

TOPICS & REPORT

Teachers' Retirement System of the State of Illinois
Summer 2013



General Assembly Forms Conference Committee on Pension Overhaul

While the Illinois General Assembly adjourned its 2013 spring session in May without taking any final action on controversial legislation to overhaul TRS pensions and funding, negotiations between the House and the Senate on a compromise will continue throughout the summer.

Gov. Pat Quinn wants the legislature to agree as quickly as possible on a pension overhaul compromise that bridges a gap between competing House and Senate proposals. A joint House-Senate conference committee – the first one created since 1985 – was formed in June during a special legislative session on pensions.

The basis for this new round of negotiations are two competing bills that change member benefits, are designed to bolster the long-term finances of TRS and make the annual TRS contribution more affordable for state government. Both the House and the Senate have passed different pension overhaul bills only to see those efforts stall in the other chamber.

A bill sponsored by **House Speaker Michael Madigan**, D-Chicago was contained in Senate Bill 1. This bill was approved by the House 62-51 in May but was rejected by the Senate 16-42. In the Senate, a proposal drafted by the **We Are One Illinois** labor coalition and **Senate President John Cullerton**, D-Chicago, was contained in Senate Bill 2404. It was approved by the Senate on a 40-16 vote in May but was not called for a vote in the House.

TRS will not take a position on legislation that affects benefits. The legislature creates the laws and rules that govern TRS. The responsibility of TRS is to administer

those laws and work to secure the System's finances so the promises made to generations of teachers by the General Assembly are kept.



If any legislation is approved by the General Assembly and signed into law by the governor, it is all but assured that the new law would be challenged in court as an unconstitutional diminishment of a public employee's pension.

Although it is impossible to predict what provisions any compromise legislation will contain, lawmakers have a menu of options to consider.

Option: Alter the annual cost of living adjustment (COLA)

Several proposals would impose COLA changes on retired members and the future pensions of active members.

- Use two formulas to determine the size of each year's COLA. The formula used would be determined each year by the size of the member's pension. Each member, upon retirement, would multiply his/her service credit by \$1,000 to determine a "threshold" that will be used in the future to determine his/her COLA. If a member's pension is less than the "threshold," then the member's COLA would be 3 percent compounded. Once the member's pension equals or exceeds the threshold, the COLA calculation changes to 3 percent of the member's threshold.
- Make the COLA non-compounded. The COLA would be 3 percent annually calculated from the member's original pension instead of the member's current pension.



- The COLA would be compounded, but the annual increase would equal to one-half of the increase in the urban consumer price index in the previous year.

Option: A benefit choice for members

Senate Democrats and the We Are One Illinois coalition believe that giving members a “choice” in the structure of their benefits helps ensure that the proposal does not violate the pension protection clause of the Illinois Constitution because members are part of the decision-making process.

Option: Raise the COLA eligibility requirements

Members would not receive a COLA until age 67 or five years after they retire, whichever comes first. This would apply to all retired members already receiving a COLA under the old rules. These members could see their COLAs suspended for a period of time, but would not lose any COLAs previously received.

Option: Forfeit COLA increases

Members would be called on to give up COLA increases for either two or three years on a staggered time line.

Option: Cap the creditable salary used to determine a pension

The salary used to determine an active member’s final average salary would be capped at the limit applied to Tier II salaries this year, which is \$109,971. This cap would grow every year by one-half of the increase in the urban Consumer Price Index in the previous year.

Option: Increase active member contributions

Member contributions would increase from 9.4 percent to 11.4 percent over a number of years.

Option: Raise the retirement age based on a member’s age

The retirement age would be set on a sliding scale based on each member’s age at the time the law takes effect. There would be no changes for members age 45 and older. The retirement age would increase from one to five years depending on the member’s age when the bill takes effect.

Option: New “hybrid” benefit structure and eliminate Tier II

All active Tier I members would have an opportunity to close out their current defined benefit pension plans and join new “hybrid” retirement plans. The hybrid would be composed of a defined benefit pension and a defined contribution plan similar to a 401(k). Tier I members electing to join the hybrid plan would be paid all of the benefits that they have earned under

the current plan. All Tier II members would automatically be transferred into the new hybrid plan.

Option: Guarantee state pays full TRS annual contribution

If the state does not pay its annual contribution to TRS within a set period of time, TRS could go to court to force the state to pay the contribution in the same way that the Illinois Municipal Retirement Fund can force local governments to pay their contributions.

Please visit the TRS website, <http://trs.illinois.gov>, for more information on major pension legislation.

The responsibility of TRS is to administer those laws and work to secure the System’s finances so that the promises made to generations of teachers by the General Assembly are kept.

Are You Receiving Email Alerts from TRS Yet?

If you don’t receive them, email us, members@trs.illinois.gov, using your “home” email address (not work) and include your full name/address/last four-digits of your Social Security number or TRS Member ID so we may quickly contact you regarding any pension changes.



Annual Fall Member Meetings Explain Retirement Process and Benefits

Meeting locations available online in August

TRS will host statewide meetings from September to November that are designed to explain the retirement process and to provide you with information about disability, death and insurance benefits. The meetings have been prepared for Tier I members. Tier I members first contributed to TRS before Jan. 1, 2011 or have pre-existing creditable service with a reciprocal pension system prior to Jan. 1, 2011.

The meetings are being conducted in cooperation with regional offices of education and selected school districts.

Meeting sites will be scheduled over the summer and should be finalized and online in early August. Meetings are scheduled to begin at 4:30 p.m.



Algonquin Nov. 13	Charleston Oct. 10	Geneva Sept. 25	Litchfield Sept. 11	Northbrook Sept. 18	Romeoville Oct. 16
Arlington Hts. TBA	Chicago Heights TBA	Glendale Heights Nov. 5	Macomb Oct. 30	Oak Lawn Sept. 10	Savanna Sept. 11
Aurora TBA	Crystal Lake Oct. 30	Grayslake Oct. 17	Machesney Park Oct. 10	Oak Park Nov. 14	Schaumburg Oct. 29
Barrington Sept. 24	Decatur Oct. 17	Highland Park Nov. 14	Marion Oct. 23	Olney Nov. 6	South Holland Oct. 23
Belleville Sept. 25	DeKalb Sept. 24	Jacksonville Sept. 24	McHenry Sept. 19	Pekin Oct. 22	Springfield Sept. 17
Belvidere Sept. 17	Des Plaines Sept. 17	Jerseyville Sept. 18	Metamora Oct. 16	Peoria Oct. 9	Tinley Park Sept. 26
Bloomington Oct. 2	Dixon Oct. 3	Kankakee Sept. 12	Moline Oct. 24	Plainfield Sept. 19	Warrenville Sept. 26
Bourbonnais Nov. 6	Downers Grove Oct. 1	Kewanee Oct. 23	Monmouth Oct. 28	Plano Oct. 3	Western Springs TBA
Canton Oct. 21	Edwardsville Oct. 8	La Salle Oct. 1	Morris Sept. 10	Quincy Sept. 23	
Carbondale Oct. 10	Elgin TBA	Lemont Oct. 30	Naperville Oct. 24	Red Bud Sept. 9	
Carmi Nov. 5	Evanston Oct. 22	Lena Sept. 12	New Lenox Oct. 9	Rock Falls Oct. 16	
Champaign Sept. 30	Galesburg Oct. 29	Libertyville TBA	North Chicago Oct. 29	Rockford TBA	

Early Retirement Option Extended to 2016

Legislation extending the Early Retirement Option (ERO) for active members for the next three years was signed into law in July by Gov. Pat Quinn.

The new ERO created by Public Act 98-0042 took effect on July 1, 2013 and runs through June 30, 2016. The old ERO program expired on June 30, 2013.

In general, the ERO allows members to avoid the automatic discount in their pensions that they would normally face for retiring between the ages of 55 and 60. Without ERO, if a member retires between 55 and 60 with less than 35 years of service, his or her pension is reduced by 6 percent for each year that the member is under age 60.

To participate in the ERO program at retirement, a member must be between the ages of 55 and 60 and have at least 20 years of service but less than 35 years. Participating members and their employers each pay a one-time contribution to TRS.



The major differences between the old ERO and the new ERO are increases in the one-time contributions by participating members and their employers.

The increases were recommended by the General Assembly's Commission on Government Forecasting

and Accountability to cover the anticipated future cost of the program.

For TRS members, the one-time contribution to participate in the new ERO is 14.4 percent of salary for every year the member is under age 60 or for every year the member's creditable service is less than 35 years, whichever is less. The member contribution rate in the old ERO program was 11.5 percent.

For employers, the one-time contribution to have an employee participate in the new ERO is 29.3 percent of the member's salary for every year the member is under age 60. The employer's contribution rate in the old ERO program was 23.5 percent.

The 0.4 percent payroll contribution paid by all active members to help fund the ERO program stays in effect.

For the first time, under the new ERO the eligibility criteria for participating in the program will be negotiated and set by each school district and the union representing members in that district. The new law no longer requires school districts every year to allow a certain percentage of ERO-eligible members to retire under the program.

For further information, please visit the TRS website at <http://trs.illinois.gov>.

Online Delivery for Active & Inactive Member TRS Benefits Reports

To save on printing and mailing costs, this year's TRS Benefit Report will be available only online through your TRS member account.

Last year, the TRS Benefits Report was emailed to half of our active membership in November. In December those who had not yet filed email addresses with TRS received a mailed copy.

Members retiring at the close of 2012-13 will not receive a statement. Annuitants do not receive TRS Benefits Reports.

TRS annually creates a TRS Benefits Report for every active and inactive member that summarizes the following information: refundable contributions, beneficiary refund, beneficiaries, estimated benefits, sick leave service, 2.2 upgrade information, reciprocal service, refunded service that may be reinstated, optional service and active service.

If you received this *Topics & Report* by mail, you must provide your email address (home, not work) to ensure you receive notification when your statement is ready for viewing late this year. Send your email address

and full name and mailing address to members@trs.illinois.gov or call us at (800) 877-7896.

Create your Online Account

Log into the secure Member Account area online (<http://trs.illinois.gov>). Select "New User" and follow the steps to create an account. Your member ID will be required. Either look at the top right corner of your last printed TRS Benefits Report or call TRS for your member ID.

TRS Welcomes New Trustees - First Meeting in August

Two new members will join the Board of Trustees this summer to replace long-time trustees who are retiring after exemplary service on behalf of TRS members.



Mark Bailey

Mark Bailey of Palos Park and **Rainy Kaplan** of Schaumburg will assume their roles during the Board's regularly scheduled August meeting. They are filling seats designated for "active" TRS members elected by other active members across Illinois. Both will serve for four year terms.

State law requires an election among active members for these seats unless the election is uncontested. That was the case this year because only Ms. Kaplan and Mr. Bailey filed the signatures necessary to gain access to the ballot. In February the TRS Board determined the election was not necessary and declared the two candidates new members of the Board.

Mr. Bailey and Ms. Kaplan will fill the seats currently occupied by **Trustee Molly Phalen** of Rockford and **Trustee Jan Cleveland** of Carmi. Both are retiring at the end of their current terms after 16 years of service to TRS and its members.



Rainy Kaplan

Mr. Bailey is currently director of bands at Scott and River Woods schools in Naperville Unit District 203 and has had a long career as a professional musician, music teacher and band director at private and public schools throughout the Chicago area. He currently is president of the Naperville Unit Education Association and treasurer of the IEA Region 39. He holds a master's degree in leadership and administration from North Central College in Naperville and a bachelor's degree in instrumental music from Luther College in Decorah, Iowa.

Ms. Kaplan is currently a Spanish teacher and head boys' track and field coach at Westmont High School (Westmont Community Unit School District 201) and a member of both the Illinois Education Association Board of Directors and the National Education Association Board of Directors. She holds two master's degrees – in administration from Concordia University in River Forest and teaching and leadership from St. Xavier University in Chicago. Ms. Kaplan completed her undergraduate studies in Spanish and secondary education at Bradley University in Peoria.

An election was also unnecessary to fill a third open seat on the Board designated for an elected annuitant. That seat is currently occupied by **Trustee Robert Lyons** of Hoffman Estates, who was first elected to the Board in 2005. Trustee Lyons was the only annuitant to file the required number of signatures for the ballot, so he will retain his seat on the Board for another four-year term.



Jan Cleveland



Molly Phalen



Robert Lyons

New Web Videos Coming Soon!

Topics for Active Members:

Create an Online Member Account

Completing Your Direct Deposit Form and Your Retirement Application Form

Insurance Video for Annuitants:

Completing the Teachers' Retirement Insurance Program Application

2013 Board of Trustee Meetings

All meetings will be held at the TRS office in Springfield and 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>.

- Aug. 14-16
- Oct. 23-25
- Dec. 4-6

Investment FAQs – What You Want to Know

Many TRS members maintain a very close interest in the performance of the System's investments. The portfolio is a very important element of our members' future financial security. TRS regularly answers questions about how the members' money is invested, as well as the strength – and risks – of the portfolio.

To help keep members informed, here are some of the most frequently asked questions about the System's investments and the answers TRS provides:

What is the rate of return?

As of March 31, 2013, the System's rate of return was 12.4 percent for the first three quarters of fiscal year 2013. That's a very good rate of return in the current economy.

Nonetheless, the answer to this question is not as cut-and-dried as many people believe it to be. Many variables contribute to the rate-of-return measurement. One of the most important is the time period being studied.

For instance, while the rate was 12.4 percent for the previous nine months, but for the previous three months, it was 4.63 percent. For the previous 12 months it was 10.7 percent. For the previous five years it was 4.07 percent per year. For the previous 10 years it was 8.32 percent annually; for the previous 20 years it was 7.9 percent annually; and for 30 years it was 9.2 percent annually.

The numbers follow no rhyme or reason because of the ups-and-downs of the international investment markets.

Which number is most important?

TRS prefers to focus on a longer-term measurement of its rate of return – 30 years. TRS is a perpetual agency created by law. Its relationship with each member can last for 50 or 60 years or more. A 30-year rate is a more accurate indication of how your money has been working on your behalf.

The System uses a 30-year benchmark when they set the assumed investment rate of return every few years. The assumed rate is an important target that is used in many financial calculations.

So when measuring the System's performance apples-to-apples, the actual return rate of 9.2 percent over 30 years exceeds the current assumed rate of 8 percent.

Have TRS assets grown and what's the current total?

The current assets managed by TRS total \$39.6 billion. TRS assets have grown considerably over time. Between 1990, when the total was \$8.08 billion, TRS assets have grown by 390.1 percent. Since the end of the worldwide financial crisis in 2009, when assets totaled \$28.5 billion, the fund has grown by 38.9 percent.

What kind of investments does TRS make?

As part of the TRS diversification strategy, periodically the Board of Trustees and the System's staff will study the worldwide investment landscape and determine how much of the total portfolio should be dedicated to a particular class of assets. Currently, the TRS portfolio is allocated as follows:

- **Domestic Equity**
\$9.28 billion
23.4% of the total portfolio
- **International Equity**
\$8.28 billion
20.9% of the total portfolio
- **Fixed Income**
\$6.44 billion
16.3% of the total portfolio
- **Real Estate**
\$4.62 billion
11.7% of the total portfolio
- **Private Equity**
\$4.38 billion
11.1% of the total portfolio
- **Real Return**
\$3.79 billion
9.6% of the total portfolio
- **Absolute Return**
\$2.04 billion
5.1% of the total portfolio
- **Cash**
\$788.1 million
2% of the total portfolio

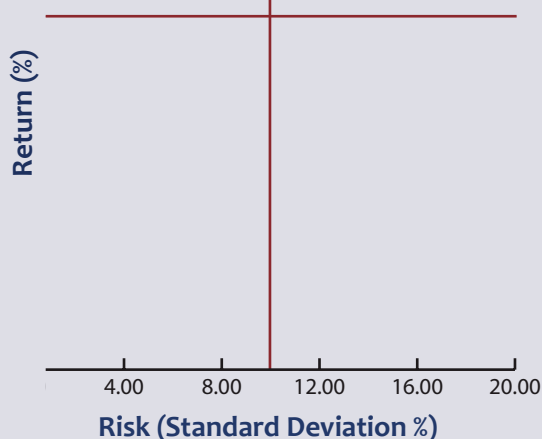
Among the stock in United States companies held by TRS:

- 21.6 percent is in consumer goods;
- 19.3 percent in technology;
- 15.9 percent in financial service firms;
- 14.0 percent in the health care sector;
- 12.4 percent in heavy industry; and
- 8.5 percent in energy producing firms.

Does TRS make risky investments to get back high returns just to hit a specific revenue target or help fill the unfunded liability?

No. TRS does not set an annual investment revenue target and then make decisions in an effort to

TRS 10-Year Risk and Return



	Return	Standard Deviation
TRS Investment Fund	8.80	9.77
Estimated Target for Similar Systems	8.35	9.71
Median	7.96	9.78

reach that target. Many people confuse the long-term assumed rate of return with an annual revenue target set by the Board of Trustees, but the assumed rate of return is a 30-year estimate, not an annual target.

The primary consideration for all investment decisions is whether the opportunity fits within the risk parameters set by the Board. TRS does not make investment decisions in an effort to fill the System's unfunded liability or to replace funds not allocated by the General Assembly. The unfunded liability currently stands at \$53.5 billion and it is impossible to eliminate a liability of that size by investments alone.

Are TRS investments risky?

TRS investments are not riskier than those of other comparable pension plans. The Board of Trustees handles your money with care. All investments have some risk, but before making any investment

decisions, the Board sets general "risk parameters" that govern which potential investment opportunities it will consider.

For large investors like TRS, "risk" is a measurement of how likely it is that a portfolio could lose value in the investment markets. The entire portfolio potential risk is defined by a statistical measure known as standard deviation, which essentially is the amount that the portfolio's returns can reasonably be expected to deviate from the expected return.

The accompanying chart shows that at TRS over the last 10 years, the actual risk of investments in the portfolio has been essentially equal to the potential risk set for the portfolio. Actual investment returns slightly outperformed the returns anticipated for the portfolio.

The chart plots the TRS standard deviation and the portfolio's actual risk and return. Compared to

retirement systems comparable to TRS, a portfolio with below-average risk and higher-than-average returns will have the markers anywhere above the horizontal line and to the left of the vertical line. The intersection of the lines marks the median risk and performance for comparable pension systems.

How are TRS investment decisions made?

The Board of Trustees has the final say on all investment decisions in which members' assets are allocated to money managers in order to execute a specific investment strategy. A 25-member investment staff at TRS is responsible for identifying investment opportunities in each of the seven asset classes, researching the available options and investigating the companies involved. The investment staff makes recommendations several times a year to the Board. Once the Board allocates TRS funds to a money manager or investment firm, the manager is responsible for making decisions within that strategy.

Can TRS help me with my investment portfolio?

Sorry, no. TRS cannot advise individual members on investment decisions. For one, the decisions made by TRS involve the investment of \$39 billion, which is more than the State of Illinois is expected to spend next year. The strategies and opportunities available to large institutional investors like TRS are radically different from those available to individual investors. Second, TRS staff does not have the resources and time to devote to helping members with their investment decisions.



Teachers' Retirement System of the State of Illinois

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Member Appointments

This summer, we will see many of you planning for retirement. Please schedule an appointment to allow your counselor to promptly meet your needs by reviewing your record in advance and preparing any information you requested. The Springfield office has a walk-in counselor available for members. Walk-in visitors will be counseled when the counselor becomes available. The waiting time will vary according to the number of walk-in visitors that day.

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Christopher A. Koch, President <i>Bloomington</i>	Cinda Klickna <i>Rochester</i>
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Rainy Kaplan <i>Schaumburg</i>	Sonia Walwyn <i>Naperville</i>

Go Green!

To receive this newsletter electronically, send an email using your home email address 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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<http://trs.illinois.gov>

Address changes

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

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

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