TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS
Richard W. Ingram, Executive Director
2815 West Washington Street, P.O. Box 19253
Springfield, Illinois 62794-9253

January 11, 2016

The Honorable Bruce Rauner, Governor
Senator John Cullerton, President of the Senate
Senator Christine Radogno, Minority Leader
Representative Michael Madigan, Speaker of the House
Representative Jim Durkin, Minority Leader
Mr. Gene Kalwarski, Cheiron
Mr. Ken Kent, Cheiron

RE: Final Certification of FY 2017 TRS State Contribution Requirement

In accordance with 40 ILCS 5/16-158 (a-5), TRS is submitting its final state funding requirement for FY 2017. The TRS trustees adopted the attached resolution at its regular board meeting on December 10, 2015. Cheiron, the state actuary, recommended no changes to the trustees' preliminary certification dated October 30, 2015.

The first state contribution is the amount required under the current statutory funding plan. The second is consistent with a 2012 TRS board resolution stating that the board will certify funding requirements based on sound actuarial principles and standards. The second amount was determined under what we call "Actuarial Math 2.0" because it is based on more current guidance from the actuarial profession than the less stringent actuarially-based amounts we have certified in the past. Both amounts include $800,000 for reimbursements for minimum benefits.

- Under current law, the certified FY 2017 state contribution is **$3,986,583,351.**
- Under Actuarial Math 2.0, the certified FY 2017 state contribution is **$6,070,973,314.**

Actuarial Math 2.0 uses the entry age normal actuarial cost method rather than the projected unit credit cost method required by Illinois law. It employs a shorter amortization period for the unfunded liability (a 20-year closed period) and begins lowering the unfunded liability immediately. Future increases in the unfunded liability would be amortized over subsequent 20-year periods, and the minimum total employer contribution would never be less than the employer's normal cost.

The state actuary has consistent urged the adoption of sound actuarial funding practices for the Illinois state retirement systems. In its most recent report, the state actuary stated the following:

> "… Cheiron concurred with TRS' actuary's recommendations and demonstration of an alternative funding approach and agreed that it conforms to a goal of full funding within a reasonable time period and is in accordance with generally accepted actuarial principles." *(State Actuary's report, December 2015, page 11)*

If you would like to discuss either of the certified amounts, please contact me or Kathleen Farney, Director of Research (217.753.0970).

Sincerely,

Richard W. Ingram
Executive Director

Enclosures (3)

1. Certification of TRS board final resolution on FY 2017 funding amounts & Exhibit A
2. TRS board resolution on actuarial standards and benefit changes, 3/30/12 (amended 4/30/12)
3. June 30, 2015 final actuarial valuation report for the Teachers' Retirement System of the State of Illinois, Buck Consultants

TRS FINAL FUNDING CERTIFICATION
June 30, 2015 Actuarial Valuation Results,
FY 2017 State Contribution (Two Amounts)
&
FY 2017 Total Normal Cost Rate

I certify that the following resolution was adopted pursuant to 40 ILCS 5/16-158(a-1) during the Regular Board meeting of the TRS Board of Trustees on December 10, 2015:

Resolved: **To accept the results of the June 30, 2015 actuarial valuation and to adopt final certifications of the following:**

- **Based on the current statutory funding plan, an FY 2017 state funding amount of $3,986,583,351, which includes $800,000 for minimum retirement benefits;**

- **Based on "Actuarial Math 2.0," (entry age normal actuarial cost method, employer normal cost plus 20 year amortization of the unfunded liability), $6,070,973,314, which includes $800,000 for minimum benefit reimbursements; and**

- **The FY 2017 total normal cost of 18.08 percent of pay, a rate which includes an employer normal cost of 8.27 percent of pay and an assumed employee contribution rate of 9.81 percent of pay (which is the projected rate including the base rate of 9.40 percent and member contributions for optional service and lump sum contributions at retirement for the early retirement option).**

These amounts and rates are identical to those contained in the board's October 30, 2015 resolution. The state actuary did not recommend any changes to the FY 2017 state contribution based on the statutory plan or to the normal cost certification.

Richard W. Ingram, Executive Director
January 11, 2016

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Exhibit A

Summary of State Contributions under Illinois Pension Code and Actuarial Math 2.0	Fiscal Year 2017
1. **Based on Statutory Funding Plan**	
Total State Contribution for fiscal year 2017:	
a. Benefit Trust Reserve*:	
i. 39.12% of membership payroll	$ 4,124,118,869
ii. minus School Districts Contribution (0.58% of membership payroll)	(61,138,899)
iii. minus Federal Funds Contribution	(77,196,619)
State Contribution	$ 3,985,783,351
b. Guaranteed Minimum Annuity Reserve	800,000
c. Total State Contribution (current law)	$ 3,986,583,351
2. **Based on Actuarial Math 2.0**	
Total State Contribution for fiscal year 2017:	
a. Benefit Trust Reserve*:	
i. normal cost plus amortization	$ 6,248,879,280
ii. minus School Districts Contribution (0.58% of membership payroll)	(61,138,899)
iii. minus Federal Funds Contribution	(117,567,067)
State Contribution	$ 6,070,173,314
b. Guaranteed Minimum Annuity Reserve	800,000
c. Total State Contribution	$ 6,070,973,314
3. **Total Normal Cost and Employer Normal Cost Rate for fiscal year 2017**	
a. Total Normal Cost Rate (including administrative expenses)	18.08 %
b. Member Rate**	(9.81)
c. Employer Normal Cost Rate	8.27 %

* Expected fiscal year 2017 membership payroll is $10,541,189,447

** The member contribution rate above is the projected rate for all member contributions, not just the base 9.40% contribution. Additional member contributions are assumed for optional service and Early Retirement Option.

Actuarial Math 2.0 is based on entry age normal cost method, current asset valuation method and amortization policy as follows:

- 20 year closed amortization of UAAL
- Use layered amortization, with new UAAL being amortized over 20 years regardless of source
- Amortization payment increase at the rate of future State revenue growth (assumed to be 2.0%)
- Minimum total contribution is no less than the normal cost in any given year

Teachers' Retirement System of the State of Illinois
Resolution
Adopted March 30, 2012
Amended April 30, 2012

Having heard the report of the Executive Director describing the analysis performed by TRS staff and actuaries evaluating the State of Illinois' ability to meet its existing future funding obligations, the Board of Trustees hereby resolves that:

> The fiscal situation of the State has deteriorated to the point that the Board no longer has confidence that the State will be able to meet its existing funding obligations to TRS.
>
> As a result, the Board believes that action must be taken now to ensure the continued solvency and viability of the plan. This action must be based on the following principles:
>
> 1. The impact of any proposal, and all future contributions to the plan, must be determined using generally accepted actuarial principles and standards and not the funding scheme and pension bond limits currently in Illinois law
> 2. All future contributions must be guaranteed by statutory language substantially similar to that presented to the Governor's pension assembly in February
> 3. Any changes to the Pension Code must first correct the existing inequities and funding flaws created with the enactment of Tier II and,
> 4. Any changes to the Pension Code must be based on the simplest and most straightforward changes possible
> 5. Any changes to the Pension code must adhere to the Pension Protection Clause, Article 13, Section 5, of the Illinois Constitution of 1970.

Further, the Board resolves that it will only certify future contributions that are calculated based on generally accepted actuarial principles and standards.

The Board further resolves to continue to commit the time and expertise of its staff and actuaries as necessary to ensure the accurate analysis of any and all proposals for changes to the Pension Code.

Passed Unanimously