

TRS UPDATE

House Ways and Means Education Committee

January 9, 2020

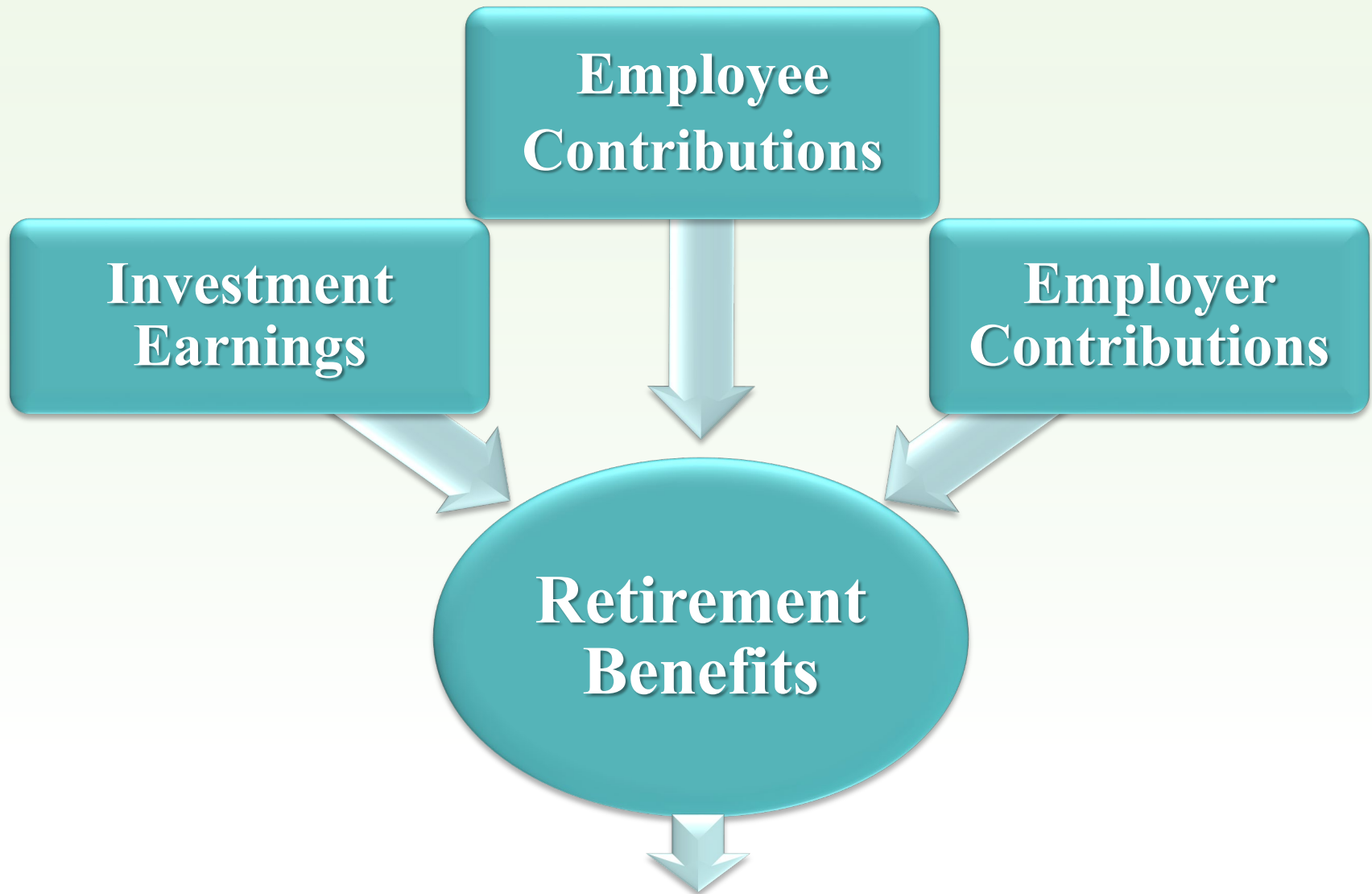
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Retirement Systems of Alabama**



FUNDING RSA RETIREMENT BENEFITS

- An RSA member's retirement benefit is funded from a combination of contributions by **the member**, by **the member's employer**, and from **investment earnings** on those contributions.
- The benefits are pre-funded and monies from contributions and investments are held in trust by RSA to be used solely for retirement benefits as required by Alabama's Constitution.

FUNDING RSA RETIREMENT BENEFITS



EMPLOYEE CONTRIBUTION

- RSA members contribute a set amount of their salary to RSA to fund their retirement benefits.
- This amount is set in statute and varies by tier and classification.
- An RSA member can withdraw his or her contributions (plus interest in some cases) if the member separates from service. The member will not be eligible to draw a monthly retirement benefit if he or she withdraws the contributions.

EMPLOYEE CONTRIBUTION RATES

	Tier 1	Tier 2
TRS and ERS State	7.5%	6.0%
ERS State Police	10.0%	10.0%/7.0%
ERS Firefighters, Law Enforcement & Correction Officers	8.5%	7.0%
ERS Local	5% or 7.5%*	6.0%
JRF	8.5%	8.5%

* Dependent upon whether local units adopted higher contribution rate as set forth in Act 2011-676.

CALCULATING THE EMPLOYER CONTRIBUTION

- The employer contribution is set annually by RSA's actuaries as a percentage of payroll.
- The actuaries calculate the contribution by determining the normal cost (amount to fund the future retirement benefit earned by members during that past year of service) and the amount needed to pay the unfunded liability.

PAYING THE EMPLOYER CONTRIBUTION

- Employer contributions are paid on a monthly basis by RSA participating employers based on an employer contribution rate that is set by RSA's actuaries as a percentage of payroll.
- The Legislature approves the rate for TRS, JRF, and ERS State but does not appropriate money directly to RSA (except for a line item appropriation to JRF for probate judges).
- Employers in ERS Local have a unique employer contribution rate that is calculated specifically for that employer and is paid by that employer.

PARTICIPATING EMPLOYERS

as of 9/30/18

TRS

13 Universities

25 Post-
Secondary

139 Boards of
Education

33 State
Agencies/Other

ERS State

State of
Alabama

ERS Local

297 Cities

65 Counties

511 Other Public
Entities

JRF

67 Counties
(Probate Judges,
Circuit Clerks,
and District
Attorneys)

AOC (Justices
and Judges)

EMPLOYER CONTRIBUTION RATE:

Employer Contribution Funding Sources

**State Agency
Appropriation from
the General Fund**

**K12, Postsecondary,
or University
Appropriation from
the Education Trust
Fund**

**State Earmarked
Funds Received by
State Agencies**

**Federal Funds
Received by State
Agencies**

**Local Funds from
Local Units**

**Federal and Local
Funds Received by
K12**

**Federal Funds
Received by
Universities and
Postsecondary**

**Tuition Received by
Universities and
Postsecondary**

**Private Monies
Received by
Association
Employers**

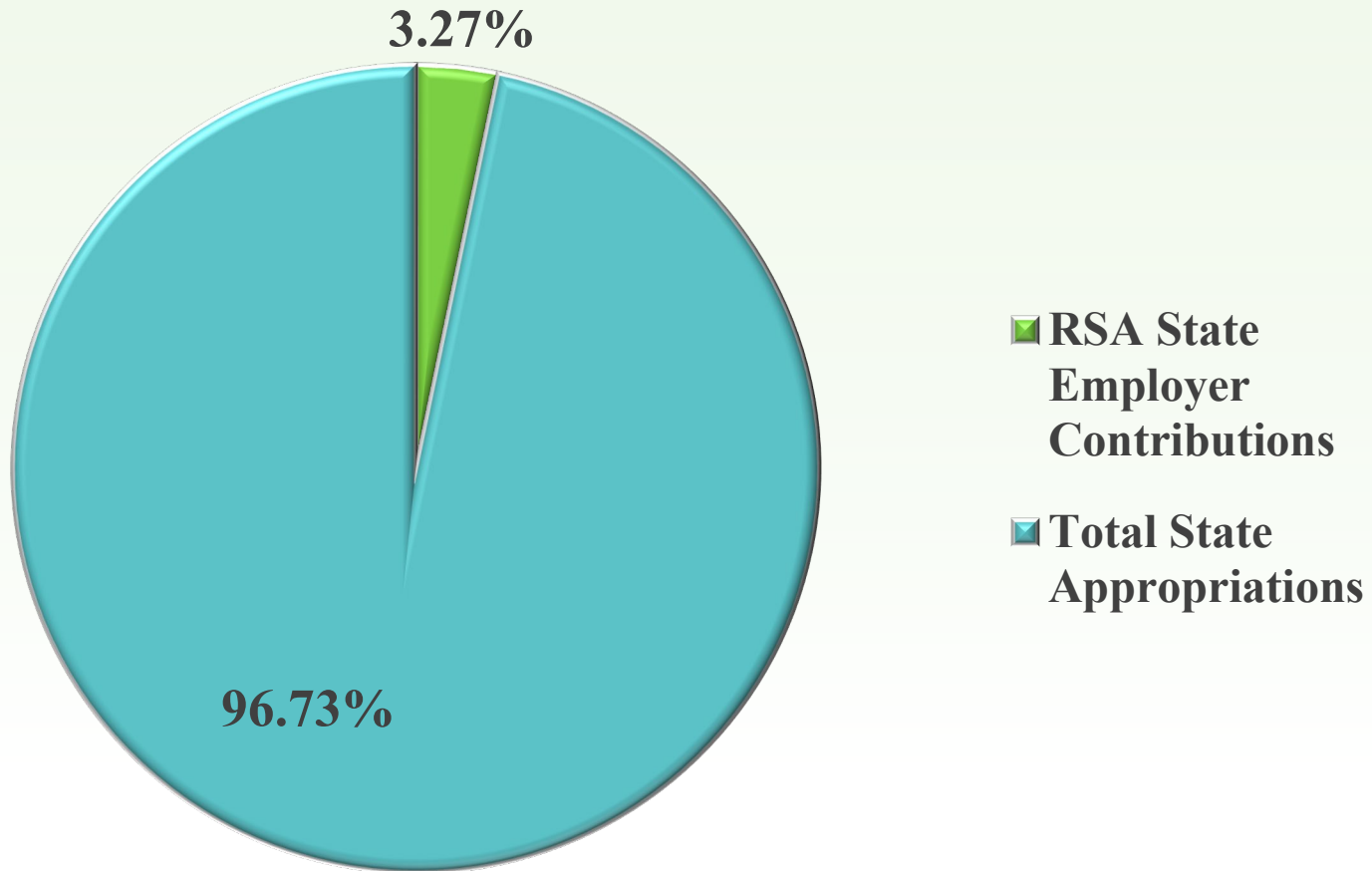
FY19-FY21 TRS EMPLOYER CONTRIBUTION RATES

	FY19	FY20 (Current)	FY21 (Requested)	Increase (Decrease) from FY20
Tier 1	12.41%	12.43%	12.36%	(0.07%)
Tier 2	11.35%	11.34%	11.22%	(0.12%)
Est. Total Employer Cost	\$845.7M	\$878.9M**	\$871.1M	(\$7.8M)
Est. Amt. from ETF*	\$498.4M	\$517.9M**	\$513.3M	(\$4.6M)

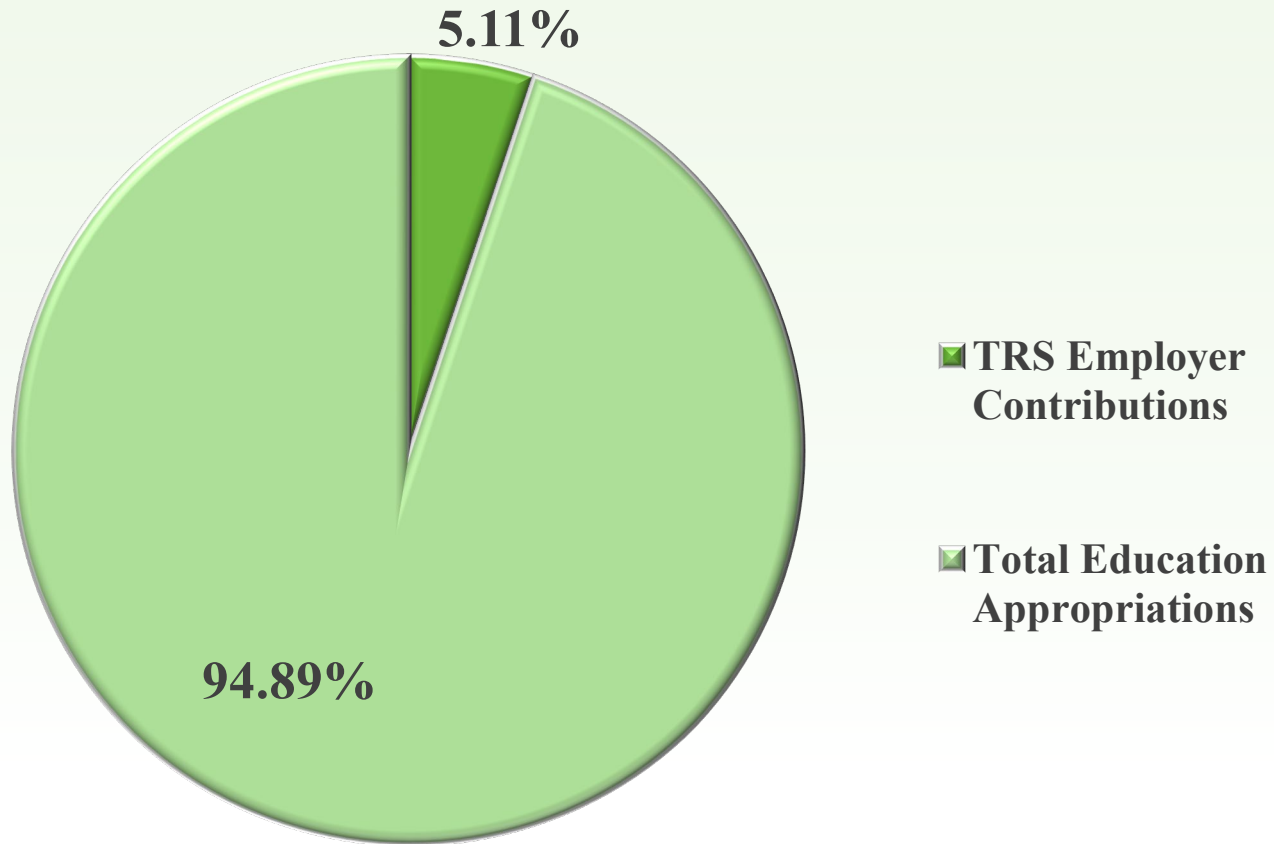
* Based upon estimates from the EBO using FY16 data, approximately 58.93% of the total employer cost comes from the ETF; the remainder is paid by TRS participating employers from other funds (9.59% Federal, 20.95% Tuition, 0.64% Non-Government, and 9.88% Local).

** Increase in employer cost for FY20 is due in part to the 4% pay raise granted to education employees. This retirement cost increase was included in the cost of the pay raise per the fiscal note.

FY19 RSA EMPLOYER CONTRIBUTIONS AS A % OF STATE APPROPRIATIONS



FY19 TRS EMPLOYER CONTRIBUTIONS AS A % OF EDUCATION APPROPRIATIONS



INVESTMENT EARNINGS

- Employers pay a discounted amount to pre-fund employees' retirement benefits because the funds are invested and the earnings from those investments help fund benefits.
- RSA assumes that it will earn 7.70% (7.65% for JRF) on investments and has historically met that target.
- Lowering this assumed rate increases the employer contribution for both the normal cost and the unfunded liability.

INVESTMENT STAFF

- RSA's investments are handled by its in-house investment staff, which consists of 12 chartered financial analysts.
- Having a professional investment staff allows RSA to avoid paying costly fees to outside investment groups.
- As a result, RSA has some of the lowest investment expenses in the country at **\$12.6M** for FY18. If RSA spent just the average amount, it would have spent **\$174M**.

RSA HISTORICAL INVESTMENT RATES OF RETURN (as of FY19)

	1 Yr	3 Yr	5 Yr	10 Yr	15 Yr	20 Yr	25 Yr	30 Yr	35 Yr
ERS	2.78%	8.23%	7.14%	9.02%	6.48%	5.80%	7.29%	7.76%	8.48%
TRS	2.63%	7.87%	6.96%	8.95%	6.61%	5.98%	7.40%	7.86%	8.59%

IMPACT OF FY19 INVESTMENT RETURNS

- No impact for FY21 employer contribution rate.
- Will be used in FY19 actuarial valuation that will be completed Summer 2020 to set the FY22 employer contribution rate.
- Actuarial five-year smoothing of gains and losses will soften the impact. As of FY18, TRS has \$750.1M of unrecognized actuarial gains.

RSA INCOME SOURCES FOR FY19

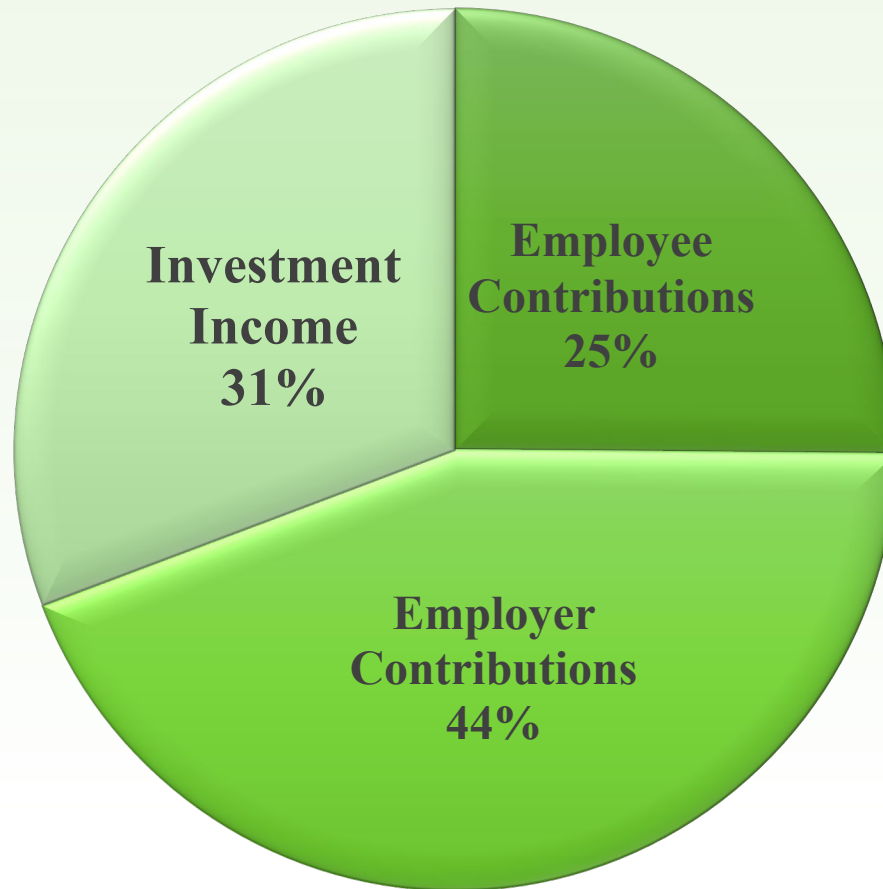
Employee Contributions:
\$765M

Employer Contributions*:
\$1.34B

Investment Income:
\$936M

Total Income:
\$3.04B

Benefits Paid:
\$3.39B



* This includes contributions from all sources for TRS, ERS State, and ERS Local, and excludes transfers between ERS and TRS and from PEEHIP.

TRS INCOME SOURCES FOR FY19

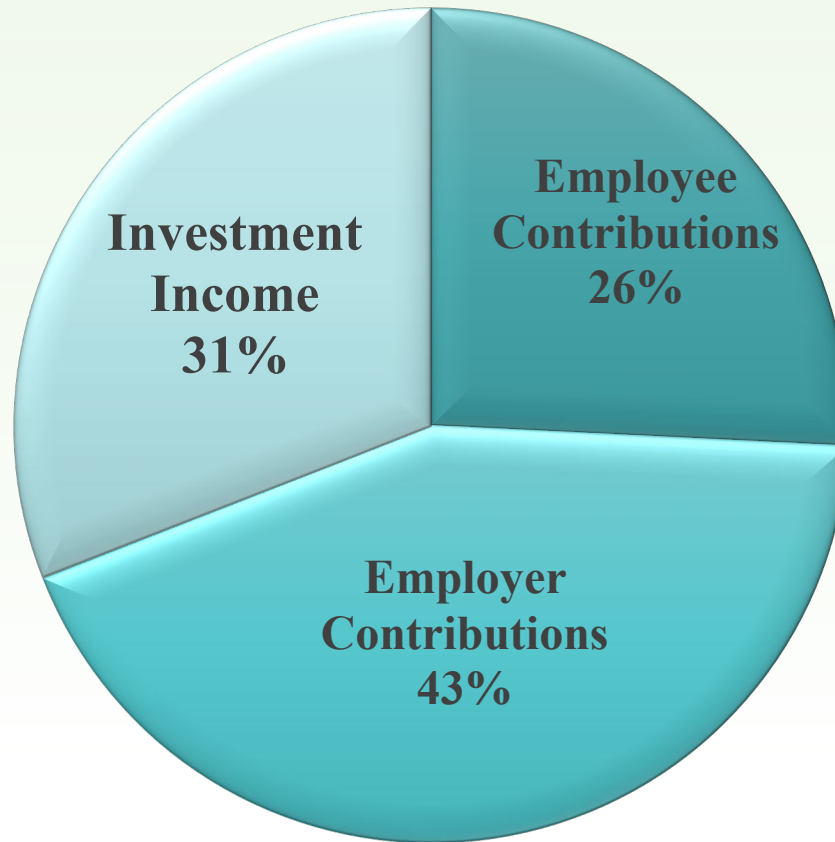
Employee Contributions:
\$506M

Employer Contributions*:
\$849M

Investment Income:
\$608M

Total Income:
\$1.96B

Benefits Paid:
\$2.23B



* This includes contributions from all sources for TRS and excludes transfers from ERS and PEEHIP.

RSA INCOME SOURCES FOR FY73-FY19

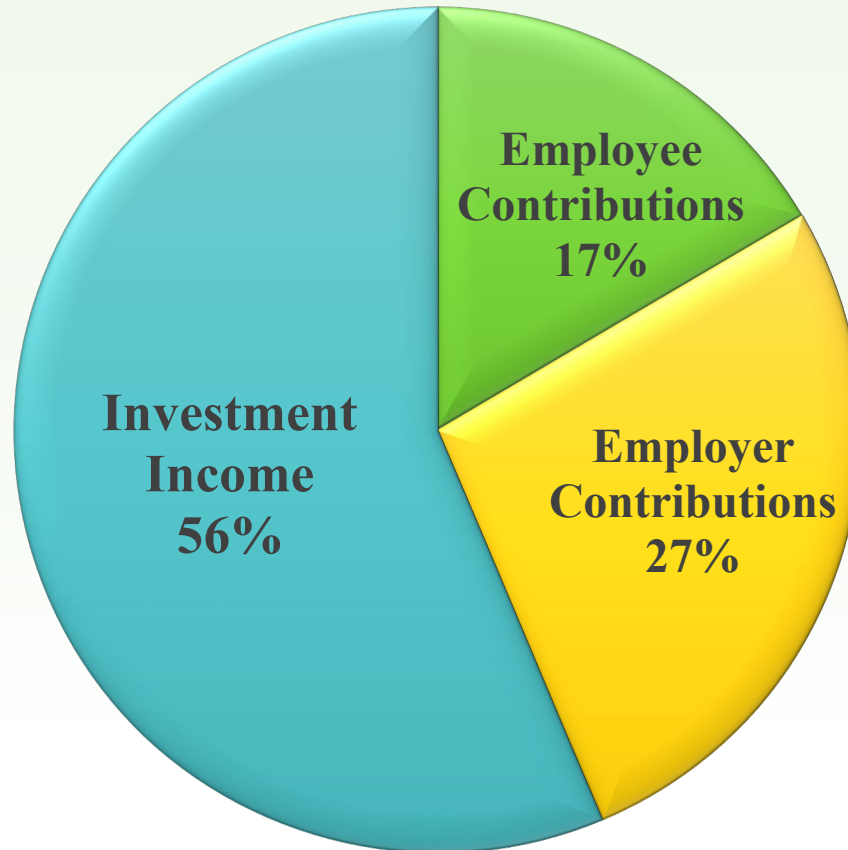
Employee Contributions:
\$15.6B

Employer Contributions:
\$25.5B

Investment Income:
\$53.1B

Total Income:
\$94.2B

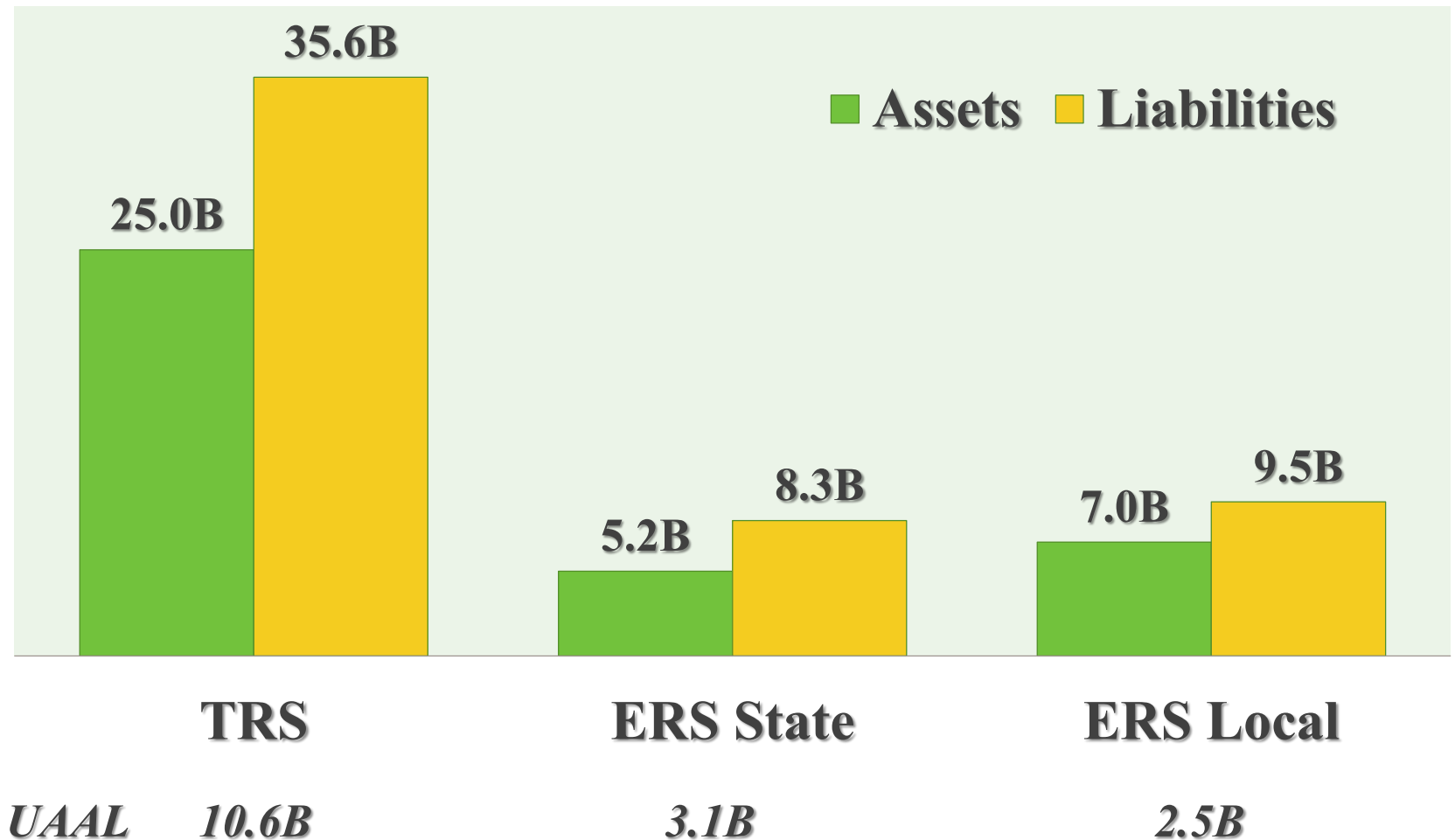
Benefits Paid:
\$54.6B



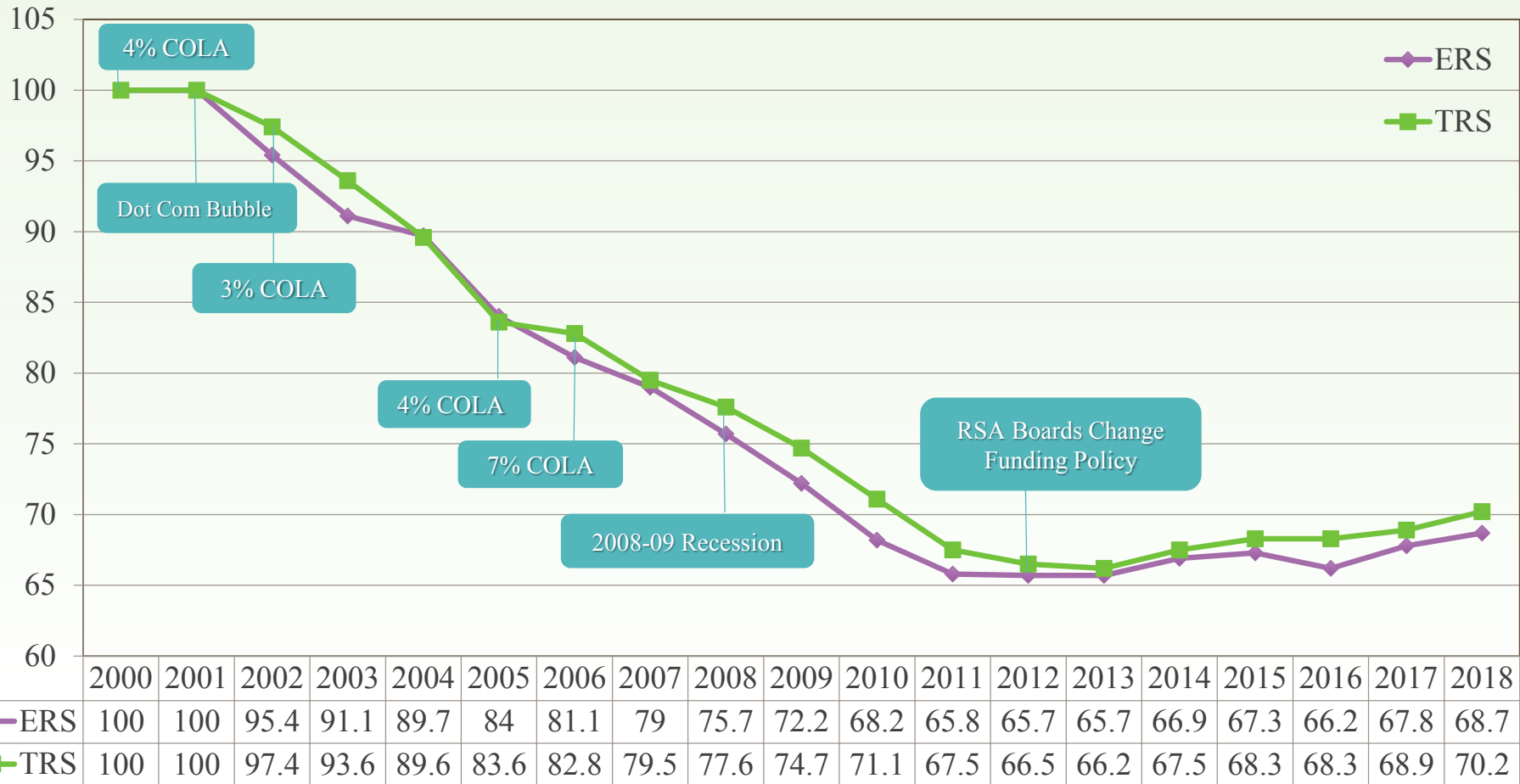
UNFUNDED LIABILITY

- The unfunded liability is the difference between a pension's liabilities and the amount of assets it holds.
- RSA's actuaries calculate the amount of the unfunded liability (also referred to as the unfunded actuarial accrued liability, or "UAAL").
 - RSA's liabilities are the projected benefits payable to **retired and active members**, discounted to the present value.
 - RSA's assets are determined using a five-year asset-smoothing method as required by statute.
- The comparison of these assets to liabilities is represented as a percentage and called the funded ratio.

FY18 RSA ACTUARIAL LIABILITIES AND ASSETS



RSA's FUNDED RATIO 2000-2018



* RSA's actuaries estimate that the four unfunded retiree COLAs, as plotted above, added \$2.2B to RSA's unfunded liability.

ADDRESSING THE UNFUNDED LIABILITY

- The only lawful way to eliminate the unfunded liability is to pay it off. Reducing the constitutionally-protected benefits for current members and retirees is not permissible under the law.
- Actions have been taken by the RSA Boards and the Legislature to ensure that the unfunded liability can be paid off in a timely manner without unnecessarily crowding out other budgetary priorities.

MOVING IN THE RIGHT DIRECTION

- The funded ratio has stabilized.
- RSA is ahead of 2012 estimates regarding funding:
 - TRS is 11 years ahead of schedule with \$1.1 billion less in unfunded liability than originally estimated.
 - ERS State is 17 years ahead of schedule with \$162 million less in unfunded liability than originally estimated.
- Since 2009, RSA assets have increased by 34.7% (from \$25.4B to \$39.0B).
- During this time, RSA earned \$26.1B in investment income, while paying out \$26.2B in retirement benefits.

QUESTIONS?

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