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Minnesota Teachers Retirement Association

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<http://www.minnesotatra.org>

AT A GLANCE

Who We Serve:

- 122,000 active/inactive teachers
- 62,000 benefit annuitants
- 591 employer units

Revenue sources:

- 74% investment income
- 12% member contributions
- 14% employer unit contributions

Direct Aid and Supplemental Employer Contributions:

- General Fund annual appropriation of approximately \$16.5 million for merger of Minneapolis Teachers Retirement Fund Association (MTRFA) in 2006.
- \$2.25 million from the City of Minneapolis and \$2.25 million from the Minneapolis School District in direct annual contributions related to the MTRFA merger.
- General Fund annual appropriation of \$14.4 million for the merger with the Duluth Teachers Retirement Fund Association on June 30, 2015.

Staff:

- 90 FTE

PURPOSE

Minnesota Teachers Retirement System (TRA) provides retirement, disability, and survivor benefits to Minnesota public educators, assisting them in achieving future income security.

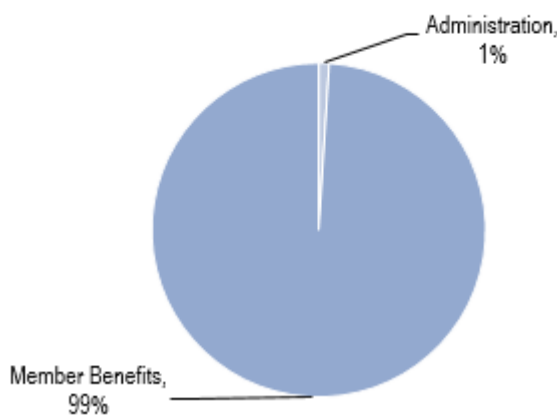
TRA strives to provide benefits that attract and retain competent teachers who serve communities throughout the state, building a stronger education system.

The agency is committed to safeguarding the financial integrity of the fund and takes pride in providing exceptional, innovative services to our members.

TRA contributes to the statewide outcome of: a thriving economy that encourages business growth and employment opportunities; Minnesotans have the education and skills needed to achieve their goals; and efficient and accountable government services

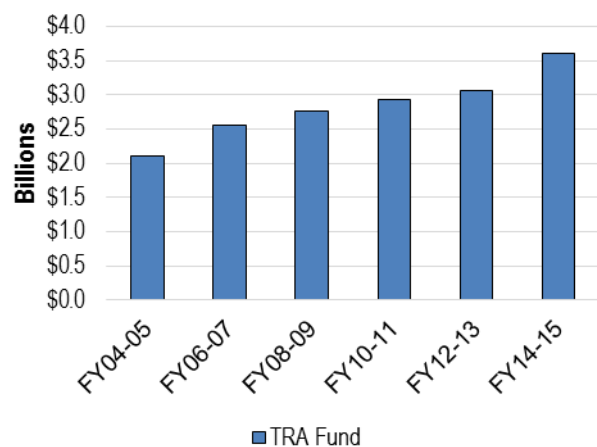
BUDGET

Spending by Program FY 15 Actual



Source: TRA Comprehensive Annual Financial Reports (FY 2015)

Historic Spending



Source: TRA Comprehensive Annual Financial Reports (FY 2004-2015)

TRA was established by the Minnesota legislature in 1931 and is primarily governed by Minnesota Statutes Chapter 354 and 356. The Association is administered by an eight member board of trustees. TRA is funded through member contributions, employer contributions, and investment earnings on fund assets. Over long periods of time, approximately 70 percent of fund

revenues are expected by investment earnings. TRA members and their employers each contribute 7.5% of their covered salary to TRA.

The TRA expenditure budget consists largely (over 99%) of monthly retirement, survivor, and disability payments to members or other benefit recipients. In fiscal year 2017, TRA expects to pay \$150 million/month in benefits to over 62,000 individuals.

TRA's main office is in St. Paul. Satellite offices are located in Detroit Lakes, Duluth, Mankato and St. Cloud.

STRATEGIES

The TRA Management Team is committed to safeguarding the financial integrity of the fund, which requires continual monitoring of the plan's actuarial funding status. Core operational functions include: collecting, recording and maintain the accounting of retirement contributions; collecting and managing member information; issuing benefit and refund payments; and educating members and employers about TRA plan features.

RESULTS

During fiscal year 2016, 4,602 members were served with individual pre-retirement counseling services. Another 1,740 members were served during group counseling and other ad-hoc presentations.

In fiscal year 2016, TRA generated 30,420 benefit estimates for members preparing for retirement. TRA members may also securely generate benefit estimates online. TRA members requested 72,459 benefit estimates online during fiscal year 2016.

The TRA Contact Center received 43,302 telephone calls and responded to 1,494 emails during fiscal year 2016.

Another performance measure is the funded ratio of the plan which is an indication of the ability to meet current and future benefit obligations. TRA's funding status grew worse during fiscal year 2016 due to a slightly negative investment return plus the adoption of newer mortality tables which showed current TRA retirees are living longer than had been expected at the time of their retirement.

<i>Type of Measure</i>	<i>Performance Measures</i>	<i>Previous 6/30/2015</i>	<i>Estimated 6/30/2016</i>
Quality	TRA Plan Funding Ratio (Market Value)	79.7%	72.4%
Quality	TRA Plan Contribution Deficiency (percent of covered payroll- Market Value)	- 0.75%	- 4.68%
Quantity	TRA Plan Unfunded Actuarial Liability (Market Value)	\$5.2 billion	\$7.4 billion

Legal authority for the Teachers Retirement Association comes from M.S. 354 (<https://www.revisor.mn.gov/statutes/?id=354>).

(Dollars in Thousands)

Expenditures By Fund

	Actual FY14	Actual FY15	Actual FY16	Estimate FY17	Forecasted Base		Governor's Recommendation	
					FY18	FY19	FY18	FY19
7300 - Teachers Retirement	1,606,246	1,656,478	1,742,268	1,852,216	1,920,367	1,996,236	1,920,367	1,996,236
Total	1,606,246	1,656,478	1,742,268	1,852,216	1,920,367	1,996,236	1,920,367	1,996,236
Biennial Change				331,760		322,119		322,119
Biennial % Change				10		9		9
Governor's Change from Base								0
Governor's % Change from Base								0

Expenditures by Program

Program: Teachers Retirement Assoc	1,606,246	1,656,478	1,742,268	1,852,216	1,920,367	1,996,236	1,920,367	1,996,236
Total	1,606,246	1,656,478	1,742,268	1,852,216	1,920,367	1,996,236	1,920,367	1,996,236

Expenditures by Category

Compensation	7,466	7,746	8,308	9,169	9,069	9,239	9,069	9,239
Operating Expenses	5,338	6,919	7,180	5,676	5,927	6,476	5,927	6,476
Other Financial Transactions	1,593,435	1,641,806	1,726,777	1,837,325	1,905,325	1,980,475	1,905,325	1,980,475
Grants, Aids and Subsidies	6	8	3	46	46	46	46	46
Capital Outlay-Real Property	1							
Total	1,606,246	1,656,478	1,742,268	1,852,216	1,920,367	1,996,236	1,920,367	1,996,236

Full-Time Equivalents

83.4	82.0	86.1	90.0	90.0	90.0	90.0	90.0
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7300 - Teachers Retirement

	Actual	Actual	Actual	Estimate	Forecast Base		Governor's Recommendation	
	FY14	FY15	FY16	FY17	FY18	FY19	FY18	FY19
Open Appropriation	1,607,006	1,657,241	1,743,017	1,852,981	1,921,132	1,997,001	1,921,132	1,997,001
Net Transfers	(760)	(763)	(749)	(765)	(765)	(765)	(765)	(765)
Expenditures	1,606,246	1,656,478	1,742,268	1,852,216	1,920,367	1,996,236	1,920,367	1,996,236
<i>Biennial Change in Expenditures</i>				331,760		322,119		322,119
<i>Biennial % Change in Expenditures</i>				10		9		9
<i>Gov's Exp Change from Base</i>								0
<i>Gov's Exp % Change from Base</i>								0
Full-Time Equivalents	83.4	82.0	86.1	90.0	90.0	90.0	90.0	90.0

Minnesota Teachers Retirement Association

FY18-19 Biennial Budget Change Item

Change Item Title: Teachers Retirement Association Funding

Fiscal Impact (\$000s)	FY 2018	FY 2019	FY 2020	FY 2021
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	0	0	0	0
FTEs	0	0	0	0

Note: Pension funding approved by the Governor for state agencies is reflected in each agency's proposed budget. Funding approved for pension aids to local districts is reflected in the Department of Education's proposed budget.

Recommendation:

The Governor recommends a comprehensive package of changes to the Teacher's Retirement Association (TRA) designed to improve the plan's funding status. This package includes an increase in employer contribution rates as well as a reduction to retiree post retirement increases.

This proposal will increase employer contributions for covered employees by 0.5% of payroll in FY18, 1.0% in FY19, 1.5% in FY20, 2% in FY21.

Rationale/Background:

TRA serves over 180,000 active and retired K-12 teachers, administrators, and college and university faculty. As of June 30, TRA held \$19.4 billion in assets invested by the State Board of Investments. TRA pays approximately \$1.8 billion in retirement and disability benefits each year.

In 2015, TRA conducted an experience study designed to measure the accuracy of the assumptions used to determine the funding needed to pay pension benefits. The study found that plan members are now living an average of two years longer than was previously measured. This finding, along with other assumption changes, lead to a net increase in liabilities of the system.

Proposal:

To achieve a positive funding trajectory, the Governor proposes several changes:

The increase in employer contributions is one part of a proposed funding package which also includes:

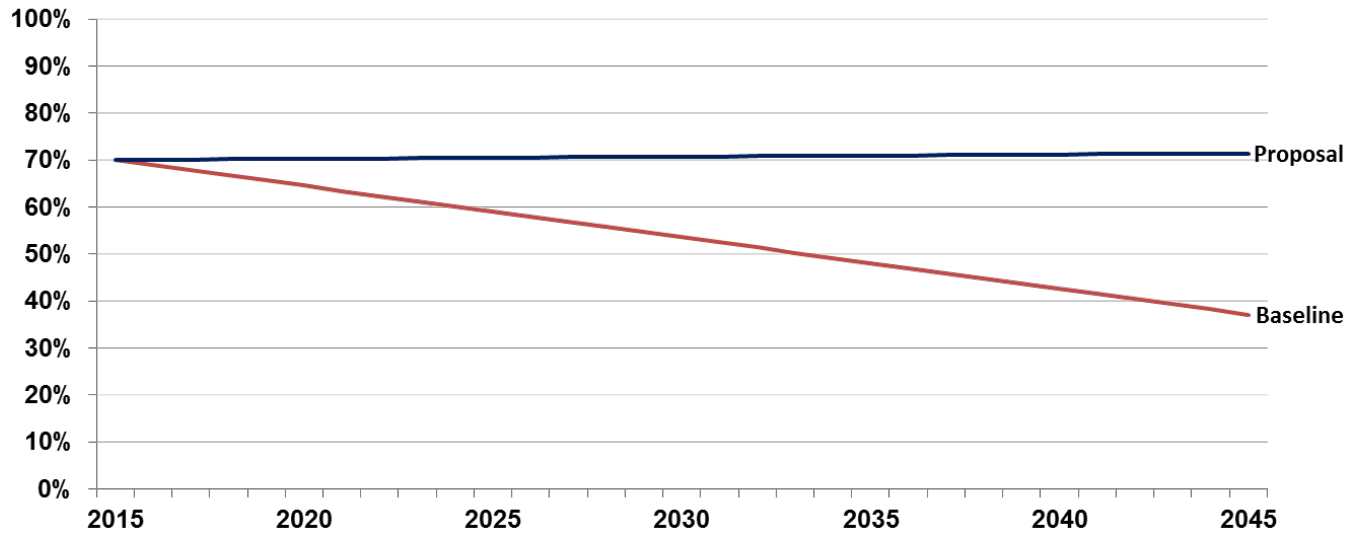
- a re-amortization of payments on unfunded liabilities from a 20 year period to a 30 year period;
- a reduction in postretirement increases (COLAs) from 2% per year to 1.0% for five years beginning in FY 2018, and 1.5% thereafter,
- the removal of triggers which would automatically increase COLAs to 2.5% once the fund achieves a 90% funded ratio for two consecutive years;
- an increase in regular employer contribution rates from 7.5% to 9.5%. These increases would be phased in over time.

The Governor also recommends lowering the assumed rate of return on investments/discount rate to 7.5%.

Results:

The proposed funding package lowers the contribution rate deficiency, and improves the projected funded ratio of the plan from 37% to 71% by 2045 by reducing liability by \$1.3 billion.

Impact of Funding Package on Projected Funded Ratio

**Statutory Change(s):**

§ 354. Teachers Retirement

§ 356. Retirement Systems, Generally

§ 356.215 Actuarial Valuations and Experience Studies.

St. Paul Teachers Retirement Fund Association

FY18-19 Biennial Budget Change Item

Change Item Title: St. Paul Teachers Retirement Fund Association Funding

Fiscal Impact (\$000s)	FY 2018	FY 2019	FY 2020	FY 2021
General Fund				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Other Funds				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	0	0	0	0
FTEs	0	0	0	0

Note: Funding approved for pension aids to local districts is reflected in the Department of Education's proposed budget.

Recommendation:

The Governor recommends a package of changes to the St. Paul Teacher's Retirement Fund Association (SPTRFA) designed to improve the funding status of the plan. The plan includes an increase in employer contribution rates and elimination of future automatic post-retirement benefit (COLA) increases, among other changes.

This proposal will increase employer contributions for covered employees by 0.5% of payroll in FY18, 1.0% in FY19, 1.5% in FY20, 2% in FY21.

Rationale/Background:

SPTRFA serves over 8,400 active and over 3,700 retired teachers and administrators in the St. Paul Public School system. As of June 30, 2016 SPTRFA held almost \$1 billion in assets. SPTRFA paid over \$108 million in retirement and disability benefits in FY 2015.

SPTRFA will soon be completing an experience study designed to measure the accuracy of the assumptions used to determine the funding needed to pay pension benefits. Based on the results of recent experience studies conducted by other Minnesota pension plans, SPTRFA is expecting to find that plan members are now living an average of two years longer than was previously measured. This finding, along with other assumption changes, is expected to lead to a net increase in liabilities of the system.

Proposal:

To achieve a positive funding trajectory, the Governor proposes several changes:

The increase in employer contributions is one part of a proposed funding package which also includes:

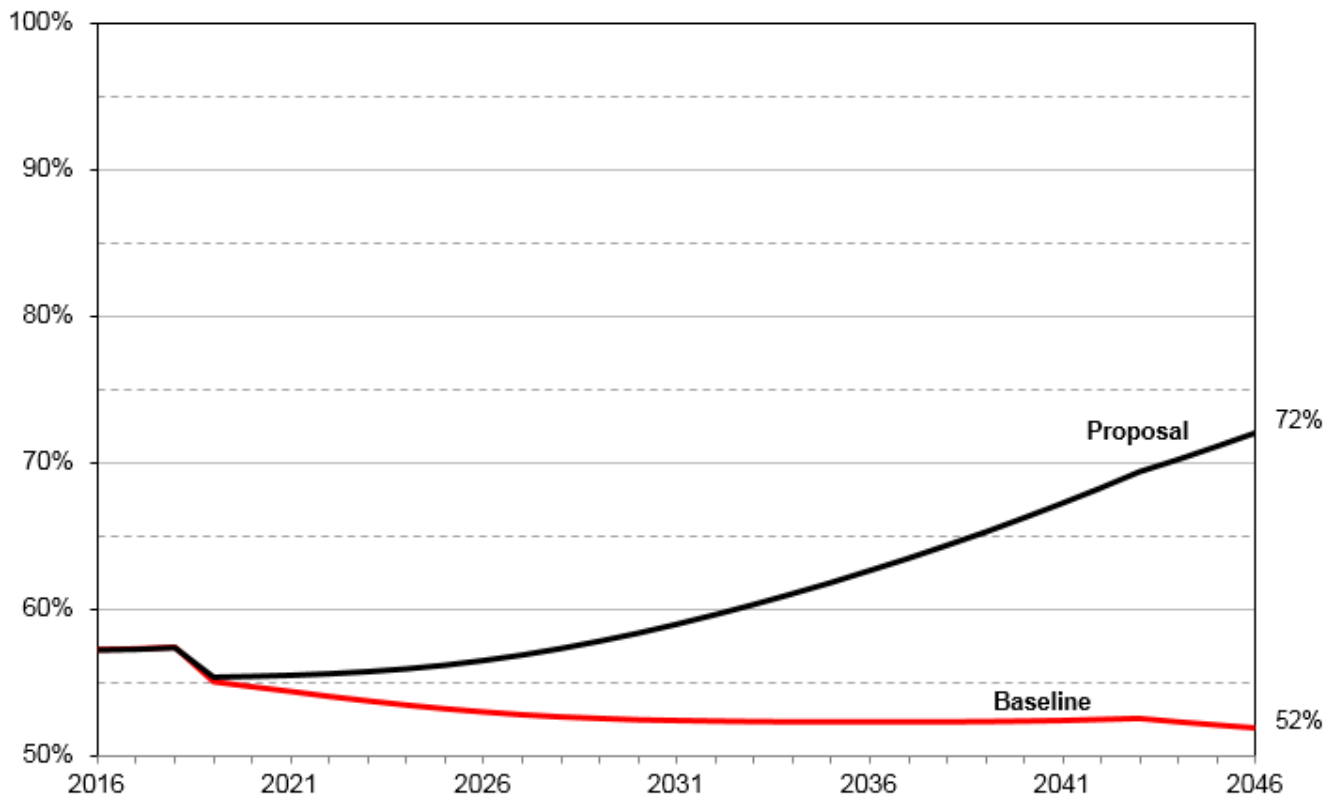
- a re-amortization of payments on unfunded liabilities from a 26 year period to a 30 year period;
- the removal of triggers which would automatically increase COLAs to 2.5% once the fund achieves a 90% funded ratio for two consecutive years;
- an increase in employer contribution rates from 6.5% to 8.5%, phased in over time; and
- adoption of other plan assumption changes.

The Governor also recommends lowering the assumed rate of return on investments/discount rate to 7.5%.

Results:

The proposed funding package lowers the contribution rate deficiency, and improves the projected funded ratio of the plan from 52% to 72% by 2045.

Impact of Funding Package on Projected Funded Ratio

**Statutory Change(s):**

§ 354A. Teachers Retirement, Certain Cities

§ 356. Retirement Systems, Generally

§ 356.215 Actuarial Valuations and Experience Studies.