SNAPSHOT: Minnesota State Retirement System

AARP in the STATES

Overview

The Minnesota State Retirement System (MSRS) was established in 1929, and administers six defined benefit pensions, including the State Employees Retirement Fund, as well as four defined contribution plans. MSRS provides a defined benefit (DB) pension for approximately 55,000 active employees from nearly 30 employer units.

A defined benefit (DB) pension is a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of the retiree's life. Public sector pensions usually employ a shared financing model whereby both employees and employers contribute to the pension fund over time to manage costs. In contrast, private sector pensions are almost always funded solely by the employer.

Defined benefit (DB) pension benefits often are a function of an employee's years of service and salary at the end of one's career. The benefits are financed by a combination of employer contributions, employee contributions, and investment earnings. Contributions typically are pooled among all employees and invested, with investment decisions made by professional asset managers overseen by trustees.

Research shows that Americans who have the three-legged retirement stool of a defined benefit (DB) pension, Social Security, and individual savings, such as a 401(k)-type plan, generally have the greatest opportunity to achieve financial security in retirement.

Key Facts

- Employees contribute 5% of salary to the State Employees Retirement Fund.
- Employers contribute 5% to the fund.
- Each dollar invested by Minnesota taxpayers in MSRS supported $9.62 in total economic activity in the state.

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Key Minnesota Data[1]

The chart below summarizes the key data for the State Employees Retirement Fund, as of July 1, 2012:

Total active employees	48,207
Total retirees, disabilitants, and beneficiaries	31,975
Average annual retirement allowance	$21,600
Employer contribution rate	5.0%
Employee contribution rate *	5.0%
Actuarial value of assets	$9.2 billion
Funded ratio	82.67%
Unfunded actuarial accrued liability	$1.9 billion
ARC contributed	80.68% (2012); 81.10% (2011); 49.35% (2010); 59.64% (2009); 58.25% (2008)

* Employee contributions are "picked up" according to IRS code.

The Economic Impact of Minnesota Pensions[2]

Expenditures made by retirees of state and local government provide a steady economic stimulus to Minnesota communities and the state economy. Within the state of Minnesota, 2009 expenditures stemming from state and local pensions supported:

- 41,337 jobs that paid $1.9 billion in wages and salaries
- $5.7 billion in total economic output
- $806 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.68 in total economic activity in Minnesota.

Each dollar "invested" by Minnesota taxpayers in these plans supported $9.62 in total economic activity in the state.

[1] All data, unless otherwise noted, as of June 30, 2012.

[2] Boivie, I. 2012. *Pensionomics 2012: Measuring the Economic Impacts of DB Pension Expenditures.* Washington, DC: National Institute on Retirement Security.

Minnesota State Retirement System By the Numbers

The following provides a snapshot of key data relative to the **Minnesota State Retirement System (MSRS)**. The system provides retirement and health benefits for state employees. The system provides a defined benefit (DB) pension, a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of a retiree's life.

$9.62 The total economic activity in Minnesota for each dollar invested by Minnesota taxpayers in MSRS.

$5.7 billion Total economic output in Minnesota created in 2009 when public sector retirees spent their pension income.

$806 million Federal, state and local tax revenues generated by spending of Minnesota public pension income.

41,337 Jobs created from pension income spending by Minnesota state and local government retirees.

48,207 Total active members of the State Employees Retirement Fund.

$21,600 Average annual pension benefit for a retiree of the State Employees Retirement Fund.

5.0 Percentage of salary that general employees contribute from every paycheck to their pension benefit to share the funding responsibility.

5.0 Median employee contribution rate nationally.

51 Percentage of pre-retirement income replaced by the defined benefit (DB) plan for a general employee hired since July 1989 with 30 years of service.

80 Percentage of pre-retirement income from all income sources that is considered adequate for a secure retirement.

All data come from either Minnesota State Retirement System or the National Institute on Retirement Security.

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Teachers Retirement Association of Minnesota By the Numbers

The following provides a snapshot of key data relative to the **Teachers Retirement Association of Minnesota (TRA)**. The system provides retirement benefits for public school employees in Minnesota. The system provides a defined benefit (DB) pension, a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of a retiree's life.

$9.28 The total economic activity in Minnesota for each dollar invested by Minnesota taxpayers in MSRS.

$7 billion Total economic output in Minnesota created in 2012 when public sector retirees spent their pension income.

$1.2 billion Federal, state and local tax revenues generated by spending of Minnesota public pension income.

46,581 Jobs created from pension income spending by Minnesota state and local government retirees.

$27,210 Average annual pension income for a retired teacher in Minnesota.

76,649 Total active members of TRA.

6.0 Percentage of salary that employees contribute from every paycheck to their pension benefit to share the funding responsibility. Nationally, the median employee contribution rate is 5%.

57 Percentage of pre-retirement income replaced by the defined benefit (DB) plan for a teacher hired since 1989, with Social Security coverage, with 30 years of service. A replacement ratio of 80% from all income sources is considered adequate for a secure retirement.

420 The number of teachers retained each year solely due to the defined benefit (DB) plan.

$5 million Teacher turnover cost savings generated by the retention effect of the defined benefit (DB) pension.

All data come from either the Teachers Retirement System of Minnesota or the National Institute on Retirement Security.

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SNAPSHOT: Pensions for Minnesota Teachers

AARP in the STATES

Overview

As early as the turn of the 20th century, American legislators seemed to understand the importance of teacher quality to students' education. A 1917 report on public education noted that, "A school teacher's work is personal, direct, and positive. It works for the good or the ill of each pupil."[1]

Key Facts

- Employees contribute 6% of salary out of each paycheck to the pension fund.
- The average retirement benefit is $27,210 per year, or $2,268 per month.
- TRA covers 76,649 active school employees and 55,425 retired school employees and beneficiaries.
- Teachers are paid 14.3% less than comparable private sector workers.
- The pension replaces 57% of pre-retirement income for a teacher employee hired since 1989, with Social Security coverage, with 30 years of service.
- Most experts find that a replacement ratio of 80% or more, from all income sources, is adequate for a secure retirement.

Defined benefit (DB) pension plans were first introduced for teachers in the United States to help with the recruitment of high quality educators, and as an incentive to keep those educators in the teaching profession. By 1916, some form of retirement plan was available to public schoolteachers in 33 states. It was thought that such a retirement system might serve two purposes: 1) bringing more diverse, and highly qualified teachers into the profession; and 2) creating a more productive workforce that actually saves public employers money, as one dollar in pension benefits was seen as worth more than a dollar in salary.[2]

Public school teachers in Minnesota have pension coverage through the Teachers Retirement Association of Minnesota (TRA).

TRA covers 76,649 active employees of public educational institutions, and 55,425 retirees, survivors, beneficiaries, and disabilitants. Employees contribute 6% out of each of their paychecks to the pension fund. The average retirement benefit is $27,210 per year, or $2,268 per month.

The pension replaces 57% of pre-retirement income for a teacher hired since 1989 with 30 years of service and Social Security coverage. Most experts find that a replacement ratio of 80% or more, from all income sources, is adequate for a secure retirement.

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Teachers Receive Lower Compensation

Public employees receive lower wages than their private sector counterparts. Even after accounting for pensions and other benefits, on average, state and local workers receive 7% less than those in the private sector.[3] More specifically, teachers are paid 14.3% less than comparable private sector workers—and this pay gap has increased in the last decade.[4] Teacher pensions play an important role in offsetting the financial impact of lower salaries.

Research shows that pensions are reliable and relieve retirement anxiety. Some 82% of Americans indicated that those with pensions are more likely to have a secure retirement, and 82% believe all workers should have access to a pension plan.[5]

Pensions Help Retain Quality Teachers in Minnesota[6]

Better teachers are experienced teachers. DB pensions help to retain highly productive teachers longer, as compared with individual defined contribution (DC) accounts. Moreover, the cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.
In Minnesota:

- The cost of turnover in Minnesota is $11,940 per teacher.
- 420 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved $5.0 million in teacher turnover costs in 2003 in school districts across the state.

About NRTA

NRTA: *AARP's Educator Community* is a national umbrella organization for the nation's largest network of retired educators. For nearly 65 years, NRTA has worked with state and local Retired Educators Associations (REAs) across the country on areas of mutual interest in advocacy and community outreach.

Collectively, NRTA and REAs engage and advocate on behalf of nearly one-million retired educators. Our shared priorities are to protect earned pension benefits and to assure access to affordable retiree healthcare. Additionally, NRTA helps inspire and honor the work of REA volunteers through NRTA's With our Youth! national recognition program.

[1, 2] Graebner, W. 1978. Retirement in education: The economic and social functions of the teachers' pension. *History of Education Quarterly*, 18(4), 397-417.

[3] Heywood, J., and K. Bender. 2010. *Out of Balance: Comparing Public and Private Sector Pay over Twenty Years*. Washington, DC: National Institute on Retirement Security.

[4] Allegretto, S., S. Corcoran, and L. Mishel. 2008. *Teachers' Pay Continues to Slide.* Washington, DC: Economic Policy Institute.

[5] Oakley, D, and K. Kenneally. 2013. Pensions and Retirement Security 2013: A Roadmap for Policy Makers. Washington, DC: National Institute on Retirement Security.

[6] Boivie, I. 2011. *The Three Rs of Teacher Pension Plans: Recruitment, Retention, and Retirement*. Washington, DC: National Institute on Retirement Security.

SNAPSHOT: Teachers Retirement Association of Minnesota

Overview

The Teachers Retirement Association of Minnesota (TRA) was established in 1931. The system provides defined benefit (DB) pension benefits for its 76,649 active public school employees and 55,425 retirees, survivors, beneficiaries, and disabilitants.

A defined benefit (DB) pension is a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of the retiree's life. Public sector pensions usually employ a shared financing model whereby both employees and employers contribute to the pension fund over time to manage costs. In contrast, private sector pensions are almost always funded solely by the employer.

Defined benefit (DB) pension benefits often are a function of an employee's years of service and salary at the end of one's career. The benefits are financed by a combination of employer contributions, employee contributions, and investment earnings. Contributions typically are pooled among all employees and invested, with investment decisions made by professional asset managers overseen by trustees.

Research shows that Americans who have the three-legged retirement stool of a defined benefit (DB) pension, Social Security, and individual savings, such as a 401(k)-type plan, generally have the greatest opportunity to achieve financial security in retirement.

Key Facts

- Employees contribute 6% of salary to TRA.
- Employers contribute 6% of salary to the fund.
- Each dollar invested by Minnesota taxpayers in TRA supported $9.62 in total economic activity in the state.

Key Minnesota Teachers Data[1]

The chart below summarizes the key TRA data, as of July 1, 2012:

Total active employees	76,649
Total retirees, survivors, beneficiaries, and disabilitants	55,425
Average annual retirement allowance	$27,210
Employer contribution rate*	6.0%
Employee contribution rate*	6.0%
Actuarial value of assets	$16.8 billion
Funded ratio	72.5%
Unfunded actuarial accrued liability	$6.2 billion
Percent of ARC contributed	66.38% (2012); 63.45% (2011); 57.39% (2010); 67.72% (2009); 82.60% (2008)

* For members with Social Security coverage.

The Economic Impact of Minnesota Pensions[2]

Expenditures made by retirees of state and local government provide a steady economic stimulus to Minnesota communities and the state economy. Within the state of Minnesota, 2009 expenditures stemming from state and local pensions supported:

- 46,581 jobs that paid $2.2 billion in wages and salaries
- $6.97 billion in total economic output
- $1.2 billion in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.75 in total economic activity in Minnesota.

Each dollar "invested" by Minnesota taxpayers in these plans supported $9.28 in total economic activity in the state.

[1] All data, unless otherwise noted, as of June 30, 2012.

[2] Boivie, I. 2012. *Pensionomics 2012: Measuring the Economic Impacts of DB Pension Expenditures.* Washington, DC: National Institute on Retirement Security.