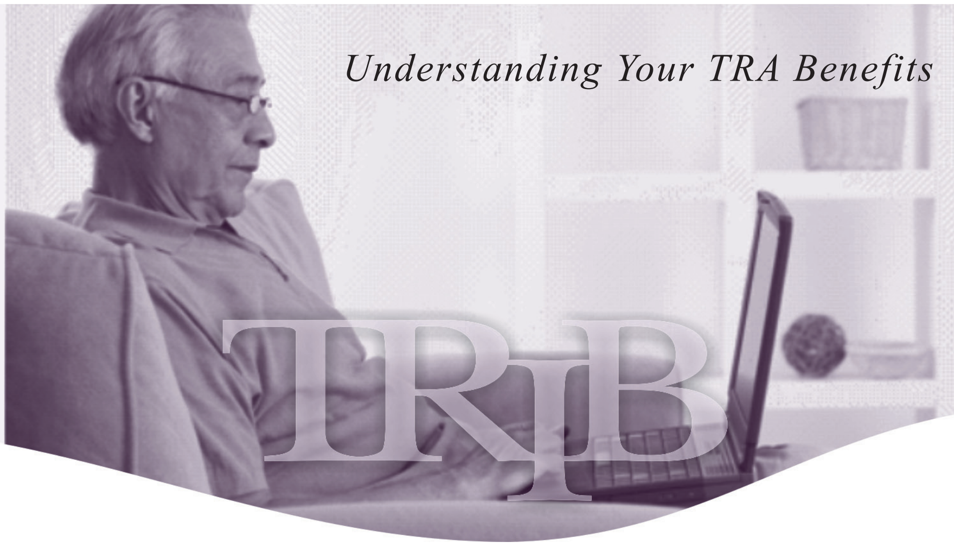
MN

TEACHERS
RETIREMENT
INFORMATION
BULLETIN

Retiree Edition ▪ Winter 2014

Understanding Your TRA Benefits



Teacher funds study consolidation

Last spring, the Minnesota State Legislature passed a law requiring the Duluth Teachers Retirement Fund Association (DTRFA), the St. Paul Teachers Retirement Fund Association (SPTRFA) and the Teachers Retirement Association (TRA) to jointly study the feasibility and requirements necessary for consolidating DTRFA and SPTRFA into TRA.

This report, due to the Legislative Commission on Pensions and Retirement (LCPR) on Jan. 6, includes detailed actuarial analysis, proposed cost allocation, implementation plans, asset investment management considerations, and education/communication plans.

At their November board meetings, the Duluth board voted in favor of consolidating with TRA, while the St. Paul board voted to remain a separate fund. The TRA board took a position that it is willing to accept the financial and administrative responsibilities of merging DTRFA and SPTRFA into TRA with the condition that financial assistance is provided to TRA through ongoing annual payments that are sufficient to fully fund any merging entity. This requires redirecting to TRA all of the existing annual state aid currently provided to the merging fund plus additional annual assistance.

Financial impact

The statutory language mandating the report required it to include detailed actuarial analysis that

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2 percent COLA effective Jan. 1

A post-retirement increase of 2 percent goes into effect on Jan. 1, 2013. Members who started receiving a benefit on or before July 1, 2012, will get a 2 percent increase. Members who started receiving a benefit between July 2, 2012 and June 1, 2013, will get a prorated increase (see chart at www.minnesotatra.org/member info/r-pradjust.html).

If you are eligible for a post-retirement increase on Jan. 1, you may have already received a letter detailing the increase to your monthly benefit, along with current tax information. State and federal tax tables are available on our website under Forms and Publications.

More on taxes

- If you set up an online account, you'll receive an e-mail when your 1099-R is available online. 1099-R forms will be available online at www.minnesotatra.org before you receive your copy by mail.
- Make sure your address is up to date so you get your 1099-R tax form. Your 1099-R tax form will be mailed by Jan. 31, 2014, and is needed for your 2013 tax returns. **If you're moving for the winter, get your temporary address to us now by logging in to your online account or by calling 800-657-3669.**
- You may initiate, renew, or revoke your current tax withholding designation at any time. If you decide to reduce or revoke the amount of income tax withheld, you will be responsible for any penalty incurred under federal tax laws if the amount withheld is inadequate.
- If you move out of state, notifying TRA of a change of address is not sufficient authorization for TRA to discontinue withholding Minnesota state taxes.

President's corner

Martha Lee (Marti) Zins, President

Debunking the 'crisis narrative'

Advocates for 401(k)/defined contribution plans such as the American Legislative Exchange Council (ALEC) and Minnesota's Center of the American Experiment have been busy exploiting the pension problems of the state of Illinois and the city of Detroit, spreading their "crisis narrative."

It goes something like this: Public pensions caused Detroit's bankruptcy and Illinois' fiscal problems, pensions will also cause state and municipal bankruptcies elsewhere in the U.S., therefore public pensions must go.

Proponents of the crisis narrative want public workers put into the same 401(k) retirement system that is so badly failing our friends and family members who work in the private sector. Who would stand to gain from such a move? Not public workers.

The crisis narrative is highly misleading – particularly in Minnesota. Minnesota has been prudent and disciplined about managing its public pensions and has a history of addressing funding shortfalls before things get out of hand. These remedies have come in the spirit of shared sacrifice by employers as well as retired and active employees.

Ratings agencies such as Moody's, Fitch and Standard & Poor's have positive things to say about Minnesota's pension obligations – which would hardly be the case if Minnesota or its major cities were on the verge of a Detroit-style calamity.

And although the mainstream media is failing in its watchdog role and falling for the crisis narrative perpetuated by "think tanks" that have an interest in killing defined-benefit pensions, progressive news websites have stepped in to set the record straight. Among the websites that have done some good reporting on public pensions and some energetic debunking of the crisis narrative are Truth-out.org, Salon.com, Ourfuture.org, and Huffingtonpost.com.

Nationally syndicated columnist David Sirota earlier this year released an important study, "The Plot Against Pensions," examining the anti-pension activities of the Laura and John Arnold Foundation in partnership with the Pew Foundation. The Guardian in early December did a major exposé on the activities of ALEC and its satellites in the states – including the Center of the American Experiment in Minnesota. As 501(c)3 nonprofits, these organizations enjoy a special tax-exempt status not granted to organizations that lobby. The Guardian looked at 34 states, including Minnesota, where these small think tanks are advocating on specific issues. Pension reform is among the issues, and the Center of the American Experiment in Minnesota was mentioned as actively lobbying against public pensions.

One wishes the debunking of the crisis narrative would break the confines of the progressive blogosphere, though there are signs that some media outlets are aware that they've been drinking the conservative think-tank Kool-Aid. NPR in early December interviewed retirement expert Alicia Munnell, Center for Retirement Research at Boston College, who proceeded to thoroughly debunk the notion that pensions are to blame for Detroit's problems and that pensions will crush other municipalities in the U.S.

It was a rare moment of pension truth in a sea of mainstream-media pension hysteria. All too often, lazy journalism prevails. Public pensions are an easy target, and it's convenient to make pensions the scapegoat for a variety of government ills.

The people peddling the crisis narrative are relentless, and in debunking their assertions, we need to be relentless, too. Their assertions will cease to be newsworthy when we shine truth's bright light into the murk of distortion.

2014 Direct Deposit Schedule

January 2	July 1
February 3	August 1
March 3	September 2
April 1	October 1
May 1	November 3
June 2	December 1

✂ *Clip and Save* ✂

2013 financial status: Making progress

The 2013 TRA Comprehensive Annual Financial Report is now available for viewing at www.minnesota-tra.org/formspub/2013annualrpt.html.

The period from July 1, 2012 to June 30, 2013, was a strong year for TRA. The assets TRA uses to pay benefits were approximately $18.01 billion, up from $16.69 billion the previous year.

Investments: Stronger investment performance was the primary driver of the increase. All TRA assets are invested by the Minnesota State Board of Investment (SBI). The TRA Fund posted a return of 14.2 percent during the 2012-2013 fiscal year, compared to a 2.4 percent return the previous year. During fiscal year 2013, domestic stocks returned 21.9 percent. International stocks rose to 16.1 percent for the fiscal year. The fixed income (bond) portfolio rose 0.8 percent. Alternative investments, including real estate and private equity, posted a return of 11.3 percent for the fiscal year.

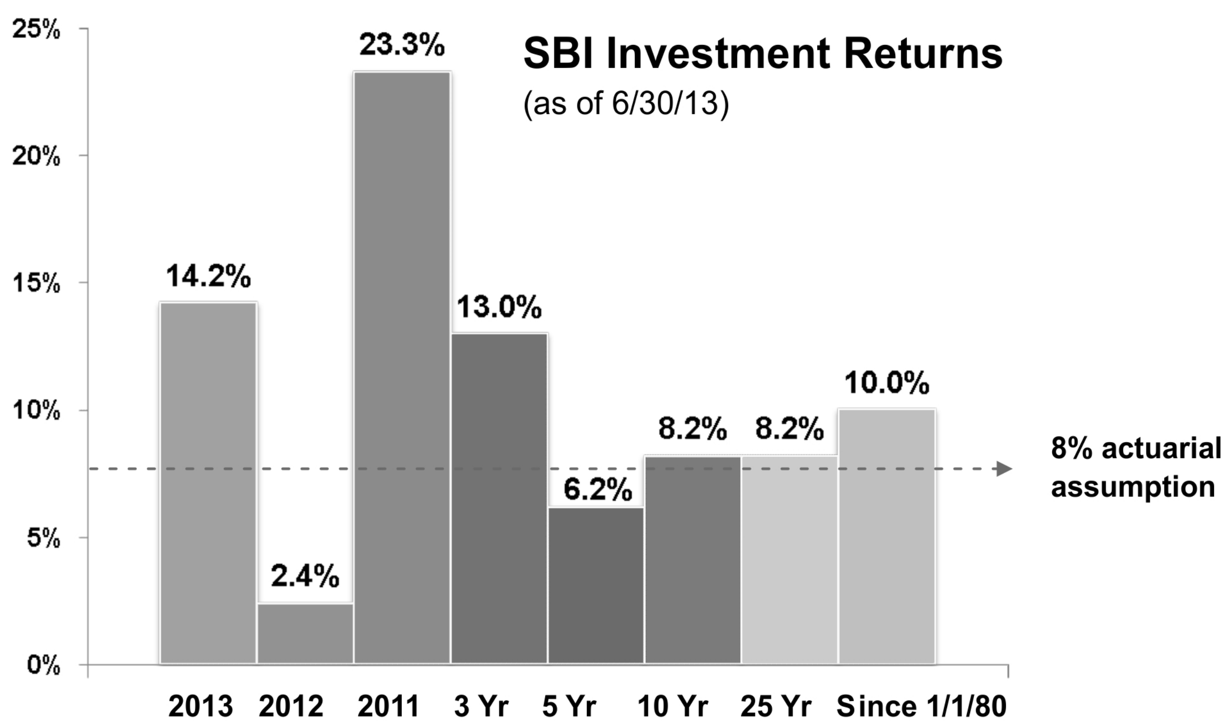
Revenue: The TRA investment portfolio experienced net investment income for the fiscal year of $2.31 billion. Total employee and employer contributions were $0.56 billion. Total net operating revenue was $2.87 billion.

Expenses: Benefit payments made during fiscal year 2013 were $1.52 billion, or about $127 million per month. During the fiscal year, $10.5 million in refunds were paid to members who left teaching and chose to withdraw their contributions plus interest. Total administrative expenses were $9.1 million. Total operating expenses were about $1.54 billion.

Funding status: When calculating funded ratios, TRA assets are smoothed over the most recent five-year period. Using this method, TRA's funded ratio was 71.63 percent as of July 1, 2013. On June 30, 2013, the actuarial value of TRA assets was $16.78 billion and the actuarial liability (the amount needed to pay benefits) to both active and retired members was $23.42 billion, producing an unfunded liability of $6.64 billion.

TRA's contribution deficiency was 4.74 percent of active-member payroll. Employee and employer contribution rate increases totaling 1.00 percent will take effect over the year, which will bring the deficiency down to 3.74 percent.

Using a market value of assets measure (with no smoothing of losses or gains), TRA's funded status was 76.93 percent. Under this method of assessing funding health, TRA's unfunded liability was $5.40 billion and the contribution deficiency was 2.73 percent of active member salaries or 1.73 percent if adjusted for forthcoming contribution increases.



Consolidation study ready for legislature

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defines the financial requirements for consolidating DTRFA and SPTRFA into TRA in a manner that assures that TRA's assets are protected and that the merging plans are fully funded.

The actuarial estimates indicate that it will require $14.7 million in additional annual assistance to bring DTRFA into TRA on a fully funded basis and $46.4 million annually to bring in SPTRFA on a fully funded basis. These annual funding amounts need to be paid throughout TRA's existing statutory 24-year amortization period.

Financial status of teacher funds

TRA has higher funded ratios than DTRFA and SPTRFA. For FY2013, TRA has a market value funded ratio of 77 percent. For FY2013, SPTRFA is approximately 64 percent funded on a market value basis. For FY2013, DTRFA is about 58 percent funded on a market value basis. DTRFA faces special financial challenges due to adverse demographic trends. Duluth's student population has been declining along with the number of active teachers contributing to its fund, making it difficult for DTRFA to recover from its financial challenges without additional revenue sources.

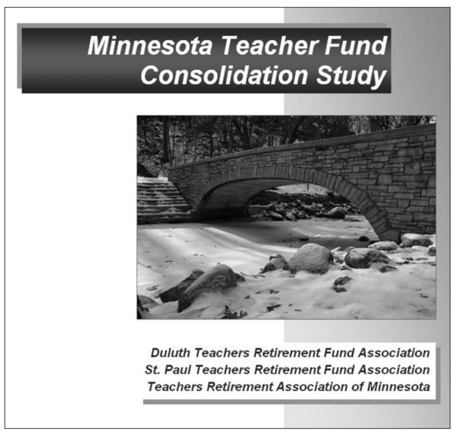
Benefit, contribution comparison

The three teacher funds have substantially similar benefit structures with the exception of post-retirement increases. SPTRFA and DTRFA provide a one percent post-retirement increase annually while TRA provides a 2 percent increase annually. Contribution rates among the three funds are also similar, with the exception that SPTRFA employer rates will increase to 10.34 percent by July 1, 2017, in contrast to TRA's and DTRFA's employer rates, which will be 7.5 percent by July 1, 2014.

Options evaluated

The consolidation options evaluated in the report included:

- Full consolidation of the merging funds' assets and liabilities including benefits administration, asset investment management and membership into TRA and the State Board of Investment (SBI).
- Transferring only asset investment management into SBI.
- Segregated account approach that would transfer benefits administration and asset investment management to TRA/SBI but the transferring fund's assets and liabilities would be maintained in a separate account that would be the financial responsibility of the employer (school district) and/or state rather than the financial responsibility of TRA.
- No consolidation; the fund remains separate and apart from TRA.



Investment-Related Issues

The SBI has reviewed the portfolios of the DTRFA and SPTRFA and believe that the majority of assets of the two funds could be transferred to SBI without difficulty given the liquid nature and ready availability of pricing and valuations for these assets. There may be some assets, such as DTRFA's direct ownership of real estate (its office building), that may be problematic. SBI would review these holdings on a case-by-case basis and handle in an appropriate and prudent manner.

Board recommendations

The DTRFA Board recommends full consolidation with TRA beginning immediately after enactment of the enabling legislation and fully implemented no later than June 30, 2015. In light of the adverse demographic trends that it faces, DTRFA believes that merger with TRA is in the best interests of its active and retired members.

The SPTRFA Board recommends remaining as a separate fund. SPTRFA made and continues to make plan changes to strengthen its financial status. With the inclusion and continuation of the recent increase in supplemental state aid ($7 million annually), together with major adjustments to employer and employee contributions, SPTRFA expects to be on track to fully meet its obligations in a more cost-effective manner than merging with TRA.

The TRA Board is willing to accept the financial and administrative responsibilities of merging DTRFA and SPTRFA into TRA with the condition that financial assistance is provided to TRA through ongoing annual payments that are sufficient to fully fund any merging entity.

As fiduciaries, the TRA Board is requesting a level of financial aid sufficient to achieve 100 percent

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TRA news briefs

About your post-retirement earnings

You may return to work with a TRA-covered employer and earn up to the earnings limit without reducing your TRA pension benefit. Here are the key things to know:

- If you're under Social Security's normal retirement age, the TRA earnings limit is $46,000.
- If you are under Social Security's normal retirement age and retired for only part of the year, TRA's earnings limitation amount will be prorated.
- The TRA earnings limitation does not apply once you reach Social Security's normal retirement age (the limit does apply for pre-NRA activity).

If you earn over the limit, $1 in benefits will be deducted/offset from your pension for each $2 of earnings above the limit. The offset amounts are redirected to a separate earnings limitation savings account (ELSA). As of Jan. 1, 2011, no interest is earned on account balances.

You may apply for a refund of your ELSA account at any age if it has been at least one year after the last amount was redirected to your ELSA account. You may receive direct payment of your refund or have all or a portion of it rolled over to a traditional IRA or an eligible employer plan.

Questions? E-mail us at info@minnesotatra.org or call 651-296-2409.

Set up your online account today

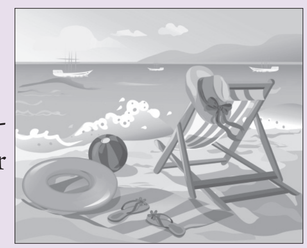
Make it a New Year's resolution to set up your TRA online account if you haven't yet done so! The TRA website provides you with immediate access to the most up-to-date information about your account.

To register, go to www.minnesotatra.org and choose My-TRA Login. Choose the register button and proceed with the registration process by creating a user ID and password.

Next you'll enter your Social Security number, choose a security question and answer, and enter your e-mail address. Your SSN or TRA number, date of birth and security question/answer will be used to verify your identity should you forget your user ID or password. Then you can view your account information, and update your contact information, including your e-mail and physical addresses.

Snowbird alert

Flying south for the winter? Don't forget to provide TRA with a temporary address. Your 1099 tax form will go to the current address on file. Update your address on our website, www.minnesotatra.org, or call 800-657-3669 or 651-296-2409.



Consolidation study

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funding in order to protect TRA assets and assure that TRA is not subsidizing the merging fund. This is consistent with past practice and precedent established in 2006 when the Minneapolis Teachers Retirement Fund Association (MTRFA) was consolidated into TRA. This 100 percent funding level is also necessary to mitigate the substantial risks TRA incurs for subsequent adverse events. Risks include:

- The risk that the amount of financial aid pledged upon consolidation is subsequently interrupted, not continued, or re-calculated in a manner that lowers the amount.
- The risk of future adverse investment performance or adverse experience with other actuarial assumptions, making consolidation more costly than originally estimated.
- The possibility that TRA's current actuarial interest assumption is lowered by the legislature in the future, an action that would substantially increase the cost of consolidation.

Implementation plans

TRA and DTRFA worked jointly to develop an implementation plan to achieve full consolidation over a period of approximately one year. The implementation plan describes the administrative and financial reporting/accounting tasks and duties that need to be accomplished including the transfer of member data/records, continuity of monthly benefit payments, staff training, staff transition, member communication and outreach, and work with the Duluth School District on payroll reporting changes.

The full report will be available Jan. 6, 2014, at www.minnesotatra.org.

Teachers Retirement Association

60 Empire Drive Suite 400
St Paul Minnesota 55103-4000

800.657.3669 | 651.296.2409

www.minnesotatra.org

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Please check all boxes that apply: ☐ Name change ☐ Address change ☐ Email address addition/change

Present Last Name (Please Print)	First Name	Middle Name	Birth Name
Address			TRA Member Number
City, State and Zip Code		Email Address	

Q. What is survivorship 'bounceback'?

A. During fiscal year 2013, 2,635 members received a TRA retirement benefit for the first time. About 63 percent of these members chose a survivorship plan that provides coverage for a survivor after the member's death.

If you chose one of the survivorship plans (100, 75 or 50 percent), you must contact TRA if your optional joint annuitant (OJA) predeceases you. If your OJA predeceases you, there is a "bounceback" provision that permits your monthly payment to be increased to the higher single life (No Refund) annuity amount.

TRA is only authorized to make a one-year retroactive change to the benefit from the date we receive the certified death certificate, so contact TRA as soon as possible so an adjustment can be made to your benefit without delay. Don't lose benefits you are entitled to receive.

TRA Responds

There's more you should know about bounceback provisions. If you are divorced, legislation passed in 2010 allows your annuity to be changed to the higher single life plan if you and your former spouse go to court to revoke the OJA election and have your former spouse waive all rights to a survivorship benefit.

Legislation in 2013 expanded this to allow a member and their non-spousal OJA to revoke the OJA election and waive any rights to a survivorship annuity. Again, the plan bounces back to the higher single-life amount.

Contact TRA for more information about bounceback provisions.

Minnesota Teachers Retirement Association

Executive Director, Laurie Fiori Hacking

The *TRIB* is published three times a year. If differences develop between the information provided and the laws of TRA, the laws prevail.

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Leighton Fritz
Active Representative
2178 S Clinton Dr
Winona, MN 55987

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Crystal, MN 55427

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