Background Information on
First Class City Teacher Retirement Funds

1. Creation and Organization. After police officers and firefighters in some of the larger cities in the state, teachers were the first group of public employees in Minnesota to achieve public pension coverage. Teacher retirement funds in cities with a population greater than 10,000 (first, second, or third class cities) were authorized by the Legislature in 1909 (Laws 1909, Ch. 343, Sec. 1). The teacher retirement fund association legislation was implemented in Duluth (the Duluth Teachers Retirement Fund Association (DTRFA), Minneapolis (the Minneapolis Teachers Retirement Fund Association (MTRFA), and St. Paul (the St. Paul Teachers Retirement Fund Association (SPTRFA)) in 1910. No other local teacher retirement fund associations were established in the following years, and the Legislature eventually repealed the authority to establish any further local teacher plans in 1969. The DTRFA and SPTRFA remain freestanding. The MTRFA was consolidated into the current statewide teachers plan, the Teachers Retirement Association (TRA), in 2006.

   A statewide teacher retirement plan, the Teachers Insurance and Retirement Fund, was created by the Legislature in 1915. The three local teacher plans that had been established a few years earlier were left as freestanding organizations, while the Teachers Insurance and Retirement Fund provided coverage for teachers outside of the first class cities. The Teachers Insurance and Retirement Fund was replaced by TRA in 1931.

   Under the 1909 authorizing legislation, the local teacher retirement fund association was a general corporation (now a nonprofit corporation) and had considerable latitude to design their own benefit plans, subject to an employer funding limit of one-tenth of one mill on the assessed taxable property of the applicable city. As Minnesota nonprofit corporations, the local teacher retirement fund associations are governed by articles of incorporation supplemented by corporate bylaws. Amendments to their articles of incorporation require membership approval at an annual meeting. Each teacher retirement fund association has a separate board, and the activities of each association are handled by an executive secretary or an executive director and a separate administrative staff.

   In the 1970s or earlier, coordinated programs (plans in which the individual has Social Security coverage in retirement in addition to the benefit provided by the teacher pension fund plan) were established in many Minnesota public pension systems, including the first class city teacher fund associations. These coordinated plans pay a lower benefit than a basic plan (one in which the individual is not covered under the Social Security system due to the current covered employment) in recognition that the individual also receives Social Security monthly benefits in retirement, but the coordinated teacher plan contribution rates are correspondingly lower. The DTRFA New Law Coordinated Program and the SPTRFA Coordinated Program are covered in statute rather than bylaws. When coordinated plans were first established in these two local teacher plans (and in the MTRFA coordinated plan which has since been consolidated into TRA), the legislation was patterned closely after existing TRA law. Since these coordinated programs were established, at times the benefit structure of the local teacher plans and TRA departed slightly, due to benefits initially enacted for one plan but not others. Currently, TRA provides a slightly higher benefit per year of service, due to an increase (higher accrual rate) provided on a prospective basis to TRA in 2006 which was not extended to DTRFA or SPTRFA, and there are also differences in post-retirement adjustment procedures. Benefits provided by the basic plan programs in these systems are quite similar.

2. Membership and Coverage. The primary group covered by the three teacher retirement fund associations is the teaching and certified administrative personnel of the applicable school district. Membership is generally mandatory. The administrative staffs of TRA and the remaining first class city teacher retirement fund associations also are included in the membership of the respective retirement fund association. For TRA-covered school districts and for Duluth and St. Paul, other school district administrative personnel who do not require state Department of Education certification are covered by another Minnesota general employee public pension plan, the Public Employees Retirement Association (PERA).

3. State Role in Funding Local Teacher Plans. The state has played a significant role in financing first class city teacher plans in recent decades. The state directly covered all or part of the employer cost of the local teacher pension fund, either through direct payments to cover the local employer pension cost or by adding additional amounts to the basic state education aids. During the 1990s, the state has further increased its financial commitment to local teacher plans by creating new additional state aids above amounts provided through the education aids system. Details of these trends since the late 1960s are as follows:

- In 1967, with the initial passage of a state sales tax, the state's employer contribution to the statewide TRA was shifted from a statewide property tax levy (on all taxable property outside the first class cities) to direct general fund financing. The state paid a portion of the employer pension costs. At the same time, the state also began to directly participate in the funding of the first class city teacher retirement funds. The initial state funding of the first class city teacher retirement funds was a specified dollar amount per member, set to equal the proportional state funding provided to TRA.

- In 1969, the aid procedures were changed to provide the first class city teacher funds with the same percentage of payroll amount as provided to TRA-covered employers. The balance of any required employer contributions to the first class city teacher retirement fund associations remained payable from property taxes levied by the respective school district.

- In 1975, legislation abolished the authority for Special School District No. 1 (Minneapolis), Independent School District No. 625 (St. Paul), and Independent School District No. 709 (Duluth) to levy local property taxes for their respective first class city teacher retirement fund associations, provided that the state would bear the total responsibility for funding the employer contribution requirement of the first class city teacher retirement fund associations.

- In 1979, state funding of all teacher retirement plans was increased modestly and the state aid for these local teacher plans was specified for each teacher retirement fund association and each retirement (basic or coordinated) program as a percentage of covered payroll.

- Under 1985 legislation, responsibility for the payment of teacher retirement plan employer contributions and Social Security employer contributions for TRA and the first class city teacher retirement fund associations was shifted from direct general fund financing to the employing units, effective for the July 1, 1986-June 30, 1987 fiscal year. The responsibility shift was accompanied by the creation of a teacher retirement cost state aid formula, based on the historical retirement costs per pupil. This formula provided employer retirement financing sufficient to cover the same percentage increase in per pupil retirement costs in each district, with the school district being required to pay from other revenue sources any retirement costs not covered by the aid as the result of higher than average compensation levels or salary increases beyond the aid inflation factor, or higher staff-to-pupil ratios than the average.

- In 1993 and 1994, in response to growing recognition that contribution deficiencies in MTRFA and SPTRFA needed to be addressed, statutory contribution rates were revised, various assessments were created, and new state aids were authorized for MTRFA and SPTRFA. The new program was called special direct state aid. Regarding the SPTRFA, the employer additional rates were revised to create, for the 1995-1996 school year and after, a 3.64% of pay employer additional contribution on behalf of all SPTRFA members, identical to that of the statewide TRA. Under the new special direct state aid program, the state would give SPTRFA $500,000 in 1994, increasing by the rate of increase in the general education revenue formula thereafter. No local match was required. SPTRFA members were also required to make an additional member payment to offset a portion of the administrative expenses of SPTRFA that are proportionally greater than those of the statewide TRA.

- The 1996 Legislature added a further state aid program to assist MTRFA and SPTRFA. Beginning with the 1996 aid payments, 70% of any unallocated amortization or supplemental amortization state aid for police and paid fire relief associations and consolidation accounts was to be redirected to the MTRFA and the SPTRFA. Of the redirected aid channeled to these two teacher associations, the MTRFA was to receive 70% of the allocation and the SPTRFA was to receive 30%. No local match was required for 1996 and 1997, but additional local contributions were required in 1998 and thereafter. For the SPTRFA, the St. Paul school district was required to make a contribution to the fund of $200,000 in fiscal 1998, $400,000 in fiscal 1999, $600,000 in fiscal 2000 and $800,000 in fiscal 2001 and thereafter.

- The 1997 Legislature, as part of a major benefit improvement bill, again revised SPTRFA and MTRFA state aid. Rather than continued receipt of $500,000 in annual state direct aid annually, escalated over time with increases in general education aids, the SPTRFA was to receive $4.827 million in fiscal 1998 and $2.827 million annually thereafter, without any local match.

- The 2000 Legislature clarified a termination provision applicable to the amortization aids (amortization aid, supplemental amortization aid, and additional amortization aid) by stating that these aids will continue until the MTRFA and SPTRFA are fully funded.

- In 2006, as part of the provisions merging the MTRFA into TRA, accrual rates were increased in TRA, and provisions which previously directed aid to the former MTRFA were redirected and in some cases revised. Beginning in fiscal 2008, state aid to all TRA-covered school districts and to Special School District #1 (the City of Minneapolis) was increased by one-half percent of payroll. All direct state aid (including $12.954 million under Minn. Stat. Sec. 354A.12, Subd. 3a) which under prior law went to the former MTRFA was to be redirected to TRA. Special direct state matching aid (Sec. 354A.12, Subd. 3b) was made mandatory rather than permissive, and Special School District No. 1 and the City of Minneapolis each were required to contribute $1.25 million annually while the state must contribute $2.5 million. (The 2006 legislation specified $1.125 million each from the City of Minneapolis and the school district. The specified amount was revised in 2007, as a technical correction, to $1.25 million rather than $1.125 million, so that the combined amounts match the corresponding state contribution.) Under the reallocated amortization and supplemental amortization provision (Sec. 423A.02, Subd. 3) Minneapolis and the school district were required to each pay $1 million annually to TRA until 2037.

- Various revisions and clarifications occurred in 2008. Direct state aid to the DTRFA ended in 2002 because that plan's fund had become fully funded. But the DTRFA funding ratio began to fall below full funding, causing the 2008 Legislature to reduce direct state aid to TRA, which the 2006 Legislature created as part of the MTRFA merger package, by $346,000 annually. This amount was instead allocated to the DTRFA. Aid to the SPTRFA was reduced by $140,000. The various aid programs (direct state aid, matching aids, and the various redirected amortization aids) were to continue until neither TRA nor SPTRFA has any unfunded liability.

- The 2009 Legislature revised the reallocation of amortization and supplemental amortization aids. With reallocated aids, rather than 70% being directed to TRA and 30% to the SPTRFA, TRA will receive 50%, SPTRFA will receive 40%, and DTRFA is added to the allocation, to receive 10%.