St. Paul Teachers' Retirement Fund Association

Serving the retirement needs of St. Paul Teachers since 1909

The Radio Operators – Horace Mann 1922

Aeronautics Training – Johnson Sr. High 2014

September 20, 2017 LCPR Meeting

FY ‘17 Legislative Objectives

- Address the cost of mortality
- Correct current/historic employer contribution shortfall
- Accelerate funded ratio improvement
- Lower investment return assumption to 7.5%

Proven Fiscal Stewardship

Responsibly Balancing Assets, Liabilities and Benefit Decisions

- *Proactively Reduced* investment return assumption from 8.5% to 8 *with no additional funding*
- Significantly *Reduced COLA* adjustments
- *Increased* Employee and Employer contribution rates
- Adopted higher *reductions for early retirement* and lowered assumed salary growth

These changes led to meaningful improvements

Contribution Deficiency reduced from (6.4%) in 2012 to only (0.4%) in 2017

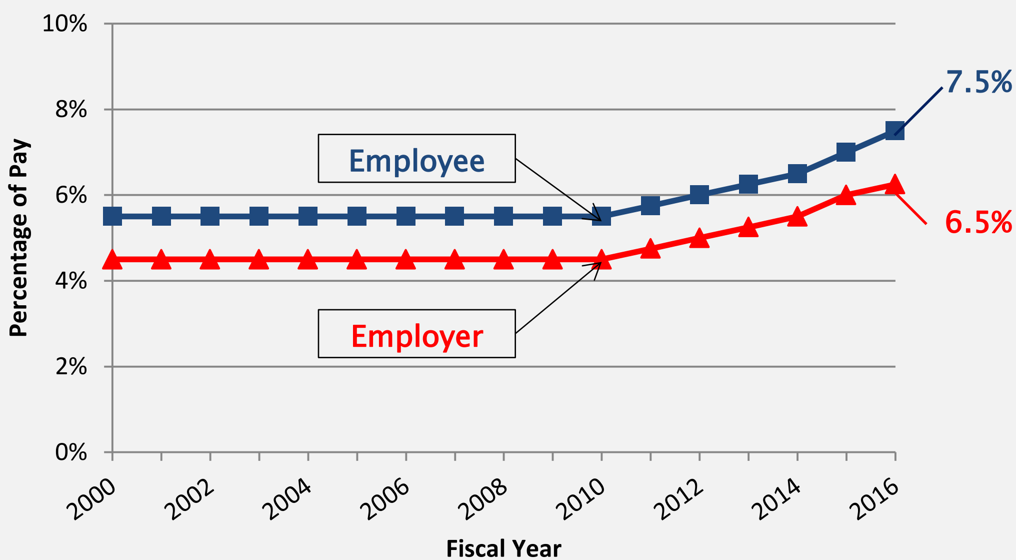
FY	Actuarial	Market
2012	(6.40)%	(7.16)%
2013	(2.80)%	(1.67)%
2014	(2.19)%	0.00%
2015	(1.60)%	(1.28)%
2016	(0.67)%	(1.76)%
2017 (est.)	(0.4)%	(0.5)%

… but after taking into account mortality and 7.5%:

2017 (est.)	(4.2)%

Current SPTRFA Contribution Rates

- Employee regular contribution rates are ***higher*** than the Employer and the National Average
- Employer regular contribution rates are ***lower*** than the National Average

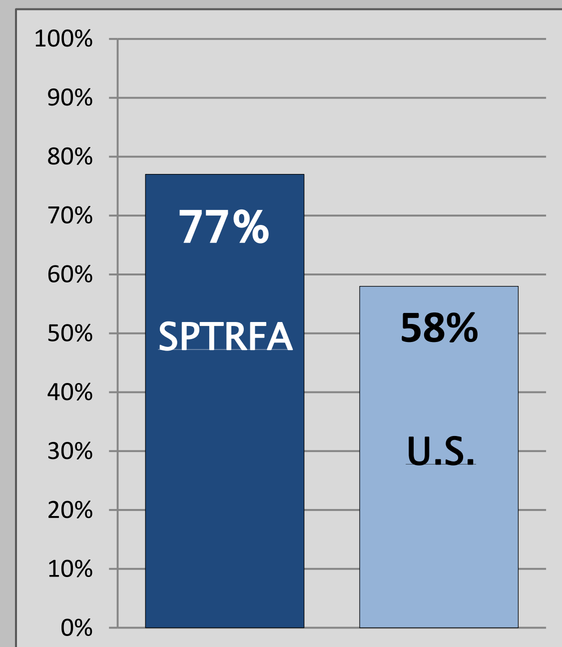


* The Employer also pays a Supplemental Amount of 3.84% and $800,000 annually to address certain past underfunding.

National Median Contribution Rates

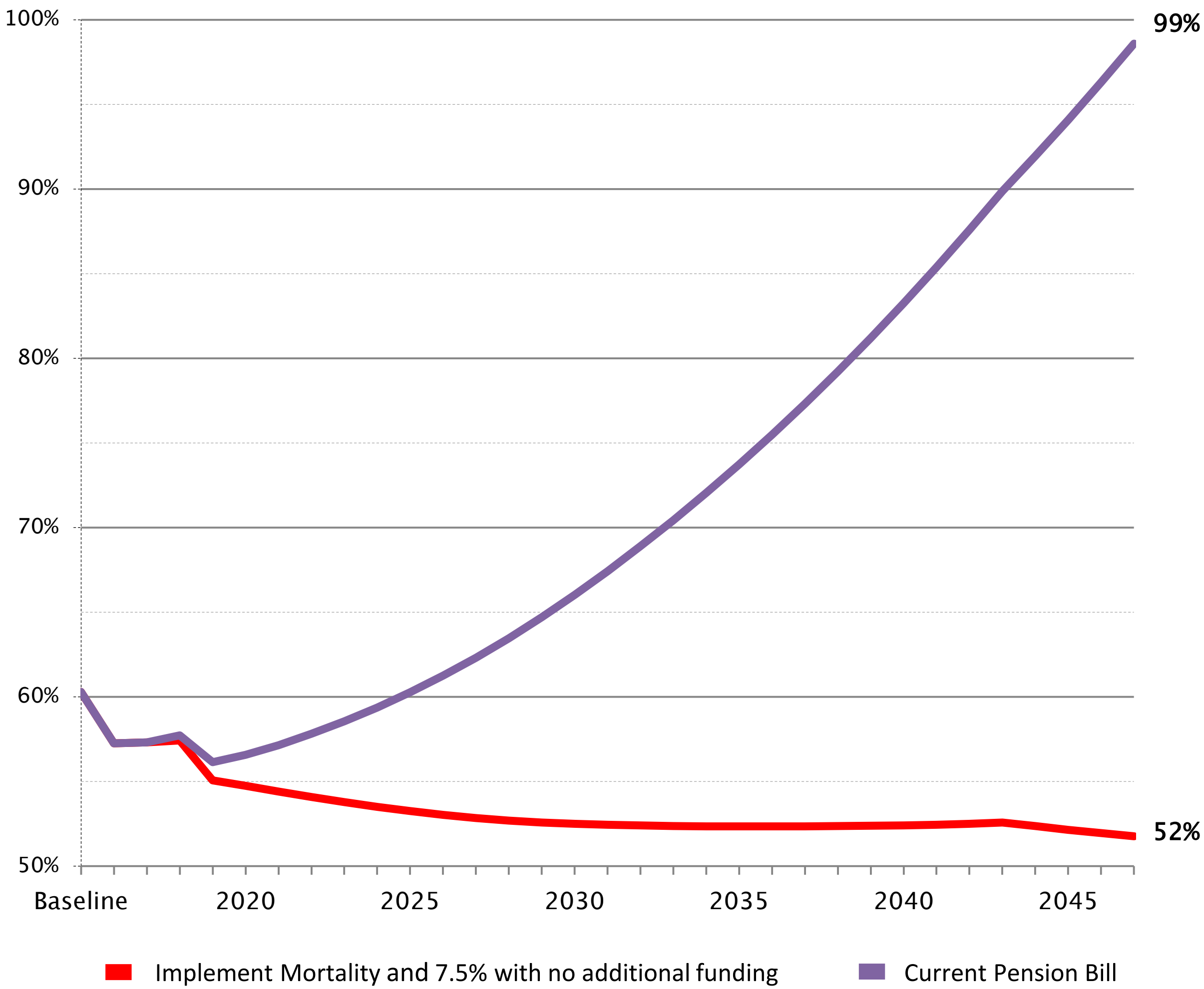
EMPLOYEE	EMPLOYER
6.0%	12.9%

Employee Portion of Normal Costs of Benefits



2017 Omnibus Pension Bill

Addressing the Impact of Mortality <u>and</u> 7.5% Return Assumption



- **Facilitated Important Plan Structural Changes**
  - 7.5% return assumption
  - Updated mortality assumptions
- **Provided Required Funding**
  - 2.5% ER Incr. over 4 yrs
  - $5M in direct state funding
  - 0.25% EE increase in FY ’22
- **Included Significant Cost Saving Measures**
  - COLA modifications
  - Modified Early Retirement Factors
  - Eliminated Deferred Augmentation
  - Reset Amortization Period
- **Result: Fund projected to reach 99% Funded Ratio within amortization period**

Tangible and Intangible Costs
of Not Passing the 2017 Omnibus Pension Bill

Tangible Costs

Lost Funding	Yr 1: 6.3M	Full Phase-in: $12.15M annually
Cash Cost of COLA	Yr 1: $1.16M	Over 2 Years: $2.34M
Forgone Savings	Approx. 2.8% of Pay	Approx. $7M annually
Additional Liabilities (COLA Trigger)	0.6% of Pay	Approx. $15M of increased liabilities

Intangible Costs

Financial Stability Not Established	Delaying long-term solutions leaves pension plans more vulnerable to financial shocks and makes it harder and more expensive to regain lost ground.
Structural Deficiencies Continue	- Assumptions regarding investment returns and mortality not updated. - Contributions are not sufficient to meet liabilities. Results in excess draw from investment portfolio.
Unprecedented ER/ EE Inequity	Employees continue to pay a full 1% more than Employers (and have since 1999)