BE CAREFUL OF ASSUMING RUMORS ARE FACT AND DO NOT MAKE BAD DECISIONS ON INCORRECT RUMORS

ATRS made a series of adjustments to absorb nationally proscribed actuarial changes in 2017. ATRS does not anticipate any additional benefit adjustments due to the actuarial changes . The adjustments made kept ATRS on firm financial footing and the ATRS financial consultant gave the Board a report earlier this month that the ATRS rate of return in this fiscal year exceeds the 7.5% assumed rate of return that ATRS now uses.

The changes made by ATRS mean that all participating groups in ATRS had to take on part of the load to absorb the actuarial changes. For most members, the change will be very slight. Many of the changes have already been fully implemented, with a few to be phased in over several years. For instance, employers and contributory members will see a 1/4 of 1% (0.25%) increase in contribution rates in about fourteen (14) months at the beginning of the 2020 fiscal year. The contribution rates will slowly rise over four (4) years to a 1% increase for both groups. The noncontributory multiplier will be decreased in fiscal year 2020 in alignment with the contributory member increase to maintain parity between the two groups. All earned noncontributory multipliers will remain at the 1.39%, including the noncontributory multipliers earned next fiscal year. All multipliers of any kind that are already earned cannot ever be reduced.

Of the 45,000 retirees, 41,000 receive the benefit stipend that is currently $75.00 per month. Beginning in fiscal year 2020, the monthly benefit stipend is reduced to $50.00 per month for these 41,000 retirees and for all future retirees. The reduction coincides with the annual cost of living increase to ensure no retiree will have a lower monthly benefit from the change. The $75.00 benefit stipend is not grandfathered for any member or group of members. The higher benefit stipend is not preserved by retiring earlier than you had otherwise planned.

The three (3) year final average salary (FAS) calculation will move to a five (5) year calculation with a special protection for all members with at least three (3) years of service. The protection is that ATRS will calculate a benchmark three (3) year FAS at the end of this fiscal year that will ensure that a member retiring will have the benefit of the higher of the three (3) year FAS benchmark or of the new five (5) year FAS calculation. This means that all members will have a higher earned benefit by continuing to work. In working on actual member files, most member's five (5) year FAS calculation will be higher than the benchmark three (3) FAS calculation within 1-2 years after the calculation is implemented. The five (5) year FAS actually protects most members from how extensively the three (3) year FAS formula was manipulated to increase the final average salary for those that could do so at the expense of other members in the system. A five (5) year FAS is much less susceptive to such manipulation and lessens the likelihood of additional benefit changes due to excessive payouts by those in a position to manipulate the three (3) year FAS formula as had been done in the past.

The reduction for early retirement is already fully implemented without a phase in period. The reduction was increased at the suggestion of the actuaries for ATRS to prevent other member groups from subsidizing the early retirement of healthy members since ATRS adopted a new mortality table that assumed longer lives for all ATRS members. ATRS does not contemplate any additional changes to early retirement.

In T-DROP, the formula for T-DROP participation is unchanged except the minimum interest rate used to be 2% and now the minimum rate is 3%. In years with strong returns, the Board can authorize an additional incentive rate of up to 3% which means the maximum regular T-DROP interest rate is 6%, which will be paid the next fiscal year after strong returns in 2017. ATRS currently has approximately 80,000 active members, who are working at an ATRS employer and have not retired. Of that number, 3,642 are active T-DROP participants. In a typical year, ATRS has 3,000 active members retire. Of that number, about 1 in 5 are retiring from T-DROP

Sometimes a change in a specialized program creates a rumor that makes all members think the change will affect standard benefits. The one area of T-DROP that rumors have created this unnecessary concern is about the program that allows T-DROP participants, at the time of retirement, to voluntarily convert the T-DROP balance into an additional monthly benefit. That additional monthly benefit is above and beyond (in addition to) the regular earned monthly benefit. In this program, that is a voluntary decision of the retiring T-DROP member, a second monthly benefit is added to the earned benefit, instead of rolling the T-DROP balance out, or placing the funds in an ATRS CBA. The ATRS CBA pays interest that starts at a guaranteed 2.5% and that increases to a 4% rate that cannot be reduced after six (6) years, plus an incentive rate of 1% is paid on top of the guaranteed rates in years with strong returns.

The old formula to convert a T-DROP balance into an additional monthly payment assumed ATRS would make more money on the balance (8%) than the current assumed rate of return ATRS has on the trust fund itself. In addition, the new mortality tables that ATRS uses also assumes that retirees out of T-DROP will live longer which also increased the actuarial costs of converting T-DROP into an additional monthly payment. This meant that all other member groups were subsidizing the conversion of T-DROP balances to additional monthly benefits. Of all T-DROP balances at the time of retirement, about 37% were converted to a monthly benefit. 67% were left in a CBA or rolled out to another administrator. The participants in this program represent about 37% of the T-DROP participant's accounts each year. T-DROP retirees are about 1/5 of all new retirees. At the suggestion of the ATRS actuaries, the annuitization formula has been changed to eliminate other member groups subsidizing the 37% of 1/5th of all annual retirees.

When you read on social media about member benefits dropping from $200 to $800 per month, this has NOTHING to do with the calculated earned benefit of regular retirees and others that do not convert T-DROP into a monthly benefit. Even within this group, the member's earned standard benefit is totally unaffected. For a large monthly benefit difference of $400 to $800 per month, the member would have a T-DROP balance in the 100's of thousands of dollars in addition to a higher than average earned lifetime benefit.

Obviously, the old formula to convert the T-DROP balance into a monthly benefit was very rich for those who could benefit from it and voluntarily chose it at the time of retirement from T-DROP. Most retirees never have such a choice since most never enter T-DROP. Those who were positioned to have the advantage of that rich formula are now disappointed. However, these members have the standard earned benefit payable for life that is well in excess of the average benefit paid to the 45,000 retirees of ATRS in addition to a T-DROP balance that can be in the 100's of thousands of dollars. By the way, insurance companies and many other groups that offer annuities could convert a cash balance for these members into a lifetime annuity. ATRS attempted to maintain an annuity formula that was not only competitive with these private companies, but remains superior. Retiring T-DROP participants wanting to convert their balance to a monthly annuity can roll the T-DROP balance to another administrator that converts a balance into a lifetime monthly benefit. However, despite all of the turmoil concerning this matter, ATRS doubts those retiring from T-DROP will find a stable and reliable company that offers a better program with a higher benefit than ATRS has implemented. Importantly, any T-DROP balance that is converted to a monthly annuity continues to receive the 3% simple COLA on the additional monthly benefit just like all members receive on the earned monthly benefit.

If you are not in T-DROP or you are in T-DROP and do not plan to convert your T-DROP balance into a monthly benefit, this email has no impact on you other than ensure you that this quality program does not create additional costs that would have to be absorbed by all members in the future.

CONCLUSION

All participants of ATRS contributed to allow ATRS to absorb actuarial changes that had to be implemented due to national policy and trends. ATRS does not anticipate any additional changes in benefits and will strive to keep the top rating on trust fund returns that ATRS has attained for many years. Do not let the noise associated with rumors trick you into making a life decision that will undermine your retirement stability. Most members will see very little change in ATRS benefits. In a few circumstances, the changes had a greater impact such as converting a T-DROP balance into a monthly benefit. However, the average member will see very minor differences. ATRS encourages you to obtain projections to better understand what your benefits are now and in the future. Before you make a final decision, ensure that you act on facts and not rumors.