

## Valuation finds TRS Pension Fund continues to be actuarially sound

As of Aug. 31, 2014, the TRS Pension Fund had a funded ratio of 80.2 percent with an unfunded actuarial accrued liability of \$31.6 billion, according to an independent actuarial valuation performed by Gabriel Roeder Smith & Company.

The actuarial accrued liability is the difference between the value of the benefits already earned by TRS members and the value of TRS assets. The unfunded actuarial accrued liability is the amount by which the accrued liabilities exceed the assets. The 80.2 percent funded ratio represents the percentage of accrued liabilities that are covered by assets. While not all of the actuarial liability is currently funded, a funded ratio of 80.2 percent is generally considered an indicator that the pension system is in sound fiscal condition.

Thanks to strong investment returns in fiscal year (FY) 2013, TRS recognized all of its deferred losses from 2009 and, as of Aug. 31, 2014, is deferring gains of \$4.4 billion. In other words, based on the method TRS uses of “smoothing” or “amortizing” its investment returns over a five-year period to address the “ups and downs” of investment returns, the losses in investment returns TRS experienced in 2009 have now moved out of the five-year smoothing period. The deferred gains of \$4.4 billion from the strong investment returns of 2014 are available for

use in the remaining four years of the five-year smoothing period.

Another measure of the fiscal condition of the pension plan is the time period required to amortize the unfunded actuarial liabilities. Current contributions are sufficient to amortize, or extinguish, the unfunded liability over a period of 29.8 years, which meets the requirements for actuarial soundness. Although the period of time necessary to amortize the unfunded liability is expected to increase over the next few years, it is expected to once again decline when all of the contribution increases and changes in retirement eligibility enacted by the 83rd Legislature are fully implemented.

The legislation increased the minimum retirement age for an unreduced annuity from age 60 to age 62 for those members who do not have at least five years of service credit in the retirement system on Aug. 31, 2014; who become members of TRS on or after Sept. 1, 2014; or who had at least five years of service credit on Aug. 31, 2014 but withdraw their accumulated contributions after Aug. 31, 2014 and later resume membership in TRS. The legislation also increased contribution rates. It established a stair-step increase in the member contribution rate, gradually increasing the member contribution rate from 6.4 percent in FY 2014 to 7.7 percent in FY 2017, and

## TRS completes study on TRS-Care sustainability, TRS-ActiveCare affordability

In November, TRS completed a study of various options that would help ensure sustainability of TRS-Care, the retiree health care program, and affordability of TRS-ActiveCare, the active member health care program.

Completion of the study marked the end of a nearly year-long process, which began with a February town hall meeting in Corpus Christi to discuss the financial condition and significant funding challenges of both programs. This past October, TRS trustees also held a public meeting in Austin to lay out the preliminary report and receive comments. Both meetings were webcast live and have been archived on the TRS website, [www.trs.state.tx.us](http://www.trs.state.tx.us).

The study reviewed a number of options ranging from prefunding health care benefits through increased contributions to a fixed contribution arrangement using a health reimbursement account or a health savings account. The options considered were not mutually exclusive and can be potentially combined to increase a positive financial effect. The study's final report is now featured on the TRS website and will be presented to the Texas Legislature for consideration during next year's legislative session.

*Cont. on page 6*

# MEMO TO MEMBERS FROM Executive Director Brian K. Guthrie

As 2014 draws to a close, I am pleased to report that your pension fund has grown significantly and is actuarially sound. Thanks to strong investment performance, the fund has continued to rebound from the stock market decline of 2008-2009, ending the 2014 fiscal year with a net value of \$132.8 billion – up from \$117.4 billion a year earlier. Our market returns, in conjunction with contribution increases and benefit changes approved by the 83rd Texas Legislature, have enabled TRS to provide secure benefits for current and future retirees. For more details, please refer to TRS' *2014 Comprehensive Annual Financial Report* on our Publications page at [www.trs.state.tx.us](http://www.trs.state.tx.us).

TRS also administers two health benefits programs -- TRS-Care for retirees and TRS-ActiveCare for active members in participating districts. Of particular note, TRS-Care is projected to have a shortfall of approximately \$727 million by the end of the 2016-2017 biennium. Achieving sustainability of that program and affordability of TRS-ActiveCare are topics of a recent TRS study, which reviewed options ranging from pre-funding health care benefits through increased contributions to a fixed contribution arrangement using a health reimbursement account or a health savings account. The final report is featured on the TRS website and will be presented to the Texas Legislature for consideration during next year's legislative session.



For the purpose of computing retirement benefits, TRS uses the compensation that a member receives in a 12-month period from Sept. 1 through Aug. 31. If you are a TRS member approaching retirement, please carefully read this month's article regarding the best month to retire for compensation purposes. This will help ensure that you receive credit for 12 months of compensation in the last school year (Sept. 1 through Aug. 31) if that last year of compensation is one of your highest and you want it included in your final average salary used for calculating retirement benefits. If you plan to retire and later return to work, please also note the article on our just-updated *Employment After Retirement* brochure.

This month's newsletter includes various articles that list important deadlines relating to your member benefits. Please review this information so that you can best ensure that you will receive the full benefits available to you.

Last but not least, please see the information about next spring's election to field nominees eligible for appointment to fill one of the two public education positions on the TRS Board. Nominating petition forms, now available from the TRS website, *must be filed with TRS by Jan. 20, 2015*.

All of us at TRS wish you and your families happy holidays and all the best in 2015.

*TRS News* is published by  
Teacher Retirement System of Texas  
1000 Red River Street  
Austin, Texas 78701-2698  
(512) 542-6400 or 1-800-223-8778  
[www.trs.state.tx.us](http://www.trs.state.tx.us)

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## TRS annual statements mailed to active members

TRS mailed annual statements to active TRS members in October. These statements contain information pertaining to the recently completed 2013-14 school year as well as information regarding the total accumulated contributions in the member account and the amount of service credit recognized by TRS. Please review your statement carefully.

If you rendered service and/or received compensation from a TRS-covered employer in the 2013-2014 school year that is not reflected on your statement, please notify TRS immediately. If you are still working for the same employer and are due additional compensation, the error can be corrected in the current school year at no additional cost to you above the member contributions that are due on the service and/or compensation. TRS must be notified by May 31, 2015 of the error in order for the correction to be made by your employer in the current school year. If the error is not corrected, the unreported service and/or compensation must be verified within the timelines listed below if you want to be able to purchase that service or compensation and have it credited. The cost increases significantly to the actuarial cost of the increased benefits associated with the unreported service and/or compensation paid.

If you met age and service requirements for retirement, your annual statement included an unaudited estimate of your retirement benefits. However, if you received an estimate prepared by TRS within the previous 12 months, you may not have received an estimate on your statement. If your statement does not include an estimate of your retirement benefits, you may find it helpful to visit the TRS website and use the Retirement Estimate Calculator in creating your own retirement estimate. The calculator is featured in the *MyTRS* portion of the website. If you haven't registered yet for *MyTRS*, doing so is easy. Simply go to the TRS website ([www.trs.state.tx.us](http://www.trs.state.tx.us)) and click on the *MyTRS* link under "Quick-links" on the right-hand side of the home page and follow the instructions for registering.

If you became a new member of TRS or recently returned to TRS-covered employment after the end of the 2013-14 school year, you will not receive an annual statement until the fall of 2015. When you review your annual statement, it is important that you notify TRS promptly if your records are inconsistent with the reported compensation or number of years of service credit shown on your statement. Please note the following reporting deadlines if you disagree

with any of the information on your annual statement or if you wish to purchase any unreported service and/or compensation, including substitute service, not already credited on your annual statement:

- An error on your annual statement in the service and/or compensation rendered or received during the 2013-2014 school year must be reported to TRS immediately but no later than May 31, 2015 in order for the error to be corrected without you having to pay the actuarial cost of the increased benefits associated with the service and/or compensation. If the error is not corrected by Aug. 31, 2015, you must verify the unreported service and/or compensation no later than Aug. 31, 2019 if you want to be able to purchase that service or compensation to have it credited. The cost to establish the unreported service and/or compensation after Aug. 31, 2015 is the actuarial cost of the increased benefits.

- Any unreported service or compensation, including substitute service, that was rendered or paid prior to Sept. 1, 2011, must be verified to TRS no later than Aug. 31, 2016.

- If you have service or compensation that was reported to TRS prior to Sept. 1, 2011 that is not reflected on your annual statement, you must notify

TRS and provide any requested verification documents by Aug. 31, 2016. This includes service or compensation credit you may have purchased prior to Sept. 1, 2011, that is not reflected on your annual statement.

- Beginning with service rendered or compensation paid in the 2011-12 school year, you have five years from the end of the school year in which the service was rendered or compensation was paid to notify TRS of discrepancies in your annual statement and to verify any unreported service or compensation, including substitute service.

- If you do not notify TRS in writing and verify your unreported service or compensation, including substitute service, within the applicable five-year timeframe, you will be unable to purchase service credit for it and you will be unable to use it to determine eligibility for and the amount of any benefits.

- Please note that Uniformed Services Employment and Re-employment Rights Act (USERRA) military service has different requirements and does not have to be purchased in order to be counted towards eligibility for benefits. However, USERRA military service must be verified prior to retirement to be counted towards eligibility for benefits.

**Cont. on page 6**

# Important deadlines for verification of unreported service and service reported but not credited on your annual statement

Changes to TRS laws effective Sept. 1, 2011, established a new **five-year time limit** for you to notify TRS and provide verification to TRS of service not credited on your annual statement and to provide verification to TRS of **any** unreported service and/or compensation, including substitute service. All unreported service rendered prior to Sept. 1, 2011, and any service not credited on your annual statement for the fiscal year ended Aug. 31, 2011, must be verified no later than **Aug. 31, 2016**. Unreported service and/or compensation, including substitute service, and service that was reported but not credited on your annual statement that is not verified within the required timeframe will not be eligible for purchase or credit and cannot be used to determine eligibility for, or the amount of, any of your benefits.

## Verification Deadlines

Deadline Dates	Type of Service
<b>Aug. 31, 2016</b> – Date by which unreported service and/or compensation, including substitute service, rendered or paid <b>prior</b> to Sept. 1, 2011, must be verified on the appropriate TRS 22 form, listed below, in order to be eligible for purchase.	Unreported Service and/or Compensation, including Substitute Service
<b>Aug. 31, 2016</b> – Date by which member must notify TRS in writing, and provide verification on the appropriate TRS 22 form, listed below, if eligible membership service rendered <b>prior</b> to Sept. 1, 2011, is reported but not credited on the member’s annual statement for the fiscal year ended Aug. 31, 2011.	Service Reported but not Credited on Member’s Annual Statement
<b>Five years from the end of the school year in which the service was rendered or compensation was paid</b> – Deadline by which unreported service and/or compensation, including substitute service, rendered or paid <b>after</b> Sept. 1, 2011, must be verified in order to be eligible for purchase. For example, if a member had eligible service and/or compensation in the 2011-2012 school year that was not reported to TRS, the member must submit verification on the appropriate TRS 22 form, listed below, no later than <b>Aug. 31, 2017</b> , to be eligible to purchase the service credit.	Unreported Service and/or Compensation, including Substitute Service
<b>Five years from the end of the school year in which the service was rendered</b> – Deadline by which member must notify TRS in writing if eligible membership service rendered <b>after</b> Sept. 1, 2011, is reported but not credited on the member’s annual statement. For example, service not credited on the statement for the year ended Aug. 31, 2012, requires notice and verification on the appropriate TRS 22 form, listed below, no later than <b>Aug. 31, 2017</b> .	Service Reported but not Credited on Member’s Annual Statement

Forms for verifying unreported service and/or compensation, including substitute service and service reported but not credited on the annual statement, are: Verification of Service and Salary (TRS 22I); Verification of Substitute Service and Salary (TRS 22S); and Verification of Worker’s Compensation Payments (TRS 22W). Select and print the appropriate form from the TRS website ([www.trs.state.tx.us](http://www.trs.state.tx.us)). Have your employer complete the form and return it to you; then sign and date the “Instructions for Member” section and send the form to TRS so that it is received by the applicable deadline.

## Updated *Employment After Retirement* brochure slated for TRS website

In late December, TRS will publish a revised version of the *Employment after Retirement* brochure. The new brochure provides assistance to members who are thinking about retiring and then returning to employment with a TRS-covered employer after they have retired as well as service and disability retirees who are returning to work with TRS-covered employers. The publication provides information to help members and retirees make decisions about employment after retirement, including how to avoid any unexpected loss of annuity payments.

The information in the brochure does not apply to a TRS retiree's employment with an employer *not covered by TRS*. Service retirees may work without limit for an employer not covered by TRS without losing any monthly annuity payments. Disability retirees who applied for and retired before Aug. 31, 2007 will not forfeit any annuities based on employment with an employer not covered by TRS. However, disability retirees who applied and retired after Aug. 31, 2007 may work an unlimited amount of time for an employer not covered by TRS, but they are subject to a compensation limit on all compensation they receive, including compensation from an employer not covered by TRS and/or self-employment. The current limit is the greater of the highest salary credited by TRS prior to retirement or \$40,000. (NOTE: Working for a "third-party entity" may be considered working for an employer covered by TRS. Please review that section of the brochure before working for such an employer.)

The brochure is divided into three sections, each uniquely color-coded, to separately address the considerations of the following groups: (1) members who have not yet retired, (2) members who have already retired and (3) members who have taken a disability retirement.

Each section includes information that is needed in order to make an informed decision regarding employment after retirement. Because early-age retirees cannot negotiate for future employment until after the required one calendar month break in service, special considerations for early age retirees are addressed. Also, employers covered by TRS must pay a pension and health benefit surcharge (for retirees enrolled in TRS-Care) when retirees who retired after Sept. 1, 2005 work for the employer for more than one-half time. Some employers may want the retiree to contribute towards the payment of the surcharge(s) if they exceed the work limits. The brochure also includes information about what employment may trigger that surcharge.

To learn more, please visit the TRS website at [www.trs.state.tx.us](http://www.trs.state.tx.us) and select the *Employment after Retirement* brochure under the "Publications" tab.

## Retiring members should consider best month to retire for compensation purposes

For the purpose of computing the amount of retirement benefits, TRS uses the compensation you receive in a 12-month period from Sept. 1 through Aug. 31. If you have a contract or work agreement that begins earlier than Sept. 1 and your first payment under the new contract is made before Sept. 1, you most likely will be affected. If you are planning to retire, you should consider the most advantageous month for retiring. This will help ensure you will receive credit for 12 months of compensation in the last school year (Sept. 1 through Aug. 31) if that last year of compensation is one of your highest and you want it included in your final average

salary used for calculating your retirement benefits.

If you have a contract or work agreement that begins earlier than Sept. 1 (e.g., July 1 or Aug. 1) and you retire at the end of your contract (e.g., June 30 or July 31), you will not have 12 months of compensation credited by TRS in the final school year since the compensation you received before Sept. 1 for the first month(s) of your new contract are credited by TRS in the prior school year. Therefore, your salary credited by TRS for your last year will most likely not be one of your highest and will not be included in your salary average for benefit

calculation purposes.

For this reason, you may want to consider retiring at the end of August when you will have been paid 12 months of compensation to maximize your retirement benefit. Another option is to retire after working the following full fall semester or if you don't work for an employer that has semester work periods, working 90 days into the following school year (beginning Sept. 1). That way you will have 12 months of salary credited to the previous year that can be included in your salary average and you will receive another year of service credit for your work in the current school year.

## TRS members, retirees to see significant online improvements through TEAM

TRS has begun a multi-year effort to modernize its non-investment computer systems in order to improve the quality and speed of service delivered to members. In the not too distant future, TRS members and retirees will be able to apply for benefits, receive notices and receive approvals online as well as manage their TRS member accounts in a secure, Web-based environment. These improvements will be a direct result of the TRS Enterprise Application Modernization (TEAM) Program, a multi-year initiative now under way to update business processes and core technologies used by TRS to deliver benefits.

“We launched the TEAM Program so that we could provide the best possible service to our members and annuitants in the years to come,” explained TRS Executive Director Brian Guthrie. “With our rapidly growing membership and their changing expectations regarding service quality, TEAM will give us the tools necessary to cost-effectively and efficiently meet our members’ needs.”

In the near term, members will experience some temporary and minimal reductions in the functionality of *MyTRS*, the password-protected section of the TRS website.

As a result, it is not currently possible to access the following information on *MyTRS*:

- members’ beneficiary information
- service purchase forms (once they have been created for a bill)
- replacement retirement packets (still available by contacting TRS directly)

Members who signed up to receive *MyTRS* email notification in late January when their 1099-R forms are posted online will receive the email notification but will also receive a hard-copy of the 1099-R form in the mail.

Members who access their future annual statement information online will only see information updated through Sept. 1, 2015. Their online account information will remain unchanged until the new *MyTRS* Web Self-Service is available in the spring of 2017.

While members will see improvements in *MyTRS* functionality in the future, this is not expected for the next couple of years. In the meantime, members can learn about progress being made through the TEAM Program by visiting the TRS website and checking the latest issues of *TRS News* and other TRS publications.

## Pension valuation

*Cont. from page 1*

it increased the state contribution rate from 6.4 percent to 6.8 percent for the current fiscal year. Finally, the legislation established a 1.5 percent contribution rate beginning in FY 2015 for employers on compensation paid to each member for which the employer does not contribute to Social Security. These legislative benefit adjustments and contribution increases brought the plan into actuarial soundness.

An immediate benefit of these important legislative changes enacted by the 83rd Texas Legislature is that the changes helped TRS to become “actuarially sound” and the improved status of the fund allowed the legislature to give those who retired on or before Aug. 31, 2004 a three percent cost-of-living adjustment (COLA) capped at \$100 per month. The annuity increase, which TRS began paying in October 2013, benefited nearly two-thirds of all TRS retirees and was the first such increase in more than a decade.

The full actuarial valuation report may be found on the Publications page of the TRS website, [www.trs.state.tx.us](http://www.trs.state.tx.us).

## Annual statements

*Cont. from page 3*

Contact TRS if you have questions regarding USERRA military service.

More information about service credit and/or compensation verification deadlines is included in the article titled “Important deadlines for verification of unreported

service and service reported but not credited on your annual statement” on page 4.

It is important that members review their annual statements carefully. In 2013, the Texas Legislature made changes to retirement eligibility criteria, which took effect Sept. 1, 2014. However, they only affect members who did not have at least five years of service credit on Aug. 31, 2014, those persons

who become members of TRS on or after Sept. 1, 2014, or members who had five years of service credit and terminate TRS membership by withdrawal of accumulated contributions on or after Sept. 1, 2014 and then later resume membership.

For answers to frequently asked questions on annual statements, please visit [www.trs.state.tx.us](http://www.trs.state.tx.us).

## Access next year's 1099-R forms quickly and easily online

In late January 2015, TRS will send 1099-R forms to retirees, beneficiaries and members who received payments from TRS in 2014. This form identifies the amount TRS distributed to the individual during tax year 2014.

From the time TRS distributes this form until the deadline for filing income tax returns on April 15, TRS receives numerous requests for duplicate copies. Due to confidentiality requirements, TRS is unable to provide information over the phone or by fax. However, retirees and payment beneficiaries who have a *MyTRS* password can view and print a copy of their 1099-R form online as soon as the forms become available.

By subscribing now to *MyTRS*, you can have TRS send you an email message to notify you as soon as your 1099-R form is posted online. If you haven't registered for *MyTRS*, you can do so by going to the TRS website ([www.trs.state.tx.us](http://www.trs.state.tx.us)) and clicking on the *MyTRS* link under "Quicklinks" on the right-hand side of the home page. Then, follow the instructions to register. (Please note that members who have received a refund of their account cannot access their 1099-R form through *MyTRS*.)

**Note:** *Progress continues on a multi-year effort to modernize TRS non-investment computer systems in order to improve service quality delivered to members. However, in the near term, members will experience some temporary and minimal reductions in the functionality of MyTRS, the password-protected section of the TRS website. This year, members who have signed up to receive MyTRS electronic notification when their 1099-R forms are posted online will also receive hard-copy 1099-R forms in the mail.*

## Deadline nears to submit 2015 TRS Board election nomination forms

Active public school district, charter school and regional education service center employees who are TRS members may now request petitions to nominate candidates to be considered for a position on the TRS Board of Trustees. ***All valid nominating petitions filed with TRS by Jan. 20, 2015, will be accepted.***

In the spring of 2015, an election will be held to determine the three nominees who are eligible for appointment by the governor to fill one of the two public education positions on the board. The term of the position is six years, beginning as early as Sept. 1, 2015. All TRS members whose most recent credited service is or was performed for a public school district, charter school or regional education service center are eligible to vote in this election. Members of the system who are currently employed in a TRS-eligible position by a public school district, charter school or regional education service center may have their names listed on the official ballot as candidates by filing an official petition.

Petitions must be signed by 250 public school district employees who are TRS members and whose most recent credited service is or was performed for a public school district, charter school or regional education service center. In addition, when members sign the

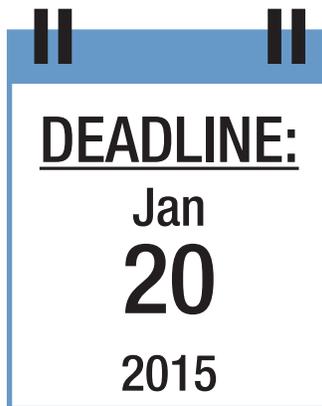
petition, they must include their printed or typed names, the first five digits of their current residential zip code, and the last four digits of their social security number. Valid nominating petitions must be filed with TRS by Jan. 20, 2015.

By March 15, 2015, TRS will mail ballots and an edition of *TRS News* containing candidate information to all TRS participants who are eligible to vote in the elections. TRS must receive completed ballots on or before May 5, 2015. TRS then will certify the names of the three candidates who received the highest number of votes to the governor. The governor will then appoint one of those candidates to serve on the board.

To obtain a petition form, you may:

- Print the petition form from the TRS website ([www.trs.state.tx.us](http://www.trs.state.tx.us));
- Request a petition form by writing TRS at 1000 Red River; Austin, TX 78701-2698;
- Request a petition form by calling 1-800-223-8778, ext. 2702; or
- Fax a request for a petition form to 1-512-542-6585.

Nominating instructions are included on the petition form.





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## CHANGE SERVICE REQUESTED

## Next legislative session begins in January

The 84th Texas Legislature will convene on Jan. 13, 2015. As in the past, bills under consideration may affect individual members' retirement eligibility as well as retirement and group health benefits. TRS anticipates that funding for TRS programs and operations will also be discussed.

While the fate of many bills may not be known until June, TRS members planning to retire in 2015 may want to know about proposed legislation.

After the session begins, detailed information on bills may be obtained by calling the Legislative Reference Library's Bill Status Information Office at its toll-free number (877-824-7038). Please have the number or specific topic of the bill that interests you, as it will help library staff members locate the information

you are seeking. You will also be able to view proposed legislation through the library's website at [www.lrl.state.tx.us](http://www.lrl.state.tx.us), or by visiting the Texas Legislature's website at [www.capitol.state.tx.us](http://www.capitol.state.tx.us).

Following each legislative session, TRS informs members of significant changes and new laws that may impact their TRS benefits or eligibility for benefits. Watch for updates in *TRS News*, on the TRS website ([www.trs.state.tx.us](http://www.trs.state.tx.us)), and on Facebook after the session concludes in early June. Please know that while TRS strives to keep you informed of the impact of adopted legislation on TRS and the benefits administered by TRS, TRS is not allowed to advocate regarding legislative changes.

