Background Information on IRAP and MnSCU Supplemental Retirement Plan Contribution Rates

At the present time, the Teachers Retirement Association (TRA) continues to provide coverage to some higher education personnel. But many now have the higher education Individual Retirement Account Plan (IRAP) as their primary coverage. IRAP is a defined contribution plan established for higher education faculty, other than University of Minnesota faculty, in the mid 1980s. Minnesota State Colleges and Universities (MnSCU) faculty are permitted to elect whether to be covered by TRA or IRAP, with IRAP generally being the default coverage if no election is made. The contribution rates to IRAP are 4.5% of salary for the employee, with a 6.0% of salary employer contribution. The higher education IRAP plan primary governing statutes are found in Minnesota Statutes, Chapter 354B.

The Supplemental Retirement Plan is an additional, supplemental defined contribution plan provided to MnSCU personnel. The primary statutes governing the plan are found in Minnesota Statutes, Chapter 354C. The annual employee contribution equals 5.0% of salary earned between $6,000 and $15,000. This is equivalent to $450 per year. The employing unit is required to make a matching contribution, bring the total to $900 per year per covered employee. Under Sections 354C.12 and 356.24 additional amounts may be invested if specified in a collective bargaining agreement, with an employer match not to exceed $2,700.

The accounts are invested in investment options selected by the MnSCU board, including State Board of Investment Supplemental Fund investments, and/or in mutual funds, annuity contracts, and custodial accounts. The board may contract with the State Board of Investment or another provider for investment screening and evaluation services.

The Supplemental Retirement Plan was established by Laws 1967, Chapter 808. It was originally intended to address shortcomings in TRA, which provided the primary coverage for higher education employees at that time. TRA was providing benefits based on a career average salary, and there was growing recognition that the benefit provided under TRA law was not adequate. The shortcomings in the TRA benefit formulas may have had a particularly harsh impact on higher education faculty, who, because of the need for many years of advance schooling, tend to begin their career employment later in life than may be true of K-12 teachers. The shorter lifetime service would leave the higher education personnel with fewer years of service credit. The Supplemental Retirement Plan was begun as a way to address shortcomings in the TRA benefit structure by providing a supplemental benefit for the higher education faculty.

Since the late 1960s there have been numerous benefit changes in TRA, most notably, a move in 1973 to use the high-five average salary rather than the career average. That change significantly improved benefits. Accrual rates—the portion of the high-five average salary that the individual receives per year of service credit—have also been increased on several occasions since the 1960s.

Given the significant improvements in the primary benefit plans over the years, it is not clear what policy purposes the Supplemental Retirement Plan serves at the present time, other than to provide an additional vehicle for tax-deferred saving. At some point the Legislature may wish to investigate whether it is appropriate to phase out or eliminate the Supplemental Plan. At least for those covered by IRAP, the Supplemental Retirement Plan could be rolled completely into IRAP in the form of revised IRAP contribution rates. For those covered by TRA, possibly the Supplemental Retirement Plan is not needed given improvements made to TRA over the years. If not, statutes could be revised to permit MnSCU employees to make employee contributions with possible employer match to the Minnesota State Retirement System (MSRS) Deferred Compensation Plan, to other deferred compensation plans, or to tax-sheltered annuity (403(b)) plans.