Background Information on
How Annuity is Computed Under Teacher Plan Law

In the Teachers Retirement Association (TRA) and the first class city teacher plan coordinated programs, the pension benefit is based on the high-five average salary (the average salary in the five successive years which produces the highest average), the total number of years of service credit, and the accrual rate or rates. The accrual rate is specified in law, and it is the percentage of the high-five average salary which the individual will receive for each year of service. For simplicity, we will assume a teacher who is retiring at normal retirement age, about age 65. The accrual rate in Duluth Teachers Retirement Fund Association (DTRFA) or St. Paul Teachers Retirement Fund Association (SPTRFA) law that applies is 1.7%. The annuity is determined by first multiplying the high-five average salary by the accrual rate. If the high-five average salary is $50,000, then the amount the individual receives per year of service is $50,000 x 1.7% = $850. Multiplying that amount by the total years of service credit gives the total annual annuity amount at the time of retirement. If the individual has 30 years of service credit, then the annual annuity is $25,500, which is obtained by multiplying $850 by 30 years ($850 x 30 = $25,500). If the annual annuity is $25,500, then the individual is receiving an annuity of $2,125 per month, plus Social Security and income from any other sources.

The benefit in TRA would be slightly higher due to a benefit improvement granted when the Minneapolis Teachers Retirement Fund Association (MTRFA) merged into TRA in 2006. For service rendered after June 30, 2006, a TRA member retiring at about age 65 would have an accrual rate of 1.7% per year for service provided before July 1, 2006, and an accrual rate of 1.9% per year of service for service rendered after June 30, 2006.

If a DTRFA, an SPTRFA, or a TRA member were retiring early, the accrual rate for the first ten years of service might be lower, or a reduction might be taken after the annuity is computed as above to compensate for the increased number of years that the individual is expected to draw an annuity, given the individual's age and expected remaining life expectancy.