



BRAD HENRY
GOVERNOR

STATE OF OKLAHOMA

TEACHERS' RETIREMENT SYSTEM OF OKLAHOMA

June 2004

To: Superintendents of Schools and Financial Officers

From: Tommy C. Beavers, Executive Secretary

Subject: 2004 Legislation Update

Five bills affecting the Teachers' Retirement System (TRS) were passed by the 2004 Legislature and signed into law by Governor Henry. Full copies of these bills are available on the TRS website. (www.trs.state.ok.us -- Click on Legislation and then 2004 Legislation).

Highlights of new legislation -

Retiree COLA - SB1134

Extension of sick leave credit for members joining TRS after July 1992 - SB1134

Clarification of eligibility for retiree health insurance supplement - SB1144

Alternate Retirement Plan for Comprehensive Universities - HB2226

Change in retirement formula for university members - HB2226

Task Force Study of Public Retirement Systems - HB2536

Change to regular annual compensation - HB2643

Extension of survivor benefits for members joining TRS after July 1992 - HB2643

Working after retirement - HB2643

Listed below are summaries of the five bills:

Senate Bill 1134 - Retiree COLA - Provides an increase in benefits to 37,000 retirees whose date of retirement was prior to July 1, 2003. The cost-of-living increase ranges from 2.5% to 4.5% depending on years of service and current monthly benefit. The formula to determine each member's increase is provided on page 4 of this memo. The increase will be effective with the August 1, 2004, retirement check.

Sick leave credit - SB1134 extends credit for unused sick leave to all TRS members. Now, members joining TRS on July 1, 1992, or after will receive the same credit for accumulated unused sick leave as members who joined TRS prior to July 1, 1992. Sick leave days already accumulated can be included in each member's total record for retirement purposes. It is important for each school to maintain records of each member's sick leave. Unused sick leave lost because the member exceeds the local district's policy can still be used for retirement credit when the member retires. TRS's sick leave policy allows a member to receive one year of credit for 120 days of unused sick leave, or the

member may add days of sick leave to days worked during a school year to make a partial year count as a full year. For example, a member who worked only one semester (90 days) can add 30 days of sick leave to the 90 days of employment to make the half year count as a full year. However, no one can receive more than one year of credit for sick leave and other members cannot donate sick leave to a retiring member to help obtain an extra year of service. Sick leave credit counts toward qualifying for retirement under the Rule of 80 or Rule of 90, but cannot be counted to vest an account. Last year vesting (qualifying for retirement benefits) was reduced from ten years to five years.

Other provisions - SB1134 also requires each state-run retirement system, including TRS, to include a COLA assumption in its annual actuarial valuation.

Senate Bill 1144 - *Clarifies service required to qualify for TRS health insurance supplement* - This bill deals with the Oklahoma State and Education Employees Group Insurance Board (OSEEGIB), but contains language clarifying that a retiree must have at least ten years of credited service with TRS to qualify for the monthly health insurance premium supplement. TRS pays the first \$100-\$105 per month toward each retiree's health insurance premium, provided the retiree is enrolled in the state insurance plan or the insurance plan provided by the retiree's former employer.

House Bill 2226 - *Alternate Retirement Plan for Comprehensive Universities* - This bill authorizes comprehensive universities (defined in statutes as the University of Oklahoma, OU Health Sciences Center and Oklahoma State University) to create alternate retirement plans for their employees. In the future new employees at a comprehensive university will make a one-time election to participate in the university's alternate retirement plan or enroll in TRS. Another provision will allow current employees a one-time election to transfer to the university's retirement plan, providing the Internal Revenue Service approves this section of the new law. A decision by the IRS may take a year or more. The bill requires the comprehensive universities to make payments to TRS to fund liabilities associated with university employees. The payments by OU and OSU will be 2.5% of the compensation of the nonparticipating employees. The payments are scheduled to continue for 30 years, or until all university liabilities are covered. There is also a provision to increase the universities' contribution rate when liabilities for university employees increase. TRS's main objectives during negotiations on this bill were to ensure the universities paid for university liabilities and that additional costs were not levied on non-university members or school districts.

Formula change for university members - HB2226 also provides for a change in the retirement formula for university employees. Since 1995, employees at the comprehensive universities have continued to make retirement contributions on salaries up to a capped amount, and retirement benefits have been based on annual contributions for each year, instead of the final average salary used for non-university employees. When a university employee's salary is below the cap amount, the member makes the same contribution as a non-university employee, but the university employee's retirement benefit is less. The new formula provides that when university employees make the same contributions as other members, they will receive the same level of benefits. University members who contribute on less than total salary because their salary is higher than the

cap amount will continue to have their capped years computed differently from members who make contributions on total salary. Caps for the two comprehensive universities continue through the 2006-07 school year. Beginning July 1, 2007, TRS members at these universities will contribute on total salaries the same as all other TRS members. The bill also changes the retirement formula for higher education employees who are not employed by comprehensive universities. The current retirement formula requires that the 1995-96 school year be calculated separately from other service because of the contribution rate for that year. Now these members' retirement formula will be the same as that of other TRS members. There is also a provision to recalculate the retirement benefits of university employees who have retired since 1995. Any adjustment in retirement benefits will be effective January 1, 2005, and will be prospective only, not retroactive.

House Bill 2536 - *Task force study of public retirement systems* - This bill creates a special 17-member Task Force for the Study of Public Retirement Systems Benefit Design and Equity. One of the purposes is to study the difference in the TRS retirement benefit formula and other benefits for other state-run retirement plans.

House Bill 2643 - *Change to regular annual compensation* - "Regular Annual Compensation" is the salary and fringe benefits considered as pay for retirement purposes. It is the amount used to calculate member contributions and each member's final average salary. This bill was requested by the TRS staff and Board of Trustees. The definition of Regular Annual Compensation has been changed to exclude any payments to reimburse for expenses. This includes any payments for office, vehicle, housing or other maintenance allowances. Regular annual compensation includes a member's base salary, extra pay and fringe benefits. However, legislation enacted several years ago excluded payments for health insurance made under the Flexible Benefit Act, and these payments should not be included as a fringe benefit for retirement purposes. Health insurance premiums paid by school districts, colleges and universities and state agencies that are not reimbursed through the Flexible Benefit Act *should continue* to be included as a fringe benefit for retirement purposes.

Extension of survivor benefits - Under HB 2643 all TRS active members are now covered by the \$18,000 death benefit, which previously applied only to the accounts of those members who had joined TRS prior to July 1, 1992. In addition, if an active member had qualified for retirement benefits prior to his or her death and had named only one primary beneficiary, the surviving beneficiary may elect to receive a monthly retirement benefit instead of a one-time lump-sum payment of member contributions, interest and the \$18,000 death benefit. Generally, an active member, who is age 55 with five or more years of Oklahoma service, or who has worked long enough to qualify for retirement under the Rule of 80 or Rule of 90, has qualified for retirement benefits, and his or her beneficiary may elect the retirement benefit the member could have received under the Option 2 retirement plan. "Active member" means a TRS member who is still employed and who is making contributions to the Retirement System. It is important that each member understands the rights available to his or her beneficiary and the member should consider naming only one primary beneficiary. If more than one primary beneficiary is named for a member's account, the option to choose a monthly benefit is not available unless all but one beneficiary waive their rights to any part of the distribution from the deceased member's account.

Working after retirement - HB 2643 includes one change to statutes governing how and when a retiree can return to employment in the public schools of Oklahoma. The change prohibits a new retiree from volunteering services during the 60-day period immediately after retirement, if the retiree is going to continue in the position as a paid employee after 60 days. TRS regulations have always required retirees to be off payroll for 60 days before returning to employment in the public schools. Usually, the 60-day period will not limit a member returning to part-time employment in August after retiring in May or June. However, a member cannot retire in May and volunteer to work June and July, or retire at the end of June and return to work in July and August, or retire in December and work January and February, and then continue to work and receive pay after 60 days. Retired or retiring members who are planning to return to work should contact TRS to ensure their employment does not impact their monthly retirement benefits.

COLA FORMULA IN SENATE BILL 1134

Years of Service	Monthly Increase As of 6/30/2004	Benefit Increase
20 years or more	Less than \$1,500	4.5%
	\$1,500 to \$2,500	4.0%
	Over \$2,500	3.5%
15 to 19 years	Less than \$1,000	4.0%
	\$1,000 to \$2,000	3.5%
	Over \$2,000	3.0%
Less than 15 years	Less than \$801	3.5%
	\$801 to \$1,499	3.0%
	Over \$1,500	2.5%

THE BENEFIT INCREASE WILL BEGIN WITH THE AUGUST 1 CHECK

Please contact the TRS Office at any time with questions about legislation, member accounts or general operations of the Teachers' Retirement System.

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