

Background Information on DTRFA Financial Sustainability Provisions Enacted in 2010

The following is a summary of Duluth Teachers Retirement Fund Association (DTRFA) provisions passed in the Legislative Commission on Pensions and Retirement's 2010 Omnibus Pension Bill. The DTRFA provisions are found in Laws 2010, Chapter 359, Article 1, Sections 57, 58, and 60 to 67.

- Contribution Rate Increases. Effective July 1, 2011, the DTRFA employee contribution rate increases from 5.5% of salary to 6%, and on July 1, 2012, increases to 6.5%. The DTRFA employer additional contribution, 1.29% of pay, is merged into the employer regular contribution, currently 4.5% of pay, to create a single 5.79% contribution rate. That rate is then increased on July 1, 2011, to 6.29%, and on July 1, 2012, to 6.79%.
- Revised Post-Retirement Increase Procedures. The current system of an automatic 2% annual post-retirement increase, plus additional increases based on five-year annualized returns in excess of 8.5%, is replaced by a new approach, consisting of a transitional system followed by a move to an inflation match approach, matching inflation up to 5%, after funding ratios improve considerably. Under the transition method, no increase will be provided to DTRFA pensioners (retirees, disability recipients, and survivors) if the funding ratio, based on comparison of the market value of assets compared to accrued liability, is less than 80%. A 1% increase will be paid if the market-value funding ratio is at least 80% but less than 90%, and a 2% increase will be paid if the ratio is at least 90%. Also, when the funding ratio, when actuarial asset value rather than market is used, is at least 90%, the transition method ends and a new system is put in place which will match inflation up to 5%. However, if the funding ratio based on actuarial value falls below 80%, no increase will be paid.
- Revised Vesting, Normal Retirement Annuity. Five years of service, rather than three years, will be needed to vest for a normal retirement benefit.
- Reduced Refund Interest Rate. The interest rate applicable for periods after July 1, 2010, used to compute death refunds, terminated employee refunds, and refunds in lieu of an annuity, will be 4% rather than 6%.
- Reduced Deferred Annuity Augmentation. The deferred annuities augmentation rate will be 2% per year in all cases for periods occurring after July 1, 2010, rather than the current 3% per year until age 55 and 5% per year thereafter.
- Elimination of Interest on Reemployed Annuitant Savings Accounts. Beginning July 1, 2010, reemployed annuitant savings accounts (created when a DTRFA annuitant is reemployed by the school district and the person exceeds the permissible maximum in reemployment income, causing a portion of the annuity to be withheld and placed in a savings account for the individual, payable after terminating the reemployment) will provide no interest, rather than 6% interest.
- Elimination of Obsolete Post-Retirement Adjustment Provision. An unnecessary post-retirement adjustment authorization provision is repealed.