

TOPICS & REPORT

Teachers' Retirement System of the State of Illinois
Summer 2014



Illinois' New Pension Law Implementation Delayed by Court Injunction



Executive Director
Dick Ingram

A Message From the Executive Director

Hold everything.

The scheduled June implementation of a controversial new state law that changes retirement benefits for all Teachers' Retirement System members in Tier I was stopped cold in May by a Sangamon County Circuit Court. Tier I includes all members who are retired or who first contributed to TRS or a reciprocal system before Jan. 1, 2011.

This means that for the foreseeable future, all current TRS retirement benefits, automatic annual increases, eligibility standards and other pension laws will stay in place. The new law remains on the books, but in a legal limbo.

A court injunction delaying implementation of the new law will be in effect until a final decision is reached in a lawsuit challenging the act's constitutionality. The lawsuit is currently in a circuit court, and it is expected that a final ruling ultimately will be made by the Illinois Supreme Court. The case probably will take many months to resolve.

Tier II members who first contributed to TRS on or after January 1, 2011 are not affected by this law.

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The new pension law, approved by the General Assembly and signed by Gov. Pat Quinn in December of 2013, had been scheduled to take effect on June 1, 2014. TRS had been working diligently to make sure the transition to the new law was as smooth as possible. All of that work has been put on hold until further notice. As the administrator of pension benefits for educators, TRS must follow all state laws.

For TRS members in Tier I, the injunction stops changes in the pension code that would have:

- Decreased the contribution rate for active members from 9.4 percent to 8.4 percent
- Established a cap on creditable earnings for all active members
- Increased the retirement age for members under age 46
- Reduced the size of future cost-of-living adjustments (COLA) for all active and retired members



New Pension Law

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- Required future retired members to forfeit between one and five COLAs
- Created an optional retirement plan for a small percentage of active members that is similar to a 401(k)
- Mandated increased annual funding for TRS from state government
- Provided TRS, for the first time, with the authority to sue the state if adequate funding is not appropriated in any year



The new law is designed to fix a systemic financial problem faced by TRS and the state's other pension systems that jeopardizes the future payment of retirement benefits. Over the next 30 years, the law eliminates a growing long-term deficit at TRS by increasing state funding and cutting benefits for all Tier I members in order to reduce future expenditures.

The current TRS unfunded liability is \$55 billion, out of a total long-term liability of \$93.9 billion. This means that TRS has less than 41 cents for every dollar it owes all of its members over the next 30 years. Without changes to the System's overall financial structure to correct this imbalance, the unfunded liability will continue to grow until TRS has insufficient assets on hand to pay benefits to its members.

The principal reason that TRS carries an unfunded liability is that in every year since 1939, legislators have never allocated 100 percent of the money required to fully fund the System. Money routinely has been diverted from TRS to other government spending priorities.

The parts of the new law that cut future benefits form the basis of the constitutional challenge. The lawsuit contends that any benefit cut violates the pension protection clause of the 1970 Illinois Constitution, which states, "Membership in any pension or retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired."

As the administrative agency in charge of implementing state pension laws for teachers, TRS is a defendant in the lawsuit. The Illinois Attorney General is defending the constitutionality of the law, and, under state statutes, is representing TRS in the case.

Over the course of the next several months, TRS will continue to provide members with as much information as possible about the status of the lawsuit and what decisions in the court case may mean.

Mark Harris Appointed to the TRS Board

Mark E. Harris, president and chief executive officer of the Illinois Science and Technology Coalition, has been named by **Gov. Pat Quinn** to the Board of the Teachers' Retirement System. His appointment was effective on April 4.



Mark E. Harris
Trustee

"With the addition of Trustee Harris, our Board better reflects the diversity of our members," said TRS **Executive Director Dick Ingram**. "Public pensions in Illinois face many challenges going forward. The talents of Trustee Harris will complement the experience and skills of our current trustees as they guide TRS into the future."

In his role as president and CEO of the Chicago-based ISTC, Trustee

Harris leads the state's effort to cultivate and attract research and technology-based investment, talent and job growth to Illinois. Prior to assuming that post in 2012, he served as deputy chief of staff in the governor's office, responsible for the state's economic development agenda.

Between 2007 and 2010, Trustee Harris was the associate director of the Polsky Center for Entrepreneurship at the University of Chicago Booth School of Business. He served as deputy chief of staff and communications manager at the Illinois Department of Commerce and Economic Opportunity between 2003 and 2007.

A resident of Park Ridge, Trustee Harris has served as a teaching assistant with the University of Chicago Collegiate Scholars Program and as a citizenship instructor at El Centro de Educación y Cultura, of Chicago. He also serves on the Illinois Smart Grid Advisory Council, the Energy Foundry Board and the Illinois Business Immigration Coalition Steering Committee.

Born in Peru, Trustee Harris holds a bachelor's degree in psychology from the University of Illinois at Urbana-Champaign and a master's degree in social science from the University of Chicago.

Trustee Harris, 34, was appointed to complete the four-year term of Trustee Janice Reedus, who resigned in August of 2013. This term expires in 2016.

Board Information

Board of Trustee Meetings

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>.

- Aug. 25-27, 2014
- Oct. 29-31, 2014
- Dec. 10-12, 2014
- Feb. 18-20, 2015
- March 30-31, 2015 (retreat - TBD)
- May 20-22, 2015
- June 25-26, 2015 (tentative)

Board of Trustees

Christopher A. Koch, President <i>Bloomington</i>	Rainy Kaplan <i>Schaumburg</i>
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Fiscal Year 2014 TRS Assets Increased as of March 31, 2014

Teachers' Retirement System investments continued on a course of steady growth during the first nine months of fiscal year 2014 with total assets in the portfolio growing by 9.3 percent to \$43.59 billion.

During three quarters of the fiscal year, TRS investments recorded a 12.39 percent rate of return, which slightly outperformed the retirement system's custom benchmark target for the period of 12.22 percent. The state's fiscal year runs from July 1 to June 30.

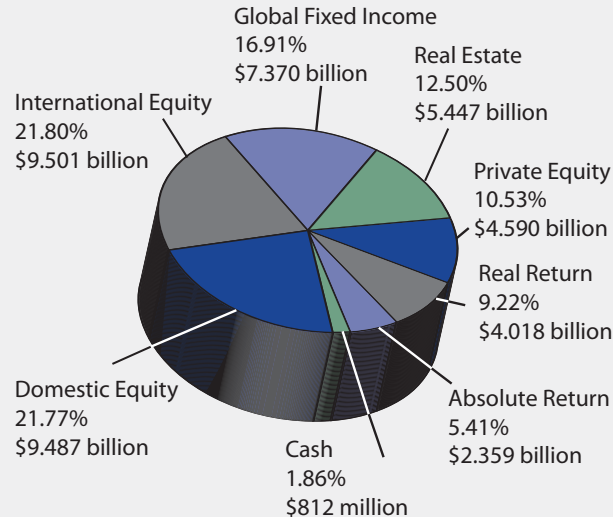
At the end of last June, TRS assets totaled \$39.86 billion and the 12-month rate of return was 12.8 percent. Long term, the TRS investment rate of return over the last 30 years continues to be above 9 percent, which exceeded the System's long-term assumed rate of return at the time of 8 percent.

Because of uncertainties facing the international economy in the future, in June the TRS Board of Trustees lowered the retirement system's future assumed rate of return to 7.5 percent. Lowering the

assumed rate of return automatically increases the size of the System's unfunded liability and also will increase the size of the state's future annual contributions. The current state contribution to TRS is \$3.4 billion. Those calculations for fiscal year 2016 will be made later this summer.

The Board of Trustees in June also updated the allocation of assets in the TRS portfolio so it can better meet the ebbs and flows of the economy, both in the United States and abroad. As of March 31, 43.5 percent of the portfolio is invested in domestic and international stocks, 16.9 percent in bonds, 12.5 percent in real estate and the remaining 27 percent in "alternative" investments that include private equity and hedge funds. The Board of Trustees and TRS Investment Department periodically study the allocation of assets within the diversified portfolio to ensure that potential returns are maximized and investment risk is kept to a minimum.

Here is a detailed breakdown of the TRS portfolio by asset class as of March 31, 2014:



Are You Receiving Email Alerts from TRS Yet? Do you "Like" or "Follow" us?

If you don't receive alerts from TRS, 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 about important events.



This past February, TRS started using social media as a new way to interact with you. Please like us on Facebook at <https://www.facebook.com/pages/Teachers-Retirement-System-of-the-State-of-Illinois/129451380453866> and follow us on Twitter at @ILLTRS.

Online Delivery for Active & Inactive Member TRS Benefits Reports

To save on printing and mailing costs, the TRS Benefit Report is available only online through your online TRS member account. This report will be available in late November and you will be notified via email when it is ready for viewing.

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

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.

Members retiring at the close of 2013-14 will not receive a report. Annuitants do not receive TRS Benefits Reports.

Create your Online Account

Log into the secure Member Account Access area online using <https://trs.illinois.gov/subsections/secureaccountaccess/security/signin.aspx>. Select “New User” on the right side and follow the steps to create an account. Your member ID will be required. Active and inactive members may refer to the top right corner of their last printed TRS Benefits Reports or locate the email or letter received in November 2013 from TRS with their TRS Member Cards which included the member ID. Retirees will receive their Member Cards with their member IDs in July via email or mail.

Check Stub Changes Online Starting Aug. 1 – No Future Mailings

If you are receiving a monthly benefit from TRS, you know that when the amount of your net pay changes, you are mailed an Earnings Statement of Direct Deposit by the Office of the Comptroller. Starting Aug. 1, 2014, these check stubs will no longer be mailed to you, but will be accessible through the Member Account Access area of the TRS website: <https://trs.illinois.gov/subsections/secureaccountaccess/security/signin.aspx>.

If you already have online access and have viewed your check stub in the past, TRS has improved the detail on each of the Earnings Statement screens. All deductions are now itemized. Members who are receiving multiple benefits, such as their own retirement benefits and survivor benefits, will be able to see each type of benefit.

If you have not yet set up your online member account, please watch this video to learn how: <http://trs.illinois.gov/members/videos/acctAccess.htm>.



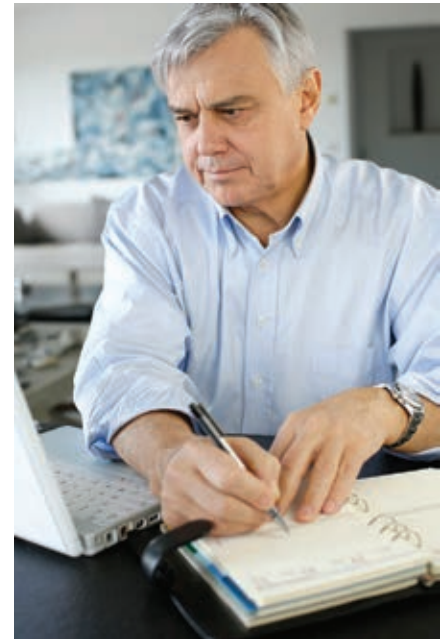
Or follow the directions in the “Create Your Online Account” story above.

Your member ID is required to set up your account online. In July, TRS will be emailing retirees their member ID numbers. Retirees who do not have an email address on file will be mailed a letter with their member ID. Active members were provided their member ID numbers in November 2013 by letter or email.

Scheduling in Progress for 2014 TRS Fall Member Meetings

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. At press time, locations and dates were not yet confirmed for the fall with school districts and regional offices of education. Please check our website in mid-August for confirmed sites.

An email alert is planned for all members who are close to retirement when the meeting schedule is finalized. If you would like to be informed of this schedule via email and we do not already have your email address, you can log on to our secure Member Account Access area online, <https://trs.illinois.gov/subsections/secureaccountaccess/security/signin.aspx>, and add your email address to your record. Or, you may send an email to members@trs.illinois.gov; type your full name, zip code, the last four digits of your Social Security number, and your email address. Please put "Email Alerts" in the subject line. After TRS staff adds your email address to your member record, you will begin receiving email alerts when applicable to you.



Your Homework Assignment? Retirement Planning

A teacher's life is full of planning. You plan your students' weeks, semesters, and school years. As the busy school years pass, it is easy to forget planning for your retirement. This article will give you "homework" for your retirement planning. With a little preparation, your retirement process will be easy.

Attend a Fall Member Meeting

Become familiar with the retirement basics by attending a fall member meeting. The TRS Counseling Department conducts informational meetings each fall at school districts throughout the state of Illinois. The locations are listed online every August and the meetings last until November. Once you have an understanding of the basic principles, it will become easier to translate those principles to your own retirement scenario.

Read the Tier I Member Guide or Watch Retirement Videos Online

If you would prefer to receive your retirement information at home, visit <http://trs.illinois.gov> and read the *Tier I Member Guide* chapters on "Applying for and Receiving a Retirement Benefit" and "Retirement Benefits" (<http://trs.illinois.gov/members/pubs/tier1guide/guide.pdf>). Additionally, many online

member videos are available for viewing on many benefit topics and the retirement process: <http://trs.illinois.gov/members/video.htm>.

Our website can keep you up to date on all of the latest news and developments regarding your retirement.

Create a Personalized Benefit Estimate

You may also create a personalized benefit estimate online (<https://trs.illinois.gov/subsections/secureaccountaccess/security/signin.aspx>) to determine your retirement income. To begin the estimate, you need to know your retirement date or dates that you are considering, your current salary, projected salaries and unused sick leave days available to you upon retirement. TRS needs the salary that your employer will report to TRS. This might not be the amount on your contract or pay stub. Some districts pay all or part of the member's TRS contribution while others do not. TRS does not have this information. Please remember that salaries are reported to TRS based on the fiscal year July 1 through June 30. Tax returns use the calendar year Jan. 1 through Dec. 31.

Salary listed on your tax return actually involves two school years that will not show reportable earnings for TRS purposes. You may need to contact your

Homework *continued from page 6*

bookkeeper or personnel department to determine what salary information you should provide for a benefit estimate. Remember to include any retirement incentives, extra duties or severance payments that count as salary.



reality is that everything can be handled by phone. We don't want to talk you out of making an appointment, but we also don't want you to make a special trip and feel like it was unnecessary. A TRS representative can help you determine if an office appointment is necessary for you.

Review Your TRS Benefits Report

If you don't want your employer to know you are considering retirement, review your most current TRS Benefits Report. It can be accessed online in the secure Member Account Access area. Starting with the most current reported salary, you may wish to project a simple percentage or dollar value increase in salaries for estimate purposes. It won't be a perfect estimate but it's a starting point.

Call or Visit for Your Retirement Interview

A common misconception is you should make an appointment to see a counselor at retirement. The

You still need to contact TRS about six to 12 weeks before your retirement date to request a retirement packet and do your retirement interview.

The TRS Counseling Department is always here to guide you on your retirement journey, but please be an engaged participant along the way. Your retirement process should be an easy and joyful experience. Do your "retirement homework" and together we will accomplish this goal.

When to Send TRS a Power of Attorney Document

When members have other people making important decisions for them under a power of attorney (POA) document, TRS needs to know when they designate their POA agents to start making decisions. TRS also needs to know the identities of these POA agents.

During a recent Benefits Choice Period for health insurance coverage, TRS staff was frequently confronted with a situation where a member's important decisions about their benefits were being made by another person under a POA, but TRS did not know the POA was in force or how to contact the agent. This situation can lead to a delay in implementing important decisions on TRS benefits or health insurance coverage.

You do not need to send TRS a copy of your power of attorney document if you are handling your own retirement plan affairs. If you have designated someone – your agent – to handle retirement plan transactions for you as your POA and you wish that agent to be able to make changes to your TRS

account on your behalf, then you or your agent must send a copy of the power of attorney document to TRS, along with the agent's contact information and the current address of the member.

Power of attorney documents and the authority granted by these documents vary from state to state. To be clear, TRS is only able to honor a power of attorney that specifically gives your designated agent the authority to act on your behalf concerning retirement plan transactions. TRS cannot honor a power of attorney for health care or any other purpose that does not specifically authorize the agent to handle retirement plan transactions for you.

You should be aware that once TRS has a power of attorney on your TRS record, your agent becomes your "alternate contact," which means all mailings and communications will be sent to that agent. If you wish to continue to receive your TRS mailings, please notify us when you send in the power of attorney document.



Teachers' Retirement System of the State of Illinois

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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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when prompted

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<https://www.facebook.com/pages/Teachers-Retirement-System-of-the-State-of-Illinois/129451380453866>

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
- Go to daytime telephone number.

Topics & Report

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