

Testimony  
House Bill No. 377, as amended  
Introduced by Rep. Tom Woods  
By Request of the Office of Budget and Program Planning

Presented by David L Senn, Executive Director  
Teachers' Retirement Board  
Hearing House Appropriation  
March 22, 2013

As of June 30, 2012, the TRS unfunded liability stands at \$1.9 billion of which about 55% is funded by current contributions, leaving a shortfall of approximately \$870 million. HB 377 will put TRS back on a course to actuarially fund benefits.

HB 377, with the GABA changes, increased contribution and other additional resources, will amortize the TRS unfunded liabilities in 20 years.

- Without GABA HB 377 would still fund TRS in 32 years.
- What is important is that with or without GABA the additional funding included in HB 377 still changes the direction from unfunded, to actuarial funded.

HB 338, with the GABA suspended, will amortize TRS unfunded liabilities in 47 years

- Without the GABA suspension and the general fund appropriation of over \$28 million, the amortization period under HB 338 is infinite, and the required additional funding is over \$88 million.

Cash Flow

- HB 377 properly funds TRS, which will result a positive cash flow in the future, and we will not be spending \$4 million a month more than we take in. Had the actuarial contribution rate been contributed over the last 4 years we would not be in a negative cash flow position today. It is important we turn this around and fund the System.

TRS Membership

- When someone retires, we expect they will be replace with a new contributing member. That is exactly what is happening and why the active membership has remained constant over the last several years.
- A pension fund is established to pay retirement benefits. If it is accomplishing its goal, the number of retired members should grow. That is what has been happening.
- The system membership numbers are exactly what we would expect and what we want to see.

What is the Ongoing Cost after The System Is 100% Funded? – Who Pays For The Benefits?

- HB 377 or 338 - Current Employees will pay 7.15%, Employers will pay 2.50%, Total cost = 9.65%
- HB 377 - Employees after July 1, 2013, will pay 8.15%, Employers will pay 1.38%, Total cost = 9.53%
- HB 338 - Employees after July 2, 2013, will pay 7.0%, Employers will pay 7.0%, Total cost = 14%
  - Long term, HB 338 will cost employers 4.5% of payroll more than HB 377

**The Board asks for your support on HB 377.**

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### Triggers – Contribution Rate Adjustments

Triggers will allow TRS to respond in a timely manner to actuarial recommendations based on data from annual evaluations. The TRS Board may decrease an employee supplemental contribution rate if:

- The average funded ratio of the System based on the last three actuarial valuations is equal to or greater than 90%; and
- The period necessary to amortize all liabilities of the System based on the most recent annual actuarial valuation is less than 15 years.

Following one or more reduction in the supplemental contribution rate, the board can increase the rate if:

- The average funded ratio of the system based on the last three annual actuarial valuations is equal to or less than 80%; and
- The period necessary to amortize all liabilities of the system based on the most recent annual actuarial valuation is greater than 20 years.