



# TRS Hybrid Plan

## Changes for Current Teachers

- Freeze the accrual of sick leave as salary credit for retirement calculation purposes
- Exclude members hired prior to July 1, 2008 to avoid conflict with the inviolable contract
- Create separate legislation for this provision and the hybrid-DB plan for new teachers

## Hybrid-DB Tier for New Teachers

- Mandatory participation defined benefit/defined contribution hybrid plan
- Limits the state's total obligation to a defined 6% payroll contribution rate
- Prevents accrual of unfunded liabilities by actively managing benefits and retirement eligibility
- New hires will participate in the shared responsibility retiree health plan at age 65
- New hires will not be eligible for retiree health insurance benefits prior to age 65

### 1. Defined Benefit Component

- 1.1 Payroll contribution rates: 9% for employees, 6% for employers
- 1.2 Retirement Eligibility
  - Normal retirement at age 60 or upon completion of 32 years of service
  - Early retirement with reduced benefits at age 55 with a .4% reduction per month
  - Annuity and disability benefits become fully vested at 5 years of service
- 1.3 Initial retirement annuity factor 2.5%
- 1.4 High-five salaries will be used to determine final average salary
  - Anti-spiking rules apply
  - Sick leave and other lump sum payments not included in benefit calculation
- 1.5 Employee contributions and accrued plan earnings are portable
- 1.6 Actuarially pre-funded 1.5% retiree COLA
- 1.7 Disability retirement based upon accrued service
- 1.8 Life insurance (\$5,000 active teacher, \$10,000 retired teacher)
- 1.9 **Initial normal cost must be less than or equal to 15% of payroll**

### 2. Defined Contribution Component

- 2.1 Payroll contribution rates: 1.5% for employees, 1.5% for local school boards (3% total)
- 2.2 Investment options include self-directed low-cost diversified index funds managed by TRS
- 2.3 Lump-sum payouts may be contributed pre-tax within catch-up guidelines
- 2.4 TRS will offer participants financial education

### 3. Funding Strategy for Defined Benefit Component

- 3.1 An annual actuarial valuation will establish the actuarially determined contribution rate (ADC/ARC)
- 3.2  $ADC \leq 15\%$ : no change in payroll contributions, annuity factors may be increased/restored
- 3.3  $ADC 15-18\%$ : divert up to 3% of DC contributions to fund ARC, annuity factors may be reduced
- 3.4 Retirement eligibility may be modified if ADC approaches 18% or consistently exceeds 15%
- 3.5 Goal is to keep  $ADC = 15\%$  or less, unfunded liability 0%, and payroll contribution rates stable
- 3.6 All changes to annuity factors and payroll contribution rates are prospective
- 3.7 Changes will be implemented by October 1st of the corresponding fiscal year
- 3.8 Retroactive benefit improvements or reductions for the new tier are prohibited
- 3.9 Gains will be used to create a reserve account to offset unfunded liabilities for the new tier