

HF3752 (Her); SF3805 (Jasinski): TRA Administrative Bill

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HF3752 (Her); SF3805 corrects an error relating to early retirement reductions and makes a number of administrative changes for the Teachers Retirement Association (TRA). The changes in this bill do not substantively effect eligibility for a benefit. However, the provisions relating to early retirement factors, may affect the calculation of an early retirement benefit (*see discussion under Sections 4 and 8, below*). Commission staff is not aware of any opposition to the changes or significant policy concerns. All of the changes are summarized in the section-by-section summary below.

Section 1: Definition of teacher.

Section 1 removes from the definition of “teacher” teachers who work, “in a charitable, penal, or correctional institution of a governmental subdivision.” This provision has been in the statute since at least 1931, so must have been relevant at that time, but appears now to be obsolete. There are no active teachers currently covered under this provision.

Section 2: Definition of annual base salary.

The definition of “annual base salary” provides that for charter schools, the lowest salary is based on a “full-time licensed teacher.” TRA’s eligibility is not based on licensing. This has caused confusion for employers. Section 2 strikes the word “licensed.”

Section 3: Clarifying retirement annuity accrual date.

Section 3 makes minor clarifying edits to Minnesota Statutes, Section 354.44, Subdivision 4, intended to make the language throughout the subdivision more consistent and remove redundant language.

Sections 4 and 8: Correcting an error relating to early retirement factors.

Current law requires certain teachers retiring before normal retirement age to have their benefit reduced by 7% for each year that retirement precedes normal retirement age down to age 60 and for each year before age 60 the benefit is reduced by 4% (*see Minn. Stat. § 354.44, Subd. 6, Para. (f)*). The age where the reduction changes from 7% to 4% is called the “bend point.” Under current law, the bend point is age 60. However, the bend point TRA uses to calculate early retirements is age 59.

Fixed factors of 7% and 4% were first introduced in 2013. The 2013 omnibus retirement bill states that the reduction is “four percent per year for ages 55 through 59,” which TRA interpreted to mean: 4% per year from the members 55th birthday until the member’s 59th birthday. This is an unusual interpretation, but Commission materials from the 2013 session support TRA’s assertion that legislature intended the bend point to be age 59. TRA’s early retirement reduction was altered by the 2018

omnibus retirement bill, which included some style and grammar changes to improve clarity. The improved (current) language cannot be read as creating a bend point at age 59. This issue was discussed between Commission staff and TRA in 2018, but no change was proposed.

Section 4 changes the bend point from age 60 to age 59 to conform statute to current practice. The current law (age 60 bend point) provides a more generous benefit to members retiring before age 60. For a normal retirement age benefit of \$24,000 per year, the difference between the two calculations could be as much as \$720 per year. However, no TRA member has ever received a benefit calculated with an age 60 bend point. Section 4 also deletes obsolete language that no longer applies for calculating benefits.

Section 8 is an uncoded provision that retroactively changes prior versions of Section 354.44, Subdivision 6, to be read as having an age 59 bend point. Under federal law and pursuant to fiduciary duty under state law, the plan is required to be administered in accordance with its terms (in this case, in accordance with statute). The changes in section 8 are needed to make plan operation consistent with plan provisions for all years that they were not consistent.

Section 5: Obsolete reference.

Section 5 fixes a reference to a clause that no longer exists.

Section 6: Timeframe for calculating interest for a refund.

Section 6 clarifies that when calculating a refund of employee contributions, interest on those contributions is added through the last day of the month prior to the month in which the refund is issued. This is consistent with TRA's current practice.

Section 7: Purchase of service credit for prior military service.

Section 7 clarifies that purchasing service credit prior military service does not make a service member eligible for Rule of 90. Current law does not specifically address whether such a purchase makes a teacher eligible for Rule of 90. TRA has not previously permitted a purchase of service credit to alter eligibility for Rule of 90. A member is eligible for Rule of 90 (an unreduced retirement benefit when years of service + age equals 90) if the member was first covered by TRA before July 1, 1989.

Section 9: Repeal of 354.55, Subdivision 10.

Section 9 repeals Minnesota Statutes, Section 354.55, Subdivision 10, which permits a member to have the member's retirement benefit permanently reduced. TRA reports that the provision has never been used. There does not appear to be a good policy reason to permit reducing a benefit. One concern with continuing to allow this provision is that a voluntarily reduced retirement benefit may not meet the definition of an "annuity" under the federal Internal Revenue Code and that this would affect taxation of the benefit. The Public Employees Retirement Association has proposed legislation to remove a similar provision from their law.

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