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Pension Commission Hearings on the Three Board's Consolidation Study Report

Updates following Legislative Commission on Pensions and Retirement (LCPR) January Meetings

Legislative Commission on Pensions and Retirement (LCPR) held its introductory hearing in late January on the recently completed Consolidation Report which examined the merits related to a possible merger of the three separate MN teacher retirement systems. Executive Directors of the three plans, *MN Teacher Retirement Association* (TRA), *Duluth Teachers* (DTRFA) and *St. Paul Teachers* (SPTRFA), met from May through December compiling the report and securing input from the three Boards of Trustees as well as various plan stakeholders. The Boards of the three systems gave their final approvals of the Report in December 2013. The Report was filed with the LCPR on January 6.

The major conclusion in the report is that DTRFA will seek to merge with TRA, similar to the action taken in 2006 by the Minneapolis Teachers system now a part of the TRA while SPTRFA prefers, at this time and given known facts surrounding the proposed merger, to remain as a separate system and not merge with TRA. TRA's Board recommends, among other stipulations, that any merging system have in place the financial structure to fully meet all current and future liabilities to avoid burdening TRA with those currently unfunded obligations. TRA's Board also would prefer that no system be fully merged (administrative and investment functions) until July 1, 2015 and, if both Duluth and St. Paul were to merge, they should be with staggered entry to best insure the complete and seamless transition.

The LCPR heard a summation of the Report methodology, options considered and actuarially determined costs of merger one or both plans into TRA, among other features. TRA's actuarial firm, Cavanaugh and MacDonald, took the lead on determining merger costs assisted by both Duluth's and St. Paul actuarial firms, Segal Associates and Gabriel Roeder and Smith respectively. The costs to achieve a fully funded plan spread over the remaining 24 years of the TRA's amortization schedule would collectively require about $60 million annually. The annual cost broken out by systems would be Duluth at $15 million and St. Paul at $46 million per year for 24 years. This cost would cover each plan's liabilities applying TRA's existing assumptions and benefit structure.

Our Board of Trustees does not favor a merger, at least at this time, primarily due to the price tag. The cost of a merger compared to remaining as a separate plan under the existing benefit design would be dramatically higher, for a variety of reasons but primarily related to meeting TRA plan features and assumptions. However, the Board was concerned about the possible future impact on TRA's members given the need, at some point, to resolve TRA's $5 billion unfunded liability.

The SPTRFA's decision to remain separate is dependent on the State's willingness to approve an extension in the supplemental appropriation to SPTRFA of $7 million granted last session due to expire after next year. The State's supplemental appropriation of $7 million annually is critical to achieving full funding by 2042, SPTRFA's proposed fixed date for amortizing its $550M in long term liabilities.