June 6, 2017

TRA financial remedies fail at legislature

Gov. Mark Dayton vetoed a bill passed by the 90th Minnesota legislature that linked pension-related legislation to language restricting cities and other local governments from setting minimum wage rates or other worker benefit and leave terms for private employers within their jurisdictions.

The governor had warned that the controversial local “pre-emption” bill would get a swift veto, saying that he didn’t believe the legislature should restrict local governments from enacting minimum wage or worker benefit ordinances.

In the days leading up to the end of the 2017 legislative session, TRA sustainability measures proposed by the Legislative Commission on Pensions and Retirement were removed from the pension bill.

As a result, there was nothing in the vetoed bill pertaining to changes in TRA contribution rates, benefit structure, retiree cost of living adjustments, the investment return assumption, or interest rates on refunds. The January 2018 annual post retirement adjustment (COLA) is scheduled to be 2 percent.

LCPR chair Sen. Julie Rosen, R-Vernon Center, said legislative leaders were unable to find the money needed to cover the increased costs for school districts that would have been caused by raising TRA employer contribution rates.

“We are disappointed that despite commitments by lawmakers to prioritize pension system financial stability, our best efforts to strengthen the TRA fund for current and future retired teachers were unsuccessful this year,” said TRA Executive Director Laurie Hacking.

The TRA Board of Trustees likely will renew its proposals for the 2018 legislative session.

The veto means that all sustainability measures and routine administrative provisions for the retirement systems – TRA, Public Employees Retirement Association (PERA) and Minnesota State Retirement System (MSRS) fail to become law and current state law regarding TRA pension matters is unchanged.

Here are the main provisions affecting TRA members:

- Retired educators will continue to receive an annual 2 percent COLA increase in January 2018.
- Early retirement: Benefits remain the same, Rule of 90 is unchanged, and there is no delay in paying COLAs for early retirees.
- Active teacher payroll deductions (contribution rates) remain at 7.5 percent.
- School district (employer) contribution rates remain at 7.5 percent per employee.
- The assumed rate of return on investments remains at 8.5 percent for TRA, which is higher than its sister systems and most other systems nationally.

In May, Hacking testified regarding the need to have a pension bill this year to address financial problems. She indicated that delay in addressing TRA’s financial challenges will make future solutions more onerous and costly.

She said that while the LCPR bill met the TRA board’s financial stability goal, the bill did not meet the goals of maintaining the recruitment/retention value of pensions and a fair and balanced shared sacrifice commitment among TRA stakeholders (retirees, active teachers and school districts).