



Legislative Commission on Pensions and Retirement

May 8, 2017

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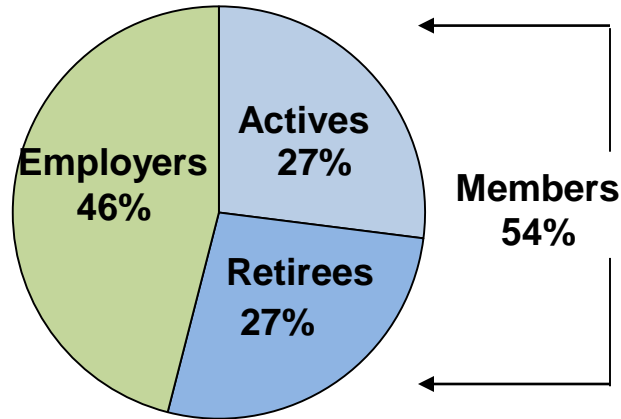
TRA Board Pension Reform Guiding Principles

- **Financial stability** – Maintain TRA’s short and long-term financial stability by moving to full funding over a reasonable period of time.
- **Intergenerational equity** – Benefit and contribution changes should avoid creating or exacerbating imbalances among generations of TRA members and retirees.
- **Maintain recruitment/retention value of pensions** – Benefit and contribution changes should maintain the recruitment and retention value of pensions. Studies show teachers value pensions and pensions improve teacher recruitment and retention.
- **Balanced, shared commitment** – Proposals should be balanced, with shared sacrifice participation from all stakeholders including active members, benefit recipients, contributing employers and the state.

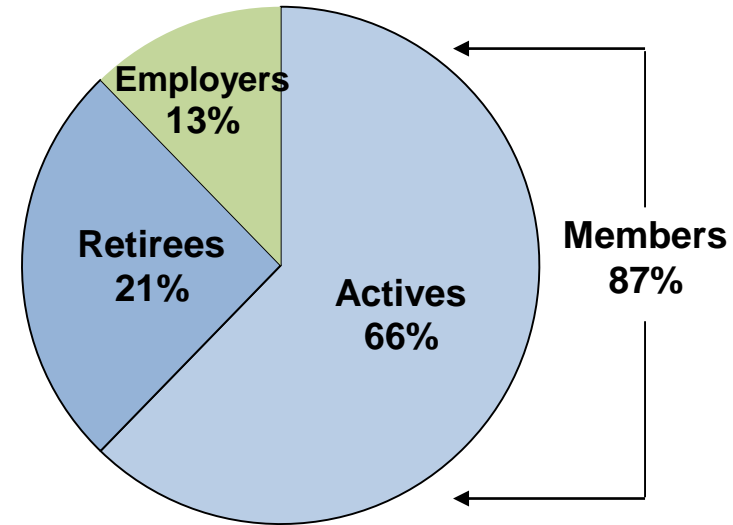


Impacts of 2017 legislative proposals

TRA proposal: Portion borne by each group



LCPR proposal: Portion borne by each group



Proposal component	Savings/Rev	\$ per yr
1% COLA for 5 yrs., 1.5% after	2.7%	\$122 m
Employer contribution increase: 7.5% to 9.5%	2.0%	\$90 m
Re-amortization to 30 years	1.3%	\$59 m
Total	6.0%	\$271 m

Proposal component	Savings/Rev	\$ per yr
1% COLA	4.27%	\$192 m
Delay COLA to NRA (65/66)	0.36%	\$16 m
Early retirement: no augmentation	1.27%	\$57 m
Deferred benefits: no augmentation	0.10%	\$5 m
Employee contrib: 7.5% to 8.25%	0.62%	\$28 m
Employer contrib: 7.5% to 8.5%	1.00%	\$45 m
Reamortization to 30 years	1.30%	\$59 m
Total	8.9%	\$402 m

COLA Reductions

Permanent 1% COLA

- ▶ *TRA supports 1% for 5 years, 1.5% thereafter.* This COLA framework could be combined with bill's 2021 COLA study.
 - COLA cut is large, saving 4.27% of pay (\$192 million annually) for TRA. For the average member, it **reduces benefits by 15%**.
 - Actives bear a large portion (half) of the COLA cut.
 - Most retirees have not kept pace with inflation and many bore 2-year freeze (2011-12).
 - Retirees have short time horizon to financially accommodate cuts. Those who are advanced in age have high medical and care expenses.
 - Permanent 1% COLA heavily tilts balance of package toward actives and retirees.

COLA Reductions

COLA Delay to NRA

TRA has concerns about COLA delay and recommends modifications:

- ▶ *Apply COLA delay to members not eligible for retirement benefits as of the effective date or delay effective date until Jan. 1, 2023.*
 - Proposed effective date (Jan 2018) is near-term. Members near retirement need more time to prepare financially.
 - Teachers retire at younger ages because of challenges of teaching profession. TRA's average retirement age: 62.4. COLA delay impacts members retiring under age 63 or 64. Over two-thirds of new TRA retirees (5,351) in the past three years were age 64 or younger.
 - COLA delay means benefits for teachers retiring at age 62 are frozen 4 to 5 years until age 66; age 60 retirees required to wait 6 to 7 years for first COLA. Faced with long period of frozen benefits, members near retirement could rush to retire to beat effective date.
 - COLA delay permanently lowers benefit base upon which future COLAs are calculated – 3% base cut for age 62 retiree, 6% cut for age 60 retiree.

Early retirement reductions

- ▶ *Rather than repealing early retirement augmentation, Commission should study replacing augmented factors with fixed early retirement factors.*
 - Proposed early retirement reductions are significant.
 - Impact on individual members retiring under reduced factors is large and will likely disrupt retirement plans.

Benefit comparisons for teacher retiring with 29 years, \$62,000 salary

Retirement age	Current law monthly benefit 7/1/2018	Proposed monthly benefit 7/1/2022	\$ difference	% difference
Age 60	\$1894	\$1549	\$345	18.2%
Age 62	\$2164	\$1923	\$241	11.1%

- TRA has 22,000 members in the pre-retirement (age 50+ category).
- Proposed phase-in helps mitigate rush to retire, but these early retirement cuts in combination with COLA delay create strong incentive to go early.
- Early retirement cuts add significantly to imbalance of package and result in actives bearing a large portion of the cuts.

Contribution rates

Employer rates:

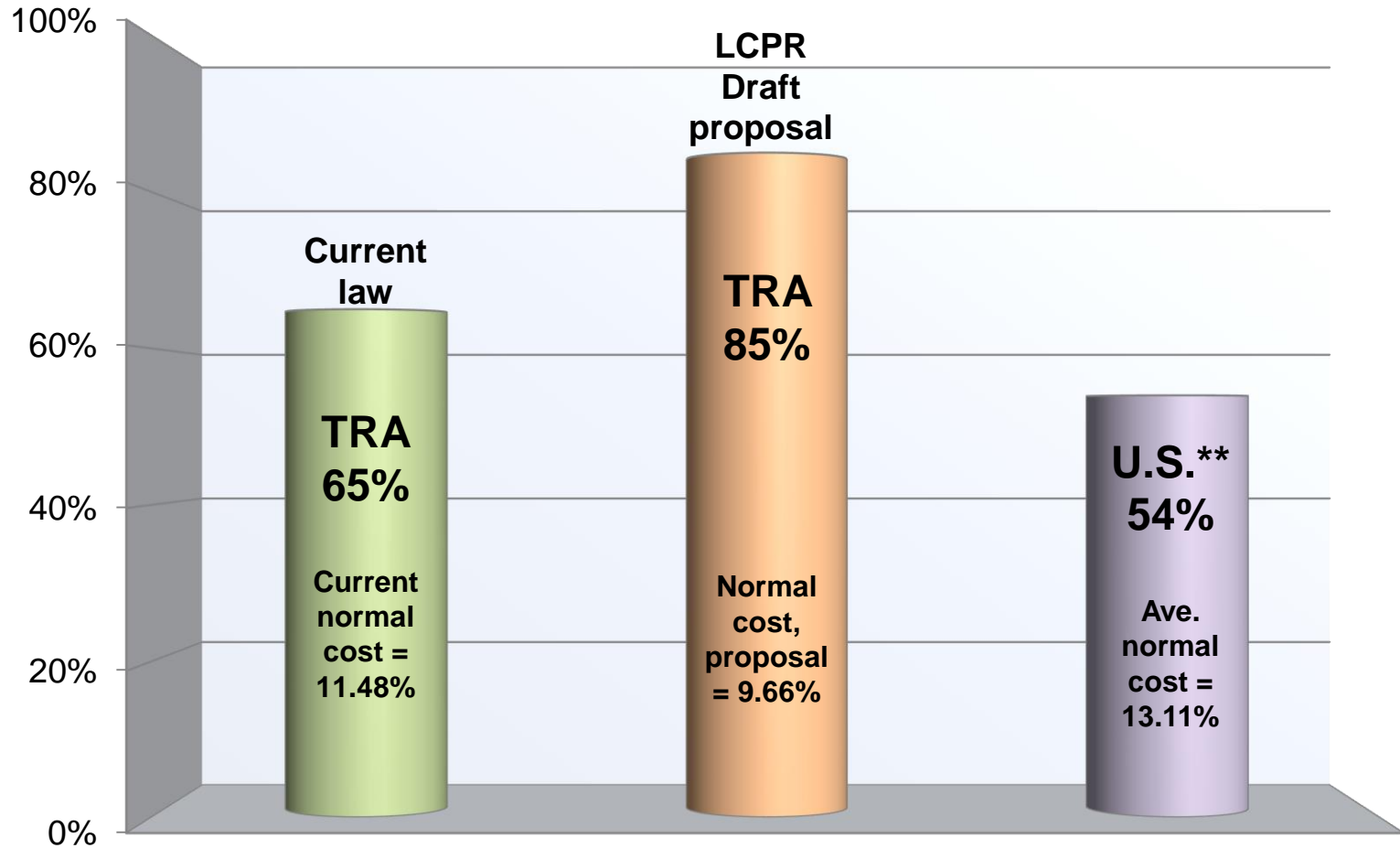
- ▶ *TRA supports 4-year phased increase in employer contribution rates from 7.5% to 9.5% with state aid to offset increased school district costs.*
 - Costs are \$21.6 million in FY18 and \$86 million to \$97 million by FY21.
 - School aid mechanism contained in TRA's original proposal should be incorporated into proposed bill.

Employee rates:

- ▶ *TRA does not support 0.75% increase in employee rates (7.5% to 8.25%).*
 - Actives already bear large share of sacrifice in proposal.
 - Employee contribution increase particularly hard on younger teachers with lower pay, student debt.
 - Actives already shouldering nearly two-thirds of normal benefit cost. Proposal would increase share to 85%.



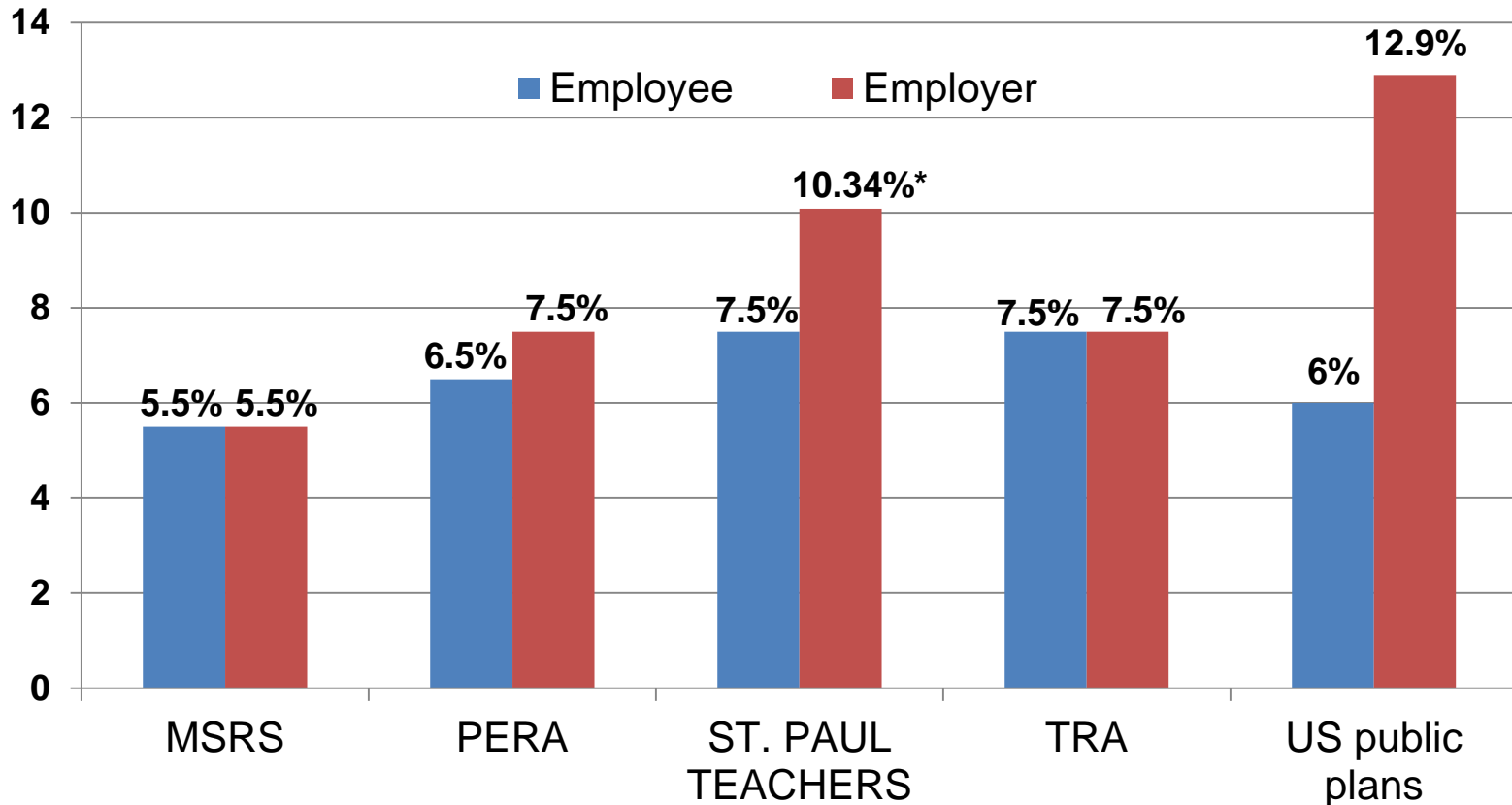
TRA members pay high percentage of “normal” pension cost*



*Normal cost = value of all active benefit accruals each year, assuming 7.5% investment return

**Source: National Association of State Retirement Administrators (NASRA)

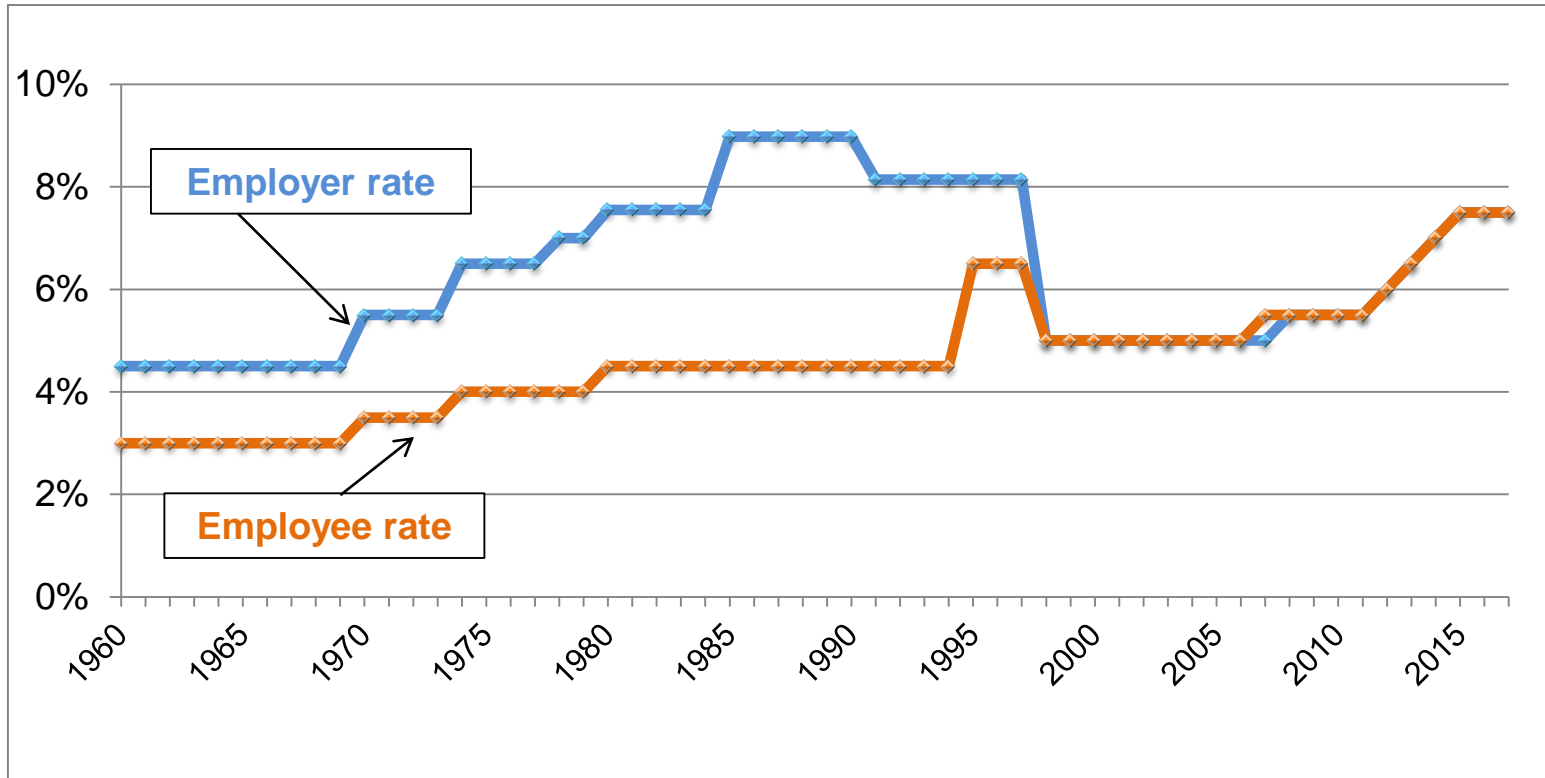
Employer contribution rates in MN plans



Source: NASRA FY2014 for Social Security-covered plans

*Includes 3.84% employer supplemental for coordinated plan, effective 7/1/2017

TRA contribution rate history



- For most of TRA history the employer rate has been higher than the employee rate.

Other elements of proposal

- **Deferred augmentation cuts:** TRA recommends grandfathering current deferred members whose benefits were significantly cut in recent years and instead change deferred augmentation only for members newly terminating.
- **Amortization period:** TRA supports extending amortization period to 30 years and study replacing amortization method with alternative method.
- **Re-employed annuitants:** TRA supports requiring employer contributions on salaries of re-employed retirees.
- **Investment assumption:** TRA supports more thoughtful gradual approach to lowering the investment assumption. TRA believes thorough, data-driven study of all economic assumptions should be conducted before the investment assumption is changed. As an interim step, TRA supports lowering assumption to 7.5% for temporary 5-year period with the long-term rate remaining at 8% until the study is completed.
- **Interest charges:** Proposal lowers to 7.5% interest TRA charges members and employers for repayment of refunds, leave purchases, omitted deductions, etc. TRA requests effective date of July 1, 2018 to allow time for programming changes.