



# Trends

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Teachers' Retirement System

## *Was money EVER taken from TRS?*

*(This is a paraphrased response to a member's recent inquiry to the Executive Secretary)*

*Between 1982 and 1986, a portion of the State's contribution to the Teachers' Retirement System was indirectly transferred to other areas of state government. In 1982, a ceiling (cap) was placed on the amount of revenue TRS could receive from the tax on natural gas. The cap was set at \$125 million per year. Approximately \$311 million in gas tax collections that could have come to Teachers' Retirement was placed in the State Pension Reserve Fund.*

*Most of the money deposited in the State Pension Reserve Fund was used to establish two state-run pension plans for firefighters and police, but some money was appropriated to the Department of Human Services and the Department of Transportation. The appropriations were to provide state money to obtain federal matching funds.*

*By 1986, the annual gas tax collections dedicated to Teachers' Retirement had fallen below \$125 million. No new money was going into the Reserve Fund and appropriations from the fund eventually exhausted the remaining balance. It is important to remember that the tax collections were the property of the citizens of Oklahoma, and the State Legislature has an obligation to use taxes in the best interest of all citizens. However, had Teachers' Retirement received and invested the*

*(See Money, page 2)*

## **25-Year Pension Forecast presented to Board**

The System's actuary presented a new report forecasting revenues and expenditures for the next 25 years to the Board of Trustees at the February 1996 meeting. The study looks at how the System's assets and liabilities will change over this period and updates a similar study conducted in 1990. The report shows active membership in the System will increase from 79,000 to 105,000, and the number of retired members will increase from 29,000 this year to 70,000 by 2020. Annual benefit payments will increase from just under \$400 million to more than \$1.4 billion per year in 2020. While these projections may be staggering, the System had 31,259 active members, and 7,855 retired members, in 1970, and paid only \$17.8 million per year in benefits.

The 126-page report also contains a number of tables and graphs projecting expenditures for retirement payments and other benefits, employee contributions and payroll growth, investment income, and the increase and/or decline in the System's assets and liabilities under three different levels of employer contributions. The study confirms that asset growth and the decline of the System's unfunded liabilities are directly tied to how much new revenue is provided by the State of Oklahoma and local school districts.

The report can be used to measure the impact different levels of funding will have on the Retirement System. This is important in light of the many inquiries coming from the Legislature,

Governor and education groups. In fact, the Legislature and Governor recently agreed on creation of a 16-member bipartisan task force to review the System's current financial condition, examine funding alternatives, and look at the System's overall structure and design. A report from this study group is due May 1.

### **Best-case scenario -**

Under one assumption, the study looks at what will happen if contributions to the System are made in accordance with existing statutes. Statutes currently require the combined state and local contributions to be **8.5%** of employees' pay. This contribution rate will increase 1.0% per year until 2005, when the rate reaches 18%. Local schools make up any difference in the total required contributions not provided by the tax on natural gas. Maintaining the statutory contribution level will cause the System to be 100% funded by the year 2016. The System's assets would increase from \$3.0 billion to more than \$18.5 billion by 2016. More importantly, investment income from the \$18.5 billion in assets would more than cover the annual benefits paid to retired members. At that time, the cost to taxpayers, employees and employers would be much less because of the investment income. Contribution rates for both employees and employers could be adjusted. Meeting this goal would require much larger annual

*(See "Board Receives" on page 4)*

## Teachers' Retirement System of Oklahoma 1996 Legislative Recommendations

### General Goals:

- \* Maintain the funding schedule as provided in 70 O.S., Section 17-108.1 (Enrolled Senate Bill 568, enacted in 1992).
- \* Ask the Legislature to explore options that are available to provide funding to local employers to fully implement the financial provisions of 70 O.S., Section 17-108.1.
- \* Fund any benefit increase improvements over a period consistent with standard actuarial assumptions.

### Specific Recommendations:

Title 70 O.S., Section 17-108.1 sets minimum annual contribution levels the State and local school districts must remit to the Teachers' Retirement System in the form of "employer" contributions. Local schools are required to make up the difference between the total annual employer's contribution, stated as a percentage of employees' pay, and revenue received from the tax on natural gas.

- \* Recognizing Senate Bill 568 will be difficult to fund, the Board of Trustees asks the Legislature to study options to fund normal cost by contributions from employees and local school districts, with dedicated revenue and/or direct appropriations from the State of Oklahoma to amortize unfunded liabilities.
- \* Seek legislation to earmark that portion of the severance tax on natural gas currently allocated to the state general fund to the Teachers' Retirement System. The Teachers' Retirement System currently receives 78% of the original severance tax (\$.05 or 5% of the price per 1000 cfm). An additional tax of \$.02 or 2% of the price of natural gas at the wellhead is deposited in the state's general fund. Estimated revenue for FY-97 is \$53 million.
- \* Seek legislation to require the State and Education Employees Group Insurance Board to return, with interest, \$39.6 million transferred to that agency in 1988.
- \* Seek direct appropriations from State's Cashflow and/or Rainy Day Fund accounts to retire portion of the unfunded liabilities of the Teachers' Retirement System.

**Adopted by the Board of Trustees, January 24, 1996.**

### Money (from page 1)

*\$311 million, the value would now be approximately \$1.2 billion. Naturally, TRS would like to have had the money to invest for the benefit of TRS members. Even with the additional money, the Retirement Fund would still be seriously underfunded, but we would be much better funded had we received those finds.*

*In 1988, \$39.6 million was directly transferred from Teachers' Retirement to the State and Education Employees Group Insurance Plan. This money was used to establish reserves when active and retired education employees were allowed to join the insurance program operated for state employees. In 1995, the Supreme Court ruled this transfer valid because it benefited members of the Teachers' Retirement System.*

*House Bill 2475 calling for a return of \$25 million from the group insurance board to Teachers' Retirement passed the House of Representatives on February 21, 1996. Hopefully, the Senate will take quick action on this measure.*

*(Note: The cap on gas tax receipts was increased to \$175 million in 1988, and removed in 1992. The most TRS ever received from the gas tax in one year was \$151.7 million in 1993.)*

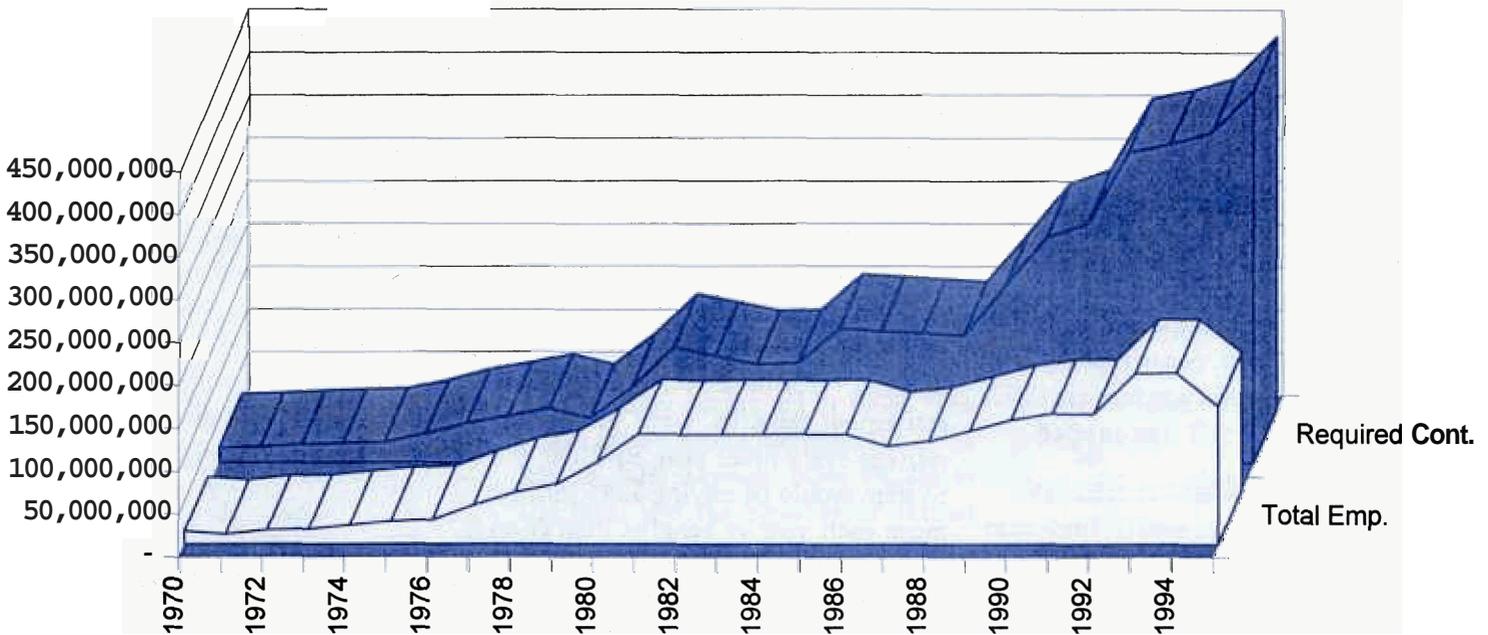
### Task force to study TRS

The State Legislature passed Senate Concurrent Resolution 42 in February. This measure creates the Oklahoma Teachers' Retirement System Fiscal Health Task Force, a 16-member bi-partisan task force to study the current and long-term financial condition of the Teachers' Retirement System and advise the Executive and Legislative branches of alternatives for solving funding problems. A report is due by May 1, 1996.

**(See Task Force, page 3)**

## OKLAHOMA TEACHERS' RETIREMENT SYSTEM

Total Employer Contributions vs. Required Actuarial Contributions



*The System's unfunded liabilities have been created over the years by increases in benefits promised to both active and retired members. In a nutshell, the unfunded liabilities were caused by the State's failure to adequately fund benefits as promised. The chart shows actual employer contributions for the last 25 years, compared to the annual contributions that should have been made by the State and/or local school districts.*

### Task Force (from page 2)

The study group will be composed of **12** members of the Legislature and four members appointed by the Governor. The Speaker will appoint four members from the House of Representatives, the President Pro Tempore will appoint four members from the Senate, and the minority floor leader of each house will appoint two members.

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### Emergency rules go through permanent rulemaking process

Emergency rules approved last year are going through the permanent rulemaking process. Here is a brief summary of affected rules:

**715:1-1-17** sets fees for inspection, copying and/or reproducing certain non-confidential TRS records.

**715:10-5-7.1** deletes a requirement that an active TRS member transferring service credit from the Oklahoma Public Employees Retirement System to TRS must remain an active contributing TRS member for at least one full year after filing the election to transfer. This rule

also requires the member to pay any difference in actuarial cost of service transferred to TRS if it is higher than the cost of the same years of service in OPERS.

**715:10-9-6** adds requirements for probate waivers as mandated by 1995 legislation.

**715:10-13-3** amends statutory TRS rates to reflect 1995 legislation affecting TRS members employed by an entity or institution within the Oklahoma State System of Higher Education. **715:10-15-7** amends the standard TRS

*(See Permanent Rules, page 4)*

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exhausted and liabilities will have increased to \$20 billion by 2020. To meet annual benefit payments of \$1.4 billion, the System would be required to use all of contributions made by active members and local school districts each year and the State would have to appropriate \$500 million from state funds just to pay benefits. The System would be a "pay-as-you-go plan," completely dependent on annual contributions with no reserves and no investment income.

COLAs are granted and the State contributes only \$100 million per year while local schools contribute only 3.5% of employees' pay, assets will be exhausted by 2016; five years sooner than if no increases were granted. If a 4% annual COLA were granted to retirees, the System would be out of money by 2011 under the worst-case scenario. Even under the best case, assets would never be more than 50% of liabilities.

#### **Conclusion -**

The report shows that leaving the contribution level where it is today will result in a catastrophe, since with or without granted COLA's, the Teachers' Retirement System will run out of money to pay benefit promises. Increasing the funding level will improve the System's ability to pay future benefits.

#### **25-year forecast (from page 1)**

contributions than the state and local schools currently contribute. This funding commitment was made in 1992, when Senate Bill 568 was enacted.

#### **Worst-case scenario -**

A worst-case scenario, assumes contributions from the State would be only \$100 million per year and local employers would contribute 3.5% of employees' pay for the next 25 years. The \$100 million figure is the amount the System will receive this year from the natural gas tax. The 3.5% local employer contribution rate is the minimum local schools would be expected to contribute under the 1996 statutory rate. At this contribution level, the System's assets will be

#### **What about COLAs? -**

The report also looks at the effect regular or automatic cost-of-living adjustment for retirees will have on the System. If a modest 3% increase in retirement benefits were granted to retirees every other year, by 2020, the System would be paying \$245 million more each year in benefits than if no increases were given. If the System's annual employer contributions matched the statutory funding schedule, the System would still be 100% funded by 2020. Semi-annual increases would add three years to the funding schedule. This would require approximately \$3.5 billion more in employer contributions to pay for \$2.5 billion in extra benefits that would have already been paid by 2020, as well as funding the additional payments after 2020. If 3% biennial

#### **Permanent rules (from page 3)**

retirement formula to reflect 1995 legislative changes for higher education members. **715:10-15-7.1** is a retirement formula for higher education TRS members.

**715:10-15-27** addresses benefit calculations affected by Section 401(a)(17) of the Internal Revenue Code for any member joining the retirement system after July 1, 1996.

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