Research on Public Pension Retirement Security and Teachers' Benefits Minnesota Legislative Commission on Pensions and Retirement

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Overview

- Practices of Successful Pension Systems
- Retirement Security Metrics
- Comparison of Minnesota TRA Benefits

The Pew Charitable Trusts

- Nonpartisan, not-for-profit philanthropic organization with more than 40 active, evidence-based research projects on public policy issues.
- State fiscal policy project's lines of research include a variety of state and local economic policy and government performance initiatives, such as public safety, state tax incentives, rainy day funds, statesponsored private retirement security initiatives, and state pension plans for the public sector workforce.

State Fiscal Policy – Public Pensions

- 50-state research on trends in public retirement systems and retiree health benefits covering funding, investments, governance, plan design, and retirement security.
- Technical assistance to policymakers in over 25 states and cities since 2011 has saved states an estimated \$5 billion in unfunded liabilities over 10 years while preserving retirement security for workers through our retirement security framework.
- Evidence-based, data-driven approach: not an academic exercise, but rather an applied-research approach to policy change and implementation.



Practices of Successful Pension Systems



Spotlight On Three State Pension Plans: No One-Size-Fits-All

Different policies, but all three are well funded with stable costs and strong outcomes for retirement security



- Wisconsin Retirement System—Shared risk design
- South Dakota Retirement System— Adjustable benefits
- Tennessee Consolidated Retirement System— Risk-managed hybrid



5 Practices Of Highly Successful Retirement Systems



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Practices of Successful Pension Systems

Retirement Security Metrics



How Do We Measure Retirement Security?

Replacement income ratio: percentage of a worker's pre-retirement take-home pay that is paid out by employer plans and, when available, Social Security.

Retirement savings rate: the level of savings, expressed as the percent of annual salary, that an employee can withdraw from their pension fund when leaving employment prior to reaching retirement eligibility.

Evaluating Retirement Security in State and Local Sector

After adjustments, most pension systems with Social Security coverage provide a replacement rate of at least 80% for career workers



Notes: Assumes worker with 35 years of service and retirement age of 65 covered by a plan that participates in Social Security. Pew adjusts for inflation assuming a 2.2% inflation rate and 1% COLA. Take-home pay is calculated assuming a 7% employee contribution to the DB and a 7.65% contribution to Medicare and Social Security

Comparing Replacement Rates of Teacher Retirement Systems



*Preliminary Data

Notes: Adjustments include social security, inflation, and take-home pay (discontinued employee contributions and social security and Medicare contributions). Only includes the 36 retirement systems that cover teachers and participate in Social Security. This includes systems that offer a defined benefit plan like MN TRA as well as systems that provide a hybrid, cash balance, or defined contribution plan.



What about employees who leave early or mid-career?

- Unvested workers can take contributions plus any plan-provided interest.
- Vested employees can typically choose between taking contributions plus employerprovided interest or leaving account with state until they reach retirement eligibility.
- However, those benefits based on the employee's final salary in the job typically lose value over time because they are not generally adjusted for any inflation that occurs after the employee leaves the job.
- In some cases, withdrawing money from the retirement system may be a better financial decision. This depends on several factors, such as a worker's age, years of service, or the chance that they'll return to the system at some point before retirement.

Comparing Savings Rates Under Teacher Retirement Systems



Employee contribution rate
Employee contribution rate

Notes: These savings rates, shown as a percentage of salary before accounting for accrued interest, assume that workers are fully vested at separation. For systems that offer multiple plans, the rate shown is for the default plans—those that workers are automatically enrolled in if they do not choose a plan. Only includes the 36 retirement systems that cover teachers and participate in Social Security.

Retirement Security Metrics

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Retirement Readiness

- Pew uses a framework known as **retirement readiness** to assess the full picture of a worker's preparedness for retirement. It is made up of four components:
 - **Plan Design:** Retirement systems meet replacement ratio and savings goals.
 - Availability and utilization of supplemental retirement plans: High participation rates, often through education or features such as auto-enrollment.
 - Availability of online participant tools: Personalized calculators or dashboards that provide real-time information about employee replacement ratios or predicted income in retirement.
 - Access to Financial Advisors: One-on-one personalized financial and retirement-related advice.

Retirement Readiness Metrics – TRA Tier 2

GOAL	MEASUREMENT	ASSESSMENT – MINNESOTA TEACHERS RETIREMENT ASSOCIATION*
Offer benefits that provide a path to retirement security across the workforce.	Replacement Income	TRA provides career workers a replacement rate of 108% of take-home pay. The average among other teacher plans is a little bit lower, at about 100%. 16 out of 36 systems provide a replacement rate at or above 100% of take-home pay.
	Retirement Savings	Under TRA, workers who change jobs early or mid-career can expect to save 7.75% of their annual salary. This falls short of offering a savings rate within the recommended level of at least 10% to 12%. It is also below the average teacher savings rate of just over 8%.
	Retirement Readiness	The TRA plan website does not provide clear information about whether TRA members have access to a supplemental savings account or deferred compensation plan. The website has helpful educational information about benefits, several informational videos, and a benefit estimate calculator. TRA offers in-person or virtual counseling sessions, but it is not clear if members have access to personal financial advice.

Note: MN TRA is compared to 36 other retirement systems that cover teachers and participate in Social Security. This includes systems that offer a defined benefit plan like MN TRA as well as systems that provide a hybrid, cash balance, or defined contribution plan.

Comparison of TRA Benefits



Plan Design for Teachers

MN teachers are covered by a defined benefit - the most common type of plan



Note: Map shows the default plan design for retirement system covering teachers. DB with Risk Sharing describes plans with employee contribution risk-sharing, variable COLAs, or both. States categorized based on the current tier that's open for new workers. **17**



Comparison of TRA Benefits

Teacher Retirement System Reform Since 2008

- Following the Great Recession, nearly all states passed significant reforms to their state and teacher retirement systems.
- At least 40 retirement systems covering teachers adopted a benefit tier for new workers between 2008 and 2023.
- During this time period, teacher retirement systems changed benefits both for current and new workers. These changes included:
 - Increasing age and service requirements for early and normal retirement
 - Increasing the employee contribution
 - Reducing the multiplier or adopting a new type of plan
 - Reducing or eliminating COLAs

Comparing MN TRA Benefits to Teacher Benefits in Other States

	MN TRA (Tier 1)	MN TRA (Tier 2)	Teachers Pension Systems*
Multiplier	1.2% for first 10 YOS (1.4% for years after June 30, 2006), 1.7% for additional YOS (1.9% for years after June 30, 2006)	1.7% for all years of service prior to July 1, 2006; 1.9% for all years of service on or after July 1, 2006.	Average is 1.85%. The range is from 1.6% to 2.3%.
Employee Contribution	7.75% (increasing to 8% effective July 1, 2025)	7.75% (increasing to 8% effective July 1, 2025)	The average among other systems is 7.5%.
Final Average Salary Years	5 years	5 years	Using five years for the final average salary calculation is most common. The range is from 2 to 5 years.
Cost of Living Adjustment (COLA)	1.1% (gradually increasing to 1.5% effective 1/1/2028)	1.1% (gradually increasing to 1.5% effective 1/1/2028)	About half of the systems offer some sort of annual COLA, ranging from 1 to 3%.

*Compares MN TRA to the 25 other defined benefit retirement systems that cover teachers and participate in Social Security

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Comparing MN TRA Retirement Eligibility to Other States

	MN TRA (Tier 1)	MN TRA (Tier 2)	Teacher Pension Systems*
Normal Retirement Age	65/3; 62/30; Rule of 90	66/3 (reduced to 65 effective 7/1/25)	Average: 64 (regardless of YOS) Minimum: 60 Maximum: 67
Early Retirement Age	55/3; Any/30	55/3	Average: 57 (regardless of YOS) Minimum: 50 Maximum: 62
Early Retirement Penalty	3% per year reduction factor for each year under normal retirement age	, , ,	

*Compares MN TRA to the other 45 defined benefit and hybrid retirement systems that cover teachers. Note: 2018 omnibus phased out subsidy for early retirement benefits over a five-year period, beginning 7/1/19

Comparison of TRA Benefits



Comparing MN TRA Benefits to Nearby States

	MN TRA (Tier 2)	ND Teachers' Fund for Retirement	SD Retirement System	WI Retirement System	IA Public Employees' Retirement System
Multiplier	1.7% for all years of service prior to July 1, 2006; 1.9% for all years of service on or after July 1, 2006.	2%	1.8%	1.6%	2% for first 30 years of service and 1% for years 31-35.
Employee Contribution	7.75% (increasing to 8% effective July 1, 2025)	11.75%	6%	6.9%	6.29%
Final Average Salary Years	5 years	5 years	5 years	3 years	5 years
Cost of Living Adjustment (COLA)	1.1% (gradually increasing to 1.5% effective 1/1/2028)	Ad-hoc as approved by the legislature.	Based on CPI-W and funded status with a minimum of 0% and a maximum of 3.5%.	Based on investment performance.	No COLA
Normal Retirement Age	66/3 (reduced to 65 effective 7/1/25)	Rule of 90 (minimum age of 60) or 65/5	67/3	65; 57/30	Rule of 88 or 62/20 or 65/7
Early Retirement Age	55/3	55/5	57/3	55	55/7
Early Retirement Reduction	If members meet 62/30 provision, reduction is 3% per year from age of retirement to 66. Otherwise, the reduction is 4% per year from age 55 to 59 and 7% per year from age 59 to 66.	8% per year from the earlier of age 60/Rule of 90 or age 65.	5% for each year that payments are made before age 67.	0.4% per month between ages 55 and 57. Between 57 and normal retirement age, the 0.4% is reduced by 0.001111% for each month of creditable service.	For service earned through June 30, 2012, the reduction is 3% for each year that payments are made before age 65; for service earned starting July 1, 2012, the reduction is 6% per year.

Comparing COLA Benefits Across Teacher Retirement Systems

- TRA currently provides a 1% COLA; increasing by 0.1% from FY24 to FY28 until reaching 1.5%.
- 11 of the 25 defined benefit plans that cover teachers do not provide an automatic COLA on an annual basis.
- 6 of the remaining 14 plans provide automatic COLAs, 3 base their COLAs on CPI, and 5 tie their COLAs to investment returns or funded status.
- Prior to 2018 legislation, TRA's COLA was partially tied to funding ratio. COLAs that vary in response to investment returns or funded ratio can help manage unexpected costs.

Appendix



Pension Plan Assets And Liabilities Over Time

Windfall investment returns pushed the funded ratio above 80% in 2021 but subsequent losses have erased those gains.



Source: State annual financial reports, pension plan financial reports, and plan actuarial valuations

TRA's Funded Ratio was 87% in 2021, but trending downward



Funded ratios for states' pension plans in 2021

Source: State annual financial reports, pension plan financial reports, and plan actuarial valuations

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Most States Met Contribution Benchmark In 2021

TRA had negative net amortization, contributing only 79% of the net amortization benchmark.



Source: Pew calculations based on state annual financial reports, pension plan financial reports, and plan actuarial valuations

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Replacement Rates under State and Teacher Retirement Systems

Under most systems, career workers can expect a retirement benefit that matches at least 80% of their final takehome pay



Notes: Analysis is based largely on system specific provisions with some assumptions applied universally, including 35 years of service, retirement age of 65, and 33% Social Security replacement rate.



Appendix