



# Trends



## Retirement Plans: Defined Benefit vs. Defined Contribution

Two measures prefiled before the 2002 Legislative Session began would have made substantial changes in the retirement program for future members.

The proposed legislation would have created defined contribution plans for teachers and state employees hired after the plans were authorized and implemented. The bills as drafted would not have changed the retirement plan for current members.

Neither bill was heard by the committees assigned to examine retirement measures.

Legislative leaders and the Office of State Finance have agreed to fund a study to determine the impact the proposed changes would have on current retirement plans and whether the new program would better serve future employees and the state.

*(See DW vs DC plans, p.5)*

## TRS rule change to impact post-retirement employment

TRS retirees returning to work for an Oklahoma public school are subject to earnings limits if they want to continue receiving their full retirement benefits while working.

Administrative rule OAC 715:10-17-6 is being changed to include earnings from certain corporations in the post-retirement earnings limits. If a member incorporates himself or herself or works for a corporation that supplies services normally provided by a school employee, the earnings for that employment would count toward the earnings limit.

The TRS Board of Trustees has adopted the change. Approval by the Governor and the Legislature is pending.

To continue receiving a full retirement benefit, a member under age 65 and retired fewer than 36 months who returns to work in an Oklahoma public school can earn up to \$15,000 or half the average salary used to compute the member's retirement benefit, whichever is less.

A member retired at least 36 months who returns to work as an active classroom teacher, a counselor or a librarian in an Oklahoma public school can earn up to \$25,000 and continue receiving his or her full monthly retirement benefits.

*(See Rule change, p. 5)*

## Enron collapse won't affect benefits

The Enron bankruptcy will not affect the Teachers' Retirement System's ability to pay retirement benefits or meet other obligations.

The total TRS loss from the Enron bankruptcy is approximately \$2.1 million. While this is a large amount of money, it is less than 5/100th of 1% of the TRS portfolio of almost \$6 billion. For every \$1,000 of teachers' money invested, TRS lost 41 cents due to its investment in Enron.

TRS will participate fully in class action lawsuits to reclaim as much as possible from this loss.

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## TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

## Statements of Plan Net Assets

June 30, 2001 and 2000

<b>Assets</b>	<b>2001</b>	<b>2000</b>
Cash	\$ 3,223,790	30,777,532
Short-term investments	233,955,161	338,743,201
Accrued interest and dividends receivable	35,682,725	33,153,290
Contributions receivable	30,734,990	24,699,745
Receivable from state of Oklahoma	13,835,266	12,831,212
Due from brokers for securities sold	77,375,928	134,537,732
Security lending institutional daily assets fund	909,808,650	731,866,253
Long-term investments:		
US government securities	1,270,263,989	1,121,322,730
Corporate bonds	889,924,464	607,998,748
International bonds	77,067,622	312,023,596
Equity securities	3,590,188,312	3,915,168,380
Total long-term investments	5,827,444,387	5,956,513,454
Capital assets, net	382,620	400,195
Total assets	<u>7,132,443,517</u>	<u>7,263,522,614</u>
<b>Liabilities</b>		
Benefits in process of payment	15,976,756	42,137,486
Due to brokers for securities purchased	151,955,581	234,935,437
Payable under security lending agreement	909,808,650	731,866,253
Accrued investment fees	4,548,039	3,871,882
Compensated absences	200,193	161,995
Total liabilities	<u>1,082,489,219</u>	<u>1,012,973,053</u>
<b>Net Assets</b>		
Invested in capital assets	382,620	400,195
Net assets held in trust for pension benefits and annuity benefits (note 6) of electing members (a schedule of funding progress is presented on page 45)	<u>6,049,571,678</u>	<u>6,250,149,366</u>
Total net assets	<u>\$ 6,049,954,298</u>	<u>6,250,549,561</u>

## TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

## Statements of Changes in Plan Net Assets

Years ended June 30, 2001 and 2000

	2001	2000
Additions:		
Contributions:		
Members	\$ 216,752,852	195,988,873
Members tax-shelter	5,181,802	7,038,250
Employer statutory requirement from local school districts	172,749,389	130,758,712
Federal matching	14,406,265	12,454,200
Dedicated tax	140,925,355	132,574,886
Total contributions	<u>550,015,663</u>	<u>478,814,921</u>
Investment income:		
Interest	163,139,203	140,911,589
Dividends	49,271,990	52,506,072
Net realized and unrealized (losses) gains	(342,603,971)	417,582,752
Less investment expenses	(16,590,368)	(13,571,552)
(Loss) income from investing activities	<u>(146,783,146)</u>	<u>597,428,861</u>
Income from securities lending activities:		
Securities lending income	42,929,337	33,821,402
Securities lending expenses:		
Borrower rebates	(39,306,499)	(30,723,626)
Management fees	(907,494)	(817,240)
Income from securities lending activities	<u>2,715,344</u>	<u>2,280,536</u>
Net investment (loss) income	<u>(144,067,802)</u>	<u>599,709,397</u>
Total additions	<u>405,947,861</u>	<u>1,078,524,318</u>
Deductions:		
Retirement, death, survivor and health benefits	537,308,002	500,289,049
Refund of member contributions and annuity payments	65,763,326	61,725,419
Administrative expenses	3,471,796	2,964,237
Total deductions	<u>606,543,124</u>	<u>564,978,705</u>
Net (decrease) increase	<u>(200,595,263)</u>	<u>513,545,613</u>
Net assets:		
Beginning of year	<u>6,250,549,561</u>	<u>5,737,003,948</u>
End of year	<u>\$ 6,049,954,298</u>	<u>6,250,549,561</u>

# 2002 TRS legislation proposes changes

The 2002 Legislature is considering a number of measures affecting TRS. Here is a summary

## House

**HB 2124 Retiree Health Insurance Premium Offsets**  
Increases amount TRS pays toward retiree health insurance premium.

**Principal Authors:** Stites, J. T. (H); Morgan, Mike (S)

**HB 2344 Post-retirement earnings limits**

Allows retirees age 62 or older to earn up to \$30,000 from public schools and still receive full retirement benefits; clarifies that corporations or members who work as independent contractors are subject to same post-retirement earnings limits as other retirees.

**Principal Authors:** Staggs, Barbara (H); Crutchfield, Johnnie C. (S)

**HB 2368 COLA & Health Insurance Supplement Increase**

Provides for COLA for TRS retirees who retired before July 1, 2001; increases health insurance supplement paid by TRS.

**Principal Authors:** Turner, Dale (H); Shurden, Frank (S)

**HB 2383 Death Benefit Reference**

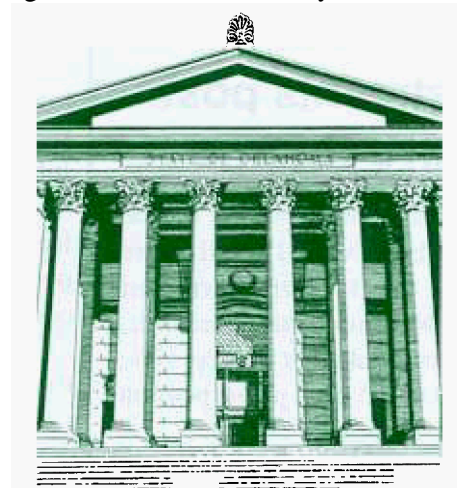
TRS \$5,000 Death Benefit would be deemed life insurance proceeds for purposes of federal income tax, if approved by IRS.

**Principal Authors:** Roan, Paul D. (H); Shurden, Frank (S)

**HB 2429 Funding for Teacher Retirement Credit**

Continues appropriation to TRS for Teacher Retirement Credit.

**Principal Authors:** Bonny, Jack (H); Mass, Mike (H); Haney, Enoch Kelly (S); Hobson, Cal (S)



## Senate

**SB 1001 Funding for Teachers' Retirement Credit**

Continues appropriation to TRS for Teachers' Retirement Credit.

**Principal Authors:** Haney, Enoch Kelly (S); Hobson, Cal (S); Bonny, Jack (H); Mass, Mike (H)

**SB 1231 COLA**

Provides for COLA for TRS members retired before July 1, 2001, and would provide for automatic COLAs in future years.

**Principal Authors:** Morgan, Mike (S); Stites, J. T. (H)

**SB 1244 TRS Retiree Health Insurance Premium Supplement**

Increases payment by TRS for a retiree's health insurance plan administered by the State and Education Employees Group Insurance Program.

**Principal Authors:** Morgan, Mike (S); Stites, J. T. (H)

**SB 1376 Appropriations bill**

Increases TRS apportionment from state income and sales taxes.

**Principal Authors:** Morgan, Mike (S); Stites, J. T. (H)

**SB 1378 Alternate Retirement Plan for Eligible Employees of Participating State Institutions of Higher Education Act**

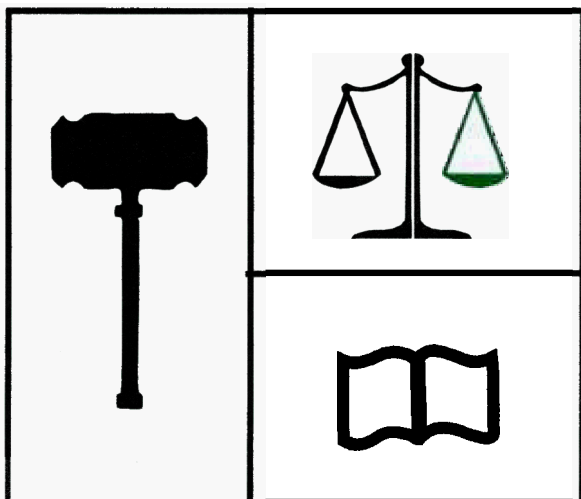
Authorizes higher education Boards of Regents to establish retirement plans for their employees in which employees would participate instead of participating in the Teachers' Retirement System of Oklahoma. Such employees would be ineligible to participate in TRS.

**Principal Authors:** Morgan, Mike (S); Ingmire, Terry (H)

**SB 1456 Continued TRS Membership for Certain State Government Employees**

Allows TRS members to remain in TRS when employed by certain state government agencies

**Principal Author:** Williams, Penny (S)





## Investments post positive returns

TRS investment returns for the period ending Dec. 31, 2001, were 8.1% for the 3-month period of October, November and December. TRS returns ranked in the top 17%, compared to 155 other public pension funds.

TRS returns (and rankings) were a negative 1.9% (47<sup>th</sup>) for the 1-year period ending 12/31/01, 4.6% (28<sup>th</sup>) for three years, 10.4% (12<sup>th</sup>) for five years, and 12.7% (17<sup>th</sup>) for the 7-year period.

At the end of December, 63.4% of TRS's investments were in stocks, 35.7% in fixed income and 0.9% in cash.

The TRS portfolio continues to be well-diversified, and the TRS Board's asset allocation has produced above-average returns.

## Board Recommends Funding Increase

In January, the TRS Board of Trustees adopted a recommendation calling for an increase in state funding to be phased in over five years.

Goal 777 asks the state to contribute the same amount statutes require from employees and local school districts. TRS members contribute 7% of pay. Local school district contributions will increase to 7.05% beginning July 1.

The Board's proposal calls for the state to increase its contribution from 3.54% to 5.25% of sales and income tax collections, or an equivalent percentage of other state revenues. This increase would result in total state contributions to be approximately 7% of employees' pay.

The Oklahoma Retired Educators Association and the OEA have agreed to support the TRS plan.



### 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.



**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!**

## DB vs. DC plans... (from p. 1)

Current retirement programs operated by the Teachers' Retirement System of Oklahoma and the Oklahoma Public Employees Retirement System are **defined benefit** plans. A defined benefit plan calculates retirement benefits based upon a formula, which is often a percentage of final average pay, multiplied by years of service. The TRS formula is 2% times Final Average Salary times years of service. Benefits are paid as an annuity for a member's lifetime. The costs of a defined benefit plan are funded through a combination of employee contributions, employer contributions and investment returns. In a defined benefit plan, the employer assumes the investment risk, and must make up any loss in investment earnings.

In a **defined contribution** plan, each member has an individual account that accumulates employee contributions and/or employer contributions and investment returns. At retirement, the retirement benefit is determined by the account balance. Payment options often include lump sums, as well as annuities, which are limited by the account balance at the time the annuity is purchased. In a defined contribution plan, the employee may self-direct all or part of his or her investment account and assumes the risk of the investment.

## Rule change...

(from p. 1)

A member age 65 or older who has been retired fewer than **36** months or who returns to Oklahoma public school employment, but is not working as an active classroom teacher, a counselor or a librarian, can earn up to half the average salary used to compute his or her retirement benefit.

TRS subtracts \$1 from a member's retirement benefit for each \$1 earned over the limit for Oklahoma public school employment.

*Trends*  
May 2002  
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## Briefly Speaking..

### We've Mowed!

TRS offices are back in the Oliver Hodge Education Building, at the State Capitol Park, 2500 N. Lincoln Blvd., Oklahoma City.

TRS is on the 5<sup>th</sup> floor.

Our mailing address is still TRS, P.O. Box 53524, Oklahoma City, OK 73152.

Our telephone numbers remain 405-521-2387 and 1-877-738-6365 (toll-free).

### Website getting new look

A new look's coming for the TRS website!

The website's renovation, which will be complete in June, will make our site more compact and user-friendly. Changes will include search capabilities and a retirement calculator.

Our website address is: [www.okteachers.state.ok.us](http://www.okteachers.state.ok.us)

We hope you'll visit often for updates on TRS activities.

### 2001 Annual Report available

The 2001 TRS Annual Report is now available.

The report contains the System's financial, actuarial and investment data as of June 30, 2001.

Copies have been mailed to every school, and single copies are available to members by written request. You can also read and copy the Annual Report from the TRS website, [www.okteachers.state.ok.us](http://www.okteachers.state.ok.us).

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