



## TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

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Richard W. Ingram, Executive Director  
2815 West Washington Street, P.O. Box 19253  
Springfield, Illinois 62794-9253

January 6, 2017

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. Ken Kent, Cheiron, State Actuary  
Mr. Gene Kalwarski, Cheiron, State Actuary

### **RE: Final Certification of FY 2018 TRS State Contribution Requirement**

In accordance with 40 ILCS 5/16-158 (a-5), we are submitting the final FY 2018 state funding certification. The state actuary (Cheiron) did not recommend changes to the preliminary June 30, 2016 actuarial valuation that would have affected state contributions. The TRS board of trustees resolved during its December 13, 2016 meeting to certify the same amounts and rates originally submitted to you on October 28, 2016.

The first certified state contribution is the amount required under the current statutory funding plan. The second is based on current guidance from the actuarial profession that would begin reducing the unfunded liability immediately. We call this second figure the amount determined under "Actuarial Math 2.0" because it is based on more stringent standards than the alternative funding requirements the board certified before 2015.

- Under current law, the final FY 2018 state contribution is **\$4,564,952,674**, including \$700,000 for minimum retirement benefits.
- Under Actuarial Math 2.0, the final FY 2018 state contribution is **\$6,876,283,032**, including \$700,000 for minimum retirement benefits.

Actuarial Math 2.0, first adopted as the board's funding policy in 2015, uses an actuarial cost method that assigns costs evenly over a teacher's career instead of backloading them under the statutory cost method. Actuarial Math 2.0 funds all of the benefits earned rather than 90 percent of them, and its amortization period is 20 years rather than 50 years. Segal Consulting, the TRS actuary, estimates significant financing savings between FY 2018 and FY 2045 under Actuarial Math 2.0, with total state contributions of \$154 billion compared to \$202 billion under current law.

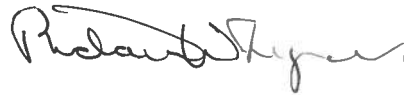
Cheiron's 2016 report marks the fifth time that it has reviewed the TRS actuarial funding recommendations. Each year, Cheiron has expressed its concern over the statutory method and has acknowledged the TRS actuary's alternative calculations. In 2016, Cheiron's states, **"We concur with Segal's recommendations and demonstration of an alternative funding approach and agree that it conforms to a goal of full funding within a reasonable period and is in accordance with generally accepted actuarial practices."** [*State Actuary's Report, December 2016, page 21*]

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The TRS board remains committed to improving the statutory funding method and the system's funded status. TRS and Segal are available if you need any other information. Please direct questions to me or Kathleen Farney, Director of Research (217.753.0970).

Sincerely,

A handwritten signature in black ink, appearing to read "Richard W. Ingram". The signature is fluid and cursive, with a large initial "R" and "I".

Richard W. Ingram  
Executive Director

Enc. (3)

1. Certification of TRS board resolution on final FY 2018 funding amount & Exhibit A
2. TRS board resolution on actuarial standards and benefit changes, March 30, 2012 (amended April 30, 2012)
3. June 30, 2016 final actuarial valuation report for the Teachers' Retirement System of the State of Illinois, Segal Consulting (January 5, 2017)

**TRS FINAL FUNDING CERTIFICATION**  
JUNE 30, 2016 ACTUARIAL VALUATION RESULTS,  
FY 2018 STATE CONTRIBUTION (TWO AMOUNTS),  
FY 2018 TOTAL NORMAL COST RATE,  
&  
FY 2018 FEDERAL CONTRIBUTION RATE

I certify that the following resolution was adopted pursuant to 40 ILCS 5/16-158 (a-5) during the regular board meeting of the TRS Board of Trustees on December 13, 2016.

**Resolved:** To accept the results of the June 30, 2016 actuarial valuation and to adopt final certifications of the following, which have been reviewed by the state actuary and are unchanged from the preliminary results presented by Segal Consulting at the October 28, 2016 board meeting:

- Based on the current statutory funding plan, an FY 2018 state funding amount of \$4,564,952,674, including \$700,000 for minimum retirement benefits;
- Based on "Actuarial Math 2.0," an FY 2018 state funding amount of \$6,876,283,032, including \$700,000 for minimum retirement benefits;
- The FY 2018 total normal cost of 19.10 percent of pay, a rate which includes an employer normal cost of 10.10 percent of pay and an assumed employee contribution rate of 9.00 percent of pay; and
- A federal contribution rate of 44.61 percent of pay.



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**Exhibit A**

Summary of State Contributions under Illinois Pension Code and Actuarial Math 2.0	Fiscal Year 2018
<b>1. Based on Statutory Funding Plan</b>	
Total State Contribution for fiscal year 2018:	
a. Benefit Trust Reserve*:	
i. 45.19% of membership payroll:	\$ 4,717,960,367
ii. Minus School Districts Contribution (0.58% of membership payroll)	(60,559,679)
iii. Minus Federal Funds Contribution (0.89% of membership payroll)	<u>(93,148,014)</u>
iv. State Contribution	\$ 4,564,252,674
b. Guaranteed Minimum Annuity Reserve	<u>700,000</u>
c. Total State Contribution (current law)	\$ 4,564,952,674
<b>2. Based on Actuarial Math 2.0**</b>	
a. Benefit Trust Reserve*:	
i. Normal cost plus amortization	\$ 7,076,460,732
ii. Minus School Districts Contribution (0.58% of membership payroll)	(60,559,679)
iii. Minus Federal Funds Contribution (1.34% of membership payroll)	<u>(140,318,021)</u>
iv. State Contribution	\$ 6,875,583,032
b. Guaranteed Minimum Annuity Reserve	<u>700,000</u>
c. Total State Contribution	\$ 6,876,283,032
<b>3. Total Normal Cost and Employer Normal Cost Rate for Fiscal Year 2018</b>	
a. Total Normal Cost Rate (including administrative expenses):	19.10%
b. Member Rate	<u>(9.00%)</u>
c. Employer Normal Cost Rate	10.10%
<b>4. Federal Contribution Rate (Same as State Contribution Rate, per PA 98-0674)</b>	44.61%

\* Expected fiscal year 2018 membership payroll is \$10,441,324,011

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

- 20-year closed amortization of Unfunded Actuarial Accrued Liability (UAAL) beginning with Fiscal Year 2017
- Use layered amortization, with new UAAL after Fiscal Year 2017 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