

First, Honor the Earned Defined Benefits Promised to all Retired Teachers, including their COLA's as well as the COLA's for upcoming Retiree's in the future.

Then, grandfather all current teachers with 25 years of current service at existing formulas for the next 10 years. Grandfather all teachers with 15-24.99 years allowing them to retire at 30 years with the current 2.2% (66%) formula at any age but not the 88.5% for 35 years. Teachers with less than 15 years of service would have the current formulas but would not qualify for an unreduced pension prior to age 60. Each group could continue to work longer at the formula rate of 2.5% for years past 30. **This change would result in a formula of 78.5% at 35 years for those with up to 24.99 years of service credit.**

Seek legislation that allows for an increase in contributions to be phased in over a five year period of one-half percent each year for both employees and employers. In order to get this passed by the legislature the State should mandate that all districts must negotiate/provide raises of at least 1% per year for each of the next five years and that one-half of the first 1% of negotiated raise each year must go to STRS to strengthen the Pension Fund Solvency. None of this extra funding should be used for Health Care or Benefit Improvements until the STRS returns to a 30 year funding period and an 85% funding percentage.

Next, calculate the STRS cost savings with the above changes and then offer a new Defined Benefit Retirement Plan for beginning teachers that would be different than we have today. However, it would be very similar to the 1967-68 STRS Plan that I started my teaching career under. The formula might have to be 1.8% per year for 35 years equaling the total of a 63% formula. *In my first year the STRS Formula was 1.75%, you had to work 35 years to get an unreduced pension of 61.25% and your FAS was based on your high 5 years.* While new pension percentages would be similar to past decades, **enormous amounts of money would be saved by STRS due to the lengthened career requirement.**

Since the 1973-83 era New York has developed 4 Tiered Retirement plans similar to what I am proposing in that they offer different formulas, benefits and contribution rates based on different career starting dates. **Isn't it fairer to honor the formulas and COLA's our retirees and current members have earned and been promised than it is to forever lower their standard of living?** A new Plan for new members could eliminate drastic changes for current members and retirees. New hires will have the advantage of time on their side, time to plan, make career changes, pursue other opportunities, select the DC Plan as an option, and time for Defined Benefit improvements to occur as they become affordable to STRS.

The new employee/member group could get a variable COLA determined by the STRS Actuary to meet the financial needs of the System. **The "Normal Cost" for the new DB Plan for future teachers would be much less than the current plan and STRS may be able to use as much as 12-14% of employer payroll contributions to more quickly pay down the unfunded liability of the system. This is 3-5% more than the approximate 8-9% that STRS has available under the current DB Retirement Plan.**

If these changes are made, and a new hire member formula plan is placed into effect, the STRS would have up to 35 or more years for investment recovery time before these new members could retire. If the investments improve enough these new plan members could have their benefits improved dramatically before they qualify for retirement. This possibility has a real chance of success over the long haul of a perpetual retirement system like the STRS. A look in the STRS rear view mirror for the past 35 year period shows us a system that had many such improvements. First, the required number of years was reduced from 35 down to 30 years between 1973 and 1976. Final Average Salary requirements were reduced from your high five to the high three years of your career. Health care was added as a free benefit for 19 years both for members and their spouses. The 13th check, now a distant memory, was passed out for about 20 years. Pension formulas were increased from 1.75% in 1967 to 2.2% in 1999. For year 31 a 2.5% credit is earned. We all know that currently with 35 years of Ohio earned service credit the formula jumps up to 88.5%. Since the STRS has changed their mind about this formula being cost neutral it will have to be phased out. History has a way of repeating itself and I see no reason why over the next 35

years there could not be a repeat of similar progress and benefit enhancements for new plan members. I say this because this is what actually happened over the last 35-40 years. Remember, the worst recession in the last 60 years prior to the current one occurred in the early 1970's, right when these STRS Benefit improvements also began. Benefit improvements will occur again when they can be properly funded.

I also think it is important to note that when these major benefit improvements began, the STRS was never under a 30 year funding period for 19 straight years after 1976. Some years we were in the 50's and even over 59 years of unfunded liability in 1980 and 1982. Also, our funding percentage during that 19 year period never exceeded 77%, far less than the 92% we were at in 2001 when we also had major investment losses. Five years after that downturn ended the STRS was back on track and under a 30 year funding period on June 30, 2007. Then the current crisis hit. It is worse and it has cut deeper into our solvency, but STRS will recover. This recovery will take longer but there are ways to recover without breaking the most important pension benefits and COLA promises that STRS has proudly stated, many times in the past, that they would always be able to deliver.

Some other benefit promises have been broken in recent years including our Health Care Plan. It was great for 19 years when it was free for the retiree and spouses. I'm glad that the teachers who taught me and whose careers spanned the 1940's to the 1970's had these benefits that they never had to pay for. They deserved it. **Who did pay for it however, were the teachers that followed their elders. That's us!** It is very unfortunate that retirees since 1993 will never see free health care again and those after 2004 will never again receive any subsidized health care for their spouse. The 13th check has not been received by anyone since 2000. We have given up a lot for the sake of our preceding retirees. **That's why I think it is reasonable that new hires entering the profession in 2010 and beyond can and should help the system like we did for the teachers who taught us.**

In the future STRS will be able to improve benefits again. OFT, OEA, ORTA and future STRS Board members will look out for these new Teachers. It is not a matter of "if" but only "when" benefit improvements will again become affordable to STRS for these new members.

The July issue of Money Magazine had an article about the effects of inflation. At 4% inflation \$5000 of purchasing power after 20 years will only purchase \$2300 worth of goods. At a 6% rate of inflation the original \$5000 will only buy \$1600 worth of goods. **The seeds of inflation have been planted for the future due to the many Trillions of dollars that the federal government has spent to get through the current economic crisis.** You can clearly see the problem facing retirees going forward if the COLA is reduced or eliminated. Even if the current COLA is maintained our retirees will fall behind in their purchasing power simply because our COLA is not compounded. A 2.5% compounded COLA produces greater growth and purchasing power than our 3% non-compounded COLA twenty years after retirement.

I know that there is pressure coming from the Legislature and the ORSC to develop a contingency plan for this crisis. Be sure to remind them that they don't always have the right answers either. In 2000-01 Milliman & Robertson, their own ORSC /Legislative Actuary, recommended that the STRS Employer contributions be lowered from 14% to an amount as low as 10.4%. Think about how much worse off we would be now if that had happened!

If the COLA is taken away YOU know it would be devastating for current and all future retirees. Current teachers nearing retirement, and particularly retirees, are at a total disadvantage since their career, their time and their retirement cannot be reversed. I know that reducing or eliminating the COLA would be the *easiest* way to get the system back to a 30 year funding period. Please, don't go looking for the "Easy Button" to solve this problem. I've tried to think "outside of the box" about a workable solution and I hope that the STRS Staff and you, as Board Members, will do the same.

Submitted by Bob Buerkle for the 08/20/09 STRS Board meeting

Pension Calculation

A **pension** is the retirement benefit determined by the following formula:

$$\text{Pension Factor (x Age Factor for Tiers 2, 3 and 4) x Final Average Salary} = \text{Maximum Annual Pension}$$

Pension Factor — A percent based on a member's service credit. The percentage increases with additional service in most cases. (See calculations below.)

Age Factor — A reduction in the pension factor for Tier 2, 3 and 4 members who retire earlier than age 62 with less than 30 years of service credit.

Final Average Salary (FAS) — Typically, the average of a member's highest three consecutive years of salary earned, with certain exclusions. Tier 1 members are eligible for a five-year FAS if it provides a greater benefit than the three-year calculation. In addition, Tier 1 members with a date of membership prior to June 17, 1971 are generally eligible for a five-year calculation without the three-year exclusions.

Pension Factor Calculation by Tier

Tier 1:

- 2% x years of NYS service since July 1, 1959, including any applicable benefit enhancement credit.
 - 1.8% x years of NYS service before July 1, 1959.
 - 1% x years of out-of-state service prior to NYSTRS membership (10-year maximum).*
- 5% reduction in pension for each full year of NYS service under 20 years (prorated for partial years with a maximum reduction of 50%).

Tier 2:

- Computed under the Tier 1 formula, including applicable benefit enhancement credit and/or the 5% reduction for each year of NYS service under 20 years. (Note: Tier 2 members cannot claim out-of-state service unless it was credited under a previous Tier 1 membership.)
- A prorated reduction of up to 27% when retirement occurs before age 62 with credit for less than 30 years of NYS service.
- No reductions if the member is age 62 with at least 20 years of service, or if credit totals 30 years or more at age 55 or older.

Tier 3**:

- 1 2/3% x years of NYS service if credited with less than 20 years, or 2% x years of NYS service if credited with 20 to 30 years.
 - 60% maximum for 30 years or more.
- A prorated reduction of up to 30% when retirement occurs before age 62 with credit for less than 30 years of NYS service.
 - No reductions if the member is age 62, or if credit totals 30 years or more.
- At age 62 (or at retirement, if older), benefit reduced by 50% of primary Social Security benefit accrued while in NYS public employment.

Tier 4:

- 1 2/3% x years of NYS service if credited with less than 20 years, or 2% x years of NYS service if credited with 20 to 30 years.
 - 60% plus 1 1/2% for each year of NYS service beyond 30 years.
- A prorated reduction of up to 27% when retirement occurs before age 62 with credit for less than 30 years of NYS service.
 - No reductions if the member is age 62, or if credit totals 30 years or more.

*Any portion of this credit that brings the total service credit beyond 35 years is excluded from the pension calculation. Benefit Enhancement credit is not used to establish the 35-year threshold.

**Tier 3 members automatically receive either the benefits under Tier 3 or 4, whichever are greater

Employer Contribution Rate

The employer contribution rate (ECR), which is the same for all tiers, is expressed as a uniform percentage of member payroll and is set more than a year in advance of its collection. The rate is adopted annually by the Retirement Board at its July meeting, but the contributions associated with that rate will not be collected for another 14-16 months, which allows employers time to budget accordingly. Except in the case of a few employers required to pay directly, payments are deducted from State Aid apportioned during September, October and November of each school year.

The ECR is determined annually by the System's actuarial valuation of its assets and liabilities. This valuation encompasses estimates of future salaries and projected benefit payments for all members. The projections are based upon current member data as well as the following actuarial assumptions regarding future events:

- Rate of return on assets;
- Rates of retirement, disability and withdrawal.
- Mortality rates for active, retired and disabled members; and,
- Rate of salary growth;

Even with the enactment of several substantial benefit improvements over the past 25 years, the ECR has been in single digits since the late 1980s. For six fiscal years, 1997-2003, the ECR was less than 2% of member salaries, with three of these fiscal years having an ECR of less than 1% of salaries. The substantial decline in the ECR was primarily the result of unexpectedly high rates of investment return. However, rates of return in the capital markets were unfavorable (and consistently negative) in the first few years of the new millennium. Although the assets of the Retirement System are prudently diversified and the asset valuation method employed by our actuaries helps dampen the impact of market volatility, the poor return of the capital markets required a considerable increase in the ECR. **Following are the employer contribution rates over the last 20 years.**

Fiscal Year	Employer Contribution Rate
1989-90	6.87%
1990-91	6.84%
1991-92	6.64%
1992-93	8.00%
1993-94	8.41%
1994-95	7.24%
1995-96	6.37%
1996-97	3.57%
1997-98	1.25%
1998-99	1.42%
1999-00	1.43%
2000-01	0.43%
2001-02	0.36%
2002-03	0.36%
2003-04	2.52%
2004-05	5.63%
2005-06	7.97%
2006-07	8.60%
2007-08	8.73%
2008-09	7.63%

The actuarial assumptions, methods and procedures used by the System's actuary to calculate employer contributions are reviewed annually by outside independent auditors. All have been found to be reasonable and appropriate, and in compliance with generally accepted actuarial principles and practices.

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The Investment Portfolio

NYSTRS' investment portfolio is comprised of several components.

The **domestic equity** portfolio is both passively and actively managed in an effort to maximize investment returns at appropriate levels of risk while minimizing expenses. Approximately 97% is managed passively by staff with the remaining 3% actively managed by two external managers.

The Retirement System's **international equities** are generally managed by external managers, with one internally managed fund. The external accounts are managed in commingled funds.

The System's **real estate** and **mortgage** portfolios continue to be positively impacted by demand from investors looking for a stable yield and the possibility of upside potential. Economic growth and continued job formation have also had a positive effect on the portfolio.

Private equity investments are generally limited partnerships in which the Retirement System, as a limited partner, commits a fixed amount that the general partner will invest over several years. The partnership structure may cover periods of 10 years or more, and is intended to achieve higher long-term returns than those available through marketable securities.

There are two objectives of the Retirement System's **domestic fixed income** portfolio. The first is to generate cash flow to contribute toward the payment of the System's approximately \$400 million monthly retirement payroll. The second is to provide stability to the System's total investment portfolio through diversification.

The **short-term fixed income** portfolio is comprised of high-quality securities that are easily converted into cash. The main purposes of the portfolio are to have money readily available to satisfy the monthly payment of pension benefits, invest in other asset classes, and support the operating obligations of the Retirement System.

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Member Statistics

Number of Active Members by Tier

As of June 30	Tier 1	Tier 2	Tier 3	Tier 4	Total
1995	64,093	17,012	25,206	93,087	199,398
1996	58,850	16,596	24,546	100,926	200,918
1997	53,502	16,186	23,861	110,167	203,716
1998	49,266	15,860	23,302	120,652	209,080
1999	50,859	15,776	20,726	128,906	216,267
2000	47,234	15,700	20,159	141,893	224,986
2001	41,169	15,472	19,914	157,795	234,350
2002	35,601	15,121	19,674	172,438	242,834
2003	28,327	14,463	19,083	185,374	247,247
2004	22,986	13,947	18,835	198,747	254,515
2005	17,901	13,210	18,535	210,710	260,356
2006	13,621	12,084	18,173	220,532	264,410
2007	10,838	10,178	17,743	231,286	270,045
2008	8,630	8,171	17,007	241,093	274,901

Investments

As of June 30, 2008, the Retirement System's net assets available for pension benefits were \$95.8 billion. NYSTRS staff and external investment managers, following the policies adopted by the Retirement Board, are responsible for the daily investment decisions. The Investment Advisory Committee and the Real Estate Advisory Committee – established by the Retirement Board – advise the Board and staff on investment objectives, economic trends and investment opportunities. The performance of each external investment manager is carefully monitored by both staff and the System's investment consultants to ensure compliance with NYSTRS' investment policies and objectives.

The long-term objective of the investment policy is to achieve returns that exceed those of comparable asset class benchmarks, but are, in aggregate, not less than the actuarial assumption, which is currently 8% per annum. Additionally, each external investment manager is expected to outperform, over a market cycle, the appropriate benchmark.