

Teacher's Retirement System (TRS) & Public Employee's Retirement System (PERS)

Teacher's Retirement System (TRS)

State law established the Montana Teachers' Retirement System (TRS) in 1937. The system has grown from its initial enrollment of 3,367 members to over 18,000 active members and has approximately \$3.2 billion in net assets as of fiscal year end 2013.

TRS is a *defined benefit plan* qualified under Internal Revenue Code (IRC) Section 401(a). As a defined benefit plan, a monthly benefit is calculated based on each member's total years of service credit and average final compensation, not on the account balance or the performance of the financial markets. In addition, all benefits are paid pursuant to a contract as contained in the statutes governing TRS.

The Montana Board of Investments (BOI) invests the funds of the system in various securities as permitted by law. These investments are segregated from other state funds. The Treasury Division of the Montana Department of Administration is the custodian of the securities owned by TRS.

Who has to be a member?

A person employed in a position reportable to TRS for at least 210 hours during the fiscal year must become a member of TRS. TRS members are broken into two tiers:

- **Tier One:** became a TRS member *before* July 1, 2013
- **Tier Two:** became a member *on or after* July 1, 2013

Each tier has different contribution rates, benefit formulas, and benefits.

Positions Reportable to TRS:

Positions covered under TRS are *based on the responsibilities of the position* and not simply the position title. These responsibilities include:

- teachers, principals, vice-principals, district superintendents, county superintendents of schools, dean of students, curriculum specialists,
- librarians, coaches, paraprofessionals providing instructional support, teacher's aides, speech therapists, school nurses, school psychologists, guidance counselors, study hall monitors,
- and others employed in a teaching or educational services capacity or a professionally qualified person of any public school, state agency, community college, or special education cooperative in the State of Montana.

A person employed on a part-time basis in a position reportable to TRS for more than 30 days or 210 hours during a fiscal year is required to be a member of TRS. Once a part-time employee becomes a member, they must continue to be a member each successive fiscal year while employed in a TRS covered position regardless of the number days or hours worked.

Contributions:

Employee Contribution Rate

Employee contributions are withheld from each member's gross pay and are not subject to state or federal income tax withholding until actually received in the form of a monthly benefit allowance or a withdrawal.

Tier	Normal Contribution Rate	Supplemental Contribution Rate	Contribution Rate
Tier One	7.15%	1.00%	8.15%
Tier Two	8.15%	0.00%	8.15%

Employer Contribution Rate

Employer contributions to TRS are based on total payroll reported to the retirement system. These are not matching contributions allocated to individual members, but are placed in the trust fund and, together with investment earnings, provide funding for retirement benefits, disability benefits, death benefits, and amortization of the unfunded liability.

Gallatin Gateway School District currently contributes **8.67%** of total earned compensation for TRS members.

Retirement Benefit Eligibility by Tiers:

	Retirement Age		Creditable Service
Tier One			
Service retirement	60	and	5 full years, or
	Any age	and	25+ years
Early retirement	50	and	5 full years
Tier Two			
Service retirement	60	and	5 full years, or
	55	and	30+ years
Professional option	60	and	30+ years
Early retirement	55	and	5 full years

Retirement Benefit Formula

Unlike a savings plan (such as a 401(k), 403(b) or an IRA) retirement benefits are not based on the amount in the member account. Instead, a formula is used to calculate the monthly benefits:

$$\text{Years of Service} \times \text{Average Final Compensation (AFC)} \times 1.6667\%$$

The outcome is divided by 12 and is the basis of your monthly benefit payment. The AFC for Tier One and Tier Two members is calculated differently:

- **Tier One** members use the highest **3** consecutive highest salaries
- **Tier Two** members use the highest **5** consecutive salaries

Termination Pay Options:

Members have three choices regarding termination pay. The option selected will determine employee and employer contributions due.

Option 1

Add the total termination pay amount to the calculation of the member’s *Average Final Compensation (AFC)*. Both the member and employer must pay the actuarially required contributions as determined by the TRS Board to adequately compensate the system for the additional retirement benefit they will receive.

Example: A tier one member at age 60 with 30 years of service receiving \$5,000.00 in termination pay could increase their benefit \$69.44 per month under Option 1.

Option 2

Divide the total termination pay by the member’s total years of creditable service and add this amount to each year’s salary used in calculation of the AFC. Both the member and employer must pay the regular contribution rate on the termination pay.

Example: A tier one member who has \$5,000.00 in termination pay and 30 years of creditable service could increase their monthly benefit by \$6.94 under Option 2. This calculation is determined by adding \$166.67 to each of the three salaries used in the calculation of the member’s AFC ($\$5,000.00 \div 30.00 = \166.67).

Option 3

Exclude the termination pay from the calculation of the member’s AFC. No contribution is required of either the retiree or the employer.

Employment and Earnings After Retirement

While TRS encourages our members to retire only when they are truly prepared to stop working entirely, we are aware that this is not always possible. Once you attain retired member status, these are a few things to consider:

150 Calendar Day Break in Service

TRS members must attain *Retired Member* status – i.e., must have received at least one monthly benefit payment – to be eligible to return to work in a TRS-reportable position. Members must also have a 150 calendar day break in service following the date of termination before they may return to work.

Post-retirement Employment Limitations

As a retired member, members may earn – without loss of monthly retirement benefits – an amount not to exceed the greater of: (a) one-third of your *Average Final Compensation (AFC)*, plus annual increases equal to the increase in the Consumer Price Index; or (b) one-third of the median *AFC* for all members who retired during the preceding fiscal year (as determined by the TRS Board). These earnings are determined on a fiscal year basis, July 1 through June 30.

Positions reportable to TRS for *working retirees* include work performed as an employee of a third party (through a professional employer arrangement, employee leasing arrangement, or with a temporary service contractor) or as an independent contractor.

Independent Contractors

As a general rule, independent contractors are ineligible for membership in TRS. However, any amounts paid to a *retired TRS member* working as an independent contractor in a TRS-reportable position must be reported to TRS and will be considered part of the retired member's earnings limitation.

Reporting Requirements:

Monthly for all TRS-covered employees and those who have accumulated more than are 210 hours in a fiscal year.

Public Employee's Retirement System (PERS)

PERS is a public pension plan for employees of the state, university system, and local governments. The 1945 Legislature created PERS to grant service retirement, disability retirement, or survivor benefits to plan members and their beneficiaries. Unless another state plan covers the position, PERS will cover all state and university workers. Local governments may contract with the Public Employees' Retirement Board (Board), to cover their workers under PERS.

The Board, an independent, seven-member board appointed by the Governor and confirmed by the Senate, administers PERS, eight other retirement systems, and the State's 457(b) Deferred Compensation Plan. MPERA does the day-to-day work.

PERS is a **defined benefit** retirement system. The monthly benefit members receive upon retirement is based on the years of service and the member's highest average compensation. Benefits and contributions are set by law, and protected by the Montana Constitution and only the Legislature may change them.

Money the member contributes to PERS earns interest and helps pay for their benefits. MPERA tracks member contributions individually and credits interest to members. MPERA combines the funds from all member accounts in a trust fund, which is invested by the Montana Board of Investments. Income earned is reinvested in the trust fund. Only the Retirement Board can authorize payment from the trust fund. Current law limits payments to benefits and refunds for members or their survivors. In addition, the Retirement Board pays administrative expenses from the investment earnings.

Every year, an actuary evaluates the trust fund's capability to pay the benefits promised to members. Before each legislative session, the Board reviews the sufficiency of the benefits and makes recommendations to the Legislature. The law governing PERS may be found in Title 19, [Chapters 2 and 3](#), Montana Code Annotated (MCA).

Who has to be a member?

PERS membership is mandatory if you work in a full-time PERS-covered position (more than 960 hours per fiscal year). Employees in the following positions have the option to become members of PERS:

- Elected officials of state or local government who are paid on a salary or wage basis, or are receiving PERS retirement benefits.
- Employees scheduled to work less than 960 hours per fiscal year (cumulative if working in more than one PERS position).
- Employees directly appointed by the Governor.

- Employees of the legislative branch, working 10 months or less, performing work related to the legislative session.
- Chief administrative officers of a city or county.
- Employees of a county hospital or rest home.

In essence, all school districted employees not covered under TRS are PERS-covered positions.

Exclusion from PERS Membership

The following types of employees are **not** eligible to become PERS members:

- Inmates or residents of state institutions or correctional institutions.
- Persons in state institutions mainly for training, but who receive compensation.
- Independent contractors (except PERS retirees).
- Persons who receive credit for their current employment in any other public retirement plan, except Social Security.
- Court commissioners, elected officials, or members appointed to boards or commissions who serve part-time and receive only per diem.
- Full-time students working at and attending the same public school, community college, or unit of the state university system.

Contributions:

School district employers pay 6.80% of their total payroll each month plus an additional 1.20% with the State contributing 0.37% for a total contribution of 8.37%. *In Fiscal Year 2016, the employer contribution rate increases 0.1% for all employers. This additional employer contribution rate increases 0.1% every year from fiscal year 2014 through fiscal year 2024.*

School Districts (effective July 1, 2015)	
School District Contribution Rate	6.80%
Employer additional contribution rate (paid by employer)	1.20%
Total Contribution for School District Employers	8.00%
Member Rate	
Employee Contribution Rate for all members	7.90%

Retirement Benefit Formula

The formula for a PERS monthly service retirement benefit depends on hire date, years of **membership service** and years of **service credit**. The basic formula for a PERS monthly service retirement is:

$$Retirement\ Factor \times Years\ of\ Service\ Credit \times HAC$$

Benefit is calculated based on:

- **Retirement Factor** - a percentage based on your years of service defined in law.
- **Years of Service Credit** - the amount of service you earned through employment (see page 13).
- **HAC** - (Highest Average Compensation) is the average of a set number of highest consecutive months of salary, depending on when the member was hired. **For members hired on or after July 1, 2013**, HAC will be capped at 110% on compensation earned during each year of the highest average compensation period.

Retirement Benefit Eligibility:

Members hired before July 1, 2011:

To qualify for a service retirement, members must meet the following age or service requirements:

- Age 60 with at least five years membership service;
- Attain age 65 while employed; regardless of years of membership service
- 30 years of membership service at any age.
- PERS retirement benefit is based on your highest consecutive 36 months of compensation. This does not have to be the members last 36 months of employment.

If a member has the following years of membership service:

- **Less than 25 years:** 1.7857% x Years of Service Credit x HAC
- **25 years or more:** 2% x Years of Service Credit x HAC

Members hired after July 1, 2011:

To qualify for a service retirement, you must meet the following age or service requirements:

- Age 65 with at least five years membership service; or
- Age 70 and in active service.

PERS retirement benefit is based on the highest consecutive 60 months of compensation. This does not have to be the last 60 months of employment.

If a member has the following years of membership service:

- **More than 5 and less than 10:** 1.5% x Years of Service Credit x HAC
- **Less than 30 more than 10:** 1.7857% x Years of Service Credit x HAC
- **30 years or more:** 2% x Years of Service Credit x HAC

PERS Working Retirees

Retirees might wish to work in a job covered by PERS. However, retirees cannot have an agreement with the employer (either written or verbal) to come back to work after retirement.

If, after the member has been retired for more than 90 days, and decides to take a PERS-covered position as a working retiree, through a temp agency or as an independent contractor, the law imposes limits.

- If member is less than age 65, and work in PERS covered employment in excess of 960 hours, the benefit will be reduced \$1.00 for each \$1.00 earned from PERS covered employment and any other concurrent non-PERS covered employment with the same employer. The limit applies to each calendar year. MPERA reduces benefits only if you exceed the limit.
- If the member is 65 to 70½ years of age, the limit is either 960 hours or an earning limitation, whichever is higher. The earning limitation is equal to the HAC adjusted for inflation. The sum of the retirement benefit and all PERS-associated earnings must be less than the earnings limitations (HAC adjusted for inflation). Earnings from other sources will not apply to the limit. Both limits apply to a single calendar year and we only reduce benefits for those years that your hours or earnings exceed the limit. The benefit will be reduced \$1.00 for each \$1.00 earned from employment exceeding the limit.
- If the member age is 70½ or older, there are no hours or earnings limits.

These limits apply to PERS retirees who return to PERS-covered employment. Any retiree working in a PERS-covered position may become an active member anytime. If the retirees become an active member, PERS benefits will stop. The member may later re-retire and MPERA will recalculate the retirement benefit with the added service.

Independent Contractors

Starting on July 1, 2013, PERS retirees working as independent contractors in a PERS-covered position are subject to the working retiree limitations. An independent contractor is an individual engaged in an independent trade, occupation, profession, or business who works under contract; and who is free from control or direction when performing services under the contract. Generally, factors that determine whether services are free from control or direction include, but are not limited to, the following:

- *Exercise of control* - contractor control of the means by which the work is done shows independence.
- *Furnishing of equipment* - contractor-furnished equipment shows independence.
- *Method of payment* - payment based on hours shows employment rather than independence.

Since 2005, Montana law has required independent contractors to either have an independent contractor exemption certificate, or purchase workers' compensation insurance coverage for themselves. Failure to obtain the exemption or insurance may result in the independent contractor being treated as an employee subject to these limits.

Reporting Requirements:

Monthly for all employees of the District including all excluded employees (TRS, working retirees, and those under 960 hours) who must be reported as Non-Contributing Employees (NCE).