



Trends

Volume 22, No. 1 The Newsletter of the Teachers' Retirement System of Oklahoma July 2002

From the Executive Secretary...

All TRS members should take time to thank their elected representatives for the support TRS received during the 2002 Legislative Session. The House and Senate enacted several bills affecting TRS, which are reported in more detail in this newsletter.

Two important measures, SB1231, granting a benefit increase to retirees, and SB1376, providing for an increase in state funding to begin in 2004 are important milestones for TRS and its members. Governor Keating signed these measures in early June, after the bills received overwhelming support from House and Senate members. In fact, SB1376 did not receive a single "no" vote.

Rep. J. T. Stites and Sen. Mike Morgan, who co-authored both bills, deserve special recognition, as do the members of the House and Senate committees that deal with retirement issues.

Also, the staff and membership of the Oklahoma Retired Educators Association worked diligently toward the passage of these measures. Dr. Joyce Drew Parsons and Dr. Harold Sare coordinated OREA's efforts and helped make a difference in passage of these bills.

The TRS staff hopes you have a good summer!!!

Tommy C. Beavers



TRS COLA gets Governor's nod

TRS members who retired before July 1, 2001, will see more money in their monthly benefit payments beginning in August.

Senate Bill 1231 provides a 3% annual benefit increase for retirees with fewer than 30 years of credited service, and a 4% increase for retirees with 30 or more years of credited service. The average increase will be \$42.

The last Cost of Living Adjustment (COLA) was in 2000.

Unlike this year's COLA, previous increase formulas added a set dollar amount to a retiree's Final Average Salary, then the annual retirement benefit was recalculated. That meant different percentage increases for each retiree.

This year's COLA is a straight percentage amount added to each retiree's annual benefit.

Post-Retirement earnings limits go up

Classified TRS members who have been retired for more than 36 months may now return to work for an Oklahoma public education employer and earn up to \$30,000 without affecting their monthly retirement benefits. The previous limit was \$25,000.



Classified retirees age 62 or older who have been retired less than 36 months, and non-classified optional retirees age 62 or older may earn the lesser of \$30,000 or one-half the final average salary used to calculate their monthly retirement benefits.

Classified members include administrators, teachers and other certified personnel. Non-classified optional members include support positions.

The changes are included in **House Bill 2344**, which became law July 1.

The earnings limit for retirees under age 62 who have been retired for fewer than 36 months remains the lesser of \$15,000 or one-half the amount of the final average salary used to calculate their monthly retirement benefits.

The new law expands the post-retirement earnings limits to include TRS retirees working for Oklahoma's public education employers as independent contractors or through corporations.

Employers now must remit the statutory employer contribution (7.05% of total compensation) on the salaries paid to retired TRS members.

WorldCom collapse has only minimal effect on TRS

Teachers' Retirement System's diverse investment portfolio will minimize the effect the collapse of telecommunications giant WorldCom will have on TRS members.

"Our members' retirement benefits are assured because they are based on salary and years of service," said Tommy C. Beavers, TRS Executive Secretary. "Our members are protected."

A WorldCom internal audit revealed the company had \$3.1 billion in expenses for 2001 and nearly \$800 million in expenses for the first quarter of 2002 that were improperly accounted for, company officials said June 26.

TRS money managers sold the last of the System's interest in WorldCom on June 25. The sale resulted in a \$7 million loss to the System's \$6 billion portfolio. TRS's WorldCom investment cost TRS a total \$16.8 million over the past 2 ½ years.

"\$17 million is a whole lot of money and we're concerned about that," Beavers said, "but it will have a minimal effect on the Retirement System's \$6 billion fund."

TRS lost \$2.83 for each \$1,000 invested by teachers.

The Retirement System's Board of Trustee's investment strategy won't be affected by the WorldCom collapse, Beavers said.

"Part of our Board of Trustee's job is to see that our managers are doing their jobs and doing what we've given them a mandate to do. To support that, our Board makes sure our investments are well-diversified," he said.

The overall long-term investment picture, rather than individual short-term results, is key to a successful investment strategy, said Beavers.

"We're going to stay the course – doing the things that got us where we are. Our long-term investment strategy is the best we can do for our members," he said.

TRS members are further protected because TRS is a defined benefit plan. TRS investment returns have averaged 8.6% each of the past five years, and have added \$1.942 billion to TRS assets.

The TRS retirement benefit formula is the member's final average salary times 2%, times years of service. A TRS member is guaranteed a lifetime monthly retirement benefit, no matter how long he or she lives after retirement. The benefit amount is guaranteed for life, except for cost of living adjustments (COLAs) determined by the Legislature.

***"Our members' retirement benefits are assured. Our members are protected."
— Tommy C. Beavers***

TRS Trustees represent membership

Delores Kilmer, the newest member of the Board of Trustees, took her oath of office at the May Board meeting.

Ms. Kilmer represents non-classified optional members and is employed at Jarman Jr. High in the Midwest City-Del City School System.

Denise Rhodes, from Quapaw Schools, joined the Board in November. She represents classroom teachers.

Matti Palliconi, Claremore, became a trustee in February 2001. She represents retired members.

Board members from Oklahoma City include: **Ken Anderson**, 1999, an insurance executive; **George Barnes**, 1995, an investment broker;

Tom Daxon, 1995, Director of the Office of State Finance; **Sandy Garrett**, 1991, State Superintendent of Public Instruction; and **Helen Rambo**, 1997, a CPA.

Others trustees are: **Tommy Fulton**, 1988, Del City, representing retired members; **Robert Gates**, 1995, Broken Arrow, an attorney; **John Kahre**, 1995, Ramona, representing higher education; **Dale Nye**, 1999, Lindsay, representing career & technology education; and **Susan Raasch**, 1995, Claremore, representing classroom teachers.

Mr. Kahre is Board Chairman, Mr. Fulton is Board Vice Chairman, and Ms. Rambo is Board Secretary.



Employers' rate up

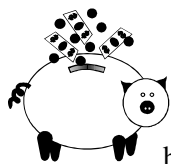
Active TRS members will continue contributing 7% of their total compensation to the Retirement System, but local school districts will pay more.

The TRS employer contribution increases from 6.8% to 7.05% of each employee's total compensation, beginning with the start of the 2002-2003 school year.

As mandated by **House Bill 2344**, employer contributions also must be paid on compensation paid to retired TRS members.

The contribution rate for matching employee salaries paid by federal funds and other non-state grant money will be 5% for the 2002-2003 school year.

Future positive for Unfunded Liabilities



TRS unfunded liabilities are years closer to resolution, under **Senate Bill 1376**, which became law July 1.

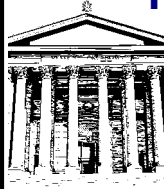
"Unfunded liabilities"

means the amount of money the System is obligated to pay members, compared to the amount of money the System has available to pay.

The System's unfunded liabilities as of June 30, 2001, totaled \$5.6 billion. Senate Bill 1376 cuts the time it will take to reduce the unfunded liabilities to zero from just over 62 years to 38 years.

Currently, the state contributes 3.54% of the state sales, use and income tax collections to the Teachers' Retirement Fund. On July 1, 2004, the state's contribution will increase to 3.75%. It will increase to 4% July 1, 2005; 4.5% July 1, 2006; and 5% July 1, 2007, and thereafter.

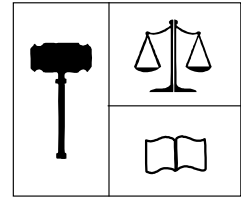
When the state's contribution hits 5%, it will actually represent 7% of active members' pay, which is the contribution required by active members and school districts.



New laws bring changes for TRS

The 2002 Legislative session included changes in Teachers' Retirement System law.

Here's a summary:



Senate Bill 1231 — Increases monthly benefits for members who retired before July 1, 2001.

- Retirees with fewer than 30 years' credited service — 3% increase
- Retirees with 30 or more years' credited service — 4% increase
- The increase will first appear in retirees' August 1, 2002, retirement checks.

Senate Bill 1376 — Increases the state's contribution to the Teachers' Retirement Fund beginning July 1, 2004, substantially reducing the System's unfunded liabilities over the next 30 years.

Senate Bill 1456 — New language specifically addresses employees of the Commission on Teacher Preparation who were enrolled in the state employees' retirement system in July 2001. In the future, a TRS member moving to employment with the state must elect to remain an active member of TRS within 30 days of the employment change. To be eligible to retain membership in TRS, the member must either be elected to the State Legislature or be employed in an "education-related capacity" in the executive branch of state government.

House Bill 1660 — Makes minor changes in TRS statutes to ensure continued compliance with the Economic Growth and Tax Reconciliation Relief Act of 2001 (EGATRRRA) passed by Congress in June 2001. TRS expanded acceptance of qualified rollovers effective January 1, 2002, in accordance with applicable provisions of EGATRRRA.

House Bill 1719 — Pertains to the actuarial evaluations and annual reports the state-run retirement systems produce each year. The new law requires an appendix to regular reports, showing liabilities and long-term payment schedules based on a standardized set of actuarial assumptions.

House Bill 2344 — Increases post-retirement earnings limits for some TRS retirees and expands the post-retirement earnings limits to include TRS retirees working for Oklahoma's public education employers as independent contractors or through corporations. The law also requires local employers to remit statutory employer contributions (7.05% of employees' pay) on the compensation paid to retired TRS members.

House Bill 2383 — Provides that the \$5,000 death benefit paid to beneficiaries of retired members be treated as life insurance proceeds. The tax-exempt status depends upon TRS obtaining a private letter ruling from IRS.

House Bill 2670 — Allows TRS members who have retained membership while employed by educational associations to retire when they meet eligibility requirements. Previously, they could not retire until their employment with the education associations ended.

Trends July 2002

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of
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New website... Come see us!



The TRS website has a whole new look, new features and a brand new address! Among the additions are a retirement benefit calculator and search capabilities to zero in on your specific needs.

E-mailing TRS is easier, and we have a new program to allow school district payroll officers to submit member data online.

You can visit us online 24 hours a day, seven days a week at www.okteachers.state.ok.us.



TRS needs your help



- ***TRS is still poorly funded compared to other public pension plans.***
TRS has only 51.4% of assets needed to cover its future obligations. This is an improvement from past years, but still, ***we must do better!***
- ***Tell your elected representatives you want TRS to be funded as rapidly as possible!***
Ask them to fund existing liabilities, help local schools fund their payments to TRS, and provide extra money to cover new benefits when granted.
- ***Any extra money now will grow and greatly reduce future needs!***
- ***It is extremely important that the provisions of SB1376 be maintained and become operative in 2004!***

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