



# Trends



Vol. 27, No. 1 The Newsletter of the Teachers' Retirement System of Oklahoma Winter 2008



From the Executive Secretary...

## The hard work is still ahead of us

*The good news—*

Last year was a very good year for the Teachers' Retirement System. Return on investments was 18.5%. This ranked TRS in the top 15% of 90 public pension plans that the Oklahoma State Pension Commission uses to compare Oklahoma's pension plans. TRS returns ranked in the top 18% of 730 pension plans the TRS investment consultant uses for comparison. Contributions from members and school districts were up 14% over 2006, and sales and income tax revenues coming to TRS from the state were up 20%. Market value of assets increased 18% from \$8.175 billion to \$9.651 billion.

Coupled with passage of Senate Bill 357, the June 30, 2007, *Actuarial Report* shows a marked improvement, compared to the year ending June 30, 2006. Our funded ratio increased from 49.3% to 52.6%. While only a 3.3% increase, due mainly to investment returns, it was significant in that unfunded liabilities decreased more than \$600 million in a year when liabilities were expected to increase \$222 million.

The most important change in the actuary's report was the amortization period, which decreased from 37.4 years to 21.6 years. The amortization period is the time it will take to pay down all unfunded liabilities. It is like a home mortgage, except the pay period is not fixed, and the number of years increase or decrease, depending on the System's annual income and benefit payments.

*The bad news—*

The Oklahoma Teachers' Retirement System is still poorly funded. We have only 50% of assets needed to pay all future benefits. A recent national report by The Pew Charitable Trusts entitled *Promises with a Price* cites Oklahoma's TRS as "one of the poorest-funded pension systems in the country." The report also comments, "Oklahoma is trying to get a better handle on

its pension systems." It goes on to say, "substantial income tax cuts in both 2005 and 2006 will likely prove hazardous to the health of the teachers' retirement system, which is funded through the state income tax."

The Pew report did not include an analysis of Senate Bill 357, enacted at the end of the 2007 Legislative Session. This new law, reported in the Summer 2007 issue of *Trends*, is the most important piece of legislation ever to address the financial condition of the Teachers' Retirement System. Its intent is to fund TRS at 80% in 20 years.

*What you can do—*

We must ensure that the commitment made by the Governor and Legislature to fix TRS is maintained. It is imperative that contribution rate increases mandated in Senate Bill 357 be implemented on schedule, even if the money has to come from the state's Rainy Day Fund. The contribution increases will not occur unless additional money is appropriated so school budgets are not adversely impacted.

Thank your legislators for passage of Senate Bill 357, and let them know what you want for your Retirement System. There has never been a more important time for TRS members to stand up for a better-funded retirement program. A more secure retirement plan pays dividends to all members and ultimately to all Oklahomans.

To not properly fund the retirement plan will mean extra costs to everyone in the long run. Active members are already paying more, retirees receive smaller benefit increases and taxpayers will eventually pay more to help pay for future benefits. Also, the

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## RESOLUTION

**WHEREAS**, the Governor of Oklahoma, the Oklahoma State Senate and the Oklahoma House of Representatives have made a significant commitment to increase funding of the Teachers' Retirement System of Oklahoma by increasing employer contribution rates, and

**WHEREAS**, this commitment is designed to bring the funding level of the Teachers' Retirement System to at least 80% within the next twenty years, which should have an ancillary benefit of improving the state's credit rating, resulting in tax savings to state entities and school districts, and

**WHEREAS**, even though the June 30, 2007, actuarial report shows a decrease from 37 to 22 years to fully fund the Teachers' Retirement System, and that the System's funded ratio increased from 49.3% to 52.6% of actuarial assets available to cover actuarial accrued liabilities, the Teachers' Retirement System continues as one of the five worst-funded state-run retirement plans in the United States, and

**WHEREAS**, the state of Oklahoma, its school districts and other educational entities have met the actuarially required employer contribution in only eight of the last 38 years, causing the underfunded condition of the Teachers' Retirement System to deteriorate, and

**WHEREAS**, the passage of Enrolled Senate Bill 357, during the 2007 Legislative Session, will provide additional revenues to the Teachers' Retirement System to address the unfunded condition if annual appropriations are made to local school districts, colleges and universities to cover the cost of the increase in contribution rates, and

**WHEREAS**, the liabilities of the Teachers' Retirement System are a financial obligation to more than 144,800 active, inactive and retired educators who depend on the state of Oklahoma for certain earned benefits when they become eligible to retire, and that these liabilities are a legal and moral obligation of the state of Oklahoma.

**NOW, THEREFORE, BE IT RESOLVED**, that the Board of Trustees of the Teachers' Retirement System of Oklahoma hereby commend the Governor and each member of the State Senate and House of Representatives for their commitment to improve the funding status of the Teachers' Retirement System with passage of Senate Bill 357, and

**BE IT FURTHER RESOLVED**, that the Board of Trustees of the Teachers' Retirement System of Oklahoma earnestly implores the Governor and members of the House of Representatives and the State Senate to set the funding of the provisions in Senate Bill 357 as one of their highest priorities in the next Legislative Session and in years to come, and

**BE IT FURTHER RESOLVED**, that the Board of Trustees of the Teachers' Retirement System of Oklahoma respectively requests the Governor and the House of Representatives and the State Senate provide additional new funds to ensure retired members of the Teachers' Retirement System receive post-retirement benefits equivalent to the level of benefit increases provided to other state retirees.

**ADOPTED BY THE BOARD OF TRUSTEES OF THE TEACHERS' RETIREMENT SYSTEM  
OF OKLAHOMA ON THIS THE TWENTY-EIGHTH DAY OF NOVEMBER 2007**





## Teachers' Retirement System of Oklahoma 2008 Legislative Recommendations

### General Goals:

Maintain the minimum funding schedule as provided in Enrolled Senate Bill 357 (2007), which increases statutory employer contribution rates by one-half of one percent on January 1, 2008, January 1, 2009, and January 1, 2010, and 68 O.S. §§ 1353, 1403 and 2352, which allocates five percent on state revenues from sales, use and income tax collections.

Fund any benefit increase improvements over a period consistent with standard actuarial assumptions.

Provide additional funding to provide biennial cost-of-living increases to retired members of the Teachers' Retirement System equivalent to increases provided to retirees in other state-run pension plans.

*Title 70 O.S. § 17-108.1 sets the annual contribution level local school districts must remit to the Teachers' Retirement System in the form of "employer" contributions. Senate Bill 357, enacted in 2007, increases employer contribution rates by 1.5% over a three-year period beginning January 1, 2008. Increases in the employer contribution is predicated on additional state appropriations to cover the increased cost to local school districts, colleges and universities.*

*During FY-2007, TRS received \$243.5 million from the state and \$292.4 million from local schools. Last year's combined annual contributions from the state and local employers was still \$40 million less than required to pay down the System's unfunded liabilities over a 30-year period.*

### Specific Recommendations:

Properly fund the existing obligations of the Retirement System as provided by current statutes.

Maintain funding levels from the state and local schools to amortize unfunded liabilities over as short a time period as possible by:

- Appropriating funds to cover cost of increasing contribution rates each January 1 through FY-2010.
- Re-establishing a percentage of the tax on natural gas as an additional source of funding for the Teachers' Retirement System to provide cost-of-living increases to retired educators at a rate equivalent to retired state employees and retired police officers, firefighters and law enforcement officers.
- Dedicating a percentage of available funds in the state's Rainy Day Account to be appropriated to the Teachers' Retirement System.
- Dedicating a portion of any windfall revenue received by the state to TRS.

**Adopted November 28, 2007**



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## Work still ahead (from page 1)

underfunded condition of TRS and the other state-run pension plans is costing all of us because the state's credit rating is less than it would be if the pension plans were better funded. The state's credit rating can increase the cost of issuing bonds for highways, schools and other infrastructure projects.

In a recent *Our Views* column, *The Oklahoman* said, "Lawmakers gave some relief to the teacher retirement system last year. But they'll have to renew that commitment for several years to get the system on more solid financial footing." We must do our part by encouraging lawmakers to do this.

Tommy C. Beavers



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