TRA board OKs sustainability plan

Longer lifespans, lower investment projections prompt action to shore up plan's finances

After months of discussion, careful consideration and input from stakeholder groups, the TRA Board of Trustees on Dec. 16 approved recommending to the legislature a sustainability package to put the pension fund on track for full funding and a stronger future for the state's teacher retirement system.

Using shared sacrifice as its guiding principle, the board settled on a package that increases employer contribution rates by 1 percent (from 7.5 percent to 8.5 percent) and reduces the 2 percent cost-of-living adjustment to 1 percent for five years beginning Jan. 1, 2017, and to 1.75 percent beginning Jan. 1, 2022.

Employee contribution rates remain at 7.5 percent. The COLA change would impact both current and future retirees (today's active teachers).

The recommendations are subject to review and approval by the state legislature and governor.

These changes are expected to result in the TRA fund approaching full funding by 2044. Without the changes the board is recommending, TRA's funded ratio is projected to drop, and the plan would not attain full funding in 30 years.

"These are the kind of adjustments that must be made periodically as TRA staff and trustees exercise our fiduciary duties," said Laurie Hacking, TRA's executive director.

"Adjusting contribution rates and COLAs are difficult decisions, and we believe the board's recommendations will preserve defined-benefit pension income for our current and future retired teachers."

The changes were necessary following an actuarial study that indicated adjustments to TRA's economic and demographic assumptions are needed to match expected investment and member life expectancy experience. TRA's actuaries periodically perform this "experience study" to test assumptions to determine whether they continue to be accurate and reasonable. This is an important exercise and a key financial control, because it helps assure that TRA is accurately reporting the system's long-term projected costs and has an adequate plan to fund those costs.

The most recent experience study covered the period from July 1, 2008, through June 30, 2014. It found that Minnesota's active and retired teacher population is expected to live much longer than previously predicted, a development that has significant implications for the financial status of the fund.

TRA's active-member population is 75 percent female, and where once the average life expectancy of an age 65 female TRA member was 88.6, it is now age 90.3. For an age 65 male, it was once 86; today, it is 87.7. TRA has about 500 benefit recipients age 95 and older, and 86 are centenarians.

What all of this means is that pension benefits are being paid – and are going to be paid in the future – for a longer period of time than ever before, and that adjustments must be made to ensure that the pension fund remains financially healthy for future retirees. Adjusting the life expectancy assumption to reflect longer lifespans will add costs to the TRA system.

Another significant factor analyzed by TRA's actuaries is the investment return assumption. The annual return that TRA expects to earn on investments is critical because investment returns pay for over 70 percent of pension costs. Because investment returns are expected to be lower in the future, TRA's actuary recommends a decrease in the long-term investment return assumption from 8.5 percent to 8 percent – with a corresponding decrease in the inflation and wage growth assumptions. These changes have a negative financial impact on the TRA plan.

The board, as fiduciaries, is recommending changes designed to address TRA's funding deficiency and put the fund on track to attain full funding.

With those goals in mind, TRA staff spent last summer and fall presenting information about the experience study and its ramifications to groups representing active teachers, retirees and employers. The board took into account views expressed by all of TRA's stakeholder groups and reviewed comments submitted by members via e-mail.

Despite strong and sometimes conflicting views on all sides, most TRA stakeholders expressed a strong sense of collective responsibility to help keep the fund sustainable for future retired educators.

The sustainability recommendations next will be presented to the Legislative Commission on Pensions and Retirement (LCPR) in preparation for the legislative session, which begins in March. The board's recommendations must garner support of the LCPR, both houses of the state legislature, and the governor in order to move forward.

The Public Employees Retirement Association (PERA) and Minnesota State Retirement System (MSRS) also are affected by longer life expectancies and are expected to present similar sustainability plans to lawmakers.