TOPICS & REPORT

Teachers' Retirement System of the State of Illinois
Spring 2016

Executive Director's Message to TRS Members

Executive Director Dick Ingram

The good ship Illinois continues to sail uncharted waters.

Democrats who control the General Assembly and Republican **Gov. Bruce Rauner** are still sparring over the passage of a fiscal year 2016 state budget that began last July, the passage of a fiscal year 2017 state budget and the consideration of the governor's "Turnaround Agenda."

The lack of a government spending plan has shut down various social service agencies around Illinois, canceled state-funded college tuition subsidies for thousands of students and forced public universities to cut back operations and programs.

So far, the on-going political deadlock in Illinois has not affected TRS as dramatically as it has other state agencies, programs and services. And rest assured that our efforts on your behalf to administer all benefits, grow your retirement fund and bring stability to its finances are undeterred by the political differences in Springfield.

A few facts about the state of TRS:

- **State Comptroller Leslie Geissler Munger** said that the System's $3.7 billion contribution from the state for fiscal year 2016 will be paid in full. The TRS allocation was included in the year's spending appropriation for elementary and secondary education – the only agreed upon portion of the overall state budget. The effects of the budget dispute did cause a cash-flow problem in November that forced the delay of a $312 million payment to TRS. Nonetheless, the System expects to receive this payment in April and expects the rest of the year's scheduled payments to be on time. Comptroller Munger has worked diligently with TRS on this issue and fully understands the importance of the state contribution to our members.

- The System's disciplined investment program continued to deliver top quartile returns for members, despite economic unpredictability around the world. Our important long-term rate of investment return of 8.6 percent over 30 years continues to meet or exceed the long-range expectation of 7.5 percent. In every measurement, TRS rates of return during fiscal year 2015 ranked in the top 25 percent of all large government retirement systems, meeting or exceeding all benchmarks.

- The net-of-fees 30-year rate-of-return of 8.6 percent is the most important number in the fiscal year 2015 investment data because the 30-year time frame reflects the long-term relationship that TRS has with its members. In the last 10 years, TRS investments have recorded positive returns in eight years, with the two years of negative returns realized during the worldwide financial crisis of 2008 and 2009.

With that said, it is important to remember that TRS still faces serious long-term financial problems caused by its unfunded liability. TRS cannot invest its way out of an unfunded liability created by decades of underfunding by state government. The only solution is consistent and adequate funding from state government.

The total accrued liability for TRS now stands at $108.1 billion but less than 42 cents is on hand for every dollar that is owed to all its members over the long term. The total liability, though, never comes due at one point in time. TRS currently pays out about $6 billion in pensions and benefits annually, so the System has sufficient assets to fulfill its mission for years to come. But if the

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unfunded liability continues to grow, TRS finances will gradually become less stable.

Along with stakeholders across Illinois, we will continue to watch the situation at the Capitol closely because no one can predict what is going to happen during the next 12 months or how circumstances may affect TRS in the future. We also will continue to advocate for proper funding from state government and we will continue to administer your retirement system professionally, fairly and to the best of our ability.

Best Wishes,

Dick Ingram
TRS Executive Director

Early Retirement Option Scheduled to Expire in June

The TRS Early Retirement Option (ERO) will automatically expire on July 1, 2016 unless the law is extended by the General Assembly and signed by the governor. Currently, no legislation has been filed during the legislature's spring session to extend the program.

If the ERO law is not extended, the current 9.4 percent salary contribution for both Tier I and Tier II active members will be reduced to 9.0 percent for all creditable earnings on or after July 1, 2016. Active TRS members have contributed 0.4 percent of their creditable earnings to ERO since 2005.

Also, if the law expires, most active and inactive members will be eligible to receive a refund of their 0.4 percent contributions accumulated since 2005. **TRS will not be able to estimate each member's potential refund until the late fall of 2016, after all employer Annual Reports are processed.** Retired TRS members who did not participate in the program had their accumulated ERO contributions refunded at retirement. All members who retire before the ERO law is scheduled to expire will be able to apply for contribution refunds at retirement, unless they are participating in the ERO program.

If the ERO law is extended, the cost of participating in the program will drop. For members, the contribution rate used in the lump-sum calculation at retirement will become 10.8 percent of the highest salary used in determining their final average salary, which is part of the initial pension calculation. The current member contribution rate is 14.4 percent. The employer contribution rate would drop from 29.3 percent to 22 percent.

Additionally, if ERO is extended, the 0.4 percent contribution for the program will continue to be deducted from active member paychecks.

If you haven't, activate your online TRS member account and provide us with your home email address online to stay informed about ERO.

History of the 9.4 Percent Member Contribution

The retirement contribution paid by active TRS members has totaled 9.4 percent since 2005, but educators have been paying a portion of their salaries to the System since TRS was founded in 1939.

- **1939** – The original member contribution to the System was 4 percent of salary.
- **1953** – The contribution grew to 6 percent.
- **1959** – The General Assembly decided to specifically dedicate portions of the total contribution, then at 7 percent, to help fund specific benefits – 6 percent for retirement benefits and 1 percent to newly-created survivor benefits.
- **1971** – The total contribution was raised to 8 percent, with 6.5 percent dedicated to pensions, 0.5 percent for retired members' automatic annual pension increases and 1 percent for survivor benefits.
- **1998** – The total rate was raised to 9 percent when the retirement portion of the contribution was hiked to 7.5 percent for the 2.2 formula.
- **2005** – The most recent change occurred when a dedicated 0.4 percent contribution for the Early Retirement Option was added, raising the total contribution to 9.4 percent.

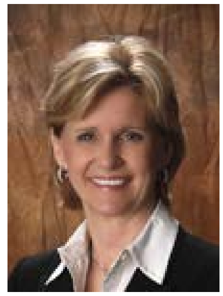
New TRS Board of Trustee Members Appointed

Two new trustees, **Ann Deters** of Effingham and **Randall S. Winters** of Highland Park were appointed in March to the TRS Board by **Gov. Bruce Rauner**, leaving just one vacancy on the System's 13-member Board.

Both appointments replace former trustees who had been appointed by **former Gov. Pat Quinn** and had their appointments rescinded by Gov. Rauner.

Randall S. Winters
Trustee
Highland Park

Trustee Winters is a principal in ELK Capital Advisors of Chicago, and has more than 20 years of experience in high-level investment management. He holds a bachelor of science degree in business administration from Boston University in Mass., and a master's degree in business administration from the University of Chicago. Trustee Winters also serves on the Board of Directors of the Illinois Holocaust Museum and Education Center. His term on the Board runs until July 2018.



Ann Deters
Trustee
Effingham

Trustee Deters is chief executive officer of Vantage Outsourcing of Effingham, which provides clients in 23 states with state-of-the-art ophthalmic equipment, supplies, products and trained technicians. She also is the founder of 7D & Associates, a consulting and management company for ambulatory surgery centers. Trustee Deters holds a bachelor's degree from Southern Methodist University in Dallas, Texas and master's degree in business administration from Northwestern University in Evanston. Her term runs until July 2016.

Retirements Create Openings for New Senior Staff Members

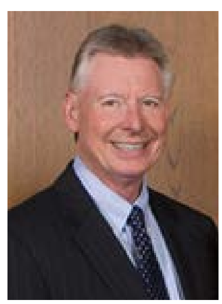
In recent months, two senior TRS officials have retired, taking with them a combined 56 years of service to the System and its members. Both **Information Systems Officer Ed Mabie** and **Chief Legal Counsel Tom Gray** have transitioned to life after TRS.

Ed Mabie
Retired
Information
Systems Officer

Tom Smith
Chief Technology
Officer

In his 33 years at TRS, Ed guided the agency's progress from pen-and-paper record keeping to highly-sophisticated electronic systems with software designed specifically for TRS.

Ed's successor in leading the System's multi-faceted information technology department is **Tom Smith**, who assumes the role of chief technology officer. Prior to joining TRS, Tom served as chief technology officer at the Public School and Education Employees Retirement System of Missouri for more than 11 years. He holds a master's degree in business administration from the University of Kansas.



Tom Gray
Retired
Chief Legal Counsel

Marcy Dutton
Chief Legal Counsel

Tom Gray spent 23 years in the TRS Legal Department, the last 15 as general counsel. Tom oversaw all legal matters at TRS involving member issues, the structure of benefits, investments and operational policies. Tom also has served four terms as the village president of Chatham, Ill.

The new chief legal counsel at TRS is **Marcy Dutton**, who comes to the System from the Illinois State Board of Education (ISBE), where she served as deputy general counsel for eight years. Prior to joining ISBE, Marcy was general counsel at the Illinois Association of School Administrators for 14 years. She holds a law degree from Louisiana State University in Baton Rouge and bachelors' degrees from Millikin University in Decatur.

Legislative Update: Proposals Affect Pension Funding, Offer a "Buyout" to Members

Gov. Bruce Rauner in February proposed a five-point overhaul of the state's funding mechanism for TRS and Illinois' other pension systems as part of his proposed state budget for fiscal year 2017.

If enacted by the General Assembly, the changes would lower the state's expected annual contribution to TRS by $395 million and push the cost of paying down the System's unfunded liability further into the future.

Gov. Rauner said he continues to develop a "long-term" overhaul of the state's public pension systems designed to reduce the future cost of retirement benefits. He added the five changes to the current funding scheme will create short-term savings as a bridge to further savings in the future.

The proposed pension funding changes are:

1. The existing 6 percent threshold on TRS member raises that triggers a partial pension cost-shift to local school districts would be changed to a floating threshold tied to the annual increase in the national employment wage index, which last year was 2 percent. School districts would be responsible for paying the long-term actuarial cost of any pension created by the portion of the raise that exceeds the threshold. Raises in existing contracts would be exempt from the new threshold.
2. School districts would be responsible for annually paying a portion of any TRS member's pension cost if the member's salary exceeds $180,000, which is the current statutory salary of the governor. Districts only would be responsible for the pension cost created by the salary above the $180,000 threshold. An estimated 400 TRS members receive a salary that exceeds $180,000.
3. Beginning in fiscal year 2017, TRS would calculate the state's annual contribution using the total of all TRS member salaries. Currently, the contribution formula excludes some portions of member salaries. For instance, the formula does not include the portion of a Tier II member's salary that is above the existing Tier II cap on pensionable earnings – salary that is not used to calculate a member's initial pension. Using a bigger salary "universe" in the funding calculation reduces the percentage of that universe needed now and drives up the amount of money needed in the future to reach the funding goal.
4. To prevent year-to-year changes in TRS actuarial assumptions from greatly increasing the size of the annual state contribution to the pension systems, TRS would "smooth," or phase in, any changes in its assumptions over a five-year period.

5. State agencies and offices would no longer be allowed to "pick up" the member contributions to TRS for state employees who are TRS members.

Also, Gov. Rauner proposed a fiscal year 2017 state government TRS contribution of $3.591 billion, or 10 percent less than the $3.986 billion contribution approved by the TRS Board. The suggested $395 million reduction is the product of four of the five changes to the state's pension funding mechanism proposed for the coming year.

The final TRS contribution for fiscal year 2017 will be determined by the legislature and the governor this spring.

The $3.986 billion contribution certified by TRS is based on calculations dictated in state law and falls well below the $6.071 billion actuaries estimate state government should be paying TRS.

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Of the $3.986 billion state contribution for fiscal year 2017, only $810 million is needed to pay the anticipated state share of the annual cost of TRS pensions during the year. The remaining $3.176 billion is dedicated to help paying off the shortfall created by the state's decades-long failure to pay adequate annual contributions to TRS.

Pension "Buyout"

TRS Executive Director Dick Ingram told legislators in March that two House proposals allowing TRS members to opt out of a lifetime pension for a one-time lump-sum cash payment would "do little or nothing" to improve the financial health of the System.

"You won't see any significant relief for the unfunded burden we already have created," Ingram told the House Personnel and Pensions Committee. "In fact, the buyouts may actually serve to accelerate the state's pension obligations."

The two measures – House Bill 5625, sponsored by **State Rep. Mike Fortner**, R-West Chicago, and House Bill 4427, sponsored by **State Rep. Mark Batinick**, R-Plainfield, will likely remain in the committee for study this year. The sponsors of both proposals said they are willing to consider amendments to the bills.

Both "buyout" plans are designed to reduce the state's total pension liability and still provide retiring members with money for their retirements. A reduction in the total pension liability, in theory, would reduce state government's annual contribution and would deliver money for other spending priorities.

However, Ingram noted that among the unanswered questions about the proposals, the largest involves the source of enough cash to fund the buyouts. Ingram said TRS currently has less than 42 cents on hand for every dollar owed to all 400,000 members, so TRS would not be able to fund any buyouts and still have enough money on hand to pay the benefits of members who choose to keep their pensions.

House Bill 4427 would use TRS assets to fund the buyouts. House Bill 5625 would require the state to hire and pay a private company to pay the buyouts.

TRS Should Be Your Only Retirement Estimate Resource

As you plan for your financial future, you should always remember that TRS does not partner with any independent financial planner or personal money manager.

One of our TRS counselors helps a member with a retirement estimate by phone.

Every so often, TRS sees false advertisements or messages from financial planners that claim a "special relationship" with TRS or that the System has "licensed" its software for private companies to use. Rest assured, TRS does not enter into any partnership or agreement to share its processes or information with private entities.

TRS retains and protects, within the bounds of disclosures required by law, all of your personalized data, which includes teaching service, purchased optional service and sick leave, to calculate your TRS retirement estimate according to law.

Financial planners may offer to estimate your TRS benefit for you, but those estimates are done without the cooperation of the System and are not official. For an accurate TRS retirement estimate, you should only rely on TRS. If you have a question about the claims made by a financial planner regarding TRS information or processes, you can check those claims with us.

While TRS does not provide financial advice or partner with any financial planners, you may wish to consult with a financial planner and use your official TRS retirement estimates.

Proof of Birth Now Required

For all active and inactive (not retired) members, TRS requires proof of your birth date to be on file with the System before a benefit can be paid. This change is due to recent Governmental Accounting Standards Board rulings that require TRS to have better controls over member data on file. Retired members are not required to submit proof of birth because they are already receiving a benefit.

We have publicized the new requirement in the winter 2016 *Topics & Report* and this fall in the TRS Benefits Reports that were emailed to all active and inactive members. Also, when active or inactive members log on to the secure Member Account Access area, the site denotes whether a member has proof of birth on file with the word "validated."

Acceptable proof includes a copy of either a birth certificate, a valid driver's license, valid passport or valid state-issued identification card. For instructions on how to send TRS your proof of birth, visit **https://trs.illinois.gov/subsections/secureaccountaccess/security/signin.aspx**, the Member Account Access area.

When is a COLA Not a COLA?

This is not a trick question.

A COLA is not a COLA when it is an AAI. A **C**ost **O**f **L**iving **A**djustment is not the same thing as an **A**utomatic **A**nnual **I**ncrease.

Yet for almost 50 years, most TRS members, state officials, the media and the public have referred to the TRS AAI as a COLA. It's a tough habit to break.

TRS retirees have been receiving a 3 percent compounded AAI since 1990. The increase, defined in Illinois law, is added to their existing benefit no matter what inflation was during the previous year.

In its most classic interpretation, a COLA is designed to keep a retiree's income even with inflation. As such, a true COLA is calculated based on a formula that references some inflation index. Unlike the AAI that TRS annuitants receive, a COLA can vary from year to year. Last year, inflation in the United States was 1.4 percent.

But rest assured — whether you refer to the increase as a COLA or an AAI, everyone at TRS knows what you mean and will make sure that it is added to your benefit every January. The increase is protected by the Illinois Constitution and cannot be rescinded.

As an aside, you may be interested to know that the System's 3 percent AAI is one of the most expensive elements of the annual benefit for Tier I. Active members contribute 0.5 percent of their salary to help fund the cost of the annual 3 percent compounded increase. But in reality, the AAI costs nearly 10 times that amount.

Don't Miss Information: Notify TRS When Your Address Changes

To ensure that all information about your benefits reaches you, please notify us each time your mailing address changes. You may update your address online in Member Account Access, call us or send us the following information in writing:

- your name and Social Security number or member ID
- former street address, city, state, and ZIP
- new street address, city, state, and ZIP
- daytime telephone number.

Benefit Choice Period for Health Insurance Coverage Planned in May

The annual Benefit Choice Period for Teachers' Retirement Insurance Program (TRIP) participants neither eligible for nor currently enrolled in a Medicare Advantage plan is planned for May 1 through May 31, 2016. TRS will post any updates about the Benefit Choice Period on our website.

The Benefit Choice Period for Total Retiree Advantage Illinois (TRAIL) participants enrolled in a Medicare Advantage plan will be held in the fall.

Benefit Choice is the time to make changes in TRIP coverage (not TRAIL) and to enroll yourself and eligible dependents if you have never previously been enrolled and are not eligible for a Medicare Advantage plan. CMS usually mails information about the Benefit Choice Period to retirees currently enrolled in TRIP at the end of April. The CMS mailing will include an explanation of health insurance options for the coming year and changes in coverage benefits. The full Benefit Choice booklet will be available at www.benefitschoice.il.gov, the CMS website.

If you already are enrolled in TRIP (not TRAIL) and wish to make a change in coverage, please call TRS in May for a new Benefit Choice form at (800) 877-7896. The Benefit Choice form will only be provided upon request. If you are enrolling yourself or an eligible dependent for the first time during the Benefit Choice Period and are not eligible for a Medicare Advantage plan, please contact TRS for a TRIP enrollment application.

If you do not want to change your coverage, you do not have to do anything. Your coverage will continue.

TRS does not administer TRIP. However, TRS provides members with basic coverage information, enrolls members in the program, and collects appropriate premiums. By law, the Department of Central Management Services (CMS) is the administrator that determines coverage benefits, establishes premiums, negotiates contracts with the insurance carriers, and resolves coverage and claim issues.

Upcoming Board Meeting Dates

All meetings will be held at the TRS office in Springfield. The meetings are tentatively scheduled to begin at 1 p.m. on Wednesday and continue until Friday, if necessary. This schedule is subject to change. Board actions are located on our website, http://trs.illinois.gov.

- May 18-20, 2016
- June 23-24, 2016 (tentative)

Our Mission:
TRS will continually deliver the retirement security promised to our members by maintaining the highest and most efficient level of service and by living our values:

- Put the best interests of others first
- Diversity
- Teamwork
- Continuous improvement

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Spring 2016 *Topics & Report*

Go Green!

To receive this newsletter electronically, send an email to members@trs.illinois.gov. Include your full name, zip code, the last four digits of your Social Security number, and your email address.

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