SF 2913 (Bigham); HF 4012 (Masin): Teachers Retirement Association (TRA), St. Paul Teachers Retirement Fund Association (SPTRFA); Suspension of earnings limitation for retired teachers

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Introduction

Affected Plan: TRA and SPTRFA

Laws Affected: The bill establishes a session law that would restrict the application of Minnesota Statutes, sections 354.44, subdivision 5; 354A.31, subdivision 3; and 356.47.

Brief Description: The bill permits retired teachers who resume teaching at a public school, charter school, or the Perpich Center for Arts Education to teach without application of an earnings limitation, which would otherwise cause pension payments to be deferred or forfeited. The earnings limit resumes after the year 2024.

Background

Under Minnesota law, a retired teacher who (1) is collecting a retirement benefit from TRA, (2) hasn't reached Social Security normal retirement age, (3) returns to teaching in a position covered by TRA, and (4) earns more than $46,000 during the fiscal year will have a portion their pension payments deferred.[1] The amount deferred is one-half of the salary that exceeds $46,000 and the deferral applies to pension payments made in the subsequent fiscal year. For example, if a teacher makes $48,000 in FY 2020, the teacher would have $1,000 [($48,000 – $46,000) / 2] withheld from pension payments made in FY 2021. The withheld amount is deferred until one year after employment ends, at which time the employee is entitled to the deferred amount paid in a lump-sum or rolled over into a qualified retirement account.

The law that applies to teachers covered by SPTRFA is similar to the law for TRA except for the following differences:

- teachers who retired after June 30, 2013, have their withheld amount forfeited instead of deferred;
- the amount deferred or forfeited is equal to one-third of the salary exceeding $46,000 instead of one-half; and
- salaries are measured on a calendar year basis instead of a fiscal year basis.[2]

[1] Minnesota Statues, section 354.44, subdivision 5.
[2] Minnesota Statutes, section 354A.31, subdivision 3.

Techers covered by TRA have their deferred amounts redirected to a separate individual savings account, which TRA calls an Earnings Limitation Savings Account or ELSA. As of June 30, 2021, TRA had 288 retirees with one of these accounts and the total of all account balances was $3.9 million.[3] During fiscal year 2021, the dollar amount of pension benefits withheld due to excess earnings was $1.7 million.[4] These accounts are invested in the TRA Fund until distribution; however, account holders do not receive investment earnings or interest.

Bill Summary

SF 2913 / HF 4012 permits retired teachers who resume teaching at a public school, charter school, or Perpich Center for Arts Education to teach without application of an earnings limitation, which would otherwise cause pension payments to be deferred or forfeited. The earnings limitation would not apply to salary earned in fiscal years 2022, 2023, and 2025, for teachers covered by TRA or calendar year 2022, 2023, and 2024, for teachers covered by SPTRFA. The application of current earnings limitations would resume for salary earned in FY/CY 2025.

The bill is in a single uncoded section that would appear in the 2022 session laws. The section is divided into three subdivisions and an effective date as follows:

Subdivision 1 defines the term “reemployed teacher” so that this section will only apply to retired teachers who return to teaching at a public school, charter school, or the Perpich Center for Arts education. The subdivision specifically excludes employment at a post-secondary school such as a Minnesota state college or university.

Subdivision 2 suspends the application of the earnings limitation for 2022, 2023, and 2024 for “reemployed teachers” returning to positions covered by TRA or SPTRFA.

Subdivision 3 causes this section to expire effective January 1, 2026.

This section is effective the day following final enactment.

Analysis

Cost

This bill would have a minimal cost to TRA because money that is deferred is invested in the TRA fund. In 2021, the dollar amount of pension benefits withheld due to excess earnings was $1.7 million. Using the 2021 amount and an assumed rate of return of 7.5%, the cost to TRA in foregone investment earnings is estimated to be about $127,000 per year for the three years that the bill suspends the earnings limitation.

LCPR staff is not aware of similar information for SPTRFA.

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[3] Teachers Retirement Association, Annual Comprehensive Financial Report June 30, 2021, p 40.
[4] Id.

Public Policy for Earnings Limitations for Reemployed Annuitants

Many states require the suspension of a pension benefit upon a retiree's return to public employment. The main reason for this appears to be based on a public policy that holds that individuals should not be allowed to receive a public salary and a public pension at the same time.[5]

Another reason to place restrictions on earnings for reemployed annuitants is to avoid unintentionally incentivizing post-retirement reemployment. For many of Minnesota's statewide pension plans, reemployed annuitants and their employers do not contribute to the pension plan, which makes reemploying annuitants less expensive for the employer than an employee who has not yet retired but has a similar amount of experience.

In Minnesota, each of the statewide public pension plans include provisions that limit the receipt of a pension benefit if an employee retires and subsequently is reemployed in a position covered by the same fund. Generally, these provisions only apply to retirees who either haven't reached their plan's normal retirement age or haven't reached their full social security retirement age. It is notable that Minnesota plans restrict the amount that can be earned from the pension plan during the period of reemployment rather than outright prohibiting receiving both salary and a pension.

In the case of this bill, the earnings limitation is only temporarily suspended and so the long-term policy of the state would remain in effect.

Appropriateness of Suspension of the Earnings Limitation

The purpose of this bill appears to be to help address a shortage of teachers in teaching jobs across the state at a time when the teaching profession has been impacted by the COVID-19 pandemic. This bill temporarily removes a potential barrier to retired teachers returning to the classroom, though it is not clear how much of an effect this will have.

The TRA Board of Trustees adopted a position supporting this bill at its March meeting.

Legislative Commission on Pensions and Retirement

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[5] Calhoun, Moore, Brainard; Governmental Plans Answer Book, Fifth Ed., Wolters Kluwer, 2022, Q11-28.