<u>Impact of New TRS Cash Balance Plan on Current DB Plan</u>

A number of JCTA members have asked about the how the new TRS Cash Balance (CB) plan will impact the long-term stability of the existing TRS Defined Benefit (DB) plan.

The short answer is that under the provisions of SB151, as it passed, the new CB plan will have no negative impact on the current DB plan and will actually help sustain it. For more details, please read on.

Detailed Explanation:

The governor's original pension reform plan, which called for closing TRS to new hires and replacing it with individual private sector for-profit 401(a) accounts, would have significantly negatively impacted the current DB fund in TRS. This is because closing TRS would have changed it from an ageless system to an aging system, which would have reduced annual investment returns by an average of about 1.5% over the next 30 years. This would have raised the annual required payment (ARC) by about $300 million according to the official scoring of the governor's proposal.

However, JCTA and KEA lobbyists, empowered by the engaged activism of members, were able to stop the governor's plan to close TRS. Instead, the new CB plan will be within TRS and managed by TRS. This means payments by new hires will go into TRS and will be commingled with with existing DB funds for INVESTMENT purposes by TRS. In other words, TRS will have one big pool of funds to invest which will include both DB and CB funds. This will allow TRS to remain an ageless plan and avoids negatively impacting the performance of the existing DB members' investment funds.

Although TRS investments will operate this way, each individual member in the CB plan will have her or his own account. The individual's account balance will be tracked separately for each CB member. Interest will be added to the individual CB accounts annually, based on the 10-year investment returns of the total TRS pool of funds.

Because of its design, the new CB plan cannot accrue an unfunded liability. However, the existing unfunded liability for the current DB plan remains and will have to be paid off over the next 30 years. The total amount of the unfunded liability for the existing DB plan is essentially unchanged by the shift of new hires to the CB plan.

There is some good news in SB151 with regard to the DB plan's unfunded liability. First, SB151 includes new statutory language that more clearly and explicitly requires the state to pay the full ARC every year for TRS. Second, SB151 requires the ARC to be calculated and paid on an accelerated “level dollar payment” schedule. This should increase the rate at which the percent funding level of TRS increases. (Because the state has made full ARC payments for the past two years, the TRS funding level has already increased from 54.6% to 56.4%.)

Finally, and very importantly, the new CB plan does not begin until January 1, 2019. This means everyone who has a TRS account prior to this date will be in and will remain in the current DB plan. This is true even if a member is not currently teaching. This also means that teachers who are hired this summer and fall will still be in the current DB plan. And, since substitute teachers currently pay in to TRS, anyone who has served as a sub prior to January 1, 2019 will have a TRS DB account and will NOT go into the CB plan. Therefore, it is our understanding that we have a brief opportunity to throw a DB life preserver to aspiring educators who can qualify and serve as substitute teachers for at least one day prior to January 1, 2019.

This serves as a good example of one of the many ways the JCTA and KEA lobbying team was able to accomplish significant damage control on the original negative provisions that were proposed.