# TRENDS

Volume 19, No. 2 The Newsletter of the Teachers' Retirement System of Oklahoma February 2000


## Speak Up for TRS

### *An Editorial*

*by*

### *Tommy C. Beavers, Executive Secretary*

IT'S TIME FOR ALL TRS MEMBERS TO SPEAK UP! The Teachers' Retirement System needs your help!

The most recent TRS actuarial report shows the System's liabilities total **$9.458** billion. These are real dollars that retired and active members expect to receive in the future. On average, the System should have **$148,553** for every retired member and **$53,939** for every active member. Unfortunately, TRS has only half the money needed to cover these obligations. The System's assets available to pay benefits were **$4.708** billion (actuarial value) and **$5.387** billion (market value) as of June 1999.

> ***Are you doing anything to help make a difference?***
>
> ***You cannot afford to wait for someone else to speak for you.***
>
> ***You need to act now!***

TRS continues to be one of the country's worst-funded state-run retirement systems. We know this has been said many times in past issues of *Trends*, but are you listening? Are you doing anything to help make a difference? Do you want your retirement program more secure? Do you believe Oklahoma's educators deserve the same treatment as state employees, policemen, firefighters and other public servants?

You cannot afford to wait for someone else to speak for you. You need to act now! All TRS members MUST SPEAK UP FOR TRS. Contact elected representatives. Thank them for their support in the past. Tell them TRS's funding position must be improved.

TRS has had good return on investments. The System has fewer employees than most retirement plans of comparable size. TRS is poorly funded because the state of Oklahoma has not contributed its share to properly finance member benefits. That means TRS retirees are not receiving benefit improvements necessary to keep up with inflation and active members are paying more to help pay for their future benefits. *This* is not one person's fault. It is everyone's fault.

The System has sufficient funds to pay benefits for many years, but not enough to pay benefits indefinitely. The System has $5 billion, but that is not enough to guarantee all benefits will be paid. TRS is big business, providing benefits to 125,000 educators. It is also important business and TRS members deserve better.

Are you willing to risk your retirement by relying on someone else to speak up for you? If not, SPEAK UP FOR TRS!

## *Tobacco Funds:*

## *TRS Deserves Them*

*Everyone has an idea how the State should spend money it will receive from the Tobacco Settlement Case. All the suggested uses have merit, but TRS should be at the top of the "worthwhile ideas" list.*

*TRS is a good came. TRS needs the money. And, with its investment record TRS can grow any "extra" money to the benefit of retirees, active members and taxpayers.*

*The biggest challenge facing legislators each year is how to distribute available money so it does the most good. There is never enough to meet all needs. For years, TRS has taken a back seat in the distribution of state revenues because TRS could operate on member contributions and investment income. Now, the state has a chance to make up some of the shortages of past years.*

***An additional contribution of $10 million would result in a $1.13 billion accumulation in 30 years. Annual contributions of $25 million would result in a $2.8 billion increase in TRS assets. This would represent only a small portion of the State's annual revenue from tobacco money.***

*Contact your elected representative if you agree. Tell him or her you are worth it!*

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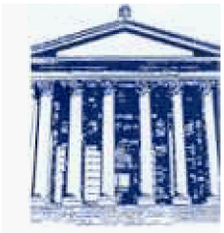

# TRS Coalition adopts common goals and objectives

The **TRS** Board of Trustees, working with concerned education entities, has adopted a set of common goals and objectives for the 2000 Legislative Session. These statements promoting adequate funding and the direction TRS should go will be mailed to each member of the House of Representatives and Senate. If you agree with these goals, let your elected representatives know.

**Oklahoma Education Association, Oklahoma State School Boards Association, Cooperative Council for Oklahoma School Administration, Oklahoma Retired Educators Association, Oklahoma Vocational Association, and Teachers' Retirement System Board of Trustees**

**COMMON *GOALS* AND OBJECTIVES FOR**
**THE OKLAHOMA TEACHERS' RETIREMENT SYSTEM**
**DECEMBER 1999**

***In recognition of the valuable role the Teachers' Retirement System of Oklahoma plays in achieving quality education for Oklahoma's school children and the inherent benefits provided to the citizens of this state, it is imperative that the System continue to meet its obligations to the state's educators. The following is a joint effort by the governing boards of the Oklahoma Education Association, Oklahoma State School Boar& Association, Cooperative Council for Oklahoma School Administration, Oklahoma Retired Educators Association, Oklahoma Vocational Association and the Teachers' Retirement System Board of Trustees to communicate the goals and objectives these organizations believe necessary to ensure the state retirement program for public school employees is maintained in a viable manner.***

- The preservation and fiscal soundness of the Teachers' Retirement System is important to all constituencies. It is important to the people of Oklahoma, since it is essential in keeping an educational environment attractive to quality *career* educators.
- The present design of the Teachers' Retirement System must be preserved, i.e. the defined benefit system. The state of Oklahoma has an obligation to those who have given lifetime career service to its people at less than competitive compensation.
- Enrolled House Bill 1574 (1999) provides that the Teachers' Retirement System will be funded with a combination of state allocations from the income, sales and use taxes and direct payments from local school **districts,** colleges and universities determined by an established percentage of employees' pay. The new funding schedule is designed to fund the system's obligations over a period of approximately 34 years. It is imperative that funds be provided to maintain this schedule as a minimum effort to provide security to both retirees and active participants. Additional **funds** should be provided whenever possible to accelerate the pay-down period and to provide for improvements in benefits to members.
- Legislation should be passed **into** law amending Enrolled House Bill 1574 (1999) to increase the apportionment to **TRS** of the state's revenues from income, sales and use taxes. The current apportionment of 3.54% should be increased to 3.82% to ensure an amount of revenue for TRS equal to that which would have been generated by the provisions of Enrolled **Senate Bill** 1037 (1998). It would be preferable **to** simply return to the **original** provisions of **Senate** Bill 1037.
- The current contribution rate of **7%** of salary from individual teachers should be considered the upper limit for revenue from that source.
- Legislation should be passed into law ensuring that a fair portion of the investment earnings from the principal amount of Oklahoma's share of the national tobacco settlement be directed to TRS for the purpose of retiring the system's unfunded liabilities. ***An*** example of such legislation would be HB 1002, introduced but not passed into law during the 1999 session.
- Legislation should be passed into law providing that **7.5%** of the state's Constitutional Reserve Fund ("Rainy Day Fund") be appropriated to **TRS** on an annual basis and earmarked specifically for the purpose of retiring the system's unfunded liabilities.
- Education retirees should be able to maintain a standard of living reasonably comparable to that at the time of retirement. They must not be placed in a position of retiring upon a fixed income, which is to remain the same forever, in the face of changing economic conditions and the ravages of inflation. However, it is understood that the actuarial liabilities of cost of living increases must be recognized and funded over a reasonable time to lessen the impact of these liabilities on the financial status of the system. To the extent possible, it would be appropriate for policymakers to take steps to create a future funding pool from which education retirees could be provided periodic benefits improvements. Revenues into the funding pool should be separate from other revenues earmarked for the system.

*continued on page 3*

# TRS Board adopts Legislative Recommendations

*General Goals:*

- Maintain the minimum funding schedule as provided in **70** O.S. **$17-108.1,** and **68 O.S. §§ 1353, 1403,** and **2352.**
- Provide funding to local employers to fully implement the financial obligations of **70** O.S. **§ 17-108.1,** which requires local school districts to contribute a percentage of employees' pay.
- Provide additional funding to retire the System's unfunded liabilities over a shorter period of time.
- Fund any benefit increase improvements over a period consistent with standard actuarial assumptions.

*Title 70 O.S. § 17-108.1, sets annual contribution level local school districts must remit to the Teachers' Retirement System in the form of "employer" contributions. During FY-2000, schools contribute 4.8% of employees' pay. Beginning FY-2001, schools will be required to remit 5.8% of employees' total pay. Local contributions will increase to 6.8% in FY-2002 and to 7.05% for FY-2003, and thereafter. Contributions fiom local schools will increase by approximately $27 million per year for each one percentage increase in the contribution rate.*

*Beginning **July** 1, 1999, the State's contribution to fund the Teachers' Retirement System, (68 **O.S.** §§ 1353, 1403 and 2352), provides Teachers' Retirement with 3.54% of state revenues from sales and use taxes and individual income taxes. This is a change from the 40-year tradition of TRS receiving a portion of the severance tax on natural gas. The new funding schedule has the effect of providing smaller annual contributions to fund the System's actuarial liabilities. While this change will help the State and local schools meet their portion of the total obligations to properly fund the Retirement System, it also extends the funding period to the year 2033, an increase of 17 years. The State can save millions of taxpayer dollars by systematically increasing the annual contributions to pay-down these obligations over a shorter period.*

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*Specific Recommendations:*

- Properly fund the existing obligations of the Retirement System as provided by current statutes.
- Provide a means of systematically increasing state contributions in order to amortize unfunded liabilities over as short a time period as possible by:
  - → Dedicating a percentage of available funds in the State's Rainy Day Account to be appropriated to the Teachers' Retirement System.
  - → Dedicating a portion of any windfall revenue received by the State to TRS, such as funds from the "tobacco" case settlement.
  - → Earmark a percentage of growth revenue available to the General Revenue Fund to the Teachers' Retirement System to pay for benefit increases, i.e. COLAs insurance, etc.

*An additional annual contribution of $10 million would result in a $1.13 billion accumulation in 30 years. Annual contributions of $25 million would result in a $2.8 billion increase in TRS assets.*

*Adopted December **1999***

## common goals and objectives

*continued from page 2*

- Support incentive plans that will encourage employees to work beyond the point required for full retirement benefits with the understanding that the plan(s) would be revenue neutral to the Teachers' Retirement System.
- While all groups and constituencies join in a common concern for an actuarial workout program as short as feasible, it is also agreed that an extended period may be necessary in order to grant reasonable benefit adjustments to retirees and/or to relieve the stress of unrealistic payroll percentage requirements on schools and colleges. It is understood that TRS may become actuarially sound without becoming **100%** funded.

# Plan Net Assets
## (Assets at Market or Fair Value)

| Item | Valuation as of June 30, 1999 (2) | Valuation as of June 30, 1998 (3) |
|---|---|---|
| Cash and cash equivalents | $ 2,450,674 | $ 3,657,396 |
| 2. Receivables: | | |
| a. Employer and member contributions | $ 25,289,962 | $ 22,970,143 |
| b. Gas tax | 10,323,666 | 9,140,257 |
| c. Net investment income and other | 160,336,516 | 6,5 17,127 |
| d. Total receivables | $ 195,950,144 | $ 38,627,527 |
| 3. Investments | | |
| a. Invested cash and other | $ 210,377,000 | $ 157,947,479 |
| b. Domestic equities | 3,030,123,836 | 2,941,414,000 |
| c. International equities | 607,181,000 | 577,132,858 |
| d. Domestic fixed income | 1,425,846,700 | 1,286,811,158 |
| e. International fixed income | 308,263,000 | 245,004,045 |
| f. Real estate, furniture & equipment | 393,824 | 501,433 |
| g. Total investments | $ 5,582,185,360 | $ 5,208,810,973 |
| 4. Totalassets | $ 5,780,586,178 | $ 5,251,095,896 |
| 5. Liabilities | | |
| a Benefits payable | $ 38,615,028 | $ 35,25 1,654 |
| b. Insurance premium payable | 1,645,247 | 1,637,557 |
| c. Expenses | 3,321,955 | 2,558,432 |
| e. Total liabilities | $ 43,582,230 | $ 39,447,643 |
| 6. Total (Item 4 - Item 5) | $ 5,737,003,948 | $ 5,211,648,253 |
| 7. Less : Teachers' Deposit Fund | (349,900,749) | (327,262,707) |
| 8. Total market value of assets available for benefits | $ 5,387,103,199 | $ 4,884,385,546 |

This ***Statement of Plan Net Assets*** is from the 56th **TRS** ***Comprehensive Annual Financial Report.*** It shows the market value of assets on June 30, **1999.** This statement does not include actuarial liabilities reported in the System's Actuarial Valuation. The Actuarial Valuation (not shown here) reports total liabilities of **$9.458** billion. The actuarial report also shows only **$4.708** billion in assets available to pay benefits. The difference is **$679** million in deferred earnings which are averaged into the actuarial value of assets over a five-year period.

***(A copy of the complete Comprehensive Annual Report is mailed to each school site. Members may receive a copy by writing or telephoning the Retirement Office. There is no charge for an individual copy of the report.)***

## Reconciliation of Plan Net Assets

| | Year Ending June 30, 1999 (1) | Year Ending June 30, 1998 (2) |
|---|---|---|
| 1 Market value of assets at beginning of year, net of Teachers' Deposit Fund | $ 4,884,385,546 | $ 4,041,392,922 |
| 2. Revenue for the year | | |
| a. Contributions | | |
| i. Member contributions (including state credit) | $ 190,718,633 | $ 181,197,041 |
| ii. Federal matching funds | 10.991,648 | 9,889,189 |
| iii. State dedicated revenue | 106,267,672 | 133,541,781 |
| iv. Employer/district contributions | 127,047,763 | 120,164,225 |
| v. Total | S 435,025,716 | S 444,792,236 |
| b. Net investment earnings | | |
| i. Interest, dividends and other income | $ 174,303,200 | $ 163,822,088 |
| ii. Net appreciation/(depreciation) | 452,159,607 | 780,014,825 |
| iii. Less: investment expenses | (12,090,056) | (11,175,835) |
| iv. Less: transfers to Teachers' Deposit Fund | (39,821,032) | (68,968,246) |
| v. Net investment earnings | $ 574,551,719 | $ 863,692,832 |
| c. Total revenue | $ 1,009,577,435 | S 1,308,485,068 |
| 3. Expenditures for the year | | |
| a. Refunds | $ 24,523,574 | S 23,011,228 |
| b. Benefit payments (including insurance payments) | 479,637,193 | 439.213,465 |
| c. Administrative expenses | 2,699,015 | 3,267,751 |
| d. Total expenditures | $ 506,859,782 | $ 465,492,444 |
| 4, Increase in net assets (Item 2 - Item 3) | $ 502,717,653 | S 842,992,624 |
| 5 Market value of assets at end of year (net of Teachers' Deposit Fund (Item 1 + Item 4) | S 5,387,103,199 | $ 4,884,385,546 |

The Reconciliation of Plan Net Assets is the equivalent of the System's income statement. It reports income in the form of contributions from members and employers, as well as investment income. Expenditures include benefit payments, refunds to members, and administrative expenses.

The net increase in income over expenditures was $507 million for the year ending June **30, 1999.** This compares to **$843** million for **1998.** The major differences between the two years were a decrease in revenues from the state of Oklahoma (dedicated gas tax) and net appreciation in the fair value of investments. The value of investments increased by **$452** million in **1999.** This compares to an increase of **$780** million in **1998.**

*Trends* February 2000
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*Coming soon to a telephone near you:*

## No long-distance charges to call TRS!

No matter where you live in Oklahoma, contacting TRS by phone is easier than ever! Beginning Feb. 15, you can call TRS without paying long-distance charges by using our new toll-free number:

**TRS-RET-OF-OK**
**(877-738-6365)**

The toll-free number is part of the new TRS Response Center, which has been answering most calls since Dec. 15.

When you telephone the Retirement Office, your first contact will be with personnel trained to answer a wide range of questions without transferring you to other TRS employees. Of course, some calls may require a little research instead of allowing an immediate answer, and because TRS has **46** employees (that's one employee for every **2,720** members), you might get a busy signal. If that happens, please try again. Our goal is to respond to your needs as quickly and efficiently as possible.

We look forward to hearing from you.

## *Trends* to include Summer issue

Beginning with this issue, *Trends* is being mailed to all TRS members at the addresses listed in the members' Retirement System records. Previously, the newsletters to our active, contributing members were sent to the member's employer, who distributed them. Depending upon local employers to distribute *Trends* meant our members had to wait until the next school year to read in *Trends* about legislative changes or other important matters occurring after the current school year ended.

Please ask your colleagues whether they have received this issue. If they have not, it may be because they need to update their addresses with us. To update your address, send the changes in writing to:

**Teachers' Retirement System of Oklahoma**
**P.O. Box 53524**
**Oklahoma City, OK 73152-3524**

***Trends is published and issued by the Oklahoma Teachers' Retirement System as authorized by TRS Executive Secretary Tommy C. Beavers. 130,000 copies have been printed by the Department of Central Services Central Printing Division at a cost of $9,572. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.***

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