



Town Hall Meeting



January and February, 2017

Teachers' Retirement System of the State of Illinois
Dick Ingram, *executive director*

Today's Agenda

- **Your TRS – Financial & Investment Facts**
- **Can You Count on TRS?**
- **Challenges We Face**
 - Funding Shortfalls
 - Changing Investment Expectations
 - Politics
- **Other issues**
 - ERO Sunset Refunds
 - Survivor Benefit Reinstatement
 - “Bring More”
- **Stay in Touch: Create a Secure Member Account**
- **Your Questions**

Your TRS

➤ **Finances**

- Fiscal Year 2016 Assets - \$45.2 billion (*down 2.5%*)
- Revenue in FY 2016 - \$4.7 billion (*earnings & contributions*)
- Benefits Paid in FY 2016- \$5.9 billion (*up 5.4%*)
- Investment Return in FY 2016 – 0.01% (*net of fees*)

➤ **Membership** (Fiscal Year 2016)

- Total – 406,855 (*up 1.56%*)
- Active – 159,735 (*up 0.02%*)
- Inactive – 129,470 (*up 2.78%*)
- Benefit Recipients – 117,650 (*up 2.37%*)
- Average Pension, all retirees - \$54,252 (*up 2.84%*)

TRS: Economic Impact

- **80% of TRS retirees live in Illinois**
 - *89,817 members in all 102 counties*
 - *Total net benefits paid by TRS: \$4.6 billion*
 - *Benefits that stay in Illinois: \$3.8 billion*

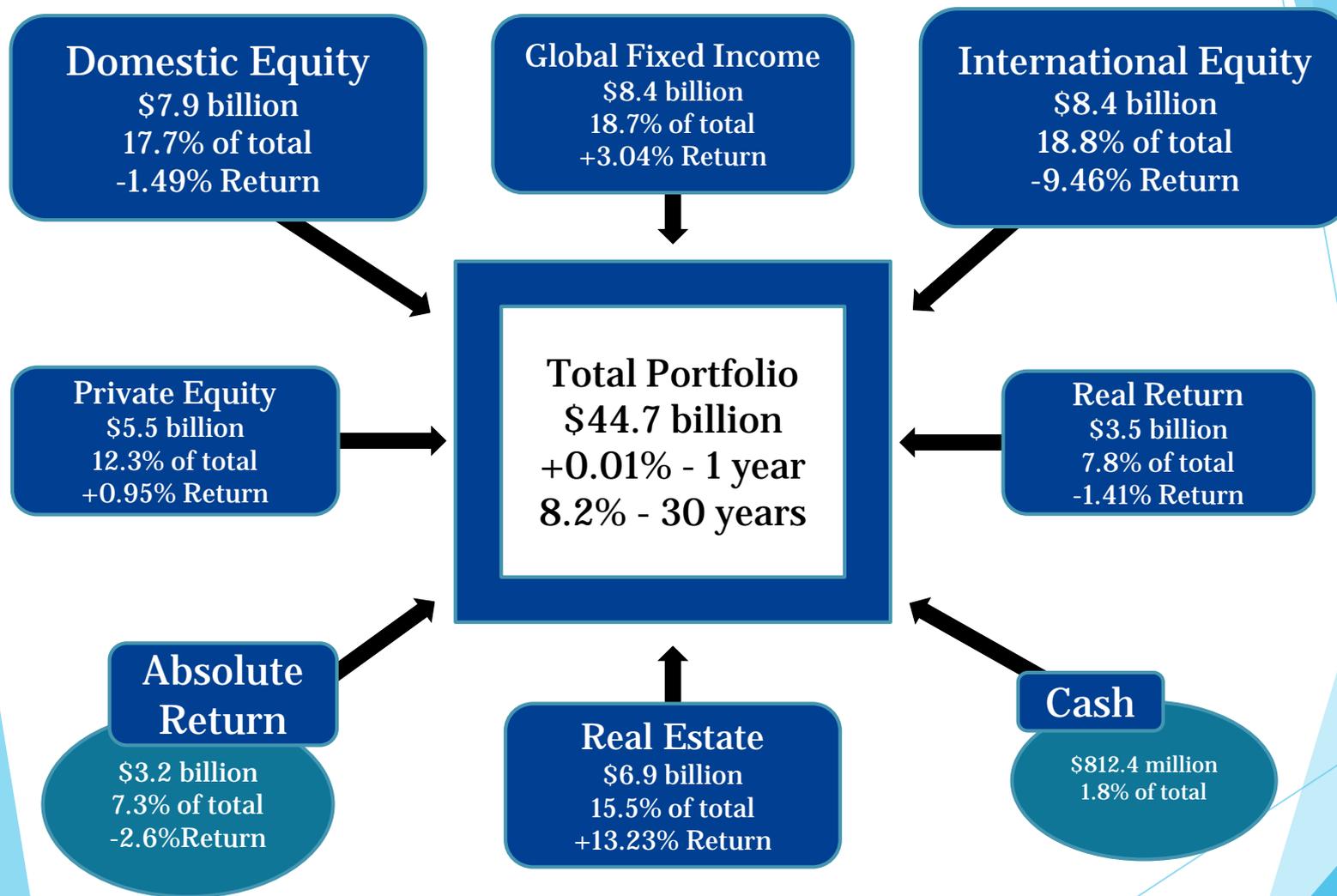
- **Affect of TRS pensions in Illinois:**
 - *Added to Illinois' GDP: \$3.3 billion*
 - *Jobs supported in Illinois: 41,725*
 - *Earnings supported: \$1.56 billion*
 - **Total impact: \$5.6 billion**

- **All Illinois Public Pensions:**
 - *Jobs supported: 120,275*
 - **Total impact \$16.1 billion**

Sources: 2015 TRS Economic Impact Study;
Illinois Reciprocal Funds Leaders' Roundtable Economic Impact Study



Your TRS Investments



FY 2016 Totals – Net of Fees

Source: 2016 TRS Annual Report



Can You Count on TRS?

YES

- **TRS has always kept your retirement promise**
- **Where are we in 2017?**
- **The Challenges we face to keep your retirement promise**
 - *Funding Shortfalls*
 - *Changing Investment Expectations*
 - *Politics*

TRS: Where Are We?

The basic equation for any defined benefit pension:

$$\mathbf{C} + \mathbf{I} = \mathbf{B}$$

Contributions *Investments* *Benefits*

TRS: Where Are We?

$$\mathbf{C + I = B - \$71.4 \text{ billion}}$$

Contributions

Investments

Benefits

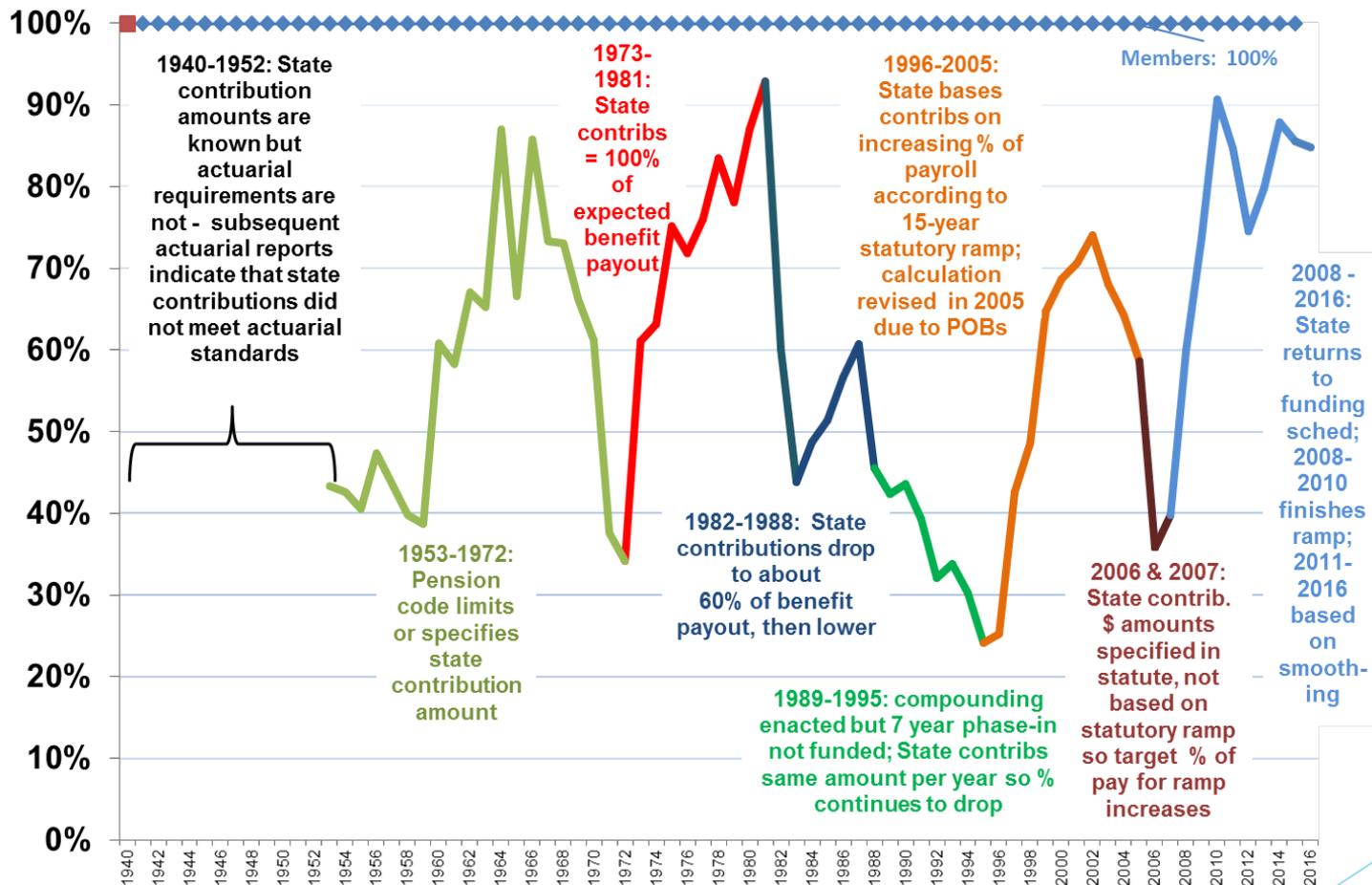
TRS Unfunded liability

➤ **This means:**

- For Retired Members: Less than 50¢ on hand for every \$1 needed to pay your annuity
- Active Members: Only your contributions are available for your future benefit. No earnings are accumulating

TRS Funding Shortfalls

Actuarial Adequacy of Contributions to TRS, FY 1940-FY 2016



Source: TRS actuarial valuation reports



How Did This Happen?

➤ **“Kicking the can” is the law in Illinois**

- The law mandates that TRS calculate its funding requirement using rules that create a shortfall:
- 15-year funding “ramp” vs. immediate full funding
- 50-year funding period vs. 30-year period
- Actuarial Method: PUC vs. EAN
- 90% target vs. 100% target
- Debt service reductions for old state pension bonds
- Accelerated Tier II savings

➤ **Defined benefit pensions work well when properly funded**

➤ **They get expensive when they’re not funded properly**

TRS Funding:

Pension Costs vs. Underfunding Costs

➤ **Fiscal Years 2007 – 2016**

Actuarial Funding	\$30.9 billion
Actual Funding	<u>24.4 billion</u>
Shortfall in the last decade	\$ 6.5 billion

➤ **FY 2017**

Actuarial	\$6.1 billion
Actual	<u>\$4.0 billion</u>
Shortfall	\$2.1 billion

➤ **FY 2018**

Actuarial	\$6.9 billion
Actual	<u>\$4.6 billion</u>
Shortfall	\$2.3 billion

- Every \$1 not paid to TRS now requires \$3 in the future to make up for the lost earnings.
- Example: the normal cost of TRS pensions is \$836 million in FY 2017 and \$975 million in FY 2018. The balance is due to the cost of underfunding.

Source: TRS actuarial valuation reports

TRS Investment Returns

Total Portfolio Results

Long-Range Target was 7.5% in FY 2016

<u>Time Period</u>	<u>June 30, 2015</u>	<u>June 30, 2016</u>
	<i>Fiscal Year</i>	<i>Fiscal Year</i>
1 Year	+ 4.0%	+ 0.01%
3 Years	+ 11.25%	+ 6.87%
5 Years	+ 11.39%	+ 6.77%
10 Years	+ 6.62%	+ 5.43%
30 Years	+ 9.1%	+ 8.2%



TRS always focuses on *long-term* results more than on any one year because the System must be financially secure for *all members*, whether they're 85, 65, 45 or 25.

FY 2016 Totals – Net of Fees

Source: TRS annual reports



TRS Investment Returns

- **One of the most significant factors driving the cost of your pensions**
- **Future expectations are moderating**
- **TRS examines its anticipated returns every year and has reduced the expected return rate three times in recent years:**
 - 8.5% → 8.0% in 2012
 - 8.0 → 7.5% in 2014
 - 7.5% → 7.0% in 2016
- **Lowering the rate of return in 2016 added \$402 million to the state's contribution**
- **TRS will review the assumed return rate for possible reductions in May**

Politics: State Budget

➤ **Pensions are a large part of the State Budget**

FY 2017 General Funds Revenue - **\$32.8 billion**

FY 2017 Total Pension Contribution - **\$7.9 billion**
(24% of GRF revenue)

FY 2017 TRS Contribution - **\$4.0 billion**
(12.1% of GRF revenue)

But...

- **The TRS Contribution is a continuing appropriation that is not part of the budgeting process**
- **TRS has received all money expected from the state for FY 2016 and so far for FY 2017.**
- **All benefits are paid by TRS and are not part of the state budget**

Politics: Senate Bill 11

- **Affects only active Tier I members – not retirees**
- **Senate Bill 11 brings back the idea of “consideration”**
 - Gov. Bruce Rauner supports a proposal by Senate President John Cullerton that they argue could legally bypass the Illinois Constitution’s pension protection clause and reduce pension benefits for active Tier I members
 - **Option 1 for Active Tier I:** Trade the current 3% compounded Tier I COLA for the Tier II COLA, which is half the rate of inflation. In return, all future salary increases will be “pensionable”
 - **Option 2 for Active Tier I:** Keep the 3% COLA, but all future salary increases will be “non-pensionable”
 - Supporters of the plan say it supersedes the Pension Protection Clause because active members will have a “choice”
 - The attorneys that successfully challenged Senate Bill 1 disagree:
 - *“...the Cullerton proposal would force upon pension system members a choice between two diminishment of their constitutionally protected pension rights. The fact that a “choice” is offered does not matter. Either “choice” would be a pension diminishment...”*

Politics: Senate Bill 11 cont'd

➤ **An active Tier I member choosing the Tier II COLA:**

- Receives a one-time “consideration payment” equal to 10% of the member’s total contributions paid to TRS prior to the choice – that’s double the member’s contribution for the COLA
 - *If a member’s total contributions to TRS equal \$80,000, the payment is \$8,000.*
- Will have their future payroll contributions to TRS reduced from 9% to 8.1%

➤ **An active Tier I member choosing to keep the current 3% compounded COLA:**

- No “consideration payment”
- TRS payroll contributions remain at 9%

➤ **Voluntary “defined contribution” plan to replace the defined benefit pension**

- Available to up to 5% of all active Tier I members

➤ **Cost shift for high-salary employees:**

- The portion of any member’s salary that exceeds the governor’s statutory salary of \$177,412
- The portion of all future salary increases that exceed the previous year’s rate of inflation

Politics: Tier II

- **Tier II members pay more than they should**
 - Tier II benefits only cost approximately 7% of a member's salary
 - The 9.0% salary contribution paid by Tier II members covers the entire cost of their pensions and subsidizes the state's underfunding of Tier I benefits
 - The current subsidy of Tier I is \$20 billion
 - Currently, Tier II benefits alone are 154% funded and are headed to 128%; Tier I benefits alone are only 39% funded and are headed to 82%
 - Legal question: Is the subsidy paid by Tier II members, in effect, an unconstitutional income tax?

- **Tier II may force some members into Social Security in the future**

Politics: Health Care Benefits

- **MyBenefitsMarketplace.gov**
- **Central Management Services hired a private company, Morneau Shepell, to take over the administration of benefits for active and retired state employees, as well as TRS retirees**
- **This transfer occurred on October 1, 2016, but...**
 - TRS is still processing monthly retiree benefits through CMS instead of through Morneau Shepell
 - Continuing issues with Morneau Shepell over proper deductions, insurance coverage, etc.
 - You will be contacting Morneau Shepell, not TRS

Other Issues: ERO Refunds

- **Active members only – not retirees**
- **ERO automatically expired on July 1, 2016**
 - ERO was not extended by the General Assembly
- **The ERO Sunset does not impact your retirement eligibility**
- **ERO refund options**
 - Cash refund mailed to you
 - Roll over to a qualified retirement plan
 - Leave money with TRS until retirement (no interest accrues)
- **Cash refund**
 - Mandatory 20% federal withholding
 - Early withdrawal 10% federal penalty may apply if under 59 ½
 - Subject to involuntary withholding for delinquent payments – student loans, child support, state and federal taxes and others
- **Rollover to a qualified retirement plan**
 - 403(b), 401(k), regular IRA and other pre-tax plans
 - TRS does not provide financial advice
- **73,000 members have claimed Sunset Refunds so far**
 - Refunds currently total \$141 million
 - 93% used the easy on-line application process

Other Issues:

Survivor Benefit Reinstatement

- **Open to all TRS members that previously gave up the rights of eligible survivors to receive a TRS benefit after their death**
- **TRS has notified all eligible members**
- **Decision Deadline: December 28, 2017**
- **Members that gave up the survivor benefit received a refund of the total contributions paid to TRS dedicated to the survivor benefit**
- **Survivor Benefit contribution is 1 percent of salary**
- **To reinstate the survivor benefit, eligible members must repay to TRS the refunded contributions, plus interest**
- **Payments can be made over a period of no more than 24 months**

Other Issues: “Bring More”

➤ **New effort to reach Tier II members**

- Quick videos designed to spur retirement planning now
- “Bring More” as early as possible, and you can enhance your TRS pension

➤ **Several things to remember about Tier II**

- Tier II minimum retirement age is 62 instead of 55
- The Tier II COLA will be half of the rate of inflation, capped at 3%

➤ **Tier II members also must keep in mind:**

- The life expectancy – 83 for men, 86 for women – could mean at least 20 years in retirement and inflation has averaged about 2.86% per year
- The federal government estimates that in the future retirees will spend an average of \$130,000 on medical expenses

➤ **How to Bring More**

- Consult a licensed financial planner for help
 - *TRS does not provide financial advice*
- Avoid the “here and now” trap – envision your future
- Research your options – 403(b), 401(k), 457(b) plans
- Keep in touch with TRS to monitor your pension



Stay in Touch: Create a Member Account

➤ **By creating a Secure Member Account you can:**

- View your TRS Benefit Report
- Create a Personalized Benefit Estimate
- Complete a Personal Retirement Interview as part of the retirement process
- Update your address, phone numbers, email address

➤ **If you haven't already, create A secure member Account by visiting trs.Illinois.gov**

- Select “Member Account Access” from the toolbar and then “Create Account” from the drop-down box
- You'll need your Social Security number and your TRS Member ID Number to complete the process. Your Member ID is on your TRS Membership Card and Benefit Reports mailed to you in the past
- If you don't know your member ID, call TRS at 800-977-7896

➤ **Send your email address to members@trs.Illinois.gov and:**

- Receive TRS Email Alerts on legislative updates, court decisions and administrative changes
- To get Email Alerts year-round, register your home email rather than a work email
- In the message, please include your legal name (maiden name if applicable) and your legal address as they appear on your TRS account to help make sure messages are sent to you.

Thank you!



<http://trs.illinois.gov>
TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

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ABOUT TRS EMPLOYERS MEMBERS

Pension Buyout Bills Scrutinized
TRS Executive Director Dick Ingram recently presented comments about legislation that would allow retiring TRS members to trade their pensions for a one-time payout. Please read Director Ingram's testimony to the Illinois House Committee on Personnel and Pensions.

2017 State Contribution for TRS Set at \$3.9 Billion
TRS Executive Director Dick Ingram recently testified before legislators on the \$3.9 billion state contribution to TRS for fiscal year 2017. Please read Director Ingram's remarks to the Illinois Senate Appropriations Committee.

TRS Pension Payments Unaffected by State Budget Dispute
The on-going dispute over finalizing the State of Illinois budget for fiscal year 2016 also will not affect the payment of pensions by TRS.

In July of 2015, a Cook County Circuit Court ruled that all TRS pensions and benefits must be paid even if Illinois State Government does not have a comprehensive state budget in place. For more information, please read the TRS Statement.

TRIP Health Insurance Payments Unaffected by State Budget Problems
The State of Illinois will continue to pay its share of health insurance bills for retired TRS members in both the Teachers' Retirement Insurance Program and the Total Retiree Advantage - Illinois (Medicare) program.

Information for TRS Annuitants
New This Year: IRS Form 1095 - "Health Coverage"
Many retired TRS members will receive a new IRS Form 1095 this year in the mail. This form documents your health insurance coverage during 2015 and can be used to help you complete your federal income tax return. To learn more about the Form 1095, please go to the information provided by the Illinois Department of Central Management Services. TRS does not create or administer Form 1095.

TRIP:
<http://www2.illinois.gov/cms/Employees/benefits/Teachers/P>

TRAIL:
<http://www.illinois.gov/cms/Employees/benefits/trail/trip/Pa>

No "Proof of Birth" Requirement for Retired Members
If you are receiving a TRS pension, you do not have to send TRS a copy of your birth certificate or another "proof of birth." Your pension will continue even if TRS does not have your proof of birth on file. A new TRS policy requires only active and inactive members to submit a "proof of birth" in order to assist in the future administration of benefits. Members receiving a pension are classified as "retired." Members currently employed in a TRS-covered position are classified as "active."

Setting Up an Online Member Account
If you have not yet set up your online member account,

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