Tackling Georgia's Teacher Pension Underfunding Challenges

Georgia's Teacher Pension Needs Reform Amid Market Uncertainty

Funding the Teachers Retirement System of Georgia (TRS) remains a significant challenge for employers and lawmakers. Despite gradual assumption changes made to reduce the risk of future underfunding, the plan is still $27.7 billion short on the assets needed to pay for retirement promises made to teachers. This debt has caused the cost of TRS to balloon, creating major budget pressures for school districts. In 2010, the annual cost of funding TRS was 10.41% of compensation. By 2025, the cost of providing the same benefit will be nearly 22%. Policymakers need to consider major reforms to avoid continued funding issues and further growth of costs on taxpayers.

TRS at Risk of Long-Term Insolvency

- ✓ According to the latest reporting, TRS is only 78% funded and could easily experience deteriorating solvency amid volatile and uncertain global markets.
- ✓ While most states have seen improvement in public pension solvency since the Great Recession, TRS has not been able to make ground on its funding status since 2009.
- ✓ Taxpayers are responsible for $27.7 billion in unfunded TRS benefits that could balloon by another $18 billion if long-run investment targets are missed by just 1% over 30 years.
- ✓ At best, fully funding TRS will require annual government employer contributions *close to 22% of payroll each year* between 2025-2046, yet that may still be insufficient.

Despite Positive Changes, More Needs to Be Done

- ✓ TRS has gradually reduced its assumption on investment returns from 7.5% to 6.9%. This change was prudently made in response to years of returns falling below expectations, which had been a major contributor to the system's unfunded liabilities.
- ✓ The reduced assumption will improve the plan's chances of achieving the expected return, but short- to medium-term market forecasts suggest the assumption will need to drop even further, which would reveal even more unfunded liabilities for TRS.
- ✓ In 2021, TRS adopted a new amortization schedule that would pay off existing debt by 2044 and any new debt within 25 years.
- ✓ While this new policy is an improvement from the previous 30-year debt payment schedule, experts like the Society of Actuaries suggest a 15- to 20-year amortization to pay off unfunded liabilities.

Teachers Need a Modernized Retirement Plan

- ✓ TRS requires 10 years of service before teachers can vest in pension benefits, a hurdle that fewer than 35% of new hires are expected to reach. This means that two-thirds of teachers hired will not earn an adequate retirement benefit while they work in the system.
- ✓ A new tier of modernized retirement benefits, like the one used by the Employees' Retirement System of Georgia (ERS), could better serve Georgia's educators.

Bottom Line: *Legislative leaders need to consider cost-saving and modernization reforms for TRS.*

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