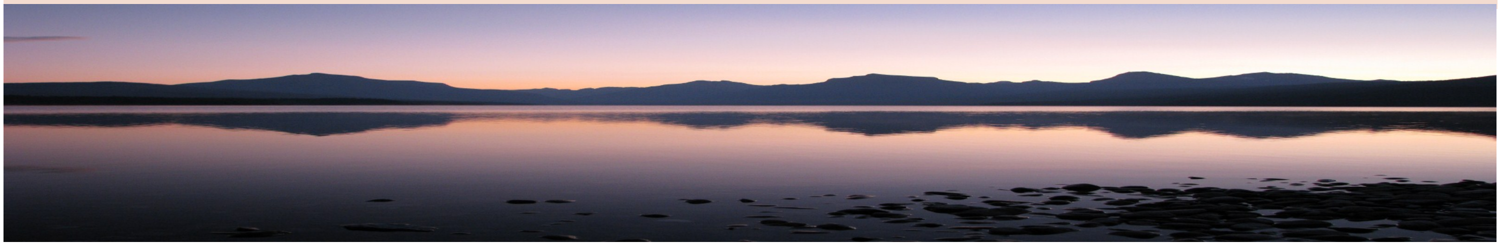
TRS Horizons

November 2011
Montana Teachers' Retirement System
www.trs.mt.gov



Your Pension Fund: "How Far Can it Fly?"

On a recent flight, the pilot's voice jolted me awake. "Ladies and gentlemen, no need for alarm, but we're leaking fuel, and Engine 1 just flamed out. No worries—Engine 2 should get us home just fine, but we'll be about 20 minutes late." The woman next to me gasped. "I'm scared," she said. "How far can the plane fly if the other engine quits?" I faced a dilemma: should I ease her fears or prepare her for the worst? My better nature wanted to smile and say, "You heard him, ma'am. Losing Engine 1 added 20 minutes to our flight time. If we lose the Engine 2 we'll be up here all day." But the devil on my shoulder wanted to echo comedian Ron White's drawled punchline, "How far can it fly? All the way to the scene of the crash."

Talking about TRS's unfunded liability raises a similar dilemma. On one hand, we have time to address the funding issue—the crisis isn't immediate. On the other hand, unless we act soon, the problem will grow and spiral out of control. Our challenge, then, is to convey the seriousness of the situation and motivate decision makers to act, without triggering an overreaction.

To do this, we need your help. Over the next few months we'll be conducting an outreach campaign to (1) raise awareness and understanding about funding issues facing TRS and (2) develop proposed legislation to address the unfunded liability and achieve long-term funding stability for your pension plan. You can do your part by studying the information we provide (starting with this newsletter), asking questions, and learning about the range of alternatives for correcting the fund's course (see the article and tables on page 2). We'll be sending out more frequent newsletters and posting information to the TRS website (www.trs.mt.gov), so put TRS on your radar. ***Send us your current email address.*** And send us your questions, comments, and ideas. Together, we can keep TRS in good flying trim.

~ *Will Harmon*
Communications Manager

Horizons *replaces the old* Educator *newsletter.*
Send us your ideas & comments: wharmon@mt.gov

The mission of the TRS Board is to promote long-term financial security for our membership while maintaining the stability of the fund.

THIS ISSUE

TRS Fund Facts

* Established in 1937
* 18,953 active members
* 12,819 benefit recipients
* $2.9 billion in assets
* $1.8 billion unfunded actuarial accrued liability
* $249 million in benefits paid annually
* $18,814 average annual benefit, per member

Rau Receives Award

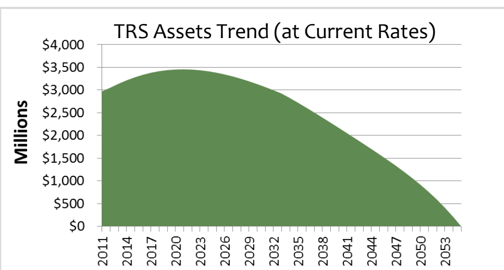
Congratulations to TRS Deputy Executive Director Tammy Rau, who received a Governor's Award for Excellence in Performance at a September 19, 2011, ceremony in Helena. The award recognized Rau's versatility, leadership, and dedication. Reading from the award, Governor Schweitzer said, "In the past year, Tammy has artfully managed the office workload through absences, departures, and retirements of several key staff members—reassigning projects, adjusting priorities, and personally taking on additional responsibilities in order to maintain the high level of professionalism in member service for which TRS is known. Tammy has demonstrated exceptional leadership and commitment at a time of great need for TRS."

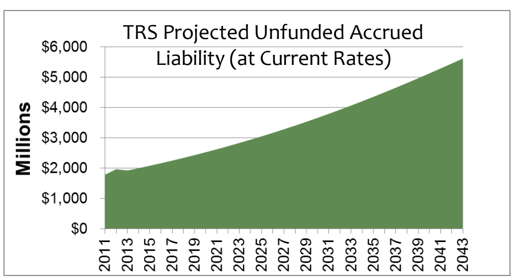
Long-Term Stability for the TRS Pension Fund

We're looking at all options to reduce the unfunded liability and maintain the long-term stability of the fund

In 2008-2009, the stock market saw its largest collapse since the Great Depression. Many 401(k) investors lost a third of their account balance. Pension plans also took a big hit. TRS posted a negative 20.8% return on investment in 2009. But thanks to relatively moderate-risk investments (managed by the Montana Board of Investments), we fared better than many other retirement systems. In 6 of the last 10 years, TRS's returns exceeded our expected rate of 7.75%, including a 21.67% return in FY 2011.

That helps, but we're still digging out of the hole (with everyone else) from the 2008-2009 losses. TRS's actuaries (Cavanaugh Macdonald, LLC) say that revenues coming into the fund are sufficient to cover the cost of benefits being accrued, but are not sufficient to overcome funding shortfalls created by the market collapse. Those shortfalls reduce the assets available to pay benefits, adding to the system's unfunded liability.





The charts above depict the bad news: without changes to the plan, TRS assets will be depleted by 2055, and the unfunded liability (currently at $1.8 billion) will triple by 2043. The good news is the unfunded liability does not come due all at once. Rather, the retirement system will realize those liabilities over 20 to 30 years as today's teachers retire. The asset trend can also be reversed. We have a window of opportunity—if we act now—to whittle down the unfunded liability and return the pension fund to sound financial footing.

What will it take to erase the unfunded liability? The math can be complex, but one equation is simple: revenues must equal or exceed expenses. TRS revenues include monthly contributions (from teachers, the school districts that employ them, and the state general fund), and returns on investments. TRS expenses are the benefits paid and administrative costs.

Any long-term answer to the unfunded liability will likely include a combination of incrementally raising revenues *and* reducing expenses. Such changes can be phased in gradually and balanced equitably in a package that everyone—teachers, employers, retirees, and taxpayers—can live with. At TRS, we're actively looking at all options and studying strategies adopted by public pensions in other states (see tables below). These alternatives could be applied to new hires, or to current active members and retirees , or both.

Not all options are equal. For example, instituting changes for new hires will have less effect on reducing the unfunded liability because new hires are a small portion of overall TRS membership. Also, no single "fix" will right the fund—a package of alternatives is needed.

What Does "Unfunded Liability" Mean?

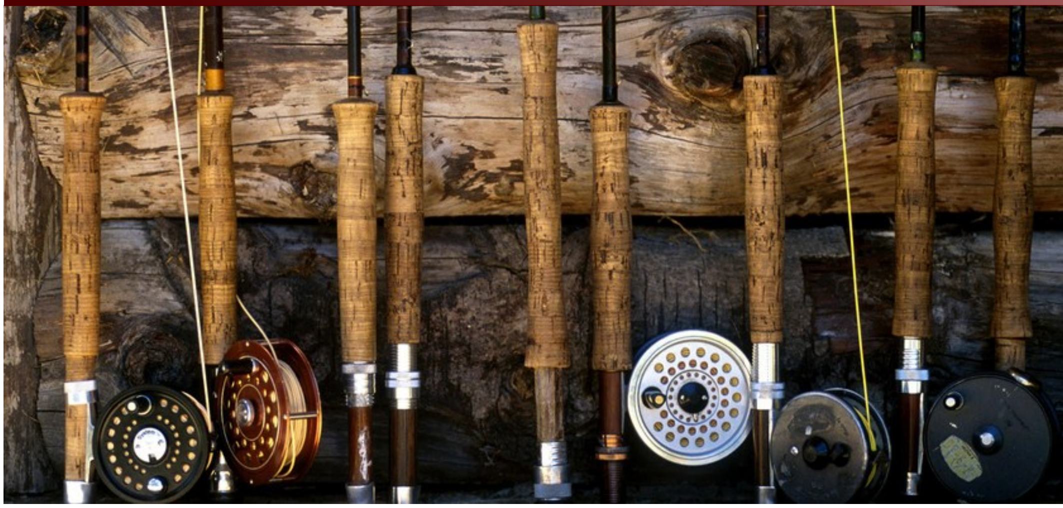
An unfunded liability is a natural part of a defined benefit pension plan. A pension's liability is a promise made today to pay tomorrow's costs (benefits), spread evenly over several decades. The liability is said to be "unfunded" when the benefits promised to future recipients exceed available assets.

Pension assets are invested and expected to grow. But market declines reduce the fund's assets, in turn increasing the unfunded liability. That liability may also grow when retirees live longer or retire earlier than actuaries expected.

All of these factors contribute to TRS's current unfunded liability.

Other States' Alternatives — for Active Members and Retirees
Increase Average Final Compensation from 3 to 5 consecutive years
Increase employee contribution rate
Reduce multiplier from 1.667% to 1.50%
Increase vesting from 5 to 10 years
Suspend or reduce Guaranteed Annual Benefit Adjustment
Raise early retirement to age 55 and 5 years of service
Raise regular retirement to age 65 and 5 years of service, and/or
Raise regular retirement to 30 years of service regardless of age

Other States' Alternatives — for New Hires
Increase Average Final Compensation from 3 to 5 consecutive years
Reduce multiplier rate from 1.667% to 1.50%
Increase vesting from 5 to 10 years
Reduce Guaranteed Annual Benefit Adjustment
Raise early retirement to age 60 and 5 years of service
Raise regular retirement to age 65 and 5 years of service, and/or
Raise regular retirement to 30 years of service regardless of age
Apply the above changes to *recent* hires (those with less than 5 years of service)



Why Not Switch to a Defined Contribution (DC) 401(k) Plan?

TRS is a Defined Benefit (DB) plan, which pools all contributions, invests those assets under professional managers, and then pays guaranteed benefits for life. In contrast, DC plans—such as 401(k) accounts—are not pooled, are managed by the individual employee, and do not offer a guaranteed benefit.

Moving to a DC plan would raise costs and would do nothing to pay off the unfunded liability. With fewer contributions coming in, the state would still be liable for benefits payable until the last benefit recipient under the DB plan is gone. Also, according to a study by the National Institute on Retirement Security, DB plans are more efficient, delivering the same level of benefits for half (46%) the cost of DC plans. Under a DC plan, employer costs (paid from tax dollars) would go up. Finally, dismantling the existing DB plan would trigger lawsuits, adding yet another layer of costs. In 1991, West Virginia froze its teachers' DB plan and enrolled all new hires in a DC plan. Costs rose and retirement security fell. In 2005, West Virginia reverted to the DB plan to save money.

Debunking Recent Rhetoric

Public pensions are making headlines, with not a few misperceptions presented as truth in media commentary, letters-to-the-editor, and water cooler conversations. Let's look at some of these claims and the facts that debunk them.

Claim: Montana teachers are overpaid.

Facts: According to U.S. Bureau of Labor Statistics, the average annual salary for teachers in Montana is $40,060. That ranks 50th out of 51 (including the District of Columbia). Only South Dakota is lower. Nationally, the average annual teacher salary is about $50,000. The average annual salary in Montana for all occupations (including those that do not require a college degree or professional certification) is $36,060. For comparison, the average Montana salary for truck drivers is $38,180, auto body repairers $38,310, undertakers $43,650, drywall tapers $44,220, US mail carriers $48,860, and plumbers $51,300 (USBLS 2010 data).

Claim: Taxpayers shoulder an unfair amount of funding teacher pensions.

Facts: Of the revenues used to pay benefits, 70-80% comes from investment returns and monthly deductions from teachers' pay checks. Montana taxpayers contribute the other 20-30% through employer and state general fund contributions**.** Montana teachers are required to contribute 7.15% of their monthly pay to help fund the pension plan. Quality public education depends on public investment—tax dollars for school facilities, supplies, and teacher salaries and benefits. Annually, Montana spends $10,059 per student, well below the U.S. average of $10,499.

Claim: The TRS fund is in the hole because investments were poorly managed.

Facts: In 2008-2009 the market saw its biggest drop since the Great Depression. That hit ***all*** investors hard. On average, 401(k) investors lost one-third of their account balance. TRS posted a negative 20.8% return in 2009. But thanks to a diverse portfolio, TRS has fared better than many other retirement systems. In six of the last ten years, TRS's investment returns exceeded our expected rate of 7.75%. In Fiscal Year 2011, the fund's investment return was 21.67%. Markets remain turbulent, however, and it will take several good years to recoup previous losses.

Claim: TRS needs a big taxpayer bailout.

Facts: Rather than an infusion of tax dollars, TRS needs prudent, incremental changes to contribution and benefit rates that will return the fund to sound fiscal footing.

TRS Board Members

Member	Term Expires	Email
Kari Peiffer, chair *Active classroom teacher, Kalispell*	July 1, 2012	KPeiffer@mt.gov
Darrell Layman, vice chair *Retired teacher, Glendive*	July 1, 2016	DLayman@mt.gov
Jeff Greenfield *Active member, Shepherd*	July 1, 2016	JGreenfield@mt.gov
Scott Dubbs *Active member, Lewistown*	July 1, 2013	SDubbs@mt.gov
Robert Pancich *Public member, Great Falls*	July 1, 2014	RPancich@mt.gov
James Turcotte *Public member, Helena*	July 1, 2015	JTurcotte@mt.gov

Upcoming Events

November 18, 2011 - TRS Board meeting, Helena

November 11-12, 2011 - MEA-MFT Board meeting, Billings

November 28-29, 2011 - MTSBA School Law & Technology Symposium, Helena

NOTICE: See the TRS website for updates on Post-Retirement Employment!

RETIREES! PLEASE KEEP TRS UP TO DATE!

If you've moved, we need your current mailing address. Go to www.trs.mt.gov and print the Change-of-Mailing-Address Form 116. Send us the completed ORIGINAL form (we cannot accept copies).

35,000 copies of this public document were published at an estimated cost of $0.38 per copy, for a total cost of $12,961, which includes $2,863 for printing and $10,098 for distribution.

Past Events

1922 - MT's first licensed radio station goes on air in Great Falls

1932 - Chief Plenty Coups, Crow leader, dies at age 84

1942– Dave McNally, only pitcher ever to hit a grand slam in a World Series, born in Billings

1952 - Mike Mansfield elected to his first term in US Senate

1962 - MT Governor Don Nutter, WWII bomber pilot, dies in small plane crash near Wolf Creek

1972 - Montana adopts new State Constitution

1982 - David Letterman, who owns a home near Choteau, debuts Late Night on NBC

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