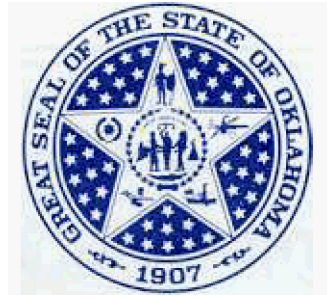


Trends



Volume 18, No. 2

March 1999

Teachers' Retirement System

From the Executive Secretary...

To the Members of the Teachers' Retirement System:

The Teachers' Retirement System concluded its fifty-fifth year on June 30, 1998. At the close of business on June 30, 1998, the System had 633 participating employers, 80,578 active members, 10,022 inactive members and 32,032 retired members and beneficiaries receiving monthly benefits.

These membership figures are included in the TRS **1998 Annual Report**, which is a summary of the System's financial status for Fiscal Year 1998 (July 1, 1997 – June 30, 1998). This issue of **Trends** includes information published in the **Annual Report**. We hope you find it useful.

Annual Reports are mailed to the principal of each school site. Members may request individual copies by contacting TRS.

Also included in this issue is a list of TRS-related legislation that was active at press time and an update on what the Retirement System is doing to ensure we are ready for Jan. 1, 2000 (Y2K).

Tommy C. Beavers
March 1999

Y2K: TRS is ready!

"The New Millennium" is only months away, and Teachers' Retirement is ready for Y2K's challenges.

TRS began preparing for Year 2000 (Y2K) in the early 1990s. The System recognized that January 2000 would present unique computer problems and considered the potential effects the new millennium could have on its operations. During 1998, the System's data processing department, as well as managers from other divisions, continued reviewing and planning for Y2K. All internal and external software was Y2K compliant before December 31, 1998, and end-to-end testing will be completed by April 1999. The System will also require each contract holder, professional service provider, and major vendor to provide documentation of their Y2K compliance efforts.

From the Chairman...

To the Members of the Teachers' Retirement System:

Representing the diverse interests reflected in the Teachers' Retirement System of Oklahoma can be a sobering challenge for the members of the Board of Trustees. The interests of the active members, the retired members, the employers, and the State of Oklahoma often seem at odds with no obviously easy means of reconciling the differences. It is even more sobering when it is understood that the Trustees have control of neither the sources of the funding, nor of determining the level of benefits.

Perhaps the common thread that runs through all the interests is the desire for the System to be financially sound. Active members would agree that financial soundness in the System is desirable so that it can pay their benefits when they retire. The retired members would want a financially sound System so that they could expect a COLA with some degree of regularity. Certainly the State of Oklahoma would want a financially sound System because of the political and constitutional implications of a seemingly intractable actuarial unfunded liability.

Part of the problem resides in the fact that there appears to be little agreement on the definition of financial soundness. The retired member looks at the annual report and sees that assets total nearly \$5.2 billion and that the System is still taking in more than it is paying out. The actuary looks at the same report and determines that the System has an actuarial unfunded

(continued on page 4)

You can help TRS!!!

- e Tell your elected representatives you want TRS to be properly funded.
- e Support passage of HB1002, which provides revenue to TRS from the State's tobacco settlement money.
- e Support passage of a new law granting 7.5% of the State's Rainy Day Fund to TRS each year, designated specifically toward the retirement of the System's unfunded liabilities.

Legislatively Speaking...

TRS-related measures affect several areas

The First Session of the 47th Oklahoma State Legislature convened Feb. TRS-related measures still active at press time included:

COLAs:

HB1005 (Rep. Larry E. Adair) — Would make permanent the Cost of Living Adjustment enacted in 1998 for retired members.

Tobacco Settlement:

HB1002 (Rep. Jari Askins; Sen. Ben Brown), — Teachers' Retirement would receive one-third of the proceeds of any tobacco lawsuit settlement.

Insurance and Other Benefits:

HB1363 (Rep. Jack Begley), **HB1448** (Rep. Terry Ingmire) — Flexible Benefit Allowances

SB602 (Sen. Cal Hobson) — Would extend salary caps on TRS contributions for Oklahoma State University and University of Oklahoma members who joined TRS prior to July 1995.

TRS Tax-Sheltered Annuities Plan:

HB1428 (Rep. Barbara Staggs) — Creates Teachers Deferred Savings Incentive Plan and Plan Fund.

Post-Retirement Employment:

SB504 (Sens. Johnnie C. Crutchfield and Brad Henry; Rep. Robert E. Weaver) — Raises to \$25,000 the dollar cap on post-retirement earnings for retired TRS members returning to work as certified teachers.

Other Legislation impacting TRS

HB1095 (Rep. J.T. Stites) — Public Retirement Systems Technical Corrections Act of 1999.

HB1773 (Rep. J.T. Stites) — Oklahoma Governmental Defined Benefit Plan Modification Act of 1999

HB1789 (Rep. Jim Reese) — Pension and Retirement Corrections Act of 1999

Remaining Legislative Deadlines

March 25, 1999: *Last day to report bills and joint resolutions from committees in opposite house*

April 15, 1999: *Last day for third reading of bills and joint resolutions in opposite house.*

April 22, 1999: *Last day to reject amendments and request a Conference Committee on a bill or joint resolution.*

May 28, 1999: *Sine Die Adjournment 5:00 p.m.*

Actuary:**Improvement not enough to fix TRS fiscal woes**

The System's relative funded position for the year ending June 30, 1998, improved from 42.9% of assets compared to liabilities in 1997, to 45.9% in 1998. This increase was due mainly to investment returns exceeding expectations. While total unfunded liabilities increased \$94 million from \$4.712 billion to \$4.806 billion, this was \$81 million less than expected. Unfunded liabilities had been projected to increase by \$174.9 million. Liability loss and contributions in excess of expectations resulted in a net liability increase of \$14.7 million in these categories. A legislatively mandated cost-of-living increase for retirees and beneficiaries added another \$178.9 million to liabilities. The actuarial yield on assets at 15.8% exceeded the 8% actuarial assumed rate of return, which increased assets above expectations by \$274.6 million. During the year ending June 30, 1998, the System's actuarial assets grew by \$540 million and actuarial liabilities grew by \$634 million.

The actuary's report again stressed that the System remains poorly funded despite the good results over the past several years. Since 1993, the System's funded ratio has improved from 39.8% to 45.9% as a result of investment earnings exceeding the anticipated 8% per year yield. The actuarial yield on assets has been above 11% in all but one year since 1993.

The current combined local school/state contribution rate is not large enough to pay the System's normal cost and interest on the unfunded accrued actuarial liabilities, (see "Funded Position" on page 4)

Markets good to TRS

Capital markets continued expanding during Fiscal Year 1998. With stable interest rates and low inflation, stocks continued their remarkable climb, setting several record highs. Concerns about slower growth during calendar year 1999 continue to increase. Oklahoma's economy has been improving. Tax revenues were up in 1998, and projections indicate continued but slower growth during 1999.

Net investment income including realized gains and appreciation on investments of \$902 million during FY 1998 were positive contributors to the Fund's financial status. Investments totaled \$5.212 billion at market value on June 30, 1998, compared to \$4.309 billion on June 30, 1997. Included in assets is \$320 million held in trust for members who participate in the System's 403(b) Tax Sheltered Annuity Program.

The System's investment portfolio mix at market value was 33% fixed income, 66% equities and 1% cash and short-term investments. As trustee for members' funds, the System is responsible for allocating trust funds across a broad group of asset classes. The Board of Trustees elected to limit investments to stocks and bonds, Treasury Bills and Notes, Commercial Paper, foreign currency exchange contracts, and bank deposits collateralized by U.S. Government securities.

The System's time-weighted rate of return for the year ended June 30, 1998, was 21.5%. This matched the 21.2% return for 1997. Annualized three-year and five-year total returns were 19.1% and 14.8%, respectively. The System's long-term goal to exceed by 3% the rate of inflation measured by the CPI has been achieved for both the three-year and five-year periods.

Member contributions up, employer contributions down

Active member contributions for Fiscal Year 1998 were \$181 million, compared to \$166 million for FY-97. The increase was caused by a change in the contribution rate on earnings and an increase in overall membership. Salaries for active members totaled \$2.528 billion.

Contributions from local employers, the State of Oklahoma, and federal sources for Fiscal Year 1998 were \$263.6 million, compared to \$276.7 million for 1997. Contributions from local school districts and federal revenues increased \$6.7 million, but revenue from the tax on natural gas decreased \$19.8 million.

TRS expenses up in FY-98

TRS expenses increased during Fiscal Year 1998, compared to FY-97.

During the year ended June 30, 1998, the System paid \$27.9 million more in benefits, refunds and annuity payments than in FY-97.

Total expenditures for FY-98 included \$439 million in retirement, death and health benefits, and \$41 million in refunds and annuity payments.

Administrative expenses increased by \$866,024, primarily because of one-time expenditures for the System's new optical imaging system.

More retired members received retirement benefits and health insurance subsidies, as well as more death and survivor benefit payments during FY-98, compared to FY-97.

*Funded Position improves
(from page 3)*

resulting in negative amortization. Unfunded liabilities are expected to increase each year until 2016, then begin to decline. While this looks like very bad news, the short funding period under the old contribution schedule, in effect until a 1998 statute change, would have required future increases in local contribution rates that might not have been achievable, especially with local rates increasing at the same time the State's contribution from the gas tax revenues may be decreasing. Even under the 1998 funding schedule, the State of Oklahoma must contribute more in future years to fund the pension obligations already earned by retired and active members. The new contribution schedule will eventually fund the System, but only if the schedule is maintained and new benefit increases are funded in addition to current obligations. Without an increased level of employer contributions, the System's funding status will continue to deteriorate and could eventually impact the System's ability to pay benefits.

To TRS Members from the Chairman of the Board of Trustees

(from p. 1)

liability approaching \$4.8 billion. It is, in fact, one of the most poorly funded Systems in the country with assets representing only 46% of total liabilities.

It is not productive at this point to try to determine blame for the problem because there is plenty to go around. While it is true that the Oklahoma Legislature determines both the funding source and the level of benefits, it does not function in a vacuum. Increases in benefits have come almost totally as a result of intense lobbying by one or more interest groups. In most instances in the past, benefits were granted without the slightest idea about how they would be funded. Indeed, many of us can remember not many years ago when a common attitude among legislators was "grant the benefit and worry about the funding later." The result has been a growing unfunded actuarial liability that demands to be addressed.

From my perspective, one of the most positive signs that has appeared in a long time is the position by many leaders in the Oklahoma Legislature that there is a problem. And, perhaps more importantly, they are seriously seeking solutions. Thus, a significant step has been taken on the road to financial soundness.

It isn't entirely true that the Trustees have no control over sources of finding for the System. They do make decisions that control the managing of the investment portfolio and every effort is made to get the highest possible yield consistent with reasonable risk and thus to maximize the funds that come from that source. Other decisions made by the Trustees are invariably based on the implications that these decisions would ultimately have on the financial soundness of the System.

The situation is certainly not hopeless. The System has been well managed and it operates efficiently. And when responsible State leaders combine their efforts to seek solutions, they usually are successful.

*Sincerely,
Dr. C. Wayne Bland*

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