Trends

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From the Executive Secretary...

Canceling employer contributions *not* answer

Everyone is concerned about revenue shortfalls and how cuts in state appropriations are impacting public education and local school districts. The cuts are devastating, and no one knows when the state's economy will improve.

To help solve the financial woes of school districts, several school administrators are calling for the Legislature to suspend retirement contributions that schools now are paying to TRS. This would save schools approximately $450 million over two years, but would cost the Teachers' Retirement System that much immediately, and much more in lost investment earnings in the future.

In addition to forcing TRS to sell assets just to pay retirement benefits, the real cost would be that members, school districts and taxpayers would have to continue paying high contribution rates for at least nine years beyond current projections. This would cost Oklahoma *billions*, not millions.

The argument will be made that the System already is poorly funded, so it won't matter – the state will make it up someday, and reducing TRS contributions is better than schools having to terminate employees. No! Neither terminating employees nor canceling retirement contributions is a viable solution.

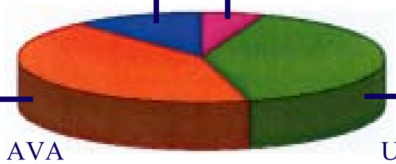
The TRS Board has worked long and hard with legislative leaders and groups of educators to improve funding for TRS. At the same time, the Board has continually recommended increased funding for local schools to help cover employer contribution costs. Schools now receive more than $100 million per year from the state, specifically to help fund retirement contributions.

Times are tough! But this is *not* the time to step back from funding our retirement system. Too many retired and active educators depend on TRS for their retirement security. We must not fail them.

Tommy C. Beavers
Executive Secretary

Fully funded TRS may be 21 years closer

How present value of future benefits will be provided



AVA: Actuarial Valuation of Assets
UAAL: Unfunded Accrued Actuarial Liability

(Graphic by Gabriel, Roeder, Smith & Company)

The Teachers' Retirement System could be fully funded in 2042, rather than 2063, the 2002 Actuarial Valuation shows.

The Annual Actuarial Valuation reports the Retirement System's financial condition. It was presented to the TRS Board of Trustees at the October 23 meeting. The report details the adequacy of current employer contribution rates, describes the System's current financial condition and analyzes changes in the System's condition.

The funding period decreased from 62.2 years to 41.0 years. The funding period is the time it will take to fully cover the System's unfunded liabilities, assuming investment returns average 8% per year and that retiree Cost of Living Adjustments (COLAs) average 1% per year. The 21-year reduction in the funding period is the result of Senate Bill 1376, enacted by the 2002 Legislature. The measure will increase the percentage of sales, use and income tax collections the state contributes to TRS, beginning in 2004.

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Funded future closer *(from page 1)*

The System's funded ratio remained unchanged from last year at 51.4%, when the Actuarial Value of Assets (AVA) is divided by total liabilities. However, when comparing total liabilities to the market value of assets, the System's funded ratio fell from 49.4% to 44.1%.

The AVA increased from $5.9 billion last year to $6.3 billion on June 30. However, market value of assets fell from $5.7 billion to $5.4 billion. The AVA is determined by averaging asset gains and losses over a five-year period. This is a common practice used by actuaries to help smooth out fluctuations in investment markets.

The System's Unfunded Actuarial Accrued Liabilities (UAAL) increased $333 million, from $5.632 billion to $5.965 billion. An increase of $188 million had been projected last year because the current employer contribution rate is not large enough to pay for the normal cost and interest on the UAAL. The additional $145 million increase was the result of a combination of factors, including negative investment returns and the additional cost of the benefit increases granted to retirees.

This year's report also includes an addendum using standard assumptions required by a new law enacted during the 2002 Legislative session. All state-run pension plans in Oklahoma must include this special report, which is designed to provide a better comparison between each pension plan. The standard assumption includes a 7.5% investment return, instead of the 8.0% used by TRS, and a 2% per year COLA for retirees, instead of the 1% per year assumption used by TRS. The net effect for TRS would be an additional $1.5 billion in liabilities.

Teachers' Retirement has 85,366 active members, 979 more than in 2001. The number of retirees jumped to 36,515, an increase of 1,327 since 2001. TRS has 12,300 inactive members, up 536 from 2001.

The average active member salary for the year ending June 30, 2002, was $35,695. Retired member benefits average $15,344 per year. Since 1992, active members' average salaries have increased 2.7% per year, while the average annual benefit for retirees has increased 2.8% per year.

A copy of the TRS Actuarial Report is available on the TRS website (www.trs.state.ok.us).

By the way...

The statutory employer contribution local school districts pay in addition to contributions required by members is *not* used to pay the administrative costs of operating TRS.

Local schools contribute 7.05% of each member's pay, in addition to the 7% contributed by members.

All contributions, including the state's contribution from sales, use and income taxes, are used to establish a reserve fund to pay benefits.

The employer contribution is sometimes referred to at the local level as an "administrative fee" or "burden." While it is an extra expense to local school budgets, it is a legitimate cost of the business of educating children. Providing a retirement plan for workers is a cost of doing business for most private- and public-sector organizations.

The administrative expense of operating TRS is paid from investment earnings. The System submits an annual budget for legislative review, as do other state agencies, but TRS does *not* receive appropriations for operating expenses.

A recent study of 13 comparably sized state pension plans showed Oklahoma TRS had the lowest per member administrative cost at $2.35 per member per month.

Calculating Retirement Benefits with the TRS Formula

Monthly benefits for most TRS members can be calculated by this formula:

2% x Final Average Salary x years of service ÷ 12.

However, statutes provide that the Final Average Salary (FAS) used in calculating a retirement benefit cannot exceed $40,000 for years of service performed before July 1, 1995.

Benefits for members whose FAS exceeds $40,000 will be calculated in two steps:

2% x $40,000 x service performed before July 1, 1995

plus

2% x FAS x service performed after July 1, 1995

In addition, a member who elected to limit contributions to only the first $25,000 of earnings between 1987 and 1995 will have benefits for years before July 1, 1995, calculated using an FAS of $25,000.

Employees of the University of Oklahoma and Oklahoma State University who were employed by those schools before July 1, 1995, also have benefits calculated differently on service after July 1, 1995. These members' contributions have been limited or "capped" at less than total pay.

Visit our website (www.trs.state.ok.us) for more information about how your benefits are calculated.

New Post-Retirement earnings limits in effect

If you are a TRS retiree going back to work for an Oklahoma public education employer, you may be affected by new earnings limits that became effective July 1, 2002.

A classified retiree who has drawn at least 36 TRS benefit payments may earn up to $30,000 per calendar year without affecting monthly retirement benefits. The earnings limit for a non-classified retiree who has drawn at least 36 TRS benefit payments is determined by the retiree's age.

If you have not drawn at least 36 TRS benefit payments, your post-retirement earnings limit is determined by your age, as follows:

1. Under age 62: The lesser of half your final average salary or $15,000.
2. Age 62 or older: The lesser of half your final average salary or $30,000

Age	Classified	Non-Classified
Under 62	Lesser of 1/2 Final Average Salary or $15,000	Lesser of 1/2 Final Average Salary or $15,000
Age 62 & older	Lesser of 1/2 Final Average Salary or $30,000	Lesser of 1/2 Final Average Salary or $30,000
Retired 36 months or more	$30,000	See above for Appropriate Age

Final Average Salary: Average used to calculate retirement benefits
Classified: Administrators, teachers and other certified personnel
Non-Classified: Support personnel

IRS gives nod

Tax-Sheltered installments can pay for service purchase

You want to buy past service credits or redeposit your withdrawn account, but coming up with the money to pay for it all at once is a problem. **Solution:** Installment payments.

Installment payments? How? **Solution:** Roll over money from your tax-sheltered annuity account or from another qualified tax-deferred savings account.

The Internal Revenue Service lets TRS allow active members to make tax-deferred installment purchases for past service credits or redeposits of withdrawn accounts. TRS Rule OAC 715: 10-5-35 provides for this type of installment purchase.

You can pay for purchased service or redeposits with rollovers from a 401(a), 401(k), 403(b) or 457 account. However, you *cannot* roll over money from a Roth IRA.

Or, you can make tax-deferred (pre-taxed) installment payments through payroll deduction. To qualify installment payments as tax-deferred, two things must happen:

1. Your employer (school district or other qualified TRS entity) must adopt a resolution to participate in the installment plan program, and file that resolution with TRS, and
2. You and your employer must complete an **irrevocable** payroll reduction authorization form.

Your employer must be willing to make the required deductions from your pay, and remit the payment to TRS each month. The amount deducted under this program will not be included as taxable income on your year-end W-2 form.

The installment contract cannot be broken except by termination of your employment, or your retirement or death.

Tax-deferred installment payments can be made only through payroll deduction by your employer. You can pay *after-tax* installment payments directly to TRS with personal checks.

TRS

Trends October 2002
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Legislation prompts rule changes

Legislation enacted during the 2002 session has prompted changes to four TRS rules. They are:

OAC 715:10-1-7
OAC 715:10-13-3.1
OAC 715:10-13-9
OAC 715:10-17-1.

Gov. Frank Keating approved the changes in October.

The changes to OAC 715:10-1-7 amend the rule to comply with House Bill 2670, which allows a participating employee of an education association to retire upon qualifying for retirement, even if the employee continues to work for the education association.

House Bill 2344 requires Oklahoma public education employers to remit statutory employer contributions (7.05%) for retired members who are working for the employer. OAC 715:10-13-3.1 adds this provision. The new law also requires public education employers to provide TRS not only with a list of retired members working for the employer, but also the amount of employer contributions remitted for each member. TRS rule OAC 715:10-13-9 now includes this provision.

The definition of "Retired Member" was added to OAC 715:10-17-1, and includes a member who is employed as an individual, corporation, or other business structure.

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