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2014-15 Governors Budget - Teachers Retirement Association

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Mission:

Provide retirement, disability, and survivor benefits to Minnesota public educators, assisting them in achieving future income security;

Strive to provide benefits that attract and retain competent teachers who serve communities throughout the state, building a stronger education system; and

Commit to safeguarding the financial integrity of the fund and take pride in providing exceptional, innovative services.

Statewide Outcome(s):

Teachers Retirement Association supports the following statewide outcome(s).

A thriving economy that encourages business growth and employment opportunities.

Minnesotans have the education and skills needed to achieve their goals.

Efficient and accountable government services.

Context:

The Teachers Retirement Association (TRA) of Minnesota administers one defined benefit retirement plan in accordance with Minnesota Statute Chapters 354 and 356. TRA's membership includes approximately 115,00074 active and inactive employees and 55,000 benefit annuitants from 585 separate governmental entities, including school districts, charter schools, the Minnesota State College and Universities (MnSCU) and certain other government entities. TRA strives to ensure that contributions collected from members and employers and the investment earnings on those contributions will be sufficient to provide promised benefits to benefit recipients. TRA benefits helps teachers and other members to achieve a successful and secure retirement, thereby minimizing the risk of needing to rely on other federal and state programs for financial support. Investment income normally accounts for about 74 percent of TRA's revenues. Member contributions account for another 12 percent and employer contributions from school districts and other employers make up the difference of 14 percent. TRA receives approximately $16.5 million in statutory State General Fund appropriations as result of the 2006 merger with the Minneapolis Teachers Retirement Fund Association.

Strategies:

TRA's commitment to safeguarding the financial integrity of the fund requires continual monitoring of actuarial funding reporting. TRA's core operational functions include collecting, recording and maintaining the accounting of retirement contributions; collecting and managing member information; issuing benefit and refund payments; and delivering member and employer education and training through counseling, workshops and publications. Benefit payments have a financial impact on the state's economy and provide benefit recipients and their families the opportunity to lead healthy, productive lives during their retirement years. Since 1980 when the State Board of Investment adjusted their asset allocation, investments have returned an annualized 9.9 percent, allowing contribution rates to remain relatively stable. TRA's administrative costs are also very low: .060 percent (less than one percent) of plan assets.

Results:

In 2008 the three statewide pension systems, MSRS, PERA and TRA were the focus of an economic impact study. We learned that in fiscal year 2007, the pension systems had a positive economic impact of $3.3 billion on Minnesota's economy and beneficiaries' spending led to 22,500 additional jobs statewide. About 87 percent of TRA's retirees stay in Minnesota after they retire. State and local taxes paid by the beneficiaries and holders of the 22,500 new jobs exceeded the employers' contributions to the pension systems by $80 million that year. The impact of benefits paid was larger than the gross state product attributable to several major economic sectors in Minnesota, including the mining sector; the crop and animal production sector; and the air, rail and water transportation sector (for more information regarding this study, please visit the TRA website - http://www.minnesotatra.org/formspub/economicimpact.html).

The two most important measures of the health of a defined benefit retirement system are (1) the level of funding and (2) whether contribution rates are sufficient to earn enough assets to cover pension liabilities over the life time of the members. The following Performance Measures table shows the funded ratio and the contribution sufficiency/(deficiency) as a percent of payroll, along with the unfunded actuarial accrued liability as of 6/30/2007 (just before the Great Recession) and as of 6/30/2012 (the most recent data available as of the writing of this narrative).

Performance Measures	Previous	Current	Trend
TRA Plan Funding Ratio	87.5%	73.0%	Worsening
TRA Plan Contribution Deficiency (Percent of Covered Payroll)	(1.65%)	(5.04%)	Worsening
TRA Plan Unfunded Actuarial Liability	$2.68 Billion	$6.22 Billion	Worsening

Performance Measures Notes:

Performance measures compares valuations as of 6/30/2007 (previous) and 6/30/2012 (current).

The overall trend line has worsened since 2007 due to the largest investment market decline since World War II. The 2008-2009 market downturn was followed by two very strong investment years in fiscal years 2010 and 2011. Benefit provision changes passed by the legislature in 2010 coupled with actuarial assumption changes reduced TRA's actuarial liability by $1.75 billion. Employee and employer contributions were increased beginning in 2011. When fully implemented in 2014, TRA employee and employer contributions will be 7.5% each. Despite the 2010 legislative actions, TRA's actuarial measures at June 30, 2012 are weaker than those five years earlier. Investment performance for fiscal year 2012 was 2.4%, lower than the 8.0% assumed by the actuary in projecting TRA assets and liabilities. The TRA Board of Trustees is closely monitoring the impacts of the 2010 plan changes and investment performance in determining whether further plan provision changes will be recommended to the Legislature.

Teachers Retirement Association
Current, Base and Governor's Recommended Expenditures
(Dollars in Thousands, Biennial Totals)

	General Funds	Other State Funds	Federal Funds	All Funds
Current Biennium Expenditures (FY 2012-13)		$3,087,826		$3,087,826
Current Law Expenditures (FY 2014-15)		$3,201,468		$3,201,468
Governor's Recommended Expenditures (FY2014-15)		$3,201,468		$3,201,468
$ Change from FY 2014-15 Current Law to Governor's Rec		$0		$0
% Change from FY 2014-15 Current Law to Governor's Rec		0%		0%

Teachers Retirement Association
Sources and Uses
(Dollars in Thousands)

	Biennium FY14-FY15			
	General Funds	Other State Funds	Federal Funds	Total Funds
APPROPRIATION		$3,201,468		$3,201,468
SOURCES OF FUNDS		**$3,201,468**		**$3,201,468**
EXPENDITURES		$3,201,468		$3,201,468
PAYROLL EXPENSE		$15,476		$15,476
OPERATING EXPENSES		$9,392		$9,392
OTHER FINANCIAL TRANSACTIONS		$3,176,030		$3,176,030
GRANTS, AIDS AND SUBSIDIES		$10		$10
CAPITAL OUTLAY-REAL PROPERTY		$560		$560
USES OF FUNDS		**$3,201,468**		**$3,201,468**

Teachers Retirement Association
All Funds FTE by Program

Program	Current FY 2013	Forecast Base FY 2015	Governor's Recommendation FY 2015
Program: Teachers Retirement Assoc	80.5	80.5	80.5
Teachers Retirement Association	80.5	80.5	80.5

Teachers Retirement Association
Revenue Summary
(Dollars in Thousands)

		Biennium FY14-15			
		General Fund	Other State Funds	Federal Funds	All Funds
Non Dedicated	ALL OTHER		3,169,100		3,169,100
	Subtotal		3,169,100		3,169,100
	Total		**3,169,100**		**3,169,100**