SF 2000 (Gustafson); HF 1582 (Wolgamott):

Teachers Retirement Association; Adding a "60 and 30" unreduced retirement annuity; Modifying the reduction for early retirement; Increasing the COLA; Increasing employer contributions; Making appropriations

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Introduction

Affected Plan: Teachers Retirement Association

Laws Amended: Minnesota Statutes, sections 126C.10, 354.42, 354.44, and 356.415

General Summary

SF2000/HF1582 makes the following changes to current statutes:

- The bill provides an unreduced retirement annuity to the Tier II members of the Teachers Retirement Association (TRA) upon retirement at age 60 with 30 years of service.
- The bill reduces a percentage by which a normal retirement benefit is reduced when a Tier II member of TRA elects an early retirement benefit.
- The bill increases the postretirement adjustment (COLA) for retirees from a fixed rate of 1.2% (that is set to increase 0.1% each year until 2028) to a fixed rate of 1.5%, beginning January 1, 2026.
- The bill removes the COLA delay for retirees who retire before the normal retirement age of 65.
- The benefit improvements are paid for with a state-funded employer contribution increase.

Background

Unreduced Early Retirement Annuity

Minnesota's public pension plans are designed to pay a full, unreduced retirement annuity to eligible employees upon reaching "normal retirement age." This means that if the employee waits to retire until reaching an age set in statute, the benefit the employee receives is the amount calculated using the plan's benefit formula. Due to legislation passed during the 2023 and 2024 legislative sessions, the normal retirement age for TRA was reduced from age 66 to 65 for Tier II members (hired after June 30, 1989), starting on July 1, 2024 *(Minn. Stat. § 354.05, subd. 38)*. Therefore, beginning July 1, 2024, normal retirement age for all members (Tier I and Tier II) means age 65. If a teacher covered by TRA chooses to retire before reaching normal retirement age, the teacher's monthly benefit is reduced as provided in statute and explained in the next section, because the teacher is receiving the annuity for a longer period of time.

Certain early retirement benefits allow eligible employees to receive a full, unreduced annuity before reaching normal retirement age. The first generally applicable unreduced early retirement benefits in Minnesota were established in 1973, which allowed employees covered by TRA, the Minnesota State Retirement System General State Employees Retirement Plan (MSRS General Plan), or the Public Employees Retirement Association General Employees Retirement Plan (PERA General Plan) to retire at age 62 with 30 years of allowable service. This benefit, often referred to as "62 and 30," is no longer available for employees covered by TRA, MSRS, or PERA *(see Minn. Stat. § 352.116, subds. 1–1a; Minn. Stat. § 353.30, subds. 1a–1b, 5; Minn. Stat. § 354.44, subd. 6).* However, the 2023 Omnibus Pension Budget Bill added a "62 and 30" benefit for members of the St. Paul Teachers Retirement Fund Association, which was funded by an increase in the rate of employee contributions and state aid.

Another example of an unreduced early retirement benefit is the "Rule of 90," which was first enacted for the PERA General Plan in 1982 and was extended to TRA and the MSRS General Plan in 1989. Under the Rule of 90, if a member's age plus years of allowable service is equal to or exceeds 90, the member is eligible to retire with an unreduced retirement annuity. This benefit is available only to members hired prior to July 1, 1989.

Reduced Early Retirement Annuity for TRA Members

Under current law, if a Tier II member has reached age 62 with 30 years of service, the member's retirement benefit is reduced by approximately 3-4% per year from the member's age at retirement to normal retirement age. (Specifically, under Section 354.44, subdivision 6, paragraph (e), clause (1), the reduction is 6% per year, adjusted to take into account augmentation, at 2.5% or 3%, that would have occurred had the member retired early and deferred receipt of the annuity until normal retirement age.) However, when a member retires before age 62 or has fewer than 30 years of service, the member's normal retirement benefit is reduced by a specified percentage for each year that the member's early retirement age precedes normal retirement age. Specifically, the reduction percentage is 7% for each year that the age of retirement precedes 65, to age 59, when the percentage changes to 4% for each year to age 55, the earliest age a member can begin to receive a retirement benefit. *(Minn. Stat. § 354.44, subd. 6, para. (e), clause (2).)*

Both of these early retirement reductions also apply to Tier I members if the result is a bigger benefit than the benefit they would get under the Tier I formula and early retirement reductions.

Postretirement Adjustments for TRA Members

Minnesota's public pension plans provide annual postretirement adjustments, often referred to as cost-of-living adjustments or COLAs, to retirees, which are intended to provide some protection from the decrease in the value of the pension due to inflation. TRA currently pays a COLA of 1.2% to eligible retirees and benefit recipients *(Minn. Stat. § 356.415, subd. 1d)*. The COLA for TRA members is set to increase 0.1% each January 1, until January 1, 2028, when the COLA is and will remain at 1.5% *(Minn. Stat. § 356.415, subd. 1d).* The specific COLAs for each upcoming year are as follows:

- from January 1, 2025, through December 31, 2025.... 1.2%
- from January 1, 2026, through December 31, 2026.... 1.3%
- from January 1, 2027, through December 31, 2027.... 1.4%
- from January 1, 2028, and thereafter......................... 1.5%

Under current law, for retirements on or after January 1, 2024, a TRA retiree is not eligible to receive a COLA until the retiree reaches normal retirement age *(Minn. Stat. § 356.415, subd. 1d, para. (d)).* When the retiree reaches normal retirement age, the retiree will receive a full COLA increase if the retiree has been receiving at least 12 months of pension payments as of the prior June 30. If the retiree has fewer than 12 months of pension payments as of the prior June 30, the retiree will receive a fraction of the COLA based on the number of months of payments received. But if the retiree has been receiving pension payments for fewer than 7 months as of January 1 of the year following the year the retiree reaches normal retirement age, the retiree must wait a year to receive a COLA. This COLA delay does not apply to members who retire at age 62 with 30 years of service or under the "Rule of 90" *(Minn. Stat. § 356.415, subd. 1d, para. (e)).*

Section- by- Section Summary

Section 1: Increasing Pension Adjustment Revenue

Section 1 amends section 126C.10, subdivision 37, to increase the pension adjustment revenue annually paid to each school district.

Under subdivision 37, pension adjustment revenue is calculated from "adjusted pupil units" corresponding to number and type of pupils in a district, along with a "pension adjustment rate" under paragraph (a), clause (2). The current language of clause (2) specifies pension adjustment rates for both Independent School District No. 625, St. Paul (covered by St. Paul Teachers' Retirement Fund Association) and for all other districts (covered by TRA), for each fiscal year between FY2023 and FY2025, along with rates for FY2026 "and later."

Section 1 increases the pension adjustment revenue annually for FY 2026 and later paid to all school districts other than St. Paul School District from 2% to 5.8% and removes obsolete language relating to fiscal years before 2025. These changes preserve the current rate of 1.25% for FY2025. Because the bill does not increase the employer contribution rate for the St. Paul School District, there is no increase to the pension adjustment revenue for the St. Paul School District.

Section 2: Increasing Employer Contributions

Section 2 amends section 354.42, subdivision 3, paragraph (c), to increase the employer contribution rate beginning July 1, 2025, from the current rate of 9.5% of salary to 13.3% for coordinated members and from the current rate of 13.5% of salary to 17.3% for basic members (members who will not receive a Social Security benefit for covered service).

Section 2 removes the tiered language specifying rates between July 1, 2022, and June 30, 2025, and after June 30, 2025, which is obsolete or no longer needed with the change in the rates effective July 1, 2025.

Section 3: Authorizing a New "60 and 30" Unreduced Retirement Annuity and Revising an Early Retirement Reduction Percentage

Section 3 amends section 354.44, subdivision 6, which provides the formula for calculating a member's retirement annuity. SF2000/HF1582 makes 3 changes:

- First, Section 3 amends section 354.44, subdivision 6, clause (e), paragraph (1), to provide an unreduced retirement annuity for members who are at least age 60 and have at least 30 years of service. Relatedly, Section 3 removes a provision that specifies an early retirement reduction for members who are at least age 62 with 30 years of service. Under current law, if a member has reached age 62 with 30 years of service, the member's retirement benefit is reduced by approximately 3-4% (or as stated in the statute, 6% less augmentation) for each year that the teacher's early retirement age proceeds normal retirement age. Since members eligible for "60 and 30" can retire with an unreduced annuity benefit, the early retirement reduction percentage for "62 and 30" is unnecessary.

- The second change amends section 354.44, subdivision 6, clause (e), paragraph (2), by lowering one of the early retirement reduction percentages for members who retire early. Under current law, if a member has not reached age 62 or has fewer than 30 years of service, the member's retirement annuity is reduced by a specified percentage for each year that the member's early retirement age precedes normal retirement age:

  7% for each year that the age of retirement precedes 65, to age 59, and

  4% for each year before age 59 to age 55.

  Under the bill, the reduction for the period from ages 59 through 64 is reduced from 7% to 5%.

- Third, throughout section 354.44, subdivision 6, language is deleted so that Tier I members no longer have the ability to calculate their retirement annuity under the Tier II multiplier and early retirement reductions.

Section 4: Increasing the COLA and Removing the COLA Delay

Section 4 amends section 356.415, subdivision 1d, which provides the COLA for TRA members. SF2000/HF1582 makes 2 changes:

- The first change increases the COLA. Under current law, retirees of TRA are eligible for an annual 1.2% fixed COLA that increases 0.1% each year on January 1, reaching the maximum COLA of 1.5% on January 1, 2028. Instead of phasing in the COLA increases, Section 4 immediately increases the COLA to 1.5%, beginning January 1, 2026.

- The second change removes the COLA delay for members who retire early. Under current law, which took effect on July 1, 2024, a retiree who retires before age 65 will not receive the first COLA on the member's retirement annuity until the retiree reaches age 65.

Sections 5 and 6: Appropriations

Sections 5 and 6 provide for appropriations, in unspecified amounts, from the general fund for FY 2026 and FY 2027.

Section 5 contains appropriations for the participating employers that are not school districts. Specifically, by paragraph in this section, an appropriation is made to the following employers:

(a) Department of Education
(b) Minnesota State Academies
(c) Perpich Center for the Arts
(d) Minnesota State Colleges and Universities

Section 6 contains appropriations for general education aid, which LCPR staff understands funds the pension adjustment revenue for the school districts.

The amounts are left blank, but LCPR staff understand that the authors' intent is to have the appropriations match the employer contribution increase.

Effective Dates

Section 1 is effective for revenue in fiscal years 2026 and later.

Sections 2 and 3 are effective July 1, 2025. The amendments to paragraphs (d) and (e) in Section 4 are also effective July 1, 2025.

The amendment to paragraph (a) in Section 4 is effective for postretirement adjustments beginning January 1, 2026.

Considerations

Cost

The cost estimates of the benefit improvements in this bill (besides increasing the COLA) were discussed at TRA's Board of Trustees meeting on November 13, 2024. These cost estimates were based on a cost study prepared by TRA's retained actuary, Cavanaugh MacDonald Consulting (CavMac), on November 6, 2024 (Cost Study). The Cost Study used TRA's Actuarial Valuation Report as of July 1, 2023 (2023 Valuation). CavMac noted in the Cost Study that "the cost impact of multiple changes is not additive." In preparing this summary, LCPR staff used the Cost Study and 2023 Valuation to estimate the annual cost of the benefit improvements. The chart below shows CavMac's and LCPR staff's estimates.

For reference in looking at the cost estimates, TRA's status, as of July 1, 2023, before the changes in the bill, is as follows:

Unfunded actuarial accrued liability (actuarial accrued liability (AAL)minus market value of assets (MVA):	$7,349,024,000
Funded ratio (MVA divided by AAL):	78.45%
Actuarially required contribution (ARC) rate:	18.74%
Statutory contribution rate:	17.24%
Contribution deficiency (ARC minus statutory rate):	1.5%

	"60 and 30" Unreduced Retirement Annuity	**Lowering Early Retirement Reduction Percentage**	**Eliminate COLA Delay**
Increase in Unfunded Actuarial Accrued Liability [1]	$1,265,241,000	$590,323,000	$311,655,000
Funded Ratio [1]	75.64%	77.11%	77.74%
Decrease in Funded Ratio [1]	(2.81%)	(1.34%)	(0.71%)
Contribution Deficiency [1]	(3.63%)	(2.60%)	(2.06%)
Increase in Contribution Deficiency [1]	2.13%	1.10%	0.56%
Annualized Cost [2] (increasing 3% per year)	$122,160,825	$63,087,750	$32,117,400

Sources:
[1] Cost Study (found on red pages 42–47 of TRA's November 13, 2024 board meeting packet)
[2] Calculated by LCPR staff, using the actual covered payroll for FY2023, which was $5,735,250,000

LCPR staff has not seen a cost study for increasing the COLA to 1.5%. However, using the projected retiree benefit payments from the 2023 Valuation, LCPR staff estimates the COLA increase to cost $3.9 million per year (increasing 3% per year).

To defray the cost, the bill increases employer contributions and funds the school districts and other participating employers through an increase in the pension adjustment revenue and appropriations.

Impact on Tier I Members

Under current law, if it results in a bigger benefit, Tier I members may use the Tier II multiplier or the Tier II early retirement reduction percentages to calculate their retirement annuity. LCPR staff does not know how many Tier I members currently take advantage of the Tier II multiplier and early retirement reductions.

Under the bill, Tier I members can no longer use the following even if it gives them a bigger benefit:

- the Tier II multiplier, which is 1.7% for each year of service rendered before July 1, 2006, and 1.9% for each year of service rendered on or after July 1, 2006;
- the 3-4% early retirement reduction for a member who retires at age 62 or older with 30 years of service; or
- the early retirement reduction percentages for a member who retires before age 62 or has fewer than 30 years of service.

Impact of Reduced Early Retirement Reduction Percentages

The chart below shows the percent reduction at each early retirement age under current law and under the bill. The far right two columns are an example that shows how much the monthly annuity will be at each early retirement age for a benefit that is $3,000 at normal retirement age, under current law and under the bill.

	Current Law: Percent by which the normal retirement benefit is reduced		**Under the Bill**: Percent by which the normal retirement benefit is reduced		**Example**: Normal retirement benefit of $3,000 per month	
Age of Retirement	Per year reduction	Total amount of reduction	Per year reduction	Total amount of reduction	Current law	Under the bill
64	-7%	-7%	-5%	-5%	$2,790	$2,850
63	-7%	-14%	-5%	-10%	$2,580	$2,700
62	-7%	-21%	-5%	-15%	$2,370	$2,550
61	-7%	-28%	-5%	-20%	$2,160	$2,400
60	-7%	-35%	-5%	-25%	$1,950	$2,250
59	-7%	-42%	-5%	-30%	$1,740	$2,100
58	-4%	-46%	-4%	-34%	$1,620	$1,980
57	-4%	-50%	-4%	-38%	$1,500	$1,860
56	-4%	-54%	-4%	-42%	$1,380	$1,740
55	-4%	-58%	-4%	-46%	$1,260	$1,620

Comparing COLAs

The COLA for TRA is slightly above the lowest COLA rate for Minnesota's public pension plans. The pension plans that currently pay a lower COLA are St. Paul Teachers' Retirement Fund Association, MSRS State Patrol Retirement Plan, and PERA Public Employees Police and Fire Plan. The table below compares the current COLA for the general employee, teacher, and public safety plans. As the table shows, while it is common for plans with a similar membership to have the same COLA, it is not always the case.

	MSRS General	PERA General	TRA	St. Paul Teachers	MSRS State Patrol	PERA Police and Fire	MSRS Correc-tional	PERA Correc-tional
COLA as of 1/1/2025	1.5%	1.25%	1.2%	1%	1%	1%	1.5%	2.5%

Impact on Annuity Amount for a TRA Retiree Starting to Receive Payments on March 1, 2026

The COLA under the bill will increase the annuity benefit for a TRA member who retires early. The chart below compares the annual benefit increases under the current COLA and the COLA under the bill. The chart assumes that a member covered by TRA—whose birthday is February 1—will retire in February 2026 at age 62 and will start to receive a hypothetical monthly annuity of $1,000 on March 1, 2026. The chart also uses the higher 1.5% COLA in the bill, rather than the 1.2% COLA under current law.

Period	Current COLA	Monthly Benefit (Current COLA)	COLA Under the Bill	Monthly Benefit (COLA Under the Bill)
Mar.-Dec. 2026	0%	$1,000	0%	$1,000
Jan.-Dec. 2027	0%	$1,000	0.5%	$1,005.00
Jan.-Dec. 2028	0%	$1,000	1.5%	$1,020.08
Jan.-Dec. 2029	0%	$1,000	1.5%	$1,035.38
Jan.-Dec. 2030	1.5%	$1,015	1.5%	$1,050.91