TOPICS & REPORT

Teachers' Retirement System of the State of Illinois
Spring 2013

State Pension Overhaul Remains in Legislative Limbo

The effort to overhaul the state's pension code dominated the headlines during the opening weeks of the General Assembly's spring session. Legislators, however, have yet to build enough support in both the House and the Senate for any one proposal designed to secure the long-term finances of TRS and the other state pension systems.

The stakeholders in the discussions – TRS members and other public employees, organized labor, school districts, business interests and state officials – remain at odds over key principles. These principles include: the constitutionality of changing retirement benefits for members, the structure of future benefit packages, the need for a strong state funding guarantee for the pension systems, the need for increased state revenues to meet the rising cost of public pensions and other priorities, and how much state government should contribute annually to TRS and the other systems.

Legal counsel advises against TRS taking a position on any legislation that affects benefits. **It is the legislature's responsibility to establish the laws and rules that govern benefits.** The role of TRS is to administer those benefits and prudently invest for the long term. TRS will take a position on legislation that adversely affects the overall funded status of the System.

The central goal of this often-contentious pension debate is a solution to the looming financial crisis that TRS and the other systems will face in the future. Without changes in the current way pensions are funded, TRS will face insolvency. The System would not have enough assets to pay benefits.

In general, the options under discussion to stabilize the pension systems focus on reducing pension costs, increasing revenues or a combination of both. Some of the most-discussed proposals lawmakers are considering follow:

Senate Bill 1

Senate Bill 1 is sponsored by Senate President John Cullerton, D-Chicago, and was approved by the Senate 30-22 on March 20 with the 30 votes needed for passage. The bill now will be considered by the House.

The bill, as amended, affects *only* actively working Tier I members of TRS. Retired TRS members and all other public employees are not included in this version of Senate Bill 1.

The major component of Senate Bill 1 is language that forces active TRS members to make a "choice" that will determine the size of their pensions and whether or not they have access to state-supported health insurance in retirement. President Cullerton believes that these "choice" provisions keep the bill within the boundaries of the pension protection clause of the Illinois Constitution because members would be offered "consideration" in exchange for future benefits.

Opponents to Senate Bill 1 argue that no matter what choices members are allowed to make, the bill "diminishes" the future pension benefits of active TRS members that were set when they first began teaching and contributing to TRS. This would violate the pension protection clause.

Specifically, Senate Bill 1 requires active Tier I members to choose between two options in the make-up of their retirement benefits after the bill takes effect. TRS members who have signed agreements with their school districts on or before Jan. 1, 2013 making an irrevocable decision to retire in the future will not have to make an election. They will be treated exactly like retired members and all current pension laws will apply to their pensions and retirements.

Legislative Limbo continued on page 2

Option 1:

- Accept a change in the annual cost of living adjustment (COLA) for a TRS pension – from 3 percent compounded annually to a non-compounded COLA that is capped at 3 percent or one-half of the consumer price index, whichever is less.
- The TRS member retains "access" to state-supported health insurance.
- All future salary increases will be used to calculate the member's future pension.
- Upon retirement, members would be eligible for a COLA on the Jan. 1 in the year after turning age 67 or the Jan. 1 after the fifth anniversary of the member's retirement, whichever is earlier.
- Members may participate in a new "cash balance" retirement plan that would supplement their Tier I pensions.
- Members could participate in an Early Retirement Option similar to the current ERO.

Option 2:

- Reject the change in the COLA and it remains at 3 percent calculated annually from a member's current pension.
- The TRS member loses "access" to state-supported health insurance in retirement.
- All future salary increases from the effective date of the law will not count when the member's future pension is calculated. Salary increases included in personal or organized labor contracts in force at the time the law takes effect would be included in the pension calculation.
- Members would be eligible for a COLA on the later of the Jan. 1 following the first anniversary of their retirements or on the Jan. 1 in the year after the members turn age 61.
- Members would not be eligible for ERO.

House Bill 3411

House Bill 3411 is sponsored by State Rep. Elaine Nekritz, D-Northbrook, and House Republican Leader Tom Cross of Oswego. This bill is pending on the floor of the House and includes the following provisions:

For all active and retired Tier I members the COLA each year would be equal to one-half of the consumer price index and calculated from the member's original pension amount, not from the current pension amount. The COLA increase would be capped at 3 percent.

All COLAs would apply only to the first $25,000 of a pension. The COLA for annual benefits of $25,000 or more would be capped at $750.

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.

The salary used to determine an active member's final average salary would be capped at the maximum Social Security wage base, which is $113,700 in 2013 or frozen at the current rate if already over the Social Security limit. However for a TRS member employed under an individual or union contract, the cap would be set at the member's maximum salary under the contract at the time the law takes effect.

Active member contributions would increase over two years from 9.4 percent to 11.4 percent beginning in the 2014-2015 school year.

The retirement age would be set on a sliding scale based on the member's age at the time the law takes effect:

- **45 and older:** Current rules apply. Retire between the ages of 55 and 59 years old with at least 20 years of service and receive a reduced benefit; or retire at age 60 or older and receive a nonreduced benefit.
- **40 to 44 years old:** Retire between 56 and 60 years old with at least 20 years of service for a reduced benefit and at 61 for nonreduced benefits.
- **35 to 39 years old:** Retire between 58 and 62 years old with at least 20 years of service for a reduced benefit and at 63 for nonreduced benefits.
- **34 and younger:** Retire between 60 and 64 years old with at least 20 years of service for a reduced benefit and at 65 for nonreduced benefits.

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Legislative Limbo continued from page 2

Finally, House Bill 3411 would create a new "hybrid" Tier III plan for new TRS members. Tier II members could opt in. Tier III would be a combination of a TRS-style defined benefit annuity – a guaranteed lifetime pension and a 401(k)-style defined contribution plan – an amount of money contributed over the member's career that is distributed evenly in retirement until the account is exhausted.

Throughout March, the House debated and sent the Senate a series of bills that each contains one change in the Pension Code found in House Bill 3411. Each of these bills was approved and sent to the Senate.

House Bill 1154

House Bill 1154, as amended, was approved on a 101-15 vote, and would cap the salary reported for all active members and eventually used in benefit calculations at the maximum Social Security wage base or the current salary if higher.

House Bill 1165

House Bill 1165, as amended, was approved on a 66-50 vote, and would reduce the annual COLA. All future COLAs after the bill takes effect would apply only to the first $25,000 of a pension and be delayed as in House Bill 3411.

House Bill 1166

House Bill 1166, as amended, was approved on a 76-41 vote, and would increase the retirement age for most active members as in House Bill 3411.

Senate Bill 2404

Another major proposal was developed by the We Are One Illinois coalition of organized labor. The proposal was introduced as Senate Bill 2404 by State Sen. Linda Holmes, D-Aurora, and is pending in the Senate Executive Committee as amended.

In Senate Bill 2404, new revenue would be generated by increasing payroll contributions for active TRS members and all other public employees. The TRS contribution rate for active teachers would climb from the current 9.4 percent to 11.4 percent over two years.

The proposal calls for a new state law that guarantees the state will make the required contribution to TRS every year. In Illinois, only pension benefits for members are protected as a contractual right by the state constitution. In other states, state contributions to help fund the benefits are guaranteed as contractual rights. We Are One wants a contractual protection for state contributions in Illinois.

Under Senate Bill 2404, 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 required contributions. The Illinois Municipal Retirement Fund is the only statewide pension system that currently has a legal guarantee of funding (from local governments) and the IMRF funded ratio is 83 percent.

Are You Receiving Email Alerts from Us 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.

Annuitant's Subject Shortage Area Expires June 30

Public Act 95-0910 extended the Subject Shortage Area Program until June 30, 2013. At press time, no legislation has been introduced to extend the program past June. The law allows a TRS retiree to return to work without post-retirement employment limitations if certain criteria for the job and the retiree are met. Any members approved into the program must adhere to the post-retirement limitations in the 2013-14 and future school years.

TRS Investments Rally in a Volatile Economy

One by-product of the on-going debate about overhauling TRS and the state's other public pension funds is increased scrutiny of TRS investments.

During calendar year 2012, TRS investments returned a positive 13.9 percent, which beat the System's target rate for the period by 11.2 percent. The System's 30-year average annual rate of return at the end of December was 9.2 percent, which again beat the long-term TRS investment expectation, which last year was as high as 8.5 percent.

At TRS, the 30-year number – 9.2 percent – is the more important statistic. The retirement system does not focus too much on a single year's investment return and will always put more weight on a long-term view of investment earnings. TRS has to be disciplined over the long term for our retired members and all of our active members for decades to come.

Too many people keeping tabs on TRS focus attention on the short-term "snapshot" investment results. In a volatile and uncertain economy, short-term results can create a confusing and incorrect impression of how well TRS investments are performing. The numbers from 2012 are a perfect example.

The 12-month return in 2012 was 13.9 percent. By comparison, the System's rate of return for calendar year 2011, one year earlier, was 1.41 percent.

During fiscal year 2012 – July 2011 to June 2012 – TRS reported an investment return of 0.76 percent. However, by comparison, the System's rate of return at the end of fiscal year 2011, one year earlier, was 23.6 percent.

That's quite a roller coaster. What's going on?

There were no significant changes in the System's investment strategy between fiscal year 2011 and fiscal year 2012 that would explain such wide variances. These sharp swings underscore the continued uncertainty in the world economy. TRS managed to hold its own in this turbulent environment because its long-term investment strategy stresses diversification across a wide variety of investment opportunities. Diversity balances any losses in particular investment sectors with gains in other sectors.

The picture painted by these numbers is a volatile, up-and-down investment market that varies from rags to riches. Mediocre news can change – and has changed – to great news in the short space of six months.

That's why TRS focuses on long-term results. In the last decade, total TRS assets available to pay pensions grew 65 percent to $38.1 billion.

Over the last decade, TRS realized investment gains in five of its seven investment classes:

- Private equity investments returned 10.5 percent for the decade and 16.2 percent during calendar 2012.
- International stocks returned 9.9 percent for the decade and 17 percent during calendar 2012.
- Domestic stocks returned 7.3 percent during the decade and 16.3 percent in calendar 2012.
- Real estate returned 7 percent for the decade and 8.4 percent during calendar 2012.
- Fixed income returned 6.6 percent during the decade and 13.7 percent for calendar 2012.

Two TRS investment classes did not exist 10 years ago, but during calendar 2012 real return strategies generated an investment return of 9.9 percent and hedge funds generated a return of 8.2 percent.

And while the latest cumulative 10-year investment return rate for TRS was 7.61 percent, this measurement continues to be skewed by the worldwide financial meltdown of 2008 and 2009 – a time when all investors lost money. Again, different measurements provide different results. In the last three fiscal years since the meltdown – 2010, 2011 and 2012 – the TRS return was 9.5 percent.

Individual years when returns are below expectations will occur, but they are few and far between. In the last 32 fiscal years, TRS exceeded its investment target in 21 of those years. Total investment dividends and interest for that period was $39.9 billion, or an average of $1.25 billion per year.

In the last 10 fiscal years, TRS investments have recorded positive returns in eight years, with the two years of negative returns seen during the worldwide financial meltdown of 2008 and 2009.

All of the return rates were calculated after all investment fees had been subtracted from the total assets in each portfolio.

Investments Rally continued on page 5

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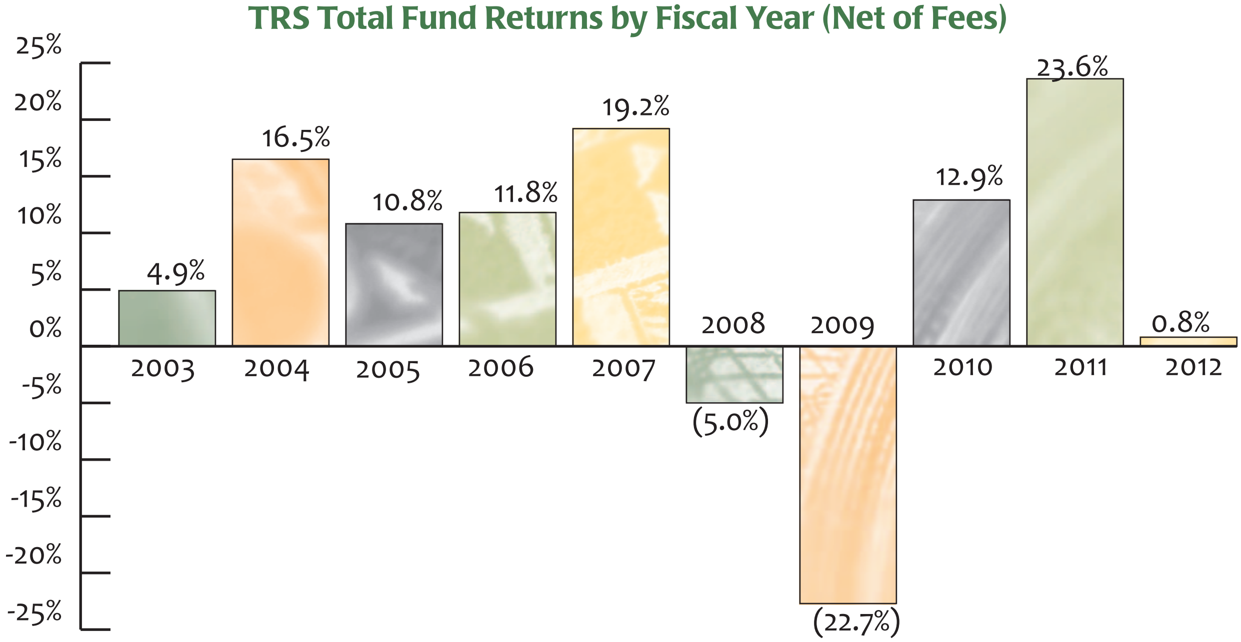

In September, 2012 the TRS Board of Trustees revised its long-term investment target to 8 percent from 8.5 percent largely because of the lower expected inflation and the expected return of the TRS portfolio. The long-term rate of return assumption is an estimate that looks 30 years into the future.

Legislation Filed to Extend Early Retirement Option

In second reading on House Floor

The future of the state's Early Retirement Option (ERO) remains uncertain, even as legislators work on the language of a bill that would extend the program beyond its automatic expiration date of June 30, 2013.

As originally drafted, House Bill 2900 would extend the ERO law beyond its scheduled repeal and increase the size of the one-time payments that participating members and school districts must pay into the program.

Under current law, if legislators do not act to renew ERO by June 30, 2013, the program ceases to exist and active TRS members will receive refunds of all contributions paid to date to fund the program. Right now, 0.4 percent of an active TRS member's contribution is dedicated to ERO. The refund is expected to cost TRS at least $200 million.

As the General Assembly entered its annual spring recess, it is unclear whether a majority of legislators in either the House or the Senate support the proposed extension. House Bill 2900 also is being rewritten to address a concern with members who are ERO eligible during 2013.

For several years under the existing law, members eligible for ERO who turned 55 between July 1 and Dec. 31 in any given year were treated by TRS as if they were 55 during the first six months of the year and were allowed to participate in ERO if they were eligible for a benefit of 74.6 percent of their final average salaries. That practice would be discontinued immediately on July 1 if the ERO law sunsets in its entirety. No member who turns 55 between July and December and eligible to retire could use ERO in 2013.

Current ERO contribution rates only cover 86 percent of future pension costs set up under the program. The new contribution levels recommended by the General Assembly's Commission on Government Forecasting and Accountability (COGFA) would fund 100 percent of the ERO costs.

Under COGFA recommendations, ERO contribution paid by retiring participants would increase from 11.5 percent of their salaries to 14.4 percent; contributions paid by school districts would increase from 23.5 percent to 29.3 percent. The contribution paid annually by active TRS members would remain at 0.4 percent of their salaries.

TRS will not take a position on HB 2900. It is the legislature's job to dictate the laws and rules that govern TRS and other public pension systems. The job 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 can be kept.

Board Election Unnecessary for One Retired and Two Elected Trustees

An election this spring to fill three open seats on the TRS Board of Trustees is unnecessary because only three candidates filed enough required signatures to gain access to the ballot.

This summer the terms of three trustees – two elected by active members and one elected by retired members – expire. State law calls for an election among active and retired members to fill these seats. However, only two active members and just one retired member filed the required 500 signatures to gain access to the ballot, meaning their election is a foregone conclusion.

The two active member seats that will see new faces are currently occupied by Trustee **Molly Phalen** of Rockford and **Jan Cleveland** of Carmi. Both trustees are retiring from the Board this year. The two new TRS trustees will be profiled in the next edition of *Topics & Report*.

Bob Lyons

Molly Phalen

Jan Cleveland

The third seat, elected by annuitants, is currently occupied by Trustee **Robert Lyons** of Hoffman Estates. 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.

Both Trustee Phalen and Trustee Cleveland were first elected to the Board in 1997. Trustee Lyons was first elected to the Board in 2005.

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.

- May 22-24, 2013
- June 20-21, 2013

Benefit Choice Period for Health Insurance Coverage Planned in May

The annual Benefit Choice Period for Teachers' Retirement Insurance Program (TRIP) participants is planned May 1 through May 31, 2013. TRS will post any updates about Benefit Choice on our website.

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.

Benefit Choice is the time to make changes in TRIP coverage and to enroll yourself and eligible dependents if you have never previously been enrolled. 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 Benefits Choice booklet will be available at: www.benefitschoice.il.gov.

If you already are enrolled in TRIP 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, 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.

Post-retirement Employment Reminders Before Returning to Classroom

Have you missed mentoring students and sharing ideas with your teaching peers after retirement? Feeling the urge to enter the classroom again? If so, please abide by the following rules to avoid losing the pension you earned.

Employment limitations

You may be employed by any college, university, or private school without limitation. In addition, you may be employed by a school district in a position not covered by TRS without limitation. For example, you may be employed as a bus driver for any number of days or hours.

Following retirement, you may not resume employment in a TRS-covered position, including substitute and summer-school teaching, in the same school year in which you last contributed to TRS. The school year is July 1 through June 30. A member who retires during the school year may teach summer school following retirement only if the first day of service is after June 30.

If you waited to attain a certain age in order to retire, you cannot return to TRS-covered employment until the day following the retirement date. For example, your last day of work is June 3, 2013. You turn 55 on Sept. 20, 2013, and your retirement annuity commences on that day. You may not return to TRS-covered employment until Sept. 21, 2013.

100 days/500 hours limitation

Following the school year in which you last contributed to TRS, you may be employed in a TRS-covered position for up to 100-paid days or 500-paid hours per school year and still receive a retirement annuity. Only work that requires teacher certification (including summer school and substitute teaching) is subject to the 100-days or 500-hours post-retirement employment limitation.

All time that a teacher or administrator is required to be present for certificated duties is subject to the limitation. For teachers, this includes preparation periods and time before, between, and after classes. For administrators, this includes all time that is required to be spent on administrative duties, such as attendance at board meetings. Extra duties that do not require teacher certification are not subject to the post-retirement employment limitations.

Calculating post-retirement hours

For post-retirement employment purposes, the Illinois Pension Code equates one full day with five hours. For more information, visit the TRS website. TRS recommends that each annuitant maintain a record of time worked.

Reciprocal retirement

If you retired under the Illinois Retirement Systems Reciprocal Act, you must adhere to the post-retirement limitations of each system under which you retired.

Exceeding the limitations

If you exceed the post-retirement employment limitations after retiring for one complete school year:

- TRS must be notified,
- the retirement annuity will be suspended,
- you will re-enter active membership,
- your employer must remit TRS contributions on all creditable earnings after the employment limitations are exceeded, and
- your insurance will be canceled effective the 1st of the month following re-entry into active service.

If you resume TRS-covered employment in the same school year that you last contributed to TRS, you must repay all annuity payments received from the date of retirement. Annuity payments must also be repaid if you do not remain in retirement one complete school year.

Special circumstances for ERO cancellations

Special consequences apply if your annuity is suspended or canceled following a retirement under ERO. ERO contributions are not refundable. The employer remains responsible for the full employer contribution. All enhanced age and service credit are forfeited and may not be used again at retirement.

Retirement with CTPF

If you retired under the Chicago Teachers' Pension Fund (CTPF), you may be employed in a TRS-covered position without limitation for CTPF purposes. However, you will qualify as a TRS member and must contribute to TRS if you work in a TRS-covered position for more than 100 days or 500 hours.

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Lisle Office Expanding

Move Across the Hall Planned for Summer

Work is underway to move the existing Lisle office staff from their current location (Suite 100) to a location directly across the hall at 4200 Commerce Court. This location will provide more space for staff and meetings and it will be more secure. You will still enter the building at the main entrance and find the new office on the left. The move is tentatively scheduled for mid-June 2013.

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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Website

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.

Topics & Report

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