

Montana Teachers' Retirement System



Actuarial Funding Update

From TRS Board Meeting November 12, 2004

An actuarial review of the Teacher's Retirement System (TRS) was authorized by the Legislative Audit Division and the Teachers' Retirement Board in May 2004. Mellon Human Resources was awarded the contract to review the two most recent experience studies completed by the TRS Actuary, Milliman, and to complete a full reproduction of the July 1, 2004 actuarial valuation results prepared by the TRS actuary. Mellon did not find any significant errors or concerns regarding the valuation prepared by Milliman; the work was found to be reasonable and performed in accordance with generally accepted actuarial principles and practices. This report and the July 1, 2004 Actuarial Valuation are available at www.trs.mt.gov. David Slushinsky, Mellon Consulting Actuary, presented the report to the TRS Board of Directors Nov. 12, 2004.

Actuarial Factors and Benefits change after July 1, 2005

The laws governing the Teachers' Retirement System require that employee and employer contributions due under termination pay option 1; optional retirement allowances providing spouse protection; and the cost to purchase some types of service credit, be determined on the basis of actuarial equivalent factors. Based on the results of the July 1, 2004, Valuation, the Board approved the following changes:

Termination Pay Option 1 Factors

§19-20-716, MCA requires that the member and their employer pay contributions to the retirement system as determined by the Board to adequately compensate the system for the additional retirement benefit. The new factors will be applied to retirement benefits effective after July 1, 2005. The new factors will not be in effect for members retiring during the 2004-05 school year.

Retirement Age	Current Factors		Updated Factors	
	Member's Rate	Employer's Rate	Member's Rate	Employer's Rate
45	3.86%	4.09%	4.00%	4.18%
55	3.50%	3.72%	3.62%	3.78%
65	2.97%	3.15%	3.06%	3.19%

Optional Retirement Factors

When a member retires, he/she may provide protection for his/her designated beneficiary by choosing optional allowances A, B, or C. Optional allowances A, B, and C provide that the member's retirement allowance will continue to be paid to the member's designated beneficiary in an amount equal to 100%, 50%, or 66 2/3% after the member's death. The member pays for this protection by accepting a smaller monthly benefit while the designated beneficiary is alive. This smaller benefit is called the "actuarially equivalent" benefit because it has the same actuarial value, paid over both lifetimes, as the original benefit had, paid only over the member's lifetime.

The new factors will be applied to retirement benefits effective after July 1, 2005. The new factors will not be in effect for members retiring during the 2004-05 school year.

	Current Factors	New Factors
Option A	88.10%	87.85%
Option B	91.74%	91.56%
Option C	93.68%	93.53%

	Current Factors	New Factors
Option A	84.30%	83.52%
Option B	88.96%	88.37%
Option C	91.48%	91.02%

Cost to Purchase Service Credits

Members of the Teachers' Retirement System are allowed to purchase service in a variety of circumstances including: out of state public and federal employment MCA 19-20-402, employment while on leave MCA 19-20-403, employment in private schools MCA 19-20-408, extension service employment MCA 19-20-410, and absence because of employment related injury MCA 19-20-411. If the member became a member on or after July 1, 1989, the member must contribute the actuarial cost of the service based on the most recent valuation of the System. The sample factors shown here are for those members who became members on or after July 1, 1989, based on the July 1, 2004, Valuation. Because the law requires that the cost be based on the most recent actuarial valuation, the new factors are effective immediately. The following table compares the cost for members with 10 years of service:

Age	Old Factors	New Factors
30	13.10%	12.80%
40	15.80%	15.80%
50	18.50%	18.80%
60	21.20%	21.80%

2005 Legislation To Be Introduced Regarding TRS

TRS Actuarial Funding HB 181

The Montana Constitution, Article VIII, Section 15, requires that all public retirement systems be funded on an actuarially sound basis. Montana TRS, like most other public and private pension plans, has seen a significant decline since 2001 in the fair market value of its' pension assets. The Board's Funding Policy, adopted in May 2002, states that whenever the amortization period of the unfunded liabilities for two consecutive valuations are projected to exceed 30 years through the



use of long term cash flow projections, and the Board cannot reasonably anticipate that the amortization period would decline without an increase in funding sources, it is the obligation of the Board to recommend to the legislature that funding be increased.

The July 1, 2004 Actuarial Valuation concluded that an employer contribution rate increase of 2.87% would be required to maintain the actuarial funding of the Teachers' Retirement System (estimated cost per year = \$18.1 million). The TRS Board has proposed that this rate be phased in over the next two to three biennia.

HB 181, as drafted, proposes to actuarially fund the TRS with the following combination of benefit changes and employer contribution rate increases:

- ▼ Pay full benefits after 30 years of service and age 55, instead of 25 years of service at any age.*
- ▼ Include the member's 5 highest consecutive years' earnings in the calculation of average final compensation instead of the 3 highest consecutive years' earnings.*
- ▼ Increase the earliest age at which a member can receive an early retirement benefit from age 50 with 5 years of service, to age 55 with 5 years of service.*
- ▼ The above benefit changes for new hires decrease the required employer contribution rate increase by 0.64%, from 2.87% to 2.23%. In lieu of a one-time increase, HB 181 includes an employer contribution rate increase of 1.20% in each of the next two biennia.
- ▼ Section 19-20-501, MCA, requires that the rate of interest credited to members' accounts may not be less than 4.0%. Given market declines of the past few years, this rate will be replaced with a prudent standard. In addition, this is the rate charged to redeposit funds withdrawn and to purchase some types of additional service.
- ▼ Increase the University System's supplemental contribution rate from 4.04% to 5.09% to ensure amortization of the University System's past service liability by July 1, 2033 as required by 19-20-621, MCA. Again, in lieu of a one-time rate increase, HB 181 includes a contribution rate increase of 0.56% in each of the next two biennia.

* Because of the relatively small savings, 0.64%, of the first three proposed benefit changes for new hires, the Teachers' Retirement Board does not support the changes. Instead, the Board suggests that we continue to work with the TRS membership to design a long term solution that more fully addresses the future retirement needs of Montana educators, and the actuarial funding required by the Montana Constitution. The current unfunded position of the System should be addressed through an increase in the employer contribution rate over the next three biennia of 1.2% in each of the next two biennia (as provided in this bill draft) and another 0.75% contribution rate increase in the third biennia.

TRS Housekeeping Proposal-HB 104

The purpose of the proposal is to clarify provision, make change necessary to comply with federal statutes and regulations, and make minor changes with little or no fiscal impact. The amendments included in HB 104 cover the following:

- ▼ Clarify the Board's time line for establishing a governmental excess benefit arrangement and eliminating the provision's contingent effective date;
- ▼ Clarify provisions on the redeposit of contributions for membership service
- ▼ Clarify retirees returning to employment by striking relevant language in current code sections and recodifying the language as new sections;
- ▼ Providing for the option to purchase Montana university system optional retirement program service;
- ▼ Revising certain provisions governing the recalculation of benefits when a retired member returns to employment; providing for the reduction of retirement benefits in lieu of canceling the benefits in certain circumstances;
- ▼ Clarifying provisions on employee termination pay contributions

Kari Peiffer on TRS Board

In August, Kari Peiffer was appointed to the TRS Board by Governor Judy Martz to fill the seat vacated by Emily Hall Bogut, upon Emily's retirement.

Kari received her Bachelor of Arts Elementary Education from the University of Montana in 1994 and her Master of Arts in Teaching from Grand Canyon University in Phoenix, Arizona in 2002. She has been teaching for 10 years in the Evergreen School District in Kalispell, and currently teaches music and physical education in grades K-4.

Kari also serves the Evergreen Education Association as their negotiator for salary and benefits; she is delegate to the Representative Assembly for MEA/MFT; and acts as a Legislative Contact for MEA.

TRS welcomes Kari, and also thanks Emily for her years of dedication.

TRS Board Elections

The TRS Board re-elected Tim Ryan as Chairman and Scott Dubbs as Vice-Chair for one year beginning October 1, 2004.

Tim has been serving as Chairman and has been on the TRS Board since 2000. He is currently the State Director at USDA Rural Development.

Scott was appointed to the TRS Board in 1999. He is the principal at Fergus High School in Lewistown.

Called Up? What You Need To Know About Military Leave Upon Your Return...

The Uniformed Services Employment And Re-Employment Rights Act (USERRA) applies to persons who are called to active duty in the "Uniformed Services", including service in the Army, Navy, Marine Corps, Air Force, Coast Guard, Public Health Service Commissioned Corps, as well as the reserve components of these services. In addition, training or service in the Army National Guard or the Air National Guard will also give rise to rights under USERRA. Uniformed Service includes active duty, active duty for training, inactive duty for training (such as drills), and initial active duty training, as well as the period for which a person is absent from a position of employment for the purpose of an examination to determine fitness to perform any such duty. USERRA does not apply to state call-ups of the National Guard for disaster relief, riots, etc. However, it does apply to federal law call-ups of the Army National Guard and Air National Guard.

If a member returns to their TRS covered position following discharge from active duty, they may elect to purchase service credit for the period of uniformed service. The member must pay the contributions that would have been made had they not been absent. If the member contributions are paid within one year following the date of discharge recorded on Form DD-214 or a Retirement Credits Record, interest will be waived. The Montana TRS will notify the employer regarding their obligation to pay the employer contributions due during the period of uniformed service, plus interest.

The date of entry to active duty and the date of separation from active duty are provided on Form DD-214 or a Retirement Credits Record. A copy of Form DD-214, or a Retirement Credits Record, may be obtained by calling (314) 538-4271 or writing to the following address:

GENERAL SERVICES ADMINISTRATION
MILITARY NATIONAL PERSONNEL
RECORDS CENTER
9700 Page Blvd.
St. Louis, MO 63132

What's the Latest on Post - Retirement Employment?

Any retired member of the Montana TRS may be employed in a part-time or substitute position reportable to the TRS and earn, without loss of their retirement benefits, an amount not to exceed the greater of: (1) one-third of the sum of their average final compensation (AFC), plus annual increases equal to the increase in the Consumer Price Index (CPI) in the preceding calendar year(s) since their 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.

"Retired member" means a person who has terminated employment that qualified the person for membership under 19-20-302 MCA and who has received at least one monthly retirement benefit paid pursuant to this chapter. (Ref: §19-20-101, MCA.)

The TRS retired payroll staff will determine the maximum amount the TRS retiree can earn without affecting their monthly benefit. Contact the TRS at 406-444-3185 or 406-444-3135 to verify this information. If the retiree earns more than the allowable amount or signs a full-time contract, please contact the TRS immediately.

The TRS retirees are only limited in the amount they may earn if employed in a part-time teaching, administrative, faculty, or any other instructional services position that is reportable to the TRS. (Ref: §19-20-804, MCA.)

TRS retirees who are employed part-time in a position are not required to contribute to the retirement system unless they exceed the amount they are eligible to earn. It is required, however, that retired TRS members working in part-time positions be reported to the TRS on the employer's 'Monthly Contribution Report' for the purpose of tracking earnings after retirement.

Should a TRS retiree exceed their earnings limitation, their monthly retirement benefit will cease the first of the month in which their earnings for the fiscal year exceeded the maximum allowed. The TRS retiree shall be reinstated to active membership service. The retiree's monthly benefit will not be reinstated until the TRS member terminates their employment.

MEDIAN AFC HISTORY		
	MEDIAN SALARY	1/3 OF MEDIAN SALARY
2003-04	\$47,942.54	\$15,821.03

"The pessimist
complains about
the wind;
the optimist expects
it to change;
the realist adjusts
the sails."

William Arthur Ward



If you need this document in an alternative format such as large print, Braille, audio tape, or computer diskette, or you need any other disability-related accommodation, please contact Natalie Chamberlain at (406) 444-3134 or TTY or Relay Service number, 711.

The TRS newsletter is published with budgeted TRS Funds to update members and benefit recipients on news and to provide general information about benefits that affect them. Specific information is available in the Summary of Information handbook or by contacting the TRS office.

Executive Director: David Senn
Deputy Executive Director: Tammy Rau
Executive Secretary: Natalie Chamberlain
TRS Website: www.trs.mt.gov
Phone: 406-444-3134



"The happiest people don't necessarily have the best of everything. They just make the best of everything."

Anonymous

"Continuous effort
-not strength
or intelligence-
is the key to
unlocking our
potential."

Winston Churchill

TRS Will Mail 2004 IRS Form 1099-R

TRS will mail benefit recipients their 2004 IRS Form 1099-R Distributions From Pensions, Annuities, Retirements or Profit-Sharing Plans, IRA's by January 31, 2005.

Changes on Your January Retirement Check

When you receive your 2005 January retirement check/check stub the net amount may look different due to changes in withholding tables and Guaranteed Annual Benefit Adjustment (GABA).

Both the Federal income tax tables and the Montana State income tax tables changed effective January 1, 2005. In addition, eligible retirees will receive a 1.5% GABA increase in their January 2005 benefit. Your January 2005 retirement check/check stub will reflect these changes.

Montana
Teachers' Retirement System
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