

2013 TRS-Related Legislation Transcript

(Opening credits)

Rhonda Price: Hello and welcome to TRS Today, a communications initiative of the teacher retirement system of Texas. I am your host Rhonda Price. And our guest today is TSX executive director Brian Guthrie. And, Brian, thank you for being with us today.

Brian Guthrie: It's my pleasure.

Rhonda Price: Our topic today is the 83rd regular legislative session and Brian in terms of significance and impact to our pension funds, how would you characterize this session?

Rhonda Price: Well Rhonda, I would say this is a seminal moment for the funds. What happened during the legislative session was extremely significant for both our members and for the long-term health of the pension plan. And for both of those things are members should be grateful.

Rhonda Price: So what exactly did the legislature do?

Brian Guthrie: Well Rhonda, they addressed the issue from a number of different angles. Whenever you are looking at the long-term sustainability of a pension plan you really need to look at three things. And shorthand we say (C plus I equals B) which is contributions plus investment returns equals the benefits that you can provide. Now obviously the legislature doesn't have any control over our investment returns. That is something that we would do internally. But they do have control over the contributions as well as the benefits and so that is really what they focused on with this legislation. On the contributions side they made a number of increases. First they increased the state rate which is currently a percentage of payroll. It is set now at 6.4% but later this year it will go up to 6.8%. And it will stay at 6.8% from that point forward. In addition to that they also looked at active member contributions. That current rate is also set at 6.4% but it will increase over the next several years eventually reaching a level of 7.7%. There is a slide that uh that is probably on your screen right now that will show you how that increase will be incrementally stair stepped over the next couple of years. The one new change in contributions is something that we are requiring local school districts to provide. As many of our members know, most school districts in Texas do not participate in Social Security, which means they don't make any contributions on a monthly basis and neither do our members. So, in districts where that is the case those school districts will now be required to contribute 1 1/2% of their payroll directly to TRS and that will be deposited into the pension funds. This will impact the vast majority of districts and will be a significant influx of contributions to the plan. Now on the benefit side there were a number of significant changes made as well. If you're currently an active member who is vested then you are not going to be impacted by these changes. And by vested I mean that you have at least five years of service credit. However, if you are a new teacher who is just starting and haven't reached that plateau yet, then you will now be subject to a new minimum age retirement requirement. Meaning that if you can retire at minimum age 62 without taking any reductions to your benefits but if

you choose to retire sooner than that then you will take a 5% reduction per year based upon however many years you retire early. Now overall we don't anticipate that being a significant impact to our new members because our current average age retirement is 60. And so this is only an incremental change from that that point. Some exciting news however on the benefit side for our retirees or current retirees is that all the contribution changes as well as the benefit changes provided enough flexibility in the current-plan funding to have provide for the first time in over a decade a day COLA and that COLA is a 3% permanent increase to the annuities of our members if they retired prior to 2004. One other important note about the COLA is that it is capped at \$100 a month. So if we have we do have members a 3% increase could be greater than \$100 but they would only receive a maximum of \$100 increase per month in their annuity. So it doesn't affect our entire population of retirees but it affects two thirds almost 200,000 members or retirees are going to receive this increase in their annuity and the exciting news about that is that we are already working on it internally to make it happen by sometime this fall. So hopefully by our October annuity check they will have that increase if they retired prior to 2004.

Rhonda Price: The new age requirement, the change in the minimum age retirement, did that also have an impact on the healthcare benefits?

Brian Guthrie: Yes it did. And I appreciate your bringing that up. You can still retire before age 62 without taking a reduction in your annuity. But, let's say he retired at age 57 or 58. If you were to do that and you didn't meet the requirements then you now would only be eligible to receive catastrophic health care coverage under the TRS care plan. You would not be eligible for the higher levels of coverage that are offered under that plan until you reach the age of 62. Once you reach age 62 then you would be eligible to enroll in a more broader comprehensive plan. But not until you reach that point. Hence so that is a significant policy shift in terms of member eligibility for health care once they retire.

Rhonda Price: A lot of our viewers may be wondering just how did this legislation come to pass? Could you tell us about that?

Brian Guthrie: Absolutely. Um. You need to rewind a couple of years to the prior legislative session where there was some beginning discussion about the long-term sustainability of the fund. And legislators were interested in coming up with alternatives for how to address it. And so we were challenged during the last interim, the last summer basically, to write a report on what the different options were what the impacts of benefit changes would be, what the impact of contribution changes would be, and to also look at different ways of delivering healthcare benefits in terms of the overall plan--whether it is defined benefit plan or defined contribution plan and so forth. And so we addressed all of those in a study. We presented our findings to the legislature, the legislative committees prior to the legislative session beginning. And then, going into the legislative session we were fortunate in that the report addressed many of the lingering questions that legislators and decision-makers had about the fund. And so they looked at the alternatives and decided that rather than make significant changes to the overall plan design, what they needed to do was really address the funding issues and benefit issues long-term and as a result the legislation that I just described came to pass.

Rhonda Price: Well what happens in this session in regard to our healthcare programs? Anything?

Brian Guthrie: As I mentioned, they did make the one little tweak to the benefits for the folks who retire early, if you will, before minimum age 62. And if they're not grandfathered by the provisions I laid out, then they will only be eligible for catastrophic coverage. That is a short, that really doesn't have a significant impact in terms of the long-term solvency of our healthcare program, which is an issue. Going into the session I laid out for legislators that we had two significant challenges. One was with the pension funds and the other was with TRS-Care. And there really was a decision made to address one or the other. They obviously decided to address the pension issues this time. But we still have healthcare issues that are looming and so I would anticipate the next legislative session, there will be significant action taken to address the long-term sustainability of that program.

Rhonda Price: Are there other legislative issues you would like to discuss?

Brian Guthrie: Well there were some other bills that passed this session that were going to have an impact on our members in one way or the other. The one that I really want to call attention to is for our active members. And there was a legislative change made that eliminates the requirement that TRS offer through ActiveCare a plan that is equivalent to state employee health insurance. That's significant because we've found over the years that the premiums for that program had become really unaffordable for the vast majority of our members. And so that requirement was struck from the statute.

Rhonda Price: Well Brian, this fall TRS will publish an updated benefits handbook which will contain information about the new legislation. So how can someone obtain a copy of the new handbook?

Brian Guthrie: Well Rhonda, we are making a change to that process this time that is different from years past. The most significant change being we are not going to automatically send a hard copy to all of our members which we have done in the past. This year members are going to have three options in terms of how they would like to access the information or get a hard copy. What they can do immediately today is they can go to our website and sign up for *MyTRS* and provided an e-mail address. If they do that then as soon as the handbook is available in the fall we will e-mail them a copy, or a link to a copy for them to review. If they choose not to do that than our members this fall can check the website and eventually once it's available they'll be able to go to the website and to download the soft copy of the handbook and view it whenever they would like. However, if our members would still like a hard copy at that point they can just give us a call. And if they do that then we'll be happy to send them a hard copy through the mail but we are going to ask our members to tell us that they want a hard copy as opposed to just assuming that they would like one.

Rhonda Price: Because there is quite a significant savings to the pension fund by not printing out handbooks.

Brian Guthrie: It is a significant cost. You don't really think about a little handbook costing that much money but when you multiply it by 1.3 million members that we have it can become quite an expensive process. And given the availability of materials on the Internet these days, we thought it was a wise change.

Rhonda Price: Well, on a final note, what other ways are available to our members to stay up on TRS-related news?

Brian Guthrie: Well, we have hit on a lot of them. Obviously our website is a good source of information. Also, if you'd like to see what we're doing with our quarterly board meetings, you can go to the website and view those live. If you would like to like us on Facebook we do have a Facebook page that we maintain and provide information there—usually links to information that we put on our website. We also have a Twitter feed which we are figuring out how best to communicate with our members through that medium. And, we are really trying to keep up on all the different methods of keeping in contact, member contact. And again uh, even though it may seem quaint to a lot of folks these days, email is really important and so the best way for us to have an email relationship with our members is through *MyTRS* so I really strongly encourage them to go ahead and sign up for that as well.

Rhonda Price: Well, unfortunately, that is our time for now. But as always, we appreciate your being with us, Brian.

Brian Guthrie: Well, it's been a great opportunity. And I hope our members take advantage of all the resources we have available to them to learn more about what happened this session.

Rhonda Price: Okay. Well thank you again. And thank you for joining us for this edition of TRS Today.

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