TRA board to consider revised funding options

During a special meeting on Mon., Oct. 24, to address funding issues, the Teachers Retirement Association Board of Trustees opted to hold off on any decision regarding the details of retiree cost-of-living reductions and contribution increases until the board's Nov. 16 meeting. The delay allows time for groups representing retirees, active teachers and school districts to review and weigh in on revised funding options.

The revised funding options under consideration propose to reduce the retiree COLA to 1 percent for five years and 1.5 percent thereafter. The proposal also includes a 2.5 percent employer contribution rate increase phased in incrementally over several years and offset by earmarking state aid for pensions so as to hold E-12 education funding harmless. Also under consideration is an increase in the active-teacher contribution rate of 0.5 percent, phased in over several years incrementally.

The board plans to finalize details of a 2017 legislative proposal at its Nov. 16 meeting so that any state aid request can be submitted to Gov. Dayton for possible inclusion in his proposed biennial budget.

The TRA board is considering revisions to its proposals because of pressure to lower the fund's assumed rate of return on investments. Lowering this assumption has the effect of worsening TRA's funded status and prompting the need for lower benefits and higher contributions.

At its Oct. 24 meeting, the board discussed the investment return assumption, which is used to project TRA's long-term financial trends. Lowering TRA's investment assumption from 8 percent to 7.5 percent would increase liabilities and decrease TRA's funded ratio.

The TRA board has expressed a preference for conducting a formal study and gathering data from reputable sources before changing the assumption. Included in such a study would be a review of alternative methodologies for changing the assumption as well as a review of alternative governance structures for setting this assumption. Minnesota is one of only three states whose investment return assumption is determined by legislature.

Minnesota State Board of Investment (SBI) director Mansco Perry has expressed caution about continuing to use 8 percent as an assumed rate of return since it may be optimistic in the short term. Minnesota Management and Budget officials have expressed a preference for the 7.5 percent investment return assumption and for the rate to be consistent among all four retirement systems.

The Minnesota State Retirement System (MSRS) board recently voted to recommend the legislature lower that fund's assumption to 7.5 percent. TRA and the Public Employees Retirement Association (PERA) boards continue to discuss the issue.