



# Trends

Volume 15, Number 1

October 1995

Teachers' Retirement System

## *From the Executive Secretary. . .*

Teachers' Retirement closed the **1994-95** school year with mixed results. On the plus side, we had **1,972** members retire and investment earnings returned to double-digit figures after the stock and bond markets rebounded from **1994** lows. For the year ending June 30, **1995**, the return on investments was **15%**. On the negative side, total revenue was down in **1995** compared to **1994**, due mainly to smaller collections from the tax on natural gas and smaller realized gains on the sale of assets.

The most significant issue facing the Retirement System continues to be funding actuarial liabilities. Unfunded liabilities as of June 30 are **\$4.6 billion**, up from **\$4.0 billion** from last year. Approximately half the increase is due to new actuarial assumptions to recognize a continued trend toward earlier retirement. The remainder is due to the fact that TRS did not receive sufficient employer contributions during the past year.

In **1992**, legislation was enacted requiring local schools to increase their contributions to the Retirement Fund to balance contributions from the State. Assuming the System receives statutorily mandated revenues, it

(See Executive Secretary, page 4)

## Senate Bill 527 Brings New Contribution Rates, Continues Salary Caps for Some

Senate **Bill 527** continued the salary cap for Teachers' Retirement System contributions for some higher education employees for two years and changed the employer contribution rate for the 1995-96 school year.

Senate Bill 568, enacted in 1992, had removed the \$25,000 and \$40,000 salary caps for contributions from all employees as of July 1, 1995. However, under Senate **Bill 527**, only higher education employees who are new as of July 1, 1995, and employees of common schools, vocational-technical schools, and state educational agencies will pay contributions on total compensation between now and July 1, 1997. For the 1995-96 school year, these employees pay 6% on the first \$25,000 of compensation and 7% on compensation above \$25,000. The 1996-97 contribution rate for these employees will be 6.5% on the first \$25,000 and 7% on compensation above \$25,000. Beginning July 1, 1997, they will contribute 7% on total compensation.

Employees of any entity or institution within the Oklahoma State System of Higher Education as of June 30, 1995, will continue to contribute on "capped" compensation for the 1995-96 and 1996-97 school years. This includes employees at all higher education schools (junior colleges, four-year colleges and universities). Higher education employees who had previously elected the \$25,000 salary cap will contribute 6% on compensation up to \$27,500 during the 1995-96 school year, and **6.5%** on compensation up to \$30,000 for the 1996-97 school year. Employees who elected to contribute on compensation above \$25,000 or who had not made an election before July 1, 1995, will contribute 6% on the first \$44,000 of compensation during the 1995-96 school year and 6.5% on compensation up to \$48,000 for the 1996-97 school year.

(See Senate Bill 527, page 2)

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## ***Senate Bill 527 brings new contribution rates, continues salary cap for some***

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Retirement benefit calculations for higher education employees who are contributing members of TRS during the 1995-96 and 1996-97 school years will be based for these two years on an average salary not to exceed their contribution level for these years. Higher education employees contributing on capped salaries between 1995 and 1997 will contribute 7% on total compensation beginning July 1, 1997.

Under the new law, all employees receiving less than \$25,000 compensation as of July 1, 1995, will be required to contribute on compensation above \$25,000 when their compensation reaches that level.

If an employee of a higher education institution is a "current" employee as of July 1, 1995, but has a break in service that also results in a break in OTRS membership, that employee will be a "current" employee for TRS purposes when he or she returns to work after any break in service.

An election to buy back compensation above \$25,000 for the period between July 1, 1987, and June 30, 1995, must have been made before July 1, 1995. Members who elected to buy back that compensation must pay the difference between the amount they contributed and the amount that would have been due had they made

the \$40,000 election when their compensation first exceeded \$25,000. Payment for past contributions must be made before retirement.

The employer contribution rate had been scheduled to increase from 8% to 9% of employees' total compensation. The new law changed the employer contribution rate to 8.5%. Because the tax on natural gas provides 6% of the employer's contribution, the rate for local employers for the 1995-96 school year is 2.5%. On July 1, 1996, the employer contribution rate will increase to 9.5% and will continue to increase 1% per year until it reaches 18% in the school year 2005-06.

### **Summary of Senate Bill 527**

#### **Employee Contributions for Higher Education Members Joining TRS *Prior* to July 1, 1995 (Current Higher Education Members)**

<b>School Year</b>	<b>For Employees Who Previously Elected to Contribute Only on Salary up to \$25,000</b>	<b>For Employees Who Previously Elected to Contribute on Salary in Excess of \$25,000</b>
1995-96	6% on salary up to \$27,500	6% on salary up to <b>\$44,000</b>
1996-97	6.5% on salary up to \$30,000	6.5% on salary up to <b>\$48,000</b>
1997-98	7% on all salary	7% on <b>all</b> salary

#### **Employee Contributions for Higher Education Members Joining TRS *after* June 30, 1995, *and* for All Common and Vocational Education Members**

<b>School Year</b>	
1995-96	6% on salary up to \$25,000 and 7% on all salary above \$25,000 (no salary cap)
1996-97	6.5% on salary up to \$25,000 and 7% on all salary above \$25,000 (no salary cap)
1997-98	7% on all salary (no salary cap)

## An Overview of Approved 1995 Legislation

The 1995 Legislature passed several bills affecting the Teachers' Retirement System in addition to Senate Bill 527, detailed on pages 1 and 2 in this issue of Trends.

**Senate Bill 5** established a nine-member task force to review the reserve limits maintained by the State and Education Employees Group Insurance Board. This bill, as originally introduced, would have required monthly health insurance premiums be the same for active and retired members. The final version of the law makes no change in premium rates.

**Senate Bill 353** modified language enacted in 1994, allowing

active members to transfer service credits between the Teachers' Retirement System and the Oklahoma Public Employees Retirement System. The new law rescinded a requirement that members work for at least 12 months after the transfer is made. Members can now transfer part of their total service when they cannot afford to pay the cost of credit for all service. The cost to transfer this service is the actuarial cost of the increased benefit in the receiving system minus the accumulated value of the credit in the sending system. The member must pay any difference in cost.

*(See Legislative Overview on page 4)*

## Trustees Pass Emergency Rules

The TRS Board of Trustees has adopted the following emergency rules and sent them to the Governor for his approval:

**OAC 715:1-1-17.** This rule is new and sets fees for inspecting, copying and/or reproducing certain non-confidential records of the Teachers' Retirement System.

**OAC 715:10-15-27.** This rule also is new. It limits benefit calculations from the retirement system to compensation prescribed by Section 401(a)(17) of the Internal Revenue Code for any member joining the retirement system after July 1, 1996. It is necessary to ensure the retirement system's continued compliance with the Internal Revenue Code.

**OAC 715:10-15-7.1.** This new rule reflects 1995 legislative changes by adding a retirement formula for Teachers' Retirement System members employed by an entity or institution within the Oklahoma

State System of Higher Education.

Several rules have been amended.

**OAC 715:10-5-7.1** was amended to remove a requirement that an active Teachers' Retirement System member transferring service credit from the Oklahoma Public Employees Retirement System to TRS must remain an active contributing TRS member for at least one full year after filing the date of the election with both systems. This rule also adds a requirement that the member pay any difference in actuarial cost if the cost to the Teachers' Retirement System of the actuarial value of the transferred service is greater than the cost of the same years of service in the Oklahoma Public Employees Retirement System.

Specific requirements for probate waivers were added to **OAC 715:10-9-6**. This change was mandated by House Bill 1479, passed in the Spring.

*(See Trustees, page 4)*

## TRS Welcomes New Board Members

The TRS Board of Trustees has six new members.

George W. Barnes of Oklahoma City, Robert C. Gates of Broken Arrow, John C. Kahre of Tulsa, Brenda J. Potter of Ardmore, Marshall Snipes of Oklahoma City, and Ron Wallace of Oklahoma City were appointed by Gov. Frank Keating.

Barnes, an investment professional; Gates, an attorney; Snipes, an insurance professional; and Wallace, an investment professional, are members appointed by the Governor with no Senate confirmation required. Their terms are concurrent with Keating's and expire Jan. 10, 1999.

Kahre works for Tulsa Junior College and represents a school of higher education. His term expires July 1, 1999.

Potter works for Ardmore Public Schools and represents nonclassified optional personnel. Her term expires June 30, 1998.

Other Board members are Dr. Wayne C. Bland, Director of the Tulsa Teachers' Credit Union, chairman; Tommy G. Fulton, a retired teacher from Del City, vice chairman; Celeste Tillery, an active classroom teacher from Claremore, secretary; Thomas E. Daxon, Director of the Office of State Finance; Sandy Garrett, State Superintendent of Public Instruction; Susan L. Raasch, an active classroom teacher from Claremore; and Dr. Greg Z. Winters, Superintendent of Eastern Oklahoma County Area Vo-Tech, who is the designee of Dr. Roy V. Peters, state Director of Vocational and Technical Education.

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## **Witt Named Secretary-Treasurer**

Jo D. Witt has been named Secretary-Treasurer of the Teachers' Retirement System of Oklahoma. She succeeds Randall L. Kopsa.

Witt was TRS Director of Investments for 8 years. She has worked in the Investment Department of the System's Financial Division since 1971.

## **Legislative Overview**

*(continued from page 3)*

**House Bill 1038** amended an existing statute by establishing requirements for contracts between a local board of education and a retired administrator or entity performing consulting services. The contract must provide a specific list of duties the consultant will perform. Contracting for consulting services at the same time a person is employed by the school district is prohibited.

Under **House Bill 1479**, the Teachers' Retirement System can make certain death payments to the next of kin of a deceased retiree when the member's total estate is \$5,000 or less, and the deceased member did not have a living beneficiary.

## **Trustees Pass Emergency Rules**

*(continued from page 3)*

Changes to **OAC 715:10-13-3** amend statutory Teachers' Retirement System rates to reflect 1995 legislative changes affecting Teachers' Retirement System members employed by an entity or institution within the Oklahoma State System of Higher Education.

Changes to **OAC 715:10-15-7** amend the standard retirement formula of the Teachers' Retirement System of Oklahoma to reflect 1995 legislative changes affecting Teachers' Retirement System members employed by an entity or institution within the Oklahoma State System of Higher Education.

These emergency rules will become permanent during the 1996 Legislative Session.

## **Executive Secretary**

*(continued from page 1)*

*would be fully funded in 20 to 25 years. However, increases in local contributions place additional demands on already strained school budgets. How required revenues can be generated should concern all who have an interest in the Retirement System.*

*The Governor, Legislature and Board of Trustees will continue to work to resolve this complex problem, but there are no easy answers and a solution will take years.*

*Tommy C. Beavers  
Executive Secretary*

## **Don't Forget !**

*Be sure your beneficiary designation is up-to-date. It's easy to keep your beneficiary designation current. Just write us:*

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