Trends

Vol. 28, No. 1 The Newsletter of the Teachers' Retirement System of Oklahoma Fall 2008

From the Executive Secretary

Is your retirement safe?

The Retirement System has received a number of calls in the last few weeks from concerned members wanting to know if their retirement is safe. The answer is YES.

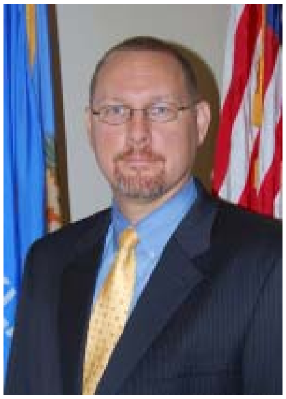
In the 2005 Summer issue of *Trends*, we wrote a column on this same topic. The answer was the same then as now. Retirement benefits are being paid to retirees and will be paid to those of us who retire in the future. Defined benefit plans, like Oklahoma Teachers', are designed to cushion the ups and downs of financial markets.

TRS is a defined benefit plan that pays a lifetime monthly retirement benefit. The amount you receive is based upon a preset formula. Benefits are determined by the member's years of service and salary average, NOT by the balance of a savings account at or after retirement. Recent financial turmoil will not impact the Retirement System's ability to pay benefits. Benefits TRS members receive are the same, whether investment markets go up or down.

We have experienced losses during this last year just like almost every pension plan. Most of our losses so far are paper losses as the market value of stocks we own have fallen. In most cases, the company is worth more than the current selling price of the

(See *Retirement is Safe*, page 2)

James R. Wilbanks, Ph.D., to head Teachers' Retirement System



James R. Wilbanks, Ph.D., will become Executive Secretary of the 145,000-member Teachers' Retirement System on Jan. 1, upon the retirement of Tommy C. Beavers, who has led the agency since 1988.

The TRS Board of Trustees selected Wilbanks following a nationwide search.

Wilbanks will serve as TRS Deputy Director from Nov. 3 until he assumes the retirement system's reins.

Wilbanks comes to TRS from the Oklahoma State Treasurer's Office, where he has served as Director of Revenue and Fiscal Policy since 2005 and has been the Administrator for the Oklahoma Tobacco Settlement Endowment Trust Fund Board of Investors and the EDGE Fund Board of Investors. Wilbanks also has overseen and coordinated efforts for the State Treasurer in his capacity as Chair of the Oklahoma Pension Oversight Commission.

As Director of the Fiscal and Research Division of the Oklahoma Office of State Finance from 2003 until 2005, Wilbanks was responsible for research and analysis of revenue issues. He served on the Boards of Trustees of the Oklahoma Law Enforcement Retirement System, the Oklahoma Firefighters Pension System and the Oklahoma Police Pension Retirement System.

As Senior Economist for the Office of State Finance from 1998 until 2003, Wilbanks conducted policy research on issues including elementary and secondary education, higher education, labor regulation, public pensions and taxation.

He served as an economist in the Office of State Finance from 1996 to 1998, conducting policy research on issues including corrections, transportation and welfare.

Wilbanks has been an adjunct Economics professor at the University of Oklahoma since 2004.

Inside...

TRS Board votes to raise COLA assumption to 2% per year

The TRS Board of Trustees voted in July to change the actuarial assumption for retiree cost-of-living increases to 2% per year. The assumption had been 1% per year since 2004, when legislation required each state-run pension plan to have an estimate for future COLAs.

While the Board's final decision was unanimous, it came after considerable study and discussion. The Board received the actuarial cost of the COLA increase from the System's actuary at its June meeting and asked for updated information based upon investment returns as of June 30.

The 1% increase in the COLA assumption will add an estimated $1.5 billion to the System's liabilities. Another $264 million increase is expected, due to negative investment returns for the year ending June 30, 2008. Final numbers will be known when the actuarial report is finished in a few weeks.

Since 2006, cost-of-living increases voted by the Legislature have been based upon the COLA assumption each pension plan uses to estimate future liabilities. Retirees in other state-run pension plans have received 4% increases in their pensions every other year, while TRS retirees received 2% in 2006 and 2% in 2008.

Under the Oklahoma Pension Legislation Actuarial Analysis Act (OPLAAA) of 2006, the Legislature restricts itself from passing a measure that will increase liabilities for a pension plan over the amount already estimated by the system's actuary.

Prior to taking action, trustees were reminded by Tommy C. Beavers, Executive Secretary, that action by the Board of Trustees will not guarantee a higher cost-of-living increase for retirees. Beavers told the Board that before TRS retirees could receive more than a 2% increase in 2010, the Legislature would have to modify the OPLAAA statute or provide additional funding to pay for a larger increase, and then vote for a 4% increase for TRS retirees.

See *COLA assumption rises,* page 4

Retirement is Safe (continued fron page 1)

company's stock and we expect the price to recover as the national economy improves.

We do experience actual losses due to the failure of bankrupt companies or selling stocks that have decreased in value, but the main goal of the System's investment strategy is protection of assets by proper diversification of total assets. This diversification has served us well in the past and will continue to do so in the future. For example, TRS has a potential loss of $42 million in Lehman Brothers bonds. Since the investments are bonds, instead of stock, we don't expect a total loss. But if we did lose the full $42 million the loss would represent less than one-half of 1% of the total portfolio. Put in a different way, for every $1,000 a member might have invested in TRS, the loss from Lehman Brothers would be $4.94.

There are no 100% guarantees, but the state of Oklahoma is obligated to pay benefits to members of the Teachers' Retirement System. Oklahoma Supreme Court opinions do not guarantee an absolute benefit, but the Court has affirmed that benefits earned by educators and state employees are obligations of the state, and it is the duty of the state to make every effort to provide for these benefits.

We've been through this before! In 2001 and 2002, our investment returns were negative and then recovered when investment returns in 2004, 2005, 2006 and 2007 exceeded our annual goal of an 8% return on investments. Even with a 7.1% loss for the year ending June 30, 2008, we have averaged 9.97% return for the last five years. We are down to 7.04% for the last ten years due to negative returns in 2001, 2002 and 2008, but have averaged 9.61% for 15 years and above 10% for 20 years.

Overall, the Retirement System is still poorly funded when total assets are compared to total liabilities. We have discussed this many times in this column. It is due not to the System's investment returns, but to the lack of employer contributions by the State. In recent years, the State has taken steps to catch up on the lack of employer contributions during the past 40 years by increasing revenues TRS receives from sales and income tax collections and the employer contribution rate paid by local school districts. It is critical that these revenue sources be maintained and continue to grow.

The TRS staff hope you have a great 2008-09 school year.

Tommy C. Beavers
Executive Secretary

TRS Legislation

The 2008 Legislature enacted the following TRS-related measures:

HB 2074

Removes post-retirement earnings limit for TRS members retired at least 36 months.

HB 2793

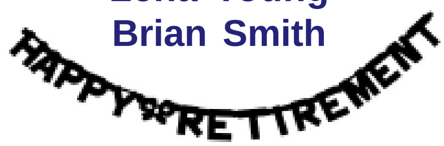
Modifies language related to teacher annuity contracts; requires amounts contributed or paid by a school district to be made to a vendor approved by the school district on or after July 1, 2008, as eligible to receive elective deferrals; lets a school district revoke a previously approved vendor's eligibility to receive elective deferrals, which would prohibit future contributions or payments to the vendor until it gains its eligibility through subsequent approval by the district.

HB 3112

2% COLA for TRS retirees who had retired before July 1, 2007. The COLA became effective with the Aug. 1 benefit payment.

TRS says goodbye to 4

Sue Callahan
Nellie Pennington
Lena Young
Brian Smith



Four TRS colleagues, who touched the lives of members directly and behind the scenes, have now themselves joined the retiree ranks.

Assistant Executive Secretary Sue Callahan retired July 1 with 41 years of service. Before joining the TRS staff in 1979, she taught for 11 years at Ardmore and Hobart.

Administrative Assistant Nellie Pennington also retired July 1 with 41 years of service, including working for the Oklahoma State Department of Education before joining the TRS staff in 1980.

Also retiring July 1 was Lena Young. She retired with 20 years of service, most recently in the TRS investment division.

Retirement Benefit Analyst and disability retirement counselor Brian Smith retired Sept. 1, with 29 years of service.

Post-retirement earnings limits lifted after 36 months

Public education earnings for TRS members retired at least 36 months are no longer capped.

The limit for these members had been $30,000.

The limit removal was included in House Bill 2074, which Gov. Brad Henry signed into law on May 27.

Retired members under age 62 returning to Oklahoma public school employment during the first 36 months of retirement can earn up to $15,000 or half their final average salaries, whichever is less. Retired members age 62 or older who have been retired fewer than 36 months can earn up to $30,000 or half their final average salary, whichever is less. Earnings over the limit must be repaid to the retirement system from the member's retirement benefit payment.

The earnings limits apply only to retirees who continue to receive their retirement benefit payments while working for a TRS remitting entity. Private sector or out-of-state employment after retirement is not subject to the earnings cap.

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COLA assumption rises

(continued from page 2)

Beavers told the Board that the 1% per year COLA assumption adopted in 2004 was based on the historical average of COLAs received by TRS retirees for the ten-year period dating back to 1994. Beavers also reported that increasing the biennial COLA from 2% to 4% would result in the Retirement System paying out $5.5 billion more in retirement benefits during the next 30 years.

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