



Trends



Volume 25, No. 1 The Newsletter of the Teachers' Retirement System of Oklahoma Summer 2005

From the Executive Secretary...

Is Your Retirement Safe?

This has become an important question for many Americans. We see frequent articles in newspapers about how pension benefits are being changed and/or eliminated. Most of the horror stories involve employees of companies in the private sector, i.e., Enron, WorldCom and, more recently, United Airlines. But, benefits for public sector employees also are under the gun. No pension is guaranteed. Some people even question whether they will receive Social Security benefits at retirement.

Are your Oklahoma Teachers' Retirement System benefits safe? The answer is 99% "Yes" and 1% "No." TRS is a *defined benefit* plan that pays a lifetime monthly retirement benefit. The amount you receive is based on a preset formula. Your benefits are determined by your years of service and your final average salary over a set period of time. Each member, his or her employer and the state of Oklahoma contribute to the Retirement Fund to help pay for future benefits. The money is invested to help grow the Fund. Retirement payments begin when a member has met retirement eligibility. The benefit you receive is the same, whether investment markets go up or down.

How is your TRS benefit protected? Oklahoma Supreme Court opinions do not guarantee an absolute benefit, but the Court has affirmed that benefits earned by educators and state employees are obligations of the state, and it is the duty of the state to make every effort to provide for these benefits.

Aside from the fact that you don't outlive your savings, another important feature of a defined benefit plan is that your money is professionally managed. You don't have to worry about day-to-day investing or ups and downs in the stock market. In addition, TRS management fees are very low, compared to most mutual funds.

Are you wondering about the 1% "No"? Life has no 100% guarantees. TRS still faces serious funding issues. The Retirement Fund has less than 50% of the assets needed to guarantee all benefits are paid in the future. I have confidence that the state of Oklahoma will meet these obligations. However, we all must continue to work to make sure money is there to pay benefits when due.

Tommy C. Beavers
Executive Secretary

Active members push hard for formula change

A group of active members lobbied hard for a change in the retirement benefit formula during the 2005 legislative session. No bill was introduced, but a consensus of what could and should be done received support from both administrators and teachers and may be considered by the 2006 Legislature.



Current statutes limit the average salary used to calculate the value of years of service performed prior to July 1, 1995, to no more than \$40,000. When a retiring member's average salary is less than \$40,000, the member's maximum annual retirement benefit is calculated using the general formula of 2% x average salary x years of service.

When the retiring member's average salary is greater than \$40,000, his or her benefit must be calculated in two steps: 2% x \$40,000 x years of service before July 1, 1995, plus, 2% x average salary x years of service after July 1, 1995. In every case, the annual benefit is divided by 12 to obtain the member's monthly benefit amount. If a member elected to limit contributions to only the first

(See *Push* on page 2)

Push (from page 1)

\$25,000 of earnings for years before July 1, 1995, that member will have \$25,000 used in calculating benefits for this service. And, certain employees at OU and OSU who continue to make contributions on less than total earnings will have benefits based on a modified formula.

The proposal would allow members to move some pre-1996 service to the higher post-1995 formula. To qualify, a member would have to work beyond his or her normal retirement date, until either age 62 or when age and service equal 80 (90 if the member joined TRS after July 1, 1992). For every year worked beyond normal retirement age, the member could move two years to the higher (post-1995) formula. This would result in a higher monthly benefit for members earning more

than \$40,000 at retirement. Proponents have referred to this plan as a "2-for-1 Wear-away."

Under the plan, employees who earned more than \$40,000 between 1988 and 1995 would be required to make a special payment on earnings above \$40,000 to qualify for the increase in benefits. Members who earned less than \$40,000 before 1996 would not have to make any additional payment.

A study of 2003-04 school year salary data shows 18,651 active members were earning salaries of \$40,000 or more. Administrators, including non-teaching principals, comprised 2,215 of this group. Another 10,342 members had annual salaries of \$35,000 to \$39,999. Two-thirds of TRS members who joined the System before July 1, 1995, were

earning more than \$35,000 during the 2003-04 school year. More than half the members who retired on June 1, 2005, had earnings in excess of \$40,000.

The TRS actuary has estimated the total cost of this proposal at \$390 million. Paying for the increase in liabilities over 30 years would require employer contributions to increase from the current 7.05% to 7.80% (a .75% increase). This would require a \$23 million increase in employer contributions the first year, and the amount would increase each year as total member pay increased.

Retired educator groups and others, citing the retirement system's underfunded condition, have opposed this measure, saying the money should be used to pay current liabilities instead of new ones.

2005 Legislature enacts laws affecting TRS



During the 2005 legislative session, lawmakers enacted only four measures that directly impact TRS or its members.

House Bill 1020 is an appropriation bill that includes \$3.1 million for TRS. By statute, TRS will receive 5% of the annual proceeds from the Education Lottery. Net lottery revenue for education for this fiscal year is estimated to exceed \$60 million.

Senate Bill 852 provides that the \$100-\$105 per month paid by TRS and other state-run retirement plans toward each retiree's health insurance premium is designated first to pay the retiree's prescription drug cost. This will help the state insurance board meet certain requirements of the Medicare Prescription Drug Act and qualifies the insurance program for reimbursements from Medicare. Hopefully, this will result in lower health insurance premiums for retired members on Medicare.

Senate Concurrent Resolution 4 recognizes the unfunded condition of the Teachers' Retirement System (approximately \$7.5 billion as of June 30, 2004). It resolves that containment of the current unfunded liabilities should be a legislative priority and dedicates the Legislature to take steps to liquidate these liabilities. The resolution sets a target of increasing TRS's funded level to 60% by 2014. Reaching this goal would require an additional \$150 million funding per year.

Senate Bill 435 increases the amount retirees, including TRS members, can exclude from income in figuring their Oklahoma state income taxes. The annual exclusion amount has been \$5,500 in the past, but increases to \$7,500 for tax year 2005, and to \$10,000 for tax year 2006.

(See *Legislation* on page 4)

How does TRS compare with other retirement systems?

TRS staff are often asked how the Oklahoma Teachers' Retirement System ranks with other retirement plans. The table below shows several features of the retirement plans provided to teachers in surrounding states.

State	Normal Retirement Provisions ¹	Benefit Formula Multiplier	Vesting	Employee Contributions	Employer Contributions	Funded Ratio	Social Security Coverage	Membership (Active) (Retired)	Assets in billions
Arkansas	A/28, 60/5	2.15%	5 Years	6.00% 0% ³	13.00%	83.8%	Yes	71,462 22,320	8.1
Colorado	65/5, 50/30 R80	2.50%	5 Years	8.02%	9.15%	70.1%	No	176,840 67,900	32.5
Kansas	65/1, 62/10 R85	1.75%	10 Years	4.00%	5.18%	75.2%	Yes	148,145 59,124	10.4
Louisiana	65/20, 55/25 A/30	2.50%	5 Years	8.00%	14.90%	63.1%	No	84,308 52,900	11.9
Missouri	60/5, A/30 R80	2.50%	5 Years	10.50%	10.50%	82.0%	No	73,797 34,230	24.0
New Mexico	65/5, R75@60 A/25	2.35%	5 Years	7.60%	8.65%	75.4%	Yes	62,901 24,947	6.9
Texas	65/5, R80	2.30%	5 Years	6.90%	7.40%	91.8%	No	718,266 240,627	84.4
Oklahoma Teachers'	62/5, R80/R90	2.00% ²	5 Years	7.00%	11.50%	47.3%	Yes	81,683 39,593	6.6
Oklahoma PERS	62/8, R80/R90	2.00%	8 Years	3.00% 3.50% ⁴	10.00%	76.1%	Yes	42,998 22,990	5.1

Source: FY 2004 Public Fund Survey, National Association of State Retirement Administrators

¹ Years and Service: 60/5 = age 60 with 5 years' service; A/28 = any age with 28 years' service; R = age and service combined equals 75, 80 or 85

² Oklahoma Teachers' limits Final Average Salary to \$40,000 for years prior to 7/1/95.

³ Some Arkansas members are under a non-contributory plan.

⁴ Oklahoma PERS members (state employees) contribute 3% on first \$25,000 and 3.5% on earnings above \$25,000.

Note: Colorado and Kansas include all state employees; all other state plans except Oklahoma PERS are for public school employees.

It is hard to rank retirement programs or make an objective comparison because benefits vary greatly from state to state, and what is important to one person may not be that important to others.

For example, only 6 states allow members to retire earlier than Oklahoma under the Rule of 80, but 36 states offer retirement at an earlier age, compared to the Rule of 90 available to Oklahoma employees who first joined TRS after June 30, 1992. Retirement eligibility is very important to TRS members who plan to retire at an early age, but it means little to those who have always intended to work until age 62 or older.

One factor that usually has a big impact on benefits is whether employees are also covered by Social Security. Fourteen states and the District of Columbia do not include Social Security coverage, while 36 plans do include Social Security as part of a member's retirement income.

TRS's benefit formula includes a 2% multiplier (2% x Final Average Salary). This is better than 21 state plans that have a multiplier less than 2%. However, only Oklahoma has a cap on Final Average Salary for years before 1996 (for some university employees, 2007). Of

the 16 states having multipliers greater than 2%, nine are non-Social Security states.

In 18 states, employees must contribute more than the 7% of compensation Oklahoma teachers pay. Of these states, 12 are non-Social Security states. The combined employee and employer contribution rate in 10 states is greater than TRS's 18.5%. Seven of these are non-Social Security states, and two are states whose funding ratio is less than Oklahoma's TRS.

The average funded ratio (assets compared to total liabilities) of the public plans in all states and the District of Columbia is 82.3%. Oklahoma Teachers' funded ratio is 47.3%. Only two states have funding ratios lower than that of TRS.





**Teachers' Retirement System
of
Oklahoma**

Oliver Hodge Building, 5th Floor
2500 North Lincoln Boulevard
Oklahoma City, Oklahoma 73105

Mailing Address:

P.O. Box 53524
Oklahoma City, OK 73152-3524
www.trs.state.ok.us

1-877-738-6365 (Toll-Free)
405-521-2387 (OKC Area)

Executive Secretary

Tommy C. Beavers

Assistant Executive Secretary

Sue Callahan

Chief Investment Officer

Bill Puckett

Secretary-Treasurer

Joe Ezzell

Trends Editor

Jacqueline Scott Shannon

Trends is published and issued by the Teachers' Retirement System of Oklahoma as authorized by Executive Secretary Tommy C. Beavers. 142,000 copies have been printed by the Department of Central Services Central Printing Division at a cost of \$8,065. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

Active member numbers up, down

TRS has gained nearly 13,000 active members during the last 15 years, the retirement system's *2004 Comprehensive Annual Financial Report* shows (figures for FY-05 are not yet available).

Active members are those who make monthly membership contributions.

However, the number of active members dropped during the 2004 fiscal year from 83,127 in FY-03 to 81,683 in FY-04.

The average active member salary during FY-04 was \$37,104, a 1.3% increase from FY-03's \$36,639 average salary.

The average age of active members during FY-04 was just over 45 ½.

Legislation (from page 2)

Several bills would have provided COLAs or increased the amount TRS pays toward retiree health insurance premiums, but none of those measures became law.

Measures to change the sick leave credit calculation, increase the amount retirees can earn from public school employment after retirement and changes in health insurance premium amounts were not considered.



SHOW YOUR SUPPORT FOR PUBLIC EDUCATION: BUY AN EDUCATION TAG.

**BULK RATE
U.S. POSTAGE
PAID
Okla. City, Okla.
Permit 61**

**Teachers' Retirement System of Oklahoma
Post Office Box 53524
Oklahoma City, OK 73152-3542**