EXHIBIT #1
DATE 3-18-11
HB SB 54

<u>Summary of the State Administration and Veterans' Affairs Interim Committee's recommendations to redesign the Teachers' Retirement System</u>
as of September 13, 2010

Summary

At its August 17, 2010, meeting, the State Administration and Veterans' Affairs Interim Committee (the SAVA Committee) requested legislation to draft two alternative designs for the Teachers' Retirement System (TRS). Both alternate designs would apply only to new hires after the effective date of the legislation.

TRS Option 1 is a choice between two money purchase (or cash balance) plans.

TRS Option 2 is a modification of the current defined-benefit TRS structure. Option 2 is also known referred to as the Professional Retirement Option, or PRO.

The following are general descriptions of each plan as requested by the SAVA Committee. Details may change during the drafting and legislative processes.

BiPARTISAN Compromise

Option 1: Choice between money purchase plans

- establish two plans between which new hires can select membership
- both would be money purchase plans (also referred to as individual account defined-benefit plans or cash balance plans). The benefit would be an annuity at retirement age based on the accrued balance of the member's account.
- a member's account would be credited with their employee contributions (currently set at 7.15% of salary) and interest credits
- at retirement the vested member's accumulated account balance would be matched up to 100% by the employer and the total would be annuitized for a retirement benefit
- the TRS Board would grant a minimum interest rate of 5% and a maximum of 9%. The goal would be to average 7% over the member's career, BUT NO LONGER STATED IN BILL.
- 15-year graded vesting (The member would be 25% vested after 5 years, increasing 5% each year for years 6 through 10, and increasing 10% each year for years 11 through 15 until the member is fully vested after 15 years.) IF IRS DIS-APPROVES, SWITCH TO 10 YEAR CLIFF.
- retirement eligibility age would be 60 and vested
- the second money purchase plan would have the same provisions as the first, except that a member would pay an additional one-half percent of salary into their account. If the member remained for 30 years, the employer would match the additional employee contribution at retirement, along with interest on the additional contribution.

Jim Peterson

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DISTRIBUTION REQUESTED BY: Bruce Tutvedt

SB 54 - Establish a hybrid tier in TRS for new hires only (SAVA Committee bill) *(Sen. Joe Balyeat)*

A) One of two competing bills which came out of SAVA for TRS. SB54 got more votes than the other one.
B) Can only apply it to new hires because of a court case. So it alone won't solve our funding crisis.
C) Hybrid = money purchase = cash balance plan
D) Why hybrid? Borrows from the best of both DC plans and DB plans.
E) Closes loopholes... Under the current system, there are several ways a person can "game" the current system to generate a higher retirement than what is warranted based upon funding paid in during their employment tenure – salary spiking, early retirement, etc. SB 54 closes those loopholes – you only get the balance in your account (including 100% matching and interest), annuitized over your remaining life expectancy.
F) Encourages longevity three ways: 1) the longer you work, the more matching and interest you get. 2) The longer you work, the shorter your retirement life expectancy..... so your monthly benefit goes up substantially the longer you work. You get the direct benefit from working longer. 3) There's an extra ½ percent election you can make when you first get hired... if you stay 30 years, you get matching and interest on that extra ½ percent as well.
G) But it still gives employees great flexibility if, for whatever reason, they feel they need to retire sooner. Assuming they're vested, they would still receive their account balance, plus employer match and interest, annuitized over their remaining life expectancy.
H) The remaining plan participants' retirement is protected... there's no way to rob from the rest.
I) The normal cost for this plan is the lowest of the alternatives we looked at... thus, we can take the extra which is being contributed, and use it to help reduce our unfunded liability.
J) We now have the computer technology to handle individual accounts, so why not switch to this new plan rather than simply tweak a dinosaur plan with no individual accounting, no safeguards against unwarranted personal gain at the expense of the other participants, and no real direct incentives for longevity... which we desperately need to meet staffing needs beyond the retirement of the baby boomers.
K) Doesn't force a new higher contribution rate on all new hires.... Only as an option for those who want the .5% longevity bonus. The PRO plan forces .5%+ increase on all new hires, only to benefit a few.
L) This proposal automatically adjusts for longer future life expectancies. We won't have to have another big political fight 20 years down the road over whether we should switch to 35 years instead of 30.

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