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Actuarial Consulting Services

March 28, 2025

Mr. Tim Maurer
Executive Director
Teachers Retirement Association of Minnesota
60 Empire Drive, Suite 400
St. Paul, MN 55103

Re: Layered Amortization Considerations for TRA

Dear Tim:

As you requested, we are providing some comments on the proposed layered amortization policy as it would relate to the Teachers Retirement Association of Minnesota. In particular, we want to provide some background related to the amortization period for active member benefit changes.

Under consideration is a drafted bill that would calculate an amortization payment for the Minnesota retirement systems using a layered base methodology rather than a single base as is now specified in statute. The draft bill calls for changes in active member benefits to be amortized over 15 years, while a draft amendment would set the amortization period at 20 years for TRA (but not MSRS, PERA, or others). Our discussion will include a focus on this difference.

In drafting the legislation, the parties involved considered several sources of information that describe the current state of actuarial practice. As a leading national public retirement actuarial consulting firm, we have been involved with many retirement systems moving to the layered amortization base approach over the past decade. When systems move to layered bases, they often adopt differing amortization periods for different sources of bases, as is the case in this proposal, but sometimes they simply use a single base each year for all changes, regardless of the source of the change. In some cases, there is also board discretion relative to the amortization period for certain bases, especially those resulting from assumption changes and benefit changes, because the specific details of the changes may vary dramatically. This difference is part of the proposed legislation where benefit changes that affect retirees are amortized over a shorter or longer period depending upon whether the improvements will be only in the short term (e.g., a one-time 13th check) or over a longer time (e.g., a change in the permanent COLA). No such distinction in the amortization period is provided for active member benefit changes, however.

In our experience, 15 years is on the short end of the range of amortization periods for active member benefit changes. Quite a few of the systems we work with use 20 years, and a few use 25 years. When board discretion is part of the amortization policy, we recommend the system consider whether the benefit changes primarily affected older employees, newer employees, or all employees.

We also note that the expected future working period of the TRA active members is somewhat longer than that of active members of PERA or MSRS. With longer careers, there is more time to pay for the cost of benefit improvements. Based on information available in GASB 68 disclosures, the active future lifetime for actives in PERA is about 11 years, while it is about 12 years for MSRS, and 16 for TRA. The longer future career expectation for TRA could reasonably suggest that it would be appropriate to consider a longer amortization period for TRA than the other two systems.

It is important to realize that there is no single, "right" answer for the amortization period for active plan changes. We believe that both 15 and 20 years are reasonable amortization periods. We also believe that it could be appropriate to consider a longer amortization period for TRA than the other two statewide plans because of the difference in the systems' demographics.

We, Patrice A. Beckham, Brent A. Banister, and Ben Mobley are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. We are available to answer any questions on the material in this letter or to provide explanations or further details as appropriate. Ms. Beckham and Dr. Banister also meet the requirements of "approved actuary" under Minnesota Statutes, Section 356.215, Subdivision1, Paragraph (c).

Sincerely,

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