



## Teachers' Retirement System of the State of Illinois

2815 West Washington Street | P.O. Box 19253 | Springfield, Illinois 62794-9253

Richard W. Ingram, Executive Director

<http://trs.illinois.gov>

(800) 877-7896 | for the hearing impaired: (866) 326-0087

# News

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## Contact: Dave Urbanek Public Information Officer

Office: 217-753-0968

Cell: 217-720-3961

[durbanek@trs.illinois.gov](mailto:durbanek@trs.illinois.gov)

### TRS INVESTMENTS EARN +12.8% DURING FISCAL YEAR 2013

SPRINGFIELD, IL – Teachers' Retirement System investments generated a positive 12.8 percent rate-of-return during fiscal year 2013, net of fees, a result that exceeded internal custom benchmarks set for the \$40 billion portfolio.

Yet, despite these high returns for the year ended on June 30, the System's unfunded liability officially rose during the 12 month period to \$55.73 billion from \$52.08 billion at the end of FY 2012. The TRS funded ratio at the end of FY 2013 was 40.6 percent as calculated under state law and 42.5 percent using the market value of the System's assets. The higher unfunded liability reflects another year of contributions from state government that fell short of full, actuarially-based funding.

Based on the System's funded status, the TRS Board of Trustees gave preliminary approval to a \$3.412 billion state contribution for fiscal year 2015, a contribution that is slightly lower than the \$3.438 billion state contribution for the current fiscal year.

Total TRS assets at the end of FY 2013 were \$39.479 billion, an 8.7 percent increase in total assets from one year ago at the end of FY 2012 -- \$36.311 billion. At the end of September TRS assets totaled \$40.97 billion.

### 12.8% Rate of Return

"A 12.8 percent investment return means TRS continues to fulfill its responsibilities to our 390,000 members," said TRS Executive Director Dick Ingram. "Hard work by our staff and a disciplined, long-term focus lead to these results and I'm very proud of everyone at TRS."

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Ingram also said that while TRS is happy with the 12.8 percent rate-of-return for FY 2013, the System will continue to stress to its members, state officials and the public that the long-term investment performance is more important. TRS maintains relationships with most members for decades, as both active teachers and retirees.

“It’s important to note that the TRS 30-year rate-of-return at the end of FY 2013 was 9 percent per year on average,” Ingram added. “Our assumed return rate of 8 percent also is a 30-year expectation. TRS investments over time are more than right on target.”

The 12.8 percent rate of return, net of fees, also exceeds the System’s 12.51 percent custom benchmark for the fiscal year.

The FY 2013 rate of return is the seventh time in the last 10 years that TRS investments in a year have exceeded the long-term investment assumption. It represents the 13<sup>th</sup> time in the last 20 years that the actual rate of return exceeded the long-term assumption; and the 16<sup>th</sup> time that investment returns were positive.

#### **Unfunded Liability**

“Despite these strong returns, TRS cannot invest its way out of the funding hole we are in,” Ingram added. “This increase in the System’s unfunded liability, even with good investment results, is another wake-up call to state officials and our members that TRS long-term finances continue to head in the wrong direction.”

“The contribution from the state that is required by the law continues to be far short of the amount required to ensure our long-term sustainability,” Ingram said. He noted that in order to prevent any increase in the unfunded liability during FY 2015, the state contribution would have to be \$5.3 billion.

“Without changes to the pension code to ensure sustained and adequate funding, TRS faces the very real possibility that in a few decades the System will not have enough money to pay benefits to retirees. We cannot guarantee that TRS will have enough money to pay the pensions promised to every member in the System.”

#### **Fiscal Year 2015 State Contribution**

Under state law, every year prior to November 1, the TRS Board of Trustees must give tentative approval to the state contribution prescribed by statute for the next fiscal year. The tentative contribution is then reviewed by the Illinois State Actuary before final approval is given by the TRS Board.

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The statutory state contribution for FY 2015 is calculated under a state formula that does not meet the requirements of standard actuarial practices used in other states.

Because of that difference, the state's statutory pension contribution never matches the funding level that an actuary would recommend to fully cover the cost of pension in that year. In FY 2014, the state's statutory contribution to TRS is \$3.438 billion. Using actuarial standards, the contribution to TRS would be \$4.046 billion. In FY 2015, while the statutory contribution is \$3.412 billion, the actuarially-calculated contribution would be \$4.062 billion.

"Since its inception in 1939, TRS has never received a full actuarial contribution from the General Assembly," Ingram said. "Since 1970, the state has underfunded TRS by a total of \$16.9 billion. This consistent underfunding is the primary reason that TRS carries an unfunded liability."

#### **Board of Trustees Meeting**

During its regularly scheduled October meeting, the Board of Trustees:

- Committed \$150 million from the System's \$4.7 billion Real Estate portfolio to **Lone Star Funds of Dallas, Texas**.
- Committed \$100 million to **Oaktree Capital Management of Los Angeles, California** from the System's \$6.3 billion Fixed Income portfolio for investments related to the financing of real estate transactions. Oaktree also administers \$327.6 million in TRS assets in the Fixed Income and Private Equity portfolios.
- Committed \$100 million from the System's \$4.7 billion Private Equity portfolio to **Stone Point Capital of Greenwich, Connecticut** for investments in financial service opportunities in the United States and Europe. Stone Point already administers \$73.1 million in TRS assets within the Private Equity portfolio.
- Committed \$25 million to **Apex Capital Management of Dayton, Ohio**, from the System's Emerging Managers Program for investments in domestic stock opportunities. Firms within the TRS Emerging Managers Program currently administer \$549.9 million of the System's assets.
- Committed \$15 million to **Palladium Equity Partners of New York, New York** from the System's Emerging Managers Program for private equity opportunities.
- Approved changes to the TRS Watch List:
  - Removed the \$190.1 million domestic equity small-to-mid-cap growth strategy administered by **The Boston Company Asset Management of Boston, Massachusetts**, from the Watch List.
  - Removed **Jarislowsky Fraser, Ltd., of Montreal, Quebec, Canada**, which manages \$427.8 million in the International Equity portfolio, from the Watch List.

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- As approved by the TRS Board, the current Watch List is composed of:
  - **Levin Capital Management of New York, New York**, which manages \$463.9 million in the Domestic Equity portfolio.

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### **About Teachers' Retirement System**

The Teachers' Retirement System of the State of Illinois is the 39<sup>th</sup> largest pension system in the United States, and provides retirement, disability and survivor benefits to teachers, administrators and other public school personnel employed outside of Chicago. The System serves 389,900 members and had assets of \$40.97 billion as of September 30, 2013.