Background Information on Teacher Retirement Coverage

1. Number of Teacher Retirement Plans. Minnesota has three teacher retirement plans covering K-12 teachers:
   - the Teachers Retirement Association (TRA), which covers all charter school teachers in the state, K-12 teachers outside the Duluth and St. Paul school districts and most faculty employed by the Minnesota State Colleges and Universities System (MnSCU) who are not covered by the MnSCU Individual Retirement Account Plan (IRAP) defined contribution program (TRA had 77,356 active members in 2010);
   - the Duluth Teachers Retirement Fund Association (DTRFA), which covers K-12 teachers for Independent School District No. 709 and some faculty members at the Lake Superior College, a MnSCU institution (DTRFA had 1,054 active members in 2010); and
   - the St. Paul Teachers Retirement Fund Association (SPTRFA), which covers K-12 teachers for Independent School District No. 625 and some St. Paul College faculty members (SPTRFA had 3,837 active members in 2010).

2. Creation of Teacher Retirement Plans. TRA was created in 1931 to replace the Teachers Insurance and Retirement Plan that was created in 1915. The first class city teacher retirement fund associations were authorized by state law in 1909 and actually created in 1910.

3. Teacher Retirement Plan Governance
   - TRA is a quasi-state agency/instrumentality and is administered by an eight-member board (four active teachers, one retired teacher, and three state officials).
   - The first class city teacher retirement fund associations are nonprofit corporations organized under Minnesota law and are separate from the applicable school district. DTRFA has a nine-member board (five active teachers, two retired teachers, and two school district officials). SPTRFA has a ten-member board (nine active teachers and one school district official).

4. Teacher Retirement Benefit Programs. TRA and the first class city teacher retirement fund associations are all defined benefit (i.e. formula) retirement plans.
   - TRA converted from a defined contribution (i.e. individual retirement account) retirement plan beginning in 1969. From 1969 to 1973, the plan utilized a career average salary formula. In 1973, the plan shifted to a highest-five successive years' average salary formula (high-five). The current accrual rate per year of allowable service credit is 1.7% for service provided before July 1, 2006, and 1.9% per year thereafter. The higher service credit after June 30, 2006, is due to a benefit increase granted to TRA at the time of the merger of the Minneapolis Teachers Retirement Fund Association (MTRFA) into TRA. TRA's normal retirement age is generally age 65 or age 66, although pre-1989 teachers are covered by the Rule of 90.

     TRA was previously covered by the Minnesota Post Retirement Investment Fund (Post Fund) for post-retirement adjustments, which was created in 1969 and revised in 1973, 1980, 1992, and 1997, and which was dissolved under 2008 legislation. Following the dissolution of the Post Fund, TRA law provided an automatic 2.5% annual post-retirement adjustment. Post-retirement adjustment procedures were again revised under the Financial Sustainability Provisions passed in 2010 (Laws 2010, Ch. 359, Art. 1). Under those revisions TRA will provide no post-retirement adjustment in 2011 or 2012. In 2013 and thereafter until financial stability is achieved (defined as when the market value of the fund is at least 90% of the accrued liabilities) the full annual benefit adjustment is reduced from 2.5% to 2.0%.

   - DTRFA converted from a defined contribution retirement plan in 1971 and uses a highest-five successive years' average salary formula, with a 1.7% per year of allowable service benefit accrual rate. The normal retirement age is generally age 65 or age 66, with the Rule of 90 available for pre-1989 hires.

     Under 1995 legislation DTRFA provided an automatic 2.0% increase to plan retirees, plus additional adjustments could be provided based on five-year average investment returns in excess of 8.5%. This post-retirement adjustment system was removed by the Financial Sustainability Provisions passed in 2010. Under that legislation the DTRFA, under a transitional provision, will pay no post-retirement increase until the funding ratio based on market value is at least 80%. A 1.0% increase will be provided when that ratio is at least 80% and less than 90%. A 2.0% increase will be provided when that ratio reaches or exceeds 90%. When the funding ratio based on actuarial value of assets (actuarial value of assets divided by accrued liabilities) is at least 90%, the transitional system is replaced by an inflation match not to exceed 5.0%.

- SPTRFA shifted from a defined contribution retirement plan in the mid-1950s and has utilized a highest-five years' average salary formula since then. It has a 1.7% per year of allowable service credit benefit accrual rate. It has an age 65 or age 66 normal retirement age, although pre-1989 hires have the Rule of 90.

  Under 1997 legislation SPTRFA provided an automatic 2.0% increase to plan retirees, plus additional adjustments could be provided based on five-year average investment returns in excess of 8.5%. This was changed beginning in 2006 through a series of temporary measures, generally providing a capped inflation match. Under the 2010 Financial Sustainability Provisions legislation the SPTRFA suspended any post-retirement adjustment for one year. Beginning in 2011, SPTRFA law specifies that a 2.0% annual adjustment will be provided.

5. Funded Levels and Contribution Rates. All pension plans incurred considerable asset value loss due to the Great Recession of 2008 and 2009, although a considerable recovery of asset value has since occurred.

   - TRA had retirement assets based on actuarial value in 2010 of $17.3 billion, which was 78% of its actuarial accrued liability. The TRA member contribution rate is 5.5% for most members escalating to 7.5% by June 30, 2014, and the TRA employer contribution rates match the employee contribution rates. The average TRA active member salary in 2010 was $52,324.

   - DTRFA had retirement assets based on actuarial value in 2010 of $255 million, which was 82% of its actuarial liability. The DTRFA member contribution rate is 5.5% increasing to 6.5% by July 1, 2012, and the DTRFA total employer contribution rate is 5.79% increasing to 6.79% on July 1, 2012. The average DTRFA active member salary in 2010 was $52,257.

   - SPTRFA had retirement plan assets based on actuarial value in 2010 of $1 billion, which was 68% of its actuarial accrued liability. The SPTRFA member contribution rate is 5.5% for most members, escalating in increments to 6.5% on July 1, 2014. The SPTRFA employer contribution rate in most cases is 4.5% increasing in increments to 5.5% on July 1, 2014. In most cases the employer also pays an employer additional contribution of 3.84% of salary. The average SPTRFA active member salary in 2010 was $60,946.

6. State Aid To Teacher Retirement Plans

   - TRA (or its predecessor) has received state aid since 1915. From 1915 until 1967, the state aid was the result of a statewide property tax levy based on the retirement annuities payable from TRA (ranging from $66,000 in total in 1932 to $16.9 million in 1966). In 1967, an open and standing general fund appropriation to TRA replaced in the statewide property tax levy (initially $20 million in 1967 and increasing to $103 million in 1984). In 1985, the open and standing appropriation was converted to a categorical education aid amount (initially $125 million in 1985 to $149 million in 1988). In 1989, the categorical education aid was folded into the overall general education aid program.

   - DTRFA and SPTRFA have received state aid since 1967, with their receipt of the equivalent of the TRA funding.

     Also, DTRFA and SPTRFA receive additional state aid. The additional state aid programs began in 1997 and 1993 respectively, and these have been expanded and revised several times since. Any aids applicable to the former MTRFA have been redirected to TRA.

7. Investment of Teacher Retirement Plan Assets. The TRA assets are invested by the State Board of Investment. The first class city teacher retirement fund association boards each invest the assets of their respective retirement plans.

8. Oversight. Legislative oversight of the three teacher retirement plans is the responsibility of the Legislative Commission on Pensions and Retirement, the Senate Committee on State Government Innovation and Veterans, and the House Committee on Government Operations and Elections.

   Financial oversight of the three teacher retirement plans is provided by the Office of the Legislative Auditor for TRA and by the Office of the State Auditor for the first class city teacher retirement plans.