Retirement Security for Illinois Educators
Teachers' Retirement System of the State of Illinois
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August 10, 2010

Voice of the People
Chicago Tribune
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To the Editor:

In his August 10 commentary, Dennis Byrne tells active and retired school teachers, as well as all public pension recipients, that state law doesn't actually mean what it says.

By acting as a carnival barker for the Civic Committee of the Commercial Club of Chicago, Mr. Byrne is unnecessarily scaring hundreds of thousands of teachers and public employees into thinking their pensions are built on sand. The plain truth is that the pensions of teachers and state employees are guaranteed by the State.

The Civic Committee's "legal opinion" regarding this guarantee acknowledges that the state laws creating five state pension systems – including one for teachers – do contain language that requires pensions to be "obligations of the State."

But then, in the virtually the same breath, the Civic Committee through Mr. Byrne says that none of those state laws guarantee "that the state will step in and pay the funds if they run out of money." In other words, the Civic Committee believes that the words "obligation of the State" don't really mean "obligation of the State." Here is the relevant section of the state law (40 ILCS 5/16-158(c)) that created the Teachers' Retirement System:

"Payment of the required State contributions and of all pensions, retirement annuities, death benefits, refunds, and all other benefits granted or assumed by this System, and all expenses in connection with the administration and operation thereof, are obligations of the State."

No amount of intellectual tap-dancing can change the meaning of those words.

More troubling, however, is the fact that whole question of who guarantees public pensions is predicated on the unsubstantiated belief that the state's retirement systems soon will go bankrupt because of a chronic problem of unfunded liabilities. In reality, the state pensions systems have been underfunded by the General Assembly since the 1950s and are still in operation. TRS dispenses more than $2 billion in pensions and benefits annually despite its unfunded liability.

For TRS to go broke, it would mean that at some point in the future, all outstanding pension obligations come due on a specific day because public school districts disappear and there are no more teachers to pay into the System.

Sincerely,

Dave Urbanek
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April 8, 2010

Voice of the People
Chicago Tribune

To the Editor:

The group *Illinois is Broke* is running commercials on the radio in reference to the public pensions of teachers, state university employees, and state workers. This group is proclaiming that, "ninety-five percent of us are paying for the benefits of the other five percent!" Well, they are wrong. What has really been happening in Illinois is that five percent of us, public employees, have for at least the last fifty-eight years been paying for the benefit of the other ninety-five percent of the citizenry. Consider this fact: since 1953 Illinois has saved approximately $29 billion dollars by not contributing what was required to fully fund its public pensions. The largest portion of that $29 billion was used by the State to pay for its other expenses to everyone's benefit and the rest was left in the hands of the people rather than being taxed by the State. Illinois residents/taxpayers got to benefit from the use of the money that should have gone to the public pension funds.

If the Teachers' Retirement System and the other four pension funds had received the required funds from the State of Illinois then the systems could have invested the funds and grown the assets, so that today's total unfunded liability of over $85 billion would instead be a small fraction of that amount. Then pension funding would be a non-issue in Illinois! For this current fiscal year, $700 million of the State's payment to TRS represents "normal cost", the amount determined by the actuaries necessary to fund the pensions of current teachers. The other two thirds, over $1.4 billion, was required to make up for what Illinois did not put into the fund in the past.

For retired teachers, long term 49% of our pension check comes from the success of our investments, 22% is from the contributions paid by active teachers, 4 percent from school districts, and 25% from the State. The people of Illinois need to know that Illinois teachers and other public employees have earned their pensions and have paid their full share to ensure their retirement. Today the pension payment cost, which the State is required to make is not high because pensions are high, but rather because – throughout the years – the State did not meet its own funding responsibilities. All the pension funds ask is what is owed to them.

Sincerely,

Bob Lyons
Trustee, Teachers' Retirement System of the State of Illinois

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October 25, 2010

Voice of the People
Chicago Tribune
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To the Editor:

It is unfortunate that the Chicago Tribune continues to repeat, as a "reliable estimate," that Illinois' public pension funds "will pay out their last dollar in 2018." Your reliance on a made-up doomsday prediction only serves to needlessly scare teachers and other public employees into thinking their retirement benefits will end within a decade. Nothing could be further from the truth.

This prediction is the product of an academic study from a Northwestern University professor that takes aim at the unfunded liabilities carried by state pension systems. However, the study's author made his prediction based on a set of variables of his choosing and not historical benchmarks. A study that only uses one set of facts to ensure a pre-determined conclusion is not "reliable."

For instance, the study greatly underestimates the investment income pension systems will generate in the future. The study uses an unrealistic rate of return of about 2 percent on investments, which deliberately shorts all future income for any pension system. At the Teachers' Retirement System – the largest state pension fund – the target rate of investment return is 8.5 percent. In the last year, the agency's actual rate of return was 13.5 percent. Over the last 25 years it is 8.6 percent and over 28 years it is 9.4 percent.

The truth is that TRS, like many large pensions systems, has carried an unfunded liability of various degrees since the 1950s and is still in business.

Finally, your reference to "gold-plated pensions for public employees" misses the mark for educators when you consider that the average annual pension for a retired Illinois teacher – who does not receive Social Security – is $45,000.

Sincerely,

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November 30, 2010

Voice of the People
Chicago Tribune
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To the Editor:

It is unfortunate that editorials in the Chicago Tribune continue to repeat the unfounded prediction by a Northwestern University "finance specialist" that Illinois' public pension funds "could pay out their last dollar in eight years." Your monthly allegiance to a made-up apocalypse only serves to needlessly scare retired teachers and other public employees into thinking their retirement benefits will end within a decade. Nothing could be further from the truth.

The "doomsday" prediction by finance specialist Joshua Rauh ignores reality and uses selective facts and figures to reach a desired conclusion. The state's largest public pension system, Teachers' Retirement System, had its actuaries, Buck Consultants of Chicago, fact-check the validity of Mr. Rauh's claim.

Buck found that the doomsday prediction will only come true for TRS if – over the next eight years – TRS does not receive *any* contributions from active teachers, school districts and state government *and* earns less from its investments than even conservative estimates predict. That scenario is simply next to impossible.

Illinois state law requires teachers and school districts to contribute to TRS, so the only way those contributions dry up is if all public schools stop operating. Further, Mr. Rauh's calculations are based on an unrealistic investment return of about 2 percent per year *for eight years*. In FY 2010, the actual rate of return on TRS investments was 13.5 percent. Over the last 25 years it is 8.6 percent. Many corporate pension funds set earnings targets at 6 percent per year.

Finally, your reference to "too-generous pensions" misses the mark for educators when you consider that the average annual pension for a retired Illinois teacher – who does not receive Social Security – is $45,000.

Sincerely,

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January 14, 2011

Voice of the People
Chicago Tribune
ctc-TribLetter@tribune.com

To the Editor:

Several points that were raised by the Tribune in its January 14 editorial "Shake, shake, shake" need to be placed in the proper context or corrected outright.

It is true that in the last state fiscal year 2,803 retired administrators and teachers received pensions of $96,000 or more a year from Illinois' Teachers' Retirement System. To focus solely on that small group of retirees unfortunately deprives your readers of the proper context: Those 2,803 individuals comprise just 2.8 percent of the 97,754 pension and benefit recipients who received a TRS benefit last year. The average benefit was $40,182. Fifty-nine percent of retired TRS members received an annual pension or benefit that was less than $50,000.

It is incorrect for you to single out public pensions as "the No. 1 reason why Springfield has been unable to pay its bills for everything else." The real reason is a dramatic fall-off in state revenues over the last four years that has cost the state $4.4 billion. This fiscal year, the state's pension funds will cost state government $3.7 billion. By comparison, all state-funded human services are expected to cost in the neighborhood of $13.6 billion. The total state budget is about $52 billion.

Finally, the wishful thinking of some of "the finest lawyers in the state" that the pension benefits of current teachers and public employees can be reduced going forward has been solidly refuted by numerous court decisions that uphold the pension protections in the Illinois Constitution. To suggest otherwise only needlessly scares teachers who right now annually contribute 9.4 percent of their paychecks to their pensions.

Sincerely,

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January 26, 2011

Voice of the People
Chicago Tribune
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To the Editor:

Dennis Byrne, in his January 25th column, "Worst is yet to come in the state of Illinois," was incorrect in saying that the $4 billion in borrowing authorized this month by the General Assembly would do "nothing to whittle down the $80 billion...that the state already owes the pension funds..."

The $4 billion in bonds will generate cash needed to pay the state's annual contribution to the state public pension systems for fiscal year 2011. The state's largest public pension fund, Teachers' Retirement System, will receive $2.5 billion. That amount does include funds to help pay down the unfunded liability carried by TRS. A payment toward the unfunded liability is always part of the state's annual contribution.

Also, in discussing proposed legislation giving states the power to declare bankruptcy Mr. Byrne said the idea had been elevated from the level of "absurdity" by a recent article in the New York Times. However, on the same day Mr. Byrne's column appeared, the idea was downgraded when House Majority Leader Eric Cantor of Virginia told the Wall Street Journal he opposed the concept.

Sincerely,

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March 23, 2011

Voice of the People
Chicago Tribune
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To the Editor:

The Tribune's March 23 front-page headline about Illinois teacher pensions did little to add reasoned facts to the worthwhile debate about public pensions. The issue raised is not new, and we should keep in mind some important facts.

Despite the fact that Teachers' Retirement System has been regularly underfunded for decades; TRS has never missed a benefit payment to its members.

TRS members will receive their benefits in the future. The real story is that the failure to fund TRS as promised through the years means taxpayers today are paying for benefits earned years ago. A basic principal of public finance is that costs incurred should be matched with benefits realized from them. By the time an Illinois teacher retires, adequate funds should have been contributed, invested and produced a return necessary to fund future benefits. That has not happened.

TRS members have kept their part of the deal. They have contributed significantly towards their retirements; currently 9.4% of their pay.

TRS has kept its part of the deal as well. Over the last 25 years TRS has exceeded the investment returns assumed by our actuaries when calculating required contributions. In a world of short attention spans, we have kept our eye on the long-term target.

Today's challenges arise from the fact that TRS has not had all the money to invest that the System was designed to have. That is why roughly two-thirds of the amount paid to TRS by the state this year pays down past funding shortfalls. If contributions had been made as designed over the years, the earnings on those contributions would have reduced the state's cost in 2011 from $2.2 billion to $700 million.

Finally, the article implies that retirement benefits for Illinois teachers are exorbitant. They are not. Your reporter was told by the highly-respected staff at the National Association of State Retirement Administrators that it is critical to distinguish retirees in Illinois that do not participate in Social Security from those in other states that do. What may seem like higher benefits for Illinois teachers are not out of line when compared with the total retirement income of their peers in other states that receive Social Security and a pension.

Sincerely,

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July 7, 2011

Voice of the People
Chicago Tribune
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To the Editor:

The Tribune's July 5 editorial, "Rescuing public pensions," is centered on the false premise that Illinois' current pension plans for public employees are "doomed" and unsustainable. The truth is that the state's pension plans are sustainable.

When public pensions are not properly funded on a timely basis – as we have seen for decades in Illinois – state costs increase as the government plays catch-up. Two-thirds of the state's $6.4 billion pension contribution for fiscal year 2012 is the cost of "kicking the can down the road."

While it is true that taxpayers – including teachers and public employees – foot the entire bill, in reality the amount of tax dollars needed to help fund the state's current pension obligation is $1.6 billion. The remainder is debt service and paying off an unfunded liability.

This is an important distinction. It is often falsely claimed that public employees receive "lavish" pensions. Adding the cost of paying down debt to the actual cost of benefits lends credence to this misconception.

In recent months, the central question raised by the Tribune in the court of public opinion is whether tax dollars should be spent on pensions or other state programs – and not whether the state has the money to pay its pension obligations. This is, correctly, a conversation about spending priorities, not pension sustainability.

Teachers' Retirement System, the state's largest public pension plan with 372,000 members, is committed to being a trusted partner in the on-going discussion over public pensions.

But as this conversation continues, it is vital to keep in mind that correct facts, the Illinois Constitution, state laws and prior judicial rulings do matter, however inconvenient they may seem in the court of public opinion.

Sincerely,

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October 19, 2011

Voice of the People
Chicago Tribune
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To the Editor:

The Tribune's October 16 editorial on Illinois public teacher pensions describes the "pension math" in a video produced by illinoisisbroke.com as "unassailable." In reality, the video's script does not accurately describe the finances of Teachers' Retirement System.

The script says: "This is how much money we have in the fund" At that point, a graphic showing "$31 billion" pops up. That number reflects the assets held by TRS last year. The current assets, thanks to a 24 percent return on investment for fiscal year 2011, total $37.5 billion.

The script says: "This is how much we need to pay our current retirees." A graphic of "$49 billion" pops up. This is an incomplete statement. What's not said is that the $49 billion is the estimate of what's needed to pay "current retirees" over many future decades. The benefits paid to teachers this year are estimated at $4.5 billion.

The script then says: "This is how much we need to pay people like you." A graphic of "$27 billion" pops up. Again, what's not said is that this number reflects a 30-year estimate for teachers who are not even eligible for a benefit.

The script barely mentions current revenues collected by TRS. Over the last two years, TRS revenue totaled $17.3 billion, from teachers, school districts, state government and investments. TRS benefit checks in the last two years totaled $8 billion.

TRS currently carries an unfunded liability of $44 billion, but this is a number that never comes due at one point in time because only current retirees are eligible to be paid. TRS has carried an unfunded liability since at least 1953 and has never missed a pension check.

The video actually reveals more about the motives of illinoisisbroke.com than it does about TRS.

Sincerely,

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October 19, 2011

Voice of the People
Chicago Tribune
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To the Editor:

The Tribune's October 17 editorial on what public pension systems predict their investment return rates will be, "Pension Pollyannas," unfortunately cherry-picks only facts that back up the editorial board's position. The facts left out of the editorial reveal a different reality.

At Teachers' Retirement System, Illinois' largest public pension fund with 362,000 members, the investment rate of return over the last 30 years is 9.3 percent, against a target of 8.5 percent.

The average rate of return over the last 10 years, or over five years, is considerably lower, due exclusively to the world-wide financial crisis of 2008-2009. But low average investment returns were not exclusive to pension systems. Almost every large institutional investor, as well as millions of individual investors, lost a lot of money during that downturn,

The editorial begins with a litany of economic problems "in recent years." Despite these problems, TRS recorded an investment rate of return of 24 percent during fiscal year 2011, which ended in June. In fiscal year 2010, the TRS rate of return was 13.5 percent. It also should be noted that 75 percent of TRS investments currently are comprised of stocks, bonds and real estate, which cannot be described as a "risky" portfolio.

The Tribune's pessimism about the future of investment returns is unfortunately shared by many. Nonetheless, the suggestion to reduce the target rate of return to as low as 2 percent flies in the face of history. It also would unfairly burden current taxpayers with higher costs by undercutting the actual investment returns of the fund to the present day.

Sincerely,

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October 19, 2011

Voice of the People
Chicago Tribune
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To the Editor:

In his October 18 column, "Should pensions be a top priority," Dennis Byrne proposes that we both ignore past mistakes and repeat them.

Mr. Byrne's column ends with his suggestion that the State of Illinois "...partially or fully defer putting money into pensions for now." He says that Illinois public pensions right now are a "politically-motivated priority" in the Illinois General Assembly that take money away from education, health and welfare, transportation, public safety and other government programs.

Partially or fully deferring the state's annual contribution to its five public employee pension systems is exactly the reason why these systems face billions of dollars in unfunded liabilities. Since 1990, state government has deferred $11.6 billion from the largest state pension fund – Teachers' Retirement System – and redirected the money to other priorities. The result of decades of annual deferrals is an unfunded liability at TRS of some $44 billion. History shows that state pensions have been ignored and never have been a "politically-motivated priority."

Mr. Byrne is wrong to suggest that pension financial problems are the result of "plush pensions" for public employees. A report issued by the group Illinois Is Broke, using state government statistics from March of this year, indicates that over the last 15 years, only 10 percent of the total increase in the pension systems' unfunded liability is the result of benefit increases. The report says that 43 percent of the increase is the result of state government funding deferrals and that 21 percent is the result of unrealized investment profits caused by the loss of state funding that was directed elsewhere.

Sincerely,

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