

**OKLAHOMA TEACHERS' RETIREMENT SYSTEM
EDUCATION EMPLOYEES SERVICE INCENTIVE PLAN
(EESIP *aka* Wear Away Plan)**

Enrolled House Bill 1179xx, enacted during the 2006 Special Legislative Session, provides that members of the Oklahoma Teachers' Retirement System ("TRS"), who joined TRS prior to July 1, 1995, and who work one or more years beyond "normal retirement age", will qualify for an improved benefit formula at retirement. "Normal retirement age" is when a TRS member reaches age 62, or when age plus total service equal 80 (90 if the member first joined TRS after June 30, 1992). **TRS members working in four-year universities do not qualify for EESIP coverage.**

The current retirement formula for members who joined TRS before July 1, 1995, is a two-tiered formula:

2% x Final Average Salary not to exceed \$40,000* x service performed prior to 7/1/1995
plus
2% x Final Average Salary x service performed after 7/1/1995

The new formula will allow members working beyond normal retirement age to move pre-1995 service to a higher salary. For each year a member works past normal retirement age, the member may move two years of service performed prior to July 1995, to the higher tier of the formula.

For members who retire between July 1, 2006, and June 30, 2007, the maximum average salary that can be used for the moved service is \$60,000. For members who retire between July 1, 2007, and June 30, 2008, the maximum average salary increases to \$80,000, for moved service. For members who retire on or after July 1, 2008, the member's final average salary, regardless of amount, can be used to calculate the benefit for moved service that was performed before July 1, 1995.

Examples:

Member who retired 7/1/2006, with 30 years total service, who worked 5 years beyond normal retirement age and had a final average salary of \$70,000.

Old formula:

2% x \$40,000 x 19 years	= \$15,200	(1976 to 1995)
2% x \$70,000 x 11 years	= \$15,400	(1995 to 2006)
Total Annual Benefit	= \$30,600	\$2,550 per month

New Formula:

2% x \$40,000 x 9 years	= \$ 7,200	(19 minus 10 moved years)
2% x \$60,000 x 10 years	= \$12,000	(10 moved years)
2% x \$70,000 x 11 years	= \$15,400	(1995 to 2006)
Total Annual Benefit	= \$34,600	\$2,883 per month

* (Note: Final Average Salary for service before 7/1/1995 is not based on what the member actually earned before 1995).

If the same member had worked one more year and retired effective 7/1/2007, his benefit would be more because he would have 31 years, would have moved (or worn-away) two more years and increase his final average salary to \$71,000.

New Formula:

2% x \$40,000 x 7 years = \$ 5,600	(19 - 12 moved years)
2% x \$71,000 x 24 years = \$34,080	(12 moved and 12 yrs since 1995)
Total Annual Benefit = \$39,680	\$3,307 per month

What counts as service for EESIP?

All credited service including credit for unused sick leave and purchased service counts toward reaching normal retirement age, even if the service is purchased after 7/1/2006. Purchased service includes military, out-of state teaching service, Oklahoma service and the reposit of prior credit that was withdrawn during a break in employment from Oklahoma public schools. Redepositing withdrawn service can also change a member's status from Rule of 90 back to a Rule of 80, when the member's current membership date is after 6/30/1992, but the member redeposits service performed prior to 7/1/1992.

Who has to make an additional payment?

TRS staff has estimated more than 25,000 members may eventually qualify for the improved formula. This is based on 2005-06 salaries and includes TRS members currently earning \$35,000 or more. TRS has also estimated 3,300 members will have to make an extra contribution payment to qualify for EESIP.

If a member earned more than \$40,000 in the school years between 1987-88 and 1994-95, he or she will have to make an extra contribution to qualify for the new improved formula. The member must make a contribution on the difference between total earnings and the amount contributed at the time. The payment balance is the contribution amount plus 10% interest from the year service was performed until payment is made. Members who retire before July 1, 2007, must pay 50% of the contribution balance, members retiring between July 1, 2007, and June 30, 2008, must pay 75% and members retiring on or after July 1, 2008 must pay 100% of the balance due. Payments must be completed by the time the member retires.

How can payments be made?

Members may make payments in several forms, but any payment or combination of payments must comply with Internal Revenue Service regulations. A member may make

- no more than \$44,000* in "after-tax" money per calendar year.
- monthly installment payments through "pre-tax" deductions from school payroll.
- rollover "pre-tax" monies from a member's IRA.
- rollovers from 401(a), 401(k), 403(b) or 457(b) accounts when a distributable event under the terms of the plan has occurred. Generally, this means termination of employment, retirement or upon reaching age 59 ½.
- TRS is working with tax counsel to determine what other events may qualify.

*(Note: For Calendar Year 2006 the maximum annual limit is \$44,000, but is indexed by IRS and will increase each year.)

Contact TRS: Telephone 877-738-6365 (or 521.2387 in OKC), Mail P. O. Box 53524, OKC 73152, www.ok.gov/TRS
Offices location 2500 N. Lincoln Blvd., Oklahoma City, OK 73105 (Oliver Hodge Education Building, Capital Complex)