



# **Governing in Challenging Times**

**NCTR Annual Convention  
October 13, 2010**

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**The Minnesota Experience**

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**Marti Zins, TRA Board President**



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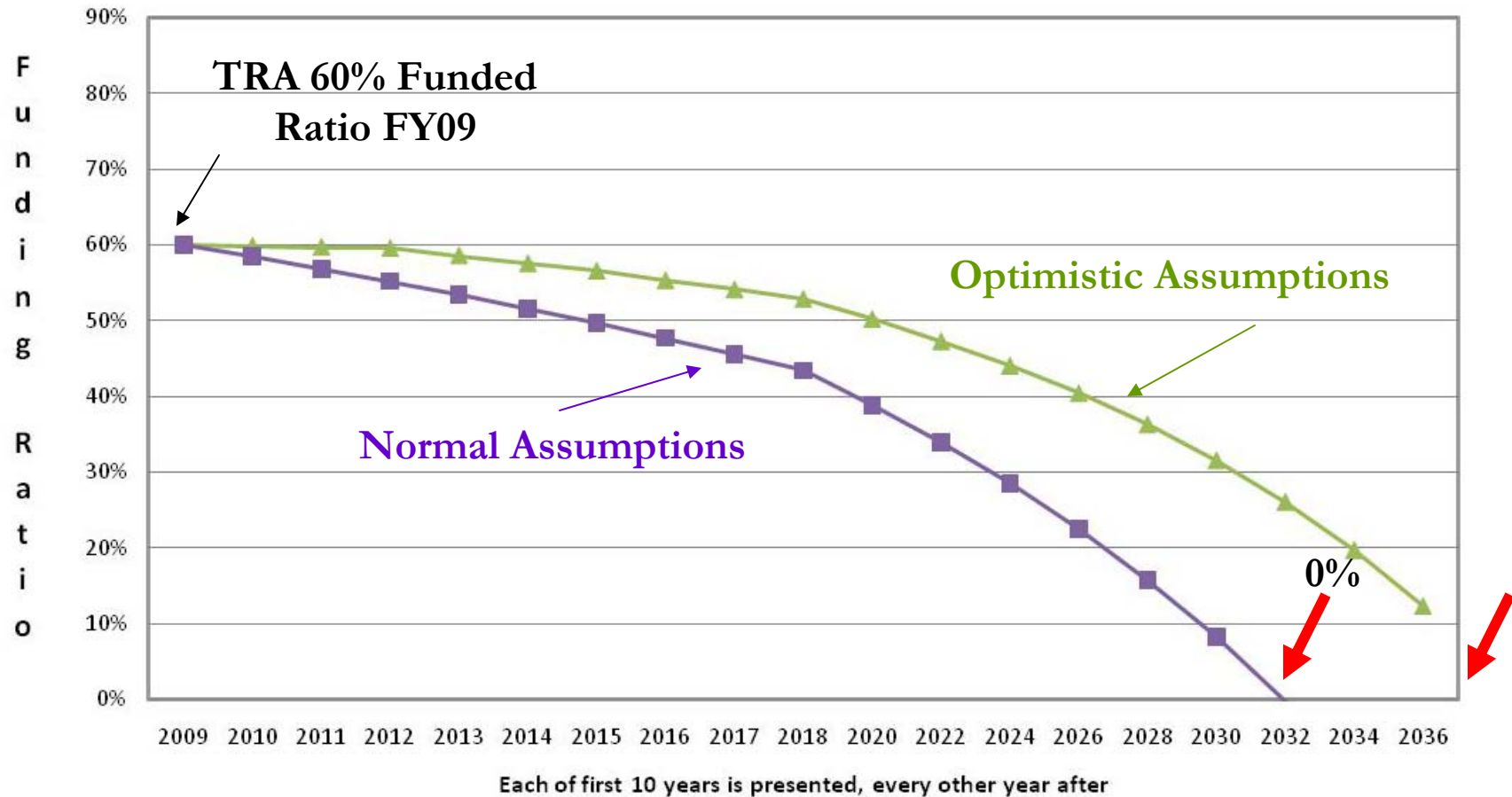
## MN Teachers Retirement Association (TRA) Background

- ❑ **Membership:** 77,162 active teachers; 50,208 retirees
- ❑ **Assets:** \$14.9 Billion (as of 6/30/10)
- ❑ **Contributions:** 11% of pay (5.5% ER/5.5% EE) – set in statute
- ❑ **Board:** 8 members – 5 elected (1 retiree); 3 appointed

### Funded Status History

- ❑ Previously well funded: >100% funded ratio through 2002
- ❑ -18.9% return in fiscal year 2009 caused funded ratio to plunge to 60%
- ❑ If nothing done, actuary projected TRA Fund exhausted by 2032

# What if nothing is done?



■ **Purple** : 8.5% investment return – all years

▲ **Green** : 11% investment return for 3 years; 9.5% for all years after



# TRA Board Acted to Meet Challenge

## Summer 2009 – Publicized the problem

- ❑ Multiple articles in newsletters, on website
- ❑ Many outreach meetings with stakeholder groups (retirees, actives, employers)
- ❑ Early meetings with key legislators to educate

## Fall 2009 – Studied options, solicited input

- ❑ Board asked actuary for 30-year projections
- ❑ Board studied all options (benefit cuts, contribution increases, doing nothing) and discussed options in open meetings with stakeholders present. Asked for feedback, gauged tolerance

## November/December 2009 – Finalized plan, sought support

- ❑ Board finalized package– developed “shared sacrifice” approach
- ❑ Most (10) stakeholder groups signed on to support proposal



# Key Elements of TRA Sustainability Package

**Shared sacrifice** – employers, employees, retirees all part of solution

**1. Retirees:**

- 2-year suspension (2011 and 2012) of annual 2.5% increase
- Lower 2.5% increase to 2.0% in 2013, until 90% funded

**2. Other benefit cuts:**

- Reduce interest rate on refunds from 6% to 4%
- Reduce interest to 2% for benefits of deferred employees

**3. Employees:** Increase contributions by 2%, from 5.5% to 7.5%

- phased in over 4 years, at 0.5% per year, 2011 – 2014

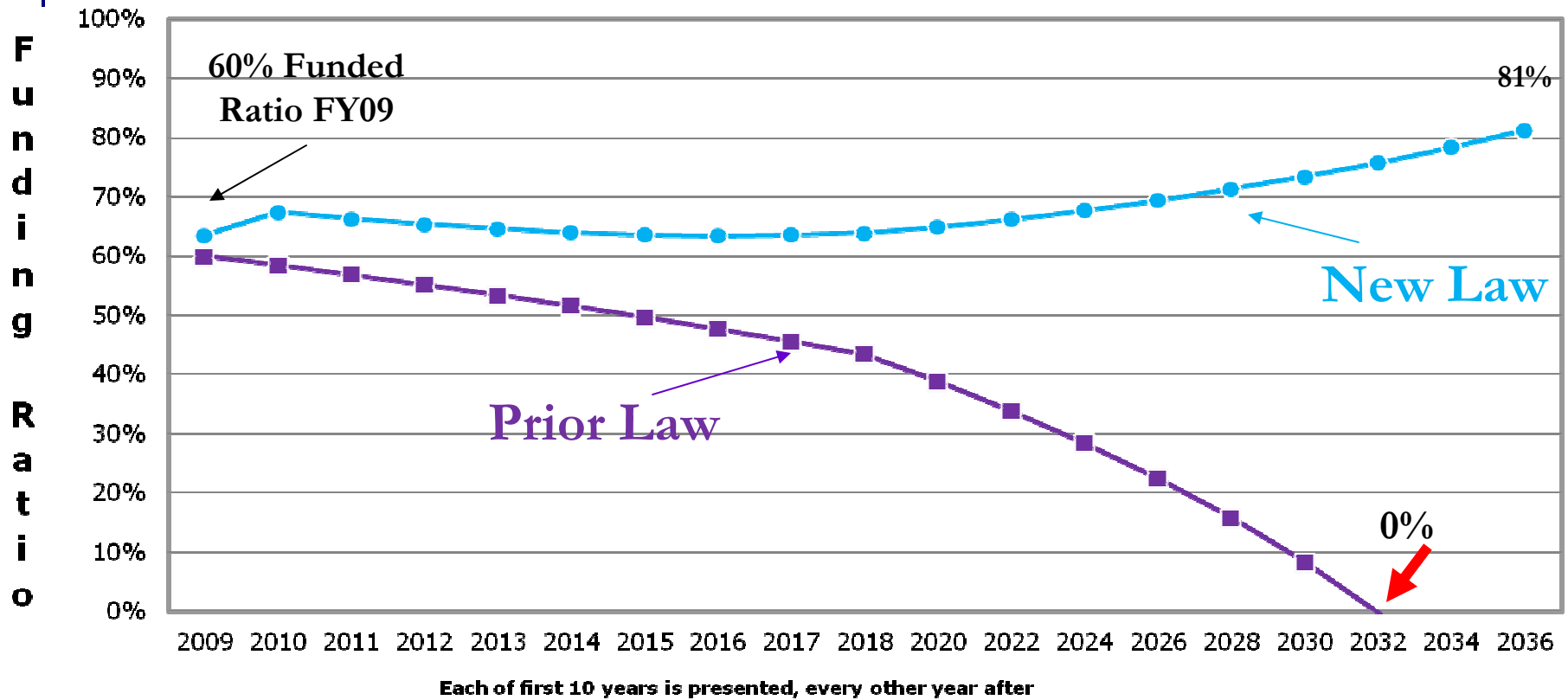
**4. Employers:** Increase contributions by 2%, from 5.5% to 7.5%

- phased in over 4 years, at 0.5% per year, 2011 – 2014

- Legislative action swift – signed into law 4 months after introduced



# Results from Sustainability Bill



- Purple:** Current Contributions (11.69%), no changes in contributions/benefits, 8.5% return in all years
- Blue:** 2010 Pension bill (higher contributions, 2 year COLA suspension with 2% thereafter, reset amortization period to 30 yrs, 8.5% return in all yrs)

\* Source: Mercer Consulting actuarial projections, 8/18/10

## Challenges Ahead

- ❑ **Investment markets ??** – key to future funding stability – FY10 return was 15.2%
- ❑ **New contribution “stabilizer” mechanism** – TRA Board given discretion to adjust contribution rates if needed
- ❑ **Legal challenge in the courts??** -- class action suit on behalf of retirees claims contract right to annual increases once retired; Colorado and South Dakota face similar lawsuits from same law firm
- ❑ **Defined contribution/benefit study** – requested by governor and Republican legislators. System directors required to analyze DB, DC and alternative designs, report due June 1, 2011