

**S.F. 506**

(Betzold, by request)

**H.F. 592**

(Thissen)

**Executive Summary of Commission Staff Materials**

<u>Affected Pension Plan(s):</u>	TRA, DTRFA, and SPTRA
<u>Relevant Provisions of Law:</u>	Minnesota Statutes, Chapters 354, 354A, and 356
<u>General Nature of Proposal:</u>	Benefit Accrual Rates, Member and Employer Contribution Rates, and State Education Aid Increases
<u>Date of Summary:</u>	March 17, 2009

**Specific Proposed Change(s)**

The proposed legislation makes the following changes:

1. Increase in School Operating State Aid. Starting in Fiscal Year 2012, state aid payments to school operating funds would be increased by a total of two percent of Fiscal Year 2012 covered salaries, in four equal one-half percent of salary increments, for employing units qualified to received state aid and covered by the Teachers Retirement Association (TRA), by the Duluth Teachers Retirement Fund Association (DTRFA), and by the St. Paul Teachers Retirement Fund Association (SPTRFA) (Section 1);
2. Reduces Normal Retirement Age From Age 66 to Age 65. In 2011, the normal retirement age is reduced from age 66 to age 65 for those teachers who have a Social Security age 66 or age 67 full benefit receipt age and the age 62 with 30 years of service credit normal retirement age applicable to teachers hired before July 1, 1989, is extended to all teachers (Sections 2, 9, 10, 18, and 19);
3. Increases Coordinated Program Member Contribution. In four annual installments beginning in 2011, the Coordinated program member contribution rate is increased by two percent of covered salary (Sections 3 and 11);
4. Increases Coordinated Program Employer Contribution. In four annual installments beginning in 2011, the Coordinated Program employer contribution rate is increased by two percent of covered salary (Sections 4 and 12);
5. Adds Retirement Plan Board Authority for Contribution Rate Adjustments. If the actuarial report of the retirement plan indicates a contribution deficiency or a contribution sufficiency after 2014, the applicable retirement board has authority to adjust member and employer contribution rates by one-quarter of one percent annual increments (Sections 5 to 8 and 13 to 16); and
6. Increases the Coordinated Program Benefit Accrual Rates. The benefit accrual formula percentage rate for TRA and the two first class city teacher retirement plans for post-2011 service credit for the uniformity tier of benefits is increased from 1.9 percent per year to 2.1 percent per year and the benefit accrual formula percentage rates for the first class city teacher retirement fund associations' Coordinated Programs are increased to the post-2006 TRA benefit accrual formula percentage rates for the Rule-of-90 benefit tier for service rendered after July 1, 2011 (Sections 17, 18 and 20).

**Policy Issues Raised by the Proposed Legislation**

1. Current actuarial condition of the three teacher retirement funds.
2. Actuarial cost of benefit increase.
3. Affordability of the state education aid increase associated with the proposed employer contribution increase.
4. Conformity with Commission Pension Policy Principles in funding.
5. Conformity with Commission Pension Policy Principles – uniformity.
6. Alternate benefit increase and funding modifications – plan consolidation.

**Potential Amendments**

No technical or substantive amendments suggested by the Commission staff.

**Commission Assumption Change Approval Motion**

**Resolution 09-1**, a motion approving a change in the TRA retirement rate actuarial assumption, is attached.



TO: Members of the Legislative Commission on Pensions and Retirement  
FROM: Lawrence A. Martin, Executive Director *LAM*  
RE: S.F. 506 (Betzold, by request); H.F. 592 (Thissen): Teacher Retirement Plans;  
Normal Retirement Age, Contribution Rate, and Benefit Accrual Rate Changes  
DATE: March 16, 2009

General Summary of S.F. 506 (Betzold, by request); H.F. 592 (Thissen)

S.F. 506 (Betzold, by request); H.F. 592 (Thissen) amends portions of Minnesota Statutes, Chapters 127A, 354, 354A, and 356, the laws governing or affecting the Teachers Retirement Association (TRA) and the first class city teacher retirement fund associations, by making the following changes:

1. Increase in School Operating State Aid. Starting in Fiscal Year 2012, state aid payments to school operating funds would be increased by a total of two percent of Fiscal Year 2012 covered salaries, in four equal one-half percent of salary increments, for employing units qualified to received state aid and covered by the Teachers Retirement Association (TRA), by the Duluth Teachers Retirement Fund Association (DTRFA), and by the St. Paul Teachers Retirement Fund Association (SPTRFA) (Section 1);
2. Reduces Normal Retirement Age From Age 66 to Age 65. In 2011, the normal retirement age is reduced from age 66 to age 65 for those teachers who have a Social Security age 66 or age 67 full benefit receipt age and the age 62 with 30 years of service credit normal retirement age applicable to teachers hired before July 1, 1989, is extended to all teachers (Sections 2, 9, 10, 18, and 19);
3. Increases Coordinated Program Member Contribution. In four annual installments beginning in 2011, the Coordinated program member contribution rate is increased by two percent of covered salary (Sections 3 and 11);
4. Increases Coordinated Program Employer Contribution. In four annual installments beginning in 2011, the Coordinated Program employer contribution rate is increased by two percent of covered salary (Sections 4 and 12);
5. Adds Retirement Plan Board Authority for Contribution Rate Adjustments. If the actuarial report of the retirement plan indicates a contribution deficiency or a contribution sufficiency after 2014, the applicable retirement board has authority to adjust member and employer contribution rates by one-quarter of one percent annual increments (Sections 5 to 8 and 13 to 16); and
6. Increases the Coordinated Program Benefit Accrual Rates. The benefit accrual formula percentage rate for TRA and the two first class city teacher retirement plans for post-2011 service credit for the uniformity tier of benefits is increased from 1.9 percent per year to 2.1 percent per year and the benefit accrual formula percentage rates for the first class city teacher retirement fund associations' Coordinated Programs are increased to the post-2006 TRA benefit accrual formula percentage rates for the Rule-of-90 benefit tier for service rendered after July 1, 2011 (Sections 17, 18 and 20).

Relevant Background Information

- **Attachment A** contains background information on teacher retirement coverage.
- **Attachment B** contains background information on the Teachers Retirement Association (TRA).
- **Attachment C** contains background information on the history of the Duluth Teachers Retirement Fund Association (DTRFA).
- **Attachment D** contains background information on the history of the St. Paul Teachers Retirement Fund Association (SPTRFA).
- **Attachment E** contains background information on benefit accrual rates and their function within benefit calculations.

Commission Motion to Approve Assumption Changes

A potential motion for the Commission to approve the use of a revised retirement rate assumption for TRA is attached. The consulting actuary retained by TRA indicates an expectation that future retirement frequency will change as a result of the proposed legislation and has suggested a revised actuarial assumption based on that expectation.

Analysis and Discussion

S.F. 506 (Betzold, by request); H.F. 592 (Thissen), relating to the Teachers Retirement Association (TRA), the Duluth Teachers Retirement Fund Association (DTRFA), and the St. Paul Teachers Retirement Fund Association (SPTRFA), would reduce the normal retirement age for post-1989 hires covered by the applicable plan's Coordinated Program, increase the benefit accrual rate of the first class city teacher retirement fund association Coordinated Programs to match the post-2006 service credit TRA Coordinated Program benefit accrual rates for post-2011 service credit, increase the benefit accrual rate of TRA by two-tenths of one percent for post-2011 service credit, reduce the teacher Coordinated Program normal retirement ages from age 66 to age 65, extend the age 62 with 30 years of service credit early normal retirement age to post-1989 hires in the teacher retirement plans, increase member and employer contribution rates by two percent over four years after 2011, increase state education aid by two percent in four equal annual installments after 2012, and provide each retirement fund's board authority to adjust member and employer contribution rates by one-quarter of one percent increments if the most recent actuarial work indicates a contribution deficiency or contribution sufficiency.

The proposed legislation raises a number of pension or related public policy issues for Commission consideration and potential Commission discussion, as follows:

1. Current Actuarial Condition of the Three Teacher Retirement Funds. The policy issue is the current actuarial condition of the three teacher retirement funds to which the proposed legislation applies. The following sets forth the July 1, 2007, and the July 1, 2008, actuarial valuation results for the three teacher retirement funds:

	TRA				DTRFA			
	2007		2008		2007		2008	
<u>Membership</u>								
Active Members		77,694		76,515		1,150		1,140
Service Retirees		42,679		43,041		1,119		1,128
Disabilitants		636		641		15		17
Survivors		3,223		3,299		93		98
Deferred Retirees		12,636		12,168		321		310
Nonvested Former Members		<u>22,914</u>		<u>22,115</u>		<u>682</u>		<u>676</u>
Total Membership		159,782		157,779		3,380		3,369
<u>Funded Status</u>								
Accrued Liability		\$21,470,314,497		\$22,230,841,000		\$332,216,981		\$363,044,284
Current Assets		<u>\$18,794,389,076</u>		<u>\$18,226,985,000</u>		<u>\$288,264,749</u>		<u>\$298,067,085</u>
Unfunded Accrued Liability		\$2,675,925,421		\$4,003,856,000		\$43,952,232		\$64,977,199
Funding Ratio	87.54%		81.99%		86.77%		82.10%	
<u>Financing Requirements</u>								
Covered Payroll		\$3,814,373,772		\$3,846,190,000		\$58,666,809		\$59,548,231
Benefits Payable		\$1,273,093,384		\$1,330,837,000		\$20,065,048		\$21,579,521
Normal Cost	9.37%	\$357,343,265	8.77%	\$337,281,000	9.23%	\$5,416,358	8.43%	\$5,022,602
Administrative Expenses	<u>0.29%</u>	<u>\$11,061,684</u>	<u>0.27%</u>	<u>\$10,385,000</u>	<u>0.79%</u>	<u>\$463,468</u>	<u>0.83%</u>	<u>\$494,250</u>
Normal Cost & Expense	9.66%	\$368,404,949	9.04%	\$347,666,000	10.02%	\$5,879,826	9.26%	\$5,516,852
Normal Cost & Expense	9.66%	\$368,404,949	9.04%	\$347,666,000	10.02%	\$5,879,826	9.26%	\$5,516,852
Amortization	<u>3.78%</u>	<u>\$144,183,329</u>	<u>6.04%</u>	<u>\$232,310,000</u>	<u>4.51%</u>	<u>\$2,645,873</u>	<u>6.60%</u>	<u>\$3,930,183</u>
Total Requirements	13.44%	\$512,588,278	15.08%	\$579,976,000	14.53%	\$8,525,699	15.87%	\$9,447,035
Employee Contributions	5.51%	\$210,143,378	5.50%	\$211,704,000	5.50%	\$3,226,675	5.50%	\$3,275,153
Employer Contributions	5.72%	\$218,013,895	5.69%	\$218,752,000	5.79%	\$3,396,808	5.79%	\$3,447,843
Employer Add'l Cont.	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0
Direct State Funding	0.49%	\$18,819,110	0.50%	\$19,170,000	0.00%	\$0	0.58%	\$346,000
Other Govt. Funding	0.07%	\$2,500,000	0.06%	\$2,500,000	0.00%	\$0	0.00%	\$0
Administrative Assessment	<u>0.00%</u>	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>	<u>0.00%</u>	<u>\$0</u>
Total Contributions	11.78%	\$449,476,383	11.75%	\$452,126,000	11.29%	\$6,623,483	11.87%	\$7,068,996
Total Requirements	13.44%	\$512,588,278	15.08%	\$579,976,000	14.53%	\$8,525,699	15.87%	\$9,447,035
Total Contributions	<u>11.78%</u>	<u>\$449,476,383</u>	<u>11.75%</u>	<u>\$452,126,000</u>	<u>11.29%</u>	<u>\$6,623,483</u>	<u>11.87%</u>	<u>\$7,068,996</u>
Deficiency (Surplus)	1.65%	\$63,111,895	3.33%	\$127,850,000	3.24%	\$1,902,216	4.00%	\$2,378,039
Amortization Target Date	2037		2037		2032		2032	
Actuary	Segal		Mercer		Segal		Segal	

