

# TEACHERS RETIREMENT INFORMATION BULLETIN

Retiree Edition ■ Fall 2015



## 2% increase effective Jan. 1

A post-retirement increase of 2 percent will go into effect on Jan. 1, 2016.

Members who started receiving a benefit on or before July 1, 2014, will receive a 2 percent increase.

Members who started receiving a benefit between July 2, 2014, and June 1, 2015, will get a prorated increase (see chart at [www.minnesotatra.org/memberinfo/r-pradjust.html](http://www.minnesotatra.org/memberinfo/r-pradjust.html)).

If you are eligible for a post-retirement increase on Jan 1, you will receive a letter in December detailing the increase to your monthly benefit, along with current tax information.

State and federal tax tables are available on our website under Forms and Publications. Old tables will be online until early December.

## TRA study: Members living much longer

A new study analyzing TRA's demographic and economic actuarial assumptions finds that Minnesota's retirement-age teachers are expected to live much longer than previously predicted, a development that has significant implications for the financial status of the pension fund.

Periodically, TRA's actuary performs an "experience study" that reviews the underlying methods and assumptions used to evaluate TRA's financial status. The study tests these assumptions and methods to determine whether they continue to be accurate and reasonable. This is an important exercise and a key financial control, since it helps assure that TRA is accurately reporting the system's long-term projected costs and has a plan to fund those costs.

The most recent experience study covered the six-year period from July 1, 2008, through June 30, 2014. The

study looked back at the system's actual experience during the study period and compared it with the experience that the actuarial assumptions had predicted. The study also looks forward to predict future experience.



One significant assumption, life expectancy, is greater in the Midwest and among women and the highly educated, so TRA's member population is enjoying a perfect storm

of longevity advantages. TRA's active-member population is 75 percent female, and where once the average life expectancy of an age 65 female member was 88.6, it is now age 90.3. For an age 65 male, it was once 86; today, it is 87.7. TRA has about 479 benefit recipients age 95 and older, and 86 are centenarians. To paraphrase Spock from "Star Trek," we are indeed living long and prospering!

The average retirement age for TRA

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# President's c o r n e r



Martha Lee (Marti) Zins, President

## TRA: It's all about you

I am sometimes asked why TRA periodically feels it necessary to change the structure of teachers' retirement benefits and payroll contributions. The simple answer is this: Whether you are a 24-year-old first-year teacher right out of school, a 40-year-old mid-career professional, or a 65-year-old retiree, TRA's staff and board of trustees are working constantly to ensure that our piece of your future retirement picture is there for you and will be there for you.

As our front-page story indicates, TRA is again faced with the prospect of having to make difficult choices in order to make sure our defined-benefit pension is financially stable amid the turbulent dynamics of investment market cycles and longer lifespans. Our job at TRA is to keep the ship steady. We've always hewed closely to certain values on the TRA board, but now, for the first time, we have articulated and formalized those values as guiding principles to use as course-corrections become necessary to preserve and protect the fund. These principles are:

- **Shared sacrifice.** 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.** Financial sustainability 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 sustainability.** The goal of the financial sustainability package is to maintain TRA's financial stability in the short term and attain full funding within a reasonable period of time over the long term. Assuring the fund's long-term stability is critical to maintaining the valuable defined-benefit protection for Minnesota's public educators. Both contribution 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.

A very long-term perspective is necessary in the defined-benefit pension world. As fiduciaries of the TRA fund – accountable to retired and active members, the state and taxpayers – the TRA board has a duty to constantly evaluate and confirm that the fund is financially stable over the long haul.

TRA has been meeting with stakeholder groups – active, retired, employer – over the past several months to gather their thoughts on potential sustainability measures. Should we reduce retiree post-retirement increases? If so, by how much and for how long? Should we raise contribution rates on employers or employees? If so, how much? These are some of the questions that we have been wrestling with.

We will continue to gather feedback over the next two months, with the goal being to present a package of sustainability measures to the Legislative Commission on Pensions and Retirement in early 2016.

**If you would like to weigh in about TRA sustainability measures, e-mail us at [info@minnesotatra.org](mailto:info@minnesotatra.org) and put "TRA sustainability" in the subject field.**

## TRA news briefs

### Benefit adjustments 101: For the newly retired

If you have recently retired, a preliminary estimate is used to determine your initial payment. This estimate uses anticipated salary and service for the current year, normally assumed to be the same salary and service that you earned the previous year. After retirement, your account will be reviewed to verify that all salary and service credit have been received, and a new calculation of benefits will be produced. If an adjustment to your monthly payment is required, you will be notified and the adjustment will be made retroactive to your effective date of retirement.

### 1099-R forms go out in January

TRA will mail 1099-R tax forms in late January. This form discloses the total amount and taxable portion of your annuity payments as well as federal and state income tax withheld for the 2015 calendar year. You will need this information

for your tax returns. When the 1099-R tax forms are ready, you will be able to print out copies by logging onto your MyTRA account on our website. If you would like to get an e-mail when the forms are available online, you must set up an online account. If you have moved or plan on moving, be sure to update your address with TRA. The post office will not forward tax forms; the form will be returned to us. Update your address by calling TRA at 651-296-2409 or 800-657-3669. You can also update your physical and e-mail addresses by accessing your online account.

### Attention, snowbirds

Providing TRA your temporary address will ensure that you receive important documents without delay. You may store both a permanent and temporary address on your record by calling TRA or entering it in your online account at [www.minnesotatra.org](http://www.minnesotatra.org).



## Study: TRA members living much longer

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members has been steadily rising over the past few years as more teachers realize that it's expensive to retire early. The average age at retirement is now about age 63 for our teachers, meaning that benefits are being paid for an average of about 27 years for that hypothetical average female teacher retiring at 63.

We've known from various national studies and news reports that people are living longer, but what does this mean for TRA? It means that pension benefits are being paid for a longer period of time than ever before, and that adjustments must be made to ensure that the pension fund remains financially healthy for future retirees. Adjusting the mortality tables to reflect longer life expectancies will add costs to the system, making sustainability measures necessary.

Another big factor analyzed by TRA's experience study is the investment return assumption. The percentage that TRA expects to earn on investments is critical because it is used to discount

future benefit liabilities. Investment returns are also important because they pay for over 70 percent of pension costs. Based on lower investment return expectations, TRA's actuary recommends a decrease in the long-term investment return rate from 8.5 percent to 8 percent, and a corresponding decrease in the inflation and wage growth assumptions. These changes to economic assumptions will increase the costs to fully fund the system.

If all assumption changes are made, TRA's costs will increase by 3.5 percent of payroll, or \$144 million annually. TRA's funded ratio will drop from 81 percent to 76 percent. The change in the investment return assumption is responsible for half of this negative financial impact while mortality, wage growth and other assumption changes account for the rest.

Making these assumption changes would increase TRA's funding deficiency and depress its funded ratio to a level that will need to be addressed by the TRA board. The state legislature has authority to

change the investment return assumption, but the TRA board has authority to make changes to other assumptions relating to mortality rates and payroll/salary increase rates and termination rates.

It is accepted practice to adopt actuaries' recommended changes, and Minnesota statute stipulates that such changes must be based on the most recent experience study. TRA staff has transmitted its experience study recommendations to the Legislative Commission on Pensions and Retirement so that all the changes would go into effect in time for the July 1, 2016, valuation report.

During the fall and early winter, the TRA board will work with its stakeholder groups representing active teachers, retirees and employers to develop a package of sustainability measures to be introduced in the 2016 session. The board's goals are to address TRA's funding deficiency and put the fund on a positive track to attain 100 percent funded in 30 years.



## Teachers Retirement Association

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[www.minnesotatra.org](http://www.minnesotatra.org)

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

|                                  |            |               |                   |
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| 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

Interested in doing some substitute teaching? 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 the balance in 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 balance or have all or a portion of your ELSA rolled over to a traditional IRA or an eligible employer plan.

### 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.

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