Glossary of Terms and Definitions

A	
Accelerated Annuity	With an accelerated annuity, the member may choose to receive a greater or "accelerated" monthly annuity payment. The monthly amount of an accelerated benefit is higher until age 62, 65 or the member's normal Social Security retirement age, then drops for the duration of the lifetime annuity amount. This option is meant to bridge the benefit gap until the person reaches Social Security eligibility. The more a member accelerates the amount of the accelerated annuity prior to their elected age, the less that member will receive in a regular annuity after their elected age.
Accrued Liability Funding Ratio	The accrued liability funding ratio measures current assets (the actuarially smoothed value) against the actuarial accrued liability generated by the actuarial funding method used to determine the fund's required contributions (the entry age normal funding method). The entry age normal funding method develops liabilities using projected service and pay, but spreads the cost out over each member's working lifetime from entry into the plan. This is considered the official plan funding ratio and is the required disclosure under Minnesota Statute.
Active Management	Refers to when a fund or money manager actively manages a portfolio of securities by actively buying or selling stocks or bonds in anticipation of earning a rate of return that is higher than what it could achieve by investing passively in a particular index. Active management attempts to beat the index market rate of return, but is higher cost than passive management.
Active Member	A member with payroll activity on their ledger during the current fiscal year or who is on a leave of absence, has a positive contribution balance, and is not an annuitant or deceased.
Actuary	An individual professionally trained in the risk, probability, and mathematical aspects of insurance, pensions and related fields. The actuary prepares a valuation estimating the cost of the plan benefits and how much money must be contributed to support the benefits payable by the plan. Actuaries conduct statistical studies; construct disability and mortality tables, calculate premiums, reserves, and dividends for participating policies; develop products; construct annual reports in compliance with regulatory requirements; and oversee general financial function. Professional actuarial associations provide actuarial qualification examinations.
Actuarial Accrued Liability	The benefit liability for service credit earned to date by former and present employees in a plan. Calculation of this liability is a major and important part of actuarial funding valuation report affecting the amount of employee and employer contributions the plan needs. Actuarial accrued liability includes benefits due to retirees or other persons already receiving benefits, active members, and deferred members. The data elements maintained in a plan's computerized information systems are needed to calculate this liability.

Actuarial Assumptions Economic and demographic assumptions used by the actuary when preparing the annual actuarial valuation or cost estimates of the plan. These assumptions are tested for accuracy every four years. Examples of key actuarial assumptions include: mortality rates, disability rates, investment earnings, salary growth, payroll growth, retirement rates, Rule of 90 utilization, etc.

Actuarial Cost A system for estimating the cost of plan benefits and allocating those costs to specific periods of time. There are several cost methods that can be used by a plan. The most common for public governmental defined benefit plans is the entry age normal cost method. (See "Entry Age Normal Actuarial Cost Method."

Actuarial Equivalent Actuarial equivalence exists when the actuarial present values of two series of payments are equal taking into account a given interest rate and mortality table. For example, a lifetime monthly benefit of $670 payable beginning at age 60 is the actuarial equivalent of a lifetime monthly benefit of $1,000 payable beginning at age 65.

Actuarial Gain or Loss A gain occurs when actual experience of a plan is better than expected under the plan's actuarial assumptions. For example, if investment earnings are actually higher than what was expected in the actuarial assumptions, then the plan experiences an actuarial gain. Similarly, a loss occurs when experience is more adverse than expected. For example, if a plan experiences higher disability rates than assumed, its costs may be higher than was assumed.

Actuarial Present Value See "Present Value"

Actuarial Reduction The reduction made in a benefit or pension to offset a cost increase to the plan. For example, when a member retires before the plan's normal retirement age, the early retirement benefit may be actuarially reduced. The member's early retirement benefit is actuarially reduced below the normal retirement benefit because the early retirement benefit is paid ahead of schedule and therefore expected to be paid for a longer period of time.

Actuarial Valuation See "Valuation"

Aggregate Cost Method A method under which the excess of the actuarial present value of projected benefits of the group included in an actuarial valuation over the actuarial value of assets is allocated on a level basis over the earnings or service of the group between the valuation date and assumed exit. This allocation is performed for the group as a whole, not as a sum of individual allocations. That portion of the actuarial present value allocated to a valuation year is called the normal cost. The accrued liability is equal to the actuarial value of assets.

Allowable Service Credit The actual service performed by a teacher, including all salary related to teacher-related duties, paid sick leave, vacation days, and all mandatory paid attendance days and hours. Allowable service credit is used for vesting and benefit eligibility requirements. Allowable service exceeds formula service if the employer did not pay a full contribution on a full salary to TRA.

Amortization (of Unfunded Actuarial Accrued Liability)	That portion of the pension plan contribution which is designed to pay interest on and to amortize the unfunded actuarial accrued liability (UAAL), over a pre-determined period of time. Currently, TRA's UAAL is being amortized (paid off) through June 30, 2039.
Annual Base Salary	The annual salary for the lowest full-time Bachelor of Arts (BA) employee in a TRA-eligible position. Each employer unit will have a unique annual base salary. Defined by MN Statute 354.05, subd 41. (Refer to "Service Credit.")
Annual Valuation	Provides a report on the financial health of the TRA fund as of July 1; required by statute and performed by an actuary.
Annuity	A guaranteed monthly payment for a specific amount based on the defined benefit calculation formula or money purchase benefit based on accumulated contributions and credited investment returns. TRA offers six types of annuity plans (see "Life Plans").
Asset Allocation	A fund's decision regarding what portion of the investment portfolio is invested in the various major asset classes such as domestic stocks, international stocks, bonds, private equity, real estate, or cash. The asset allocation decision is critical since it typically determines 90 percent or more of a fund's investment return.

B

Basic Plan *(see Coordinated Plan)*	Under the Basic Plan, a member's contributions and benefits are not coordinated with Social Security coverage and are higher than under the Coordinated Plan.
Basic Actuarial Formula Over a Long-Term Perspective	When the following formula balances, a pension fund is successful and healthy. Benefits + Expenses = Contributions + Investments **Benefits** are composed of retirement, survivor, disability benefits paid to members of the fund. Benefits also include refunds of contributions plus interest to members of the fund choosing this payment option rather than a monthly retirement benefit at a later date. **Expenses** include both administrative and investment expenses necessary to the operations of the fund. **Contributions** include both employee and employer contributions paid to the Association.
Basis Points	A unit of measure used in expressing rates on financial, investment, and actuarial schedules (100 basis points equals 1%).

Benchmark	A benchmark or composite benchmark is used to measure the relative investment performance of a fund. The benchmark is composed of a composite of market indices (e.g., S&P 500) weighted in a manner that reflects the asset allocation of the fund. The benchmark return is what the fund would have earned had it been passively managed in the various market indices. Performance is measured relative to a benchmark. A fund outperforms or underperforms when its total rate of return exceeds or lags its benchmark.
Beneficiary	If a vested, active, and married TRA member dies, the beneficiary is the surviving spouse. If both the member and the spouse make a joint designation on the *Pre-Retirement Death Benefits for Married Members* form (TRA-2002), another person, trust, or organization may be designated as a beneficiary. A member who is active, vested and not married can designate a beneficiary.
Benefit Effective Date	The date, previously known as "accrual date" on which a retirement annuity or a retirement benefit is first payable after applying for the retirement annuity or retirement benefit.
Benefit Recipient	Individual currently receiving TRA monthly benefits. The term consists of retirees, disabilitants, and survivors. The individual may not have personally been a teacher.
Bounceback	The three survivor plans contain a bounceback plan provision that permits monthly payments to be increased to the greater No Refund Life Plan amount if the optional joint annuitant predeceases the retiree. Payment of the higher benefit can be paid retroactively up to one year, if prompt notification of death is not received. In some states, this provision is called the "pop-up feature."
C	
Cash Balance Plan	A cash balance plan is a defined benefit retirement plan that maintains individual employee accounts like a defined contribution plan. The employee's accounts earn a fixed rate of return.
Closed Group/Open Group	Terms used to distinguish between two actuarial cost methods. Under an open group method, future members are considered in the actuarial calculations whereas under a closed method, future members are not considered.
Cofiduciary	A co-fiduciary is someone with whom a fiduciary works, such as a fellow trustee or executive director. Minnesota statutes stipulate that fiduciaries have a general responsibility to oversee fiduciary activities of all other fiduciaries with whom they work. A fiduciary who is aware of a breach of fiduciary duty made by a co-fiduciary can be liable for such a breach and must attempt to correct or alleviate the breach.
Combined Funds (SBI)	The TRA fund, for investment purposes, is combined by the Minnesota State Board of Investment (SBI) with the other major Minnesota defined benefit funds. As of June 30, 2017, the Combined Fund has assets (market value) of $64.1 billion.

Comprehensive Annual Financial Report (CAFR)	TRA report that presents a comprehensive picture of TRA's financial and actuarial condition. The report is published annually in December, covering the fiscal year ending on the preceding June 30.
Consumer Price Index (CPI-W)	One of the monthly inflation tables published by the federal Bureau of Labor Statistics. This table measures inflation nationally for urban and clerical workers. This table was formerly used to determine inflation-based increases for the Minnesota Post Retirement Investment Fund. CPI-W is currently used by the Social Security Administration to determine the SSA Jan. 1 adjustment.
Contribution Deficiency	Condition of a pension fund in which the combined annual employee and employer contributions for that year are inadequate to pay for the cost of pension benefits earned that year, amortization of the unfunded liability, and administrative expenses.
Contribution Sufficiency	Condition of a pension fund in which the combined annual employee and employer contributions for that year exceed the cost of pension benefits earned that year, amortization of the unfunded liability, and administrative expenses.
Coordinated Plan *(also see "Basic Plan")*	Prior to 1957, most TRA members were covered under the Basic Plan, which meant that members´ contributions were used solely for TRA pension coverage and were not coordinated with Social Security coverage. In 1959, new legislation mandated the Coordinated Plan for all K-12 teachers who became TRA members after Dec. 31, 1959. In 12 other referenda through 1969, TRA members voted individually on their coverage. As a result, members who joined TRA before Jan. 1, 1960, and rejected coordination in the subsequent referendums are under the Basic Plan. Members who elected coordination or became TRA members after Dec. 31, 1959, are under the Coordinated Plan. All teachers first employed by the Minneapolis School District since July 1, 1978, are in the Coordinated Plan.
Corporate Benchmark	See "Benchmark."
Covered Payroll	The dollar value of all the covered pension salaries of all TRA active members. For the July 1, 2018 valuation, the amount is about $4.83 billion.
Coverage by more than one Fund (CBMTOF)	Allows members to use service credit from multiple public retirement systems for vesting purposes. CBMTOF is used when a separate benefit from each fund provides the highest overall benefit or the member continues to work in a covered position and begin to draw a benefit from a previous position covered by a different retirement system. It is also used when the member earned service in two or more funds for the same period of time.

D	
Deferred Compensation Plan	Also called IRS Section 457 plan. A defined contribution plan available mainly to state and local government employees who contribute part of their salaries on a pre-tax basis up to an annual limit that is indexed annually. MSRS administers the Deferred Compensation Program (DCP) for state and local government employees. Teachers are eligible to participate in the DCP or a similar IRS Section 403(b) program for deferred compensation.
Deficiency	See "Contribution Deficiency" and "Funding Deficiency."
Defined Benefit (DB) **Plan**	A pension plan that states a determinable monthly benefit as an exact dollar amount, which is calculated using a formula based on salary, service, and age.
Defined Contribution (DC) **Plan**	A retirement plan in which fixed, defined contributions by an employee and/or their employer are accumulated to provide a future retirement benefit. The amount of the ultimate retirement benefit is unknown until retirement age and is largely based on the investment performance of the retirement account during the individual's career. Common examples of DC plans include those authorized under Internal Revenue Code Sections 403(b), 457 and 401(K).
Discount Assumption	Rate chosen to provide information about the expected costs to a public pension plan into the future. Public pension plans frequently use the long-term expected investment return on plan assets for the actuarial liability (discount assumption). For example, a pension dollar payable in 20 years has a current liability of 19.6 cents using a discount assumption of 8.5 percent. However, if a discount assumption of 5.0 percent is chosen, the current liability is 37.7 cents.
E	
Early Retirement Reduction Factor (ERF)	Under the level formula, a member's calculated monthly annuity is reduced by an early retirement reduction factor if the member retires before normal retirement age. The size of the reduction is set in Minnesota Statute.
Economic Growth and Tax Relief Reconciliation Act	Federal tax law enacted in 2001 to improve portability among qualified retirement vehicles such as Section 401(a), 403(b) and 457 plans. The TRA plan is qualified under IRS Section 401(a). Members may purchase prior service credit or repay refunds tax-free by using qualified retirement monies.
Economic Retirement Income Security Act (ERISA)	Employee Retirement Income Security Act of 1974. This is the basic law covering qualified private plans and is designed to protect the rights of beneficiaries of employee benefit plans offered by employers, unions and other entities. ERISA imposes qualification standards and fiduciary responsibilities on both welfare benefit and retirement plans as well as enforcement procedures. Regarding retirement, ERISA also provides standards for tax qualification.

Effective Date of Retirement	Effective Jan. 1, 2010, the effective date of retirement is the latest of: ▪ The day after termination of teaching. ▪ The day of receipt of application if filed after the six months immediately following termination of service. ▪ July 1, for all school principals and other administrators who receive a full contract salary for performance of a full year's contract duties, regardless of the date of resignation and/or completion of the full year's contract duties. ▪ A later date occurring within the six-month period immediately following the termination of teaching service as specified by the member.
Eligible Salary	See "Salary."
Employer Pick-Up Provision	Contained in MN Statute 354.62. Refer to 414(h)(2) on page 8
Employer Proportionate Share (EPS)	Allocation methodology required under GASB Statement 68 to distribute TRA statewide GASB 67 actuarial results to participating employer units. The methodology currently in use is based on a pro-rated share of total employer contributions in the preceding year.
Entry Age Normal Actuarial Cost Method	The cost methodology required by Minnesota statute to allocate pension expenses as a level percentage of covered payroll over a member's career. The majority of public pension plans use this methodology, which is characterized as a conservative approach to budgeting pension costs. Relative to other actuarial cost methods, entry age normal tends to produce more stable, predictable contribution rates, making it easier for public systems to budget.
Estimated value at retirement	The lump sum amount needed by TRA at the member's retirement date to fund anticipated lifetime benefit payments, using the current annual earnings/discount assumption at the time of retirement.
Exclusive Benefit Rule	Requires plan fiduciaries to act exclusively for the purpose of providing benefits to plan participants/members/beneficiaries and paying reasonable expenses of the plan. This rule is embedded in Minnesota pension law, ERISA and the Internal Revenue Code.
Experience Study	Actuarial study conducted at least every six years to evaluate the accuracy and actual experience of economic and demographic assumptions used to produce the annual actuarial valuations.
F	
Facilities Management Committee (FMC)	Joint committee consisting of two members from each of the three statewide retirement systems, which co-own the Retirement Systems of Minnesota Building. The FMC sets the annual building budget and determines other building policies.

Fiduciary Responsibility	TRA board members are fiduciaries and required to discharge duties in accordance with Minnesota Statutes 356A. A fiduciary is charged with using the care, skill, prudence, and diligence that a prudent person who is familiar with such matters would use under the circumstances then prevailing.
401(k)	An arrangement [defined by Section 40l(k) of the Internal Revenue Code of 1986 (IRC)] under which a covered employee can elect to defer income by making pretax contributions to a profit sharing or stock bonus plan.
403b	A special type of tax-deferred retirement arrangement available to public colleges, schools, universities and certain nonprofit organizations under the IRC that permits such employers to purchase tax-deferred annuities (TDAS) for their employees.
414(h)(2)	A provision of the IRC for retirement plans maintained by any state or political subdivision that enables the employing unit to "pick up" contributions that have been designated by the plan as employee contributions. When contributions are picked up, they are treated for tax purposes as if they were made by the employer instead of the employee. Picked-up employee contributions are not taxed as current income to the employee; they are taxed when received as pension income.
415(a)	IRS code limits the amount of salary TRA can cover for pension purposes. For most members, the annual limit is $275,000. For certain members first hired before 1994, a higher limit applies.
415(b) and 415(d)	IRS code limits the amount of benefits that TRA can pay to a benefit recipient. The maximum amount published by the IRS is reduced if the individual retires before age 62. The amount may be revised annually by the IRS.
457	A special IRS provision that enables a state or local government, or agencies and instrumentalities of either, to establish deferred compensation plans for employees. Amounts of compensation deferred under 457 are not taxed to the employee as current income; they are taxed as income when received.
Fiscal Year	July 1 – June 30. For example, fiscal year 2018 covers the period of time between July 1, 2017, and June 30, 2018.
Formula Multiplier	A formula multiplier is set by the Minnesota Legislature and is percentage applied to specified years of service. Each year of teaching service increases the benefit earned at retirement. The multiplier represents a percentage of the high-five average salary that will be paid as a benefit at retirement. All post-June 30, 1989, TRA members currently working earn a formula multiplier of 1.9 percent for each year of service earned beginning July 1, 2006. Lower formula multipliers apply for years before July 1, 2006.
Formula Service Credit	Formula service credit is used in the calculation of retirement benefits. It equals allowable service credit if full contributions for full salary have been made. The resultant figure is one of the components used to determine a retirement benefit.

Full Funding Date	Date determined under statute when contributions plus investment earnings should equal the benefit costs and administrative expenses of the fund. TRA's full funding date is July 1, 2048. When the full funding date is reached, the fund is expected to be 100 percent funded and annual contributions plus investment earnings are expected to meet ongoing expenses.
Funded Ratio	The actuarial value of assets expressed as a percentage of the actuarial accrued liability. The ratio measures the relative health of the fund by comparing assets to liabilities. The ratio is considered the official funding ratio based on state statute and LCPR Standards for Actuarial Work.
Funding Deficiency	Condition of a pension fund in which the actuarial value of assets is lower than the present dollar value of all current and future liabilities earned by retirees and members. A contribution funding deficiency, along with an unfunded actuarial liability, means the fund is not on track to reach full funding by the assumed date.
Funding Sufficiency	Condition of a pension fund in which the actuarial value of its assets exceeds the present dollar value of all current and future liabilities earned by retirees and members. TRA was in a funding sufficiency status from 1997 through 2004.
G	
Generally Accepted Accounting Principles (GAAP)	Uniform standards and guidelines for financial accounting and reporting on financial statements.
Governmental Accounting Standards Board (GASB)	An independent body that promulgates accounting standards and principles for governmental entities. GASB standards affect governmental pension plan financial reporting.
Governmental Accounting Standards Board Statement Number 67	Refers to the Governmental Accounting Standards Board (GASB) Statement Number 67, which specifies the financial reporting, accounting, and actuarial requirements for public plans. TRA first implemented the provisions with the fiscal year 2014 Comprehensive Annual Financial Report (CAFR).
Governmental Accounting Standards Board Statement Number 68	Refers to Governmental Accounting Standards Board (GASB) Statement Number 68, which specifies accounting and financial reporting requirements for TRA employers. TRA employers begin reporting under GASB 68 with their fiscal year 2015 CAFR. The most prominent change is the employers presenting a share of TRA's net pension liability (NPL).
H	
Health Care Savings Plan (HCSP)	Individual accounts that accumulate contribution and investment earnings administered by MSRS. Employee and employer contributions are made in pre-tax dollars. Distributions occur for health insurance premiums and other medical expenses after retirement. Distributions are not subject to federal or state tax.
High-5 Average Annual Salary	The highest average fiscal year salary over five successive years of formula service credit. The high-5 is one of the components used to determine a retirement benefit. (Contrast with "Career Average Salary.")

High-5 Level Formula Program

In 1989 under legislative mandate, TRA implemented the High-5 Level Formula Program, which is used in the benefit calculation for certain members. It affects all members hired after June 30, 1989 and those hired before July 1, 1989, if the level formula pays them a higher retirement benefit than the 1973 High-5 Step Formula Program (with certain early retirement options).

Under the current level formula, coordinated members at age 65 receive 1.7 percent of their high-5 salary (year of service prior to July 1, 2006) and 1.9 percent of their high-5 salary (years of service on or after July 1, 2006) times the total years of allowable service credit. For members who retire between the ages of 55 and 65 (66, if hired after June 30, 1989), their annuity is reduced according to early retirement reduction factors currently authorized.

High-5 Step Formula Program

Under Tier I, a step rate formula is used for calculating retirement benefits. Under Tier II, a level formula is used for calculating retirement benefits. If a member was employed before July 1, 1989 (Tier I), and earned service credit, the retirement benefit will be calculated under both Tier I and Tier II. No election is necessary, because at retirement the member automatically receives the greater of these two benefits. For those first employed after June 30, 1989, your retirement benefit will be calculated under Tier II (level formula) only.

Under the current high-5 step formula, the high-5 salary multiplied by the following percentages per year of formula service credit determines the annuity amount for the member at the normal retirement age of 65.

Service	**Coordinated Member**	**Basic Member**
1st 10 years of service prior to July 1, 2006	1.2% each year	2.2% each year
1st 10 years of service on or after July 1, 2006	1.4% each year	
Years 11 and thereafter prior to July 1, 2006	1.7% each year	2.7% each year
Years 11 and thereafter on or after July 1, 2006	1.9% each year	

Under the high-5 step formula, any member who retires prior to age 65, has their monthly benefit reduced by one-quarter of 1 percent for each month the member is under 65 unless,

- the member has 30 or more years of allowable service credit. Then the reduction is calculated on each month the member is under 62,
- the member is covered under the Rule of 90, in which case there is no reduction.

Hybrid Plan

A retirement plan that contains elements of both defined benefit and defined contribution plans. A cash balance plan is one form of a hybrid plan. Many different forms exist among public pension systems.

I	
Improved Money Purchase Rate	An annual calculation defined in TRA statute and approved by the Board of Trustees that is used to calculate benefits for those members eligible for the IMP Savings Clause provision. The annual rate is applied to the member's contribution account balance, compounding annually over a member's career. Only certain members first hired before July 1, 1969 are eligible.
Inactive Member	A member who has terminated their TRA-covered service or has no payroll activity on their ledger during the current fiscal year and is not yet receiving benefits, usually because they have not reached pension plan retirement age.
Income Tax	TRA retirement benefits are taxable as ordinary income; however, the portion of a retirement benefit that represents the after-tax cost paid toward the benefit is not taxable. Since 1983, TRA contributions by members are made pre-tax. Benefits based on post-1983 contributions are taxable when distributed to the member.
Investment Earnings Assumption	Annual rate of investment earnings expected on TRA assets prior to the time needed to pay benefits.
Investment Return Assumption	Amount of annual return on investment projected for TRA assets. TRA currently uses a statutory rate of 7.5 percent. Likely the most important actuarial assumption for a pension plan, this number is used to project the amount of TRA liabilities into the future. The rate is used to adjust a series of future benefit payments to a current date to reflect the time value of money.
Individual Retirement Account Plan (IRAP)	Defined contribution plan set up by the Minnesota State colleges and universities in 1989. Many faculty members are solely covered for their retirement through their IRAP defined contribution account.
Internal Revenue Code (IRC)	Usually referenced to a particular section of the code. For example, TRA is tax-qualified as an IRC Section 401(a) defined benefit plan.
IRS Determination Letter	Final document from the IRS that approves a pension plan and its members for tax advantages under a particular IRS code section. TRA is approved as a Section 401(a) plan. An IRS letter of determination reconfirming TRA's 401(a) status is provided to TRA periodically.
IRS Private Letter Ruling	IRS ruling that only applies to the requesting taxpayer or entity. The result of the ruling does not serve as a precedent and cannot be relied upon by anyone else, even in similar or identical circumstances. However, the ruling provides valuable insight into which way the IRS leans on a particular issue.

J

K

L	
Last Day of Employment	Last day of employment, previously known as "termination date" is the last day for which you were paid. For example, • A member officially resigns with an employer. The member's resignation date is also the last day that the member works for that employer unit. • A teacher not under contract ends the school year, has a summer break and returns in the fall. The last day worked in the fall is the last day of employment. • A teacher not under contract ends the school year, has a summer break and does not return in the fall. The last day worked at the end of the school year is the last day of employment. • A member is on a leave of absence and does not return to teaching service; the last day of employment is the leave end date. • A member is on paid sick leave; sick leave ends and the member does not return to teaching service, does not request an extension of the leave, does not officially resign. The last day of employment is the last day of paid sick leave.
Level Formula	See "High-5 Level Formula."

M	
Marriage Dissolution	The 1987 Minnesota Legislature enacted a law that provides for the division of pension benefits as a settlement of property in a marriage dissolution. The law allows for the division of pension benefit rights only if liquid or readily liquidated material property is not sufficient to offset the value of future pension benefits. Since TRA is a government pension plan, members' accounts must be divided under the terms of state law. State law allows the division of public pension benefits. Former spouse benefits are: ▪ Payable only to the extent of the amount of the public pension benefit payable under the terms of the plan ▪ Not payable for a period that exceeds the time that benefits are payable to the plan recipient Not payable in a lump-sum amount from public pension plan assets
Membership	See "Vested Member."
Minnesota Post Retirement Investment Fund	The "Post Fund," managed by the State Board of Investment (SBI), contained the reserves required to pay benefits to all eligible recipients prior to July 1, 2009.
Minnesota State	New faculty members employed at Minnesota State colleges and universities have a one-year period after achieving tenure or equivalent in which to choose TRA or IRAP for retirement coverage. This election is irrevocable.

Mortality Rates/Table	A table of mortality rates usually organized by gender and age indicating the length of time a person of a given age is expected to live. The rate for a given age and gender indicates the probability of a person of that gender dying while that age. A single, unisex mortality table along with an assumed interest rate is used to calculate the value of annuities and to make adjustments to annuities. For example, it can be used to determine how much an annuity must be reduced because of retirement at an age earlier than normal retirement age.
	N
Net Pension Liability (NPL)	Definition and measurement under GASB Statement 67 for the portion of fund liabilities that exceed the current level of assets on hand. Beginning in 2015, employer units are required to report a financial statement liability representing a share of TRA's overall net pension liability.
Normal Cost	Actuarial term referring to that portion of plan benefits allocated to a valuation year by the actuarial cost method. Another definition is the cost to grant one year of service to an active member for the year under review. This amount does not include any unfunded actuarial accrued liability. See "Actuarial Accrued Liability," "Actuarial Cost Method," "Unfunded Actuarial Accrued Liability."
Normal Retirement Age/Benefit/Date	The age, as established by the plan, when retirement benefits are paid with no reduction. For example, if a plan has a normal retirement age of 66 and a member retires at age 57, the member's early retirement benefit may be reduced from the normal retirement age of 66. Under Social Security, the normal retirement age will rise to age 67 for those attaining that age in 2027. For TRA members first hired July 1, 1989, or later, the normal retirement age is 66.
	O
Other Post-Employment Benefits (OPEB)	Other Post Employment Benefits (OPEB) refers to requirements issued by the Governmental Accounting Standards Board requiring public entities to report and financially disclose the long-term costs of retiree health care and other benefits.
Optional Joint Annuitant (OJA)	After a member retires under one of the survivorship plans, the spouse is designated as the optional joint annuitant. The optional joint annuitant receives a monthly benefit if the annuitant dies first. Both benefit payments are based on the life expectancy of the member and optional joint annuitant.

P	
Part-Time Teacher Program	Members may be eligible to participate in the part-time teacher program for up to 10 years if they: ▪ Have at least three full years of allowable service, ▪ Establish an agreement with the employer prior to Oct. 1 of the year in which the member will be participating, ▪ Have the employer file a copy of the agreement with our association, ▪ Work the equivalent of 50 full days, ▪ Are not a superintendent, Minnesota State chancellor, deputy chancellor or vice chancellor. Actual earnings must not exceed 80 percent of the current full-time equivalent salary as determined by base-year salary for all services performed for an employer and under the current master agreement. Service credit may not accrue for teaching service with any other employer covered by TRA or any other public pension fund.
Passive Management	For investment purposes, refers to when a fund invests in a portfolio of securities that exactly mirrors a particular index such as the S&P 500 Index of domestic stocks. Passive management typically guarantees a market rate of return, achieved at a very low cost of investment management.
Payroll Growth Rate	An actuarial assumption with respect to future increases in total covered payroll (all active member salaries) attributable to inflation and merit; used in applying the level percentage of projected payroll amortization method. The annual growth rate for fiscal year 2016 was 3.50 percent.
Personal Statement of Pension Benefits	Statement of a member's account prepared each fiscal year. Contributions are summarized for which the member is eligible or expected to be eligible assuming future, full-time service. Statements available via the member's online account.
Portability	An employee's ability to retain pension rights when changing employers. Some retirement benefit plans are portable, while others are not. Defined benefit plan benefits earned by teachers in one state are not usually transferable to other state retirement systems.
Post-Retirement Increase	Benefit provision established in Minnesota Statute to increase the amount received by a benefit recipient.
Present Value	The lump sum dollar value calculated to date of a series of payments determined using a certain set of economic assumptions (e.g., interest rate, mortality, etc.). For example, the present value of a $2,000 monthly annuity for a person retiring at age 62, expected to live 22 years, using an 8.5 percent interest rate is approximately $230,000. (Also see "Required Reserves.")

Projected Benefit Funding Ratio	An alternate actuarial funding method or ratio that measures not only current assets but also incorporates the present value of future member and employer contributions. Benefit liabilities under the projected benefit funding method are based on both projected pay and service. This funding method or ratio can be seen as taking a longer term, incorporating the past, present, and future.
Prudent Person	Minnesota statute requirement (MN Statutes, Chapter 356A) that pension fund fiduciaries, in making investment decisions, act with the care, skill, diligence, and prudence that a prudent persons would use in like circumstances.
Purchase of Service	An optional payment made by a member in order to restore or establish service credit. The types of purchases of service are: ▪ Prior military service ▪ Repaid refunds ▪ Shortages
Q	
Qualified Domestic Relations Order (QDRO)	A legal judgment, decree or order that recognizes the existence of an alternate payee's right to receive all or a portion of a member's benefits. The QDRO may relate to child support, alimony or marital property rights of the member's spouse, former spouse, child or other dependent. The term QDRO is sometimes used in ERISA plans. Whereas the term, Domestic Relations Order is sometimes used in non-ERISA plans such as state and local government systems.
R	
Refund	Lump sum payment of members' contribution balance plus compounded annual interest of four percent since July 1, 2011. Employer contributions and all service credit are forfeited when a refund is taken.
Resignation Date	The Resignation Date is the date that a letter of resignation is given to an employer (if no specific date is mentioned in the letter) or it is the effective date of resignation as stated in a resignation letter. For example, • A resignation letter is given to the employer on July 7 with no specific date mentioned and the member has not taught for a month. The resignation date is July 7. • A resignation letter is given to the employer on Feb. 20 with an effective date of resignation as June 7. The resignation date is June 7.
Retiree	A member who is currently receiving a pension payment from TRA and was eligible (vested) for retirement program benefits when their TRA benefit was first accrued.
Rule of 90	A program that granted full (unreduced) retirement benefits to members first employed before July 1, 1989, and whose age and allowable service credit equals 90 or more. The step formula must be used in benefits calculated with the Rule of 90 unreduced benefit.

S	
Salary	Minnesota Statute Section 354.05, subd. 35, explains payments that are and are not salary for TRA pension calculation purposes. For example, severance payments are part of this frequently misunderstood category and are not considered salary. Severance includes, but is not limited to, any payment to an employee to terminate employment and any payment that is not clearly for the performance of services. This type of payment should not be reported to TRA as salary by an employer. In addition, employer-paid fringe benefits are also frequently misunderstood. In 2000, MS 354.05 was amended to further clarify payments that are not considered salary for TRA purposes. This portion of the statute reads: "Employer-paid amounts used by an employee toward the cost of insurance coverage, employer-paid fringe benefits, flexible spending accounts, cafeteria plans, health care expense accounts, day care expenses, or any payments in lieu of any employer-paid group insurance coverage, including the difference between single and family rates that may be paid to a member with single coverage and certain amounts determined by the executive director to be ineligible." In general, employer-paid benefits are not considered TRA-eligible salary. Since these types of payments are not considered when calculating the high-5 average salary, the employers should not withhold the 7.5 percent TRA retirement contributions that are normally deducted from payments that are considered TRA-eligible.
Semi-Passive Management	Refers to when a fund or money manager manages a portfolio of securities in a way that is risk-controlled manner. Semi-passive management mirrors a particular index (such as the S&P 500), but allows the manager to make measured active bets around the index by over or under-weighting securities by marginal amounts. Semi-passive management attempts to beat the index market rate of return, but only by small margins..
Service Credit (Teachers)	A measurement of teaching service, calculated on a fiscal year basis, that is one of the variables in the calculation of a retirement, disability or survivor benefit. No teacher can receive credit for more than one year of teaching service in any one fiscal year. Effective July 1, 2012, TRA service credit going forward was redefined. The new definition calculates service credit as a function of the member's salary relative to the annual base salary for that employer.
Step Formula	See "High-5 Step Formula."
Sufficiency	See "Contribution Sufficiency."

Supplemental Needs Trust	A trust created for a chronically and severely disabled beneficiary that supplements government benefits such as Medicaid rather than diminishing such benefits. For purposes of a supplemental needs trust, “a person with a disability” means someone who has a physical or mental illness or condition that lasts for a continuous period of 12 months or more and would substantially impair the person’s ability to provide for their own care or custody. A TRA member may designate a supplemental needs trust as the remainder recipient at retirement. The law allows the transfer of assets to a disabled adult or child without harming that person’s eligibility for government programs.
T	
Tax-Sheltered Status/Tax-Qualified	TRA contributions are tax-sheltered for federal and state purposes at the time of withholding, but become taxable when received as a retirement benefit or when received as a refund. TRA is a qualified plan under section 401(a) of the Internal Revenue Code. This means that: ▪ Employer contributions and accrued benefits are not taxed as income to the employee until received; ▪ Employee contributions (if any) are usually made before taxes and therefore lower the employee’s taxable income; and ▪ Earnings on the investment of contributions are not taxed until received in the form of benefits.
Term Annuity	A type of benefit payment paid monthly for a fixed amount of time. Payment is guaranteed to be paid to the annuitant or designated beneficiaries over this time period. One example is the accelerated portion of an “accelerated annuity” option. Another example is the annuity plan that guarantees a monthly payment for at least 15 years, even if the annuitant dies before the 15 year period ends.
Termination Date	“Termination of teaching service” means the withdrawal of a member from active teaching service by resignation or the termination of the member’s teaching contract by the employer (MS 354.05, subd. 37). Termination implies the end of an employee/employer relationship. See “last day of employment.”
Tier I Benefits	Defined benefit program exclusively for members first hired before July 1, 1989. Members eligible for either level or step benefit and Rule of 90 unreduced benefits. (See percentages paid per year as listed under “High-5 Step Formula Program.”)
Tier II Benefits	Defined benefit program for members first hired after June 30, 1989. They are only eligible for Tier II benefits. The formula is 1.7 percent for each year of service credit earned prior to July 1, 2006 and 1.9 percent for each year of formula service earned on or after July 1, 2006. Pre-1989 hires are also eligible for Tier II benefits if the formula produces a higher amount than under Tier I.
TRA-Eligible Salary	See “Salary.”

U	
Unfunded Actuarial Accrued Liability	The amount by which a plan's benefit liabilities exceed its assets (UAAL). It is one of the key measures in the annual actuarial funding valuation report.

V	
Valuation Report	A series of mathematical determinations done annually by the actuary calculating the financial condition of a plan. The annual valuation estimates the value of benefits payable to present members and benefit recipients; the value of assets on hand; and future inflows of employer and employee contributions. These estimates are based on the mortality, investment earnings, and related actuarial assumptions of the plan. With a valuation, the actuary determines whether contributions are sufficient to pay unfunded liabilities by a pre-set target date. TRA and its actuary perform two separate valuation reports: • The <u>funding</u> valuation complies with Minnesota Statutes and assumptions. The report provides measures to determine the adequacy of TRA contributions and funding progress. • The <u>accounting</u> valuation supports financial reporting under GASB Statement 67 and 68 for both TRA and its employer units.
Variable Annuity Fund	Defined contribution fund administered by TRA from 1969 to 1989. Membership closed to new members first hired July 1, 1974 or later. Most members with Variable Fund activity did not make new contributions after 1978. All Variable accounts were closed and eliminated as of July 1, 1989. Service credit for variable activity was deemed to be formula (defined benefit).
Vested Member	A vested member is any member who has met the allowable service requirements and has a right to receive monthly pension benefits. A vested member's contributions can be left in TRA until the member retires. ▪ Members who have performed TRA-covered service after May 15, 1989, are vested in TRA after three years of allowable service. ▪ Members, who performed TRA-covered service after June 30, 1987, but not after May 15, 1989, are vested after five years of allowable service. ▪ For members who have not performed TRA-covered service since June 30, 1987, the vesting requirement was 10 years of allowable service.

W, X, Y and Z	
Written-Off Account	Under state law, account balances of less than $500 may be written off after five years of inactivity. Members may notify TRA to restore their account balance.
Zero-Balance Account	A teacher who has left active service and taken a refund of employee contributions plus interest. TRA maintains records of these individuals verifying that their account balance is zero.