Trends

Volume 16, Number 1 November 1996 Teachers' Retirement System

Former TRS Executive Secretary Bill Ware dies

Bill Ware
1926-1996

TRS extends condolences to the family and friends of Bill Ware, who died July 18, 1996. Mr. Ware was TRS Executive Secretary from 1975 until he retired in 1988.

During Mr. Ware's tenure as Executive Secretary, the Retirement System's assets grew from $250 million to $1.7 billion. The average monthly retirement check increased from $300 to $875. Changes were made to the retirement benefit formula, maximum contributory salary and beneficiary provisions.

Mr. Ware was a teacher, principal and superintendent of schools before becoming director of the Teachers' Retirement System. He was active in the National Council on Teacher Retirement and was the organization's president in 1985-86.

Mr. Ware is survived by his wife, Katie, a retired teacher; two sons; two daughters; grandchildren; other relatives and many friends.

WHO *CAN* YOU BELIEVE?

An Editorial
by
Tommy C. Beavers, TRS Executive Secretary

Two leaders of the Oklahoma Retired Educators Association (OREA) have recently released a 30-page report entitled "Oklahoma's Teacher Retirement System: A Brief Look Into The Past With Projections For The Next Quarter-Century." In the report, Dr. Charles Weber, Executive Director of OREA, and Dr. Edwin Vineyard, OREA Legislative Chairman, seem to imply TRS officials and/or its actuaries have "misled" the Legislature and TRS members by overstating the Teachers' Retirement System's liabilities. As a result of this report and a newspaper article quoting Dr. Weber as stating, "There has been entirely too much crying 'wolf, wolf about the future of the system," and "We have cause to wonder if all this is part of an agenda designed to mislead," the question arises, who can you believe?

In 1988, the TRS Board and staff began telling the Legislature and TRS members that something was wrong with the Teachers' Retirement System and it had to be fixed. The Legislature and education leaders were shown that the Retirement Fund had insufficient assets to cover future liabilities. It took four years but in 1992, the Legislature passed Senate Bill 568 without one dissenting vote after legislative leaders realized changes were necessary, and those leaders in turn convinced other legislators. Senate Bill 568 requires sizable increases in annual contributions to the Teachers' Retirement System to help build necessary reserves to pay current and future retirees.

The OREA report attempts to demonstrate that TRS' current financial condition is sound enough that the State and local school districts can afford to reduce scheduled contributions and TRS can grant periodic benefit increases to retirees while assets continue to grow. However, the report fails to consider the growth of TRS liabilities and the ultimate price TRS members and Oklahoma taxpayers will eventually have to pay. TRS can certainly appreciate the reasoning behind Drs. Weber and Vineyard's well-intended proposals. However, as fiduciaries to this System, TRS officials cannot philosophically nor actuarially agree with the OREA's report. Under Drs. Weber and Vineyard's proposal, in the year 2022, the System would have less than 60% of the assets needed to pay liabilities, instead of the 80% they estimate. Either funding schedule requires massive increases in employer contributions, which will impact local schools. However, the OREA proposal would require employer contributions to continue indefinitely at approximately $1 billion per year, while under Senate Bill 568 employer contributions will be sharply reduced after 2015.

(See *Who Can You Believe?* p. 2)

Who Can You Believe? (from page 1)

Drs. Weber and Vineyard attempt to make the point that actuarial assumptions used by TRS are too conservative, but they fail to offer one example to support this claim. In fact, the general tenor of the OREA report indicates that Drs. Weber and Vineyard believe that actuaries have no place in assessing the financial condition of public pension plans. The report uses terms like "doomsday", "subterfuge", "pie-in-the-sky", "triple-cross", "mathematical manipulation", and "biased and polarized" to describe actuaries or actuarial methodologies. The report further decries the use of generally accepted accounting principles. The fact is, the vast majority of public pension plans in the United States utilize and benefit from the assistance of actuaries. TRS and all other public pension plans are required to prepare financial and actuarial statements in conformity with standards established by the Governmental Accounting Standards Board.

TRS' actuarial assumptions have been reviewed by four independent actuaries and the System's external auditors. Compared to other pension plans, TRS assumptions are neither conservative nor liberal. TRS actuarial assumptions reflect as nearly as possible the System's true liabilities. Regardless of the opinions of Drs. Weber and Vineyard, the System's liabilities are real dollars that must be paid sometime in the future. The information provided by TRS and its actuary has withstood eight years of study and review by the Legislature, other government officials, the Oklahoma Education Association, special study groups and the media. TRS would welcome any objective actuarial study by OREA or other groups to confirm our estimates of current and future liabilities. Notwithstanding its criticism of actuarial science, it is obvious that the crux of the OREA report is a simple philosophical difference of opinion regarding the present financial condition of TRS and how the System's liabilities should be funded.

Currently, TRS has only **40%** of assets needed to cover liabilities. Any objective auditor and most lay persons would conclude the Teachers' Retirement System of Oklahoma is poorly funded by any standard measure and will have major problems paying future benefits without the increased contributions the State and local employers are now trying to provide. A recent report by the NEA's Research Division of 100 large public pension plans shows only Oklahoma Teachers', West Virginia Teachers' and Indiana Teachers' had a funding level below 50%, and only 19 of 100 were below 75%. TRS can show interested parties several similar studies which confirm the relative poor standing of Oklahoma Teachers'.

A well-funded pension plan costs members and employers less and allows members to feel secure knowing that their benefits are safe and retirees do not have to rely on payments by their children or grandchildren to guarantee arrival of their checks. In effect, Drs. Weber and Vineyard apparently believe current active members should pay the benefits of current retirees and then trust the next generation of active teachers to pay their retirement. They say that's the way TRS has always worked and it has worked very well. The Teachers' Retirement System is not Social Security and it was never intended to operate like Social Security. The "spend now and hope" attitude endorsed by Drs. Weber and Vineyard is not the prudent way to run a retirement program.

Everyone recognizes retirees lose purchasing power as inflation reduces the value of their pension benefits. The TRS Board of Trustees is well aware of the fact that retirees have received only two benefit increases since 1990. Certainly retirees need help meeting increased living costs. The TRS Board of Trustees and staff have never opposed benefit increases for retired members. TRS would welcome the opportunity to work with OREA, its leaders and the Legislature to improve benefits for retirees. The best way to do that is to work together to obtain reasonable increases when the State can afford to pay for them.

However, as fiduciaries, the Board of Trustees is legally and morally responsible for the long-term security of the System and must protect the benefits of all members, both retired and active. The Board employs professionally trained actuaries to ascertain the System's obligations and with the assistance of the actuary, annually reports the condition of the Retirement Fund to the Governor, Legislature, plan participants and the general public. Each year the Board makes the same recommendations to the Legislature. Those recommendations are: (1) fund the current program, (2) help local schools meet their increased contribution requirements, and (3) fund any benefit increases, including cost-of-living increases, with additional appropriations and/or revenues over a period consistent with standard actuarial assumptions.

Finally, it must be stated that no attempts have been made by TRS officials to "mislead" anyone. TRS officials have no agenda other than performing their legal duty to act for the exclusive benefit of all members, both active and retired. Instead of crying "wolf', as claimed by Dr. Weber, TRS officials are simply attempting to ensure the long-term financial survival of the Teachers' Retirement System.

Main issue: Funding actuarial liabilities

1996 TRS *Report to Members* shows increase in System's revenues, liabilities

The most significant issue facing the Teachers' Retirement System continues to be funding actuarial liabilities. TRS's financial status is included in the System's ***Report*** to ***Members*** for Fiscal Year 1996.

The information also will be included in the TRS ***1996*** Annual ***Report,*** which will be available in January 1997.

As of June 30, 1996, the System's total liabilities were $7.84 billion with actuarial assets of $3.1 billion. Unfunded liabilities increased by approximately $129.7 million in 1996.

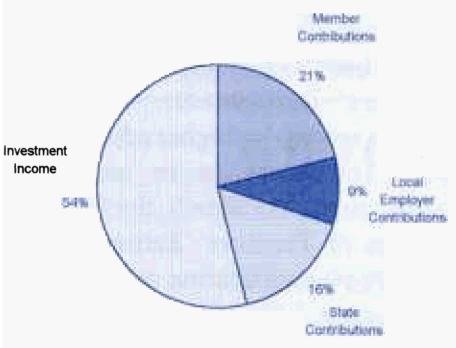
While unfunded liabilities increased from $4.611 billion to $4.740 billion in 1996, this increase was about $100 million less than expected because of a better-than-expected return on investments during 1995-96.

For FY 1996, total revenue totaled $709,646,220. Net revenues were up in 1996 compared to 1995, mainly due to increases in employer contributions and gains on investments. Net realized gain on investments increased from $82.6 million in 1995 to $241.5 million in 1996. This unusual increase was in large part due to profit taking when two equity portfolios were liquidated.

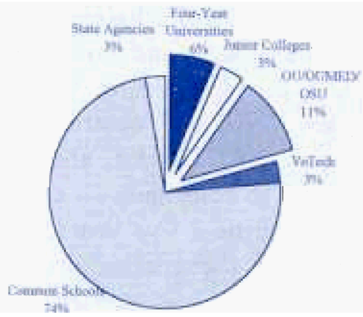
Total return on investments for the year ending June 30, 1996 was 14.7%, compared to 15.1% for 1995. Returns for 1995 and 1996 exceeded the five-year annualized return of 11.8% and the 10-year return of 10.6%. The Board of Trustees continues to diversify the System's portfolio by increasing investments in domestic equities and international securities. A new international equity manager was employed in February and a new investment consultant was hired in March.

TRS's four primary revenue sources:

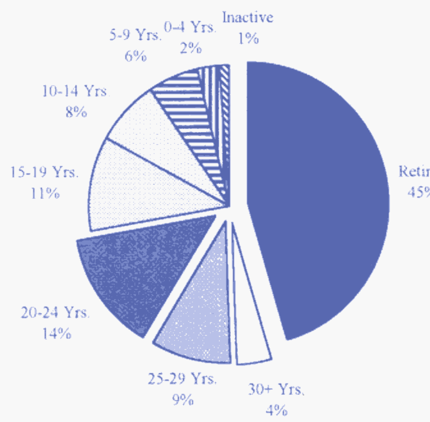
Member contributions:	$ 149,884,939
Local employer contributions:	$ 62,991,943
The State of Oklahoma:	$ 114,202,984
Investment income:	$ 382,566,354



Distribution of Actuarial Accrued Liabilities

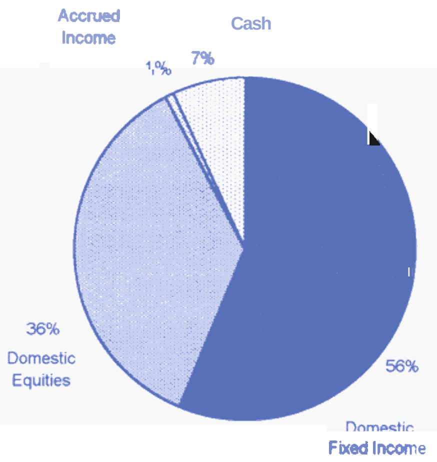


20% of Liabilities are for Higher Education Members

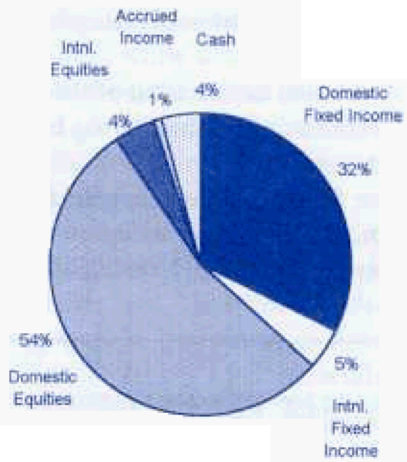


72% of Liabilities are for retired or active members with 20+ years of service

Asset Allocation (Market Value)



June 30,1991



June 30,1996

Since 1991, the Board of Trustees has increased domestic equities and has begun to invest in international stocks and bonds.

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Look for 1995-96 Annual Statement of Account

Active members will soon receive their 1995-96 Annual Statements. The statements are mailed to each active member's home address or to his or her employer for distribution.

If you do not receive your statement by mail at home, it is because TRS does not have your current address in our computer's data base. To update your address, obtain a TRS Form 1A from your school's business office and mail it to TRS.

A detailed explanation of the items in the statement is found on the back of the statement.

The deposits shown on your annual statement do not include deposits made to your account after June 30, 1996.

Report on 1996 Legislation

Senate Bill 800 and **House Bill 1810** were signed into law by Governor Keating on May 30. **SB 800** is the appropriation bill for common education. The bill included $42 million to common schools to cover the increase in local employer contributions to Teachers' Retirement. **HB 1810** includes money for higher education to cover the increase in employer contributions. (In March, the Board of Trustees of Teachers' Retirement set the 1996-97 contribution rate for local employers at 4.8% of employees' pay.)

Senate Bill 832 modifies the contributions made to TRS by higher education employees. Last year, special legislation continued the "cap" on salaries for higher education employees, while common and vocational education employees began contributing on total salaries. SB 832 provides that employees of Oklahoma colleges and universities, except OU, the OU Health Sciences Center, and OSU, will contribute on total salaries. OU, OUHSC and OSU will continue to contribute on capped salaries for the next five years. The salary cap for these members will increase $5,000 per year through 2001, and retirement benefits for these members will be adjusted because they will have contributed less than other members.

Senate Bill 1227 relates to health insurance coverage for state and education employees and retirees. This bill ensures all education employees who work at least 10 years will be eligible to keep their health coverage with the State and Education Employees Group Insurance plan after retirement. A provision requiring 15 years of employment to qualify for health coverage after retirement for members who were employed after July 1990 was eliminated. TRS will pay a monthly supplement between $70-$75 to any retiree with 10 or more years of service, who chooses to continue coverage with the state insurance plan or the plan offered by the retiree's employer.

Several bills that did not make it. **Senate Bill 903**, allowing a non-spouse beneficiary for joint-survivor retirement options, and **House Bill 2861**, requiring collection of child support payments from retirement checks failed to pass before the May 31 adjournment. Also failing to clear both houses was **House Bill 2422**, which would have increased the $4,000 retiree death benefit to $5,000.

Trends is published and issued by the Oklahoma Teachers' Retirement System as authorized by TRS Executive Secretary Tommy C. Beavers. 110,000 copies have been printed by the Department of Central Services Central Printing Division at a cost of $5,025.00. Copies have been deposited with the Publications Clearinghouse of the Oklahoma Department of Libraries.

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