Background Information on the Duluth Teachers Retirement Fund Association Post-Retirement Adjustment Mechanism

1. In General. The Duluth Teachers Retirement Fund Association (DTRFA) had two versions of an investment performance post-retirement adjustment mechanism. The first, enacted in 1985, provided a one-time, annual non-compounding, non-percentage, 13th check increase. The second, enacted in 1990, provided a permanent, compounding percentage annuity increase. More recently, in 2010, an entirely different system was put into law, providing flat rate modest permanent increases if the plan's funding ratio is at least 80%, transitioning to an inflation match not to exceed 5% once 90% funding is achieved.

2. 13th Check Post-Retirement Adjustment Mechanism.

   – In 1985 (Laws 1985, Ch. 259, Sec. 2), the DTRFA was authorized to amend its Articles of Incorporation to implement a post-retirement adjustment mechanism. The special law authorizing the mechanism permitted up to 1% of the asset value of the retirement fund as of the end of the prior fiscal year to be paid to eligible retirees if DTRFA investment performance exceeded 6% of asset value at the end of the fiscal year, required retirees to have been receiving an annuity for at least three years to be eligible for an adjustment, and allocated the increase based on a unit value determined by dividing the total amount available for the adjustment by the aggregate number of years of service and the number of years of annuity receipt, based on each retiree's years of service and annuity receipt. The special legislation required that the DTRFA board have the power to eliminate or reduce the adjustment in any fiscal year and to specify a minimum annuity receipt period longer than three years. In implementing the adjustment in 1985, the DTRFA board set the investment performance threshold amount at 6.36%, required a minimum of three years of retirement benefit receipt, and retained board discretion on whether or not an adjustment would be paid at the end of each October.

   – In 1990 (Laws 1990, Ch. 570, Art. 7, Sec. 4), approval was granted for DTRFA to amend its Articles of Incorporation to allow for the lump sum adjustments to be annuitized based on the age of the annuitant or survivor, the plan's mortality table, and the interest rate assumption governing the Minnesota Post Retirement Investment Fund. Under the mechanism, adjustments were paid in 1985, 1986, 1987, 1989, 1990, 1991, 1992, 1993, and 1994. The initial unit value of $34 in 1985 increased to $55 in 1993.

3. 1995 Post-Retirement Adjustment Mechanism. In 1995 (Laws 1995, Ch. 262, Art. 2, Sec. 3-5, 11, 14), a new post-retirement adjustment mechanism replaced the 1985 DTRFA 13th check provision. The replacement adjustment was an automatic percentage increase combined with an investment performance-related adjustment. The pool of eligible post-retirement adjustment recipients was set at all annuitants or retirement benefit recipients who had received an annuity or retirement benefit for at least 12 months as of the adjustment date. Two adjustments were included in the law, one being automatic and one dependent upon investment performance. An automatic 2% increase was payable annually on January 1. A second component, the investment performance-related adjustment, was payable on January 1 if the pension fund's five-year annualized time-weighted total rate of return exceeded 8.5%. That adjustment was reduced by any actuarial valuation contribution deficiency (i.e., [time-weighted total rate of return – 8.5%] x [1 – actuarial contribution deficiency rate]).

4. 2010 Post-Retirement Increase Procedures. In 2010 (Laws 2010, Ch. 359, Art. 1, Sec. 60-62), prior DTRFA post-retirement adjustment procedures were replaced by a new procedure consisting of a transitional system followed by a move to an inflation match approach. Under the transition, the DTRFA will provide no increase to pensioners (retirees, disabilitants, and survivors) if the funding ratio, based on comparison of the market value of assets to accrued liability, is less than 80%. A 1% increase will be paid if the funding ratio based on market value is at least 80% but less than 90%, and a 2% increase will be paid if the ratio is at least 90%. Also, when the funding ratio, computed using the actuarial asset value rather than market value, is at least 90%, the transition method ends and a new system is put in place matching inflation up to 5%. However, if the funding ratio based on actuarial value falls below 80%, no increase will be paid.