HF 4272 (Olson): TRA; Extending 60-30 early retirement benefit to deferred vested former teachers

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Introduction

Affected Plan: Teachers Retirement Association (TRA)

Laws Amended: Minnesota Statutes, Section 354.44, subdivision 9

Brief Description: Extending the enhanced early retirement benefits enacted in 2025 to deferred vested former teachers

Attachments: Letter from CavMac Actuarial Consulting Services to Tim Maurer, Executive Director, TRA, dated March 2, 2026 (cost estimate of the benefit changes under the bill)

Background

Legislation enacted in 2025 provided additional early retirement benefit improvements that took effect June 30, 2025:

- eligibility for the subsidized early retirement benefit was expanded from age 62 with 30 years of service to age 60 with 30 years of service; and
- the percentage by which a member's age 65 retirement annuity is reduced was decreased from 6% to 5% for each year that the annuity starting date precedes age of 65. This percentage is further reduced by "augmentation" of 2.5% or 3%, depending on whether the teacher started employment after or before June 30, 2006, respectively, resulting in an actual reduction of either 2.5% or 2% for each year that the annuity starting date precedes age 65.

Legislation enacted in 2023 changed TRA's normal retirement age from 66 to 65, beginning on July 1, 2025.

Section 354.44, subdivision 9, states how the effective date of a benefit improvement is to be applied:

> An annuity under this chapter must be computed under the law in effect as of the date of termination of teaching service. A former teacher who returns to covered service following a termination and who is not receiving a retirement annuity under this section must have earned at least one-half year of credited service following the return to covered service to be eligible for improved benefits resulting from any law change enacted subsequent to that termination.

This means that a teacher who left teaching service before the June 30, 2025, effective date of the 2025 legislation or the July 1, 2025, effective date of the 2023 legislation is not eligible for the earlier normal retirement age or the more generous early retirement benefit.

General Summary

SFxxxx/HF4272 (Olson) revises current law that states that the benefit a member will receive from TRA is the benefit in effect at the time the member left teaching service. The bill will allow former members, referred to as deferred vested members, who left teaching service before the effective dates of the 2023 and 2025 legislation, but with at least 30 years of service, to elect to receive their retirement annuity as early as age 60 and have the early retirement benefit calculated using the lower reduction, which would be applied starting at age 65.

Section- by- Section Summary

The bill is one section. The bill amends section 354.44, subdivision 9, by adding a new paragraph (b) and adding language to paragraph (a), which is current law, that states that current law applies "unless paragraph (b) applies…."

New paragraph (b) states that the paragraph applies to a member who terminated teaching service before June 30, 2025. Under paragraph (b), the member may elect a retirement annuity calculated using the law in effect on July 1, 2025, and using a normal retirement age of 65. The law in effect on July 1, 2025, includes both the normal retirement age of 65 and the more generous early retirement benefit. Paragraph (b) also states that the return to service requirements in section 354.44, subdivision 9, do not apply, which means that these deferred vested members do not have to return to teaching service after the effective dates of the benefit improvements to be eligible for them.

Estimate of the Cost of the Bill to TRA

TRA asked CavMac Actuarial Consulting Services, TRA's actuary, to estimate the cost of the bill to TRA. CavMac noted that, since the only deferred vested members who can elect the benefit improvements must have 30 years of service, the eligible group amounted to "only 198 out of 21,701 deferred members, or 0.9%." CavMac also noted that "[t]hese proposed changes provide some incentive for…earlier commencement" than is the case under current law. CavMac summarized the impact: "even under the high-cost scenario the estimated impact to the System's funded status and required contributions is quite small."

Assuming all deferred members commence benefit payments as soon as they are eligible for the benefit improvements (i.e., the "high-cost scenario"), CavMac estimated that the cost to TRA is as follows:

- TRA's unfunded actuarial accrued liabilities (UAAL) would increase by $26,467,000. Based on the July 1, 2025, actuarial valuation, TRA's total accrued benefit liabilities were $36.992 billion, compared to the actuarial value of assets of $30.187 billion, resulting in unfunded liabilities of $6.805 billion. If the bill is enacted and the high-cost scenario occurs, TRA's unfunded liabilities would increase to $6.831 billion, or an increase of $26 million (rounded down from $26.467 million).

- TRS's funded ratio (i.e., assets to UAAL) declines from 81.60% to 81.55%.
- The required annual contribution to pay off the cost over 15 years of the extension of the benefit to deferred vested members under the high-cost scenario is .03% of payroll or $2,031,000.

If the legislature were to appropriate funding in an amount sufficient to cover the cost of extending the early retirement benefits to deferred vested members, and assuming the high-cast scenario occurs, where everyone eligible elects to begin taking the early retirement benefit as soon as they are eligible, the appropriation would be:

- a one-time payment of $26.467 million; OR
- annual payments over 15 years of $2.031 million.