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Executive Director

Providing a future you can depend on

September 2, 2008

To: All Reporting Agencies  
From: Jeffrey L. Ezell  
Executive Director  
Subject: FY 2010 Contribution Rates

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The TRS Board of Trustees has adopted the following changes to the employer and employee contribution rates effective July 1, 2009:

Fiscal Year 2010

Employer Rate	9.74%
Employee Rate	5.25%

The increase in contribution rates was determined by the results of our FY 2007 annual actuarial valuation. The valuation is designed to measure the adequacy of the System's funding progress and to determine the contribution rates required to meet both State law and generally accepted governmental accounting standards. The valuation measures the liability of the system and takes into account the differences between actual experience and assumed experience. Unfortunately, the gap, commonly referred to as the actuarial accrued liability, between our liabilities and our assets has been growing since 2001 due to several reasons including:

- 1) The nation's economic and financial markets did not perform well from 2001 thru 2003, and during 2006. The System did not meet our expected rate of return (investment performance) for these years. The returns were negative in 2001 and 2002; and, although they were positive for 2003 and 2006, they were less than expected. While fiscal year 2007 was a respectable year for asset growth, it was not adequate enough to offset the investment returns from 2001 thru 2003 and again in 2006. TRS uses a 7-year smoothing method when recognizing gains and losses for actuarial purposes and resulting in a portion of the investment returns for those years still reflected in the 2007 actuarial valuation. Impact – the System's assets have not been keeping pace with the increases in our liabilities.
- 2) The valuation indicated that: a) more members retired from the system than we had anticipated, b) fewer members left the system by terminating their employment than we had anticipated, and c) on average, salary increases during the year were higher than we had anticipated. Impact – the System's liabilities have grown larger than we had anticipated.

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- 3) We have been involved in a class action lawsuit for the past 5 years regarding the method used to calculate survivor benefits. Judgment was initially granted on TRS' behalf by the Fulton County Superior Court; however, the Georgia Supreme Court reversed the Superior Court's ruling on appeal. TRS was ordered to make, and has made, the retroactive payments to affected retirees. The monthly benefit payments for these retirees have also been adjusted as a result of the Court's ruling. While we maintain that the benefits were calculated correctly in accordance with Georgia law, the Courts ultimately disagreed and TRS will abide by the Court's ruling. TRS is currently appealing the statute of limitations and the attorney fees granted in the ruling. Impact – the System's assets were reduced by the payments and our liabilities were increased by the adjustments to future benefit payments.

Based on the information outlined above, the employee and employer contributions will be increased for FY 2010. (FY 2009 rates remain at 9.28% and 5.00%, employer and employee respectively, until June 30, 2009.) Increases to the contribution rates ensure that future generations of Georgia's teachers will inherit a retirement system as strong and reliable as the one we have today.

While TRS cannot predict the results of the 2008 actuarial valuation, please keep in mind that short-term declines in the stock market (such as experienced this year) could cause contribution rate increases to continue. We already know that the investment return for FY 2008 is less than the return we received in FY 2007, which will have a direct impact on future contribution rates.

Should you or your members need additional information, please contact our office.

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