Board OKs modified financial proposal

Due to concerns expressed by retirees, the TRA Board of Trustees on Dec. 14 approved a modified 2017 legislative proposal that would reduce TRA's cost of living adjustment (COLA) to 1 percent for five years and 1.5 percent thereafter, and raise the employer contribution rate by 2 percent (from 7.5 percent to 9.5 percent), phased in incrementally and offset by state aid. The employee contribution rate would remain at 7.5 percent.

In November, the board passed a 1 percent COLA cut for 10 years, which retirees denounced as too severe.

The revised package was approved on a 5-2 vote, with representatives of Minnesota Management and Budget and the Minnesota School Boards Association voting no. The proposal will be presented to the Legislative Commission on Pensions and Retirement when the panel convenes for the 2017 session.

When considering cost-saving changes to the TRA plan, trustees strive for measures that reflect a shared commitment from all parties. The COLA change will affect both current retirees and current active teachers who will retire in the future with lower COLAs.

Minnesota teachers pay a 7.5 percent contribution rate toward their pensions, a higher amount than the 6 percent nationwide average. Minnesota school districts currently contribute 7.5 percent to TRA for their teachers' pensions, compared to an average 12.9 percent nationally.

The need for a 2017 financial proposal was prompted in part by an experience study that projects longer life expectancies and by pressure to lower the fund's assumed rate of return on investments. Changing this assumption has the effect of lowering TRA's funded status and prompting the need for lower benefits and higher contributions.

In October, the board discussed the investment return assumption, which is used to project TRA's long-term financial trends. The board voted to lower the investment return assumption to 7.5 percent for three to five years while a study is conducted; then the rate reverts to 8 percent. The study also would evaluate processes and governance structures for changing the investment return assumption to avoid overreactions to short-term market conditions.

A proposal last winter that had the support of all of TRA's stakeholder groups failed to win legislative approval – in part because of the lack of state funding to cover increased costs to school districts. A stopgap bill that would have cut the retiree COLA without any employer or employee contribution rate increases was vetoed by Gov. Dayton.

Shortly thereafter, the fiscal year ended with a poor investment return logged into the books. Although pension fund financial projections use a 50- to 60-year funding horizon and the State Board of Investment has a 30-year return average of 8.7 percent, recent market volatility has led to calls to lower the assumed rate of return. The board has expressed frustration over "knee-jerk" reactions to current market gyrations.