

St. Paul/Duluth Teachers Merger Study Q&A

How has the legislature addressed the financial problems of St. Paul Teachers Retirement Fund Association (SPTRFA) and Duluth Teachers Retirement Association (DTRFA)?

Legislation enacted during the 2013 legislative session provided substantial increases in state aid to SPTRFA and DTRFA. SPTRFA will receive an extra \$7 million in fiscal years 2014 and 2015, bringing its total annual aid to \$9.827 million and DTRFA will receive an extra \$6 million in fiscal years 2014 and 2015, bringing its total aid to \$6.345 million annually. Governor Dayton committed the additional aid to Duluth and St. Paul with the understanding that the three funds studied and developed cost estimates for possible merger with TRA.

The legislation also increased revenue for the systems by increasing contribution rates for both members and the Duluth and St. Paul school districts.

The 2013 legislation mandated a study of a potential merger of the St. Paul and Duluth Teacher Funds in TRA. The study included detailed actuarial analysis that defines the financial requirements for consolidation in a manner that, according to the law, “assures the assets of TRA are protected, that the merging funds are fully funded, and that the TRA is not subsidizing the merged funds.” The report was delivered to the legislature in early January 2014 and is available on the TRA website:

<https://www.minnesotatra.org/images/pdf/Study%20text%20Dec%203.pdf>.

Why is merger being considered for the funds?

There is concern about the financial status of the St. Paul and Duluth funds. As of July 1, 2013, Duluth TRA had about 58 cents of assets for every dollar of pension benefits promised, reflecting an unfunded actuarial liability of \$147 million (measured on a market value basis). St. Paul Teachers had about 64 cents of assets for every dollar of pension benefits promised and an unfunded actuarial liability of \$567 million (market value).

What is the position of the DTRFA and SPTRFA boards of trustees on a merger of their organizations with the TRA?

The DTRFA Board of Trustees has endorsed a plan to merge its fund with the TRA. Given the large unfunded liability and the deteriorating demographics (the number of retirees is much greater than the number of active members) of the plan, it believes it is in the best interest of its members to pursue a merger with TRA. The SPTRFA does not have the demographic problem of the DTRFA. The SPTRFA trustees believe that with the continuation of this past year’s additional \$7 million per year in assistance from the State of Minnesota, the fund is sustainable without a merger. As a result, the SPTRFA board has voted to remain a separate fund and to pursue legislation to continue the extra \$7 million per year in state assistance.

What is the TRA Board of Trustees' position on merger of St. Paul Teachers and Duluth Teachers into TRA?

As fiduciaries with responsibility for the financial health of the TRA fund, the TRA Board established a position that TRA assets be protected and consolidations do no financial harm to TRA. The TRA Board stipulated that if either of the funds is merged into TRA, the merged fund must come in fully funded, meaning the merged fund must bring sufficient assets and/or future contributions/state aid necessary to fully fund the liabilities TRA is assuming. TRA's actuary has determined that it will require \$14.7 million annually in state aid to merge DTRFA at a fully-funded level and \$46.4 million annually to merge SPTRFA at a fully-funded level.

What is the present financial status of St. Paul Teachers and Duluth Teachers?

The assets and benefit liabilities of Minnesota public pension funds are calculated annually by an actuary. The market value of assets represents the actual market value of the plan's assets. As of the most recent valuation date (as of July 1, 2013), the SPTRFA had assets of \$933 million and liabilities of \$1.5 billion. The Duluth TRA had assets of \$205 million compared to liabilities of \$352 million.

Comparing the market value of assets to the benefit liability produces a funding ratio that shows the percentage of assets accumulated to date to cover the future benefits promised to the fund's members. The funding ratio is considered the most widely accepted measurement in determining the health of a public pension fund. Generally, a funding ratio between 80 and 100 percent is preferred. The financial status of Duluth and St. Paul Teachers is described below.

St. Paul, Duluth Teachers financial status (in thousands) as of 7/1/13

	ST. PAUL TRFA	DULUTH TRA
Market value of assets	\$933,082	\$205,301
Actuarial accrued liability	\$1,467,350	\$352,143
Unfunded actuarial accrued liability (market value)	\$534,200	\$146,842
Funded ratio (market value)	63.6%	58.3%

Why do St. Paul and Duluth have their own teacher retirement associations?

In short, they existed before TRA was established in 1931. Although there have been many merger proposals over the years, the teacher retirement systems have remained as separate systems. (Minneapolis Teachers had its own fund, but was merged into TRA in 2006.)

What has caused the financial problems in St. Paul and Duluth?

The funding problems in Duluth have much to do with the economic downturns of 2001 and 2008-09. As recently as 2007, DTRFA was fully funded and one of the healthiest plans in the nation. Demographic trends and longevity have also had an impact. There is a stark imbalance between the number of retirees drawing benefits versus the number of active teachers paying into the system as the city has lost population and the number of students and teachers has declined. The demographic trends were exacerbated when Duluth's charter school and Minnesota State Colleges and Universities teachers were transferred to the TRA fund.

St. Paul's funding problems stem more from inadequate contribution revenue over many years. Contribution levels for both St. Paul and Duluth are stipulated in state statute.

How many members and retirees do SPTRFA and DTRFA have?

As their most recent actuarial valuations, St. Paul had a total of 10,688 active, inactive and retired members and Duluth had a total of 3,343 members. Each plan's demographic trend is displayed in the table that follows.

Demographic trends for DTRFA and SPTRFA: 2000 vs. 2012

	DULUTH		ST. PAUL	
	2000	2013	2000	2013
Number of actives	1,441	873	4,445	4,061
Number of benefit recipients	996	1,445	1,964	3,404
Ratio of actives to recipients	1.4	0.6	2.3	1.2

How do St. Paul and Duluth teachers' benefits compare with TRA's?

The 2013 legislation equalized some benefits among the three teacher systems. Before passage of the legislation, St. Paul and Duluth Teachers had a benefit formula multiplier (generally 1.7 percent for each year of service) that was lower for active teachers than TRA's formula multiplier (generally 1.9 percent for each year of service). Since 2006, TRA members have had a formula multiplier of 1.9 percent. The legislation provides both Duluth and St. Paul Teachers with the higher 1.9 percent multiplier for future years of service beginning July 1, 2013 for DTRFA and beginning July 1, 2015 for SPTRFA.

With respect to annual increases for retirees, Duluth was paying no increase, St. Paul was paying a 1 percent annual increase and TRA a 2 percent increase. As a result of the 2013 legislation, Duluth and St. Paul both pay a 1 percent annual increase in benefits for retirees. TRA's 2 percent increase for retirees will remain the same.

What is TRA's current financial status?

As of its most recent (FY 2013) actuarial valuation, TRA had a market value funding ratio of 76.9 percent. That ratio is much improved from its low point in FY 2009 when, due to the severe market downturn, TRA's funding ratio had dipped to 60 percent. TRA's funded ratio has recovered in recent years due to a combination of excellent investment returns and the 2010 shared sacrifice reforms which legislated COLA reductions and employer/employee contribution rate increases.

Excellent returns from July through December 2013 have improved TRA's market value funding ratio. Despite this improvement, TRA faces financial challenges. According to its actuarial reports, TRA still has a market value funding deficiency of 1.73 percent of payroll. Unless this deficiency is reduced as a result of higher-than-expected investment returns in the future or addressed through additional contribution revenue, state aid or benefit adjustments, TRA is projected to attain a funded ratio of 87 percent, rather than 100 percent, by 2037. The TRA Board is monitoring the fund's status closely and will recommend measures it considers necessary to assure financial stability of the fund.

TRA financial status as of FY 2013

Market value of assets	\$18.0 billion
Actuarial accrued liability	\$23.4 billion
Unfunded actuarial accrued liability (market value)	\$5.4 billion
Funded ratio (market value)	76.9%

What effect does the 2013 legislation have on active TRA members or retirees?

At this point, there is no effect on TRA's active or retired members. Current law, which provides TRA retirees with annual increases of 2.0 percent, remains in effect. And TRA's formula multiplier of 1.9 percent is unaffected.

If a consolidation occurs, would DTRFA and SPTRFA members and retiree benefits be brought up to those of current TRA members and retirees?

That is unknown at this time. After passage of the 2013 legislation, all active members (TRA, Duluth, St. Paul) will have the same formula multiplier per year of service. The key remaining difference in retiree benefits is the annual COLA. TRA's COLA is 2 percent while St. Paul and Duluth COLAs are 1 percent. When the Minneapolis teachers' fund merged with TRA, TRA benefits were extended to the incoming members.

Has legislation been introduced addressing a consolidation?

Yes. HF1951, sponsored by Rep. Mary Murphy, would merge the Duluth fund into TRA on June 30, 2015, while leaving the St. Paul fund a separate fund. Importantly, the proposed legislation includes sufficient state aid amounts (\$14.7 million annually) to merge DTRFA into TRA at a fully-funded level. This is necessary to protect TRA assets. Details are available on the website of the Legislative Commission on Pensions and Retirement (LCPR):

<http://www.commissions.leg.state.mn.us/lcpr/billlog.htm>

How can I express my opinion on this proposal?

Contact your legislators. A list of Minnesota House of Representatives members is available at <http://www.house.leg.state.mn.us/members/hmem.asp>. A list of Minnesota Senators is at <http://www.senate.leg.state.mn.us/members/index.php>.