Suggested GASB 68 Pension Footnotes for Employers Financial Statements for the Fiscal Year Ended June 30, 2023

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Teachers Retirement Association (TRA) and additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. This direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association in 2015.

Note x. General Information about the Plan

A. Plan Description

The Teachers Retirement Association (TRA) is an administrator of a multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials.

Educators employed in Minnesota's public elementary and secondary school, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Defined Contribution Plan (DCR) administered by Minnesota State.

B. Benefits Provided

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed **before July 1, 1989**, receive the greater of the Tier I or Tier II benefits as described.

Tier 1 Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First ten years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2% per year
	First ten years if service years are July 1, 2006 or after	1.4% per year
	All other years of service if service years are up to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% per year

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
(b) 3% per year early retirement reduction factor for all years under normal retirement age.
(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

Or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7% per year for coordinated members and 2.7% per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9% per year for coordinated members and 2.7% per year for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989, receive only the Tier II benefit calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary (ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet receiving them are bound by the plan provisions in effect at the time they last terminated their public service.

C. Contribution Rate

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2021, June 30, 2022, and June 30, 2023 were:

	June 30, 2021		June 30, 2022		June 30, 2023	
	Employee	**Employer**	**Employee**	**Employer**	**Employee**	**Employer**
Basic	11%	12.13%	11%	12.34 %	11%	12.55%
Coordinated	7.5%	8.13%	7.5%	8.34%	7.5%	8.55%

The following is a reconciliation of employer contributions in TRA's fiscal year 2022 ACFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations.

	in thousands
Employer contributions reported in TRA's ACFR, Statement of Changes in Fiduciary Net Position	$482,679
Employer contributions not related to future contribution efforts	(2,178)
TRA's contributions not included in allocation	(572)
Total employer contributions	$479,929
Total non-employer contributions	35,590
Total contributions reported in *Schedule of Employer and Non-Employer Allocations*	$515,519

Amounts reported in the allocation schedules may not precisely agree with financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. TRA has rounded percentage amounts to the nearest ten thousandths.

D. Actuarial Assumptions

The total pension liability in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation date	July 1, 2022
Measurement date	June 30, 2022
Experience studies	June 28, 2019 (demographic and economic assumptions) *
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7%
Price inflation	2.5%
Wage growth rate	2.85% before July 1, 2028 and 3.25% after June 30, 2028
Projected salary increase	2.85% to 8.85% before July 1, 2028 and 3.25% to 9.25% after June 30, 2028
Cost of living adjustment	1% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.
Mortality assumptions	
Pre-retirement:	RP- 2014 white collar employee table, male rates set back five years and female rates set back seven years. Generational projection uses the MP-2015 scale.
Post-retirement:	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability:	RP-2014 disabled retiree mortality table, without adjustment.

**The assumptions prescribed are based on the experience study dated June 28, 2019. For GASB 67 purposes, the long-term rate of return assumptions is selected by TRA management in consultation with actuary*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Geometric Mean)
Domestic Equity	33.5%	5.1%
International Equity	16.5%	5.3%
Private Markets	25%	5.9%
Fixed Income	25%	0.75%
Total	**100%**	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2023 is six years. The *Difference between Expected and Actual Experience*, *Changes of Assumptions*, and *Changes in Proportion* use the amortization period of six years in the schedule presented. The amortization period for *Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments*" is five years as required by GASB 68.

Changes in actuarial assumptions since the 2021 valuation:

- None.

E. Discount Rate

The discount rate used to measure the total pension liability was 7%. There was no change in the discount rate since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2022 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

F. Net Pension Liability

On June 30, 2023, «Entity» reported a liability of $xxx for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. «Entity»'s proportion of the net pension liability was based on «Entity»'s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was xx% at the end of the measurement period and xx% for the beginning of the year.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the district as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with the district were as follows:

District's proportionate share of net pension liability	Net Pension Liability
State's proportionate share of the net pension liability associated with the district	$x,xxx

For the year ended June 30, 2023, the district recognized pension expense of $x,xxx. It also recognized $x,xxx as an increase to pension expense for the support provided by direct aid.

On June 30, 2022, «Entity» had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$x,xxx	$x,xxx
Net difference between projected and actual investment earnings on pension plan investments	$x,xxx	$x,xxx
Changes of assumptions	$x,xxx	$x,xxx
Changes in proportion	$x,xxx	$x,xxx
Total	**$xxx,xxx**	**$xxx,xxx**

Deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

2023	$x,xxx
2024	$x,xxx
2025	$x,xxx
2026	$x,xxx
2027	$x,xxx

G. Pension Liability Sensitivity

The following presents the net pension liability of TRA calculated using the discount rate of 7%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6%) or one percentage point higher (8%) than the current rate (multiply the allocation % by TRA's sensitivity footnote info).

Sensitivity of Net Pension Liability (NPL) to changes in the discount rate

1% decrease (6%)	**Current (7%)**	**1% increase (8%)**
$x,xxx	$x,xxx	$x,xxx

The «Entity»'s proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis and Minneapolis School District.

H. Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at https://minnesotatra.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000; or by calling 651-296-2409 or 800-657-3669.

Schedules of Required Supplementary Information

Schedule of Employer's Share of Net Pension Liability

Source	**2023**
District's proportion of the net pension liability	xx%
District's proportionate share of the net pension liability	$x,xxx
State's proportionate share of the net pension liability associated with district	$x,xxx
Total	**$xx,xxx**
District's covered payroll	$x,xxx
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	xx%
Plan fiduciary net position as a percentage of the total pension liability	76.17%

Note: *Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

Schedule of Employer's Contributions

Source	**2023**
Statutorily required contribution	$x,xxx
Contributions in relation to the statutorily required contribution	-$x,xxx
Contribution deficiency (excess)	**$x,xxx**
District's covered payroll	$x,xxx
Contributions as a percentage of covered payroll	8.34%

Note: *Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

Note: *District covered payroll was calculated by dividing total employer contributions reported to TRA by the required contribution rate (8.34%). Consult with your auditor to review the definition of covered payroll (GASB 68 Implementation Guide, question 210 and GASB 82 paragraph 5).*

Notes to Required Supplementary Information for the Fiscal Year Ended June 30, 2023

Additional financial and actuarial information can be found in TRA's GASB 67-68 report. Both reports can be obtained at https://minnesotatra.org/wp-content/uploads/2023/03/2022-TRA-GASB-6768-report-for-accounting-purposes.pdf