

TEACHERS RETIREMENT INFORMATION BULLETIN

Retiree Edition ■ Summer 2015



Dayton signs 2015 pension bill

Gov. Mark Dayton on May 22 signed the 2015 Omnibus Retirement Bill into law. The bill passed in the state House of Representatives unanimously and in the Senate on a 53-4 vote on May 17 following days of wrangling over state funding for the merger of the Minneapolis Employees Retirement Fund (MERF) into the Public Employees Retirement Association (PERA).

Here are the law's major provisions:

- ▶ Interest rate, salary rate, and payroll growth actuarial assumption changes: For PERA, the Minnesota State Retirement System (MSRS), and St. Paul Teachers Retirement Fund Association (SPTREFA), the interest rate actuarial assumption is reduced to 8 percent, along with related reductions in salary and payroll growth assumptions. The Teachers Retirement Association (TRA) assumptions for interest rate, salary and payroll growth remain unchanged. (See *President's Corner column.*)
- ▶ Post-retirement adjustment financial sustainability trigger: Revises the financial sustainability triggers for cost-of-living adjustment (COLA) mechanisms for MSRS, TRA and SPTREFA. Under current TRA law, the current 2.0 percent COLA would

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Thompson, Broderick win TRA board seats

Marshall Thompson was elected as a new active-member representative and Mary Broderick was re-elected as active-member representative to the eight-member TRA Board of Trustees. Their four-year terms begin July 1.

Broderick is an elementary special-education teacher in St. Cloud (on leave to serve the St. Cloud Education As-

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Marshall
Thompson, Osseo



Mary Broderick,
St. Cloud

Welcome, new retirees!

Teachers Retirement Association congratulates you on your retirement. You and about 1,800 other members retiring this summer join more than 57,000 TRA retirees and beneficiaries. On July 1, we also welcome retirees from the Duluth Teachers Retirement Fund Association (DTRFA) to TRA.

New annuitants will now get the retiree edition of this newsletter. Your MyTRA account at www.minnesotatra.org also has many useful features for retirees. Questions? We're here weekdays 7:30 a.m. – 4:30 p.m. at 651-296-2409 or 800-657-3669. For general information, e-mail info@minnesotatra.org. If you have more detailed questions about your account, chat with us live at www.minnesotatra.org.

President's c o r n e r



Martha Lee (Marti) Zins, President

Change and the big picture

Shakespeare's Juliet famously asked, "What's in a name?" On the stage where public pension drama plays out, the question more often becomes, "What's in a number?"

A critically important number for public pension funds is the investment return assumption – the percentage return that the retirement systems expect to earn on the \$60 billion in pension assets managed by the State Board of Investment (SBI).

This powerful mechanism helps us determine the health of the fund, and debate about this number is always fiery. What's the correct rate? What does past experience tell us? What's a reasonable expectation for future investment performance? Has the market changed fundamentally, justifying lowered expectations? Or is temporary pessimism causing undue caution with regard to long-term pension investments?

If the interest rate assumption is set too high, liabilities are understated, shifting costs to future generations of members/taxpayers. If the rate is set too low, liabilities are overstated, causing current members and taxpayers to bear a higher burden than necessary.

Most state pension plans have lowered assumptions due to lower expectations for bond and stock returns. Of the 126 plans measured by the National Association of State Retirement Administrators, more than half

have reduced their investment return assumption since fiscal year 2008. The median is 7.75 percent. Only nine plans have interest rate assumptions above 8 percent, and five of them are Minnesota plans.

During the past legislative session, there was intense pressure to lower the assumption from 8.5 percent to 8 percent. The Public Employees Retirement Association (PERA), St. Paul Teachers Retirement Fund Association (SPTRFA) and the Minnesota State Retirement System (MSRS) sought to lower the assumption for their plans. The change is in the 2015 pension bill.

The TRA Board successfully asserted that no TRA assumptions should be changed until completion of a planned experience study due this month. (PERA and MSRS also have experience studies coming.) Experience studies are conducted by actuaries and examine salary and payroll growth, life expectancy improvements, inflation rates, and investment experience over the past four years. In addition, the SBI has an asset/liability study due later this year that will shed further light on the interest rate assumption.

However, at 8.5 percent, TRA is an "outlier." During the interim, the Legislative Commission on Pensions and Retirement (LCPR) plans to review the plans' experience studies and discuss the interest rate assumption in light of those findings. The

MSRS, PERA and SPTRFA move to 8 percent established a precedent and increases pressure on TRA to lower its return assumption. Furthermore, there is always a chance that the legislature could set the rate below 8 percent.

Lowering the rate would have a significant negative impact on TRA and likely require measures to address the resulting funding deficiency. For example, using an 8 percent assumption:

- ▶ TRA's funded ratio drops from 83 percent to 80 percent.
- ▶ The fund's contribution-rate deficiency increases from 0.07 percent to 1.87 percent.
- ▶ The COLA increase from 2 percent to 2.5 percent is delayed from 2031 to after 2044.

TRA staff, actuaries and trustees will review the experience study results and brainstorm sustainability options during the summer and fall. During this time, we will update stakeholder groups and solicit feedback on potential sustainability options. The November and December board meetings will be devoted to reviewing options and developing a draft sustainability package to present to the 2016 legislature.

A defined-benefit pension like TRA's is a commitment we make to each other. To ensure that TRA remains sustainable and can continue to provide retirement security to our hard-working teachers sometimes calls for tough choices and a relentless focus on the long term, the big picture. We've weathered adversity countless times over the eight decades we've been around – always in partnership with you, our members.

With your support, we'll again do what's necessary to preserve your pension plan, your TRA.

Dayton signs 2015 pension bill

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increase to 2.5 percent if TRA's funded ratio exceeds 90 percent for two years in a row. This 90 percent funded ratio is not expected to be achieved until 2031. Should this higher 2.5 percent COLA be triggered for TRA, the proposal in the omnibus pension bill would require a reversion to a lower 2.0 percent COLA if TRA's funded ratio dips below 80 percent in one year or 85 percent in two years. (PERA's General Fund already has this sustainability mechanism.)

- ▶ **Contribution stabilizer:** Revises the contribution stabilizer mechanisms for PERA, MSRS, and TRA boards by changing from a mandatory, virtually automatic, rate-setting procedure to an advisory procedure that will grant the boards flexibility to determine the amount of contribution rate increases or decreases required by each fund's financial condition.

The interest rate assumption generated a fair amount of debate in hearings of the Legislative Commission on Pensions and Retirement (LCPR) earlier this year. TRA Executive Director Lau-

rie Hacking testified that unlike MSRS, TRA has no need for an immediate change in the interest rate assumption to avoid paying a higher retiree COLA. And unlike PERA and MSRS, TRA would experience a significant negative financial impact if the rate were lowered to 8 percent. Lowering the rate would increase TRA's liabilities by \$1

TRA stakeholders showed up in force at LCPR meetings to testify on the interest rate assumption and urge the panel to wait for TRA's experience study. Among those who testified were members of the Retired Educators Association of Minnesota (REAM), Minneapolis' Committee of 13, Education Minnesota Retired, the Minnesota



billion and create a contribution deficiency of about 1.9 percent of covered payroll.

Hacking also said that the TRA board of trustees prefers to wait until a legislatively mandated experience study is completed this month. This will permit TRA to quantify the impact of all assumption changes and work with stakeholder groups to develop sustainability measures.

School Boards Association (MSBA), Education Minnesota, and the Minnesota Association of School Administrators (MASA).

The LCPR often meets during the period when legislature is not in session. Among possible topics for discussion during the interim are the interest rate assumption and the feasibility of switching public employees from the current pension system to a 401(k)-type plan.

Thompson, Broderick win seats on TRA Board of Trustees

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sociation). She has served on the TRA board since 2007. Thompson is a math teacher in Osseo who won the seat being vacated by retiring board member Leighton Fritz.

The other elected board members are Robert Gardner (active representative), Mary Supple (active representative) and Marti Zins (retiree representative). The TRA board also consists of three statutory members representing Minnesota

Management and Budget, the Minnesota Department of Education and the Minnesota School Boards Association.

Trustees meet about seven times a year to oversee the administration of the pension fund. Special meetings might be held at the call of the board president or any three members. Board members act as fiduciaries of the TRA plan in accordance with Minnesota statute and are also subject to state economic interest disclosures.

Only 4.2 percent (3,392) of the 80,865 eligible voters participated in the election. Mail-in votes accounted for 75.4 percent of the vote; internet voting was used for 24.6 percent of the votes.

Broderick received 2,431 votes; Thompson garnered 1,696 votes. The other candidates received the following tallies: Paul Sisson, 653; Josiah Hill, 617; John FitzSimons, 563; Dennis Symalla, 380. Write-in candidates received 20 votes.



Teachers Retirement Association

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Please check all boxes that apply: Name change Address change Email address addition/change

Present Last Name (Please Print)	First Name	Middle Name	Birth Name
Address			TRA Member Number
City, State and Zip Code		Email Address	

About post-retirement work

Not ready to hang up your chalk for good? Here's what you need to know about working after retirement.

- TRA retirees may return to work with a TRA-covered employer and earn up to the \$46,000 earnings limit without deferring the receipt of a portion of their TRA pension benefit. The earnings limitation is applied on a fiscal year basis (July 1 to June 30).
- If you are under Social Security's normal retirement age and retired for only part of the year, the earnings limitation amount will be prorated. The earnings limitation does not apply once you reach Social Security's normal retirement age or return to work in a position not covered by TRA.

- If you earn over the limit, \$1 in benefits will be deducted/offset from your pension for each \$2 of earnings above the limit. The offset amounts are redirected to a separate earnings limitation savings account (ELSA). No interest is earned on account balances. You may apply for a refund of your ELSA account at any age if it has been at least one year after the last amount was redirected to your ELSA account. You may receive direct payment of your refund or have all or a portion of your ELSA refund rolled over to a traditional IRA or an eligible employer plan.

2015 Direct Deposit Schedule	
Wed., July 1	Thurs., Oct. 1
Mon., Aug. 3	Mon., Nov. 2
Tues., Sept. 1	Tues., Dec. 1

Minnesota Teachers Retirement Association

Executive Director, Laurie Fiori Hacking

The *TRIB* is published three times a year. If differences develop between the information provided and the laws governing TRA, the laws prevail.

Board of Trustees, Statutory Members

Brenda Cassellius, Commissioner
Department of Education

Myron Frans, Commissioner
Minnesota Management & Budget

Tiffany Rodning
Minnesota School Boards Association

Board of Trustees, Elected Members

Martha Lee Zins President Retiree Representative 17509 Saddlewood Ln Minnetonka MN 55345	Robert J. Gardner Active Representative 3002 Virginia Ave N Crystal, MN 55427
Mary Broderick Vice President Active Representative 1003 - 31st Ave N St. Cloud, MN 56303	Mary B. Supple Active Representative 7300 Oakland Ave Richfield, MN 55423

Leighton Fritz
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