S.F. 1235 H.F. 1330

(Reinert) (Murphy, M.)

Delete-All Amendment S1235-1A

Executive Summary of Commission Staff Materials

Affected Pension Plan(s): Duluth Teachers Retirement Fund Association (DTRFA)

Relevant Provisions of Law: Minnesota Statutes, Chapter 354A

General Nature of Proposal: Benefit increase and request for state aid.

Date of Summary: March 10, 2013

Specific Proposed Changes

- Increases DTRFA employee and employer contribution rates so that as of July 1, 2014, the employee and employer contribution rates will be equal at 7.5% of pay;
- Revises direct state aid to DTRFA from $346,000 to $8,346,000;
- Creates a DTRFA 2% postretirement adjustment, rather than no adjustments.
- Increases accrual rates for service rendered after June 30, 2013 for DTRFA teachers from 1.7% to 1.9% on level benefit computations, and from 1.2 to 1.4 for the first ten years of service and 1.9 rather than 1.7 per year thereafter on step computations;
- Requires the school district to pay employer contributions on DTRFA reemployed annuitants;
- Requires benefit forfeiture rather than creation of a reemployed annuitant earnings account for DTRFA members who retire after June 30, 2013, and are reemployed by the school district; and
- Terminates aid programs to the DTRFA after full funding is reached.

Policy Issues Raised by the Proposed Legislation

1. Whether the plan membership would be better off merged or administered by the Teachers Retirement Association (TRA) rather than remaining separate. Large unfunded liability and large contribution deficiency, combined with declining plan active membership is creating severe funding problems.
2. Whether it is prudent to request a benefit improvement given request for considerable additional state aid, and given existing poor funding condition of the plan.
3. Actuarial impact of the bill: plan moves from an 8.5% of payroll contribution deficiency to 15.65% deficiency unless bailed out by state aid.
4. Question of why plan is not addressing past harm done to deferred annuitants before considering a benefit improvement to active members.
5. Lack of any aggressive proposal to curtail subsidized early retirements given plan financial condition.
6. Whether the Commission support proposal to require employer contributions if DTRFA annuitants are reemployed in the school district, and proposal to forfeit portion of annuity rather than have it deferred to a reemployed annuitant account if exempt earnings limit is exceeded.

Potential Amendments

S1235-1A is the delete-all amendment incorporating revisions requested by DTRFA.

S1235-2A revises the proposed contribution rates to a rate or rates to be determined, thus placing more of the burden on the DTRFA employees and employer,.

S1235-3A revises the proposed state aid from a total of $8,346,000 to an amount to be determined.

S1235-4A adds a requirement that a DTRFA reemployed annuitant must make the equivalent of employee contributions for the reemployment.

S1235-5A would reduce the proposed post-retirement adjustment from the proposed 2% to 1%.

S1235-6A, which applies to both DTRFA and SPTRFA, would discourage subsidized early retirements by revising 354A.31, Subd. 6, the early retirement provision with application to pre-1989 hires, regarding its application to first class city teacher plan retirees. The reduction of 0.25% per month for each year under normal retirement age (3% per year) is increased to 0.4% for each month (4.8% per year), and use of the Rule of 90 is ended for new retirees after 6/30/2014.

The Commission may also wish to remove benefit improvements or other provisions with which the Commission might not agree. This can be done through oral amendments to delete certain sections of the delete-all amendment.

State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Ed Burek, Deputy Director EB

RE: S.F. 1235 (Reinert); H.F. 1330 (Murphy, M.): DTRFA; Increasing Employee and Employer Contributions; Revising Plan Benefits

DATE: March 10, 2013

On March 8, 2013, the executive director of the Duluth Teachers Retirement Fund Association (DTRFA) requested an extensive amendment to S.F. 1235 (Reinert); H.F. 1330 (Murphy, M.). In order to facilitate the Commission's review, staff has prepared a delete-all amendment (S1235-1A) to incorporate that request. The memo addresses the delete-all amendment rather than the original language of the bill.

General Summary of Delete-All Amendment S1235-1A to S.F. 1235 (Reinert); H.F. 1330 (Murphy, M.)

Delete-all amendment S1235-1A to S.F. 1235 (Reinert); H.F. 1330 (Murphy, M.) amends various provisions of statute applicable to the Duluth Teachers Retirement Fund Association (DTRFA), as follows:

1. Increases the DTRFA employee contribution rate 1% (from 6.5% to 7.5%) in half-step increments starting in July 2013.
2. Increases DTRFA employer contribution rate by 0.5% on July 1, 2013, and an additional 0.21% of pay on July 1, 2014, so that as of July 1, 2014, the employee and employer contribution rates will be equal at 7.5% of pay.
3. Revises direct state aid to DTRFA from $346,000 to $8,346,000, an increase of $8 million annually.
4. Replaces the DTRFA post-retirement adjustment provision, which would have provided no increase due to the low funding ratio of the fund, with a new provision providing a 2% annual increase.
5. Increases accrual rates for DTRFA service rendered after June 30, 2013, from 1.7% to 1.9% on level benefit computations, and from 1.2% to 1.4% for the first ten years of service and 1.9% rather than 1.7% per year thereafter on step computations.
6. Requires the school district to pay employer contributions on DTRFA reemployed annuitants.
7. Requires benefit forfeiture rather than the creation of a reemployed annuitant earnings account for DTRFA members who retire after June 30, 2013, and are reemployed by the school district.
8. Terminates aid programs to the DTRFA after full funding is reached.

Section-by-Section Summary

A section-by-section summary of delete-all amendment S1235-1A is attached.

Background Information on Relevant Topics

The following attachments provide background information on topics relevant to the proposed legislation:

- **Attachment A**: Background information on teacher retirement plans.
- **Attachment B**: 2010-2011 Financial Sustainability Provisions.

Discussion and Analysis

The proposed legislation in the form of the delete-all amendment raises a number of pension and related public policy issues for consideration by and possible discussion by the Commission, as follows:

1. Declining Plan Active Membership, Implications for Financing Plan. An issue is whether it is practical to maintain the DTRFA as a separate plan, even without the proposed benefit increases, given the actuarial condition of the plan and the high proportion of retired membership. Table 1 below shows the totals for DTRFA plan membership as indicated in the plan's recent actuarial valuations. The DTRFA covers an aging workforce, and the number of active members has been declining while the number of benefit recipients has been increasing. Except for a temporary upward jump in 2010, the plan active membership has been declining since 2006. The plan covered 1,174 active teachers in 2006, but only 919 in the most recent valuation. This is due to enrollment declines in the Duluth school system. Meanwhile, the number of service retirees has been steadily increasing, from 1,076 in 2006 to 1,254 currently. Starting in 2009, the plan had more service retirees than active

members. If we add in the other current benefit recipients, the disabilitants and the individuals receiving survivor benefits, the total number of benefit recipients is 1,386. Dividing that number by the number of active members indicates that there are 1.5 benefit recipients for every active member.

At the current time, the DTRFA is 63% funded. Thus it has a considerable amount of unfunded liability. An effort to finance the plan locally to cover the normal cost, expenses, and cover the amortization requirement would place a considerable burden on a declining membership base. The liabilities for the plan's active members and existing benefit recipients do not go away because the active membership is declining. Rather those costs would simply be spread over a declining number of active members, placing an ever increasing burden on the remaining teachers.

For several years, Commission staff has raised concerns about the DTRFA actuarial condition, and similar concerns have been expressed by the Commission actuary. The DTRFA may not be a viable organization. Rather than the proposal currently before the Commission, the Commission may wish to consider merging this plan into the Teachers Retirement Association (TRA). The bill, in the form of the delete all amendment, appears to be a deliberate move in that direction. For the most part, it creates a mini-TRA by creating for the DTRFA the same the employee and employer contribution rates, same accrual rates, and same postretirement adjustments as currently apply to TRA. The bill, though, mentions nothing about merger.

Duluth Teachers Retirement Fund Association

	FY2012	FY2011	FY2010	FY2009	FY2008	FY2007	FY2006
Membership							
Active Members	919	1,006	1,054	1,016	1,140	1,150	1,174
Service Retirees	1,254	1,216	1,171	1,151	1,128	1,119	1,076
Disabilitants	19	19	19	17	17	15	17
Survivors	113	109	105	96	98	93	97
Deferred Retirees	284	290	301	348	310	321	312
Nonvested Former Members	766	735	721	750	676	682	570
Total Membership	3,355	3,375	3,371	3,378	3,369	3,380	3,246

2. Actuarial Impact of the Bill. The issue is the DTRFA current actuarial condition and the impact of the bill in the form of the delete-all amendment on the fund's condition, but assuming no additional state aid is provided. DTRFA's current actuarial condition is noted in the left column, which presents the actuarial condition of the fund as of the last actuarial report, for July 1, 2012. Currently, plan contributions plus state aid is considerably less than the funding requirements as computed by the actuary, creating an 8.49% of payroll deficiency, equal to $4.3 million. The contribution increases in the bill are modest, totaling 1.71% of payroll. That would reduce the deficiency to 6.78% of payroll, which is still a large deficiency, and this is before the impact of the benefit increases. The benefit improvements make the deficiency much worse. The accrual rate increase causes the deficiency to rise by a little less than 1% of payroll. The biggest impact is the proposed 2% postretirement increase. In 2010, the Legislature passed a revised DTRFA postretirement adjustment provision which provides no increase until the fund is 80% funded. The expectation of the actuary was that the plan would not get to 80% funding for the foreseeable future, and might never get there. Thus, the DTRFA actuarial work is revised from assuming no postretirement increases will be paid to assuming that 2% annual increases will be paid each year. That is a significant increase in a plan where benefit recipients far outnumber active members. The impact on contribution requirements expressed as a percentage of the covered payroll is large, about 8% of payroll. If no additional state aid is provided, the end result of all these changes is that the plan, despite the proposed contribution increases, will go from a position of having a contribution deficiency of 8.49% of payroll ($4.3 million) to having a contribution deficiency of 15.65% of payroll or nearly $8 million. The total required contributions to fund this plan will increase from 23% of pay to 31.88% of pay. That is nearly one-third of total covered payroll. The requested state aid, $8 million, is intended to wipe out the contribution deficiency (15.65% of payroll or nearly $8 million), by using state resources rather than more local effort.

	FY2012	Employee/ Employer Contribution Increase	Accrual Rate Increase	2% Post-Retirement Adjustment	Resulting Actuarial Condition
Membership					
Active Members	919				1,016
Service Retirees	1,254				1,151
Disabilitants	19				17
Survivors	113				96
Deferred Retirees	284				348
Nonvested Former Members	766				750
Total Membership	3,355				3,378
Funded Status					
Accrued Liability	$326,243,873	($287,394)	$1,305,882	$52,899,156	$380,161,517
Current Assets	$206,833,425	--	--	--	$206,833,425
Unfunded Accrued Liability	$119,410,448	($287,394)	$1,305,882	$52,899,156	$173,328,092
Funding Ratio	63.40%				54.40%

		FY2012	Employee/ Employer Contribution Increase	Accrual Rate Increase	2% Post-Retirement Adjustment	Resulting Actuarial Condition	
Financing Requirements							
Covered Payroll		$50,973,110					$50,973,110
Benefits Payable		$24,806,357					$24,806,357
Normal Cost	6.48%	$3,305,213	$49,599	$322,743	$620,353	8.43%	$4,297,908
Administrative Expenses	1.16%	$591,288	--	--	--	1.16%	$591,288
Amortization	15.36%	$7,829,470	($20,390)	$86,655	$3,466,171	22.29%	$11,361,906
Total Requirements	23.00%	$11,725,971	$29,209	$409,398	$4,086,524	31.88%	$16,251,102
Employee Contributions	6.50%	$3,313,252	$509,731	--	--	7.50%	$3,822,983
Employer Contributions	6.79%	$3,461,075	$361,909	--	--	7.50%	$3,822,983
Direct State Funding	1.23%	$626,202	--	--	--	1.23%	$626,202
Total Contributions	14.52%	$7,400,529	$871,640	--	--	16.23%	$8,272,168
Total Requirements	23.00%	$11,725,971	$29,209	$409,398	$4,086,524	31.88%	$16,251,102
Total Contributions	14.52%	$7,400,529	$871,640	--	--	16.23%	$8,272,168
Deficiency (Surplus)	8.49%	$4,325,442	($842,431)	$409,398	$4,086,524	15.65%	$7,978,934

3. Request for Benefit Improvements Despite Financial Condition. The issue is whether the DTRFA administration is acting prudently in requesting considerable benefit improvements (accrual rate increase, post retirement adjustments), when the plan is currently in seriously weak actuarial condition, and while asking the state to bail the fund out of its difficulties rather than relying on local effort to eliminate contribution deficiencies.

4. Option to Further Redress Past Harm. While the proposed benefit increases in the bill do appear to be an attempt to provide benefits comparable to TRA, an issue, particularly if the DTRFA is to remain as a separate plan, is whether it would be appropriate to instead first take action to remove past benefit takeaways, which caused considerable harm to some individuals. The 2010 Financial Sustainability Provisions (Laws 2010, Ch. 359, Art. 1), passed at the urging of the administrators for DTRFA and major plan systems, included provisions which eliminated DTRFA post-retirement adjustments, reduced the interest rate paid on refunds, and reduced deferred annuity augmentation, including the deferred annuity augmentation for those who terminated prior to the passage of the 2010 legislation. The proposed legislation does address past harm to DTRFA retirees, but it does nothing for deferred annuitants, individuals who have left service but have not yet retired. Depending upon the length of time a person is in deferred status prior to commencing an annuity, the deferred annuity augmentation reductions lowered the benefit these individuals will receive at retirement by a few percent for those who wait only a year or two before starting the annuity, to 20% or more for those with long deferral periods. The Commission may wish to consider whether actions should be taken to reduce or remove that harm before any benefit improvement is considered for the active membership.

5. Question of Why DTRFA is Not Taking Action to Reduce Its Liabilities. The issue is why the DTRFA, which has serious financial problems, is not taking any meaningful action to trim its liabilities. The DTRFA is proposing modest action which may discourage some early retirements, which are often subsidized, by discouraging reemployment as substitutes in the district, but those actions are modest. No action is proposed to eliminate subsidizing early retirement by revising factors applied to retirees who started employment before July 1, 1989, including no action to further restrict or terminate Rule of 90 retirements. Nothing is proposed to revise the current exempt reemployment annual income amount, $46,000, before any action is taken to redirect or forfeit any of the annuity that is being paid, and no action is proposed to revise the portion of reemployment income (one-third of the income above $46,000) which is deducted from the annuity.

6. Employer Contributions on Behalf of Reemployed Annuitants. The issue is the inclusion of a new provision requiring the Duluth school district to make employer contributions on behalf of reemployed annuitants. The proposal has some merit. It helps to fund the DTRFA, an organization in need of funding from all available sources, and it levels the playing field. Currently, if the school district hires a teacher who is not retired as a substitute, the school district must pay employer contributions to the retirement fund on behalf of that individual. If the school district hires a retiree instead, the district avoids the employer contributions requirement. Thus, the school district has a financial incentive to hire a retiree rather than a teacher who is not retired. The proposal to require the district to pay employer contributions to the pension fund will eliminate that financial incentive. The Commission and Legislature may wish to consider, thought, that there may be school district opposition to this proposal because it will add to school district cost.

   If the Commission does conclude that the reemployed annuitant employer contribution requirement has merit, the Commission may wish to consider that no other Minnesota public plan has a comparable provision, although the SPTRFA is currently proposing an identical provision. The Commission may wish to consider expanding the concept to TRA, and possibly to other plans in general.

7. Reemployed Annuitant Holding Account Treatment. The DTRFA is proposing to end the practice of reemployed annuitant accounts for any DTRFA retiree who retires after June 30, 2013. The issue is whether the Commission agrees with that treatment. Under this proposal, reemployed annuitants who under prior law would have a portion of their annuity deferred and placed in a reemployed annuitant account, because of reemployment earnings in excess of $46,000, will instead forfeit those amounts.

8. State Aid Issues. The request for new state aid is large, at a time when the state may be unable to supply that aid. The association currently receives $346,000 and is requesting an additional $8 million annually. The Commission may wish to consider providing additional aid, possible in an amount that is less than proposed, and only if the proposal is redrafted to require merger into TRA. The Commission may wish to consider that past actions to support local general employee plans through state aid have not been successful. The Minneapolis Employees Retirement Fund (MERF) received over $150 million in state aid over several decades. It was finally merged into the Public Employees Retirement Association (PERA), and was in dire financial condition at the time of merger. The state and the City of Minneapolis continue to provide support to the MERF account within PERA. The state paid considerable annual aid to the Minneapolis Teachers Retirement Fund Association (MTRFA). That association, due to bad investment decisions, often underperformed similar pension fund investors by amounts more than the state aid it was receiving. In effect, that state aid was wasted. If the state had required the MTRFA assets to be invested by the State Board of Investment (SBI) and provided no aid, the MTRFA and state and local taxpayers would have been better off. In the particular case of the DTRFA, its investment results have been adequate, but somewhat more variable than SBI. A concern regarding the DTRFA is the lack of justification for having a separate plan administration given the small total membership compared to the statewide TRA. An additional concern is the small and shrinking active membership base. Given the annual funding needs of the plan, when the required dollar contributions are assessed against a shrinking base, the contribution rate must escalate. This places an ever increasing burden on the remaining active teachers and the school district. The state may be asked periodically to mitigate that burden, by further increasing the amount of state aid above the additional $8 million in aid now being requested. A final concern regarding state aid is that it shields the district from reality. It distorts the information needed to determine the merits of consolidation. DTRFA teachers are left unaware of the true cost of having a separate pension plan, because much of the cost is being borne by state tax payers rather than locally.

9. Local Support. The issue is whether this proposal has the support of the school district.

Potential Amendments for Commission Consideration, Drawn to Delete-All Amendment S1235-1A

S1235-2A would revise the proposed contribution rates to place more burden on the DTRFA employees and employer. The Commission would need to fill in the blanks to establish the rates. S1235-2A could be used in conjunction with an amendment to either remove or reduce the state aid amount proposed in the bill. Covered payroll is $50.1 million, so each 1% of payroll would equal $0.5 million.

S1235-3A revises the proposed state aid from a total of $8,346,000 to an amount to be determined.

A motion to delete Section 3 would remove all of the proposed new state aid from the bill.

S1235-4A adds a requirement that a reemployed annuitant must make the equivalent of employee contributions for the reemployment. The reemployed annuitant will accrue no service credit and the amounts are not refundable. This can be used if the Commission supports Section 4, which requires the employer to pay employer contributions on behalf of reemployed annuitants, but the Commission feels that should be strengthened by also requiring the reemployed annuitant to make the equivalent of employee contributions.

A motion to delete Section 4 may be offered if the Commission prefers not to require employer contributions on behalf of reemployed annuitants and does not adopt **S1235-4A**.

S1235-5A would reduce the proposed post-retirement adjustment from the proposed 2% to 1% per year.

A motion to delete sections 6 and 7 would delete the proposed post-retirement increase.

A motion to delete Sections 8 and 10 may be offered if the Commission does not support the proposed new requirement for DTRFA teachers who retire after June 30, 2013, that annuity amounts which, due to reemployment in the school district, will be forfeited to the DTRFA instead of being deferred to a reemployed annuitant account.

S1235-6A, which applies to both the DTRFA and the SPTRFA, would discourage subsidized early retirements by revising 354A.31, Subd. 6, the early retirement provision with application to pre-1989 hires, regarding its application to first class city teacher plan retirees. The reduction of 0.25% per month for each year under normal retirement age (3% per year) is increased to 0.4% for each month (4.8% per year), and use of the Rule of 90 is ended for new retirees after June 30, 2014.

Section-by-Section Summary of Delete-All Amendment S1235-1A to S.F. 1235 (Reinert); H.F. 1330 (Murphy, M.)

Sec.	Pg.Ln	Stat. Provision	Plan	Summary
1	1.3	354A.12, Subd. 1	DTRFA	The DTRFA new law and old law coordinated plan rate is increased from by 1% of pay in 0.5% increments starting on 7/1/2013.
2	1.32	354A.12, Subd. 2a	DTRFA	The DTRFA employer contributions are increased from 6.79% of pay to 7.50% of pay in two steps, beginning in July 2013.
3	3.2	354A.12, Subd. 3a	DTRFA	Provides an additional $8 million annually in direct state aid to DTRFA
4	3.13	354A.12, New Subd. 2c	DTRFA	Requires the Duluth school district to make employer contributions if DTRFA annuitants are reemployed..
5	3.22	354A.12, Subd. 3c	DTRFA	Requires state aid to the DTRFA to terminate when the DTRFA becomes fully funded.
6	4.7	354A.27, New Subd. 6a	DTRFA	A new postretirement adjustment subdivision is added, providing a 2% increase if the funding ratio is less than 90%.
7	4.19	354A.27, Subd. 7	DTRFA	A postretirement increase provision applicable once the funding ratio hits at least 90% is revised by correcting a subdivision.
8	5.15	354A.31, Subd. 3	DTRFA	The first class city teacher plan reemployed annuitant holding account provision is revised by stating that for DTRFA members who retire after 6/30/2013 amounts which under prior law were deferred and placed in a holding account will instead by forfeited to the DTRFA.
9	6.21	354A.31, Subd. 4a	DTRFA	The DTRFA retirement annuity computation provision is revised by increasing accrual rates on service rendered after 6/30/2013 from 1.2% to 1.4% for the first ten years of service and from 1.7% to 1.9% on later years of service for step formula annuities, and from 1.7% to 1.9% on level formula annuities.
10	7.15	356.47, Subd. 1	Major Plans	A reemployed annuitant account application provision in Chapter 356 is revised by clarifying that regarding its application to DTRFA annuitants; the section will apply only to pre-71/2013 DTRFA retirees.
11	7.25	Uncoded	DTRFA	The DTRFA is authorized to revise its bylaws to revise employee and employer contribution rate and reemployed annuitant treatment .as specified in other sections of the bill.
12	8.1	Repealer	DTRFA	Minn. Stat. Sec. 354A.27, Subd. 6, the DTRFA postretirement provision that provided no increase if the funding ratio is less than 80%, and a 1% increase if the ratio is at least 80% but less than 90%, is repealed.

Background Information on Teacher Retirement Plans

1. Creation of Teacher Retirement Plans. After police officers and firefighters in some of the larger cities in the state, teachers were the first group of public employees in Minnesota to achieve public pension coverage. Teacher retirement funds in cities with a population greater than 10,000 (first, second, or third class cities) were authorized by the Legislature in 1909 (Laws 1909, Ch. 343, Sec. 1), but no cities other than the first class cities created teacher retirement funds. A statewide teachers' retirement plan, the Teachers Insurance and Retirement Fund, was created by the Legislature in 1915. The three first class city teacher retirement funds that had been established a few years earlier were left as freestanding organizations, while the Teachers Insurance and Retirement Fund provided coverage for teachers outside of the first class cities. The Teachers Insurance and Retirement Fund was replaced by the Teachers Retirement Association (TRA) in 1931. In 2006, the Minneapolis Teachers Retirement Fund Association (MTRFA) was merged into TRA. Currently, public pension plan coverage for K-12 public school teachers is provided by teacher retirement fund associations for teachers employed in Duluth (the Duluth Teachers Retirement Fund Association (DTRFA)) and in St. Paul (the St. Paul Teachers Retirement Fund Association (SPTRFA)), and by TRA for all Minnesota public school teachers outside of those two cities.

2. Organization. The remaining first class city teacher fund associations are nonprofit corporations. As Minnesota nonprofit corporations, these associations are governed by articles of incorporation and corporate bylaws. However, in recent decades, when coordinated employee plans (discussed below) were created in the first class city teacher fund associations, these provisions were created in state law and coded in statute. Board responsibilities, fiduciary responsibilities, and investment authority are also specified in law. Increasingly, these associations are becoming governed by state law.

   The benefit provisions of the early first class city teacher fund association pension plans, which are referred to as basic plans, were specified in the bylaws. Amendments to the articles of incorporation or bylaws require membership approval at an annual meeting. Each retirement fund association has a separate board. These boards tend to be composed of active teacher representatives, retired teacher representatives, and probably school district representatives, but there is no state representative on the remaining first class city teacher fund association boards, despite receiving considerable state aid. The activities of each association are handled by an executive secretary or an executive director and a separate administrative staff, all hired by the board or its agent, the executive secretary or executive director. These boards, through their executive directors and staff, are responsible for all administrative activities, which includes the proper determination of benefits, and for the investment of all retirement fund assets.

   In the 1970s or earlier, coordinated programs (plans in which the individual has Social Security coverage in retirement in addition to the benefit provided by the teacher pension fund plan) were established in many Minnesota public pension systems, including the first class city teacher fund associations and TRA. These coordinated plans pay a lower benefit than a basic plan (one in which the individual is not covered under the Social Security system due to the current covered employment) in recognition that the individual also receives Social Security monthly benefits in retirement, but the coordinated teacher plan contribution rates are correspondingly lower. The coordinated plan benefits provided by DTRFA, SPTRFA, and TRA are specified in statute, rather than in bylaws. In recent decades, the Legislature has also placed controls on the basic plans, by not permitting changes in the applicable bylaws specifying those benefits unless authorized by the Legislature.

   While the remaining first class city teacher fund associations are nonprofit corporations, TRA's status in unclear. It is not a nonprofit corporation, but we also find no language to indicate that it is a state agency. TRA's board composition is similar to those of the first class city teacher fund associations, except that TRA's board does have state representatives, the Commissioner of Education and the Commissioner of Management and Budget, or their designees. TRA's board functions similarly to those of the first class city teacher fund association boards, except that TRA does not invest its own fund assets. These are invested by the State Board of Investment.

3. Teacher Plan Retirement and Post-Retirement Benefits. When coordinated plans were first established in the then-existing three local teacher plans, the legislation was patterned closely after TRA coordinated plan law. Over the years, at times the coordinated plans of the local teacher plans and TRA departed slightly, due to benefits initially enacted for one plan but not others. At the current time, benefits at retirement are slightly higher in TRA than in the two first class city teacher plans.

The benefit to a member at retirement is determined by a formula, with the retiring teacher receiving an annual benefit which is a fraction of the high-five average salary. (Typically, the high-five average salary is defined as the average salary over a five-year period that produces the highest average.) For each year of service, a retiring DTRFA or SPTRFA member retiring at approximately age 65 receives 1.7% of the high-five average salary for each year of service, assuming the member is a coordinated member. TRA's benefit is slightly higher because TRA coordinated members were granted a benefit improvement when the MTRFA merged into TRA. For TRA, if the individual retires at approximately age 65 the individual receives 1.9% of the high-five average salary for each year of service provided after June 30, 2006, and 1.7% for prior years of service.

Basic members of teacher plans receive a somewhat higher percentage than those of coordinated members, because basic members do not accrue credit toward Social Security benefits due to the teaching service. However, very few active basic members remain in these plans. The DTRFA has no basic members. As of the July 1, 2010, actuarial valuation, SPTRFA had 69 basic members, compared to 3,768 coordinated members. TRA has over 77,000 active members in total, and no remaining long-term TRA basic members. It does have some basic members who transferred into TRA from the MTRFA merger.

Post-retirement adjustment procedures for all benefit recipients from these plans were recently revised, following worsening financial condition due to the market collapse of 2008 and early 2009. TRA had provided a 2.5% annual increase. Instead, in 2011 and 2012 TRA will provide no increase. In 2013 and thereafter, a 2.0% increase will be provided until financial stability is achieved, defined as when the fund's market value is at least 90% of the fund's accrued liabilities. The previous DTRFA procedure, payment of an annual 2.0% increase plus additional amounts if the fund's five-year return exceeded 8.5%, is replaced with no increase at all until the DTRFA funding ratio, based on market value, is at least 80%. A 1.0% increase will be provided when the funding ratio is at least 80% but less than 90%. After a 90% ratio is achieved, the plan's post-retirement adjustments will match inflation up to 5%. The SPTRFA waived any increase in 2011. After that, a 2.0% increase will be paid.

4. <u>Benefit Differences between General Employee Plans</u>. Longstanding legislative policy sought consistency between plans covering similar employees. Consistency reflects notions of fairness. Similar employees should be treated comparably.

The current situation is at odds with longstanding policy. Public retirement plans can be divided into two broad groups, public safety plans and general employee plans. Currently there are differences in benefits at retirement and post-retirement between plans, particularly in general employee plans. Public safety plans currently differ regarding post-retirement adjustments. General employee plans differ both in benefits at retirement and post-retirement. General employee plans include teacher plans; the Minnesota State Retirement System General Plan (MSRS-General), which covers most state employees; and the Public Employees Retirement Association General Plan (PERA-General), which covers local and county nonpublic safety employees including non-teacher school district employees (janitors, cafeteria staff, school bus drivers, and similar employees). Regarding the general employee plans, MSRS-General, PERA-General, and the two first class city teacher plans provide benefits at retirement that generally are comparable across these plans. The exception is TRA. The TRA accrual rate benefit increase at the time of the 2006 merger of MTRFA into TRA placed that plan out in front of the other general employee plans.

In the past, a benefit improvement in a general employee plan has lead to comparable changes in the remaining general employee plans. The situation has been similar in the public safety plan group. If differences in teacher plans or other general employee plans remain, this may be an important legislative consideration in any potential proposal to merge one or both of the remaining first class city teacher plans into TRA. The Legislature may need to consider the cost and other implications of providing those comparable benefits to the members of merged local teacher plans, and also to MSRS-General and PERA-General.

Long term, the Legislature also may need to address differences in post-retirement adjustments in these plans. Inflation impacts all Minnesota retirees, but at the current time PERA, MSRS, and each teacher plan have different post-retirement adjustment procedures. In part this current situation is due to the Financial Sustainability Provisions passed as Laws 2010, Chapter 359, Article 1, which the pension plan administrations had proposed to address the harm done to the plans by the Great Recession of 2008-2009. Reducing liabilities was the overriding concern of the plan administrations, which resulted in a considerable tradeoff against the objectives of consist, fair treatment.

5. Coverage Groups. The primary group covered by TRA and the two teacher retirement fund associations is the teaching and certificated administrative personnel of the applicable school districts. Membership is generally mandatory. The administrative staff of TRA and the first class city teacher retirement fund associations also is included in the membership of the respective retirement fund association. Other school district administrative personnel who do not require state Department of Education certification are covered by PERA-General.

6. State Role in Funding Local Teacher Plans. The state plays a significant role in financing all teacher retirement organizations. A few decades ago, the state directly covered all or part of the employer cost of the local teacher pension fund, either through direct payments to cover the local employer pension cost or by adding additional amounts to the basic state education aids. During the 1990s, the state has further increased its financial commitment to local teacher plans by creating new additional state aids above amounts provided through the education aids system. Details of these trends since the late 1960s are outlined in the remainder of this section.

   - In 1967, with the initial passage of a state sales tax, the state's employer contribution to the statewide TRA shifted from a statewide property tax levy (on all taxable property outside the first class cities) to direct general fund financing. The state paid a portion of the employer pension costs. At the same time, the state also began to directly participate in the funding of the first class city teacher retirement funds. The initial state funding of the first class city teacher retirement funds was a specified dollar amount per member, set to equal the proportional state funding provided to TRA.

   - In 1969, the aid procedures were changed to provide the first class city teacher funds with the same percentage of payroll amount as provided to TRA-covered employers. The balance of any required employer contributions to the first class city teacher retirement fund associations remained payable from property taxes levied by the respective school district.

   - In 1975, legislation abolished the authority for Special School District No. 1, Minneapolis, Independent School District No. 625, St. Paul, and Independent School District No. 709, Duluth, to levy local property taxes for their respective first class city teacher retirement fund associations, provided that the state would bear the total responsibility for funding the employer contribution requirement of the first class city teacher retirement fund associations.

   - In 1979, state funding of all teacher retirement plans was increased modestly and the state aid for these local teacher plans was specified for each teacher retirement fund association and each retirement program (basic or coordinated) as a percentage of covered payroll.

   - Under 1985 legislation, responsibility for the payment of employer contributions to teachers retirement plans and employer Social Security contributions for TRA and the first class city teacher retirement fund associations was shifted from direct general fund financing to the employing units, effective for the July 1, 1986—June 30, 1987, fiscal year. The responsibility shift was accompanied by the creation of a teacher retirement cost state aid formula, based on the historical retirement costs per pupil. This formula provided employer retirement financing sufficient to cover the same percentage increase in per-pupil retirement costs in each district, with the school district being required to pay from other revenue sources any retirement costs not covered by the aid as the result of higher-than-average compensation levels or salary increases beyond the aid inflation factor, or higher staff-to-pupil ratios than the average.

   - In 1993 and 1994, in response to growing recognition that contribution deficiencies in MTRFA and SPTRFA needed to be addressed, statutory contribution rates were revised, various assessments were created, and new state aids were authorized for MTRFA and SPTRFA. The new program was called special direct state aid. Regarding the SPTRFA, the employer additional rates were revised to create, for the 1995-1996 school year and after, a 3.64% of pay employer additional contribution on behalf of all SPTRFA members, identical to that of the statewide TRA. Under the new special direct state aid program, the state would give SPTRFA $500,000 in 1994, increasing by the rate of increase in the general education revenue formula thereafter. No local match was required. SPTRFA members are also required to make an additional member payment to offset a portion of the administrative expenses of SPTRFA that are proportionally greater than those of the statewide TRA.

   - The 1996 Legislature added a further state aid program to assist MTRFA and SPTRFA. Beginning with the 1996 aid payments, 70% of any unallocated amortization or supplemental amortization state aid not used for police and paid fire relief associations and consolidation accounts was to be redirected to MTRFA and SPTRFA. Of the redirected aid channeled to these two teacher associations, MTRFA would receive 70% and SPTRFA would receive 30% of the allocation. No local match was required for 1996 and 1997, but additional local contributions were required in 1998 and thereafter. For SPTRFA, the St. Paul school district must make a contribution to the fund of $200,000 in fiscal 1998, $400,000 in fiscal 1999, $600,000 in fiscal 2000, and $800,000 in fiscal 2001 and thereafter.

- The 1997 Legislature, as part of a major benefit improvement bill, again revised SPTRFA and MTRFA state aid. Rather than continued receipt of $500,000 in annual state direct aid annually, escalated over time with increases in general education aids, the SPTRFA will receive $4.827 million in fiscal 1998, and $2.827 million annually thereafter, without any local match.

- The 1999 Legislature, as part of legislation merging PERA consolidation accounts into the Public Employees Police and Fire Retirement Plan (PERA-P&F), revised procedures for reallocating additional amortization aid. If aid is released or unallocated because the Minneapolis police and fire relief associations and Virginia Fire Department Relief Association have no unfunded liability, 49% of any reduction is to be allocated to MTRFA and 21% to SPTRFA, if these two teacher funds had investment performance at least matching a conservatively managed index total portfolio. The 2000 Legislature revised amortization aid provisions to continue these aids until MTRFA and SPTRFA are fully funded.

- In 2006 the MTRFA was merged into TRA, and any aids that under prior law are payable to the MTRFA were redirected to TRA. Any state aid to the Minneapolis Employees Retirement Fund (MERF) not required, given MERF funding procedures, was instead allocated toward MTRFA unfunded liabilities. Also, state aid to all school districts, including Minneapolis, was increased by one-half percent.

- The 2008 Legislature revised direct state aids to teacher plans. $346,000 was allocated to DTRFA, restarting aid to that association which had terminated when that association became fully funded in 2002. The TRA direct aids on behalf of MTRFA were reduced by that same amount. The SPTRFA aid was reduced by $140,000. Supplemental contributions, which Special School District No. 1, Minneapolis, and the City of Minneapolis must pay to be eligible to receive amortization and supplemental amortization aid not used for local police and paid fire relief associations, must continue to be paid to TRA until TRA is fully funded or until 2037, whichever is earlier, rather than until 2037. Once the SPTRFA funding ratio equals or exceeds that of TRA, the special direct state aid payment to that organization is redirected to TRA.

- In 2009, amortization and supplemental amortization aid to the teacher plans was readjusted. DTRFA is newly added to the reallocation, to receive 10% of any reallocated aid. Reallocations to TRA on behalf of the MTRFA and to SPTRFA are reduced.

7. Historic Funding Concerns. Since 1970, or earlier, the MTRFA had a history of funding problems. Causes included investment performance which often lagged the index returns used as performance benchmarks, and underperformance relative to the returns earned by the State Board of Investment, which invests the assets of TRA and other statewide public pension funds. A key contributor to funding problems was a faulty post-retirement adjustment procedure, enacted in 1993 at the request of the MTRFA, which paid out more than could be sustained by the fund. MTRFA assets fell below the amount necessary to fully fund the pensions of its then-existing pensioners. Given the structure of the post-retirement adjustment procedure, once assets fell below that level, it became impossible to improve the plan's funding condition through investment performance. Any investment returns above the plan's assumed actuarial return, 8.5%, flowed out of the fund to the retirees as post-retirement adjustments. Funding ratios continued to deteriorate and contribution deficiencies widened. Faced with eventual default, the MTRFA was merged into TRA in 2006.

   The faulty post-retirement adjustment procedure enacted in 1993 for the former MTRFA was extended to DTRFA in 1995 and to SPTRFA in 1997, at the request of these plan administrations. In recent years both of the two remaining first class city teacher plans have moved away from the problematic post-retirement adjustment procedure. In response to legislative concerns about deterioration of the SPTRFA funding condition, in 2006 a 5% increase cap was placed on SPTRFA post-retirement adjustments, but this was not to be effective until 2010. This cap was due to an amendment by the House State Government Finance Committee. In 2007, the SPTRFA post-retirement adjustment procedure was revised by implementing a temporary two-year procedure under which the post-retirement adjustment would match inflation up to 2.5%, or up to 5.0% if the fund's investment returns were at least 8.5%. In 2009, the SPTRFA post-retirement adjustment provision was again revised, for a two-year period, to provide an inflation match up to 5.0% regardless of investment performance.

The investment markets collapsed in 2008 and 2009, a period referred to as the Great Recession, which sharply reduced the asset values of all pension funds. In response to this strong downturn, the 2010 Legislature was presented with a proposal from the various pension fund administrations (the Minnesota State Retirement System (MSRS), the Public Employees Retirement Association (PERA), TRA, and the first class city teacher plans) revising various plan benefit and funding provisions to reduce plan liabilities and improve plan funding. These were enacted as Laws 2010, Chapter 359, Article 1, and titled "Financial Sustainability Provisions." Several changes were include in that article for the DTRFA, including replacement of its problematic post-retirement adjustment procedure with procedure which pays no adjustment until the plan's funding ratio, based on market divided by liabilities, is at least 80%; a 1% adjustment when the ratio is at least 80% but less than 90%. After a 90% ratio is achieved, the DTRFA post-retirement adjustment will match inflation up to 5%. The Financial Sustainability Provisions included only one SPTRFA revision, a one-year waiver of any post-retirement adjustment.

8. Current Funding Condition. The current funding condition of TRA, DTRFA, and the SPTRFA is shown below.

	DTRFA FY2012		SPTRFA FY2012		TRA FY2012	
Membership						
Active Members		919		3,880		76,649
Service Retirees		1,254		2,942		50,780
Disabilitants		19		29		591
Survivors		113		321		4,054
Deferred Retirees		284		1,833		12,201
Nonvested Former Members		766		1,427		27,591
Total Membership		3,355		10,432		171,866
Funded Status						
Accrued Liability		$326,243,873		$1,471,216,000		$23,024,505,000
Current Assets		$206,833,425		$911,930,000		$16,805,077,000
Unfunded Accrued Liability		$119,410,448		$559,286,000		$6,219,428,000
Funding Ratio	63.40%		61.98%		72.99%	
Financing Requirements						
Covered Payroll		$50,973,110		$256,509,000		$4,146,325,000
Benefits Payable		$24,806,357		$101,788,000		$1,485,527,000
Normal Cost	6.48%	$3,305,213	8.39%	$21,503,000	8.53%	$353,796,000
Administrative Expenses	1.16%	$591,288	0.31%	$795,000	0.24%	$9,951,000
Amortization	15.36%	$7,829,470	14.17%	$36,347,000	9.98%	$413,803,000
Total Requirements	23.00%	$11,725,971	22.87%	$58,645,000	18.75%	$777,550,000
Employee Contributions	6.50%	$3,313,252	6.02%	$15,449,000	6.50%	$269,572,000
Employer Contributions	6.79%	$3,461,075	8.87%	$22,753,000	6.69%	$277,520,000
Employer Add'l Cont.	0.00%	$0	0.00%	$0	0.00%	$0
Direct State Funding	1.23%	$626,202	1.58%	$4,057,000	0.52%	$21,727,000
Other Govt. Funding	0.00%	$0	0.00%	$0	0.00%	$0
Administrative Assessment	0.00%	$0	0.00%	$0	0.00%	$0
Total Contributions	14.52%	$7,400,529	16.47%	$42,259,000	13.71%	$568,819,000
Total Requirements	23.00%	$11,725,971	22.87%	$58,645,000	18.75%	$777,550,000
Total Contributions	14.52%	$7,400,529	16.47%	$42,259,000	13.71%	$568,819,000
Deficiency (Surplus)	8.49%	$4,325,442	6.40%	$16,386,000	5.04%	$208,731,000

Comparison of MSRS, PERA, TRA, and First Class City Teacher Retirement Fund Association
2010-2011 Financial Sustainability Provisions Contained in
2010 S.F. 2918, 4th Engr., Article 1 (Laws 2010, Chapter 359) and 2011 1st SS H.F. 14, Article 2 (Laws 2011, Chapter 8)

	MSRS-General	MSRS-Correct.	State Patrol	Judges	Legislators	ESO	PERA-General	PERA- Correct.	PERA-P&F	TRA	DTRFA	SPTRFA
a. Contributions 1. Member	--	--	+2.0%	–	–	--	+0.25%	–	+0.2%	+2.0%	+1.00%	+1.00% Coord; +1.00% Basic
2. Employer	–	–	+3.0%	–	–	--	+0.25%	–	+0.3%	+2.0%	+1.00%	+1.00% C&B
3. Contribution rate stabilizer	--	--	–	–	–	--	Modified	–	--	Added	–	–
b. Post-retirement adjustments	Reduced from 2.5% to 2.0%, restored when 90% funded on MVB;* 6-mo. waiting period imposed for initial increase	Reduced from 2.5% to 2.0%, restored when 90% funded on MVB;* 6-mo. waiting period imposed for initial increase	Reduced from 2.5% to 1.5%, restored when 90% funded on MVB;* 6-mo. waiting period imposed for initial increase	Reduced from 2.5% to 2.0%, restored when 90% funded on MVB;* 6-mo. waiting period imposed for initial increase	Reduced from 2.5% to 2.0%, restored once MSRS-General is 90% funded on MVB;* 6-mo. waiting period for initial increase	Reduced from 2.5% to 2.0%, restored once MSRS-General is 90% funded on MVB;* 6-mo. waiting period for initial increase	Reduced from 2.5% to 1.0%, restored when 90% funded on MVB,* rate reduced if fund later declines from 90% funded	Reduced from 2.5% to 1.0%, restored when 90% funded on MVB,* rate reduced if fund later declines from 90% funded	Reduced from 2.5% to 1.0% for 1/1/2011 and 1/1/2012, then equal to the CPI % for the preceding fiscal year, not to exceed 1.5% until 90% funded on MVB,* then not to exceed 2.5%, rate reduced if fund later declines from 90% funded	Suspended for 1/1/2011 & 1/1/2012; starting 1/1/2013, reduced from 2.5% to 2.0%, restored when 90% funded on MVB;* 6-mo. waiting period for initial increase	0% when less than 80% funded on MVB,* 1% when 80%-90% funded on MVB,* and 2% when more than 90% funded on MVB;* when 90% funded on AVB** moves to inflation match up to 5%	2010: Automatic 2% inc. suspended for 1/1/ 2011 2011: 1% when less than 80% funded on AVB**, 2% until 90% AVB when 90% funded on AVB moves to inflation match up to 5%
c. Interest on refunds	Reduced from 6% to 4% after 6/30/2011	Reduced from 6% to 4% after 6/30/2011	Reduced from 6% to 4% after 6/30/2011	Reduced from 6% to 4% after 6/30/2011	Reduced from 6% to 4% after 6/30/2011	–	Reduced from 6% to 4% after 6/30/2011	Reduced from 6% to 4% after 6/30/2011	Reduced from 6% to 4% after 6/30/2011	Reduced from 6% to 4% after 6/30/2011	Reduced from 6% to 4% after 6/30/2010	2010: no chg. 2011: Reduced from 6% to 4% after 7/1/2011
d. Deferred annuities augmentation	Reduced from 5, 3, or 2.5% to 2% after 12/31/ 2011	Reduced from 5, 3, or 2.5% to 2% after 12/31/ 2011	Reduced from 5, 3, or 2.5% to 2% after 12/31/ 2011	–	Reduced from 5, 3, or 2.5% to 2% after 12/31/ 2011	–	Reduced from 5, 3, or 2.5% to 1% for plan members terminating before 1/1/2012, and eliminated for plan members terminating after 12/31/2011	Reduced from 5, 3, or 2.5% to 1% for plan members terminating before 1/1/2012, and eliminated for plan members terminating after 12/31/2011	Reduced from 5, 3, or 2.5% to 1% for plan members terminating before 1/1/2012, and eliminated for plan members terminating after 12/31/2011	Reduced from 5, 3, or 2.5% to 2% after 6/30/2012	Reduced from 5, 3, or 2.5% to 2% after 7/1/2012	2010: no chg. 2011: Reduced from 5, 3, or 2.5% to 2% after 7/1/2012
e. Reemployed annuitant earnings limitation deferral account interest	Eliminated after 1/1/2011	Eliminated after 1/1/2011	–	–	–	–	Eliminated after 1/1/2011	Eliminated after 1/1/2011	Eliminated after 1/1/2011	Eliminated after 1/1/2011	Eliminated after 6/30/2010	2010: no chg 2011: Eliminated after 6/30/2011
f. Vesting service requirement	For new members after 6/30/ 2010, increased from 3 years to 5 years	For new members after 6/30/ 2010, increased from 3 years to 50% vested w/5 years-100% w/10 years	For new members after 6/30/ 2010, increased from 3 years to 5 years	–	–	–	For new members after 6/30/ 2010, increased from 3 years to 5 years	For new members after 6/30/ 2010, increased from 3 years to 50% vested w/5 years-100% w/10 years	For new members after 6/30/2010, incr. from 3 yrs to 50% vested w/ 5 yrs-100% w/10 yrs	–	2010: For new members after 6/30/2010, increased from 3 years to 5 years 2011: 5-year vesting clarified to apply to all benefits and programs for post-2010 hires.	--
g. Early retirement reduction factor, per year under age 55	–	For pre-6/30/ 2010 members retiring after 6/30/2015 and for new members after 6/30/2010, increased from 2.4% to 5.0%	For new members after 6/30/ 2010, increased from 1.2% to 2.4%	–	--	--	–	–	--	–	–	–
h. Benefit accrual rate percentage, per year of high-5 average salary	–	For new members after 6/30/2010, reduced from 2.4% to 2.2%	–	–	--	–	–	–	–	–	–	–

*MVB = Market Value Basis **AVB = Actuarial Value Basis

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February 12, 2013

Mr. J. Michael Stoffel
Executive Director
Duluth Teachers' Retirement Fund Association of Minnesota
625 East Central Entrance
Duluth, MN 55811

Re: **Duluth Teachers' Retirement Fund Association**
Cost of Proposed Plan Changes

Dear Jay:

As requested, we are providing information related to the cost of the proposed changes to the plan provisions of the Duluth Teachers' Retirement Fund Association. The proposed changes are:

Step 1.	Increase in employee contributions from 6.50% to 7.50%, effective July 1, 2013
Step 2.	Increase in employer contributions from 6.79% to 7.50%, effective July 1, 2013
Step 3.	Increase Tier I and II formula multiplier to 1.90% for service earned after June 30, 2013
Step 4.	Reinstitute a 2% COLA, regardless of Plan's funding ratio, effective January 1, 2014

Steps 1 & 2 increase the statutory contribution rate by 1.71%, while increasing the cost of the plan by 0.06% of payroll. Therefore, the first two steps decrease the contribution deficiency from 8.49% to 6.84%. Steps 3 & 4 increase the cost of the plan by 0.80% and 8.01% of payroll, respectively. The net effect of all proposed plan changes increases the contribution deficiency from 8.49% to 15.65% of payroll.

The current statutory contribution rate of 14.52% includes an estimated 1.23% of payroll contribution related to State aid (estimated to be $626,202 for the fiscal year ending June 30, 2013). In order to eliminate the 15.65% contribution deficiency resulting from the changes outlined above, an additional $8,000,000 of State aid payments would be required, prior to reflecting any unrecognized investment losses as of July 1, 2012. This amount increases to an estimated $8,800,000 if actuarial assets were equal to market value. In other words, the unrecognized losses not reflected in the July 1, 2012 actuarial value of assets increase the contribution deficiency by approximately $800,000, or 1.58% of payroll.

The table on the following page details the impact of the changes in plan provisions on the July 1, 2012 actuarial valuation results.

Mr. J. Michael Stoffel
Duluth Teachers' Retirement Fund Association of Minnesota
February 12, 2013
Page 2

Description	No Changes	Step 1	Steps 1 & 2	Steps 1, 2, & 3	All Changes
1. Actuarial Accrued Liability (AAL)	$326,243,873	$325,956,479	$325,956,479	$327,262,361	$380,161,517
2. Actuarial Value of Assets (AVA)	206,833,425	206,833,425	206,833,425	206,833,425	206,833,425
3. Unfunded Actuarial Accrued Liability (UAAL) [(2) - (1)]	**$119,410,448**	**$119,123,054**	**$119,123,054**	**$120,428,936**	**$173,328,092**
4. Normal Cost	**$3,305,213**	**$3,354,812**	**$3,354,812**	**$3,677,555**	**$4,297,908**
5. Payment on UAAL	**7,829,470**	**7,809,080**	**7,809,080**	**7,895,735**	**11,361,906**
6. Administrative Expenses	591,288	591,288	591,288	591,288	591,288
7. Total Required Contribution [(5) + (6) + (7)]	**$11,725,971**	**$11,755,180**	**$11,755,180**	**$12,164,578**	**$16,251,102**
8. Projected Payroll	$50,973,110	$50,973,110	$50,973,110	$50,973,110	$50,973,110
9. Required Contributions [(8) / (9)]	**23.01%**	**23.07%**	**23.07%**	**23.87%**	**31.88%**
10. Statutory Contributions	**14.52%**	**15.52%**	**16.23%**	**16.23%**	**16.23%**
(in dollars)	**$7,400,529**	**$7,910,261**	**$8,272,170**	**$8,272,170**	**$8,272,170**
11. Contribution Sufficiency / (Deficiency) [(9) - (10)]	**(8.49%)**	**(7.55%)**	**(6.84%)**	**(7.64%)**	**(15.65%)**
(in dollars)	**-$4,325,442**	**-$3,844,919**	**-$3,483,010**	**-$3,892,408**	**-$7,978,932**

These cost estimates are based on the data, assumptions, methods, and provisions in the July 1, 2012 actuarial valuation, unless noted otherwise.

If you have any questions, please let me know.

Sincerely,

Matthew A. Strom

Matthew A. Strom, FSA, MAAA, EA
Consulting Actuary

MAS/js

cc: Cathie Eitelberg

5320857v1/05776.072

.... moves to amend S.F. No. 1235; H.F. No. 1330, the delete everything amendment (S1235-1A),as follows:

Page 1, after line 14, insert:

"effective July 1, 2015 .... percent"

Page 2, after line 6, insert:

"effective July 1, 2015 .... percent"

.... moves to amend S.F. No. 1235; H.F. No. 1330, the delete everything amendment (S1235-1A),as follows:

Page 3, line 4, delete "$8,346,000" and insert " $......................"

.... moves to amend S.F. No. 1235; H.F. No. 1330, the delete everything amendment (S1235-1A),as follows:

Page 3, line 15, before "employer" insert "employee and"

Page 3, line 20, after the period insert "The reemployed annuitant shall make a contribution to the fund equivalent to the employee contribution determined under subdivision 1. The reemployed annuitant shall accrue no service credit and these amounts are not refundable."

Amend the title accordingly

.... moves to amend S.F. No. 1235; H.F. No. 1330, the delete everything amendment (S1235-1A),as follows:

Page 4, line 16, delete "two" and insert "one"

.... moves to amend S.F. No. 1235; H.F. No. 1330, the delete everything amendment (S1235-1A),as follows:

Page 7, after line 14, insert:

"Sec. 10. Minnesota Statutes 2012, section 354A.31, subdivision 6, is amended to read:

Subd. 6. **Reduced retirement annuity.** <u>(a)</u> This subdivision applies only to a person who first became a coordinated member or a member of a pension fund listed in section 356.30, subdivision 3, before July 1, 1989, and whose annuity is higher when calculated using the retirement annuity formula percentage in subdivision 4, paragraph (c), or subdivision 4a, paragraph (c), in conjunction with this subdivision than when calculated under subdivision 4, paragraph (d), or subdivision 4a, paragraph (d), in conjunction with subdivision 7.

~~(a)~~ <u>(b)</u> Upon retirement at an age before normal retirement age or prior to age 62 with at least 30 years of service credit, a vested coordinated member shall be entitled to a retirement annuity in an amount equal to the normal retirement annuity calculated using the retirement annuity formula percentage in subdivision 4, paragraph (c), or subdivision 4a, paragraph (c), reduced by ~~one-quarter of one~~ <u>0.4</u> percent for each month that the coordinated member is under normal retirement age if the coordinated member has less than 30 years of service credit or is under the age of 62 if the coordinated member has at least 30 years of service credit.

~~(b)~~ <u>(c)</u> Any coordinated member whose attained age plus credited allowable service totals 90 years is entitled, upon application, to a retirement annuity in an amount equal to the normal retirement annuity calculated using the retirement annuity formula percentage in subdivision 4, paragraph (c), or subdivision 4a, paragraph (c), without any reduction by reason of early retirement. <u>This paragraph does not apply to any member whose effective date of retirement is after June 30, 2014.</u>

EFFECTIVE DATE. <u>This section is effective the day following final enactment.</u>"

Renumber the sections in sequence

Amend the title accordingly

.... moves to amend S.F. No. 1235; H.F. No. 1330, as follows:

Delete everything after the enacting clause and insert:

"Section 1. Minnesota Statutes 2012, section 354A.12, subdivision 1, is amended to read:

Subdivision 1. **Employee contributions.** (a) The contribution required to be paid by each member of a teachers retirement fund association is the percentage of total salary specified below for the applicable association and program:

Association and Program	Percentage of Total Salary
Duluth Teachers Retirement Fund Association	
old law and new law coordinated programs	
before July 1, ~~2011~~ 2013	~~5.5~~ 6.5 percent
effective July 1, ~~2011~~ 2013	~~6.0~~ 7.0 percent
effective July 1, ~~2012~~ 2014	~~6.5~~ 7.5 percent
St. Paul Teachers Retirement Fund Association	
basic program before July 1, 2011	8 percent
basic program after June 30, 2011	8.25 percent
basic program after June 30, 2012	8.5 percent
basic program after June 30, 2013	8.75 percent
basic program after June 30, 2014	9.0 percent
coordinated program before July 1, 2011	5.5 percent
coordinated program after June 30, 2011	5.75 percent
coordinated program after June 30, 2012	6.0 percent
coordinated program after June 30, 2013	6.25 percent
coordinated program after June 30, 2014	6.50 percent

(b) Contributions shall be made by deduction from salary and must be remitted directly to the respective teachers retirement fund association at least once each month.

(c) When an employee contribution rate changes for a fiscal year, the new contribution rate is effective for the entire salary paid by the employer with the first payroll cycle reported.

EFFECTIVE DATE. This section is effective July 1, 2013.

Sec. 2. Minnesota Statutes 2012, section 354A.12, subdivision 2a, is amended to read:

Subd. 2a. **Employer regular and additional contributions.** (a) The employing units shall make the following employer contributions to teachers retirement fund associations:

(1) for any coordinated member of one of the following teachers retirement fund associations in a city of the first class, the employing unit shall make a regular employer

contribution to the respective retirement fund association in an amount equal to the designated percentage of the salary of the coordinated member as provided below:

Duluth Teachers Retirement Fund Association	
before July 1, ~~2011~~ 2013	~~5.79~~ 6.79 percent
effective July 1, ~~2011~~ 2013	~~6.29~~ 7.29 percent
effective July 1, ~~2012~~ 2014	~~6.79~~ 7.50 percent
St. Paul Teachers Retirement Fund Association	
before July 1, 2011	4.50 percent
after June 30, 2011	4.75 percent
after June 30, 2012	5.0 percent
after June 30, 2013	5.25 percent
after June 30, 2014	5.5 percent

(2) for any basic member of the St. Paul Teachers Retirement Fund Association, the employing unit shall make a regular employer contribution to the respective retirement fund in an amount according to the schedule below:

before July 1, 2011	8.0 percent of salary
after June 30, 2011	8.25 percent of salary
after June 30, 2012	8.5 percent of salary
after June 30, 2013	8.75 percent of salary
after June 30, 2014	9.0 percent of salary

(3) for a basic member of the St. Paul Teachers Retirement Fund Association, the employing unit shall make an additional employer contribution to the respective fund in an amount equal to 3.64 percent of the salary of the basic member;

(4) for a coordinated member of the St. Paul Teachers Retirement Fund Association, the employing unit shall make an additional employer contribution to the respective fund in an amount equal to the applicable percentage of the coordinated member's salary, as provided below:

St. Paul Teachers Retirement Fund Association	3.84 percent

(b) The regular and additional employer contributions must be remitted directly to the respective teachers retirement fund association at least once each month. Delinquent amounts are payable with interest under the procedure in subdivision 1a.

(c) Payments of regular and additional employer contributions for school district or technical college employees who are paid from normal operating funds must be made from the appropriate fund of the district or technical college.

(d) When an employer contribution rate changes for a fiscal year, the new contribution rate is effective for the entire salary paid by the employer with the first payroll cycle reported.

EFFECTIVE DATE. This section is effective July 1, 2013.

Sec. 3. Minnesota Statutes 2012, section 354A.12, subdivision 3a, is amended to read:

Subd. 3a. **Special direct state aid to first class city teachers retirement fund associations.** (a) The state shall pay ~~$346,000~~ as special direct state aid $8,346,000 to the Duluth Teachers Retirement Fund Association, $2,827,000 to the St. Paul Teachers Retirement Fund Association and, for the former Minneapolis Teachers Retirement Fund Association, $12,954,000 to the Teachers Retirement Association.

(b) The direct state aids under this subdivision are payable October 1 annually. The commissioner of management and budget shall pay the direct state aid. The amount required under this subdivision is appropriated annually from the general fund to the commissioner of management and budget.

EFFECTIVE DATE. This section is effective July 1, 2013.

Sec. 4. Minnesota Statutes 2012, section 354A.12, is amended by adding a subdivision to read:

Subd. 2c. **Duluth Teachers Retirement Fund Association; employer contributions for reemployed annuitants.** The school district shall make the regular employer contributions and additional employer contributions specified in subdivision 2a on behalf of any retired member of the Duluth Teachers Retirement Fund Association who is reemployed by Independent School District No. 709, including providing service to the school district as an independent contractor or as an employee of an independent contractor.

EFFECTIVE DATE. This section is effective July 1, 2013.

Sec. 5. Minnesota Statutes 2012, section 354A.12, subdivision 3c, is amended to read:

Subd. 3c. **Termination of supplemental contributions and direct matching and state aid.** (a) The supplemental contributions payable to the St. Paul Teachers Retirement Fund Association by Independent School District No. 625 under section 423A.02, subdivision 3, ~~or the direct~~ and all forms of state aid under subdivision 3a to the St. Paul Teachers Retirement Fund Association must continue until the current assets of the fund equal or exceed the actuarial accrued liability of the fund as determined in the most recent actuarial report for the fund by the actuary retained under section 356.214 or until June 30, 2037, whichever occurs earlier.

(b) The aid to the Duluth Teachers Retirement Fund Association under section 423A.02, subdivision 3, and all forms of state aid under subdivision 3a to the Duluth

Teachers Retirement Fund Association must continue until the current assets of the fund equal or exceed the actuarial accrued liability of the fund as determined in the most recent actuarial report for the fund by the actuary retained under section 356.214 or until the established date for full funding under section 356.215, subdivision 11, whichever occurs earlier.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 6. Minnesota Statutes 2012, section 354A.27, is amended by adding a subdivision to read:

Subd. 6a. **Postretirement adjustment transition.** (a) If the funded ratio of the retirement plan based on the actuarial value of assets is at least 90 percent as reported in the most recent actuarial valuation prepared under sections 356.214 and 356.215, this subdivision expires and subsequent postretirement adjustments are governed by subdivision 7.

(b) Each annuity or benefit recipient of the retirement plan who has been receiving that annuity or benefit for at least 12 months as of the applicable January 1 is eligible to receive a postretirement adjustment of two percent, payable on January 1.

EFFECTIVE DATE. This section is effective July 1, 2013, and applies to the January 1, 2014, postretirement increase.

Sec. 7. Minnesota Statutes 2012, section 354A.27, subdivision 7, is amended to read:

Subd. 7. **Calculation of postretirement adjustments.** (a) This subdivision applies if subdivision ~~6~~ 6a has expired.

(b) A percentage adjustment must be computed and paid under this subdivision to eligible persons under subdivision 5. This adjustment is determined by reference to the Consumer Price Index for urban wage earners and clerical workers all items index as reported by the Bureau of Labor Statistics within the United States Department of Labor each year as part of the determination of annual cost-of-living adjustments to recipients of federal old-age, survivors, and disability insurance. For calculations of cost-of-living adjustments under paragraph (c), the term "average third quarter Consumer Price Index value" means the sum of the monthly index values as initially reported by the Bureau of Labor Statistics for the months of July, August, and September, divided by 3.

(c) Before January 1 of each year, the executive director must calculate the amount of the cost-of-living adjustment by dividing the most recent average third quarter index value by the same average third quarter index value from the previous year, subtract one from the resulting quotient, and express the result as a percentage amount, which must be rounded to the nearest one-tenth of one percent.

(d) The amount calculated under paragraph (c) is the full cost-of-living adjustment to be applied as a permanent increase to the regular payment of each eligible member on January 1 of the next calendar year. For any eligible member whose effective date of benefit commencement occurred during the calendar year before the cost-of-living adjustment is applied, the full increase amount must be prorated on the basis of whole calendar quarters in benefit payment status in the calendar year prior to the January 1 on which the cost-of-living adjustment is applied, calculated to the third decimal place.

(e) The adjustment must not be less than zero nor greater than five percent.

(f) If the funding ratio of the plan as determined in the most recent actuarial valuation using the actuarial value of assets is less than 80 percent there will be no postretirement adjustment the following January 1.

EFFECTIVE DATE. This section is effective July 1, 2013.

Sec. 8. Minnesota Statutes 2012, section 354A.31, subdivision 3, is amended to read:

Subd. 3. **Resumption of teaching after commencement of a retirement annuity.** (a) Any person who retired and is receiving a coordinated program retirement annuity under the provisions of sections 354A.31 to 354A.41 or any person receiving a basic program retirement annuity under the governing sections in the articles of incorporation or bylaws and who has resumed teaching service for the school district in which the teachers retirement fund association exists is entitled to continue to receive retirement annuity payments, except that all or a portion of the annuity payments must be deferred during the calendar year immediately following the calendar year in which the person's salary from the teaching service is in an amount greater than $46,000. The amount of the annuity deferral is one-third the salary amount in excess of $46,000 and must be deducted from the annuity payable for the calendar year immediately following the calendar year in which the excess amount was earned.

(b) If the person is retired for only a fractional part of the calendar year during the initial year of retirement, the maximum reemployment salary exempt from triggering a deferral as specified in this subdivision must be prorated for that calendar year.

(c) After a person has reached the Social Security normal retirement age, no deferral requirement is applicable regardless of the amount of any compensation received for teaching service for the school district in which the teachers retirement fund association exists.

(d) The amount of the retirement annuity deferral must be handled or disposed of as provided in section 356.47.

(e) Notwithstanding other paragraphs of this subdivision, for any retired Duluth Teachers Retirement Fund Association member whose effective date of retirement is after June 30, 2013, amounts specified as deferred under this subdivision must instead be forfeited to the Duluth Teachers Retirement Fund Association fund.

~~(e)~~ (f) For the purpose of this subdivision, salary from teaching service includes: (i) all income for services performed as a consultant or independent contractor; or income resulting from working with the school district in any capacity; and (ii) the greater of either the income received or an amount based on the rate paid with respect to an administrative position, consultant, or independent contractor in the school district in which the teachers retirement fund association exists and at the same level as the position occupied by the person who resumes teaching service.

~~(f)~~ (g) On or before February 15 of each year, each applicable employing unit shall report to the teachers retirement fund association the amount of postretirement salary as defined in this subdivision, earned as a teacher, consultant, or independent contractor during the previous calendar year by each retiree of the teachers retirement fund association for teaching service performed after retirement. The report must be in a format approved by the executive secretary or director.

EFFECTIVE DATE. This section is effective July 1, 2013.

Sec. 9. Minnesota Statutes 2012, section 354A.31, subdivision 4a, is amended to read:

Subd. 4a. **Computation of normal coordinated retirement annuity; Duluth fund.** (a) This subdivision applies to the new law coordinated program of the Duluth Teachers Retirement Fund Association.

(b) The normal coordinated retirement annuity is an amount equal to a retiring coordinated member's average salary under section 354A.011, subdivision 7a, multiplied by the retirement annuity formula percentage.

(c) This paragraph, in conjunction with subdivision 6, applies to a person who first became a member or a member in a pension fund listed in section 356.30, subdivision 3, before July 1, 1989, unless paragraph (d), in conjunction with subdivision 7, produces a higher annuity amount, in which case paragraph (d) applies. The retirement annuity formula percentage for purposes of this paragraph is the percent specified in section 356.315, subdivision 1, per year for each year of coordinated program service for the first ten years rendered through June 30, 2013, and the percent specified in section 356.315, subdivision 1a, per year for each year of coordinated program service rendered after June

<u>30, 2013,</u> and the percent specified in section 356.315, subdivision 2, for each subsequent year of coordinated <u>program</u> service <u>through June 30, 2013, and the percent specified in section 356.315, subdivision 2b, per year for each year of coordinated program service rendered after June 30, 2013</u>.

(d) This paragraph applies to a person who is at least 55 years old and who first becomes a member after June 30, 1989, and to any other member who is at least 55 years old and whose annuity amount, when calculated under this paragraph and in conjunction with subdivision 7, is higher than it is when calculated under paragraph (c) in conjunction with subdivision 6. The retirement annuity formula percentage for purposes of this paragraph is the percent specified in section 356.315, subdivision 2, for each year of coordinated <u>program</u> service <u>through June 30, 2013, and the percent specified in section 356.315, subdivision 2b, per year for each year of coordinated program service rendered after June 30, 2013</u>.

<u>**EFFECTIVE DATE.** This section is effective July 1, 2013.</u>

Sec. 10. Minnesota Statutes 2012, section 356.47, subdivision 1, is amended to read:

Subdivision 1. **Application.** This section applies to the balance of annual retirement annuities on the amount of retirement annuity reductions after reemployed annuitant earnings limitations for retirement plans governed by section 352.115, subdivision 10; 353.37; 354.44, subdivision 5; or 354A.31, subdivision 3<u>, for the St. Paul Teachers Retirement Fund Association. This section also applies to the balance of annual retirement annuities on the amount of retirement annuity reductions under section 354A.31, subdivision 3, for members of the Duluth Teachers Retirement Fund Association whose effective date of retirement is before July 1, 2013</u>.

<u>**EFFECTIVE DATE.** This section is effective July 1, 2013.</u>

Sec. 11. <u>**DULUTH TEACHERS RETIREMENT FUND ASSOCIATION BYLAW AMENDMENT AUTHORIZATION.**</u>

<u>Consistent with Minnesota Statutes, section 354A.12, subdivision 4, the Duluth Teachers Retirement Fund Association is authorized to amend its articles of incorporation or its bylaws to specify the revised contribution rates under sections 1 and 2, required employee contributions on behalf of reemployed annuitants as specified under section 4, and revised treatment of reemployed annuitant holding accounts under sections 8 and 10.</u>

<u>**EFFECTIVE DATE.** This section is effective July 1, 2013.</u>

Sec. 12. **REPEALER.**

Minnesota Statutes 2012, section 354A.27, subdivision 6, is repealed."

Amend the title accordingly