



TRS AND PEEHIP OVERVIEW

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House Ways and Means Education Committee

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RSA's Retirement Plans

Teachers' Retirement System

- Provides retirement benefits to public education employees.

Employees' Retirement System

- Provides retirement benefits to state employees and state police; and
- Administers retirement benefits for local governments that elect to participate.

Judicial Retirement Fund

- Provides retirement benefits to district attorneys and circuit clerks (elected for the first time on or after November 2016) and to justices and judges.



Participating Employers

as of 9/30/23 ACFR

TRS

13 Universities

25 Post-Secondary

139 Boards of Education

41 State Agencies/Other

ERS State

State of Alabama

ERS Local

308 Cities

66 Counties

510 Other Public Entities

JRF

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

AOC (Justices
and Judges)



RSA Tier I and Tier II Comparison

as of completion of the 2022 Regular Session

	Tier I	Tier II
Date of Employment	Prior to January 1, 2013	On or after January 1, 2013
Member Contribution Rate	<ul style="list-style-type: none"> • 7.5% for TRS/ERS State • 5% or 7.5% for ERS Local • 6% or 8.5% for FLC • 10.0% for State Police 	<ul style="list-style-type: none"> • 6.2% for TRS • 6.0% for ERS • 7.0% for FLC and State Police
Retirement Eligibility	<ul style="list-style-type: none"> • 25 years of service at any age (30 years for local units that have not adopted Act 88-548) • At least 10 years of service at age 60 (age 52 for State Police) 	<ul style="list-style-type: none"> • 30 years of service with an early retirement penalty • At least 10 years of service at age 62 (age 56 for FLC and State Police)
Retirement Factor	<ul style="list-style-type: none"> • 2.0125% for TRS/ERS • 2.875% for State Police 	<ul style="list-style-type: none"> • 1.650% for TRS/ERS, FLC, and State Police
Disability Retirement	No Change	New disability standard

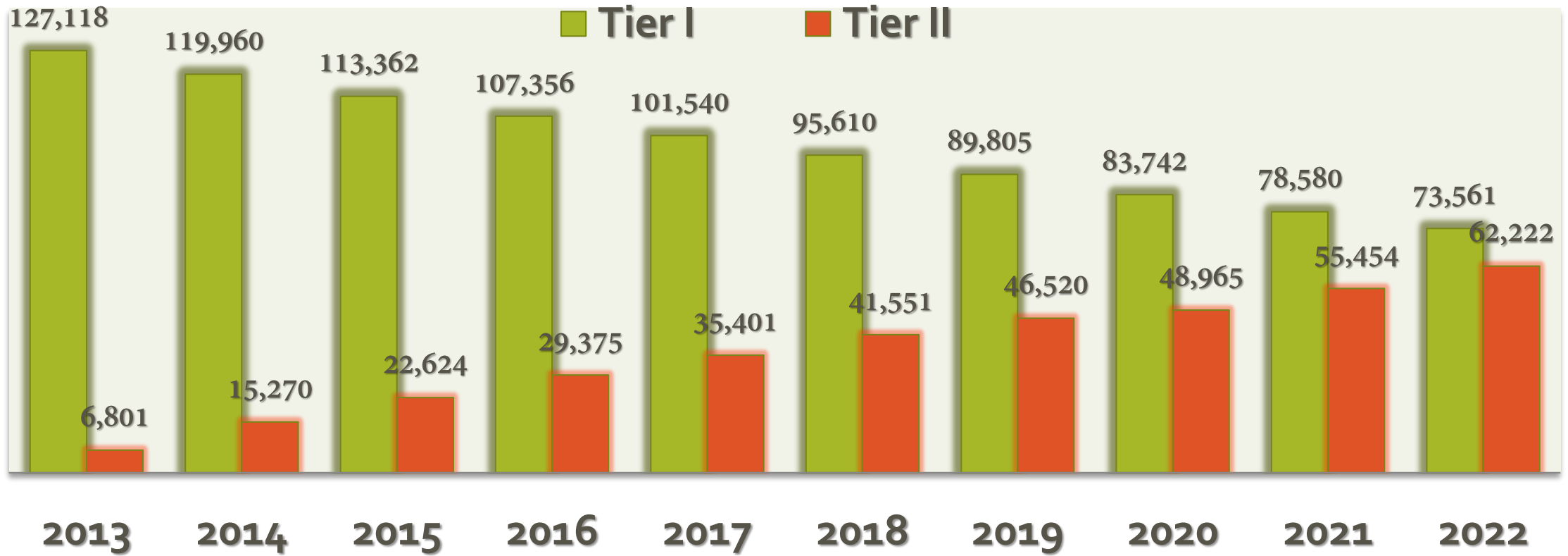


RSA Tier I and Tier II Comparison

	Tier I	Tier II
Average Final Salary	Average of the highest three years of the last ten years	Average of the highest five years of the last ten years
Benefit Cap	None	80% of Average Final Salary <i>(Approx. 48 yrs & 6 mos to get to cap)</i>
Retirement Contributions on Overtime Pay	Earnable Compensation cannot exceed 120% of base pay	Earnable Compensation cannot exceed 125% of base pay
Sick Leave Conversion	Yes	Yes for TRS; No for ERS
FLC Bonus Year/State Police Bonus	Yes	No

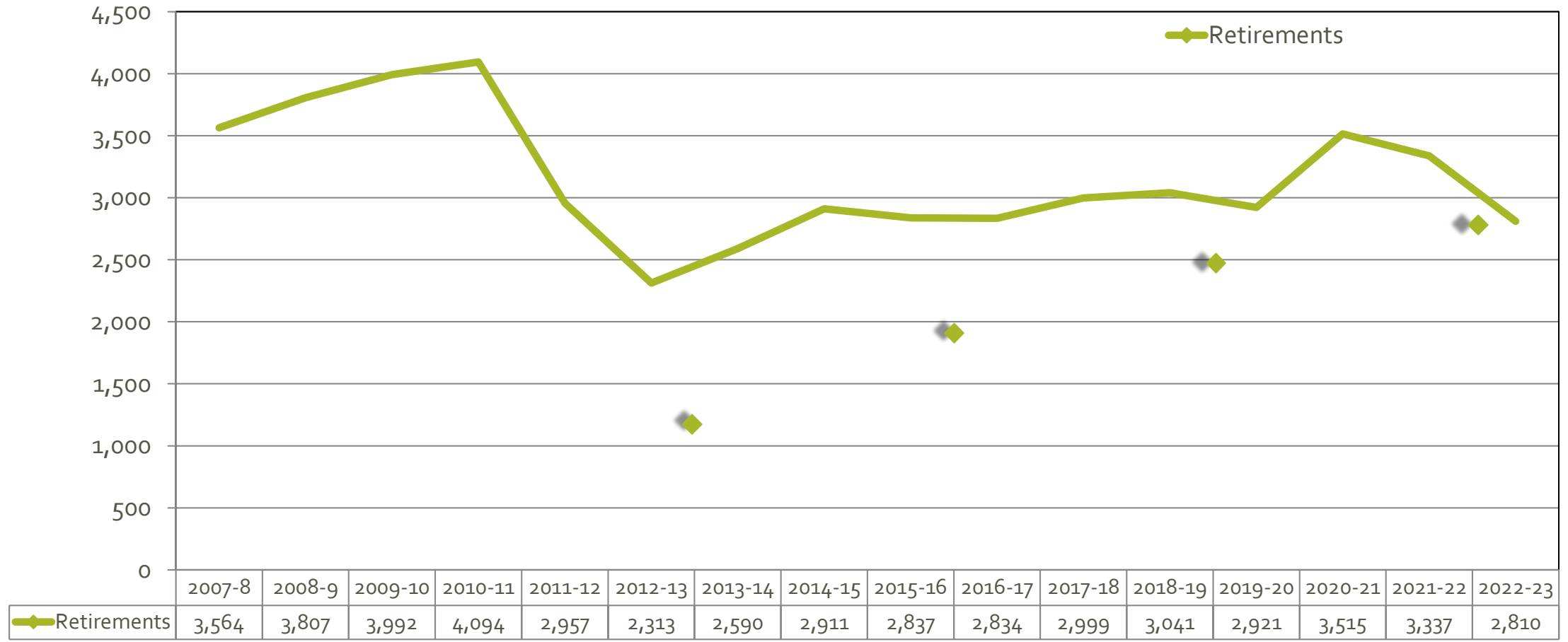


TRS Active Members by Tier – 10 Year History





Historical Rates of Retirement – TRS K12 Members by School Year





TRS Members and Benefits – 10 Year History

	Active Members	Active Payroll	Retired Members	Retiree Payroll
2013	133,919	\$6,065,042,345	81,745	\$1,767,433,849
2014	135,230	\$6,214,949,700	85,209	\$1,865,549,629
2015	135,986	\$6,297,938,621	88,633	\$1,964,212,008
2016	136,731	\$6,430,999,445	91,574	\$2,053,762,261
2017	136,941	\$6,698,834,819	93,850	\$2,118,982,451
2018	137,161	\$6,756,474,151	96,231	\$2,191,704,758
2019	136,325	\$7,193,832,116	98,539	\$2,266,860,064
2020	132,707	\$7,019,258,383	100,866	\$2,350,717,232
2021	134,034	\$7,221,790,242	103,071	\$2,438,228,771
2022	135,783	\$7,982,339,732	105,549	\$2,527,829,084



Funding RSA's Pension Plans

- 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.



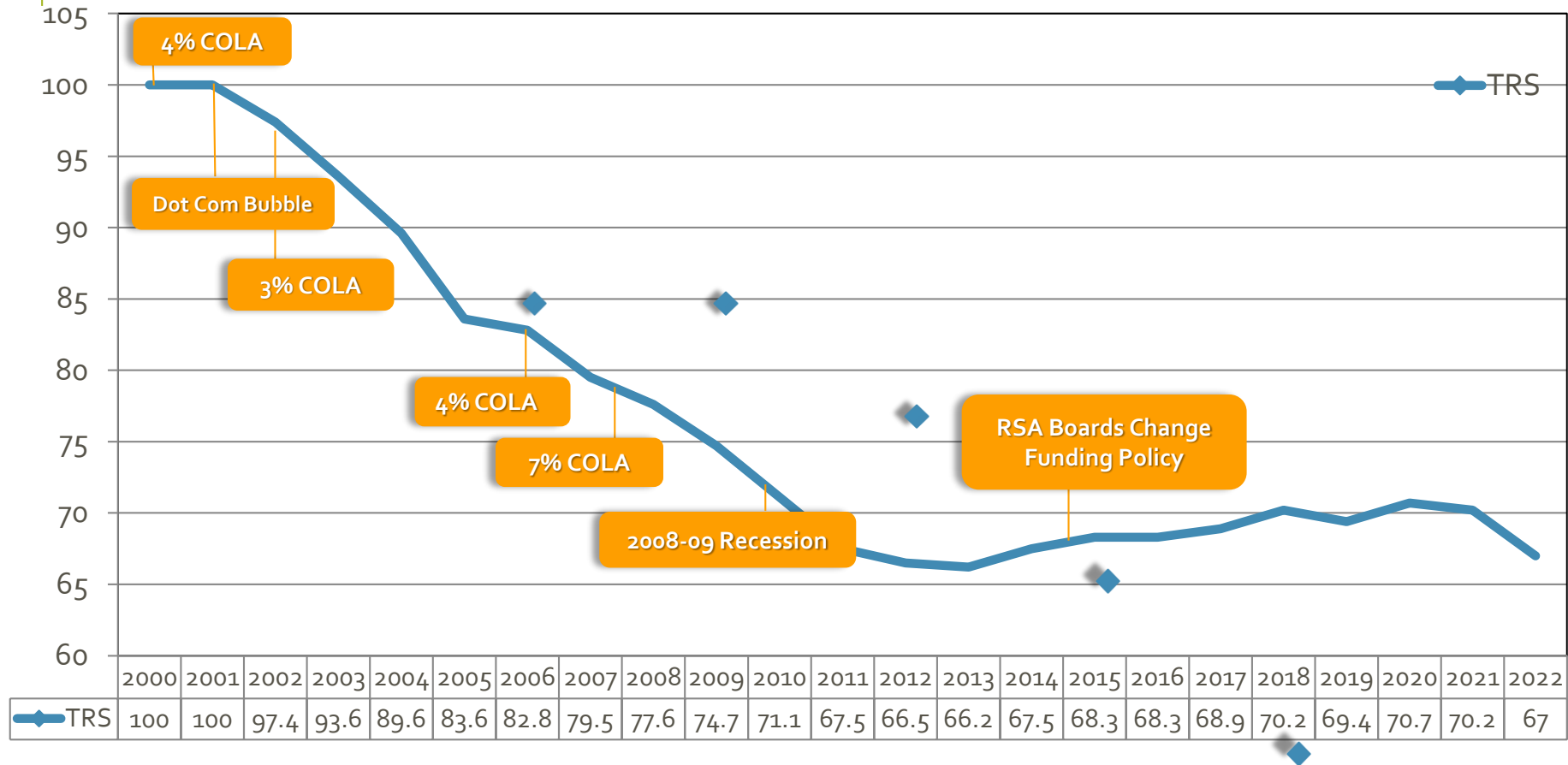


Unfunded Liability

- 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.



TRS's Funded Ratio 2000-2022



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



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 **7.45%** on investments.
- Lowering this assumed rate increases the employer contribution as the normal cost for benefits and the unfunded liability increase.





RSA Annualized Historical Investment Rates of Return as of FY23

	1 Yr	3 Yr	5 Yr	10 Yr	15 Yr	20 Yr	25 Yr	30 Yr	35 Yr	40 Yr
ERS	12.89%	6.26%	5.47%	7.22%	6.87%	6.59%	6.12%	6.94%	7.75%	8.26%
TRS	13.26%	6.44%	5.50%	7.18%	7.01%	6.73%	6.28%	7.06%	7.85%	8.36%

* The highest return for the 40 year period is 22.18% for ERS in FY22 and 28.24% for TRS in FY82. The lowest return for this period is -15.21% for ERS in FY08 and -15.36% for TRS in FY08.

**The returns for years 1980 through 1989 are based upon performance returns calculated from TRS and ERS historical financial statements, which do not weigh cash flows or asset allocation shifts that may have occurred within a given period. These years along with the years 1990 through 1995 were calculated by RSA staff. Returns for all years thereafter were obtained from State Street based upon TRS's and ERS's data.



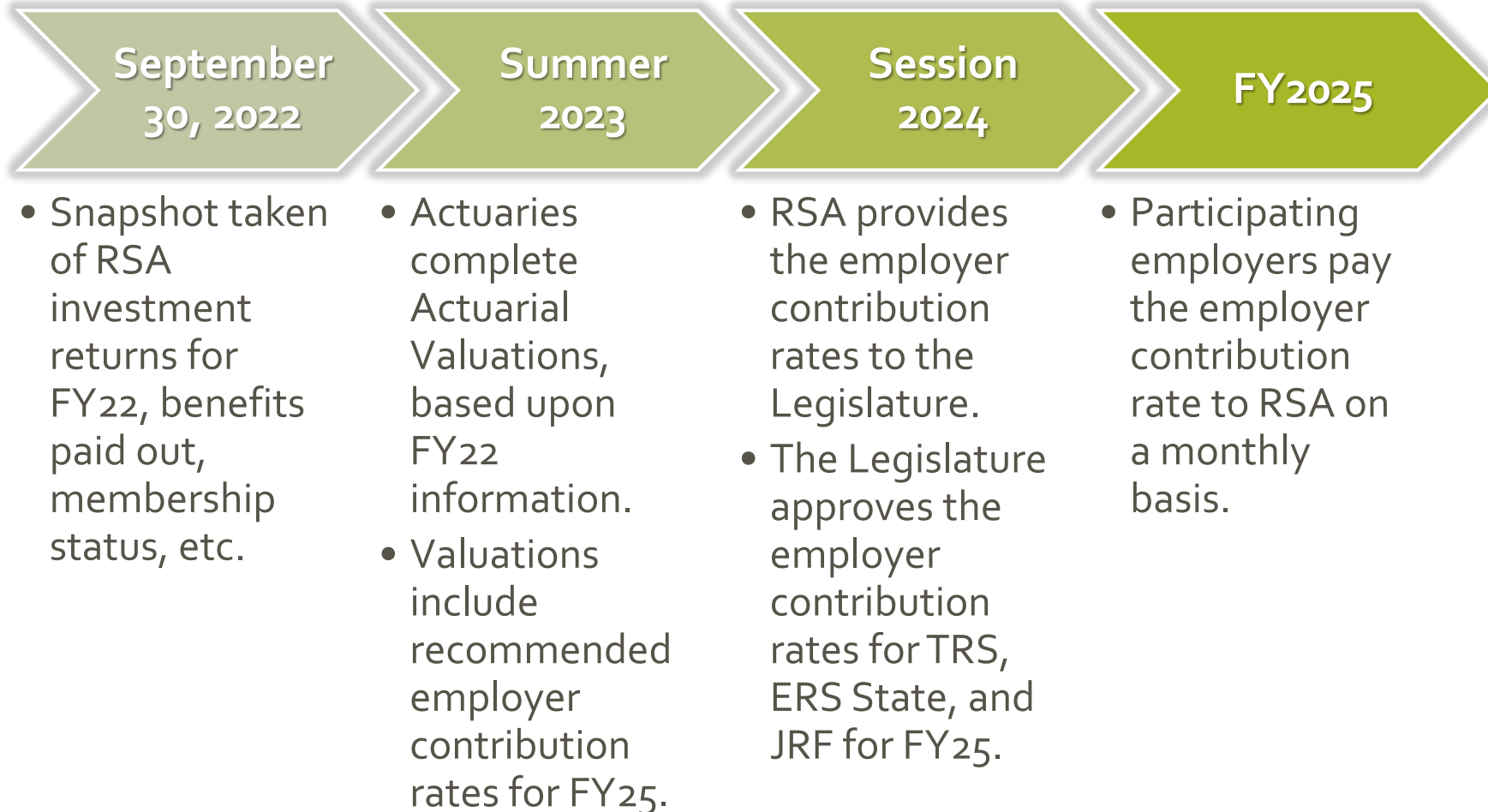
Investment Staff

- RSA's investments are handled by its in-house investment staff, which includes 10 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 **\$15.3M** for FY23. If RSA spent just the average amount, it would have spent **\$198.8M**.





Employer Contribution Rate: Timeline





TRS Employer Contribution Rates

for 2024 Legislative Session

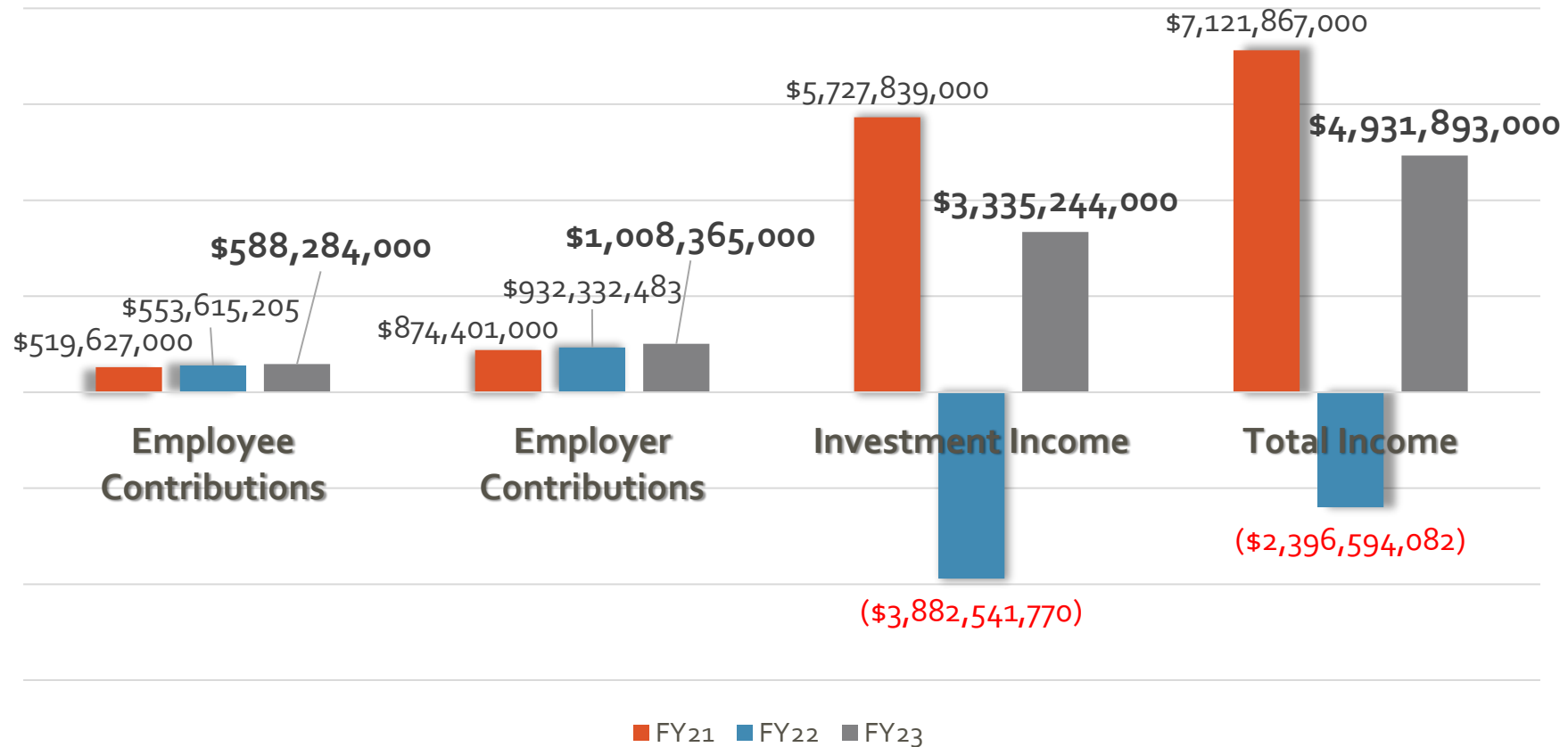
	FY23	FY24 (Current)	FY25 (Requested)	Increase (Decrease) from FY24
Tier 1	12.59%	12.59%	13.57%	0.98%
Tier 2	11.44%	11.57%	12.60%	1.03%
Est. Total Employer Cost	\$998.8M	\$1,038.3M	\$1,125.5M	\$87.2M
Est. Amt. from ETF*	\$588.6M	\$611.9M	\$663.3M	\$51.4M

*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).



TRS Income Sources:

FY21, FY22, and FY23 Comparison



*This includes contributions from all sources for TRS and excludes transfers from ERS and internal service funds.



Historic RSA Income Sources:

FY73-FY23

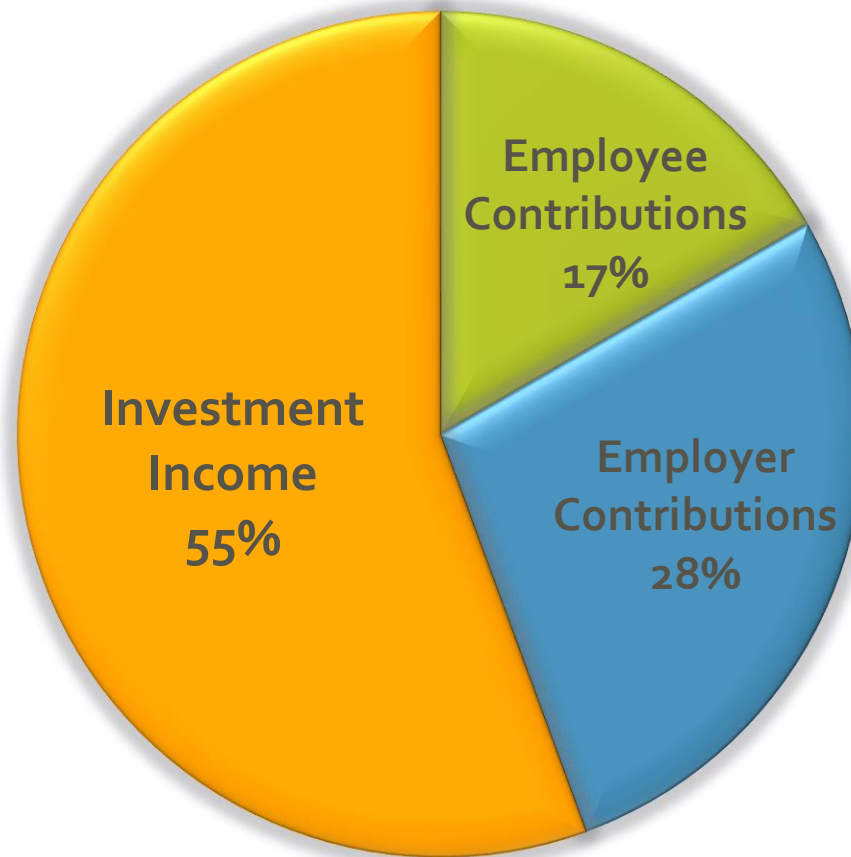
Employee Contributions:
\$18.9B

Employer Contributions:
\$31.4B

Investment Income:
\$63.0B

Total Income:
\$113.3B

Benefits Paid:
\$69.6B





PEEHIP

**PUBLIC EDUCATION
EMPLOYEES'
HEALTH
INSURANCE PLAN**



The Public Education Employees' Health Insurance Plan

PEEHIP was created in 1983 to provide health insurance benefits to active and retired public education employees.

PEEHIP offers three Hospital/Medical plans, four Optional Coverage plans, one Supplemental plan, and two Flexible Spending Accounts.

By statute, **PEEHIP** is governed by the same board as TRS.

PEEHIP has over 300,000 covered lives including actives, retirees, and dependents under its Hospital/Medical plans.





PEEHIP Funding

PEEHIP is funded primarily by employer contributions and member premiums, copays, and deductibles.

The employer contribution rate for **PEEHIP** is set by the Legislature annually.

The rate is set at a flat amount per month to be paid by participating employers for every active employee that is eligible to participate in **PEEHIP**.

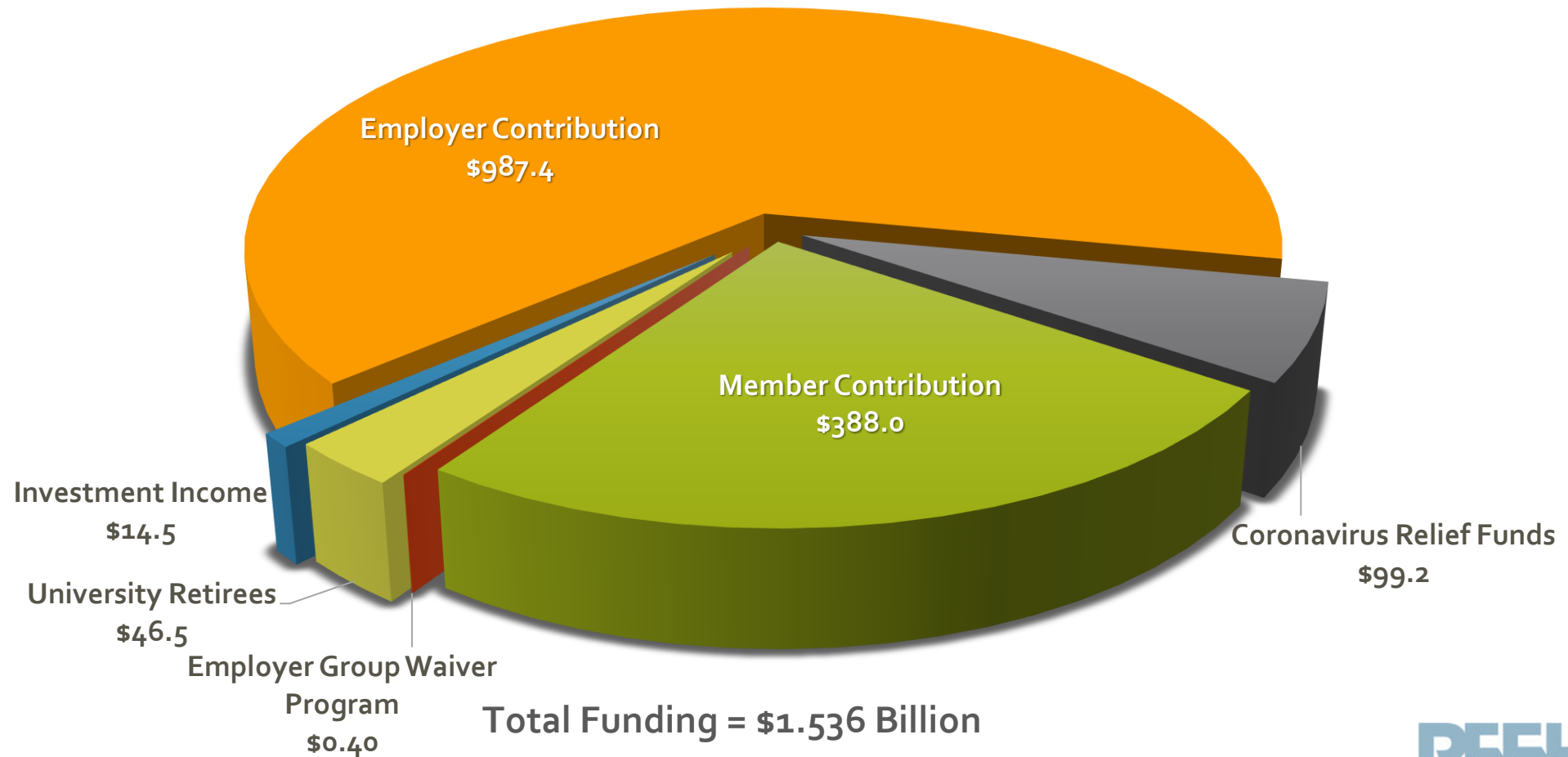
The employer contribution rate has been level set at \$800 per active per month since 2017.

PEEHIP has requested level funding for FY25.



PEEHIP FY23 Funding Sources

Amounts in Millions





PEEHIP \$800 Per Active Per Month

Usage for FY22

PEEHIP received \$800 per active per month in funding from the Legislature for FY23 (\$987.4 million). This amount is used to cover the cost for the following after members have paid their monthly premiums and all other sources of funds are received:

- Active subsidy
- Retiree subsidy (except University Retirees)
- Dependent subsidy (Active & Retiree)
- Administrative expenses

PEEHIP also received funding in FY23 from the following sources:

- Universities to cover their retirees when only University retirees are covered by **PEEHIP** (\$46.5 million)
- Employer Group Waiver Plan funds for Medicare eligible retirees (\$300,000)
- Investment Income (\$14.5 million)
- Member Premiums (\$388 million)
- COVID Funding (\$99 million)



PEEHIP Employer Contribution Rates for the 2024 Legislative Session

	FY23	FY24 (Current)	FY25 (Requested)	Increase (Decrease) from FY23
Per Active Member Per Month	\$800	\$800	\$800	\$0
Total Employer Cost	\$987.4M	\$996.0M	\$996.0M**	\$0
Est. Amt. from ETF*	\$703.7M	\$709.8M	\$709.8M	\$0

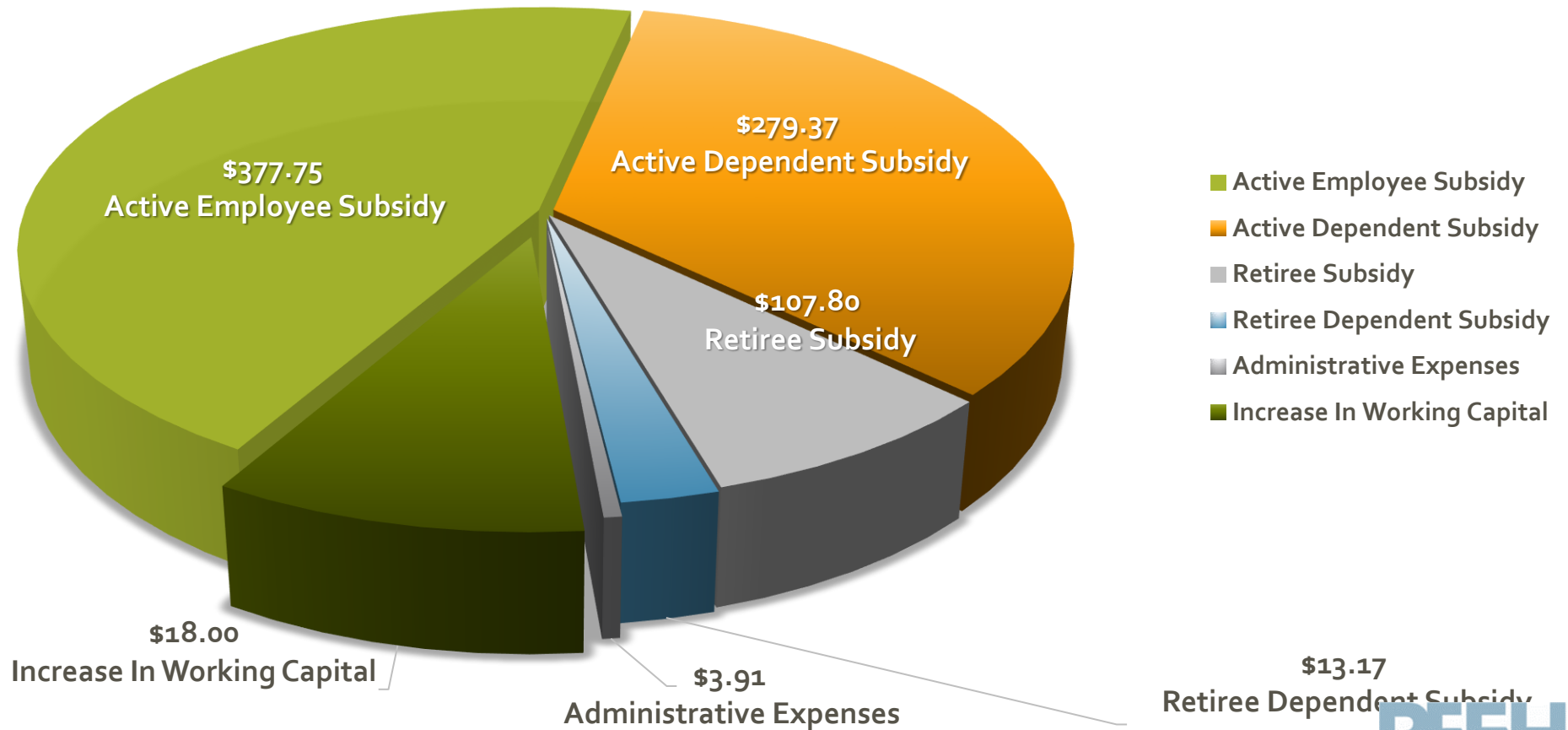
*Based upon estimates from the EBO using FY16 data, approximately 71.27% of total employer cost comes from the ETF; the remainder is paid by PEEHIP participating employers from other funds (12.64% Federal, 6.92% Tuition, 0.77% Non-Government, and 8.40% Local).

**The estimated cost to universities for retiree healthcare coverage (\$45.0M) is not included in this amount.



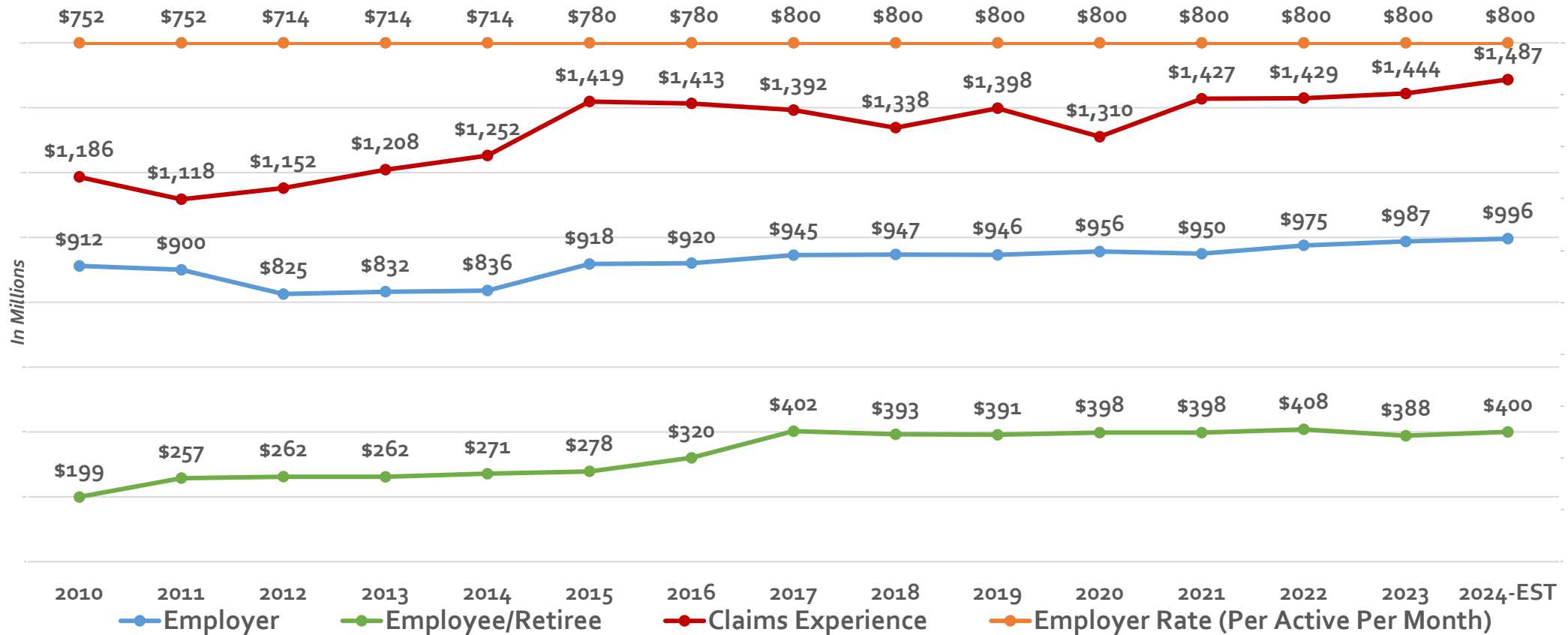
PEEHIP \$800 Per Active Per Month

Usage for FY23





PEEHIP Financial Trends 2010-2024





Alabama Retired Education Employees' Healthcare Trust Fund

The Retiree Trust was created by statute in 2007 to prefund healthcare costs for **PEEHIP** retirees and to help offset the unfunded liability for the plan.

The Retiree Trust had a market balance of \$1.647 billion as of 9/30/22. The assets of the Trust help to offset **PEEHIP's** unfunded liability.

The Retiree Trust has been funded by two transfers from **PEEHIP** in 2007 and 2008 (totaling \$631M), by monies from federal programs between 2007-2014, and by investment income.

Monies were transferred from the Trust to **PEEHIP** in 2015 (\$92M) and 2016 (\$32M) to address funding shortfalls.

The Legislature created but does not appropriate money to this Trust.

No member money has ever been placed in this Trust.



QUESTIONS?

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