



TRS educator

Montana Teachers' Retirement System Newsletter

2011 LEGISLATION

Working Retiree Limitations and Reporting Requirements – House Bill 86 and House Bill 116, both included clarification of the limitations pertaining to postretirement employment, and the reporting requirements applicable to working retirees and their employers. These amendments should assist TRS in timely identifying retirees who have returned to work, allow greater oversight and compliance with the earnings limitations applicable to working retirees, and provide for timely adjustment or suspension of retirement benefits of retirees who exceed the limitations. The 2011 legislative amendments effective July 1, 2011, include:

- TRS will no longer consider the working retiree's employment status (whether you are working full-time or part-time) in determining their eligibility to continue to receive retirement benefits. With this change, only the one-third earnings limitation will apply to TRS retirees returning to a TRS reportable position.
- Clarification that the maximum compensation that a retired member may earn under a postretirement contract includes all amounts paid to or on behalf of the retired member, and the value of all benefits provided to or on behalf of the retired member by the employer, including any amounts deferred for payment to a later year, except:
 - health insurance premiums directly paid by the employer on the retired member's behalf for health care coverage provided by the employer concurrent with the term of employment;
 - the value of housing provided by the employer to the retired member;
 - the amount of employment-related travel expenses reimbursed to the retired member by the employer;
 - de minimis fringe benefits, as defined in 26 U.S.C. 132(e), paid by the employer to or on behalf of the retired member;
 - Payroll taxes paid by the employer on behalf of the retired member;
 - and the fiscal year end payout of sick and/or vacation paid to a retired member.
- Clarification that, if a retired member is employed in a position that is reportable to TRS after July 1, 2011, and the retired member is concurrently working for the same employer in another position that is not reportable to the system, all earnings of the retired member that are generated by these positions are reportable to the retirement system.
- Clarification that postretirement employment that is reportable to TRS, and will be counted against the earnings limitation, includes any work performed or service provided by a retired member to or on behalf of an employer, including but not limited to work performed or service provided through a professional employer arrangement, an employee leasing arrangement, as a temporary service contractor, or as an independent contractor.



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TRS BOARD MISSION

“To promote long-term financial security for our membership while maintaining the stability of the fund”

OVERVIEW OF THE ACTUARIAL FUNDING (CONT.)

The TRS plan experienced an asset gain over the last year. The market assets had a positive return of 12.87% net of investment and operating expenses. The actuarial assets earned 9.78% which is 2.03% above the actuarial assumption of 7.75%. Actuarial gains or losses result when the return on the actuarial value of assets differs from the actuarial investment return assumption.

THE FOLLOWING TABLE COMPARES THE ANNUAL RETURNS FOR THE PAST SIX YEARS.

Fiscal Year	Market Return	Actuarial Return	Actuarial Return over 7.75 %
July 1, 2004 - June 30, 2005	8.04%	2.71%	(5.04)%
July 1, 2005 - June 30, 2006	8.91%	8.46%	0.71%
July 1, 2006 - June 30, 2007	17.64%	10.22%	2.47%
July 1, 2007 - June 30, 2008	(4.88)%	7.18%	(0.57)%
July 1, 2008 - June 30, 2009	(20.80)%	(10.26)%	(18.01)%
July 1, 2009 - June 30, 2010	12.87%	9.78%	2.03%

The chart above shows that overall the actuarial return on assets has underperformed the assumption in the last six years. The 2007 Legislature increased funding contributions as noted below.

CONTRIBUTIONS AS A PERCENT OF PAY

	Members	Employer Rate	State Contribution	Total
Prior to July 1, 2007	7.15%	7.47%	0.11%	14.73%
July 1, 2007 - June 30, 2009	7.15%	9.47%	0.11%	16.73%
July 1, 2009 and after	7.15%	9.85%	0.11%	17.11%

The State's General Fund picked up the increase in the employer rate of 2% effective July 1, 2007 and 2.38% effective July 1, 2009 in lieu of the contributions being paid by the school district and community college employers.

Section 19-20-201, MCA, requires the actuarial report to show how market performance is affecting the actuarial funding of the Retirement System. The July 1, 2010 market value of assets is \$435.1 million less than the actuarial value of assets. If the market value of assets was used, the amortization period would be infinite, and the Funded Ratio would be 55.81%. Based on market assets, a contribution increase of 5.17% of pay (17.11% to 22.28%) effective July 1, 2011, is projected to maintain an amortization of the unfunded actuarial accrued liability over a 30 year period.

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- Retired members and their employer(s) must submit written notice of postretirement employment to TRS along with supporting documentation, including but not limited to a copy of their post-retirement contract, letter of agreement, hire form, etc.
- A provision establishing that an employer will be jointly and severally liable for repayment to the retirement system of any retirement benefits to which the retiree was not entitled, plus interest, for failing to properly report the employment of and compensation paid to a TRS retired member.

Restrictions on Exceptions to the 10% Cap on Earned Compensation –

Current law, §19-20-715, MCA, states that the compensation reported in each year of the 3 years that make up the member's average final compensation may not be greater than 110% of the previous year's compensation included in the calculation of average final compensation or the earned compensation reported to the retirement system, whichever is less, except as provided by rule by the retirement board.

Amendments included in HB 116 address the retirement board's authority to grant exceptions, and expressly limits exceptions only to a change resulting from movement on an employer's approved salary matrix. No other exceptions to the 10% cap, such as summer employment, extra duty pay, promotions, change in employer, etc., can be granted by the Board. Anyone who believes they qualify for an exception based on movement on an employer approved salary matrix will simply need to send TRS a copy of the applicable salary matrices.

Full Actuarial Reduction for Early Retirement Calculations –

Members electing to retire early (with less than 25 years of service or less than age 60) receive a reduced "early retirement" benefit. The current actuarial reduction is 0.5% for the first 60 months early and 0.3% for each additional month. The Actuary recommended that TRS adopt early retirement reduction factors based on the member's actual age and/or years of service at retirement so that early retirement benefits will be the actuarial equivalent of regular retirement benefits and the retirement system will not be "subsidizing" early retirement. The early retirement reduction will continue to be based on the number of months the member is short of 25 years of service, or age 60, whichever is less. This change will take effect for active members who retire after July 1, 2011.

Clarify Interest Rate Required to be Charged on Certain Service Purchase Agreements –

Pre 1989 Members - TRS has previously applied statutory language requiring that interest be charged on the purchase of service at the rate that the contributions would have earned had the contributions been in the member's account from the date the member was eligible to purchase the service. The Actuary recommended that the actuarial value of purchased service should include interest at the actuarially assumed rate rather than at the rate of interest credited to the member's contribution account. Therefore, future purchases of service will include interest at the retirement system's actuarially assumed rate (currently 7.75%) rather than at the rate of interest credited to member accounts (currently 0.25%). This change will apply to agreements to purchase service that are signed on or after July 1, 2012. Any member eligible and intending to purchase service should contact the TRS as soon as possible so that they may initiate a service purchase agreement by April 1, 2012, if they wish to purchase the service at the current rates.

UPDATED ACTUARIAL FACTORS

Based on a 2010 Experience Study conducted by our Actuary, Cavanaugh Macdonald Consulting, the Teachers' Retirement Board adopted changes to actuarial assumptions and methods used in determining the actuarial soundness of the Teachers' Retirement System. The purpose of an experience study is to assess the reasonability of the actuarial assumptions for TRS. The report provided comparisons between the actual and expected investment returns, actual and expected cases of separation from active service, actual and expected number of deaths, and actual and expected salary increases. The experience study covered the five-year period from July 1, 2004 to July 1, 2009, and included all active full-time members, retired members, and beneficiaries of deceased members.

The Actuaries recommended changes in the assumptions regarding rates of withdrawal, disability, and retirement for active members, together with changes in actuarial methodologies and factors used to calculate certain retirement benefits, which were approved by the Board. The full Experience Study report is available on the TRS website www.trs.mt.gov, under the publications tab.

Based on the findings of the experience study, the Actuary recommended the following actuarial assumption/factor adjustments, which will have an impact on the calculation of certain benefits and the cost of service purchases:

Optional Retirement Factors – The optional retirement factors are applied to determine actuarially equivalent benefits where a member elects Option A, B, or C. The optional factors currently used by the TRS are based on the age difference between the member and their joint annuitant rather than on the actual ages of the member and the joint annuitant, which results in a less specific determination of actuarial equivalency than is reasonable. The actuaries recommended that TRS use actuarial factors based on the actual ages of the member and the joint annuitant at the time of retirement. This change will take effect with new retirement benefits effective on or after August 1, 2011.



Actuarial Cost of Service Purchase Factors –

Post 1989 Member – The service purchase factors are applied to determine the actuarial cost to purchase service as allowed by law. The service purchase factors currently used do not adequately consider the cost to the retirement system of the benefits provided on purchased service. The Actuary recommended that TRS adopt service purchase factors that base the cost for purchasing service on the present value of the estimated benefit increase that would result from the additional service. This change will take effect with all cost estimates effective on or after July 1, 2011.

OVERVIEW OF THE ACTUARIAL FUNDING

MEMBERSHIP STATISTICS

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
Active Members	18,108	18,188	18,292	18,456	18,953
Inactive Vested Members	1,681	1,660	1,649	1,640	1,553
Benefit Recipients	10,637	10,971	11,788	12,036	12,440
Average Age at Retirement	56.5	56.6	56.7	57.5	57.6
Average Annual Benefit	16,436	17,192	17,729	18,218	18,814

TEACHERS' RETIREMENT SYSTEM – Financial Summary

	March 31, 2011	March 31, 2010	\$ Increase (Decrease)	% Increase (Decrease)
Investments (market value)	\$2,913,642,000	\$2,663,207,656	\$250,434,344	9.40
	April 30, 2011	April 30, 2010		
Employer Contributions	\$45,235,613	\$45,342,451	(\$106,838)	(0.24)
Employee Contributions	\$37,830,219	\$38,525,969	(\$695,750)	(1.81)
State General Fund Contribution	\$10,174,366	\$10,047,569	\$126,797	1.26
Investment Earnings	\$67,275,085	\$75,789,150	(\$8,514,065)	(11.23)
Benefit Payments & Withdraws	\$198,502,849	\$185,662,713	\$12,840,136	6.92
Administrative Expenses	\$1,456,492	\$1,633,811	(\$177,319)	(10.85)

INVESTMENT PERFORMANCE (PERIODS ENDING MARCH 31, 2011)

MONTANA BOARD OF INVESTMENTS – Rates of Return - Net All

TRS	MKT VAL \$(000)	ALLOCATION	Month	QTR	FYTD	1 Year	3 Years	5 Years	10 Years
Total	\$2,913,642	100.0%	0.84%	4.41%	19.84%	13.95%	2.16%	3.67%	4.98%
Cash Equivalents	\$28,619	1.0%	0.03%	0.07%	0.23%	0.31%	1.28%	2.82%	2.64%
Equities	\$1,627,249	55.8%	0.33%	5.42%	31.09%	15.75%	1.28%	2.32%	3.38%
Fixed Income	\$722,606	24.8%	0.07%	1.20%	4.69%	8.24%	6.96%	6.89%	6.86%
Private Equity	\$351,981	12.1%	4.68%	7.13%	13.86%	18.23%	0.60%	7.90%	9.75%
Real Estate	\$183,187	6.3%	1.67%	4.24%	11.85%	11.60%	-11.10%	-4.81%	0.07%

Provided by State Street Investment Analytics