TRA handout
3/11/14

TRA – Duluth Teachers Retirement Fund Association (DTRFA) Consolidation (SF 1803/HF 1951)

Background

- 2013 pension law provided additional state assistance: $6 million to DTRFA and $7 million to St. Paul Teachers Retirement Fund Association (SPTRFA) for two years (FY 2014 – 2015).
- 2013 law directed the three Minnesota teacher funds to study merger, requiring the study to:

  > ***"define the financial requirements for consolidating ... in a manner consistent with past practice, that assures that the assets of the TRA are protected, that the merging funds are fully funded, and that TRA is not subsidizing the merged funds."*** (Laws 2013, Chapter 111, Article 13, Section 22)

- SPTRFA Board voted to remain a separate fund.
- DTRFA Board voted to support consolidation with TRA due to adverse demographic trends. Duluth's student population is falling, the number of teachers contributing to its fund is declining and their retired teacher population is increasing.
- TRA Board voted to accept a merger of DTRFA with the condition that sufficient financial aid is provided to TRA so that there is no financial harm to TRA and no TRA subsidy of the merging fund.

Financial status of TRA and DTRFA

TRA – DTRFA Actuarial Status, 7/1/2013
(market value basis)

	Assets (market value)	**Liability**	**Unfunded Liability** (market value)	**Funded Ratio** (market value)	**Deficiency*** (market value)
TRA	$18.0 billion	$23.4 billion	$5.4 billion	76.9%	1.73%
DTRFA	$205 million	$352 million	$147 million	58.3%	10.77%

*Milliman estimates, 1/31/2014 Actuarial Review presented to LCPR. Estimates include future scheduled contribution increases and two years of $6 million in additional state aid to DTRFA.

Actuarial analysis

- The consolidation study contains actuarial analysis showing it will require approximately $14 million ($14,031,000) in additional annual aid to be directed to TRA in order to cover DTRFA's unfunded liabilities and not adversely affect TRA financially. This aid would need to begin in FY 2016, concurrent with the proposed merger date of July 1, 2015.

- In addition to the $14 million annually, pre-existing aid that DTRFA is currently receiving would be re-directed to TRA ($346,000 in special state aid and approximately $200,000 in amortization aid.
- All actuarial calculations were done using TRA's actuarial assumptions (entry age normal calculation, mortality, payroll growth assumptions, etc.) and using TRA's benefit structure, which includes a 2 percent COLA.
- These annual funding amounts for DTRFA are projected to be needed throughout TRA's existing statutory 24-year amortization period. The bill specifies that the aid would continue until TRA attains 100 percent funding and has a 1 percent contribution sufficiency, which is a level set in TRA's statute governing its contribution stabilizer mechanism.

<u>Why is state financial assistance needed to facilitate a merger?</u>

- The additional funding is needed to cover DTRFA's unfunded liabilities that TRA is assuming. Rather than paying off DTRFA's unfunded liabilities upfront in a lump sum, TRA is willing to accept annual installments to pay down Duluth's unfunded over 24 years. The precedent for this approach was set with prior consolidations.
- TRA has its own financial challenges and cannot absorb DTRFA's additional unfunded liabilities without harming its financial status. Failure to properly fund these additional liabilities increases the likelihood that in the futureTRA's contributions would have to increase or its benefits would have to be reduced, or a combination of both.
- The additional funding that TRA is requesting is necessary to avoid a situation in which TRA and its contributing members and school districts would be subsidizing the Duluth consolidation.
- Past precedent for the appropriate level of funding and the level dollar payment has been set by previous legislation governing prior consolidations, including the merger of Minneapolis Teacher Retirement Fund Association (MTRFA) into TRA in 2006. Calculating the aid on a level dollar basis allows for more predictable budgeting for the state.
- Even with the additional assistance, TRA is assuming substantial financial risks by accepting a pledge to pay off DTRFA's unfunded liability over a lengthy 24-year period. Those risks include:
    - The risk that, over 24 years, the amount of financial aid pledged is subsequently interrupted, not continued, or re-calculated in a manner that lowers the amount.
    - The risk that, over 24 years, adverse investment performance or adverse experience with other actuarial assumptions will occur, making consolidation more costly than originally estimated.
    - The possibility that the current actuarial interest assumption is lowered in the future, an action that would substantially increase DTRFA's liabilities and the cost of consolidation.

Bill description

Sections 1-4 (pgs. 1-6) existing statutes	Technical, conforming changes to remove DTRFA from
Section 5 (pgs. 6-8)	Provides transition of Duluth service credit to TRA
Sections 6-7 (pgs. 8-9)	Technical updates to existing TRA employee/employer contribution rates. Specifies that DTRFA employee/employer contribution rates will be the same as TRA's.
Section 8 (p. 10)	Specifies aid amounts for DTRFA merger. Amount needs to be updated on line 10.7 with an amendment that strikes ~~$15,047,000~~ and inserts $14,377,000, reflecting updated actuarial data. Aid amounts terminate when TRA is fully funded and when TRA contribution rates decrease under TRA's automatic contribution stabilizer mechanism.
Section 9 (pgs. 10-13)	Technical, conforming changes to existing TRA statutes relating to benefit formula multiplier
Section 10 (pgs. 13-14)	Sets out specifics of consolidation which are modeled after prior law effecting the merger of Minneapolis Teachers Retirement Fund Association (MTRFA). This section specifies that TRA is a successor in interest to DTRFA claims and provides indemnification of former DTRFA Board members (consistent with existing fiduciary law). This section also stipulates that there is no diminishment of benefits and that, after merger, TRA's COLAs will be paid to former DTRFA members.
Section 11-43 (pgs. 14-38)	Technical, conforming changes to existing DTRFA statutes. Section 21 (p. 21) deletes DTRFA's $346,000 in annual special direct state aid so that it can be added to the aid amount specified in Section 8 (p. 10).
Section 44 (p. 38)	Redirects DTRFA's state amortization aid to TRA (estimated at approximately $200,000 annually).
Section 45 (pgs. 39-41)	Specifies the date (July 1, 2015) when DTRFA members become TRA members and the date when liabilities, service credit, records and documents are transferred to TRA. This section also directs that DTRFA's assets be transferred to SBI no later than December 31, 2014, in advance of the final consolidation date. Technical Amendment 4A has been requested by SBI and TRA to clarify the

process for the early transfer of assets. TRA and DTRFA need a full year to accomplish administrative consolidation in an orderly, planned manner so that services to members are not disrupted and benefits can be accurately calculated.

Section 46 (pgs. 41-24)	Covers the terms of employment for the DTRFA staff who are to be transferred to TRA, consistent with the terms specified for the MTRFA merger.
Section 47 (p. 42)	Clean-up repealer language
Section 48 (p. 43)	Sets effective dates for merger and asset transfer. Specifies approval process for TRA board, DTRFA membership and DTRFA board to be accomplished by a deadline of October 1, 2014.

Summary

SF 1803/ HF 1951 accomplishes a needed merger of DTRFA into TRA that is consistent with past precedent established by previous mergers. With the level of financial assistance prescribed in the bill, the merger would be accomplished in a manner that does not financially harm TRA and avoids asking TRA members and school districts subsidize to the DTRFA merger.