



Teachers Retirement System of Georgia: Fiscal Year 2020 System Update Georgia Association of Elementary School Principals

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Recognizing 75 Years of Retirement Security

#### The TRS "Final Milestone" Test!



- Employees contribute what percentage of their salary for their TRS contribution?
- A member is said to be "vested" after \_\_\_\_\_ years of service?
- Full service retirement is considered when a member completes 30 years of service or has 10 years of service and has reached the age of
- You can purchase air time if you have at least \_\_\_\_\_ of service credit.
- Forfeited or unused sick leave can be counted toward retirement as long as a member has at least \_\_\_\_\_ unused days.
- A retiree can return to work as a substitute teachers without any limit on the amount of days they work each year. T or F?
- Georgia law requires that a retiree have a break in service of how long prior to returning to work in a state other than Georgia?

#### THE WHY?

The Value of the Defined Benefit Plan for Educational Policy

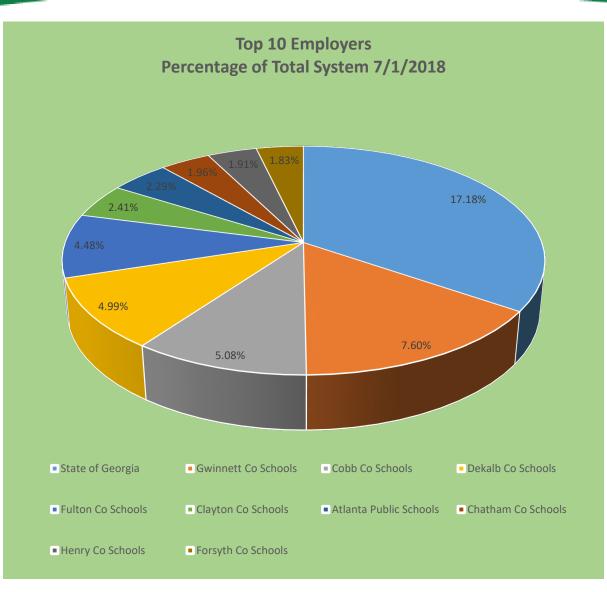
- <u>**Recruitment</u>**...into a most noble profession!</u>
- **<u>Retention</u>**...to keep the best and experienced in the profession!
- <u>**Retirement</u>**...with dignity and honor!</u>



#### Employers Served & 10 Largest



- K-12 Public Education
- University System of Georgia
- Technical Colleges
- County Extension Agents
- Library System Personnel (Some)
- Other State Agency Transfers



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#### Governance and Facts

• Governed by Georgia Law (Title 47 – Chapters 1, 3 and 20)

2-Year

Final Avg.

Salary

=

Maximum Plan

Benefit

• Defined Benefit Plan

Years of

Creditable

Service



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 \$78.4 Billion in Assets Ranked 25<sup>th</sup> largest retirement fund by Pensions & Investments (02/19)

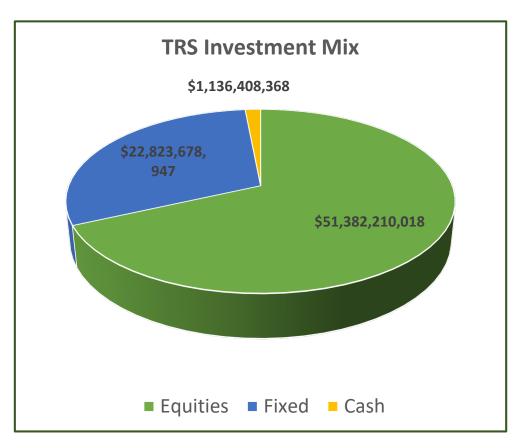
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• **238,000** Actively Contributing Member Accounts

2%

Multiplier

- **23,860** 10.5% Eligible to Retire (Normal & Early Retirement)
- 132,000 Retired Members





# **Top Questions About TRS**



- When can I retire?
- How much will my retirement benefit be?
- What about my insurance?
- Can I go back to work after retirement and what are the conditions?
- Future employer contribution rates?
- Return to work request approval?
- Sick leave verification, over reporting, & misunderstanding?
- Can you help me with a DCH/SHBP health insurance question?
- If I retire on June 1, when will I be eligible for my first COLA?
- What happens if the CPI drops? Will I still receive my COLA?

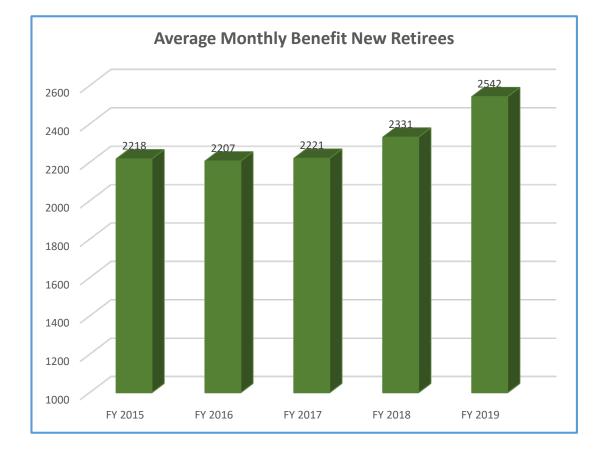
#### **TRS Membership**

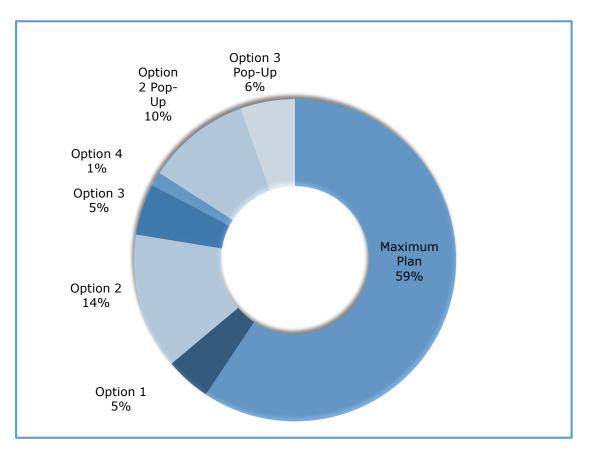




#### FY 2019 New Retirees







# **Retiree Age Distribution**

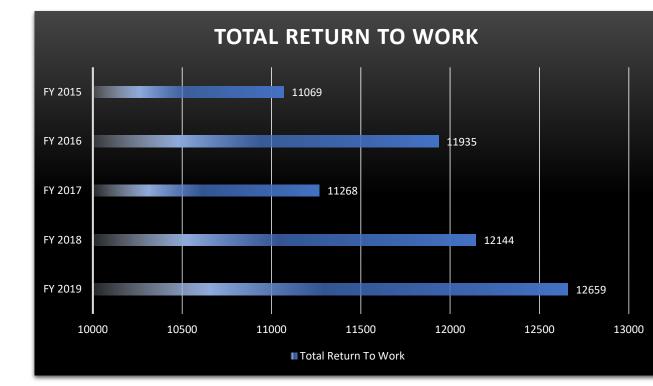




#### 58 retirees are 100+. 1 is a man!

#### Working After Retirement





Verifications by Employment Type								
FY 2019	Part Time	Full Time	Temporary	Substitute	Total			
BOR	1012	49	43	0	1104			
DOE	3826	49	604	5240	9719			
STATE	9	20	0	0	29			
TCSGA	244	11	1	0	256			
FY 2019 Totals	5091	129	648	5240	11108			

# Sustainability and Funding



Contribution rates are determined by the Board of Trustees in accordance with Georgia law.

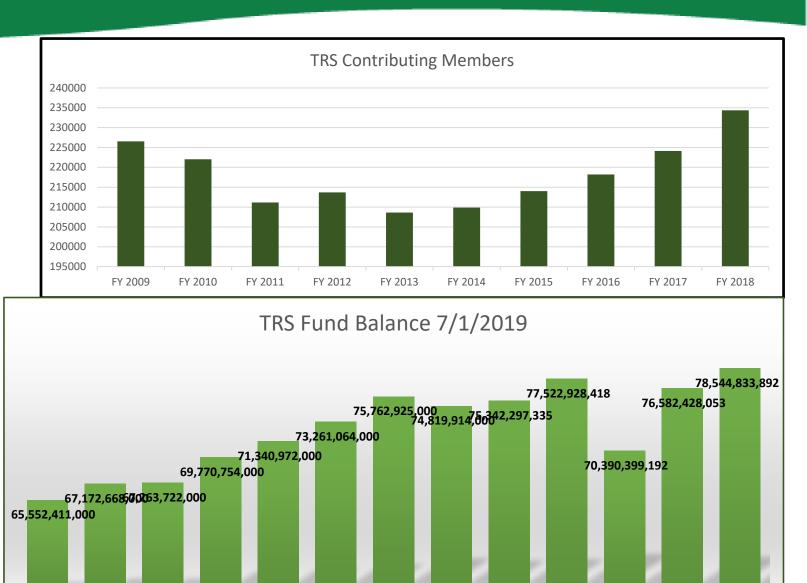
- Employee Contributions 6%
  - 0.C.G.A. § 47-3-41
  - 5% Minimum 6% Maximum
- Employer Contributions
  - O.C.G.A. § 47-3-43 based on System's liabilities as shown by actuarial valuation
    - FY 2020 21.14%
    - FY 2021 19.06%
- Investment Earnings
  - 7.25% Assumed Rate of Return (Effective FY 2021)
  - 12.50% FY 2017 Actual Earned Rate of Return
  - 8.94% FY 2018 Actual Earned Rate of Return
  - 6.79% FY 2019 Actual Earned Rate

Key to Georgia's fund health has been the Governor & Legislature funding the Employer **Contribution Rates** every year...drawing positive mention in the State's AAA bond rating.

# Future Positive Funding Impacts



- Actively contributing membership numbers are increasing.
- Salary increases have been restored to public employees.
- The financial markets are showing signs of continued recovery.
- FY 2017 rate of return was 12.5%.
  5.0% higher than the assumed 7.50%.
- FY 2018 rate of return was 8.94%.
  1.44% higher than the assumed
  7.5%.
- FY 2019 YTD 6.8%.
- Last Three year avg. 9.4%.



# Promoting Fund Sustainability



- 2010 Adopted smoothed valuation interest rate method.
- 2012 Eliminated 3% state tax offset increase on first \$37,500 of benefits.
- 2014 Adopted 30-year closed amortization schedule to pay off
- the unfunded liability.
- 2017 Reviewed assumed rate of return. (No change)
- 2017 Reviewed smoothed valuation interest rate method. (No change)
- 2017 & 2018 Evaluated impact to system of retirees returning to work. (Legislation introduced in 2018 but not passed)
- 2018 Senate Budget assigns study to Georgia Department of Audits.
  - Review ERS Reforms and impact
  - Review ERS 401(k) plan and competitiveness
  - Evaluate potential cost-effective reforms for TRS that would retain the competitive hiring benefit of having a defined benefit plan
- 2019 Abandoned smoothed valuation interest rate methodology and lowered assumed rate of return from 7.5% to 7.25%.

### **TRS Earnable Compensation**



- STRS earnable compensation includes the gross salary for regular working hours. Other compensation items that may be reported include:
- Tax sheltered annuities, including those paid by the employer on behalf of an employee
- Regular compensation paid to a member while on sick, personal or annual leave
- Deferred summer compensation earned in a TRS covered position
- Deferred summer compensation due to a deceased member's estate
- The full, regular gross compensation payable to a member for all working time during the summer months in a TRS-covered position
- Compensation received for employment under extended day or extended year written contracts
- Coaching supplements that meet certain requirements
- Automobile allowance (does not include payment for reimbursable expenses such as mileage or fuel and maintenance costs)
- Group insurance health, dental, vision and disability insurance premiums
- Life insurance premiums (the employee must select the beneficiary, which must not be the employer)
- F.I.C.A. taxes Social Security and Medicare taxes paid on behalf of the employee (employee's portion only)
- Housing allowance for university presidents

# FY 2019 Performance Audit (Part 1)

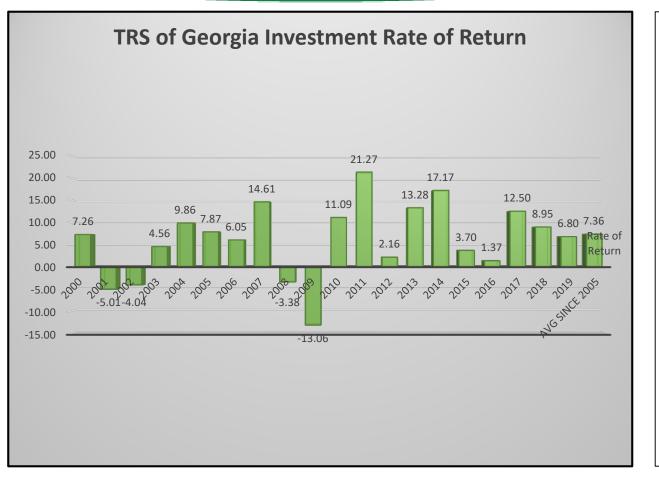


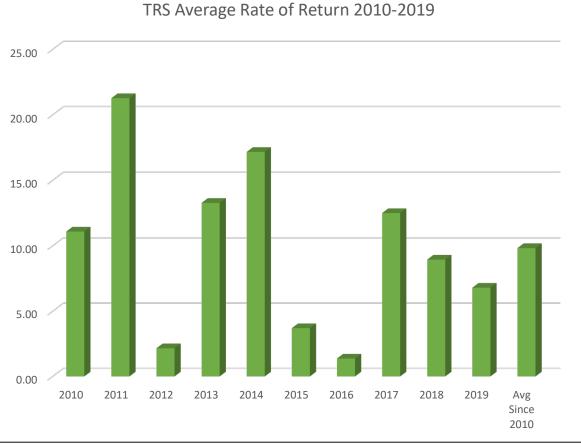
Potential TRS Modifications & Impact on Employer Contributions									
	Scenario (all in \$ millions)	FY 2021	FY 2022	FY 2023	Fy 2024	FY 2025			
	Baseline Forecast Employer Contribution	\$2,317	\$2 <i>,</i> 558	\$2 <i>,</i> 460	\$2,218	\$2 <i>,</i> 370			
Interest Crediting	Scenario 1A: Lower Interest Crediting to 3%	-7	-6	-8	-9	-7			
	Scenario 1B: Lower interest crediting to 2%	-11	-12	-13	-13	-13			
Cost of Living Adjustments	Scenario 2A: Change COLA from 1.5% twice per year to 3% one time per year	-17	-18	-21	-21	-22			
	Scenario 2B: Reduce COLA to 1.6% per year for all new hires and those hired after 7/1/1993	-446	-495	-529	-530	-553			
	Scenario 2C: Reduce COLA to 1.6% per year for new hires and those with less than 5 years of service	-130	-142	-150	-147	-152			
	Scenario 2D: End COLA for new hires only	-340	-378	-404	-406	-424			
	Scenario 2E: Make COLA payable starting at age 65 for post 7/1/1993 hires	-552	-613	-656	-656	-685			
	Scenario 2F: Make COLA payable starting at age 70 for post 7/1/1993 hires	-552	-613	-656	-656	-685			
Age	Scenario 3A: Increase retirement age by 2 years for new hires only	-50	-51	-52	-48	-48			
Benefit Formula	Scenario 3B: Change benefit calculation to 5 year salary average from 2 year average for new hires	-38	-41	-43	-43	-44			
	Scenario 3C: Move to a 1.9% benefit multiplier for new hires only	-40	-42	-45	-43	-44			

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# Promoting Fund Sustainability

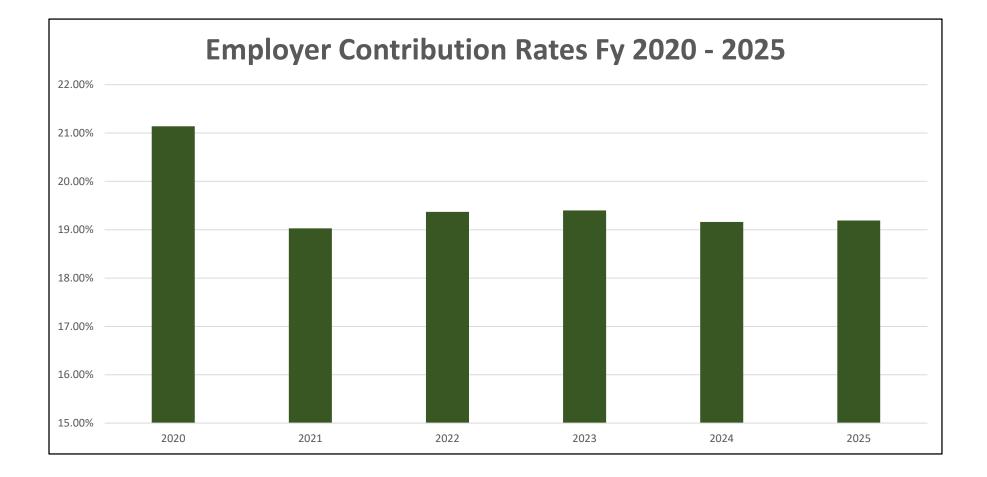






#### Future Employer Contribution Rates





\* Each annual actuarial valuation may result in either positive or negative adjustments based on factors impacting the valuation.



- Actuarial Assumption Changes
  - Price and Wage Inflation
  - Option Factors
  - Demographics: withdrawals, pre-retirement mortality, disability retirement, service retirement, post-retirement mortality, etc.
- Investment Earnings
- Investment Earnings Assumption Changes
- Increases/Decreases in Actively Contributing Members
- Increases/Decreases in Member Salaries

#### Pension Reform

Teachers Retirement System of Georgia

- Broadly speaking, it can include anything that may increase revenues into the fund or decrease current or future benefit obligations of the fund, a combination of these actions, fund reporting, governance, or other changes to the existing plan.
- Additionally, it is widely held that retirement benefits are a contractual obligations to current employees and retirees.
- While the State's ERS underwent reform in 2009 resulting in a hybrid plan, the TRS system has undergone minimal changes.
- The current administration and most members of the legislature have supported the TRS plan without pressing for significant changes and continuing to allocate funding to meet the employer contribution needs.
- Recent employer contribution rate increases have led to greater review of long term plan costs and benefits to the state and plan members.



#### **Pension Reform**



- Sick leave?
- Multiplier?
- Minimum age to retire?
- Earnings assumptions?
- Salary cap for calculation of benefit?
- Highest average salary?
- Employer & employee contribution rates?
- Actuarial methodologies?



- Funding the accrued liability?
- Vesting requirements?
- Working after retirement?
- Post-retirement adjustment of benefits?
- Investment Mix or Allocation?
- Hybrid Plan?
- DC Plan?

#### 2019 Legislative Action



- House Bill 109 Non Fiscal. Essentially was/is an effort at some moderate, but not severe, reforms. Sick leave, final average salary highest 2 to 5 with only 2 increases counted in 5 years, pensionable income cap. Did not make out of Rules.
- SB 117 All new purchased time be done at Full Actuarial Value. Goes back to Senate for Vote in 2020.
- HB 196. Pension Trustee education bill. Passed
- HB 292. Repeal USG requirement to pay TRS for ORP members. Actuarial Review
- HB 320. Return to work FT for, Science, Technology, engineering, Arts, Math. Actuarial Review
- HB 336. Allow any retired teacher to return with employer paying TRS E & E Contribution. Actuarial Review
- HB 390. International Teaching Service. Actuarial Review
- SB 175. Employer pay E & E TRS contribution on part time retirees returning to work. Passed Senate but did not get out of House Retirement Committee
- HB 662. Would set a maximum ARR of 6.75%. Actuarial Review
- HB 667. Would reduce actuarial review to once every 3 years, Pay UAL off in 15 years rather than remaining 25. Actuarial Review
- SB 260 does same as HB 662 & 667 but also ties COLA to the CPI. Actuarial Review

### FY 2020 Salary Increases – TRS Impact

- Increases in salaries mean increases in employer and employee contributions.
- Increases in wage growth may increase the Unfunded Accrued Liability (UAL).
- Possibly some members decide not to retire in order to maximize pensionable income? Working 1 to 3 years longer would increase pensionable income. Fewer retirements help the system....in the short term. It appears at present that our retirement numbers will be approximately 8% fewer this year.





#### Economic Impact



#### Annual Economic Impact Annual Benefit Payroll: \$5,114,864,784 132,623 Retirees



#### \$3.3 billion - Direct Impact

Initial expenditures made by retirees.

#### **\$2.26 billion - Indirect Impact**

Additional goods and services purchased by businesses.

#### \$1.81 billion - Induced Impact

Employees are hired as a result of the direct and indirect impacts.

#### \$7.368 billion - Total Annual Economic Impact

### Some Reminders

- Working after retirement
  - No pre-arranged agreements
  - One month break in service
  - Salary limitations
  - Our Goal...ease and expedite the verification approval process!!!
- Outreach
  - Pre-retirement workshops and counseling
  - Mid-career workshops
  - Employer Training
  - Like/follow us on Facebook!











# Questions?