March 25, 2024

Actuarial Review of HF3808/ SF4348
TRA Unreduced Retirement Annuity at 62 & 30



Presented to: Legislative Commission on Pensions and Retirement

Presented by: Emily Knutson, FSA, EA, MAAA

Proposed Legislation Summary

- Proposed legislation provides benefit enhancement to active Tier 2 TRA members: unreduced retirement annuity upon reaching age 62 and 30 years of service[1].

- Cost of improvements is intended to be funded (over time) by increasing the Tier 2 employee contribution rate by 1% (from 8% to 9%) effective July 1, 2024.

[1] Unreduced Tier 2 benefits are currently offered at Normal Retirement Age = 66 (changing to 65 effective 7/1/2025)

Actuarial Review

Effect of benefit enhancement on funded status and contribution sufficiency

- Expected funded status changes are highly dependent on assumptions about future retirement patterns
- Funded status and contribution sufficiency changes were reviewed under three different retirement scenarios to estimate potential risk; ultimate contribution rates were selected by the bill's authors.

Scenario	Percent of Tier 2 members expected to retire when first eligible for 62&30 unreduced benefits
Scenario 1: New "baseline" rates	55%
Scenario 2: Higher utilization (more conservative)	70%
Scenario 3: Highest utilization (most conservative)	100%

Actuarial Review

(All results in $ Thousands[1])

Estimated Effect on Funded Status	Current Plan 7/1/2023	Tier 2 62 & 30 Estimate		
Initial 62 & 30 retirement assumption		55% Retirement	70% Retirement	100% Retirement
Unfunded Actuarial Accrued Liability (UAAL)	$7,327,233	$7,944,675	$8,055,031	$8,334,355
Change in UAAL		617,442	727,798	1,007,122
Funded Percent	78.50%	77.10%	76.86%	76.25%

- Liability effect may vary significantly depending on how Tier 2 retirement rates change in both the near- and long-term. Amounts shown in table above are very rough estimates to illustrate some potential outcomes.

[1] Unless otherwise indicated, all results shown on this page are either from the CavanaughMacdonald Consulting (CMC) letter dated 1/12/2024 or based on those results. Although the exact provisions modeled in CMC's letter may be different from both the bill as introduced or as we expect to be amended, we believe they provide a reasonable estimate of the potential liability effect. We have also verified with our own calculations that CMC's liability calculations are reasonable. Baseline results include assumption updates from the most recent experience study. 'Current Plan' results are modified 2023 valuation results with inclusion of upcoming actuarial assumption updates.

Actuarial Review

Estimated change in contribution sufficiency/(deficiency)	Current Plan 7/1/2023	Tier 2 62 & 30 (Bill as expected to be amended)		
Initial 62 & 30 retirement assumption		55% Retirement	70% Retirement	100% Retirement
1. Actuarially required contribution rate (Chapter 356)[1]	17.96%	18.95%	19.13%	19.57%
2. Estimated Statutory rate (Chapter 354)[2]	18.24%	19.20%	19.20%	19.20%
3. Contribution Sufficiency/(Deficiency) (2. – 1.)	0.28%	0.25%	0.07%	-0.37%
Change in Contribution Sufficiency/(Deficiency) from Baseline		**-0.03%**	**-0.21%**	**-0.65%**

[1] Estimated Chapter 356 Required contribution rates are from the CMC analysis dated 1/12/2024. Although the exact provisions modeled in CMC's letter may be different from both the bill as introduced or as we expect to be amended, we believe they provide a reasonable estimate of the Chapter 356 required contribution rate effect.

[2] Estimated Chapter 354 statutory rates are based on our calculation of the weighted average employee contribution rates (using HF3808 rates, as expected to be amended) plus employer contribution rate of 9.66% and supplemental contribution rate of 0.58%.

Actuarial Commentary

Important Risk Considerations[1]

- **The proposed benefit enhancements will create an immediate unfunded liability and decrease the Plan's funded status, which will increase the Plan's overall financial risk.** We highly recommend that any increase in the Actuarially Accrued Liability be immediately funded with supplemental contributions instead of paid through contribution rate increases.

- The LCPR should consider the intergenerational equity of the proposed contribution rates. Members close to retirement will receive the full benefit value with few years of additional contributions, while younger members will pay the higher rates for their entire careers.

- It's difficult to estimate the long-term cost for this enhancement since it's unclear how the benefit will affect future retirement patterns.

[1] The considerations above apply to both the bill as introduced and as we expect it to be amended.

Actuarial Disclosures

This presentation has been prepared to provide the Minnesota Legislative Commission on Pensions and Retirement (LCPR) with an overview of proposed legislation and its potential effect on TRA's funded status and funding sufficiency/(deficiency). This presentation has been prepared solely for the LCPR for the purposes described above. This presentation may not be used for any other purpose, and VIA Actuarial Solutions (VIA) is not responsible for the consequences of any unauthorized use. Its contents may not be modified, incorporated into, or used in other material, or otherwise provided, in whole or in part, to any other person or entity, without our permission and the permission of the LCPR.

Unless otherwise indicated, all actuarial liability results in this document are based on the same assumptions, methods, plan provisions, and important notices disclosed in the July 1, 2023 TRA actuarial valuation report dated November 21, 2023 and Proposed Plan Changes letter dated January 12, 2024, both prepared by CavanaughMacdonald Consulting (CMC). We independently matched the underlying liability and baseline contribution rate calculations using data provided by CMC and TRA but have shown CMC's liability results for consistency with prior communications. A range of potential contribution rate adjustments for Tier 2 employees were calculated by VIA based on the census data provided to us and our own actuarial liability and payroll projections. The contribution rates included in HF3808/SF4348 (as introduced, and as we expect to be amended) were selected by the bill's authors. All results and commentary shown herein are based on our understanding of HF3808/SF4348 (as introduced, and as we expect to be amended).

All results are estimates based on expectations of future events. Actual results may be significantly different. To the extent actual results differ from projected, additional contributions to the plan or benefit adjustments may be required.

The preparing actuaries, Emily Knutson FSA, EA, MAAA and Mark Schulte FSA EA MAAA, are Members of the American Academy of Actuaries and meet the Qualification Standards of the Academy to render the actuarial opinions contained herein. We are available to answer questions on the material contained in this presentation or to provide explanations or further detail, as may be appropriate. We are not aware of any material direct or indirect financial interest or relationship that could create a conflict of interest or impair the objectivity of our work.

L/D/C/R: 4/mws/emk