



TEACHERS RETIREMENT SYSTEM OF GEORGIA

A Component Unit of the State of Georgia



**SUMMARY
ANNUAL
FINANCIAL
REPORT**

Fiscal Year Ended June 30, 2012



A MESSAGE FROM THE EXECUTIVE DIRECTOR

I am pleased to present the Summary Annual Financial Report of the Teachers Retirement System of Georgia (TRS) for the fiscal year ended June 30, 2012. This report summarizes the more detailed 2012 Comprehensive Annual Financial Report (CAFR). The CAFR was prepared by TRS in conformity with generally accepted accounting principles and is available by contacting TRS and on our website, www.TRSGA.com



This report does not replace the CAFR, but includes important details to give you a basic understanding of our overall financial condition and investment performance. It also describes how our System works to serve our members and what benefits we offer.

I would like to take this opportunity to express my gratitude to Governor Nathan Deal, members of the Georgia General Assembly, the staff, the advisors, and to the many people who have worked so diligently to ensure the successful operation of the System.

A Model Retirement System

Our vision at TRS is to be a model retirement system — one that provides unparalleled service to our members. The best way to accomplish this is through efficient and effective processes supported by a competent, empowered staff and innovative technology. Everything we do, such as allowing our members to manage their accounts online, revolves around this vision. Our commitment to excellence extends throughout TRS. It is essential that we protect your retirement security and strive to exceed your expectations.

Accomplishments and Initiatives

The System continuously looks to maintain the security and financial stability of the System, as well as enhance the quality of service delivered to our customers.

We conducted a self-review of the agency to ensure the continued financial stability of the System. TRS discontinued the discretionary increase granted to members at retirement intended to offset state income taxation. The increase was no longer necessary since the State has raised the retirement income tax exclusion to \$35,000 at age 62 and \$65,000 at age 65. TRS also changed the method used to calculate interest on service purchases. Effective April 1, 2012, our long-term discounted rate of return, currently 7.5%, is used to calculate the amount of interest charged to purchase additional service credit.

Enhanced fraud detection procedures allowed TRS to recover over \$1.3 million in erroneously paid benefits to retirees and beneficiaries. Our Overpayment Recovery

A MESSAGE FROM THE EXECUTIVE DIRECTOR

team specifically focuses on retrieving funds that were received by persons not allowed by Georgia law to receive a TRS benefit payment. Monitoring and identifying accounts for fraud (i.e. benefit payments being made to a deceased retiree) has allowed the State of Georgia to successfully prosecute several individuals who defrauded TRS.

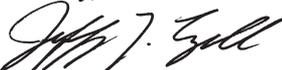
Maintaining a secure technology system requires continuous monitoring to maintain the integrity and confidentiality of our data and ensure your online safety when transacting business with TRS via the internet. Our Information Technology division passed two Network Infrastructure Security Audits conducted by a private sector security firm. Disaster Recovery ability was improved by moving 830,000 staff created documents stored in network directories to the Storage Array Network device, eliminating continued support and replacement of server equipment in our on-site data center.

Our online processes for retirement applications and TRS retiree work approvals were improved and upgraded. Approximately 50% of all new retirement applications were received via the online process, reducing the amount of paper forms and errors submitted. Enhancements to our online system for employers to receive pre-approval to hire a TRS retiree have greatly benefitted our customers and staff. The monitoring tools utilized in our online process require employers to report employment for retirees on a timelier basis to ensure compliance with state law.

We created digital customer satisfaction surveys to decrease time spent collecting and developing survey data and increase customer response rate. Survey data is now easily accessible, response rates have risen to 25%, and customer satisfaction may be reviewed at any time.

The TRS customer and employer self-service web portals were enhanced to provide a simpler registration process, easier navigation, and a browser compatibility check.

Sincerely,



Jeffrey L. Ezell
Executive Director

Mission: to provide exceptional service in the administration of pension benefits and related services to TRS members, retirees, and employers.

Vision: To be a model retirement system, providing comprehensive customer service to members, retirees, and employers. This vision will be accomplished by utilizing innovative, efficient, and effective processes supported by state of the art technology and a fully trained, empowered, and motivated staff.

BOARD OF TRUSTEES

TRS was created in 1943 by an act of the Georgia General Assembly to provide retirement security to those individuals who choose to dedicate their lives to educating the children of the State of Georgia. TRS is administered by a ten-member Board of Trustees. Members of the Board of Trustees listed are as of December 1, 2012.



**Dr. L. C.
Evans**

CHAIR

TRS Member
Appointed by the
Governor
Term Expires 6/30/15



**Mr. Thomas W.
Norwood**

VICE-CHAIR

Investment Professional
Elected by the
Board of Trustees
Term Expires 6/30/14



**Ms. Jennifer W.
Frisch**

Classroom Teacher
Appointed by the
Governor
Term Expires 6/30/14



**Mr. Greg S.
Griffin**

State Auditor
Ex-Officio



**Mr. Steve
McCoy**

State Treasurer
Ex-Officio



**Ms. Amy R.
Nimmer**

Classroom Teacher
Appointed by the
Governor
Term Expires 3/31/15



**Ms. Deborah K.
Simonds**

Retired Teacher
Elected by the
Board of Trustees
Term Expires 6/30/15



**Dr. William G.
Sloan, Jr.**

Member-at-Large
Appointed by the
Governor
Term Expires 6/30/14



**Dr. Ralph E.
Steuer**

TRS Member
Appointed by the
Board of Regents
Term Expires 6/30/15



**Mr. J. Alvin
Wilbanks**

Administrator
Appointed by the
Governor
Term Expires 6/30/13

ELIGIBILITY AND BENEFITS AT A GLANCE

Retirement Eligibility

You become eligible to receive retirement benefits once you are vested with TRS and terminate your TRS covered employment. Upon application and approval, you are eligible for a monthly benefit for the rest of your life and, if you select a survivorship option, your beneficiary would also receive lifetime benefits upon your death. Vesting occurs when you reach 10 years of service. The age at which retirement benefits begin depends on your length of service.

Length of Service for Normal Service Retirement Benefits

- 10 or more years of service at age 60
- 30 years of service at any age

If you have between 25 and 30 years of service and have not reached the age of 60, you can retire with a reduced monthly benefit.

The Amount of Your Retirement Benefit

Under the Maximum Plan of Retirement, you receive a monthly benefit for life based on the following formula:

$$\begin{array}{c} \text{Number of} \\ \text{years of creditable} \\ \text{service, including} \\ \text{partial years} \end{array} \times \begin{array}{c} \text{2\%} \end{array} \times \begin{array}{c} \text{Average monthly} \\ \text{salary for the} \\ \text{highest consecutive} \\ \text{2 years of} \\ \text{membership service} \end{array} = \begin{array}{c} \text{Initial} \\ \text{monthly benefit} \\ \text{under the} \\ \text{Maximum Plan} \end{array}$$

You also have the option of selecting one of six different survivorship plans that allows you to leave a monthly lifetime benefit to one or more beneficiaries should they outlive you. You could, for example, leave a beneficiary 50% or 100% of your monthly benefit amount. If you select a survivorship plan, your monthly benefit is reduced based on actuarial factors, which take into consideration your age and the age of your beneficiaries at the time of your retirement.

Regardless of the plan you select, if you retire under a normal service retirement, you may elect the Partial Lump-Sum Option Plan which provides you with a lump-sum distribution in exchange for a permanently reduced monthly retirement benefit. The amount of your lump-sum distribution cannot exceed the sum

of 36 monthly benefit payments under the Maximum Plan of Retirement. Your age, plan of retirement, and the amount of your lump-sum distribution are used to determine the reduction in your monthly benefit. A lump-sum distribution will be made as a single payment at the time the first monthly benefit is paid.

To help counter the effects of inflation, cost-of-living adjustments (COLA) may be granted by TRS to increase your benefit. The current COLA is 1.5%, which may be granted semi-annually in January and July.

For more details on eligibility and benefits, please refer to the TRS Member's Guide, which is available through your employer or by visiting the TRS website at www.TRSGA.com.

A Benefit Comparison

Defined Benefit Plan vs. Defined Contribution Plan

TRS is a defined benefit plan. This means your retirement benefit is determined by a preset formula. Critical to determining that benefit are your years of service and your final average salary. During your active employment, both you and your employer make monthly contributions to TRS. These contributions become part of a trust fund and are invested by professionals. Funds in the TRS investment portfolio are used to pay retirement, disability, and survivor benefits. You personally are not impacted by investment decisions because your benefit level is established in advance by a formula set by state law.

In a defined contribution plan, your retirement benefit is determined by the amount of assets in your personal account at the time of your retirement and you determine how these assets are to be distributed in your retirement years. Typically, during your active employment, both you and your employer make monthly contributions to your personal account. You have the primary responsibility to determine how these funds are then invested. Your investment decisions, and factors such as the general state of the economy, will influence the amount of funds available at the time of your retirement. Poor investment choices have a profound impact on your retirement benefit.

Thus, defined contribution plans include considerably more uncertainty and investment risk when compared to defined benefit plans. Defined contribution plans do have some advantages, such as shorter vesting periods and increased versatility because participants have more control over investment decisions. But this also means that you have to stay abreast of current market conditions and trends because you control the selection of funds in which your money is invested.

The Most Important Part of Your Retirement Security

It is probably something you rarely think about, but that does not mean it is not valuable to you. Do not underestimate the value of this important asset of yours. Throughout the years you are working, as your salary and contributions grow, your TRS benefit can grow significantly in value. After you retire, your TRS benefit will provide you with a guaranteed lifetime income, regardless of how long you live. For this reason, your TRS benefit should be the foundation of your retirement plan. You may also have Social Security and your own personal savings to enhance your retirement income, but nothing can truly replace what TRS will provide you. Because it cannot be diminished, it is the most critical asset you own.

Four Important Benefits of Your Defined Benefit Plan

1. Guaranteed Lifetime Income that You Cannot Outlive

Regardless of how long you live and what happens in the stock market before, during, or after your retirement, you can count on a predictable retirement benefit each month for the rest of your life from TRS. No other type of retirement plan can offer you that security.

2. Professional Investment Management

Just as not everyone can teach or perform your public sector job, not everyone can successfully invest in the stock and bond markets. The State has an obligation to pay your guaranteed retirement benefits. To fulfill this obligation, TRS maintains a professional investment staff to determine the best mix of stocks, bonds, and other investments at a given time, and research and select the most appropriate securities for TRS.

In a defined contribution plan, you are responsible for selecting your investment funds from the choices provided. You bear the risk that a poor choice of investments at a given time or a poor investment return will cause your assets to decline. In addition, your assets may decline at an inopportune time for you. If you need or wish to retire at a time when the stock or bond market is declining, you could be surprised at what a hit your nest egg has taken. You may have to postpone your retirement while you try to rebuild your retirement fund!

3. Relatively Low Cost

TRS retains and creates assets for retirement via a very large portfolio. The investment earnings alone from this portfolio fund a significant portion of the ultimate benefits that will be paid out to you and your colleagues. Because of the size of the TRS portfolio and the associated economies of scale, administrative and investment costs are very low. In fact, per dollar of benefits paid, TRS is less costly than a defined contribution plan. Over time, these fees can eat into the value of your retirement fund.

4. A Disciplined, Ongoing Investment Program Requiring No Effort on Your Part

You probably do not give your TRS account much thought, and that's exactly how it should be. During the years you have been teaching, you and your employer have been contributing towards your retirement security through TRS. You are not required to determine appropriate asset allocation, research and select investment options, monitor performance, and make changes when necessary. TRS does all of that.

In fact, one of the biggest benefits of TRS is that participants do not have to think much about it. Time works as your ally. A good retirement benefit depends on leaving your assets invested over the long-term. In fact, many people who take a lump-sum from their defined contribution plan when they move to another job end up using the money for immediate cash needs instead of reinvesting it for retirement.

Understand What You Have and Its Value

TRS offers many benefits. As described above, it provides strength and stability for your retirement by providing you with a predictable, guaranteed retirement income for life. In addition, TRS offers many other important benefits that a defined contribution plan does not, such as disability retirement, death benefits, and potential cost-of-living adjustments for retirees.



The Value of Your Benefit

To give you a perspective on the value of the TRS defined benefit plan, consider the following examples based on actual benefit calculations:

1) Ms. Smith is 60 years old with 30.444 years of creditable service and earns \$4,312 per month. Assuming she retires now, her projected retirement benefit will be \$2,625 per month. If Ms. Smith had to provide this benefit on her own, she would need to have saved approximately \$484,000 at retirement and would need to earn a 7.5% return on these savings each year for the rest of her life.

2) Mr. Jones is currently 33 years old with 9 years of creditable service and earns \$3,916 per month. Assuming he retires at age 54 with 30 years of creditable service, and he receives, on average, a 3.20% annual salary increase, his projected monthly benefit will be \$4,550 per month. If Mr. Jones had to provide this benefit on his own, he would need to have saved approximately \$902,000 at retirement and would need to earn a 7.5% return on these savings each year for the rest of his life.

In both examples, the projected monthly retirement benefit is under the Maximum Plan of Retirement and is calculated using the benefit formula on page 4.



MEMBERSHIP AND BENEFIT STATISTICS

Total Membership

As of June 30, 2012

Members

Active plan members	213,675
Terminated members entitled to benefits	8,252
Terminated members not entitled to benefits.....	<u>80,563</u>
Total	302,490
Retired members	<u>97,323</u>
Grand Total	<u>399,813</u>

Average Monthly Benefits for New Retirees

For Fiscal Years Ended June 30, 2012 and 2011

Years of Service at Retirement	Average Monthly Benefit		Number of Retirees	
	<u>FY 12</u>	<u>FY 11</u>	<u>FY 12</u>	<u>FY 11</u>
10 - 15	\$ 901	\$ 879	1,532	1,455
16 - 20	\$1,417	\$1,483	920	954
21 - 25	\$2,008	\$1,964	1,125	1,150
26 - 30	\$2,724	\$2,720	885	812
Above 30	\$3,764	\$3,736	<u>2,589</u>	<u>2,797</u>
Total	\$2,425	\$2,457	<u>7,051</u>	<u>7,168</u>

TRS Strategic Goals FY 2012

- Payment of benefits and collection of employer contributions will be made efficiently, timely, and accurately.
- Maximize the rate of return on our investments through the management of a prudent pension investment policy.
- Information provided to customers will be timely, relevant, and accurate.
- Enhance relationships with members, retirees, and employers.
- Develop a fully trained, empowered, and motivated staff that will provide exceptional customer service.

Legislation

One major revision made during the 2011-12 biennium session related to TRS retirees who return to full-time employment while continuing to receive TRS benefit payments. Current Georgia law allows retirees who retired on normal service retirement, and under specific conditions, to return to work and continue receiving full retirement benefits. This provision of Georgia law was scheduled to automatically be repealed on June 30, 2016. The 2012 amendment changes the repeal date to June 30, 2013, thereby eliminating this return-to-work provision 3 years earlier than originally adopted.

Georgia law was also amended prohibiting a public retirement system from having an insurable interest in their membership. This type of insurable interest is commonly referred to as “dead peasants” insurance. Public retirement systems would not have the authority to obligate funds to purchase life insurance on its membership unless the benefits to be paid are paid directly to the individual’s estate or beneficiary.

As it relates to TRS retirees, the State’s tax code was also revised and freezes the amount of retirement income from any source which can be excluded from State taxes at \$35,000 for retirees age 62 to less than age 65, and \$65,000 for retirees age 65 and older.

**Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting**

PRESENTED TO

Teachers Retirement System
of Georgia

for the Fiscal Year Ended
June 30, 2011



Christopher P. Merrill
President
Jeffrey L. Lane
Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the Teachers Retirement System of Georgia for its Popular Annual Financial Report for the fiscal year ended June 30, 2011. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

FINANCIAL INFORMATION

Schedule of Plan Net Assets (in thousands)

This schedule shows TRS assets, which are primarily investments, and then deducts the System's liabilities, or debts. The final totals represent the financial resources available to pay pension benefits.

	June 30,	
	2012	2011
Assets		
Cash and cash equivalents, and receivables	\$ 1,150,188	\$ 2,192,314
Investments, at fair value	52,378,693	51,954,518
Capital assets, net	4,123	4,135
Total assets	53,533,004	54,150,967
Liabilities		
Accounts payable and other	45,855	66,791
Net Assets Held in Trust for Pension Benefits	\$ 53,487,149	\$ 54,084,176

Schedule of Changes in Plan Net Assets (in thousands)

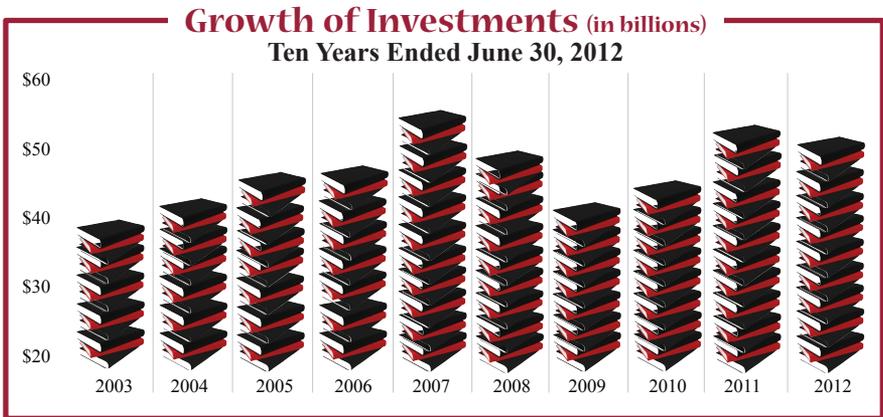
This schedule shows additions to and deductions from TRS plan net assets.

	Year Ended June 30,	
	2012	2011
Additions		
Employer contributions	\$ 1,082,224	\$ 1,089,912
Member contributions	601,512	604,126
Net investment income	1,090,900	9,594,994
Total additions	2,774,636	11,289,032
Deductions		
Benefit payments	3,277,552	3,041,503
Refunds of member contributions	72,157	67,916
Administrative expenses, net	21,954	20,986
Total deductions	3,371,663	3,130,405
Net Increase (Decrease)	(597,027)	8,158,627
Net Assets Held in Trust for Pension Benefits		
Beginning of year	54,084,176	45,925,549
End of year	\$ 53,487,149	\$ 54,084,176

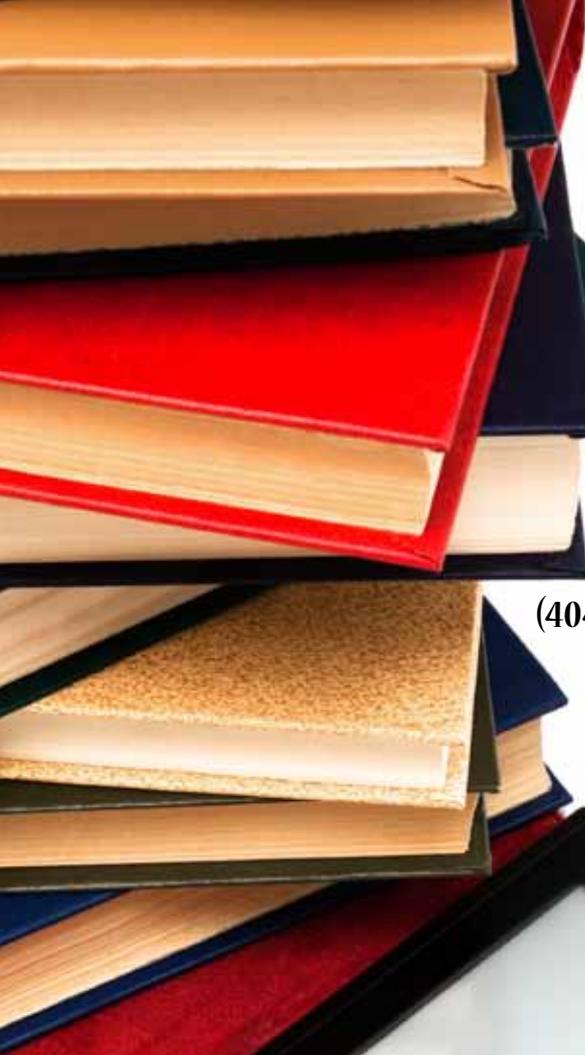
FINANCIAL INFORMATION

TRS invests in a mix of investments, which is comprised of high quality stocks and bonds. This investment mix allows TRS to participate in rising markets, while keeping risk levels relatively low when markets are on the decline. A high quality, balanced fund has proven to be a successful strategy in both rising and declining markets over a long period of time.

Conservation of capital and conservatism continue to be the principal guides in making investment decisions. By investing in a number of different asset categories and in a wide range of companies, a process called diversification, TRS is able to accomplish these investment objectives. Investment allocation recommendations are made by the Division of Investment Services staff to the Investment Committee, which is comprised of TRS Board Members. The TRS Board gives final approval on investment actions.







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www.trsga.com**



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OF GEORGIA**