



Trends



From the Executive Secretary:

Keep 1376

This is a critical time in TRS's 60-year history.

Senate Bill 1376, enacted in 2002, will increase the percentage of sales and income tax collections TRS will receive from the state. Beginning July 1, 2004, TRS's share of sales and income tax revenues will increase from 3.54% to 3.75%. Then, in July 2005, 2006 and 2007, this percentage will increase to 4.0%, 4.5% and 5.0%, respectively. The dollar increase will depend upon actual collections, but TRS should realize at least \$50 million more each year after 2007.

The extra money will pay off outstanding liabilities over a 40-year period instead of the 60+ years TRS was facing under the amortization schedule before SB 1376's passage.

Members and taxpayers must continue contributing long enough to pay for benefits earned by TRS members. The question is how much and for how long will all of us pay for the fact that the retirement program has not been properly funded in the past? Like a home mortgage or credit card bills, the longer it takes to pay off the debt, the more it costs in interest charges. The same is true for funding the retirement program.

Remember the old oil filter commercial, "You can pay me now, or you can pay me later."

Tommy C. Beavers

Investment value soars

The market value of TRS assets on October 1, 2003, was \$6.1 billion, an increase of nearly \$1 billion during the last six months..

Too bad we can't do that every six months!

Like most pension plans and private investors, the recovery beginning in mid-March has helped TRS make back some of the losses sustained in the two-year downturn in the national economy.

Report Card

TRS investments continue to score high in comparison to the overall performance of other public and private pension plans. A quarterly report to the Oklahoma State Pension Commission shows TRS's investment performance ranks in the top third of 80 public pension plans over the last five and seven years ending June 30, 2003.

TRS's annualized return for the last five years was 3.9%, compared to 3.4% for the median public fund. TRS's return for the last seven years was 8.6%, compared to 7.3% for the median public fund. TRS returned 5.3% for the year ending June 30, compared to 4.6% for the median public fund.

Annualized Return		
Time Period	TRS	Median Public Fund
Year ending June 30, 2003	5.3%	4.6%
Last 5 Years	3.9%	3.4%
Last 7 Years	8.6%	7.3%

Managing TRS Investments

The TRS Board of Trustees sets investment policies and strategies and employs 20 firms to manage a portion of the total fund. Each manager is retained through a competitive bid process, and is selected based upon its skills, how those skills compliment the Board's overall investment plan, and the manager's past performance. The Board, TRS staff, an investment consultant and a custodian bank closely monitor each manager's investment style and performance. Benchmarks are established for each manager according to assigned roles. Each manager is expected to add value, which means the manager's performance over time must produce more than the manager's annual fee plus the index against which the performance is measured.

During the year ending June 30, 2003, TRS managers made approximately \$75 million more than TRS paid in fees. In addition, TRS earned another \$3 million in security lending and commission recapture fees.

Calculating your retirement benefit: Here's how it's done

The formula that will be used to calculate your monthly benefit at retirement will depend upon when you first joined TRS. *If you became a member on or after July 1, 1995, your annual retirement benefit will be calculated using this formula:*

$$2\% \times \text{Final Average Salary} \times \text{years of service} \div 12$$

If you joined TRS before July 1, 1995, Teachers' Retirement must use tiered calculations to determine your retirement benefit. The first tier is for years of service before July 1, 1995. Additional tiers are calculated for years of service from July 1, 1995, until your retirement date.

The benefit for all years of service before July 1, 1995, is calculated using a maximum salary of either \$25,000 or \$40,000, depending upon the level at which you chose to have contributions remitted for those years. If you are a Rule of 80 member (you joined TRS before July 1, 1992), credit for up to 120 days of unused sick leave will be included in this calculation level. If you are a Rule of 90 member (you joined TRS July 1, 1992, or later), you will not receive credit for unused sick leave.



For the years beginning July 1, 1995, your benefit will be calculated depending upon whether you worked in a school district (K-12 and Career Tech) or a college or university.

If you worked in a school district, contributions were remitted on your total compensation (no salary cap) beginning July 1, 1995.

If you worked in a college or university, the 1995-96 school year will be computed separately, based upon the contributions made during that year.

If you were working at the University of Oklahoma, Oklahoma State University or their constituent agencies on or before June 30, 1995, each of the years between 1996 and 2007 will be computed individually.

For members who joined TRS before July 1, 1992, Final Average Salary (FAS) is calculated using an average of the highest three years on which contributions were paid. For members who joined TRS after June 30, 1992, FAS is an average of the highest five consecutive years on which contributions were paid.

Working after retirement: How much can you earn?

The amount a retiree can earn and still receive full retirement benefits changed for some retirees beginning July 1, 2003.

Only earnings from the public schools of Oklahoma count as compensation for retirement purposes.

Members retired for 36 months or more can earn up to \$30,000 per calendar year. Members under age 62 who have been retired for fewer than 36 months can earn the lesser of \$15,000 or one-half their final average salary (FAS). Members age 62 or older who have been retired for fewer than 36 months can earn the lesser of \$30,000 or one-half of their FAS.

The earnings limit is prorated for the year the member retires, the year the member turns 62 and the year the member reaches 36 months of retirement.

A retired member who returns to work in an Oklahoma public school can voluntarily stop receiving monthly benefits and again make TRS contributions to receive extra service

Retired 36 months or more
Up to \$30,000 per calendar year, regardless of age.

Under age 62
Retired fewer than 36 months
Lesser of \$15,000 or 1/2 FAS

Age 62 & older
Retired fewer than 36 months
Lesser of \$30,000 or 1/2 FAS

credits. However, the months a member does this do not count toward reaching 36 months of retirement.

Final average salary is the average used to calculate the member's monthly retirement benefit and can be much less than the member's salary earned during the last year of employment, especially for a member whose salary at retirement is more than \$40,000.

What counts as salary for working retirees?

For retirement purposes, a retired member's total compensation (salary) is calculated the same way it's determined before retirement. Statutes define regular

annual compensation as wages and fringe benefits.

Generally, any payment made for services rendered counts as regular annual compensation. However, a *flexible benefit allowance* paid to an active or retired member is excluded from regular annual compensation and therefore is not counted against that member's earnings limit. For example, if a retired member is paid \$69.71 per month in lieu of health insurance coverage, this amount is not counted to determine the retiree's post-retirement earnings limit. If a retired member is enrolled in the school's health insurance plan, the flexible benefit allowance funded by the state is not counted toward the retiree's earnings limit. For the 2003-04 school year, this amount is 58% of the monthly premium for OSEEGIB insurance.

Any other payments, including annuities purchased by the employer, *do* count toward the earnings limit.

(See Post-Retirement on page 3)

Examples of Retirement Benefit Calculations

* The final average salary in the "Totals" line is a weighted average salary, calculated by multiplying the service by the average salary for each category of service (i.e., capped/uncapped salaries), adding the results and dividing by the total service.

FAS	Years of Service	Unreduced Benefit	FAS	Years of Service	Unreduced Benefit
K-12 and Career Tech			Non-Comprehensive University Employees		
Salary Less than \$40,000 at retirement			Before July 1, 1995		
		$\$ 35,000 \times 2\% \times 30 \div 12 = \$1,750.00$	(cap)		$\$ 40,000 \times 2\% \times 21 \div 12 = \$1,400.00$
Totals:	*\$ 35,000	x 2% x 30		÷ 12 =	\$1,750.00
Salary Greater than \$40,000 at Retirement			1995-1996		
					$\$ 45,000 \times 2\% \times 1 \div 12 = 75.00$
Before July 1, 1995			After June 30, 1996		
(cap)		$\$ 40,000 \times 2\% \times 21 \div 12 = \$1,400.00$	(no cap)		$\$ 49,573 \times 2\% \times 8 \div 12 = 660.97$
Totals:	*\$ 42,719	x 2% x 30		÷ 12 =	\$2,135.95
After June 30, 1995					
(no cap)		$\$ 41,182 \times 2\% \times 9 \div 12 = 617.73$			
Totals:	*\$ 40,355	x 2% x 30		÷ 12 =	\$2,017.75
Employees of OU/OSU (and their Entities)					
\$25,000 Contribution Cap Before July 1995			\$40,000 Contribution Cap Before June 1995		
Before July 1, 1995			Before July 1, 1995		
(cap)		$\$ 25,000 \times 2\% \times 11 \div 12 = \$ 458.33$	(cap)		$\$ 40,000 \times 2\% \times 11 \div 12 = \$ 733.33$
1995-1996 (cap)		$\$ 27,500 \times 2\% \times 1 \div 12 = 45.83$	1995-1996 (cap)		$\$ 44,000 \times 2\% \times 1 \div 12 = 73.33$
1996-1997 (cap)		$\$ 32,500 \times 2\% \times 1 \div 12 = 54.17$	1996-1997 (cap)		$\$ 49,000 \times 2\% \times 1 \div 12 = 81.67$
1997-1998 (cap)		$\$ 37,500 \times 2\% \times 1 \div 12 = 62.50$	1997-1998 (cap)		$\$ 54,000 \times 2\% \times 1 \div 12 = 90.00$
1998-1999 (cap)		$\$ 42,500 \times 2\% \times 1 \div 12 = 70.83$	1998-1999 (cap)		$\$ 59,000 \times 2\% \times 1 \div 12 = 98.33$
1999-2000 (cap)		$\$ 42,500 \times 2\% \times 1 \div 12 = 70.83$	1999-2000 (cap)		$\$ 59,000 \times 2\% \times 1 \div 12 = 98.33$
2000-2001 (cap)		$\$ 47,500 \times 2\% \times 1 \div 12 = 79.17$	2000-2001 (cap)		$\$ 64,000 \times 2\% \times 1 \div 12 = 106.67$
2001-2002 (cap)		$\$ 52,500 \times 2\% \times 1 \div 12 = 87.50$	2001-2002 (cap)		$\$ 69,000 \times 2\% \times 1 \div 12 = 115.00$
2002-2003 (cap)		$\$ 57,500 \times 2\% \times 1 \div 12 = 95.83$	2002-2003 (cap)		$\$ 74,000 \times 2\% \times 1 \div 12 = 123.33$
2003-2004 (cap)		$\$ 62,500 \times 2\% \times 1 \div 12 = 104.17$	2003-2004 (cap)		$\$ 79,000 \times 2\% \times 1 \div 12 = 131.67$
2004-2005 (cap)		$\$ 67,500 \times 2\% \times 1 \div 12 = 112.50$	2004-2005 (cap)		$\$ 84,000 \times 2\% \times 1 \div 12 = 140.00$
2005-2006 (cap)		$\$ 72,500 \times 2\% \times 1 \div 12 = 120.83$	2005-2006 (cap)		$\$ 89,000 \times 2\% \times 1 \div 12 = 148.33$
2006-2007 (cap)		$\$ 77,500 \times 2\% \times 1 \div 12 = 129.17$	2006-2007 (cap)		$\$ 94,000 \times 2\% \times 1 \div 12 = 156.67$
After June 30, 2007			After June 30, 2007		
(no cap)		$\$ 100,000 \times 2\% \times 7 \div 12 = 1,166.67$	(no cap)		$\$ 100,000 \times 2\% \times 7 \div 12 = 1,166.67$
Totals:	*\$ 53,167	x 2% x 30		÷ 12 =	\$2,658.35
Totals:	*\$ 65,267	x 2% x 30		÷ 12 =	\$3,263.35

Post-retirement earnings limits change for some (from page 2)

Some retirees have been told that a school can purchase an annuity to be cashed in after they stop work and that this type of pay would not count as regular annual compensation. However, annuities *do* count as regular annual compensation before retirement and they *do* count

after retirement. It doesn't matter whether the retiree takes a reduction in pay or the employer purchases the annuity in addition to salary.

If you have questions about your post-retirement earnings limit, call TRS.



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IRS says Yes: Support personnel who left TRS but kept jobs can rejoin Retirement System

Support personnel who canceled their TRS membership without leaving their public school jobs can re-enroll in the retirement system.

The Internal Revenue Service has notified TRS that language in House Bill 1754 (2001), which allows that re-enrollment, meets IRS regulations. The law could not take effect until IRS approved it.

Support personnel who are former TRS members can rejoin TRS, effective the beginning of the 2003-04 school year. Members who rejoin must make retroactive contributions back to July 1, 2003, or from the date they reported back to work after July 1.

Rejoining members also can buy credit for the 2001-02 and 2002-03 school years. Payment for those two years must be made or installment payments started before June 30, 2004.

Those rejoining under the provisions of House Bill 1754 cannot redeposit or purchase credit for years of service worked before July 1, 2001.

This does not apply to TRS members who terminated employment and withdrew contributions. These members have always had the right to rejoin TRS upon reemployment and they can redeposit withdrawn service after contributing for a 12-month period. All members should remember that payment for any eligible prior service must be made before termination of employment in the public schools of Oklahoma.



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