History of the Teachers Retirement Association

1915 A precursor to TRA was established in 1915, as the first statewide plan providing retirement benefits for Minnesota public school teachers. Both St Paul and Minneapolis had established City teacher retirement funds in 1909. Contributions to the 1915 fund were $5 to $10 per year, with benefits of around $100 paid per month. The minimum vesting requirement for a monthly benefit was 20 years, with no minimum age requirement. The 1915 Fund, also referred to as the Pioneer Teachers Retirement Fund, was liquidated during the Great Depression but payment of prorated benefits continued from the State General Fund.

E.T. Critchett
Executive Secretary
1915 to 1922

1931 On August 1, 1931, a successor statewide teacher’s retirement fund was established. Contributions to the fund were 5 percent of salary with a $100 per year maximum. This was changed to 6 percent of salary with a $175 maximum.

M.A. Morse
Executive Secretary
1922 to 1928

Investments were typically in bonds, and many of the municipal bonds paid very low rates of interest. Equity investments such as common stocks were not permitted. TRA was a money purchase (defined contribution) plan, with an account balance consisting of employee contributions plus investment earnings. There were no state contributions until teachers retired and purchased an annuity with their own savings. As annuity payments were made to retirees on a quarterly basis, the state would make a matching annuity payment of equal amount. Benefits were computed on a money purchase basis, much like life insurance annuities, but were inadequate because of extremely low investment returns and contribution limitations.

H.E. White
Executive Secretary
1928 to 1940

1957 TRA membership became mandatory as a condition of employment in Minnesota public schools outside the first class cities of St Paul, Minneapolis and Duluth. The state as employer began advance funding by matching the teachers’ contributions on a current basis. Contribution rates were 6 percent of salary capped at $4,800. The faculty contribution rate for the state university system was 3 percent, because they elected Social Security coverage as a group. The Retirement Study Commission was established as a permanent commission of legislators charged with oversight and review of all retirement issues and legislation.

Daisy Brown
Executive Director
1940 to 1950

1959 Election of Social Security coverage became available to all other teachers on an individual basis. New hires after December 31, 1959, were automatically members of the Coordinated system with Social Security coverage. Over the next 10 years, 12 different Social Security referendums were held. Election of Social Security coverage was retroactive to January 1, 1956, and contributions were transferred from TRA to Social Security to establish this retroactivity. Also in 1959, the state began making additional employer contributions of 1.5 percent for Coordinated system members and 1.0 percent for Basic system members, in recognition of past service liabilities.

1965 The contributory salary maximums were increased from $4,800 to $7,200 retroactive to July 1, 1957, if the teacher chose to pay the “buyback” necessary to establish this retroactivity. The maximum buyback for Basic system members was $1,272 and for Coordinated system members it was one half of that amount, or $636. Deadlines for these payments were also established. In 1967, the contributory salary caps were completely removed and retirement contributions became payable on total salary.

Orval Jordet
Executive Director
1950 to 1965

1969 TRA's first defined benefit plan was introduced with a modified career average defined benefit formula. Several other retirement program options were offered, such as the variable annuity program. The formula used a high two-year average (capped at $4,800) for all years of service before July 1, 1957, and a career average for all years after that date. Different formula multipliers were established for Basic and Coordinated system members.

Contribution rates were increased from 3.0 percent to 3.5 percent for Coordinated system members and from 6.0 percent to 7.0 percent for Basic system members. The state also increased the employer additional contribution rate to 2.0 percent for all members to amortize the additional unfunded liabilities created by the introduction of a defined benefit formula program.

1973 The high-five average salary program was passed into law, including revised formula multipliers. Contribution rates were changed from 7.0 percent to 8.0 percent in the Basic system and from 3.5 percent to 4.0 percent in the Coordinated system. The employer additional contribution rate was also increased from 2.0 percent to 2.5 percent in recognition of the additional unfunded liabilities created by the high-five average salary formula.

Harvey W. Schmidt
Executive Director
1965 to 1986

1979 Contribution rates were increased to 8.5 percent for the Basic and 4.5 percent for the Coordinated system. The employer additional contribution rate was also increased from 2.5 percent to 3.05 percent. No contemporaneous benefit improvements were made.

1980 The Minnesota Post Retirement Investment Fund (MPRIF) or Post Fund was created. The Post Fund based annual increases on investment yields above 5.0 percent. Market value was not recognized for adjustment calculations, but rather realized investment gains and losses were used. The majority of investments were in bonds, which took advantage of the 14 percent to 15 percent interest available at that time on high grade, long-term treasury securities.

1984 The Rule of 85 early retirement window was legislated. During the 32-month eligibility window, 961 Basic members and 1417 Coordinated members retired under the Rule of 85. Additional required reserve transfers to the Post Fund were over $100 million for the benefit improvements realized by these 2,378 members. The Basic system average additional required reserve transfer was $57,617 and the Coordinated system was $32,149.

The TRA employer additional contribution rate was increased from 3.05 percent to 4.48 percent, but employer contributions to the other two statewide retirement systems were reduced.

1986 TRA employer contributions became the obligation of the individual school districts and became part of the state education aid formula rather than being paid directly from the state general fund.

1989 Legislature passed the most comprehensive package of uniform benefit improvements in the history of Minnesota public retirement funds, not only for the three statewide retirement systems but also for the four first-class city retirement funds.

Tier I step formula benefits contained early retirement features such as a Rule of 90 and less stringent early retirement reduction factors. Tier II level formula benefits contained improved formula multipliers for the first decade of service but no early retirement provisions.

Normal retirement age was linked to the Social Security age for unreduced benefits. In addition, three-year vesting was established, a subsidized bounceback provision was provided for all joint and survivor annuities, deferred annuity augmentation after age 55 was increased from 3 percent to 5 percent and a defined contribution retirement option was instituted for higher education faculty.

The Variable Annuity program was abolished and full defined benefit formula coverage was extended to all former Variable Annuity program participants. This generated approximately $125 million of additional unfunded liabilities.

Pre-1973 retirees were given permanent increases payable by the retirement systems rather than ad hoc lump sum bonuses from the state general revenue fund.

Elton I. Erdahl
Executive Director
1986 to 1992

1990 The employer additional contribution rate was reduced from 4.48 percent to 3.64 percent.

1992 The Legislature modified the Post Retirement Investment Fund by again recognizing market values in the determination of annual increases instead of realized investment gains and losses. Increases consisted of an inflation component equal to 100 percent of the annual CPI increase capped at 3.5 percent plus an investment component, which recognizes investment returns in excess of those needed to support the 5 percent interest assumption and the inflation component.

1993 The Legislature passed an early retirement incentive window for the three statewide retirement systems and the first-class city retirement funds.

For K-12 teachers, formula multipliers were improved by 0.1 percent for each of the first 30 years and school districts were authorized to pay for health insurance to age 65. Minimum eligibility requirements were age 55 and 25 years of allowable service. For MSRS and PERA members, early retirees had to choose between the improved formula multipliers or the employer-paid health insurance; however, the formula multipliers were improved by 0.25 percent per year of service rather than 0.1 percent.

An exception was the higher education faculty, who had to choose between a 0.1 percent formula multiplier improvement or paid health insurance. The window for

K-12 teachers was about two months, and for all other retirees about eight months. Approximately 2,000 teachers took advantage of the early retirement incentive.

1994 TRA formula multipliers were improved by 0.13 percent (1.50 percent to 1.63 percent per year of service for Tier II benefits) and member contribution rates were increased from 8.5 percent to 10.5 percent for Basic system members and from 4.5 percent to 6.5 percent for Coordinated system members. Employer contributions were not increased to fund the benefit improvement.

1997 The Pension Uniformity bill of 1997 produced the largest overall benefit package since 1989 for all Minnesota public pension plans. For TRA, a key element was an increase in initial pension benefit in exchange for a slight 1.0 percent reduction in future post-retirement annual adjustments. The Tier II level formula multiplier for Coordinated members increased from 1.63 percent to 1.7 percent per year. In addition, a cap of age 66 was established as the normal retirement age for teachers hired after June 30, 1989. Contribution rates for Coordinated members were reduced from 6.5 percent to 5.0 percent of salary.

Gary Austin
Executive Director
1992 to 2006

Retirees received a permanent increase effective July 1, 1997, to their base benefits in exchange for the 1.0 percent reduction in the inflation-based component of future Post Fund annual adjustments.

At the end of fiscal year 1997, the pension fund reached full funding, 23 years ahead of schedule. This was the result of outstanding investment returns and favorable salary experience. As a result, all employer additional contributions were discontinued by the Legislature. The employer contribution rate for Coordinated members was reduced to 5.0 percent, equal to that contributed by the member.

1999 Active teachers with three or more years of service credit had the opportunity to purchase service credit for a variety of prior teaching service. Types of service eligible for purchase include military service, maternity leaves, Peace Corps, VISTA service, private or parochial school teaching service and out-of-state service. Purchases are made at full actuarial cost so that the Fund is not negatively impacted.

2000 The legislature changed the way post-retirement earnings are handled. Earnings that exceed the annual limitation are now offset to a savings account. Rather than forfeiting half of the amount that exceeds the limit, a retiree will receive a lump sum payment of the total offset amount, plus 6 percent interest, at age 65 or one year after teaching service ends.

2001 The new Retirement Systems of Minnesota building opens, becoming the home of TRA, the Minnesota State Retirement System (MSRS) and the Public Employees Retirement Association (PERA).

2002 TRA opened the first satellite office in St. Cloud in January 2002. The opening of the Mankato satellite office followed in September.

Effective July 1, 2002, all charter schools located within the city limits of Minneapolis, St. Paul and Duluth will report to TRA.

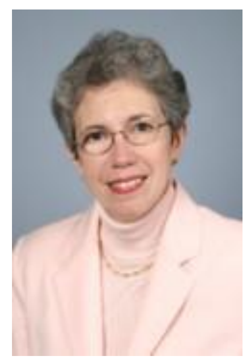
2004 As of May 16, 2004, under current law, benefit provisions allowing purchase of prior service expired for out-of-state teaching, maternity/family/parental leaves, private/parochial teaching service, Peace Corps/VISTA service, charter school teaching, and University of Minnesota teaching service. Although language was introduced during the legislative session to extend these provisions, no action was taken by the Legislature.

Members may still purchase prior military service while in the U.S. Armed Forces, as this provision was extended until May 2007.

TRA opened the Detroit Lakes satellite office in October.

2006 The first major public pension legislation since 1997 produced the merger of the Minneapolis Teachers Retirement Fund Association MTRFA) and TRA on June 30, 2006. Nearly 14,000 retired, active and inactive MTRFA members were transferred to TRA. Approximately $1 billion in unfunded liabilities were transferred to the TRA Active Fund. A combination of increased employer contributions, direct state and local aid payments, and use of a portion of the TRA contribution sufficiency were used to fund the assumed liabilities over a 30-year amortization period.

The 2006 pension package also contained a prospective-only formula multiplier improvement for TRA Coordinated members. TRA Coordinated members received a 0.2 percent formula multiplier (1.7 percent to 1.9 percent for Tier II level formula) for each year of service earned after July 1, 2006. No recognition or retroactivity for past service was provided.



Laurie Fiori Hacking
Executive Director
March 2006 to 2017

Coordinated member contribution rates were increased from 5.0 percent to 5.5 percent effective July 1, 2006, and employer contribution rates were increased from 5.0 percent to 5.5 percent effective July 1, 2007. The Minneapolis School District will pay an additional employer contribution of 3.64 percent.

2008 Legislation was passed that provides for the potential to merge TRA assets and liabilities in the Minnesota Post Retirement Investment Fund (Post Fund) to the TRA Active Fund. The merger would occur if the Post Fund funding ratio falls below certain benchmarks.

The post-retirement earnings limitation was expanded from the current Social Security earnings limit ($13,560) to $46,000 annually. This provision is retroactive to January 1, 2008. The amount is prorated during the initial year of retirement. No limits apply for ages beyond the individual’s normal retirement age as determined by the Social Security Administration.

A “Return to Work” provision was established in TRA law. The provision allows a TRA employer and TRA member who is age 62 or older to agree on a work contract prior to retirement that permits the member to return to work, yet still receive their monthly TRA retirement benefit. For ages under age 62, the individual must make a clear separation of employment with no contractual right to return, prior to the accrual date of the TRA benefit. The TRA earnings limitation of $46,000 applies to “Return to Work” post-retirement situations.

2009 The Post Retirement Fund was merged on June 30, 2009. TRA benefit recipients will be paid a fixed 2.5 percent increase annually on January 1 of every year regardless of the underlying inflation or investment performance. The first benefit increase payable under the new law will be January 1, 2010. Members who have been receiving a benefit payment for at least one full month will receive a post retirement adjustment equal to 1/12 of 2.5 percent for each month they have received a benefit. Members retired at least 12 months prior to the January 1 adjustment will receive the full 2.5 percent increase.

2010 On May 15, 2010, plan provision changes affecting all TRA benefit recipients, active members and employer units were signed into law (Laws of Minnesota (2010) Chapter 359). This law, authored by Senator Don Betzold (DFL-Fridley) and Representative Mary Murphy (DFL-Hermantown) contained changes designed to stabilize and improve TRA’s future funding. The following provisions are included in Chapter 359:

Member and employer contribution rates, which are currently 5.5 percent, will each rise by 0.5 percent annually over a four-year period beginning July 1, 2011. On July 1, 2014, the employee and employer rate will each be 7.5 percent. A contribution rate stabilizer will be implemented that allows further changes to the contribution rates, if needed, after 2014.

Members who divorce after retirement may, in certain specific circumstances, rescind an optional joint annuitant (OJA) designation.

A temporary two-year suspension of post-retirement annual increases for benefit recipients will occur in calendar years 2011 and 2012. Beginning January 1, 2013, annual increases will be 2.0 percent. Upon reaching a market value funding ratio of 90 percent, the annual increase would be restored back to 2.5 percent.

Members who leave teaching and opt to receive a refund of their member contributions from TRA will receive a lower interest rate of 4 percent annually, a 2 percent decrease, on their contributions beginning July 1, 2011.

Retired members who have returned to teaching and have an Earnings Limitation Savings Account (ELSA) will receive no additional interest on their account balance beginning January 1, 2011. Account balances will earn 6 percent interest until December 31, 2010.

Members who are not currently teaching (inactive), who have left their contributions with TRA and who are deferring receipt of their monthly annuity benefits will receive a lower interest rate of 2 percent on their deferred benefit beginning July 1, 2012. (Previous interest rates varied depending on date of initial employment.)

The executive directors of the three statewide retirement systems (Minnesota State Retirement System, the Public Employees Retirement Association, and TRA) are directed to jointly conduct a study of defined benefit, defined contribution and other alternative retirement plans for Minnesota public employees. The report is due to the Legislature by June 1, 2011.

The bill also included an administrative change to the service credit calculation method. Beginning July 1, 2012, service credit will be calculated using a teacher's salary relative to a base salary established for each district.

2011 On June 29, Judge Gregg Johnson upheld the constitutionality of the State laws that lowered annual cost-of-living adjustments for benefit recipients.

A public pension bill was passed and signed by Governor Dayton. The bill contained only minor administrative impacts to TRA.

2012 The Minnesota Legislature modified the investment earnings and discount assumption for the first time since 1989. The previous assumption was 8.5 percent annually. Effective with the July 1, 2012 actuarial valuation, a two-tiered structure will be used. The rate is also known as the "select and ultimate" investment assumption. For five years (FY 2013-17 valuation reports), the assumed "select" rate is 8.0 percent annually. Beginning with the July 1, 2017 actuarial valuation report, the assumption will revert to the "ultimate" rate of 8.5 percent annually.

The change to the "select and ultimate" assumption increased TRA's actuarial required contribution rate by 0.69 percent and increased actuarial accrued liabilities by $195.7 million.

2013 The 2013 legislature adopted a modified methodology to calculate the early retirement reduction applied when a member, under the Level formula, retires prior to the normal retirement age. The methodology provides for two sets of reduction factors:

One is used if the member achieves both age 62 and 30 years of service.

The second is used for all other Level formula calculations.

The reductions applied to members reaching the age 62 and 30 years are more favorable to the member than previously calculated. The new reduction factors will be phased in over 60 months beginning July 1, 2015. The new methodology replaces the previous actuarial equivalence method used since the Level formula began in 1989.

The 2013 Legislature also required that the executive directors of TRA, the Duluth Teachers Retirement Association, and the St. Paul Teachers Retirement Association jointly study a potential merger of the three systems. The study includes detailed actuarial analysis to define options for consolidation. The report was delivered to the legislature on December 23, 2013.

2014 The Minnesota Legislature and Governor Dayton approved a consolidation of the Duluth Teachers Retirement Fund Association (DTRFA) with TRA, effective on June 30, 2015. TRA plans to maintain a field office in Duluth.

2015 TRA actuary completes an experience study, analyzing the accuracy and validity of economic and demographic assumptions used in estimating TRA actuarial liabilities. The study results and recommendations are expected to be considered by the 2016 legislature.

2016 The results and recommendations of the 2015 experience study recommend TRA adopt new mortality plan 2015 retiree life expectancy tables. In addition, TRA's actuary, in consultation with SBI staff, proposed lowering the investment earnings/liability discount assumption from a "select and ultimate" method to 8 percent annually for all years.

The effect of the experience study plus a slight existing contribution deficiency left an estimated funding gap of approximately 4.50 percent of member payroll.

The TRA board proposal for funding sustainability consisted of

- Lowering the current COLA of 2.0 percent to 1.0 percent for five years, then 1.75 percent for all future years.
- Increasing the TRA employer contribution rate from 7.5 percent of member salary to 8.5 percent, beginning July 1, 2017.
- Extending the amortization date of TRA's unfunded actuarial liability from June 30, 2037, to June 30, 2046.

Legislative committee action modified the bill to include only a reduction of the COLA to 1.0 percent for one year only (Jan. 1, 2017). The bill passed both legislative bodies by wide margins.Gov. Mark Dayton, however, vetoed the bill, saying it did not contain shared sacrifices from all pension stakeholders and placed the onus of the cuts upon TRA retirees.

2017 The TRA Board of Trustees approved a modified 2017 legislative proposal that would reduce TRA's cost of living adjustment (COLA) to 1 percent for five years and 1.5 percent thereafter, and raise the employer contribution rate by two percent (from 7.5 percent to 9.5 percent), phased in incrementally and offset by state aid. The employee contribution rate would remain at 7.5 percent.

Jay Stoffel
Executive Director
2017 to present

The revised package was approved on a 5-2 vote, with representatives of Minnesota Management and Budget and the Minnesota School Boards Association voting no. The need for a 2017 financial proposal was prompted in part by an experience study that projects longer life expectancies and by pressure to lower the fund's assumed rate of return on investments. Changing this assumption has the effect of lowering TRA's funded status and prompting the need for lower benefits and higher contributions.

Near the end of the 2107 session, the TRA proposals were removed from the Omnibus Pension Bill. Key legislators said projected budget targets did not include funding for higher employer contribution rates from TRA employer units. The rest of the Omnibus Pension bill was amended into a larger bill that was ultimately vetoed by Gov. Dayton for non-pension reasons.

2018 Gov. Dayton signs the 2018 Omnibus Retirement Bill into law. The bill includes sustainability measures for TRA, PERA, MSRS and SPTRFA. For TRA, the law calls for reducing the retiree cost of living adjustment from 2 percent to a 1 percent for five years (2019-2023), then increasing by 0.1 percent per year in each of the following five years (2024-2028) to 1.5 percent.

The law also includes a provision to delay the initial COLA to age 66 (effective July 1, 2024). This provision exempts those who retire under Rule of 90, age 62 with 30 years of service, disability benefits or survivor benefits. The 2018 law includes a 0.25 percent employee contribution increase beginning July 1, 2023 (from 7.5 percent to 7.75 percent) and an employer contribution increase of 1.25 percent, from 7.5 percent to 8.75 percent, phased in over six years (fiscal years 2019-2024).

The law also changes reduction calculations for early retirement over a five-year phase-in period (fiscal years 2020-2024). Those who retire at age 62 with 30 years of service are exempt. These measures reduce liabilities by $2.0 billion for TRA. The bill reduces liabilities by about $3.4 million for all four systems immediately, lowers the rate of return on investments to 7.5 percent, puts the plans on the path to full funding, provides funding to schools to offset increased pension contributions, ensures that unfunded liabilities won't weigh down bond ratings, and safeguards the retirement security of public employees for the future.

2019 Housekeeping bill passed and signed by Gov. Walz. No major change to core plan provisions. Implementation of the 2018 bill continues over the next five years.

2020 No major legislation is anticipated in 2021.