

TRS Today

Interview with Executive Director, Brian Guthrie (BG)

Host, Rhonda Price (RP)

TRS Pension Study

RP: Hello and welcome to TRS Today, a Communications initiative of the Teacher Retirement System of Texas. I'm your host, Rhonda Price. Today, we're going to be talking about a very important Pension Fund study, that the Texas Legislature has directed TRS to conduct. Our guest is TRS Executive Director, Brian Guthrie. And Brian, thanks so much for being with us today.

BG: It's my pleasure, Rhonda.

RP: Why did the legislature want this study done, and is TRS the only system that's been asked to do a study?

BG: Well, Rhonda, there's currently a national debate taking place about defined benefit plans, of which TRS is one. And, it's a debate that's not only taking place in the public sector, but also in the private sector as well. And it's affecting a lot of other states and a lot of private industry around this country, and so the Texas legislature asked us as one of those plans to take a look at our own system and also asked the Employees Retirement System of Texas, which is also a defined benefit plan, to do the same.

RP: What is the scope of the study?

BG: Well, the scope is to really look at all the current factors that are used to calculate our defined benefit annuity – everything from the years of service that a member earns before retiring, to their age of retirement, to their average annual salary, and a number of other factors. So we need to take a look at that, but the legislature also wanted us to broaden the scope of the study and to look at alternatives to the current defined benefit plan as well. Be they a cash balance plan or other hybrid options.

RP: And what factors will TRS consider as it analyzes these certain issues?

BG: Well, we think it's very important to go beyond the dollars and cents of the issue and not just look at "If you change this part of the equation, what happens to a person's annuity?" We need to go beyond that, because TRS is a very important benefit to our members. Most of the, in fact, 80% of our teachers in this state don't participate in the Social Security program. And so as a result, when they retire, they're not eligible for that benefit and the only guaranteed pension benefit they have is from the Teacher Retirement System. So, it's very important to our members. There's also a broader economic impact that we need to take a look at across the state. Over 95% of the annuities that are paid to our members stay in the state of Texas, and so gives our members purchasing power which allows them to go out and buy goods and services, which generates economic activity in the state and has a broader, far-reaching impact in terms

of our economy's health. And so we really need to look at those factors: What does it mean to our members, how important is it to their retirement and to their security long-term, and then also, what's the economic impact on the state of having a plan like our own? So, we need to look at those factors within the context of the defined benefit plan, and then we also need to evaluate the changes and the impact on those factors if we looked at an alternative.

RP: Well many of us have read about a few pension plans across the country that are struggling to pay benefits to their members. How does TRS compare to those plans, and how secure can our members feel about their benefits?

BG: Well, first of all, I believe our members should feel very secure about the benefits they're receiving. Our system has enough assets on hand to pay benefits out for the next two to three generations of retirees that we expect to see in our system. And so, as a result, we don't have an immediate funding issue or an immediate crisis or problem that we need to solve, and so our current retirees should rest easy that their benefit is secure. That being said, a lot of other states around the country and a lot of other private companies around the country are facing a situation where their financial issues are much more immediate and they have to make changes to their program now in order to guarantee having enough benefits, or enough assets on hand, to pay benefits for the next 20 years or 30 years. It's a much more immediate problem. We're fortunate in Texas to have a system where our benefits have been fairly moderate in terms of what we provide to our members. And the contributions required from the state and from active members have also been fairly low, compared to a lot of other states. And so, as a result, we have a lot of tools in our toolbox – if you will – to address a more immediate funding issue, not that we have one, but if we did have one, that we could use before we'd have to go to looking at more severe or more significant changes to our system. Now, that being said, the legislature still wants us to study all those different things. And it's really... I see this as an opportunity to educate the debate about this issue. There's so much misinformation out there because of what's happening in other states and because of the changes that are taking place in other states that folks here in Texas are rightly concerned about, well, "If everything is going wrong there, why aren't things bad here?" So this is our opportunity to say, "Well, things are different here and here's the reason why." And while we're doing that, we can also talk about the importance of the benefit to our members and what it means to the economy, and look at in a very studied, measured way, what would happen if you changed that benefit and what would the impact be to both our members and the economy in general.

RP: And, what role does TRS play in members' retirement, and what else should our members be doing to ensure their retirement future?

BG: Well, as I mentioned Rhonda, 80% of our members do not participate in Social Security. And so, as a result, our teachers in this state really are in a unique position where the only guaranteed retirement benefit they have to look forward to is from TRS. That makes it very important that whatever we consider, takes that into account... because I don't see that changing in the near future. But beyond that, all of our members have the ability if they so to choose to participate in what we call our 403b program. It's very similar to what you'd hear as a traditional 401k, where a member takes a part of their active annual – or monthly salary – and sets it aside into an account that they can access when they retire. And that account can be directed by them in

terms of what investment options they choose, and then whatever its value when they retire, they can use that as sort of an additional source of income when they reach retirement age. But, that's really the only two options that our members have. They have the TRS benefit, they have whatever they can save on their own, but they do not have anything else like Social Security... at least, the majority do not, looking forward.

RP: Getting back to the study, I know it would take quite a while to go through all the possibilities out there, but could you give us a high-level look at some possible options?

BG: The study really needs to focus on what's currently happening with our own defined benefit plan and really sort of take a look under the hood and see what's making it work. We need to look at the significant factors affecting a person's annuity and what would happen if we changed those factors one way or the other. We also need to take a look at the impact on the economy as I mentioned before. Our system has a significant impact in terms of driving economic activity in this state, and that cannot be underestimated and needs to be a factor in what we look at. So, we're really going beyond the initial study's focus, but we think it's important to provide a context for that benefit as we draw conclusions from it. And then in addition, the legislature has asked us to look at alternatives to the current plan – be it a cash balance plan or a hybrid plan or other mixture of a traditional defined benefit plan and a traditional defined contribution plan. There's ways to sort of mix and match elements from both. And I can't say specifically today what we're going to focus on in terms of a specific hybrid plan, but I do know that we're going to look at those different factors and try to determine what's the best fit for Texas, if we were to go in that direction... and what would the impact be on our members and on the economy.

RP: Of course, we want our members and retirees to stay informed about the study, so what are we doing besides this video to get the information out there?

BG: Well, it's very important to me that we make our members feel like they're a part of this process. We don't want them to see the study in September and say, "We had no input into the process" or that "We really didn't even know it was happening." So, we're making an effort to get the word out and to also encourage as much member participation as possible. The first step of that was to really introduce and discuss the study in depth at our February Board meeting in Lubbock. And at that meeting, we had a panel of experts come in and talk about the different elements we're going to look at in the study. We encouraged people to attend the meeting live, and we actually had over 200 people come to our meeting in Lubbock. We also broadcast that meeting live, and we allowed our members watching from the Web to go ahead and submit questions. So, we took questions from our live audience as well as from our Internet audience, and we did our best to address all the questions we received at that meeting. We plan to do the same sort of Town Hall set-up, if you will, specifically for the study – not for a broader Board meeting – but just for the study itself two more times. Once here in Austin, which will again will be broadcast around the state, and then again in Dallas where we hope to get a lot of folks to come live but also will be doing that one on the Internet as well. So we want to make sure that our members have multiple opportunities to come and tell us how they feel about this study and to let us know what their thoughts are.

RP: And we also have a webpage where people can go and submit comments there.

BG: Yes, thank you for reminding me about that. We do have a webpage set up because we recognize that not everyone can attend a Board Meeting or a Town Hall meeting live or they can watch it live, so if they happen to watch it on tape, they do have the ability to go to our website and to submit questions that they have as a result of watching those tapes. Now, we can't guarantee that we're going to respond back to everybody who submits a question but we're certainly going to read all the questions and we're going to take all of them into account as we do our study.

RP: And fast forward now to when the Texas legislature receives the study... What happens next, and will TRS advocate for any particular option?

BG: Well, Rhonda, as you know, we are prevented by law from advocating or lobbying for any particular position. So really, I believe our role – as I've said before – is to educate this whole discussion and to provide as much good information to the legislature and to our members and to other interested stakeholders about our plan and about changes to our plan as possible. And so with that being said, the report is required to be submitted on September 1st. That gives us a good three months, before the legislative session begins, for us to talk about the study and to answer questions about it from whomever may have them. I would anticipate that sometime in the fall the legislative committees in both the House and the Senate will have hearings and invite to come and testify about the results of our study... and give us the opportunity to, in a public setting, answer questions about whatever legislators may want to ask about. Also, I would anticipate that this discussion will continue long into the beginning of the legislative session. Once that session begins, I think that those committees will call us in and ask us questions about elements of our plan. There may very well be legislation filed that will be considered by one or both of those committees, and that it will be our opportunity to use the study as a reference as we talk about the impact of whatever legislative changes are being discussed. So, I would anticipate that this study is just the first step of a very long discussion about this issue that will take place in the Capitol.

RP: Well, we've certainly covered a lot of ground, and I appreciate your being with us. And thank you for joining us. We hope you'll watch for the next edition of TRS Today.

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