SF 3239 (Abeler); HF 2318 (Nadeau)

Teachers Retirement Association; Adding a "62 and 30" unreduced retirement annuity; Increasing employer contributions; Making appropriations

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Introduction

Affected Plan: Teachers Retirement Association

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

Brief Description: The bill provides an unreduced retirement annuity to the Tier II members of the Teachers Retirement Association (TRA) upon retirement at age 62 with 30 years of service and pays for the benefit improvement 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.

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 3% 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 10.5% for coordinated members. There is no increase to employer contributions 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 “62 and 30” Unreduced Retirement Annuity

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 62 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 “62 and 30” can retire with an unreduced annuity benefit, the early retirement reduction percentage for “62 and 30” is unnecessary.

Sections 4 and 5: Appropriations

Sections 4 and 5 provide for appropriations, in unspecified amounts, from the general fund for FY 2026 and FY 2027.

Section 4 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.

Considerations

Cost

The cost estimate of the "62 and 30" unreduced retirement annuity was discussed at TRA's Board of Trustees meeting on November 13, 2024. The cost estimate was 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). In preparing this summary, LCPR staff used the Cost Study and 2023 Valuation to estimate the annual cost of the "62 and 30" unreduced retirement annuity.

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%

The chart below shows CavMac's and LCPR staff's estimates of the new "62 and 30" unreduced retirement annuity under the bill.

	"60 and 30" Unreduced Retirement Annuity
Increase in Unfunded Actuarial Accrued Liability [1]	$612,082,000
Funded Ratio [1]	77.07%
Decrease in Funded Ratio [1]	(1.38%)
Contribution Deficiency [1]	(2.54%)
Increase in Contribution Deficiency [1]	1.04%
Annualized Cost [2] (increasing 3% per year)	$59,646,600

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

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.