



TRA Not Fully Funded

TRA exists from the contributions of employees and employers who hire them. While the state, on a very rare occasion, has put a little money in the fund, it was developed over time by steady contributions and wise investments. A number of years ago (1997-98) the fund had a very high funding ratio, so the amount of contributions by both the employees and employers was decreased. Contributions went from a funding rate of 8% by employers and over 6% by employees to a common rate for both -- a little over 5%. The extreme downturn in the market added to the large numbers of TRA eligible retirees dealt a real blow to the TRA fund. In fact, at the end of FY2009, TRA's funding ratio, which should be around 90 to 100%, was 77%. To reverse this trend, employee and employer contributions would both have to increase a little over 5%!

Minnesota pension plans, which include TRA, use a 5-year smoothing process so that only 1/5 of the losses experienced last year were recognized. The rest of that loss will be recognized over the next 4 years. If the full loss had been recognized this year, both the employee contribution and employer contribution rates would need to rise 11% to stop the bleeding.

TRA funds assume an 8.5% return on investment. But investments alone, even if they do that well, will not turn this downward trend around. In one case estimate, an increase of 20% per year for 5 years would be needed to make up for the losses in the fund.

If the fund is going to be "fixed", it will need to bring in additional revenue and reduce benefit obligations. Raising employee and employer contributions isn't going to be very popular during this economic time, and the state isn't in much of a position to kick extra money since they don't have any and are borrowing from education. Reducing the liabilities also must be considered. TRA is proposing to freeze the benefits for a couple of years of those who are already retired; phase in increases in contributions; and reduce the interest rate paid for refunds. All of these may have to be implemented in order to fix the fund.