State of Minnesota \ LEGISLATIVE COMMISSION ON PENSIONS AND RETIREMENT

MINUTES

Teachers Retirement Fund Financing Subcommittee
95 State Office Building
December 17, 1981
1 p.m.

PRESENT: Representatives Reding, Kaley and Rodriguez

The chairman, Representative Leo Reding, opened the meeting. He stated that this meeting was called to hear testimony concerning the effect of the proposed budget cuts and teacher layoffs on the funding condition of the teacher retirement funds.

Harvey Schmidt, executive director of the Teachers Retirement Association, provided the following information:

1) The 1981 valuation contained a $99 million dollar increase in the accrued liability due to salary increases greatly in excess of the statutory assumption of 3.5%;

2) The 1981 valuation showed that the normal cost support rate is sufficient, but the support rate necessary to freeze the deficit is 5.9% deficient; and 3) The 1981 valuation showed that the income from investments averaged 12.88%, more than 7% above the ststutory assumption.

Representative Reding and Mr. Schmidt then discussed the differences between the assumptions for salary and interest and the actual salary and interest figures.

Mr. Schmidt continued his description of the TRA by stating the following:

1) TRA is a young fund: over 40,000 teachers have fewer than 10 years of service credit;

2) TRA's total membership includes over 50,000 who have full time teaching service; and

3) TRA membership has decreased slighlty since 1977 to the present with 65,179 current active members.

Mr. Schmidt distributed a letter from the TRA actuary, Mr. Robert Flott, on the topic of the impact of declining enrollment and teacher layoffs on the TRA funding. Assuming that most teachers laid off would have less than 5 years of service, and that most would take their money out of TRA and not return to teaching, the fund would gain $12 million due to the release of reserves, but lose about $1.8 million per year in reduced amortization contributions for those t achers.

Mr. Schmidt commented that the continuing salary increases in excess of the statutory assumptions points up the need to reexamine the statutory assumptions. He distributed a sheet entitled "Illustration of Variations in Assumed Rates of Interest and Salary Assumptions" which illustrated the effects of the two assumptions on normal cost support rates, the accrued prior service liability, the unfunded accrued liability, annual amortization requirement, and the annual support rate. He commented on the effect that a change in statutory assumption rates would have on the Minnesota Post Retirement Investment Fund.

Representative Reding and Mr. Schmidt discussed the Flott assumption that only teachers with five years of service or less would be the ones laid off. They agreed that layoffs would be by departments, and that the Flott assumption may not be completely valid. They also discussed the fact that no one is certain of the impact of the Federal cuts.

Representative Kaley and Mr. Schmidt discussed the effect of the 3.5% salary assumption and the actual salary increases on the support rates and the unfunded accrued liability. Mr. Schmidt commented that raising only the salary assumption would increase the normal cost. Representative Rodriguez joined the discussion.

Mr. Schmidt stated that Mr. Bordewick, the Commission actuary, might be asked to comment on the effects of changes of the statutory assumptions

Representative Reding and Mr. Schmidt discussed the Department of Finance's position on the topic of financing and the Chapter 356 requirements.

Representative Reding closed the meeting by asking for comments from the audience. Henry Winkels, of the Minnesota Federation of Teachers, urged the Subcommittee to study the issues carefully before acting.

Karen Dudley
Commission Staff