



Legislative Commission on Pensions & Retirement

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January 12, 2018

TRA Board Goals in 2018

1. Urgent need for a sustainability bill – must follow the guiding principles of the TRA Board
2. Obtain funding for any employer contribution rate increase
3. Approve 7.5% investment return assumption along with other economic assumption changes adopted by TRA Board
4. Pass provisions in the 2016 and 2017 administrative bills



TRA Board Guiding Principles (adopted 9/21/2016)

Shared commitment – The responsibility for addressing TRA’s financial challenges should be shared among all TRA stakeholders including active members, benefit recipients, contributing employers and the state.

Intergenerational equity – Recommended financial measures should avoid creating or exacerbating imbalances among generations of TRA members and retirees in terms of the benefits they receive and contributions they make over their working careers.

Long-term financial goals – The financial goals of the recommendations are to maintain TRA’s financial stability in the short term and make progress toward full funding within a reasonable period of time over the long term. Attaining these goals will require ongoing monitoring of TRA’s financial status and periodic adjustments in plan provisions as financial conditions change. The fund’s long-term stability is critical to maintaining the valuable defined benefit protection for Minnesota’s public educators. Both contributions levels and benefit levels need to be sufficient, affordable and attainable by members.

Maintain recruitment/retention value of pension benefits – Studies show that employees, particularly teachers, value defined benefit pensions and that those pensions significantly improve teacher recruitment and retention. The retention of experienced teachers benefits students and creates a high quality education system that helps the state’s economy. Any changes that lower pensions should not undermine the recruitment and retention value of TRA’s defined benefit plan, particularly as the nation and state face teacher shortages.



Economic Assumption Changes

Approved by TRA Board December 2017

	Current Assumption	New Assumption
1. Long-Term Investment Return	8.5%	7.5%
2. Price Inflation	3.0%	2.5%
3. Wage Inflation	0.75%	0.35% next ten years 0.75% thereafter
4. Payroll Growth	3.5%	3.0%
5. Total Salary Increase	Varies with service	Adjusted by the changes in wage inflation

The assumptions recommended above were developed by the actuaries to work together as a cohesive set. Because the return assumption is set in law, the TRA Board motion approving these assumptions included a condition making changes to 2-5 above effective only if legislation is enacted to lower the investment return assumption to 7.5%.



TRA Financial Status

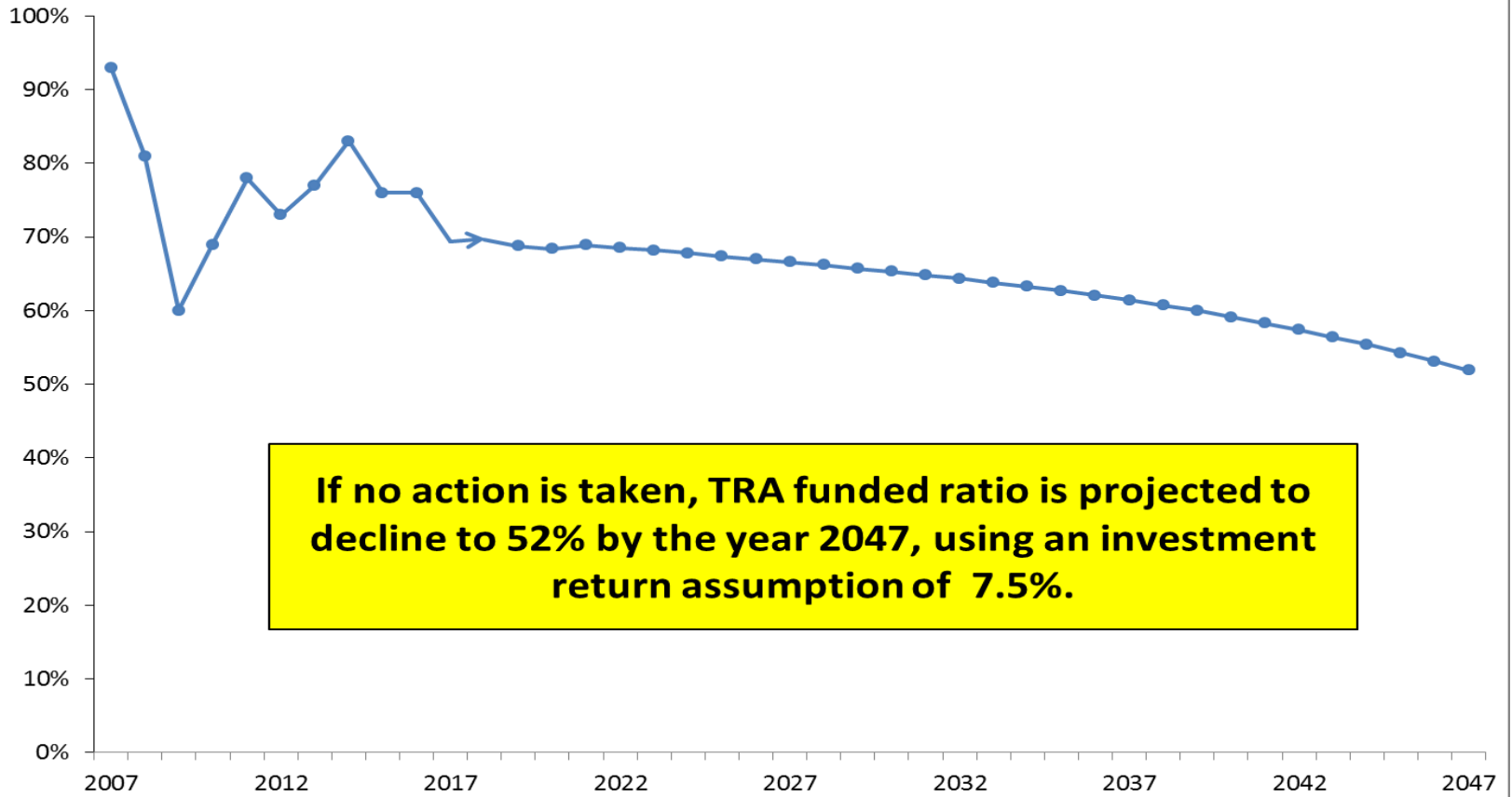
July 1, 2017

Using 7.5% investment return assumption and other economic assumptions adopted by TRA Board, Dec. 2017

Actuarial accrued liability	\$30.3 billion
Assets at market value	\$21.3 billion
Unfunded liability	\$9.1 billion
Funded ratio in 2017	70.1%
Projected funded ratio in 30 years	52%

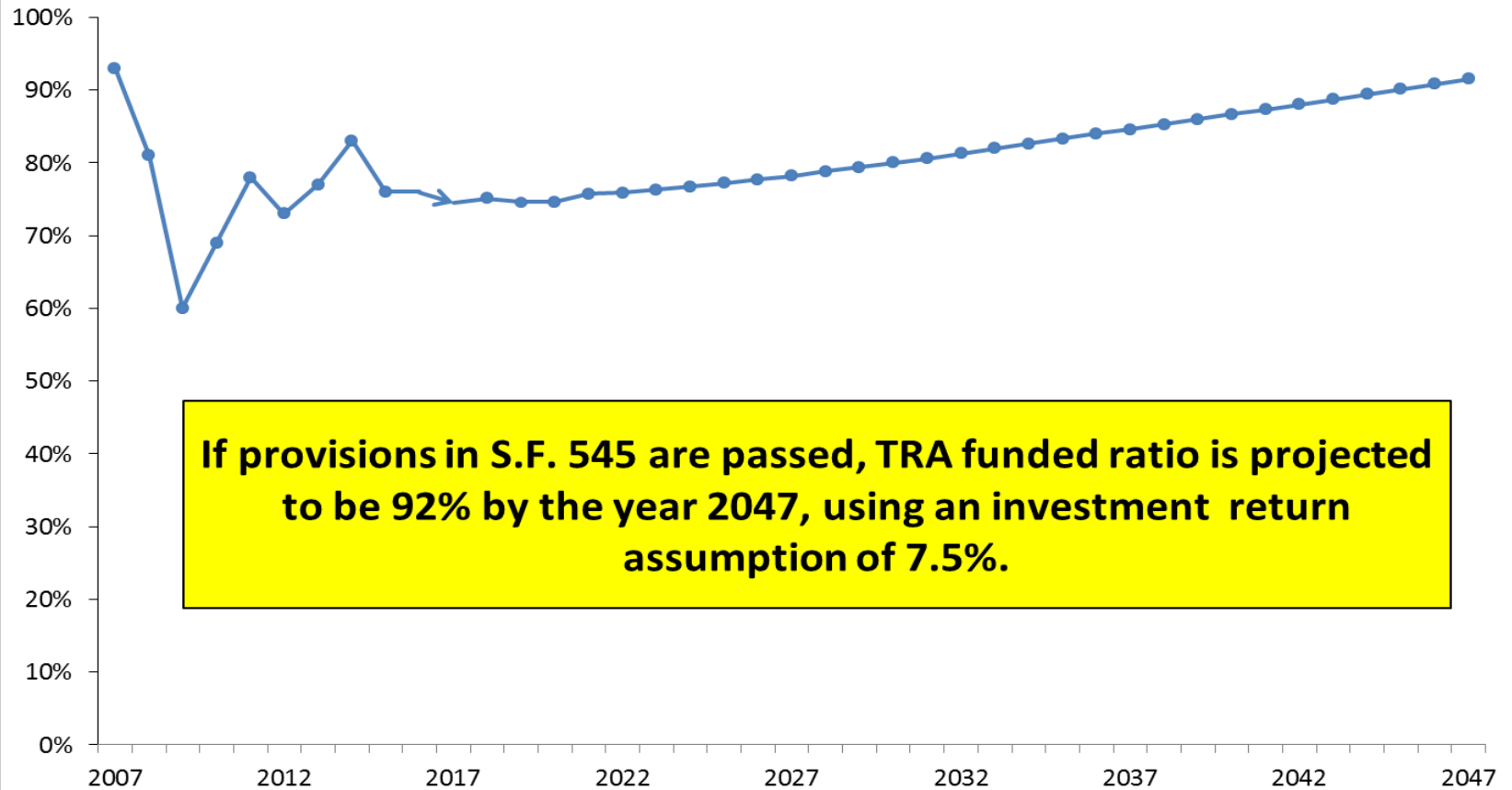
Total required contribution, as % of pay	23.07%
Statutory employee + employer contributions	15.93%
Contribution deficiency, as % of pay	(7.14%)

TRA Funded Ratio



If no action is taken, TRA funded ratio is projected to decline to 52% by the year 2047, using an investment return assumption of 7.5%.

TRA Funded Ratio



If provisions in S.F. 545 are passed, TRA funded ratio is projected to be 92% by the year 2047, using an investment return assumption of 7.5%.