
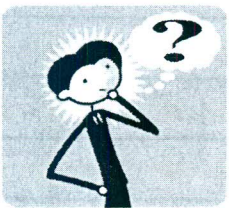



TRS Update
 Rockford ROE Meeting
 February 3, 2012

Keeping the Promise




Agenda

1. Background on TRS
2. Recent General Assembly action/inaction
3. Possible General Assembly Action, including SB 512
4. Constitutional Protection of Pension Benefits

Teachers' Retirement System



- Purpose
 - Created in 1939
 - Illinois Teachers outside Chicago
 - TRS provides its members with retirement, disability, and survivor benefits
- FY 2011 Membership
 - Active Members - 166,013
 - Inactive members - 94,820
 - Annuitants/Beneficiaries - 101,288
 - Oldest Retiree - 108 (as of October 2011)
 - Average retiree annuity -- \$3,871 monthly (FY11)

Average TRS Pension -- \$46,452/yr



Benefit Range	Members	Percent
• <\$50,000	51,334	56.19%
• \$50,000 - \$99,999	37,181	40.70%
• \$100,000 - \$149,999	2,624	2.87%
• \$150,000 - \$199,999	193	0.21%
• \$200,000 - \$249,999	23	0.03%
• \$250,000 >	1	0.00%

Source: October 2011 TRS query

TRS Benefits

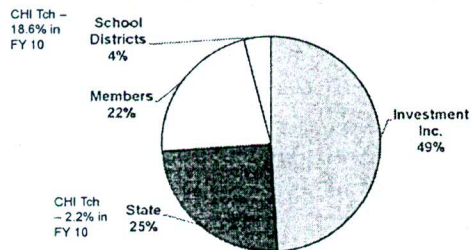


The Pension Modernization Task Force, established in 2009, analyzed pension benefits in Illinois and concluded:

“Illinois’ state-funded retirement systems were generally found to be in the statistical median.”

Source: COGFA Summary, 2009

Who Pays for TRS Benefits?



Twenty-year composite of sources of total income from FY 1991 to FY 2010.

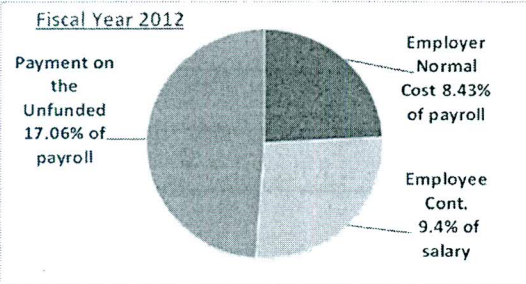
* Excludes POBs

Social Security



- Teachers in Illinois do not contribute to Social Security on their teaching salary (like 15 other states) and therefore do not earn Social Security credit for their years of teaching
- However, when one retires their Social Security annuity may be reduced
- However after March 31, 1996, new teachers began paying the Medicare tax (1.45%)

Shared Costs – Employer/Employee

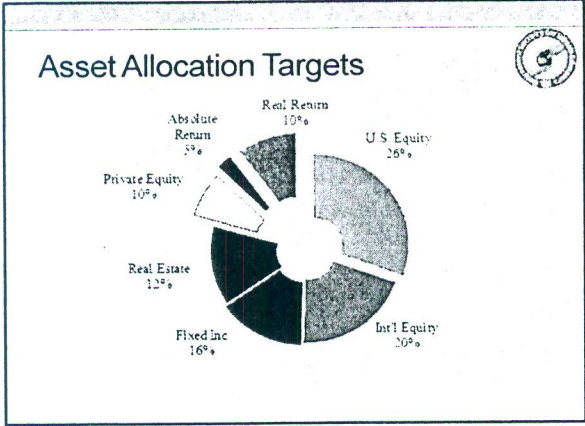


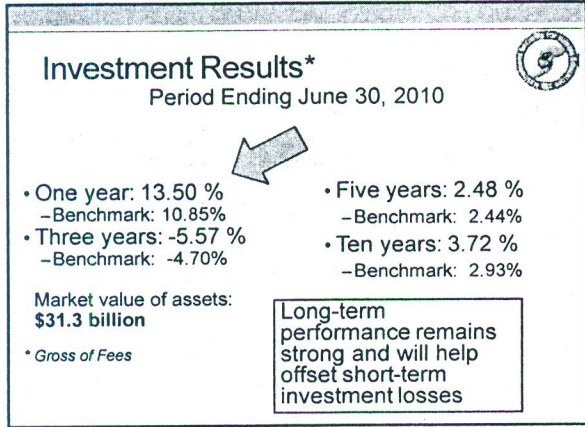
TRS Investments

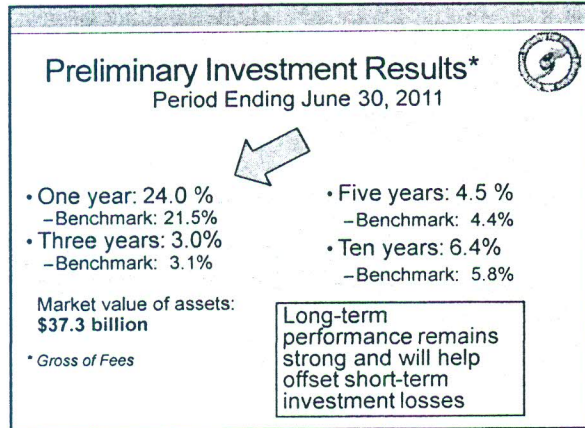


39th Largest Pension Fund in the US


1. Portfolio managed by top quality asset managers and overseen by professional investment staff at TRS.
2. Diversified portfolio reduces risk.
3. Exhaustive studies of investment portfolio conducted every three years to anticipate market trends, calculate risk and return assumptions, and make adjustments if necessary.








Investment Results*



Period Ending September 30, 2011




- FYTD: - 8.74%
- 1 year: 4.25%
- 3 year: 3.62%
- 5 year: 1.95%
- 10 year: 6.11%

Total Assets: \$33.4 billion

*Gross of Fees

TRS Investments



TRS Investments are On Target

- 30-year Return +9.3%
- 25-year Return +8.8%
- 20-year Return +8.3%
- **FY 2011 Return +24.0%**
- 2010 Return +13.5%
- 2009 Return -22.3%
- 2008 Return - 4.5%
- 2007 Return +19.6%
- 2006 Return +12.2%


The *actual* rate of return determines cost.

The *target* rate of return in the actuarial model determines who pays those costs:

- Too Low – Current taxpayers pay too much
- Too High – Future taxpayers pay too much


Source: TRS; Callan Associates

Pension Funding – 1995 Law




Public Act 88-0593


- Requires 90% of their total actuarial liabilities by Fiscal Year 2045
- However, phase-in ramp from FY 1996 through FY 2010
- Level Percent of Payroll from FY 2011 through FY 2045
- Funded through a Continuing Appropriation


Pension Funding 

- Spring session, P.A. 94-0004 (June 2005)
 - \$2.3 billion reduction in FY 06 and FY 07 for Five State systems
- FY 08 – TRS Certified and Signed by Governor -- \$1.041 billion (\$303.1 M increase)
- FY 09 – TRS Certified thru Continuing Appropriations Act
 - \$1.452 billion (\$410.5 M increase)

Pension Funding 

- FY 10 – TRS Certified thru Continuing Appropriation Act & TRS's share of \$3.466 billion Pension Note -- \$2.089 billion (\$637 M increase)
- FY 11 -- TRS Certified thru Cont. Approp. Act & TRS's share of \$3.7 billion Pension Note -- \$2.169 billion
- FY 12 – TRS Certified and Signed by Governor -- \$2.405 billion

General Assembly Inaction 



Post-Retirement Employment



Employment Limitations

- > Only certified position
- > Up to 100 days/500 hours
- > 1 day = 5 hours

Exceeding limitation

- > TRS notified
- > Annuity suspended
- > Re-enter active service
- > Remit contributions after re-entrance

General Assembly Inaction

No Longer Exempt



1. Overload work
2. Summer School Teaching
3. Promotions Requiring a New Certificate
4. Master Teacher Stipends, etc.
5. Ten or more years from retirement

TRS Employer Services

(888) 877-0890
8:30 a.m. to 4:30 p.m.

6% Salary Limitations

Anticipated Issues Remain for 2012






Funding

- FY 2012 Funding Levels
- TRIP Funding
- School District payments to TRS
- Employee contributions
- Taxing Retiree Pensions

General Assembly Session
Jan. 31 to May/June?

Anticipated Issues Remain for 2012

Benefit Changes for Actives

1. Tier III -- SB 512, etc.
2. Pension Cap on Actives Salary -- HB 146
3. Extending the 6% salary limitations -- SB 2187
4. Union officials/staff -- HB 3813 -- PA 097-0651

Benefit Changes for Retirees

1. Post Retirement Limitations to 120 days -- SB 2279 & HB 1072
2. Prohibits school board from hiring multiple retirees for full-time position -- HB 3375

General Assembly Session
Jan. 31 to May/June?

ERO Update (Tier One)



- Age 55 and 20 yrs. of service
- All Member contribution -- 0.4% (refundable)
- Participant payment —11.5% per year
- Employer payment—23.5% per year
- Timeline
 - ✓ Actuarial Review to TRS Board by summer of 2012
 - ✓ Report Forwarded to COGFA
 - ✓ COGFA to Legislature by Feb. 1, 2013
 - ✓ No Action by General Assembly ERO ceases June 30, 2013

Possible Tier –III– SB 512



General Assembly Session
Jan. 31 to May/June?

- Backed by Chicago's Civic Committee
- Designed to limit the State's costs to TRS, SURS, SERS, GARS
- Maintains current benefit structure until June 30, 2013
- New Benefit structure applies to Active Teachers & others in service on/after July 1, 2013

Possible Tier –III– SB 512



TRS members required to choose a new benefit structure for current teachers:

- 1) **Modified Tier I** - Maintain a member's current benefit, but pay substantially higher contribution to TRS – 13.77% for next three years, then recomputed (capped @ 15.77%)
- 2) **Shift to Tier II** (retirement age 67, 8-yr final avg. salary, smaller post-retirement increase, etc.) – 6% contribution.
- 3) **401(k)-style plan** – 6% contribution/match

Concerns with SB 512



- Tier I member contribution rate increase
- Tier I member benefit could increase
- Tier II member contribution rate decrease
- Immediate increase in the state's Annual contribution for Tier I
- Member Contributions, Tax-sheltering & IRS?
- Social Security?
- Funding Based on State Revenues?

Legislative Process – SB 512




General Assembly Session
Jan. 31 to May/June?

- Resides in the House
- Passed by the House ??
- Passed by the Senate ??
- Signed by the Governor ??
- Withstand a Constitutional Challenge ??

Gubernatorial Pension Task Force




- Jerry Stermer, Chair, Aide to Governor Quinn
- Sen. Michael Noland, D-Elgin
- Sen. Bill Brady, R-Bloomington
- Rep. Elaine Nekritz, D-Des Plaines
- Rep. Darlene Senger, R-Naperville
- Stakeholders – IEA, IFT, Retired teachers, School Administrators, etc.
- Pension Systems – TRS, SURS, SERS & Chicago systems

Constitutional Protection 


- Two provisions in Illinois Constitution
 - Contracts Clause
 - Pension Right Clause: Article XIII, Section 5

"Membership in any pension or retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired."

Constitutional Protection 

- Mrs. Kinney, 1970 Constitutional Convention
Co-sponsor of Amendment:


"Benefits not being diminished really refers to this situation: If a police officer accepted employment under a provision where he was entitled to retire at 2/3rds of his salary after 20 years of service, that could not subsequently be changed to say he was entitled to only 1/3rd of his salary after 30 years of service or perhaps nothing. That is the thrust of the word "diminished"."

Constitutional Protection 

- Henry Green, 1970 Constitutional Convention
another Co-sponsor of Amendment:


The purpose of this provision was to create "a contractual relationship between the employer and the employee; and secondly mandates the General Assembly not to impair or diminish these rights".

- Other delegates offered proposals at the Constitutional Convention to reduce the impact of the original amendment – **ALL FAILED!**

Constitutional Protection 

- Further, Mrs. Kinney added:


"As I said before, it is also not intended to preclude greater benefits for beneficiaries, pensioners, or their dependents at some future time."
- Since 1972, **seven** state court cases upheld the non-diminishment clause. No judge cited or supported the current and erroneous "earned benefit" theory.

Defined Benefit (DB) v. Defined Contribution (DC) Plans 

DB -- GUARANTEED	DC -- NOT GUARANTEED
<i>Like TRS, SERS, Traditional SURS and IMRF</i>	<i>401 (k), 403 (b), or 457 plan</i>
<ul style="list-style-type: none"> • The benefit is defined (2.2 x Final Avg. Salary x years of service for TRS). • All the contributions are pooled. • The assets are collectively managed. • The risk is borne by the employer, and the member cannot outlive the benefit. 	<ul style="list-style-type: none"> • The member and/or employer contributions are defined and the benefit is based on the account balance for the member. • The account is credited separately. • The assets are managed by the individual. • The risk is borne by the member, and the member can outlive his or her assets.


Contact TRS Information 


- Email -- members@trs.illinois.gov
- Email updates list -- members@trs.illinois.gov
- Member Services: **(800) 877-7896**
 - 7:30 a.m. to 4:30 p.m. – Mon., Wed., Fri.
 - 7:30 a.m. to 5:00 p.m. – Tues. and Thurs.
- Web page
 - Online videos/Hot Topics audio
 - Newsletters and Bulletins
 - Booklets, Brochures and Forms

On the Web – trs.illinois.gov 

Issues Update – Q & A Forms Available

- More About our Pension Guarantee
- Reduce Pension Benefits for Current Members?
- State Going Bankrupt ?
- TRS Going out of Business ?
- Teachers in Social Security ?
- Risky Derivatives?
- Teacher Pensions are too "Generous"?
- Change of Address
- Depository Agreement for Benefit Payments
- Divorce/QILDRO
- Member Information and Beneficiary Designation
- Post-Retirement Days Worked
- State Income Tax Withholding Request
- Federal Withholding Request

Evaluation Form 

Thanks 

Please complete the evaluation form located at the end of this packet.

Contact Information

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