

# Montana Teachers' Retirement System

Volume 7, Issue 7, Fall/Winter 2003-04



*"You are young at any age if you're planning for tomorrow."  
Anon*

## Actuarial Funding

The TRS, like other pension plans, experienced significant investment losses during fiscal years 2001 and 2002. During this period, the TRS experienced a \$275 million net investment loss. Fiscal year 2003 was much improved with a positive return of \$126 million, or 6.46%. Investment gains and losses over the expected 8% investment return are "smoothed" into the TRS actuarial valuations over a 5-year period. The intent of this smoothing method is to help the system remain financially sound at current funding levels. However, the losses experienced in FY 2001 and FY 2002 were so significant that without equally significant gains over the next 3 – 4 years through a reduction in liabilities, and/or an increase in contributions, the system could become actuarially unsound.

Will it be necessary for the Legislature in 2005 to increase contributions to the TRS? Maybe. However it is too early to say. There are basically three ways to improve the funded status of the TRS:

- \* First, investment returns would need to improve significantly, 20.0% or greater over the next 3-4 years.
  - ~ While 20+% returns are not likely, anything over 8 .0% will help.
- \* Second, we can, in a limited way, reduce liabilities and refine our calculations.
  - ~ The TRS Board is also actively working with the System's Actuary to review the current assumptions to verify they are appropriate, they will soon issue an RFP for a full review of the actuarial assumptions and calculations. The TRS is also looking to see if and/or how the system could reduce liabilities.
- \* Third, the Legislature can increase contributions. As a last resort, and only if absolutely necessary will the TRS ask the Legislature to increase contribution rates.

The next actuarial valuation will be completed as of July 1, 2004, with the results available in October 2004. Based on the results of this valuation and input from our membership, the TRS Board will be prepared to recommend options to the Legislature that may be necessary for the system to remain actuarially sound.

## Beyond The Classroom

This ninety minute seminar/workshop helps members understand the TRS as a Defined Benefit Plan. Participants will learn about the basics of service credits, purchasing service and how to calculate your Average Final Compensation (AFC), benefit options, and termination pay options. These educational seminars enable members to be proactive in planning for retirement. To find the current schedule of retirement seminars and workshops access the calendar on the TRS website at [www.trs.doa.state.mt.us](http://www.trs.doa.state.mt.us) or contact us at (406) 444-3134.

## Retirement Planning

After you have requested and received an estimate of benefits and there are still circumstances and/or special situations that could benefit from an individual counseling appointment either in person or via teleconference, please call the TRS office at (406) 444-3134 and request an office appointment or to schedule a teleconference with a Montana Teachers' Retirement System (TRS) Benefits Officer. Additionally, you should contact us when seeking information about disability benefits or purchasing additional service to apply to your TRS account.

## SOCIAL SECURITY REDUCTIONS

If you work for an employer who does not withhold Social Security taxes, such as a government agency or an employer in another country, the pension you get based on that work may reduce your Social Security benefits. Your benefit can be reduced in one of two ways. One is the "government pension offset" and applies only if you receive a government pension and are eligible for Social Security benefits as a spouse or widow(er). For more information on the offset, ask the Social Security Administration (SSA) for the factsheet, [Government Pension Offset](#) (Publication No. 05-10007). The other way, the "windfall elimination provision", affects how your retirement or disability benefits are figured if you receive a pension from work not covered by Social Security. The formula used to figure your benefit amount is modified, giving you a lower Social Security benefit.

### Who Is Affected?

The windfall elimination provision primarily affects people who earned a pension from working for a government agency and also worked at other jobs where they paid Social Security taxes long enough to qualify for retirement or disability benefits. It also may affect you if you earned a pension in any job where you didn't pay Social Security taxes, such as in a foreign country. The modified formula applies to you if you reach 62 or become disabled after 1985 and first become eligible after 1985 for a monthly pension based in whole, or in part, on work where you did not pay Social Security taxes. You're considered eligible for a pension if you meet the pension requirements, even if you continue to work.

**Here's An Important Point:** The windfall elimination provision affects Social Security benefits when any part of a person's federal service after 1956 is covered only under Civil Service Retirement System (CSRS) deductions. However, federal service where Social Security taxes are withheld (Federal Employee Retirement System or CSRS Offset) do not reduce Social Security benefit amounts. The modified formula is used to figure your Social Security benefit beginning with the first month you get both a Social Security benefit and the other pension.

### Why Is A Different Formula Used?

The modified formula prevents a windfall to people who would unfairly benefit from provisions aimed at low-income workers. Social Security benefits replace a percentage of a worker's pre-retirement earnings and the benefit computation formula includes factors that make sure lower-paid workers get a higher return than highly paid workers. For example, lower-paid workers could get a Social Security benefit that equals about 60 percent of their pre-retirement earnings. The average replacement rate for highly paid workers is about 25 percent. Before 1983, people who worked in jobs not covered by Social Security received benefits that were computed as if they were long-term, low-wage workers. They received the advantage of higher percentage benefits in addition to their other pension. The modified formula eliminates this windfall.

### How Does It Work?

Social Security benefits are based on the worker's average monthly earnings adjusted for inflation. SSA separates your average earnings into three amounts and multiplies the amounts using three factors. For example, for a worker who turns 62 in 2003, the first \$606 of average monthly earnings is multiplied by 90 percent; the next \$3,047 by 32 percent; and the remainder by 15 percent. The 90 percent factor is reduced in the modified formula and phased in for workers who reached age 62 or became disabled between 1986 and 1989. For those who reach 62 or become disabled in 1990 or later, the 90 percent factor is reduced to 40 percent. There are exceptions to this rule. For example, the 90 percent factor is not reduced if you have 30 or more years of "substantial" earnings in a job where you paid Social Security taxes. If you have 21 to 29 years of substantial earnings, the 90 percent factor is reduced to between 45 and 85 percent.

### Some Exceptions

The modified formula does not apply to survivors benefits. It also does not apply to you if:

- you are a federal worker first hired after December 31, 1983;
- you were employed on December 31, 1983 by a nonprofit organization that was exempt from Social Security and it became mandatorily covered under Social Security on that date;
- your only pension is based on railroad employment;
- your only work where you did not pay Social Security taxes was before 1957; or
- you have 30 or more years of substantial earnings under Social Security.

### Guarantee

Workers with relatively low pensions are protected because the reduction in the Social Security benefit under the modified formula cannot be more than one-half of that part of the pension attributable to earnings after 1956 not covered by Social Security.

### For More Information

Website: [www.socialsecurity.gov](http://www.socialsecurity.gov)

You can call the Social Security Administration at **1-800-772-1213**. They answer questions by phone between 7 a.m. and 7 p.m. on business days and provide information by automated phone service 24 hours a day. If you are deaf or hard of hearing, you may call their TTY number, 1-800-325-0778 between 7 a.m. and 7 p.m. on business days.



*"There will come a time when you believe everything is finished. That will be the beginning."  
Louis L'Amour*

# RETIREE'S CORNER

## Post-Retirement Earning Limitations

As a retired member of the TRS you may be employed in a part-time or substitute position reportable to the Montana TRS and earn, without loss of your retirement benefits, an amount not to exceed the greater of: (1) one-third of the sum of your AFC, plus annual increases equal to the increase in the Consumer Price Index (CPI) in the preceding calendar year(s) since your date of retirement; or (2) one-third of the Median AFC for members retired during the preceding fiscal year as determined by the TRS Board. These earnings are determined on a fiscal year basis. The TRS retired payroll staff will determine the maximum amount you may earn without affecting your monthly benefit. You and your employer must contact the TRS to verify this information.

## Changes After Retirement

Future changes to your home mailing address, federal income tax withholding, Montana state income tax withholding, and/or direct deposit must be submitted to the TRS, in writing, prior to the 15th of the month in which you wish the change(s) to be implemented. Please contact the TRS for the necessary forms or visit our website at [www.trs.doa.state.mt.us](http://www.trs.doa.state.mt.us).

If you are having the TRS withhold your monthly insurance premium and the premium amount needs to be adjusted, please contact your former employer. All premium amount changes must be submitted to the TRS by your former employer, in writing, prior to the 15th of the month in which the change should occur.

## Simple Reminders

Under the statutes governing the retirement system, monthly benefits are payable on the last day of each month. These monthly benefits, however, are mailed from Helena, or electronically deposited into your bank account, on the last business day of the month. For example, your January 2004 benefit will be mailed from Helena or deposited into your bank account on January 30, 2004. As a cost savings measure the TRS provides a "check-stub" only when the net benefit amount of your monthly benefit changes.

## IMPORTANT

TRS benefits are only payable for life. The Montana TRS must be notified immediately upon your death or your beneficiary's death.

## Benefit Adjustments

A Guaranteed Annual Benefit Adjustment (GABA) is paid each January to all retirees who have been retired for at least 36 months! The January 2004 GABA is 1.5%.

## Automatic Direct Deposit

The TRS does offer direct deposit of your monthly benefit to the financial institution of your choice. To sign up for this convenient, safe, and reliable method of deposit contact the TRS today!

## Montana Retired Educators Association

The Montana Retired Educators Association, a division of AARP, is an organization of retired teachers, administrators & educational staff. Their purpose is to promote social and economic welfare to members.

MREA has helped realize ten increases in retirement benefits since 1969

MREA helped achieve a GABA of 1.5%, which may be increased to 3% as additional funding becomes available.

If you are interested in more information about MREA, please contact:

Tom Altmaier, Treasurer. 1024 Waukesha, Helena, MT 59601



*"Education's purpose is to replace an empty mind with an open one."*

*Malcolm S. Forbes*



### **BENEFICIARY OF RECORD**

Beneficiary information is critical in the event of the member's death. The recipient of any survivor benefit will be the beneficiary of record on file with the TRS. A member may wish to designate two or more persons to share equally as joint primary or joint contingent beneficiaries. Upon the death of an active, or an inactive vested member, each primary beneficiary designated will be entitled to his/her portion of any survivor benefits payable.

If a member has a change of beneficiary, they must make sure the proper designation is made on a 'Beneficiary Designation Form' provided by the TRS. The 'Beneficiary Designation Form' is available at <http://www.trs.doa.state.mt.us>. If the member is unsure of their beneficiary designation, they may check with the TRS. The current primary beneficiary(s) is printed each year on the member's annual statement of account.

### **DIVORCE OF MEMBER AND BENEFICIARY**

All TRS members, active or retired, involved in a divorce proceeding should contact the TRS immediately. For more complete information, please refer to Family Law Orders on the TRS web site at [www.trs.doa.state.mt.us](http://www.trs.doa.state.mt.us).

### **DEATH OF MEMBER OR BENEFICIARY**

Upon your death the TRS must be notified immediately to ensure your beneficiary(s) receives their benefits in a timely manner. If you are retired, it may be necessary to adjust the monthly benefit to prevent any overpayment that may occur, based upon the optional form of retirement you elected.

*"There is no future in any job. The future lies in the man who holds the job."  
George Crane*