

# WebEx Conference - Omaha School Employees Retirement System

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Presented by:

*Jay Stoffel, Executive Director, and  
others from TRA Stakeholder groups*

October 31, 2018



# Participants from Minnesota TRA

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- Jay Stoffel, Executive Director
- Marti Zins, President, Board of Trustees
- Lonnie Duberstein, retired teacher, immediate past president of Retired Educators Association of Minnesota (REAM)
- Paul Erhard, retired teacher, president-elect of REAM

# TRA's membership and mission

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*Serving teachers for over 100 years – five generations of teachers*



## **Membership – 194,000 people**

- 82,000 active teachers
- 65,000 retired public school educators, state college faculty
- 14,000 deferred, vested members
- 33,000 deferred, non-vested members

## **Financial profile**

- \$22 billion in assets
- \$1.8 billion in annual payments benefit state economy, support 41,839 jobs, generate \$6.3 billion in economic activity and \$1.4 billion in tax revenue

## **Mission**

- Retirement security for Minnesota teachers
- Support state's education system by attracting and retaining teachers

# Governance & Investments

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- **Minnesota Legislature (134 House/67 Senate) controls:**
  - plan eligibility, vesting period
  - benefits, COLA's
  - contribution rates
  - investment return assumption
  - actuarial methods (asset smoothing, UAAL amortization and period, actuarial funding, etc.)
  - sets investment guidelines
- **TRA Board is comprised of 8 members:**
  - 4 elected active educators
  - 1 elected retired educator
  - Commissioner - Dept. of Education
  - Commissioner - MN Management & Budget
  - Representative from MN School Board Association
- **Investments managed by MN State Board of Investment**

# What were the factors making it necessary to pass a pension bill?



- **Mortality Experience:** An experience study in 2015 evaluated all actuarial assumptions (economic and demographic) and recommended an adjustment to the mortality tables – TRA members and retirees are living longer – on average an extra two years, adding significant cost to the fund.

Note: people born in Hawaii, Minnesota, and Connecticut have the longest average life expectancies in the USA. (Hawaii age 81.3, Minnesota age 81.1, Connecticut age 80.8). Also, females and people with higher education have longer life expectancies.

- **Investment Return Expectations:** A “mini-experience study” in 2017 of the economic assumptions recommended a lower investment return assumption, from 8.5% to 7.5%. This added significant liability to the fund.

# Actuarial condition - before and after



<b>FINANCIAL STATUS</b>	<b>June 30, 2017 Without reforms; 7.5% investment return assumption</b>	<b>June 30, 2018 ESTIMATED, with 2018 reforms; 7.5% investment return assumption</b>
Actuarial accrued liability	<b>\$30.3 billion</b>	<b>\$28.7 billion</b>
Assets at market value	<b>\$21.3 billion</b>	<b>\$22.3 billion</b>
Unfunded liability	<b>\$9.1 billion</b>	<b>\$6.4 billion</b>
<b>Funded ratio</b>	<b>70.1%</b>	<b>77.7%</b>
<b>Projected funded ratio in 30 years</b>	<b>52%</b>	<b>105%</b>

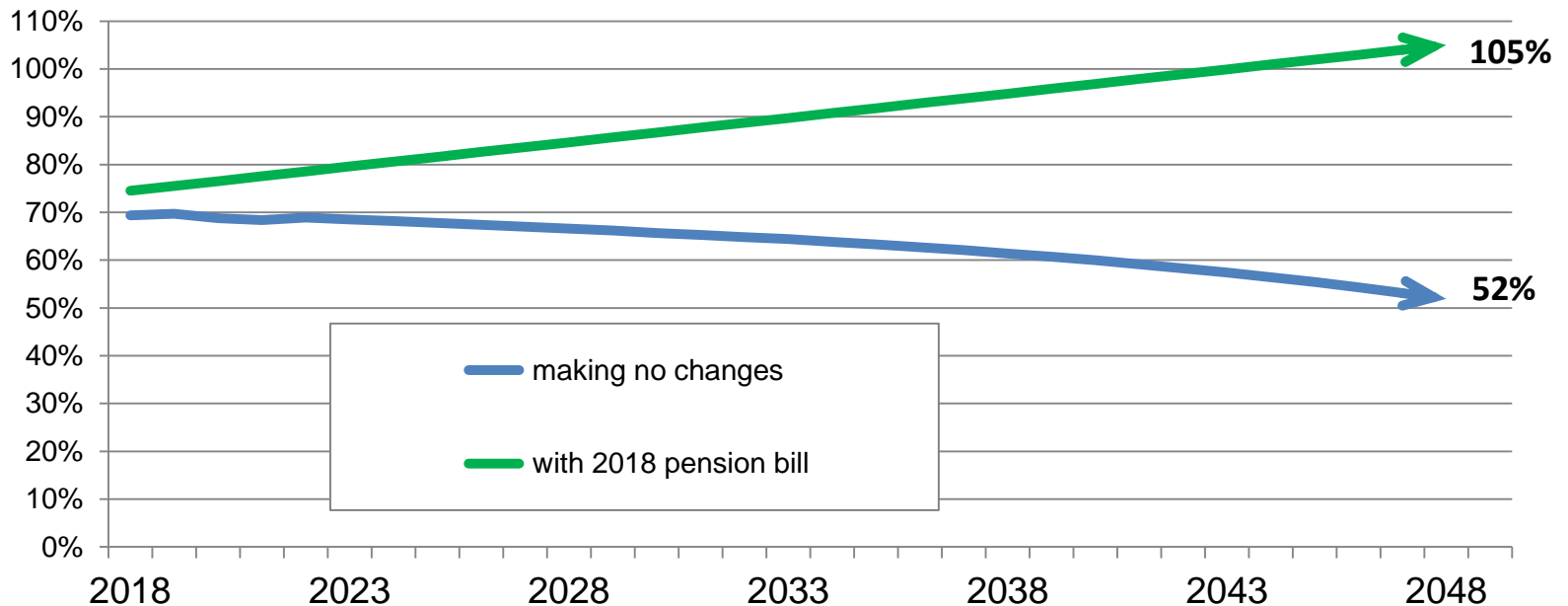
Total required contribution, as % of pay	<b>23.07%</b>	<b>17.10%</b>
Statutory employee + employer contributions	<b>15.93%</b>	<b>17.41%</b>
<b>Contribution deficiency, as % of pay</b>	<b>(7.14%)</b>	<b>0.31%</b>

Source: Cavanaugh MacDonald actuaries, FY2017 Valuation Report and FY2018 estimated valuation results (estimated).

# What's next: Let the law do its work



- With no legislation, the actuaries were warning that the fund was on a trajectory to be 52% funded in 30 years.
- Now that the pension bill has passed, the TRA fund is on a positive trajectory. If all assumptions are realized, the fund is projected to be 105% funded in 30 years.



# Omnibus Pension Bill-Third time a charm



## Pension Bill 2016 - VETOED

- Final bill was a “stop-gap” measure that cut COLA’s for one year.
- Governor Dayton declared the bill unfair, as it did contain a shared commitment among employers, employees, and retirees

## Pension Bill 2017 - VETOED

- The pension bill was combined with minimum wage pre-emption and a wage theft bills. The Governor had previously warned the legislature not to mix.
- The final bill did not contain sustainability measures for TRA, as funding could not be identified

## Pension Bill 2018 – PASSED

- Was comprehensive, long-term, included all plans, was funded, and was supported by all stakeholder groups from beginning of session.
- Received unanimous votes in every committee and on the floor of House and Senate (with a republican legislature).



# Pension bill passage gets rave reviews



OPINION > PIONEER PRESS EDITORIALS

## Editorial: Unanimously passed pension repair. **Wow.**



By **PIONEER PRESS EDITORIAL BOARD** | Pioneer Press  
May 31, 2018 at 12:31 am

### The Post Review

North Branch, Rush City, Stacy, Harris, Almelund

HOME PUBLICATIONS HOME COMMUNITY NEWS SPORTS OPINION OBIT

## 'Amazing accomplishment'

Joe Nathan Jul 11, 2018 0

BUSINESS

## Bond rating agencies give Minnesota top marks

AAA rating means better interest rate, taxpayer savings.

By **Jessie Van Berkel** Star Tribune | JULY 25, 2018 — 11:24PM

EDITORIAL

## Pension bill was 2018 bright spot for Minnesota Legislature

Shared sacrifice allowed for a win-win result for all concerned.

By **Editorial Board** Star Tribune | JUNE 6, 2018 — 12:19PM



**'Wow' indeed.**

# MANY groups & individuals were involved

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Retired Educators Association of Minnesota	Association of Metropolitan School Districts
Education Minnesota Retired	Minnesota Association of School Administrators
Education Minnesota	Minnesota Association of School Business Officials
Minneapolis Committee of 13 Pension PAC	Minnesota Association of Secondary School Principals
St. Paul Teachers Pension PAC	Minnesota Elementary School Principals Association
Minneapolis Federation of Teachers	Minnesota Rural Education Association
St. Paul Federation of Teachers	Minnesota School Board Association
Inter Faculty Organization	Schools for Equity in Education

# A shared commitment by all stakeholders



## WHO MADE IT HAPPEN? YOU



TEACHERS



EMPLOYERS



RETIREEES

## TRA SUSTAINABILITY MEASURES

COLA: 1.0% for 5 years (2019-2023), then increase by 0.1% per year in each of next five years (2024-2028) to 1.5%

COLA delay to age 66: Effective 7/1/2024. Exempt: Rule of 90, disability, survivors, age 62/30 years.

Early retirement: Changes calculations, 5-year phase-in (fiscal years 2020-2024), age 62/30 years exempt.

Deferred augmentation: Reduce to 0% (effective 7/1/2019).

EE contribution increase: +0.25% beginning in FY2024 (7.5% to 7.75%)

ER contribution increases: +1.25% phased in over 6 years, FY19-24 (7.5% to 8.75%)

Re-amortization: Over 30 years, 2039 to 2048.

# What's next: Funding in the biennial budget



Commitment by the State to the school districts and charter schools begins in FY2019, grows each year until FY2024, and continues unchanged thereafter. ***These commitments must be funded. The biennial budget for fiscal years 2020 and 2021 will be set in the 2019 session.***

ER rate change	FY19	FY20	FY21	FY22	FY23	FY24
0.21%	\$9.8 m	\$10.1 m	\$10.35 m	\$10.6 m	\$10.88 m	\$11.15 m
0.21%		\$10.1 m	\$10.35 m	\$10.6 m	\$10.88 m	\$11.15 m
0.21%			\$10.35 m	\$10.6 m	\$10.88 m	\$11.15 m
0.21%				\$10.6 m	\$10.88 m	\$11.15 m
0.21%					\$10.88 m	\$11.15 m
0.20%						\$11.15 m
1.25%	\$9.8 m	\$20.2 m	\$31.1 m	\$42.4 m	\$54.4 m	\$66.9 m

Covered payroll in FY2018 is \$4.9 billion and is assumed to increase annually by 2.5%.

# Factors for success in 2018

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- Pension bill contained a shared commitment by all stakeholder groups – employee, retirees, and the State (taxpayers). Actuarial calculations and charts were used effectively to demonstrate a balance.
- TRA stakeholder groups (15) were all on board at the beginning of session. A coalition was formed of 31 stakeholder groups representing 500,000 Minnesotans and was effective in delivering the message.
- The Governor and MN Management and Budget were strong proponents - they focused on rating agency attention to unfunded pension liabilities, and the importance of a AAA bond rating.
- Grassroots effort by representatives of active members and retirees who testified at committee hearings and met with legislators

# Factors for success in 2018 - continued

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- Bill was championed by influential leader in the Senate. House author was also very strong proponent.
- State budget surplus was a positive environment
- Blue ribbon panel of business leaders assembled by Governor to study pensions – their ideas were contained in the pension bill
- Some talking points:
  - Each year of delay results in more costly solutions
  - Ratio of employee to employer share of solution: **3 to 1**
  - Immediate reduction of UAAL by \$2B (from \$9B)
  - Immediate improvement in funded ratio, from 70% to 75%
  - Improvement in projected funding ratio - from 52% to 92%