Teacher Retirement System, the Public Employee Retirement System, Supplemental Benefits System and 403b Plans

Prepared by Dan Polta - Superintendent Denali Borough School District
Updated for ASA, November 2018
Disclaimer - This information is my personal analysis of state and federal laws and plan documents, nor do I have a “fiduciary” responsibility toward you or our districts.

Prepared by Dan Polta - updated November 2018
Today’s Learning Target

I can explain the retirement landscape in Alaska to my staff.
What are TRS and PERS

- The TRS and PERS systems provide retirement benefits (money and health insurance), as well as disability and death benefits for teachers and public employees in Alaska.

- **Teachers and public employees in Alaska do not participate in Social Security.**
  - Please note, that if you qualify for social security from other jobs, your social security benefit may actually be reduced if you receive a TRS or PERS benefit.
  - Contact the Social Security Administration for specifics.
TRS - Who qualifies?

- Any certified teacher or administrator who works for a school district in a job that requires a certificate.
- Any teacher or administer in the University of Alaska system.
TRS - Tiers I and II and DCP

- Depending on when you started working as a teacher in Alaska you have a different plan design under TRS.

- Tier I - Teachers entered the system before July 1, 1990. - Defined Benefit

- Tier II - Teachers who entered the system on or after July 1, 1990 but before July 1, 2006. - Defined Benefit

- DCP (Defined Contribution Plan) - Teachers who entered the system on or after July 1, 2006 (Kathy will address).
TRS Tiers I/II - Defined Benefit

Contributions

- Set yearly by the State
- Employee contribution = 8.65% (pre-tax)
- District contribution = 12.56%

Contributions are invested by the State to pay the guaranteed benefits of everyone in the TRS defined benefit systems.
TRS - Defined Benefit

Vesting

- Full rights to the benefits is called being “vested” in the system
- For TRS this happens after 8 years of service.
- If you leave TRS before 8 years of service - no access to TRS benefits or the District’s financial contribution
  - Employee does own his/her contributions
  - Withdraw at any point (and pay income tax on it)
  - Leave it in TRS and earn interest until your retirement
TRS - Defined Benefit

Payout

• After 20 years of service or age 55 (Tier 1) or age 60 (Tier 2).

• Payment is based on the average salary of your top 3 years.
  • 2% per year of service for the first 20 years.
  • 2.5% per year of service for each additional year.

• Payments are also adjusted based on survivorship options.
PERS - Who qualifies?

- Any public employee in Alaska
  - Full time is considered 30 hours per week
  - Must work at least 15 hours per week
- You must participate in social security for those employees who work less than 15 hours per week.
PERS - Tiers

Depending on when you starting working you have a different plan design under PERS.

- Tier I - Employees who entered the system before July 1, 1986. - Defined Benefit
- Tier II - Employees who entered the system after July 1, 1986 but before July 1, 1996. - Defined Benefit
- Tier III - Employees who entered the system after July 1, 1996 but before July 1, 2006. - Defined Benefit
- DCP (Defined Contribution Plan) - Employees who entered the system on or after July 1, 2006. - Defined Contribution. (Kathy will address this).
PERS - Defined Benefit

Contributions

- Set yearly by the State
- Employee contribution = 6.75% (pre-tax)
- District contribution = 22%

Contributions are invested by the State to pay the guaranteed benefits of everyone in the PERS DB system.
PERS - Defined Benefit

Vesting

- Full rights to the benefits is called being “vested”
- For PERS this happens after 5 years of service.
  - Employees who work less than a full year either have a prorated calculation to determine their length of service or can use a 172 day school term to define one year of service*
- If you leave PERS before 5 years of service - no access to PERS benefits or the District’s financial contribution
  - Employee does own his/her contributions
    - Withdraw at any point (and pay income tax on it)
    - Leave it in PERS and earn interest until your retirement
- * LWOP of more than 10 days in a year prevents that year from counting as a year of service.
PERS - Defined Benefit Payout

After 30 years of service or age 55 Tier 1 or age 60 for tiers 2 and 3.*

- Based on the average earnings of your top 3 (TI&2) or top 5 (T3) years.
  - All service credit in PERS is modified to consider the months within the year actively employed.
  - 2% per year of service for the first 10 years.
  - 2.25% per year of service for the second 10 years.
  - 2.5% per year of service for each additional year.

- Adjusted for survivorship options

*LWOP of more than 10 days in a year prevents that year from counting as a year of service
TRS and PRS “They Early Years”

What questions do you have about the financial side of your retirement benefits?

Next we’ll look at the health side of retirement.
TRS Defined Benefit - Health Benefit

• Eligible for medical benefits if...
  • Retire from tier I
  • Retire from tier II with 25 years of service or reach age 60

• Coverage is for member, spouse, and dependents
PERS Defined Benefit - Health Benefit

• Eligible for medical benefits if...
  • Retire from tier I
  • Retire from tier II and reach age 60
  • Retire from tier III with 10 years of service and reach age 60
TRS and PERS Defined Benefit - Health Benefit

• Deductible $150/$450
• Copay 80%
• Out of Pocket Limit $800
• No retiree contribution to plan premium
Optional Benefits (must be selected at time of retirement at additional costs)
- Dental
- Vision
- Audio
- Long Term Care
TRS/PERS - Health Benefit for the defined benefit plans

What questions do you have about health benefits in retirement?
TRS and PERS

DBP (TRS I and II and PERS I, II, and III)

Division of Retirement and Benefits

DCP (TRS III and PERS IV) Your Account Access

- Visit - akdrb.gwrs.com

“MyRnB” also accessible via “MyAlaska” accounts (like your PFD)
TRS and PERS

- All information about the various plans comes from the Division of Retirements and benefits and the plan information booklets available on their website

- [http://doa.alaska.gov/drb/retirement/index.html](http://doa.alaska.gov/drb/retirement/index.html)
TRS and PERS - Defined Contribution

• Kathy Lea will talk about these plans and the State’s 457 Plan.

• When I return we’ll talk about retirement arrears and other optional retirement plans including SBS and 403b plans.
Division of Retirement and Benefits and Empower Retirement Services

December 7, 2018
Myth : The DCR plan is an inferior plan to the DB Plan

Myth 2: I’ll never be retirement ready with this plan

Myth 3: Working in Alaska under this plan just wastes years I could be working under a DB plan somewhere else.
Investment Account

• Teachers contribution 8%, Employers 7% - a total of 15% to investment account.

• Teachers 100% vested in their own contributions, laddered vesting for Employer contributions (100% vested in 5 years).

• Teachers direct the investment of both contributions from the start. Financial advice available.
• Assuming
  • wage increases of 3.62%
  • 7% average rate of return

• Replacement income at 25 years would be 43.36% of last salary.
State 457 Plan Companion

- Open to school districts and political subdivisions
- Low fees—more money toward the investment
- Easy reporting and administration
- State maintains the fiduciary responsibility
Retiree Medical Benefits

• Same coverage as DB retiree medical, Dental-Vision Audio and Long Term Care coverage optional. Supplemental to Medicare

• Eligible with 10 yrs service at Medicare Age; or with 25 years service

• Employer funded HRA to pay premiums or other recognized medical expenses.
Disability and Death

• Occupational Disability. 40% of salary, employer continues to make contributions to account.

• Occupational Death. Survivor receives 40% of salary, employer continues to make contributions to account.

• Both Disability and Death benefits cease at normal retirement age. Participant or survivor then draws account.
Employer Tools

- New Employee videos-5 minute introduction to Plan
- DCR Plan Summary
- DCR Handbook
- DCR General Investment information
Marketing Materials

The Alaska Teacher’s Defined Contribution Retirement Plan (TRS DCR)

Alaska’s Defined Contribution Retirement (DCR) Plan at a glance. The plan provides participants with both an investment plan and defined benefits such as occupational death, occupational disability, retiree medical coverage and a Health Reimbursement Arrangement (HRA).

<table>
<thead>
<tr>
<th>FEATURE</th>
<th>TRS DCR PLAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your Contribution</td>
<td>8% of contract salary</td>
</tr>
<tr>
<td>Employer Contribution</td>
<td>7% of contract salary</td>
</tr>
<tr>
<td>Vesting in Investment Account</td>
<td>100% vested in your contributions immediately. Vested in employer contributions based on the following schedule: 25% after 2 years of service, 50% after 3 years, 75% after 4 years, 100% after 5 years.</td>
</tr>
<tr>
<td>Occupational Disability Benefits</td>
<td>40% of salary; you earn service while on occupational disability. Employer continues to make all required contributions to your DCR account, including your 8% employee contribution. Disability benefits cease when you become eligible for normal retirement at Medicare-eligible age with 10 years of service, or any age with 20 years of service. When disability benefits cease, you may access your investment account.</td>
</tr>
</tbody>
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Helping Put You on the Path to Financial Readiness

The State of Alaska Defined Contribution Plans are designed to help you save for your future. The State Division of Retirement and Benefits (DRB) and Empower work together to help you make the most out of the Plans. You have a variety of in-person, online and over-the-phone resources available to help you start and continue on your path to financial readiness. Use the handy “cheat sheet” to help you understand the role of the State and Empower, guide you to staying on track for your future and know who to call with questions or for information depending on your specific need.

The State of Alaska and Empower: Better Together

Empower Retirement and the Division of Retirement and Benefits (DRB) work together to give you a complete picture of your post-work life. Empower’s Retirement Plan Advisors want to help you reach financial readiness and are available to answer questions about your PERS and TRS Defined Contribution Retirement Plans, your $58 Annuity Plan or your 457 Deferred Compensation Plan, such as:

- Am I on track to retire when I want?
- Are my assets allocated to match my goals?
- Are my beneficiaries in place and up to date?
- What are my distribution options from the plan?

The State’s DRB Retirement Counselors are also focused on getting you financially ready for your future, and can assist with questions about your other employee benefits, such as:

- What are my benefits?
- When am I fully vested in the plan?
- What are my health care options in retirement?
- What other optional benefits are available to improve my financial wellness?

If you have a specific question, look on page two to see who can best assist you.

Contact an Empower Retirement Plan Advisor:

- 1-907-276-1500  
- visit www.akinfo.com

OR

Contact DRB:

- 1-800-621-2291  
- visit www.doa.alaska.gov/dr

TIMELINE FOR SUCCESS

- Attend presentations
- Meet with Empower Advisors and State Counselors (telephone, in-person)
- Meet with an Empower representative for a financial readiness review
- Get educated on your retirement benefits by attending a seminar or meeting with an Empower representative
- Validate eligibility for 457 Plan catch-up
- Be awarded your benefits
- Re-evaluate your goals and investments
- Update your profile
- Review your tax information
- Enjoy your retirement
- Get on track for retirement
Inspire...and be inspired!

Teach in Alaska and Start YOUR Adventure!
Working as a teacher in Alaska is **nothing** like teaching in the lower 48 states. Alaska has opportunities and challenges you won’t find elsewhere.

Alaska’s Defined Contribution Retirement (DCR) Plan is designed for teachers looking for either an adventure or a lasting career. Unlike other pension plans that prohibit teachers from taking contributions made to the plan by the employer, the Alaska DCR Plan has a laddered vesting schedule that allows participants to withdraw a percentage of the employer’s contributions in as little as 2 years. If you stay 5 years, you are entitled to 100% of the employer contribution! You get to choose how your contribution (8%) and the employer’s contribution (7%) are invested from the start. Plus, the plan is fully portable and can be rolled to other tax qualified retirement plans so you can take your nest egg with you.

If you decide to call Alaska home, the Alaska DCR Plan’s investment advisory services, investment education, financial wellness planning, and a state-of-the-art website are available to help plan for your future! Active teachers have occupational death and disability protection, and retirees from the plan have health coverage for themselves and their eligible dependents as well as a Health Reimbursement Arrangement (HRA) funded solely by the employer.

**Come to Alaska!** Whether you decide on just an adventure or to stay a lifetime, Alaska’s DCR Plan can fit your needs.

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Empower Retirement Services

- Empower Representatives are licensed financial planners. They provide:
  - Seminars
  - One-on-one financial readiness reviews
  - Financial education
  - Information on other financial advice services
TRS and PERS - Arrears and On Behalf Payments

- The system is in arrears by several Billions (FY16). (Kathy might have current projections).
  - The TRS and PERS trust funds do not have enough money invested to pay the projected benefits for everyone in the defined benefit tiers.

- What happened?
  - The State did not structure the withholdings in the plans to provide enough money in the investment funds to pay for the financial and health benefits of the early tiers.
  - This really hit the fan when the stock market crashed in 2008.
TRS and PERS - On Behalf Payments

- What’s the plan to fix this?
  - Actuaries calculated how much money should be added to the investment fund.
  - The State made some large, one-time payments to the trust funds.
  - The State is paying additional money into the fund based on the current employees (in all tiers and DCP) in each district and municipality.
    - TRS on behalf payment = 15.46%
    - PERS on behalf payment = 4.14%
    - These funds technically flow into and then out of our budgets and are reported in our audits along with “our” total liability.
    - We never actually hold this money, it is paid, “on our behalf.”
What’s the risk?

- The additional contributions rates are determined **each year** based on updated calculations considering the additional contributions and investment growth.

- In FY16 the legislature considered cutting the on behalf payments from the state and pushing these costs onto school districts and municipalities.
  - As proposed this would have increased DBSD operating costs by close to $300,000 per year by 2020 (3% of our budget).
TRS and PERS - On Behalf Payments

What questions do you have about PERS/TRS on behalf payments?
Retirement Savings Options via SBS, 403(b) and 457 plans

- General retirement advice is that people should probably save and invest an additional 10-15% of their earnings each year for retirement.
  - Remember to consider that working for a school district in Alaska you do not pay into nor earn social security.
  - Participating in PERS/TRS can also reduce any projected payment you may receive from social security.
  - Check with Social Security Administration for details on this. Its called the “Windfall Elimination Provision.”
Supplemental Benefits System (SBS) (401a)

- Supplemental Benefits System is an optional financial retirement plan that political subdivisions in Alaska may enter into with the State.

- For school districts, classified and some exempt staff participate but teachers cannot.

- Participation is for the entire group and individuals may not choose to opt out if your district participates.
Supplemental Benefits System (SBS) (401a)

- Classified personnel working 20 or more hours per week.

- Contributions
  - Employee contribution = 6.13% (pre-tax)
  - District contribution = 6.13%.
    - NO VESTING PERIOD

- Investment directed by employee into funds designed and approved by the Division of Retirement and Benefits and managed by Empower.
  - This is similar to, but different and separate from PERS/TRS
Supplemental Benefits System (SBS) (401a)

- Payout -
  - At departure from service
  - 10% penalty if before 59 ½
  - Options for structured payment similar to PERS DCP

- This is a only a financial system. It has no medical or disability feature associated with it.

- All money may pass to a beneficiary.
403(b) and 457 plans

- 403(b)- similar to a 401K but for public sector employees
- Pre-Tax withholdings
  - Therefore you pay lower taxes and keep more money for yourself
  - Since earnings in a 403(b) are tax deferred, more money is earning you money
  - Direct investments from payroll deduction help you avoid the temptation to spend that money today.
Inside of a 403(b) or 457, the individual directs the money to be invested in his/her choice of funds.

All investment companies offer a wide variety of stock, bond, or balanced funds for one to choose from.

Most companies also allow one to invest money in funds with a targeted retirement year.

- These balance between stocks and bonds and transition to more conservative investments as you approach retirement.
403(b) and 457 plans

Early Withdrawals from a 403(b)

- The IRS charges a 10% penalty for early withdrawals from a 403(b)
- Income tax must be paid on the full amount withdrawn
  - A withdrawal can also push you into a much higher tax bracket
- These facts encourages you to keep the money invested for retirement
- Some companies allow you to loan yourself money from your 403(b) - not Vanguard.
403(b) and 457 plans

“I’d love a 403(b) or 457. Sign me up!!”

- 403(b) and 457 are employer sponsored plans.
- Therefore the employer must establish a relationship with an investment company that in turn offers the specific plans to the employees.
- Districts can work with in any fund company who is willing to work with them.
- Some districts work with only one company. Others like DBSD, work through a clearing house that will connect us with multiple fund companies.
403(b) and 457 plans

“So what’s the difference between a 403(b) and a 457?

- 457 are similar to the 403(b) without the 10% penalty.
  - Not all investment companies offer 457 plans.
  - Most 457 plans that I’ve reviewed have higher fees than you can easily find for 403(b) plans.
  - The 457 plan offered by the State with Empower offers fees competitive with low fee brokerages such as Vanguard, TIAA, Fidelity, etc.
403(b) and 457 plans

My personal advice (or your district and to you individually)

• Look for companies that have low costs and fees
  • Vanguard, TIAA, Fidelity, etc.
• Understand sound investment strategies and help others understand these.
• Start investing now.
403(b) and 457 plans

What questions do you have about SBS, 403(b) and 457 plans?
Flexible Spending Account (FSA) if time permits

FSA’s are a tax free way to set money aside for anticipated medical expenses.

Districts contract with benefit management companies such as Aflac and Navia to manage these services (talk to your insurance broker).
Flexible Spending Account (FSA)

HOW FSA’s Work

If you elect to participate in an FSA you choose an amount of money for the calendar year to be withheld from your paycheck. You can withhold up to $2,700 for 2019.

This withdrawal is averaged over your monthly salary payments and held for you by the management company.

To access the money you either use a special debit card or file and easy online claim.
Flexible Spending Account (FSA)

Money that has been allocated to an FSA can reimburse you for approved medical expenses.

This includes your

- deductible and out of pocket payments (medical, dental, vision)
- Prescription co-pays
- Certain OTC medications, bandages, devices
- Travel reimbursement at 18 cents/mile (for 2018)
Flexible Spending Account (FSA)

Without an FSA
- Gross Income $50,000.00
- Estimated Taxes @25% $12,500.00
- Out of Pocket Health $1,200.00
- Take Home $36,300.00

With an FSA
- Gross Income $50,000.00
- FSA for Health $1,200.00
- Estimated Taxes @25% $12,200.00
- Take Home $36,600.00

Savings with an FSA $300.00
Flexible Spending Account (FSA)

Unused Money???

Money withheld into an FSA but not used in that year are forfeited by the employee and given to the employer.

- An employer may choose to allow $500 from your FSA to carry over to the next calendar year.
- This forfeiture can help cover costs of administering the plans. These costs are minimal and are also offset by small reductions in payroll taxes of the employer.

An FSA of ~$5,000 is also available for approved child-care expenses.
Flexible Spending Account (FSA)

What questions do you have about the FSA?
Today’s Learning Target

I can explain the retirement landscape in Alaska to my staff.
I’m also available for seminars on personal money management, investing, and how to maximize health plans with FSA, HRAs, and HSAs.

Dan Polta