

Trends



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The Newsletter of the Teachers' Retirement System of Oklahoma

October 1998

In remembrance...

John Standifer Keas, former Executive Secretary



John Standifer Keas
1911-1998

The Teachers' Retirement System extends condolences to the family and friends of Standifer Keas, who died April 7, 1998. Mr. Keas was TRS Executive Secretary from 1962 until his retirement in 1975.

Stan's 42-year career in education began in 1933 in his home town of Dill City, OK. He was a teacher, principal and superintendent of schools before he was named the State Department of Education's Chief High School Inspector. He was promoted to Assistant State Superintendent of Instruction and served as Chairman of

the North Central Accreditation Association. He also served as an assistant superintendent for the Mid-Del Public School System before becoming the TRS director.

Mr. Keas is survived by his wife Ona Keas, a retired teacher; one daughter and son-in-law; two grandchildren; two great grandchildren; other relatives and many friends.

TRS retirees receive benefit COLA

Retired members received an increase in monthly benefits effective with their August 1 retirement check. The increase provided by Senate Bill 1037 was the first for TRS retirees since 1994.

Increases averaged 4.8%, but individual increases ranged from 1.75% to 10%. Members retired the longest received the highest percentage increase. TRS re-figured each retiree's benefit amount after adding \$1,400 to each classified member's final average salary and \$700 to each unclassified member's final average salary.

The increase will add more than \$20 million to the \$450 million that will be paid to retirees in the next 12 months.

(See COLA on page 6)

Senate Bill 1037 changes TRS funding source

The 1998 Legislature enacted recommendations included in the Oklahoma Teachers' Retirement System Task Force Report (see May 1998 *Trends*). Senate Bill 1037 changes the way the Teachers' Retirement System will be financed over the next 30 years. The new law permanently sets the contribution rate local schools pay, and provides the Retirement System with 3.25% of available money from the State's General Revenue Fund during FY-2000 and 3.5% for each year thereafter. The amount local schools

contribute will increase from the present 4.8% of employee pay to 7.05% by 2002. TRS members will continue to contribute 7% of pay.

Annual contributions from the State's General Fund have been projected to be approximately 5.75% of employees' compensation. The combined State and local contribution rate will eventually stabilize around 12.8%, instead of the 18% rate mandated by a law enacted in 1992. TRS will continue to receive a portion of the natural gas tax during the 1998-99 school year

(See Funding on page 6)

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No tax on State contribution...**IRS issues Teachers' Retirement favorable FICA ruling**

It took 10 months and \$20,000, but IRS finally ruled TRS members do not have to pay FICA (Social Security taxes) on the amount the State of Oklahoma pays to their individual TRS accounts. The State has paid a portion of classified members' retirement contributions since the 1997-98 school year.

IRS had ruled in November 1997 that the State contribution was not subject to federal income taxes. However, this money will be subject to income tax when TRS pays it to the member, either as a refund or retirement benefits.

The ruling on FICA applies only to the State's contribution. It does not change the FICA tax status on payments made by the local school. FICA taxes are required on contributions made by the school district when such payments result in any form of salary reduction.

The ruling on FICA taxes is retroactive to January 1, 1998, which allows schools to recover taxes previously paid. Statewide this is a savings of \$1.3 million to teachers and a like amount to school districts. The ruling will result in a combined savings of over \$5 million to teachers and schools during the 1998-99 school year.

State Continues Credit Toward Teachers' Contributions

Senate Bill 776, enacted by the 1998 Legislature, extends through June 30, 1999, the provisions introduced in 1997 by House Bill 1873, and adjusts the amounts the State of Oklahoma will pay toward educators' contributions.

Years	Salary	Percentage	State Credit
0	\$24,060	0.25%	\$60.15
1	25,221	0.41%	103.41
2	25,553	0.57%	145.65
3	25,885	0.73%	188.96
4	26,217	0.89%	233.33
5	26,549	1.05%	278.76
6	26,881	1.21%	325.26
7	27,213	1.37%	372.82
8	27,545	1.53%	421.44
9	27,877	1.69%	471.12
10	28,209	1.85%	521.87
11	28,541	2.01%	573.67
12	28,873	2.17%	626.54
13	29,205	2.33%	680.48
14	29,537	2.49%	735.47
15	29,869	2.65%	791.53
16	30,201	2.81%	848.65
17	30,533	2.97%	906.83
18	30,865	3.13%	966.07
19	31,197	3.29%	1,026.38
20	31,529	3.45%	1,087.75
21	31,861	3.61%	1,150.18
22	32,193	3.77%	1,213.68
23	32,525	3.93%	1,278.23
24	32,857	4.09%	1,343.85
25 or more	33,189	4.25%	1,410.53

Qualifying for the State's contribution are teachers and other educators who work for a school district or vocational-technical school district in a position requiring Department of Education certification and who qualify for the Department of Education's minimum salary schedule.

Other highlights of Senate Bill 776

"Teacher" includes administrators and other "certified" personnel.

The amount paid by the State is based on the minimum salary for a bachelor's degree. State credit is divided by the number of pay periods in the employee's contract and the monthly credit is added to teacher's compensation.

The teacher forfeits the state's contribution if employment ends before the end of the school year.

If the eligible member is employed less than full-time, the state credit must be prorated. Federal matching for those employees whose salaries are paid in whole or in part by federal funds will continue to be calculated in the usual manner.

Summarizing the 1998 session...

Legislature brings changes for Teachers' Retirement

The Teachers' Retirement System greeted the 1998-99 school year under provisions of several new laws. Measures passed by the 1998 Legislature include changes for active and retired members, amendments to two TRS retirement plans, a cost of living adjustment for many TRS retirees and a different source for TRS's future state funding.

The Bills

In addition to Senate Bills 776 and 1037, which are featured in this issue, TRS-related legislation signed by the Governor included:

House

House Bill 2287 allows unmarried TRS members to choose a reduced benefit under the Option 2 or Option 3 retirement plan. These plans previously required the spouse as the member's beneficiary. Both plans provide the beneficiary with a lifetime benefit after the member dies. Option 2 pays the beneficiary the same monthly amount received by the member. Option 3 pays the beneficiary half the monthly amount received by the member. The measure also lets a member make installment payments when purchasing past service credits, including redepositing withdrawn account balances. Interest will be charged on the installments and all payments must be made before the member's official retirement date.

House Bill 2568 requires all public pension plans, including TRS, to deduct child support payments from retirement benefits under certain conditions.

Gov. Frank Keating vetoed **House Bill 3113**. Passed by lawmakers the last day of the session, it would have given TRS one-third of the annual income from any monies the State received from a tobacco case settlement.

TRS changes:

- Active members
- Retired members
- 2 retirement plans
- COLA
- Funding source

Senate

Senate Bill 901 includes \$33.4 million to fund the State's contribution to the Teachers' Retirement System accounts of eligible employees. A table of the new contribution amounts is on page 2.

Senate Bill 902 modifies the annual steps included in the minimum salary schedule and establishes a Flexible Benefit Plan to pay part of employees' health insurance premiums. The Flexible Benefit allowance ranges from a minimum \$57 per month for classified employees (teachers, principals, supervisors, administrators, counselors, librarians, and certified or registered nurses), to no less than \$85 per month for other personnel.

Senate Bill 1032 requires all public pension plans to pay the member's beneficiary or estate the amount of the member's retirement benefit check for the month in which a retiree dies.

Senate Bill 1033 allows a teacher to purchase credit for up to 90 days of unpaid leave taken to care for his or her child for the first year after birth. This measure became effective July 1, 1998, and is not retroactive for service before that date.

TRS at cutting edge...**Imaging Project increases security, efficiency, service**

Faster. More efficient. Better able to serve TRS members.

Teachers' Retirement System staff use several terms to describe the effects of the Teachers' Retirement System's Imaging Project. More than 3 million documents have been scanned and stored on a computer accessible to TRS personnel.

From its conception more than two years ago to its birth over the summer, the imaging system is propelling TRS on its continuing journey into the Computer Age.

"As far as state agencies go, we're pretty close to the front edge," said Roger Ison who, as TRS Network Administrator and Technical Support Manager, is in charge of the project's overall operation.

"As far as other retirement systems around the nation, we're probably in the middle of the pack. A lot of retirement agencies are moving to this," he said.

This method of computerizing files is known by several names, but usually is called an Optical Imaging System or a Document Imaging System. What it means to TRS members is faster, more efficient handling of their accounts, because more than one TRS staff can help the member at the same time.

"We don't have to run down the hall to the fileroom to pull a file. It's accessible on each person's desk. Everybody at TRS has access to every file," said Ison.

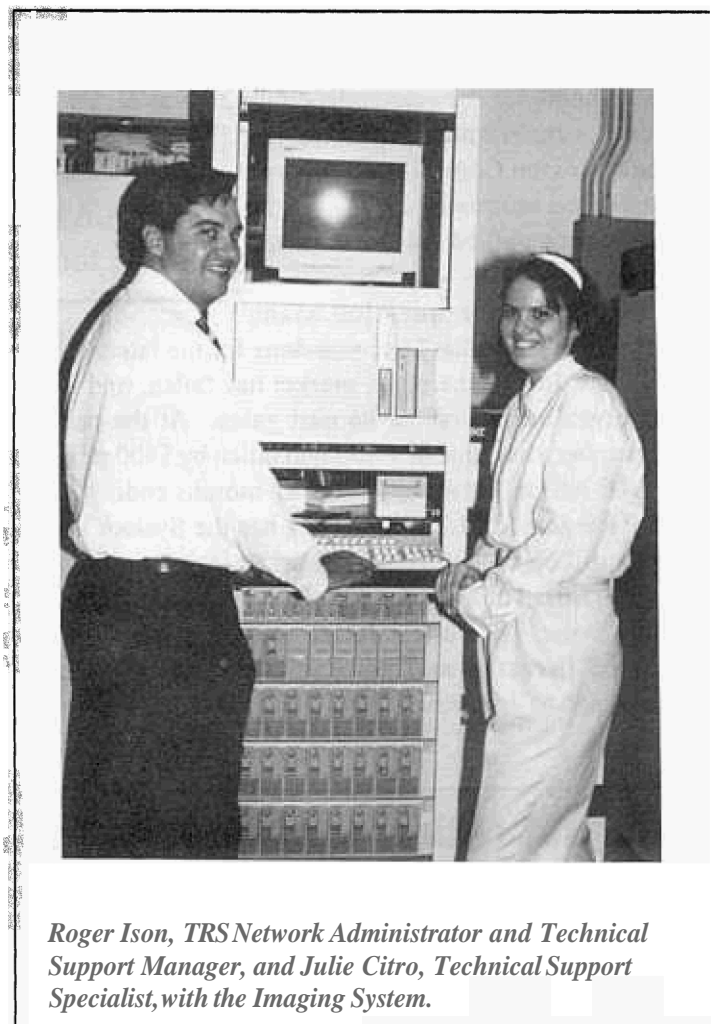
"If they need five or six different things done, then five or six different people can be looking in the file and acting on it (at the same time)."

I n c r e a s e d efficiency means that TRS members are likely to notice faster service and quicker answers to their questions, whether they visit the System's Oklahoma City

offices in person or by telephone.

"Instead of saying, 'Well, I'm going to have to go pull your file - I'll call you back,' we'll be able to pull the file up on the computer and help," Ison said.

As far as state agencies go, we're pretty close to the front edge ... **A** lot of retirement agencies (across the nation) are moving to this.



Roger Ison, TRS Network Administrator and Technical Support Manager, and Julie Citro, Technical Support Specialist, with the Imaging System.

The Document Imaging System also increases file security, giving TRS two identical computerized sets of each member's retirement record, one on-site, the other off-site.

"So far as disaster recovery is concerned, it's much safer than paper records," said Ison. "If this building wasn't here tomorrow, we could re-create all the member files."

The project entered its planning stage in 1996. The equipment was installed in October 1997, and on-site scanning of members' files began in November 1997.

As TRS's needs change, the Document Imaging System will continue to evolve.

"We're going to be modifying it and updating it for quite some time," said Ison. As we use it more, we'll find that there are more things it can do for us, and we'll be making programming changes to allow that. It's a work in progress."

Investment returns good now – but what about *tomorrow*?

TRS assets reached a market value of \$5 billion during March 1998, closing the year on June 30 at \$5.2 billion. The System has been able to achieve above-average returns for an extended period. Total return on investments for the year ending June 30 was 21.5%. A recent consultant's report to the State Pension Commission showed annualized returns of 19.3% for the last 3 years, and 14.9% for the last 5 years.

However, the question many people ask is, "What have you done for me lately?"

Since July 1, the stock market has fallen, and TRS has given back some of its past gains. At the end of September, the value of assets had fallen by \$400 million to \$4.8 billion. However, in the 12 months ending June 30, TRS gained \$1.2 billion. So, has the System made \$800 million or lost \$400 million?

The Board of Trustees spends a great deal of time on investments. The trustees decide how the System's assets will be invested and employ professional money managers to implement this plan. Using guidelines

established by Board policy, managers make the day-to-day decisions on what is bought or sold. The trustees monitor the managers to make sure they follow guidelines and constantly evaluate performance.

Since 1988, the Board has moved from 67% in bonds to 65% in stocks. Historically, stocks outperform bonds. TRS investments are diversified with 51% in large-, mid-, and small-cap domestic equities and 13% in international equities.

Question:
What have you done for me lately?

30% of the asset mix, with 5% in international fixed income. Cash represents 1% of assets. Approximately 40% of assets are in passively managed index funds, and 60% are actively managed. No one knows whether we are in a bull or bear market. Most economists point to the healthy U.S. economy but continue to be concerned over financial problems worldwide. Undoubtedly, we will continue to see wide swings in the stock market.

The TRS Board believes the best way to ensure good long-term returns on investments is a well-diversified

(See *Investments on page 6*)

August retirement checks mailed late for first time

The August 1 retirement checks were mailed late.

"This is the first time checks have not been mailed on time," said Tommy Beavers, TRS Executive Secretary.

The late mailing delayed benefits only to those 9,000 retirees whose checks are delivered by the U.S. Postal Service. The 23,000 retirees whose benefits are deposited electronically received their money on time.

"The checks were ready to mail, but unfortunately were not picked up and this went unnoticed," said Beavers. "We realize we inconvenienced 9,000 retirees and created a real hardship for many."

Beavers said new procedures have been added to ensure benefit payments are not delayed again.

New procedures should ensure benefit payments are not delayed again.

Paper checks are picked up by a private company, sorted and delivered to the Oklahoma City Post Office on the last working day of each month. Once they enter the postal system, TRS has no control over delivery time.

"We have worked closely with postal authorities to try to ensure prompt delivery," Beavers said.

If your check is late, make sure your address, including the zip code, is correct. If your check is late and the envelope has unusual markings

on the front or back, please send the envelope back to TRS. This can help postal inspectors determine what caused the delay.

Many TRS retirees called the Retirement Office when their expected checks did not arrive on time. Several callers asked whether the delay was an effort to encourage retirees to use Direct Deposit for their monthly benefit.

"This was not the case," said Beavers. "We encourage Direct Deposit because it is safe, convenient and a savings to the member and TRS. But we want members to do Direct Deposit when *they* decide it is right for them."

If you are concerned your benefit payment might be late, or if you would like to try Direct Deposit, call or write **TRS** for Direct Deposit forms.

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Oklahoma**

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Investments from page 5

portfolio with emphasis on stocks. The market will have ups and downs, but an investor has to be a player every day. People who believe they can "time" the market, getting out and in at the right time, generally fail to meet their investment objectives. Over long periods, a well-diversified portfolio provides higher returns with lower risk. That is where TRS wants to be.

COLA from page 1

Another measure, House Bill 2695, limits the increase to one year. The Legislature will have to re-enact the increase in 1999 for it to continue beyond July 1999.

The TRS average monthly retirement payment is now \$1,177 and the average length of service is 25.6 years. Please remember, total service, age at retirement and the retirement option selected cause benefits to vary between individual retirees.

Funding from page 1

The change in overall contributions will extend the Retirement System's funding period from approximately 20 years to more than 30 years. Basically, TRS's unfunded liabilities have been refinanced to reduce annual payments. The annual requirement on the State and local schools would have increased under the old plan, with local schools making up any shortfall in revenues from the natural gas tax. The Legislature agreed with the Task Force report that the financial

burden on local schools had to be reduced and that revenues generated by the gas tax were unpredictable.

The new funding plan will meet TRS' long-term needs. Once the employer contribution levels off at 12.8%, the funding plan also will comply with funding standards adopted by the Governmental Accounting Standards Board's (GASB) Statement No. 25. GASB establishes accounting and reporting standards that public pension plans must follow.

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