SF 2992 (Pratt); HF 2329 (Nadeau)

Teachers Retirement Association; Lowering the age from 62 to 60 for the enhanced early retirement reduction

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Introduction

Affected Plan: Teachers Retirement Association

Laws Amended: Minnesota Statutes, sections 354.44 and 356.415

Brief Description: The bill expands the enhanced early retirement reduction at age 62 with 30 years of service to age 60 with 30 years of service and clarifies the COLA delay.

Background

Early Retirement Annuities for TRA Members

Minnesota's public pension plans are designed to pay a full, unreduced retirement annuity to eligible employees upon reaching "normal retirement age." This means that if the employee waits to retire until reaching an age set in statute, the benefit the employee receives is the amount calculated using the plan's benefit formula. Due to legislation passed during the 2023 and 2024 legislative sessions, the normal retirement age for TRA was reduced from age 66 to 65 for Tier II members (hired after June 30, 1989), starting on July 1, 2024 (*Minn. Stat. § 354.05, subd. 38*). Therefore, beginning July 1, 2024, normal retirement age for all members (Tier I and Tier II) means age 65.

If a member of TRA chooses to retire before reaching normal retirement age, the member's monthly benefit is reduced because the teacher is receiving the annuity for a longer period of time. Under current law, if a Tier II member retires after reaching at least age 62 with 30 years of service, the member's retirement benefit is reduced by approximately 3-4% for each year that the member's age at retirement precedes normal retirement age. Specifically, under section 354.44, subdivision 6, paragraph (e), clause (1), the reduction is 6% per year, adjusted to take into account augmentation, at 2.5% or 3%, that would have occurred had the member retired early and deferred receipt of the annuity until normal retirement age. In this memo, we're referring to this early retirement reduction as an enhanced early retirement reduction.

If a member leaves covered employment and elects to begin taking a retirement annuity before age 62 or with fewer than 30 years of service, the member's normal retirement benefit is reduced by a specified percentage for each year that the member's early retirement age precedes normal retirement age. Specifically, the reduction percentage is 7% for each year that the age of retirement precedes 65, to age 59, when the percentage changes to 4% for each year to age 55, the earliest age a member can begin to receive a retirement benefit *(Minn. Stat. § 354.44, subd. 6, para. (e), clause (2))*.

Both of these early retirement reductions also apply to Tier I members if the result is a bigger benefit than the benefit they would get under the Tier I formula and early retirement reductions.

Postretirement Adjustments for TRA Members

Minnesota's public pension plans provide annual postretirement adjustments, often referred to as cost-of-living adjustments or COLAs, to retirees, which are intended to provide some protection from the decrease in the value of the pension due to inflation. TRA currently pays a COLA of 1.2% to eligible retirees and benefit recipients. *(Minn. Stat. § 356.415, subd. 1d, para. (a).)* The COLA for TRA members is set to increase 0.1% each January 1, until January 1, 2028, when the COLA is and will remain at 1.5%. *(Minn. Stat. § 356.415, subd. 1d, para. (a).)* The specific COLAs for each upcoming year are as follows:

- from January 1, 2025, through December 31, 2025.... 1.2%
- from January 1, 2026, through December 31, 2026.... 1.3%
- from January 1, 2027, through December 31, 2027.... 1.4%
- from January 1, 2028, and thereafter......................... 1.5%

Under current law, for retirements on or after January 1, 2024, a TRA retiree is not eligible to receive a COLA until the retiree reaches normal retirement age *(Minn. Stat. § 356.415, subd. 1d, para. (d))*. When the retiree reaches normal retirement age, the retiree will receive a full COLA increase if the retiree has been receiving at least 12 months of pension payments as of the prior June 30. If the retiree has fewer than 12 months of pension payments as of the prior June 30, the retiree will receive a fraction of the COLA based on the number of months of payments received. But if the retiree has been receiving pension payments for fewer than seven months as of January 1 of the year following the year the retiree reaches normal retirement age, the retiree must wait a year to receive a COLA.

The delay to receive the first COLA until normal retirement age does not apply to members who retire at age 62 with 30 years of service or under the "Rule of 90." *(Minn. Stat. § 356.415, subd. 1d, para. (e).)*

Section- by- Section Summary

Section 1: Lowering the Age for the Enhanced Early Retirement Reduction

Section 1 amends section 354.44, subdivision 6, clause (e), paragraphs (1) and (2), by lowering the age for the enhanced early retirement reduction from 62 to 60.

This change means that if a member has reached age 60 (instead of 62) with 30 years of service, the member's retirement benefit is reduced by approximately 3-4% (or as stated in the statute, 6% less augmentation) for each year that the teacher's early retirement age proceeds normal retirement age. Additionally, under the bill, the current reductions of 7% and 4% that apply to specific age ranges now apply to members who retire before age 60 (instead of 62) or have fewer than 30 years of service.

Section 2: Clarifying the COLA Delay

Section 2 amends section 356.415, subdivision 1d, which provides the COLA for TRA members. SF2992/HF2329 makes two changes:

1. Section 2 deletes clauses (1) and (2) of paragraph (a), obsolete clauses that set the COLA from January 1, 2019, through December 31, 2023.

2. Section 2 revises paragraph (e), which states that the delays in paragraph (d), described above, do not apply to a member retiring under Rule of 90 or under the early retirement reductions, including the enhanced early retirement reduction, but only if the member is at least age 62 with at least 30 years of service at retirement. Members who retire and receive the enhanced early retirement reductions will be subject to the COLA delay if the member is at least age 60, but not yet age 62.

Effective Dates

Section 1 is July 1, 2025.

Sections 2 is effective the day following final enactment.

Considerations

Cost

TRA's retained actuary, Cavanaugh MacDonald Consulting (CavMac), prepared an estimate of the cost to TRA of reducing the age requirement from 62 to 60 for the enhanced early retirement reduction. The cost estimate was presented to the TRA board of trustees at its meeting on January 8, 2025. The cost estimate does not address the specific changes made by SF 2992/HF 2329 but is the best estimate available for determining the cost of the bill. The cost estimate is based on TRA's valuation as of July 1, 2024 (2024 Valuation).

The cost estimate looks at making the enhanced early retirement benefit available at age 60 or 61, but assumes that the COLA for a member who retires at ages 60 or 61 with at least 30 years of service would commence immediately. This is different than the bill, which continues to apply the delay in receiving the first COLA to age 65 to members who retire at ages 60 or 61, with 30 years of service.

For reference in looking at the cost estimate, TRA's status, as of July 1, 2024, based on market value of assets, before the changes in the bill, is as follows:

Unfunded actuarial accrued liability (actuarial accrued liability (AAL) minus market value of assets (MVA):	$6,354,321,000
Funded ratio (MVA divided by AAL):	82.07%
Actuarially required contribution (ARC) rate:	17.70%
Statutory contribution rate:	17.21%
Contribution deficiency (ARC minus statutory rate):	0.49%

The chart below shows the estimated impact of the bill on TRA. Note that CavMac's estimates assume immediate commencement of the COLA for members who are age 60 or 61 with 30 years of service and able to take advantage of the new enhanced early retirement reduction. Under the bill, these members will continue to be subject to the COLA delay. Therefore, it is LCPR staff's understanding that the cost of the bill would be slightly less than CavMac's and LCPR staff's estimates in the chart.

	Expanding the Enhanced Early Retirement Reduction
Increase in Unfunded Actuarial Accrued Liability [1]	$357,026,000
Funded Ratio [1]	81.26%
Decrease in Funded Ratio [1]	(0.81%)
Contribution Deficiency [1]	(1.04%)
Increase in Contribution Deficiency [1]	0.55%
Annualized Cost [2] (increasing 3% per year)	$33,521,043

Sources:
[1] Cost Study (found on red pages 87–91 of TRA's January 8, 2025 board meeting packet)
[2] Calculated by LCPR staff, using the actual covered payroll for FY2024, which was $6,094,735,000

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