HF 4933 (Nadeau); SF 4968 (Pappas): Teachers Retirement Association (TRA), St. Paul Teachers' Retirement Fund Association (SPTRFA); Extending the suspension of the earnings limitation for retired teachers who return to teaching

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Introduction

Affected Plan(s): Teachers Retirement Association (TRA)
St. Paul Teachers Retirement Fund Association (SPTRFA)

Laws Amended: Laws 2022, chapter 65, article 3, section 1, subdivisions 2 and 3

Brief Description: The bill extends the suspension of earnings limitation for retirees of TRA and SPTRFA returning to teaching service that is scheduled to expire on January 1, 2026, and, without the extension, would impact annuity payments beginning in 2026.

Background

Overview of earnings limitation for reemployed teachers

Under Minnesota law, a retired teacher covered by TRA or SPTRFA who returns to teaching service may have a portion of the teacher's pension benefits deferred or, for SPTRFA members, forfeited due to an earnings limitation. This limitation, which is currently suspended (see *Overview of suspension on earnings limitation*, below), applies to a retired teacher who:

1. is collecting retirement benefits;
2. hasn't reached Social Security retirement age;[1]
3. returns to a teaching position covered by the teacher's respective retirement system (TRA or SPTRFA); and
4. earns more than $46,000 per fiscal year or calendar year, as applicable.

[1] The Social Security normal retirement age is 67 for people born in 1960 or later. For people born from 1955 to 1960, the normal retirement increases gradually in 2-month increments per year from 66 to 67. For more information, see on Social Security normal retirement age based on birth year, see https://www.ssa.gov/pubs/EN-05-10035.pdf.

If a retired teacher returns to employment after the social security normal retirement age, the earnings limitation does not apply, and the teacher will continue to receive the retirement annuity with no reduction.

For teachers covered by TRA, this earnings limitation is governed by Minnesota Statutes, section 354.44, subdivision 5. The $46,000 earnings limit is measured for salary earned in a fiscal year. [2] If a teacher meets the criteria above, one-half of the salary that exceeds $46,000 ($1 of every $2 above the limit) in a fiscal year is withheld from the teacher's pension payments in the subsequent calendar year. For example, if the suspension of earnings limitation expires and a reemployed teacher makes $48,000 in fiscal year 2025, the teacher would have $1,000 withheld from pension payments made in calendar year 2026.

The withheld amount is deferred and redirected to a separate individual savings account, which TRA calls an Earnings Limitation Savings Account (ELSA). A teacher can apply for a refund of the teacher's ELSA balance beginning one year after the last deferred amount was directed to the ELSA. In the meantime, the account is invested along with all other TRA assets, but the member does not receive interest or investment earnings on the account. As of June 30, 2023, TRA had 180 retirees with an ELSA and the total of all account balances was roughly $2.4 million.[3]

For teachers covered by SPTRFA, the earnings limitation is governed by Minnesota Statutes, section 354A.31, subdivision 3. The earnings limitation for SPTRFA is similar to the earnings limitation for TRA but is different in the following ways:

- teachers who retire 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.

Overview of suspension on earnings limitation

A 2022 session law suspended the earnings limitation described above for retired teachers of TRA and SPTRFA for salary earned in three fiscal or calendar years, as applicable.[4] The session law temporarily 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 bill specifically excluded employees working at a post-secondary institution such as a Minnesota State college or university.

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[2] According to the Department of Management and Budget, a fiscal year begins on July 1 and ends on June 30 of the following year and is designated by the year in which it ends. For example, fiscal year 2024 began on July 1, 2023, and ends on June 30, 2024. For more information, see https://mn.gov/mmb/budget/state-budget-overview/budprocess.

[3] Teachers Retirement Association, Annual Comprehensive Financial Report June 30, 2023, page 42.

[4] Laws 2022, chapter 65, article 3, section 1.

For TRA, the suspension applies for salary earned in fiscal years 2022, 2023, and 2024 and pension payments in calendar years 2023, 2024, and 2025. For SPTRFA, the suspension applies for salary earned in calendar years 2022, 2023, and 2024 and annuity payments in calendar years 2023, 2024, and 2025.

The suspension is currently scheduled to expire for salary earned in fiscal year or calendar year 2025, as applicable. The bill would extend the suspension for an additional three years, as described in the section-by-section summary.

Section- by- Section Summary

Section 1 amends Laws 2022, chapter 65, article 3, section 1, subdivision 2, which established the temporary suspension on earnings limitation for teachers covered by TRA and SPTRFA. The section extends, by three additional years, the earnings limitation suspension for retirees returning to teaching service.

Under the bill, the earnings limitation will not apply to salary earned in fiscal years 2025, 2026, and 2027, for teachers covered by TRA, or calendar years 2025, 2026, and 2027, for teachers covered by SPTRFA. Annuity payments to re-employed teachers covered by either TRA or SPTRFA will not be deferred or forfeited during calendar years 2026, 2027, and 2028.

Section 2 extends the expiration date for chapter 65, article 3, section 1, by three years, from January 1, 2026, to January 1, 2029.

Effective date. Section 1 and 2 are effective the day following final enactment.

Public Policy Considerations

Rationale of earnings limitation suspension, extension

The purpose of the suspension of earnings limitation was to help address the shortage of teachers in Minnesota by removing a potential barrier to retired teachers returning to the classroom, especially during the pandemic.

Minnesota's 2023 biennial Teacher Supply and Demand Report found that districts continue to report impacts from the teacher shortage. The report states that a "majority of districts reported being 'somewhat significantly' or 'very significantly' impacted by the teacher shortage (84%) and substitute teacher shortage (89%)."[5] The report is released in odd-numbered years and contains information about employment trends in the teaching profession.

[5] 2023 Biennial Report, Supply & Demand of Teachers in Minnesota, page 8, https://mn.gov/pelsb/assets/Supply and Demand 2023_tcm1113-571491.pdf

The TRA Board of Directors adopted a position to support the bill at its January meeting. In a memo from TRA staff to the TRA Board of Directors dated January 9, 2024, TRA staff provided the following rationale for making the recommendation:

> *Staff have received feedback from legislators and stakeholders that extending the earnings limitation suspension would continue to relieve stress for school districts still struggling with workforce shortages. In addition, staff want to evaluate the current approach to reemployed annuitant withholding and consider alternatives based on various policy objectives.*