

TOPICS & REPORT

Teachers' Retirement System of the State of Illinois
Summer 2017



Director's Message

New website is purpose driven with simple navigation

One of our most important responsibilities is to make sure our lines of communication with you – our members – are accessible, informative, interactive and helpful to you.

In July, TRS launched an updated mobile-friendly website design that we believe members will like and find useful.

For more than a year, we've worked to plan, design and build a website that is easy to navigate and more intuitive than previous versions. We had input from members, stakeholders and colleagues in the public pension community. We also asked our staff what they'd like to see in a new website design.

We took all of that information and built a website that is inviting, efficient and uncomplicated.

Previous TRS website designs focused more on the basic presentation of information. Our new website design is geared toward helping members complete specific tasks. On the home page, a prominent section is entitled, "I want to..." where members receive fast answers to their commonly asked questions.

Our hope is that our website will grow to provide members with other services to simplify their business with TRS. For instance, last year's successful online process to receive an Early Retirement Option Sunset Refund is expected to lead to

more tools that will make other refund requests easier to process in the secure area of the website.

The website still provides a wealth of information about TRS, its governance, finances and operations, as well as updated explanations about the issues that confront the System and other public pension plans.

To coincide with this new design, we've brought our internet and email services in-house. This transition will allow us to better control costs, make it easier for us to make repairs when necessary and give us greater flexibility in the services we can provide in the future.

Please note that as a result of this transition our website address now is <http://www.trsil.org>. Please make the new website one of your favorites.

We hope you find our new website helpful and easy to use.

Have a great summer!



TRS Executive Director Dick Ingram

TRS Phone Numbers, Emails and Website Address Changed

This summer, TRS changed its telephone numbers, website and email addresses in an effort to improve service and reduce technology costs. The change means better control over the System's telephones, website and emails.

TRS email addresses changed to "____@trsil.org." For example, members@trsil.org.

The new toll-free number for Member Services is 877-927-5877 (877-9-ASK-TRS).

The TRS website address changed to <http://www.trsil.org>. The TRS website was redesigned to correspond with the website address change.

Contact TRS

Email: members@trsil.org

Call: 877-927-5877
(877-9-ASK-TRS)

Web: <http://www.trsil.org>



New Trustees Elected and Appointed to TRS Board

In recent months, several changes occurred to the membership of the TRS Board of Trustees due to regularly scheduled member elections and appointments by Gov. Bruce Rauner.

Mark A. Bailey of Palos Park and **Frederic S. Peronto** of Elmhurst were elected in May to the Board by active members. They began their four-year terms on July 15.

This is Trustee Bailey's second election to the TRS Board. He was first elected in 2013. Trustee Bailey is an instrumental music teacher in Naperville School District 203.

Trustee Peronto has never before served as a TRS trustee. He teaches American history at Carl Sandburg High School in Orland Park.

The other candidate vying for an open seat on the Board was **Frank J. Biga III** of Arlington Heights. Current TRS Trustee **Rainy Kaplan** of Schaumburg withdrew her candidacy for re-election after voting began in April.

Along with the two open active member trustee

seats, one retired member seat was open for election because of the retirement of Trustee **Robert Lyons** of Hoffman Estates. **Larry Pfeiffer** of Carlinville was the only member to file the necessary member signatures for the retired member ballot. Accordingly, the Board appointed Trustee Pfeiffer by acclamation to the retired member seat in June. His term began on July 15.

In April, the governor appointed **Marc Levine** of Wilmette to an open seat. Trustee Levine currently serves as the chairman of the Illinois State Board of Investment, an agency of state government that has similar responsibilities as the TRS Board to invest public pension fund assets. The ISBI oversees investments for state employees, judges and legislators. His TRS term will run through July of 2018.

Trustee Levine is the co-founder and managing partner of Chicago Asset Funding. He was previously employed by Continental Bank, ABN AMRO Chicago Corporation and Anagram Asset Management. He holds a master's degree in

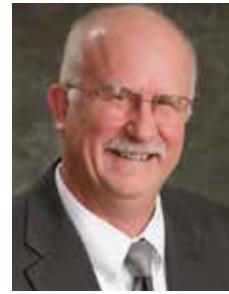
business administration from Northwestern University.

In May, Governor Rauner appointed **Matthew Hower** of Palatine to an open seat on the TRS Board. Trustee Hower has more than 35 years of financial management and accounting experience. He is the founder of TMB Ventures and was formerly employed by AMSTED Industries. He has served on the Illinois Financial Reporting Standards Board. Trustee

Hower is a graduate of the University of Illinois and holds a master's degree in finance from the University of Chicago. His term runs until July of 2018.

In late June, Trustee **Alexander Stuart** of Lake Forest resigned from the Board after serving TRS members for two years.

The 13-member TRS Board of Trustees is comprised of six members appointed by the governor and six members elected by members – four chosen by active members and two chosen by retired members. The 13th member of the Board, as required by state law, is the State Superintendent of Education.



Mark A. Bailey



Matthew Hower



Marc Levine



Fred Peronto



Larry Pfeiffer

Upcoming Board Meeting Dates

This schedule is subject to change. Board information can be found at <http://www.trsil.org> online.

- Aug. 21-22, 2017 • April 26-27, 2018
- Oct. 26-27, 2017 (retreat)
- Dec. 14-15, 2017 • May 24-25, 2018
- March 1-2, 2018 • June 21-22, 2018
(tentative)

TRS Board of Trustees Members as of July 15

Tony Smith, Ph. D. President Superintendent of Education River Forest	Mark Bailey Palos Park	Marc Levine Wilmette	Daniel Winter Decatur
Cinda Klickna Vice President Rochester	Ann S. Deters Effingham	Laura P. Pearl Glenview	Randall S. Winters Highland Park
	Andrew Hirshman Oak Park	Fred Peronto Elmhurst	
	Matthew Hower Palatine	Larry Pfeiffer Carlinville	

Legislative Update for Spring 2017 Session: Creation of Tier III

In early July the General Assembly approved a new law that significantly changed the Illinois Pension Code by creating a voluntary “Tier III” benefit structure. The law also alters the way the state funds TRS.

The pension code changes are designed to be cost-saving measures for state government and were enacted as part of a \$36.1 billion state government budget for fiscal year 2018.

None of the Pension Code changes affect active Tier I members or retired members in any way. There are no changes to Tier I benefits, active member contributions or health insurance coverage.

The new law gives current Tier II members and future Tier II members the option of joining a new “Tier III” retirement plan. After Tier III is implemented, new members will automatically become a part of Tier III unless they opt into Tier II. The optional Tier III “hybrid” retirement plan has two parts – a small life-long “defined benefit” (DB) pension and a “defined contribution” (DC) plan similar to a 403(b).

However, it is unknown at this time when Tier III will be available to members. Before Tier III can be implemented, the plan must be reviewed and approved by the U.S. Internal Revenue Service. It is unknown how

long that process may take. The TRS Board will establish the final implementation date of the Tier III plan.

Under the Tier III plan:

- Members will make payroll contributions to the pension portion that are based on the cost of their benefits, but no more than 6.2 percent of salary.
- Members will contribute a minimum of 4 percent to the DC portion of the plan.
- Normal retirement age is determined by Social Security. Currently, 67 years.
- The Final Average Salary (FAS) for calculating an initial pension is the member’s average salary during the last 10 years of service. By comparison, the Tier I FAS is the highest four consecutive salaries out of the last 10 years of service and the Tier II FAS is the highest eight consecutive salaries out of the last 10 years of service.
- The automatic annual increase (AAI) is similar to the Tier II AAI – one-half of the previous year’s consumer price index, not compounded. The Tier I AAI is 3 percent annually, compounded.
- The Tier III calculation for an initial pension is Service Years multiplied by Final Average Salary

multiplied by 1.25 percent. For comparison, the Tier I and Tier II pension calculation is Service Years multiplied by FAS multiplied by 2.2 percent.

- Local school districts, rather than the state, will bear the primary burden of making the “employer contributions” to both the DB and DC plans in Tier III.
- In addition, the new law makes two changes to how state government calculates the amount of money TRS will receive from state government in fiscal year 2018 and in the near future. It is expected that the original state contribution for TRS expected in fiscal year 2018 – \$4.65 billion – will be recalculated.

1. TRS must retroactively “smooth” the fiscal effect of any changes made in the TRS assumed rate of investment return over a period of five years. The “smoothing” applies to any assumption changes from 2012 on. Up until now, the fiscal impact of change in the assumed was totally absorbed at one time. For example, in 2016 TRS reduced its assumed rate of investment return from 7.5 percent to 7 percent

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Federal Funds Bill Approved

One bill that reached Gov. Rauner’s desk – with near unanimous support in both the House and the Senate – would prevent state government from forcing local school districts to divert federal grant funds away from critical student services to help pay off the TRS unfunded liability.

TRS supported the passage of the bill. The System’s unfunded liability was created by decades of underfunding by state government. The TRS Board of Trustees has long believed that it is unfair for state government to force local districts to divert federal money to help solve a problem the districts did not create. House Bill 656 passed the House 105-0 and the Senate on a 56-0 roll call.

Legislative Update

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and the result was a \$402 million increase in the fiscal year 2018 state contribution to TRS. Under this new law, that \$402 million increase would be phased in over a five-year period.

2. In addition, local school districts will pay more of the

cost of a member's pension if that member's salary is equal to or greater than the governor's statutory salary of about \$180,000. The district will be responsible for paying the actuarial cost of the portion of the member's pension that exceeds \$180,000.

Also in conjunction with the fiscal year 2018 budget, the General

Assembly enacted a 32 percent increase in the state's income tax, which will raise an estimated \$5 billion in new revenue for the state. The individual tax rate will increase, effective on July 1, 2017, from 3.75 percent to 4.95 percent. The corporate tax rate will increase, effective on July 1, 2017, from 5.25 percent to 7 percent.

TRS pensions are still exempt from paying state income tax in Illinois.

Preliminary Reports Show TRS Investments Improved Over Prior Fiscal Year

A preliminary analysis indicates that TRS investments will perform better in fiscal year 2017 than they did in fiscal year 2016 due to a booming stock market and an improving economy.

On March 31 – three-quarters of the way through fiscal year 2017 – TRS investment returns were a positive 8.84 percent, net of fees. During fiscal year 2016, TRS returns at the end of three quarters stood at a negative 1.87 percent, net of fees.

These results continued an upward trend in returns recorded by TRS within the last year.

On Dec. 31, 2016 – the midway point in fiscal year 2017 – returns stood at a positive 4.64 percent, compared to a negative 2.74 percent at the same point in fiscal year 2016. For calendar year 2016, TRS investment returns were a positive 7.59 percent. In calendar year 2015, TRS



investments returned a positive 1.07 percent. All returns were net of fees.

On March 31, 2017, TRS had \$47.3 billion in assets. A year ago, the System had \$43.8 billion and finished fiscal year 2016 with \$45.2 billion.

In addition, TRS is on schedule to receive its entire \$4 billion state government contribution for fiscal year 2017. Each year the contribution is received in 12 installments.

Yet, despite the good news that TRS will receive its entire fiscal year 2017 contribution, the \$4 billion falls \$2.08 billion short of a contribution that the TRS actuaries would label as "full funding." State government has underfunded TRS every year for more than 75 years. In fiscal year 2017, the state contribution should have been \$6.07 billion. This chronic underfunding is the main cause of the System's \$71.4 billion unfunded liability.

Remember to Claim Early Retirement Option Sunset Refunds

More than 195,000 eligible TRS members were notified in November 2016 that they could claim an Early Retirement Option (ERO) Sunset Refund. If any member missed the notification, he/she may log in to Member Account Access within the TRS website. Once logged in, select "Available Refunds" on the left side navigation area to begin the ERO Sunset Refund process.

Each member's ERO Sunset Refund equals the portion of his/her retirement contributions paid between 2005 and 2016 to help fund the ERO program. Between July 1, 2005 and July 1, 2016, active members paid 0.4 percent of their TRS creditable earnings toward ERO.

The Sunset Refunds are available because the Illinois General Assembly did not extend the Early Retirement

ERO Refund continued from page 4

Option during 2016. The law contained an automatic sunset date of June 30, 2016. While the law was extended several times by legislators, the use of the ERO program had declined substantially in the last few years.

TRS members eligible for a refund have three options available to them. They may:

1. Apply for a cash refund that will be mailed directly to them.

2. Apply for a withdrawal with the intention of “rolling over” the taxable portion of the refund into a qualified non-TRS retirement plan, such as a 401(k), 403(b) or an IRA.
3. Do nothing and leave the ERO contributions with TRS until a later date or retirement. Members can apply for a refund at a later date, but no interest will accrue if the ERO contributions are left with TRS.

Retired TRS members are not eligible for the refund because they do not have refund balances.

Annual Fall Member Meetings Explain Retirement Process and Benefits

TRS will host statewide meetings for members from September to November that are designed to explain the retirement process and to provide members with information about disability, death and insurance benefits.

Our website will provide the meeting locations and addresses in mid-August. When the meeting schedule is finalized, an email alert will be sent to all members who are close to retirement. If you would like to be informed of this schedule via email and we do not already have your email address, you can add it to your record. Select “Member Login” from the home page, <http://www.trsil.org>, and then add your email address to your record once you access the secure area.



Algonquin TBD	Charleston Wed., Oct. 11	Freeport Thurs., Sept. 7	Machesney Park Wed., Nov. 8	Northbrook Tues., Oct. 17	Savanna Wed., Sept. 6
Alton Thurs., Sept. 28	Decatur Wed., Sept. 27	Geneva Thurs., Sept. 21	Macomb Wed., Sept. 13	Oak Lawn Tues., Sept. 12	Schaumburg Tues., Oct. 17
Arlington Heights Tues., Sept. 12	Des Plaines Wed., Sept. 13	Grayslake Wed., Oct. 4	Marion Wed., Sept. 27	Oak Park Tues., Nov. 7	South Holland TBD
Aurora Thurs., Nov. 2	Dixon Tues., Oct. 3	Highland Park Tues., Oct. 24	McHenry Wed., Oct. 18	Pekin Wed., Oct. 4	Springfield Tues., Oct. 3
Barrington Thurs., Oct. 5	Downers Grove TBD	Jacksonville Wed., Sept. 20	Moline Tues., Sept. 19	Peoria Wed., Oct. 11	Taylorville Thurs., Sept. 21
Belleville Thurs., Aug. 31	Edwardsville Wed., Sept. 13	Kankakee Tues., Sept. 20	Monmouth Thurs., Sept. 7	Plainfield Wed., Sept. 27	Tinley Park Thurs., Sept. 21
Belvidere Tues., Sept. 19	Effingham Wed., Aug. 30	Kewanee Thurs., Oct. 5	Morris Tues., Sept. 19	Pontiac Tues., Aug. 29	Urbana Wed., Sept. 6
Bourbonnais Thurs., Oct. 12	Elgin Wed., Sept. 20	La Salle Thurs., Oct. 5	Naperville TBD	Rock Falls TBD	Warrenville Wed., Nov. 8
Carlinville Thurs., Sept. 28	Evanston Wed., Oct. 18	Lemont Thurs., Sept. 7	New Lenox Wed., Oct. 11	Rockford Wed., Oct. 11	Western Springs Tues., Oct. 3
Cary Thurs., Oct. 26	Fairfield Tues., Sept. 26	Libertyville Wed., Nov. 1	Normal Wed., Sept. 20	Salem Thurs., Oct. 12	

Wait Four Months to Receive a Refund of Retirement Contributions



Now that the 2016-17 school year is over, some teachers may not be returning to the classroom. These TRS members may apply for a refund of their TRS contributions if they terminate teaching with a TRS employer. However, by law, a refund cannot be processed until four months have passed since the member's final day of teaching.

A refund of retirement contributions, which consists of the portions used to pay the retirement annuity (7.5 percent) and the annual increases in the annuity (0.5 percent), should be carefully considered because it terminates the member's benefits and will be costly to repay if the member returns to teaching in the future. If the member receives a refund of retirement contributions, he/she is not entitled to any other refunds. The contribution for the Teachers' Retirement Insurance Program and the 1 percent survivor benefit contribution are not refundable.

After the member contacts TRS about the refund, TRS will send the application by regular mail. **The application can be returned any time after the member has formally resigned from his/her TRS-covered position.** Once a properly completed refund application and any required supplementary earnings information from the school district(s) are received, we will process the refund and forward it to the Office of the Comptroller for payment when four months have passed since the member's final day of teaching.

Information for Annuitants

Notify TRS by Dec. 28 to Re-establish Survivor Benefits by Repaying Refund

Annuitants who previously gave up their eligibility for a survivor benefit by taking a refund of TRS survivor benefit contributions can now repay that refund and re-establish a survivor benefit under a new law signed last summer by **Gov. Bruce Rauner**.

Before the enactment of this new law, once a retiree elected to receive a contribution refund, the decision was irrevocable. TRS annuitants eligible for this reinstatement were notified in December 2016 by letter about their rights under the new law. These retirees have until Dec. 28, 2017 to notify TRS about their intent to re-establish a survivor benefit. This reinstatement is optional.

Under the new law, a retiree can repay the refund over 24 months through a reduction in his/her retirement benefit, repay through a direct rollover to TRS or use a combination of both methods. No personal checks are accepted. The amount to be repaid will consist of the



1 percent payroll contribution paid by the member during his/her teaching career that specifically was designated for survivor benefits, plus interest. The total amount to be repaid is measured from the date the member received the refund until the date the member elected to repay the refund. The interest rate used in the calculation equals the actuarially-assumed rate of investment return used by TRS. That rate currently is 7 percent but it has fluctuated in the past.

At the time of the member's death, provided the survivor benefit refund has been paid in full, the member's dependent beneficiaries may elect to receive either monthly or lump-sum survivor benefits.

Nondependent beneficiaries are only eligible to receive lump-sum survivor benefits. Civil union partners are treated the same as spouses.

Eligible Annuitants and Survivors Have Fall Open Enrollment Period for TRAIL

If you are eligible for the Total Retiree Advantage Illinois (TRAIL) open enrollment this fall, you will receive information from the Illinois Department of Central Management Services.

The Teachers' Retirement Insurance Program (TRIP) offers annuitants and survivors the TRAIL healthcare program. This program provides eligible members and their covered dependents comprehensive medical and prescription drug coverage through Medicare Advantage plans (commonly referred to as "MAPD" plans).



To be eligible for coverage under a TRAIL plan, you and your eligible dependents must live in the United States or the U.S. territories and be enrolled in Medicare Parts A and B due to age or disability with an effective date on or before Sept. 30, 2017.

The plan year begins Jan. 1 and is effective through Dec. 31, 2018.

If you are currently enrolled in one of the TRAIL Medicare Advantage plans, your enrollment will continue – you do not need to do anything unless you want to make a change. If you want to make a change to your current Medicare Advantage health plan or dependent coverage, please follow the directions provided with your fall information.

TRIP participants not enrolled in a TRAIL plan had their open enrollment period in May 2017.

Campaign Encourages Tier II Members to Bring More to Retirement

TRS is strengthening its BRING MORE campaign to help Tier II members use supplemental retirement savings strategies to enhance their future state pensions.

During the spring, TRS Member Services staff met in various settings with Tier II members and school district officials from across Illinois to fine tune the BRING MORE messaging and figure out the best way to get the information to younger teachers.

TRS will continue make sure Tier II members understand that while a Tier II pension will be a solid foundation for retirement, it is not as robust as a Tier I pension. That being the case, Tier II teachers should BRING MORE to their retirement by



Video available on YouTube at: <https://youtu.be/sG-S2iJhSIM>

creating their own individualized savings plans.

TRS cannot advise Tier II members on what savings strategy is right for them, how much they should start saving, or when they should start saving. But the System can provide them with information that tells them why they need to BRING MORE.

By the legislature's design, the value of Tier II retirement benefits

will be about 1/3 the value of Tier I benefits. Tier II members must work longer than Tier I members – to at least age 62 – to be eligible for a pension and the Tier II automatic annual increase (AAI) is smaller than the Tier I AAI.

The Tier II annual increase will be half of the previous year's inflation rate, not compounded, with a cap of 3 percent. The Tier I AAI is 3 percent, compounded annually.

All TRS members who first began contributing to TRS on or after January 1, 2011 are in Tier II, unless they had recorded service prior to 2011 in one of the state's other public pension systems that have reciprocal service links with TRS.



Teachers' Retirement System of the State of Illinois

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Summer 2017 Topics & Report

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Go Green!



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

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Tier II Members Need to "Bring More"

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