.315, subdivision 2b, for each year of service rendered on or after July 1, 2006, determines the amount of the retirement annuity to which the coordinated member is entitled.

(e) This paragraph applies to a person ~~who has become at least 55 years old and first becomes a member of the association after June 30, 1989, and to any other member who has become at least 55 years old and~~, irrespective of the person's date of first membership, whose annuity is higher when calculated under paragraph (d) in conjunction with this paragraph than when calculated under paragraph (b), in conjunction with paragraph (c). An employee who retires under the formula annuity before the normal retirement age shall be paid the normal annuity provided in paragraph (d) reduced so that the reduced annuity is the actuarial equivalent of the annuity that would be payable to the employee if the employee deferred receipt of the annuity and the annuity amount were augmented at an annual rate of three percent compounded annually from the day the annuity begins to accrue until the normal retirement age if the employee became an employee before July 1, 2006, and at 2.5 percent compounded annually if the employee becomes an employee after June 30, 2006.

(f) No retirement annuity is payable to a former employee with a salary that exceeds 95 percent of the governor's salary unless and until the salary figures used in computing the highest five successive years average salary under paragraph (a) have been audited by the Teachers Retirement Association and determined by the executive director to comply with the requirements and limitations of section 354.05, subdivisions 35 and 35a.

EFFECTIVE DATE. This section is effective July 1, 2008.