

St. Paul Teachers' Retirement Fund Association

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Dear Members of the Legislative Commission on Pensions and Retirement,

Saint Paul Teachers' Retirement Fund Association (SPTRFA) commends the hard work of Legislative Commission on Pensions and Retirements (LCPR) members to improve retirement benefits for all Minnesotans. We fully recognize LCPR members represent divergent contingencies and compromises are necessary to pass any legislation, let alone an omnibus pension bill.

For last night's LCPR meeting, the agenda did not allow for additional testimony; however, numerous stakeholders were invited to share their perspectives on various aspects of the bill. Since SPTRFA was not invited to speak, we wanted to share a few key perspectives now.

It was awe inspiring to see the LCPR securing a historic pension target for the 2025-2026 legislative session. A \$20 million ongoing annual appropriation for teachers provides an opportunity to secure a significant benefit improvement for all teachers across the state of Minnesota. This opportunity compounds on the improvements to both the Teachers' Retirement Association (TRA) and the SPTRFA pension plans during the 2023-2024 legislative session.

Based on the precedence set by allocating all teacher appropriations to teachers in both teacher plans, a pro-rata allocation based on Accrued Actuarial Liabilities results in a split of \$18.967 million for TRA and \$1.033 million for SPTRFA. Allocating all \$20 million requires SPTRFA members to sacrifice a benefit increase and subsidize TRA's benefit increase.

SPTRFA consists of 13,637 members, of which only 3,472 are active members. Active, retired, and deferred members are distinct and diverse groups with varying legislative priorities. The SPTRFA Board, which is made up of nine member elected representatives and one St. Paul Public Schools Board Member, can fully assess and represent the combined interests of the entire plan.

At the emergency TRA Board Meeting on May 16th, the TRA Board approved a framework for acceptable that legislation that required 1) a career benefit improvement, 2) that no teachers experience a benefit decrease, and 3) in combination with State Aid, a portion of the plan's contribution sufficiency, as reported in the most recent actuarial valuation, could be used to fund the benefit increase.

The TRA benefit increase extends the current decreased career retirement factors for teachers aged 62, with 30 years of service; decreases those retirement factors from 6% to 5%; and eliminates COLA adjustments for retirees using career retirement factors. The proposal was actuarially valued to cost 0.57% of salary per year. A \$20 million State Aid appropriation equates to 0.31% of salary, which requires the plan deplete its sufficiency by 0.26%. Mr. Mauer testified that the projected sufficiency, as of June 30, 2025, will be 0.49% of salary, which would leave a remaining sufficiency of 0.23%. A \$19 million State Aid appropriation equates to 0.29% of salary, which requires the plan deplete its sufficiency by 0.28% and leaves a remaining sufficiency of 0.21%. Both funding levels are equally compliant with the framework the TRA Board approved.

That allows for the inclusion of SPTRFA members without endangering the ability of TRA members to receive a benefit increase.

A \$1 million appropriation to SPTRFA will provide a decrease in active member contributions of 0.5% of salary. This results in more money in teachers' pockets every paycheck. This benefit applies to all teachers, regardless of their eligibility for a career rule.

The 0.5% contribution decrease helps offset the forthcoming contribution rate increases, from 7.75% to 8.75%, effective July 1, 2025; and from 8.75% to 9.00%, effective July 1, 2026. These contribution rate increases were included in the 2023 Pension Omnibus Bill and represent the employee contribution portion of lowering the Normal Retirement Age to 65 and establishing a career rule that allows teachers aged 62, with 30 years of service ("62/30"), to retire with an unreduced benefit. The actuarial cost of the "62/30" career rule is 0.95% of salary and is funded by a 1.00% increase in employee contributions.

While the "62/30" career rule was unique benefit that applied only to SPTRFA members, SPTRFA pay more for less of a benefit than teachers in TRA. That was true before and after the implementation of the respective career rules (Base shown as of June 30, 2024, actuarial valuation).

	SPTRFA		TRA	
	<u>Employee</u>		<u>Employee</u>	
	<u>Normal Cost</u>	<u>Contribution Rate</u>	<u>Normal Cost</u>	<u>Contribution Rate</u>
Base Benefit	8.92%	7.75%	11.08%	7.75%
Career Benefit	0.95%	1.00%	0.57%	0.00%
Total Benefit	9.97%	8.75%	11.65%	7.75%

Providing the funding for a 0.5% employee contribution rate decrease prevents further exacerbating the disadvantage in benefit value that already exists for SPTRFA members.

The exclusion of SPTRFA from the 2025 Pension Omnibus is extremely disappointing. The sacrifice SPTRFA members made has been acknowledged and promises have been made to make SPTRFA members whole in the future. While this is greatly appreciated, a concrete benefit increase now is far more valuable to SPTRFA members.

Once again, SPTRFA applauds the great work the LCPR does to improve the retirement security of all Minnesotans on an ongoing basis. We look forward to extending the strong working relationship we have with the LCPR next year, when we can secure a permanent, funded benefit improvement for SPTRFA members

Very Respectfully,

Phillip Tencick, Executive Director and Chief Investment Officer