

TRS Horizons

Closing the Gap: Public Pension Shortfalls

Although election season is over, citizens and elected representatives will continue to discuss many serious economic issues. One critical topic on the 2013 legislative agenda is funding of the Montana Teachers' Retirement System (TRS); a defined benefit pension plan. Views on the retirement system vary widely – from solid support to severe criticism.

A crucial role of the TRS Board and staff is to ensure legislators and the public have accurate data and information about Montana's pension systems. We want to support policy decisions that are best for Montana's local economy, taxpayers, public workforce, and retirees.

Here are key facts to inform the policy debate.

First, and most important, defined benefit plans work. For more than 75 years, TRS has provided a modest retirement income for educators who have dedicated their professional careers to Montana's children. Our members contribute 7.15% of each paycheck and school districts contribute 7.47% to TRS. These contributions are coupled with investment earnings to fund monthly payments to retirees.

Like any system, a healthy pension plan needs regular maintenance. The TRS Board proactively adjusts policies and drafts legislation as a regular course of business to adapt to changing economic conditions. We work closely with the Legislature to ensure TRS is financially sound and to ensure the best use of taxpayer dollars.

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Send Us Your Stories!

We want to learn the stories of why defined benefit pension plans are valuable to our members and the community. Why are pensions important to you? How do they help you and how do they help your community?

To learn more, visit www.trs.mt.gov or email trsoutreach@mt.gov.

E-Newsletter

Have you signed up for TRS Horizons e-newsletter?

If you would prefer to receive an electronic version rather than a printed one, please send an email to:

trsoutreach@mt.gov and we'll send you instructions on how to sign up.

TRS Staff News

Rex Merrick recently received the Montana Department of Administration *Award for Excellence* for his essential role ensuring proper operation of all Information Technology (IT) systems at TRS.

Many of you have spoken with Rex and know that his attention to detail and commitment to finding

solutions is always done with a smile.

Rex provides invaluable service to TRS members and staff. During the recent vacancy of the TRS IT manager; Rex single-handedly kept all our operations running smoothly.



Rex Merrick

Congratulations to Dan Gaughan and his team for receiving the 2012 *Certificate of Achievement for Excellence in Financial Reporting*. This award is the highest form of recognition in governmental accounting.

Interim Committee Outcomes

The final meetings of interim committees impacting TRS were held the week of November 12–16. The *Legislative Finance Committee* (LFC) met on Tuesday, November 13 and the *State Administration and Veterans Affairs Committee* (SAVA) met on Friday November 16.

Unfortunately, after a year and a half of meetings, presentations, and consultations, neither committee was able to move a funding bill forward and make

formal recommendations to the full legislature.

While we are disappointed by a lack of funding recommendations from the committees, we are confident that the bills proposed by TRS will:

- address the current funding shortfall, and
- permit the TRS board to quickly and appropriately address future ups and downs of the market.

facebook

**Stay up-to-date
on the 2013 Legislation.**

Keep an eye on the TRS website for a link to our new Facebook page. We will post regular updates to help you stay informed about issues that may impact the Teachers' Retirement System.



Summary: TRS Legislation

TRS is proposing four separate bills that address immediate and significant issues; three are discussed below. A 'housekeeping' bill for clarifications concerning legal and IRS requirements will also be submitted. We are dedicated to a collaborative solution to today's challenges. Our approach has been endorsed by members, employers, legislators, and unions.

FUNDING

While a large portion of the revenue that funds TRS is from investment income, the current shortfall requires increases in other revenue streams. The funding bill proposed by the TRS Board includes three separate income sources: members, employers, and the state.

Members who join TRS after July 1, 2013 would enter into a new tier with changes to the present plan. New members would begin with a contribution rate of 8.15%. Triggers could increase their contribution by up to 1% depending on the health of the

fund.

Current members would also see a supplementary increase of 1% after July 1, 2013 to 8.15%. Again, triggers will allow the rate to move between the current 7.15% and the proposed 8.15% to respond to funding needs of the system.

In addition, a 1% supplemental rate would be added to the rates already contributed by employers. The same triggers that apply to the employee supplemental rates would apply to the employer.

Finally, the state would make an annual payment of \$25 million from land trust revenues.

MUS CONTRIBUTIONS

The Montana University System (MUS) closed member access to TRS in 1993. As part of the legislation to close TRS to new entrants in the university system, MUS must pay a supplemental contribution for their share of the cost to amortize TRS unfunded liabilities.

This bill proposal would increase the MUS employer supplemental contribution rate from 4.72% to

9.04% to cover their share of unfunded liabilities.

BREAK IN SERVICE

Presently, TRS members can return to work, in a position that is reportable to TRS, after they have fulfilled the following requirements:

- terminated all employment from TRS reportable positions,
- received at least one monthly retirement benefit.

In order to ensure compliance with requirements from the IRS, we are proposing a break in service of 180 days before members are eligible to return to work in post-retirement positions reportable to TRS. This would *only* affect members who terminate employment after January 1, 2014.

Details on the specifics of each bill can be found on our website. The bills will be posted in the Montana Legislature's bill information database. See page 3 for links.

Keep in mind, as the legislative session moves along, anything and everything may change. We will do our best to keep you up-to-date.

Closing the Gap (cont.)

Second, the market downturn in 2008-09 impacted all investors, including TRS. The good news is that our system is pre-funded; our obligations are not due all at once, but over decades into the future. We have more than \$2.9 billion on hand today. Based on current actuarial assumptions, we have sufficient assets in place to pay our obligations for several decades.

However, the fact remains that because of the market downturn, we now face a shortfall. You may hear that our liability is \$1.96 billion. It is important to understand that 55% of that liability is already funded. This means that we have an actual shortfall of \$870 million.

The Montana Constitution requires public pensions to be funded on an actuarially sound basis. This is no different than ensuring that your current and future income will fully fund your mortgage payments. Just like rebalancing a household or business budget, we are looking at a full range of options to increase income and decrease expenses.

TRS members – teachers and administrators, nurses and librarians, coaches and counselors – want to do their part. They tell us they can commit to modifications if we're all partners in sharing the responsibility

To that end, the TRS funding proposal for the 2013 legislative session includes:

- an increase of employee contributions by 1% from 7.15% to 8.15% of salary, and
- a reduction of benefits for new members; they must contribute more and work more years before they are eligible to retire.

Montana is well-positioned to make prudent changes and set a sound financial course for our public retirement systems while avoiding dire, costly choices. Pensions are a critical workforce management tool for governmental employers; we all benefit when our communities can recruit and retain the best teaching professionals to prepare our children for a competitive

workforce.

Kicking the can down the road and waiting for future legislators to close the funding gap will only increase the shortfall. Montana can't wait to act. If the legislature does nothing in 2013, the financial obligations will only continue to grow and become more expensive and painful to fix.

We can't afford inaction. We stand ready to work in partnership with citizens and policymakers to address the shortfall in a responsible manner that protects taxpayers, our educators, and retirees alike.



Dave Senn, Executive Director of TRS since 1985, has the experience and knowledge needed to steer TRS and advise lawmakers on sound policy decisions.



Legislative Information

Bills can be found on the Montana Legislature website at:

<http://leg.mt.gov>

TRS will have up-to-date information for you on our webpage dedicated to the 2013 Legislative Session:

[2013 TRS Legislative Updates](#)

TRS Board Members

Member and Seat	Term Expires	Email Address
Jeff Greenfield, Chair Active Member, Billings	July 1, 2016	JGreenfield@mt.gov
Robert Pancich, Vice Chair Public Member, Great Falls	July 1, 2014	RPancich@mt.gov
Kari Peiffer, Active Member, Kalispell	July 1, 2017	KPeiffer@mt.gov
Marilyn Ryan Retired Member, Missoula	July 1, 2016	MRyan2@mt.gov
Scott Dubbs Active Member, Lewistown	July 1, 2013	SDubbs@mt.gov
James Turcotte Public Member, Helena	July 1, 2015	JTurcotte@mt.gov



RESOURCES FOR YOU

Don't forget to visit the TRS website! We have resources available for members and employers, legislators and interested citizens:

- ◇ Handbooks
- ◇ Tutorials
- ◇ Forms
- ◇ Calculators
- ◇ Annual Reports
- ◇ Funding Policies

You can find us online at www.trs.mt.gov

RETIREES & BENEFIT RECIPIENTS

We need your current mailing address for important tax forms - whether you've moved or are spending the winter in a different location.

You can print *Form 116: Change of Mailing Address* from our website at trs.mt.gov or call us at: 406-444-2441 or 866-600-4045.

You must mail the completed ORIGINAL form — we cannot accept copies, faxes, or emails with change of address information.

TRS Mission:

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

TRS Goals:

- ◇ Maintain an actuarially sound, qualified retirement plan in compliance with Montana State Constitution and Federal laws and regulations.
- ◇ Sustain a high performance work culture and service excellence through staff and board development, innovative leadership and management strategies, and expansion of organizational capacity.
- ◇ Continue and expand communication and outreach efforts to increase member and employer knowledge of and involvement with the system, to educate and inform other stakeholders about the system, and to foster support for the system.

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