



April 1, 2023

Chair Kaohly Vang Her and Vice Chair Nick Frenz
Members of the Legislative Commission on Pensions and Retirement

RE: Delete-Everything Amendment HF3100/SF3162-DE1

Dear Chair Her, Vice Chair Nick Frenz and Members of the Legislative Commission on Pensions and Retirement:

On behalf of the Teacher Retirement Association (TRA) Board of Trustees, I would like to again thank you and the Legislative Commission on Pensions and Retirement (LCPR) staff for all the work on teacher pensions this year. This work is important and necessary to address the questions and comments from thousands of Minnesota teachers and their request for pension reform. It is notable that for the first time, we saw an amount for pensions in the targets. We appreciate that and we hope it will be a continuing practice.

The pension target for the next biennium is \$600 million. TRA agrees with allocating an amount to each of the various pension plans based on their proportionate share of total actuarial accrued liability. As a result, TRA has been allocated \$176.2 million. We agree that \$31.1 million be allocated to TRA to cover the difference of a higher cost of living adjustment for annuitants, and that the remaining amount of \$145.0 million be used to pay down general liabilities of TRA. However, we hope that this is not the end of the story for this year.

We had two goals as we began the legislative session this year: to lower the normal retirement age (NRA) currently set at age 66 for teachers hired after June 30, 1989; and to provide inflation relief to our retirees and their beneficiaries. An NRA of 66 is an outlier among teacher pension plans in the USA, which makes us uncompetitive with our surrounding states. We have a pension plan with a poor design because it contains a full benefit that is simply not achievable for many teachers. Changes are needed so that the pension plan can better attract and retain quality teachers.

The fundamentals we use to determine how best to achieve our two goals are stated in the four TRA guiding principles:

1. Shared commitment among TRA stakeholders, employers, and the State.
2. Intergenerational equity.
3. Maintain stability and sustainability of the pension fund.
4. Maintain the recruitment and retention value of pension benefits.

Last week, the LCPR presented us with three final options to achieve our goals to lower the NRA. One of the options had two components to it, but neither satisfied our guiding principles for the following reasons:

- a. Teachers would be expected to cover 90% of the total cost of the benefit improvement with the State only providing funding for 10% of the total cost.
- b. One hundred percent of the teachers would pay up to 2% more in pension contributions for a benefit that would be useful for less than half of the active members.
- c. The end result would be a pension plan with an employee contribution rate that is higher than the employer contribution rate.

Lowering the NRA is a significant, long-term structural change to the plan. Trying to solve this with relatively small, one-time funding does not work. If the legislature believes in a long-term solution to the issue with a high NRA, then there needs to be a much higher financial commitment.

Another option was to use the one-time funding to TRA to offset a two-year reduction in TRA employee contributions. This idea does nothing to achieve our goals, so, for that reason, we do not favor that option.

Another item that was part of the final solution offered by the LCPR was elimination of the requirement that members who retire after July 1, 2024 must wait until they reach the NRA to be eligible for their first COLA. We believe strongly that this requirement should be eliminated, but there was no funding for this provision. Therefore, TRA would have had to absorb the cost of that proposal, resulting in an increase to the existing contribution deficiency by approximately 0.60%. Therefore, unless additional funding is provided, TRA cannot support that idea at this time.

Although we have made a recommendation today as to how to use our allocation of the pension target, the TRA Board hopes that discussions can continue during this session. We would like to continue working with our stakeholders, the LCPR members, and LCPR staff to try to find a way to achieve progress towards lowering the NRA that meets our guiding principles.

Sincerely,



J. Michael Stoffel
Executive Director