

# TOPICS & REPORT

Teachers' Retirement System of the State of Illinois  
Summer 2012



## Maintaining the Long-term Viability of TRS Benefits



Executive Director  
Dick Ingram

During the first six months of 2012, the General Assembly's on-going debate over teacher pensions and efforts to preserve the long-term stability of TRS took much of everyone's attention.

While I believe that change is necessary and will happen, it is impossible to know what will happen, or when, over the course of the next six months. The General Assembly adjourned at the end of May without

acting on legislation that would alter pension benefits for all TRS members. Conversations have continued since adjournment but a final path to a resolution and the details of that resolution remain uncertain.

I know that during this past session, the strong voices of TRS members were heard on this issue everywhere – from legislative chambers in Springfield to newspaper editorial boards and in our Town Hall meetings all over the state.

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Board of Trustees Information

All of us at TRS understand all too well the anger and frustration that many of you expressed to us this spring. Rest assured, we share the concerns you have over the future of your pension. The 170 people who work for TRS have been promised a pension by the state of Illinois – just like you. The consequences of any pension-related action in the General Assembly affects all of us, so your interests are paramount for us every day.

That's why TRS has been closely involved with all the stakeholders in the legislative discussions over potential Pension Code changes from the very beginning – and will continue to be involved. Our job as the administrator of the pension system is not to advocate one way or another for any proposal that affects benefits. Your interests in that regard are represented by organized labor and various member associations.

But our role is no less important. Our job is to provide the unvarnished facts and analysis that help lawmakers and state officials separate good ideas from bad ideas and understand the true impact of any proposal. We are constantly asked by legislators and other stakeholders how a particular idea or concept meshes with reality. They ask how it would be administered and how much it would cost or save. Often our analysis and answers to these questions run counter to long-held beliefs or political desires.

Everything we do is governed first and foremost by our fundamental duty to maintain the long-term sustainability of your pension system and to keep the promises the state made to you and all educators decades ago. Until we can look everyone in the eye — the 25-year-old teacher, as well as the 85-year-old retiree — and tell them their pension is secure, we will not have done our job. That duty, however, carries with it an inconvenient truth that unless changes are made in the finances of TRS, the System faces an uncertain future within a few decades.

In March the TRS Board of Trustees approved a landmark resolution. It calls for action now to maintain the long-term viability of TRS. It acknowledges that due to the state's overall poor financial condition, TRS cannot count on the General Assembly meeting the statutory funding requirements for your pensions.

According to projections, the state's backlog of unpaid bills is expected to grow from \$9.2 billion this year to \$34.8 billion by fiscal year 2017. Pension costs are expected to grow by 35 percent during this period of time to \$7.8 billion. The new revenues required to close the gap just for

TRS over the next three decades number in the tens of billions of dollars.



## Director's message

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This harsh reality is putting real pressure on legislators to make substantial cuts in the state's budget, now and in the future. One of the single largest line items in the budget is the state appropriation for TRS and the other public pension systems. If the state cuts or freezes its contribution to TRS next year and in subsequent years, our calculations show that under the worst scenarios TRS could become insolvent between 2030 and 2049.

Many of you have heard me speak about the simple equation that we have to keep in balance,  $C+I=B$ . Contributions (C) plus investment earnings (I) have to equal benefits (B) over time. That equation is too far out of balance to ignore any longer. In order to keep TRS solvent over the long-term, meaningful changes in the Pension Code must be enacted to better balance expected revenues and anticipated benefit costs. With an understanding that changes to the Pension Code are a highly volatile subject, the trustees identified five key elements that must serve as the foundation for pension change.

### Five Key Elements

1. Use only actuarially-based math to determine contributions and liabilities. Illinois pension math dictated by law artificially lowers the state's cost of funding pensions (by about \$1 billion for fiscal year 2013, for example) and makes it difficult to reduce the System's unfunded liability every year.
2. Illinois must enact funding guarantees for the pension systems into law. A statutory funding guarantee like those in other states would ensure that all future state government contributions are made in full, so that we never repeat the circumstances we are in now.

3. Fix the financial inequities of the Tier II funding and benefit structure. Tier II members pay the 9.4 percent payroll contribution like Tier I members, but the value of their benefits is only worth roughly 6 percent of their pay. This is fundamentally unfair and will create a multi-billion problem within 30 years.
4. Any solution enacted by the General Assembly must be uncomplicated and easy to understand and administer.
5. Any solution must adhere to the Illinois Constitution's Pension Protection Clause.

To their credit, state officials have recognized the Board's five key elements as a basis for legislation. But as you can imagine, the debate over solutions that fit within these elements has been wide-ranging and intense. Other than a consensus that changes must be made, an agreement on exactly what should be done has been elusive. State officials and legislators are being pushed and pulled in several directions at the same time.

This is where your activism has been important in shaping the discussion. Legislators recognize that the 362,000 TRS members are scattered throughout Illinois and that educators are politically active and fully understand the issue. Your telephone calls, emails, personal visits and letters will continue to influence the debate.

But legislators also recognize that it will be impossible to produce a solution that secures the long-term finances of TRS and keeps the current Pension Code intact. The numbers that define the problem are just too big.

Right now, the \$44 billion TRS unfunded liability is larger than the state's entire general fund budget of \$33 billion. The TRS portion of



the state budget, about 7 percent, totaled approximately \$2.4 billion in fiscal year 2012. To simply keep TRS funding level at 7 percent of the budget over the next 30 years would add \$64 billion to the unfunded liability. If TRS funding in the budget were to grow by 3 percent annually, the unfunded liability would still grow by \$40 billion.

This is why the legislators are centering debate over a solution on changing benefits for active and retired TRS members, specifically the annual cost of living adjustment (COLA). The simple fact is that the COLA is the single largest component – about 21 percent – of the annual cost of TRS benefits. This year the COLA alone increased the cost of TRS retirement benefits by \$900 million. That is why pension changes in other states have typically focused on changes to the COLA.

### Constitutional Questions

The Constitutional protections for pension benefits have been well reported. It is a certainty that if the General Assembly approves a change in the COLA, their actions will be challenged in court by organized labor and member groups. The outcome of any court case is uncertain.

While changes to the COLA have received most of the attention, other

## Director's message

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changes have been discussed as well. While subject to change and clarification, here is the menu of major proposals:

### A Benefit Choice for the Future: COLA and Health Insurance

This proposal calls on all active, inactive and retired TRS members to choose between two options in the make-up of their retirement benefits after July 1, 2013. As currently drafted, this irrevocable, one-time election would have to be made between January 1, 2013 and May 31, 2013. Whether these dates would hold in any final legislation remains to be seen. This proposal would save state government an estimated \$33.4 billion to \$37 billion over 30 years.

- **Option 1:** Accept a change in the annual COLA – from 3 percent compounded to a COLA that is capped at 3 percent or one-half of the consumer price index, whichever is less. This COLA would not be compounded. The TRS member retains “access” to state-supported health insurance through the Teachers’ Retirement Insurance Program. For active members, all future salary increases will be used to calculate the member’s future pension.
- **Option 2:** Reject the change in the COLA and it remains at 3 percent compounded annually. The TRS member loses “access” to retiree health insurance through TRIP. For active members, no future salary increases would count when the member’s future pension is calculated.

### New Start Date for a COLA

Under this proposal, TRS members agreeing to Option 1 would first see the new COLA on the January 1 in the year after turning age 67 or in

the year after the fifth anniversary of the member’s retirement, whichever is earlier.

### Cash Balance Plan

This proposal creates a new “Tier III” that is commonly referred to as a “cash balance plan.” All new TRS members hired after July 1, 2013 would automatically be in Tier III. Existing Tier II members could elect to join Tier III.

- TRS members would pay a 9 percent annual contribution, and school districts would pay a 3.4 percent contribution. TRS would annually credit investment earnings to each member’s account.
- Upon retirement, TRS would calculate a guaranteed life-time annuity based solely on the nominal balance in the account that reflects contributions credited to each member and adjusted for estimated future investment earnings and the member’s anticipated lifespan.

*“The consequences of any pension-related action in the General Assembly affects all of us, so your interests are paramount for us every day.” - Dick Ingram*

### Requiring State to Pay TRS Annual Contribution

Under this proposal, if the state fails to pay any monthly share of its legally-required contribution to TRS within 90 days, the TRS Board would have the right to seek a court order commanding the comptroller to pay TRS. Similar to other states, the goal of this provision is to guard against future underfunding that threatens the System’s ability to meet its obligations to members.

### Shifting the Annual Cost of Pensions to Local School District.

While not addressing pension costs, this proposal would make school

districts responsible for paying an increased share of the annual costs of TRS pensions, and the state would pay less toward these costs. Eventually, school districts would be responsible for paying the entire annual cost of benefits being earned every year.

Under one plan, between 2014 and 2019 the share of the annual pension cost paid by local school districts would increase by 1 percent of payroll each year and then by 0.5 percent in each year after 2019 until the total annual pension cost is paid by the districts.

Under a second plan, school districts immediately would have to pay the added pension costs of any and all raises granted by school boards to TRS members. Current state law requires all school districts to pay an additional contribution to TRS to cover the increased pension cost for any raise used in a final average salary calculation that exceeds 6 percent in any one year. This proposal would lower the 6 percent threshold to zero percent.

I continue to believe that the central question surrounding changes in the Pension Code is “when,” not “if.” Discussions over potential legislation will continue. Governor Pat Quinn has discussed the possibility of a special legislative session this summer or fall to address the pension issue. If legislators are not called back to Springfield during the summer, the next opportunity for any action on pensions will be in November – after the election.

The TRS Web site will continue to be a good source of information that can help you better understand what’s going on. TRS will remain closely involved in all discussions.

I urge you to remain aware, informed and active as the future unfolds. Your voices do make a difference.

## Health Insurance Coverage

### Any changes will require participants to be notified

The annual Benefit Choice Period for Teachers' Retirement Insurance Program (TRIP) participants ended on June 15 without the confusion experienced last year. Due to on-going negotiations over contracts for long-term health insurance coverage, the state has eight different health insurance plans available until at least the end of September.

The state has the option of extending these temporary contracts as the selection process continues. If any changes to the available health carrier options occur, a Special Enrollment Period would be held later this year to allow members the opportunity to modify their coverage elections, if desired. TRS will post any updates on our Web site. It is also helpful if you send us your email address to us ([members@trs.illinois.gov](mailto:members@trs.illinois.gov)) so we can quickly email you any updates or changes.

TRS does not administer TRIP. However, TRS provides members with basic coverage information, enrolls members in the program, and collects appropriate premiums. By law, the Department of Central Management Services is the administrator that determines coverage and benefits, establishes premiums, negotiates contracts with the insurance carriers, and resolves coverage and claim issues.

## Scheduling in Progress for 2012 TRS Fall Member Meetings

TRS will host statewide meetings from September to November that are designed to explain the retirement process and to provide you with information about disability, death and insurance benefits. At press time, locations and dates were not yet confirmed for the fall with school districts and regional offices of education. Please check our Web site in mid-August for confirmed sites.

An email alert is planned for all members who are close to retirement when the meeting schedule is finalized. If you would like to be informed of this schedule via email and we do not already have your email address, you can log on to our secure Member Account Access



area online, <http://trs.illinois.gov>, and add your email address to your record. Or, you may send an email to [members@trs.illinois.gov](mailto:members@trs.illinois.gov); type your full name, zip code, the last four digits of your Social Security number, and your email address. Please put "Email Alerts" in the subject line. After TRS staff adds your email address to your member record, you will begin receiving email alerts when applicable to you. Additionally, you will be part of our "Going Green" membership of 100,000 receiving information rapidly, like this newsletter, without printing and mailing costs.

### Do We Have Your Email Address?

To add your email address to your record, follow the steps in the Fall Member Meeting article.

## Reciprocal Service Reminder

If you have ever worked for the state of Illinois, the city of Chicago, Cook County, been a teacher's aide or taught at the university level, you may have reciprocal service credit that can be used with your TRS teaching service at retirement. Teachers' Retirement System of the State of Illinois is one of 13 public pension systems covered under the Illinois Retirement System Reciprocal Act. The Reciprocal Act allows members to combine all service credit with different Illinois reciprocal retirement systems to receive a larger pension and allows each system to use your highest earnings when it calculates your pension.

To be eligible to retire under the Reciprocal Act, you must have at least one year of service credit with each of your retirement systems and meet the longest minimum vested period. If you have reciprocal service, contact TRS and request a reciprocal benefit estimate or a reciprocal brochure to learn about your options. If you took a refund from a reciprocal system of one year or more, contact that system for repayment information. If you may be eligible for reciprocity, contact TRS at (800) 877-7896 or by email at [members@trs.illinois.gov](mailto:members@trs.illinois.gov) as soon as possible. Obtaining service and earnings information from other systems can take several weeks.

## ERO Update

The state's six-year-old Early Retirement Option (ERO) law for TRS members is set for a legislative review in 2012 and 2013. If legislators do not act to renew the law by the end of June 2013, the ERO statute will be repealed automatically and TRS members will receive refunds of all contributions paid to date to fund the program.

The future of ERO will depend on a variety of inter-connecting actions. Under state law, TRS must first complete an "actuarial investigation" of the program during 2012 that includes whether member and employer contributions are sufficient to fund the program.

This investigation must be delivered to the General Assembly's Commission on Government Forecasting and Accountability (COGFA). COGFA then has until February 1, 2013 to make a recommendation to the legislature on whether any adjustments in the member and employer contributions are needed. Lawmakers then have until June 30, 2013 to act on the COGFA recommendation. If the General Assembly does not act on the recommendation, the ERO sunsets.

## Member Appointments

This summer, many of you will come to our offices for information. Scheduling an appointment in advance is the best way to save time. It also allows your counselor to promptly meet your needs by reviewing your record in advance and preparing any information you requested during your visit. The Springfield office has a walk-in counselor available for members. Walk-in visitors will be counseled when the walk-in counselor becomes available. The waiting time will vary according to the number of walk ins each day.



## TRS Reaches Out to Teachers and Administrators in Illinois

Director of Outreach Rich Frankenfeld enjoys speaking throughout Illinois to various interest groups about TRS.

On March 21, Rich presented a PowerPoint during a Regional Office of Education meeting with area administrators in Morris. His points of discussion included: current investment returns, state contribution status, possible legislative changes proposed at the state capitol, and constitutional protections.

The audience was very interested in the content of the presentation. The feedback was positive and some

members asked questions at the end of the presentation regarding the upcoming actions in the spring session of the General Assembly.

As a former educator, Rich understands members have questions about TRS and how the system works. He is constantly updating and changing his presentation based on questions and comments he receives from audiences.

If you are interested in Rich speaking to your educational group, contact him at [rfrankenfeld@trs.illinois.gov](mailto:rfrankenfeld@trs.illinois.gov).



*Rich Frankenfeld (center) presents at the Regional Office of Education Meeting in Morris.*

# TRS Benefits: An Important Stimulus for the Illinois Economy

An April 2012 study of TRS benefits found TRS annually distributes approximately \$3.1 billion in pensions and benefits to men, women and children in every corner of the state. Benefits create a sustained economic stimulus that helps drive the economy in all 102 counties. Net, rather than gross, benefits are used in this analyses because the net benefits are what stimulate the state economy.

The positive ripple effect of TRS benefits hits \$4.4 billion in total economic activity throughout Illinois – new full-time jobs, salaries earned and new goods and services produced across the state.

Eighty percent of the System's 80,835 benefit recipients live in Illinois.

The \$3.1 billion in pensions and benefits paid to Illinois residents is 83 percent of the total pensions and benefits distributed by TRS annually.

The statewide economic impact of TRS pensions and benefits can be measured in real terms.



## Total Output - \$4.432 Billion

This is the overall measure of economic activity in Illinois stemming from TRS pensions and benefits. It includes all TRS payments, salaries earned in those jobs, and increases in the state's Gross Domestic Product. The \$4.432 billion total is higher than the value of Illinois exports to China in 2011, which totaled \$3.890 billion.

## Jobs Created – 32,042

This is the total number of full-time jobs created due to the effect of \$3.1 billion in pensions and benefits pumped into the Illinois economy. The 32,042 jobs created is about the same as the number of Illinois special education and kindergarten teachers combined in 2011.

## Earnings Created - \$1.220 Billion

This is the total combined salaries earned by persons employed in Illinois jobs that are fueled by TRS pension and benefit payments.

## Illinois GDP Value - \$2.544 Billion

This is the amount added to the Illinois Gross Domestic Product (the total value of goods and services produced within Illinois) due to TRS pension and benefit payments.

The full report is available online at <http://trs.illinois.gov>. It lists benefit and membership statistics by county and by legislative district.

## ERO is not an Automatic Election for Members

It is a very common misconception for both members and employers to believe that if a member chooses to retire before age 60 with less than 35 years of service that the Early Retirement Option (ERO) is an automatic election. It is not. The member can actually **choose** to receive a reduced or discounted benefit.

Many negotiated agreements allow members to choose between a retirement incentive or ERO. And some districts state that the incentive is payable as long as the member election does not incur an ERO cost for the district. The member can elect to retire with a reduced benefit and not use ERO to meet the incentive requirement.

When a member has a 60th birthday after the last day of school in the year they retire, many members think they have to choose their 60th birthday as their retirement dates. They could actually use the day following their last day of teaching as their retirement date but accept a reduced benefit. In this example, the reduction in benefits can be rather minimal but the member can get several months of reduced benefits rather than nothing until age 60. TRS can calculate both options for members.



# Divorce and Your TRS Benefits

Are you going through a divorce? To help you during this stressful time, you should follow these steps to ensure that your TRS benefits are administered efficiently following your divorce.

## Visit the TRS Web site

The first step is to visit the TRS Web site: <http://trs.illinois.gov/subsections/members/pubs/divorce.htm> and review the Divorce/QILDRO information under the Member Services area. Our Qualified Illinois Domestic Relations Order (QILDRO) publication providing detailed information about TRS benefits and divorce is available in electronic or booklet form.

Because some family law attorneys may be unfamiliar with significant differences between private sector pensions and public retirement systems like TRS, you may wish to ask your attorney to review this information as well.

## Request Statement

The next step is to request our customized Benefit Information for Divorce statement. To avoid confusion, we strongly recommend using the Benefit Information for Divorce (BIFD) statement rather than a regular retirement estimate in a divorce setting. The BIFD statement is specially designed to provide all information required by law that you will need in the dissolution proceedings.

You may want to request the BIFD statement as soon as you are thinking about divorce, because we cannot provide backdated statements. To obtain a BIFD statement about your spouse's benefit, you may ask your attorney to send a subpoena, or provide TRS with the member's written authorization so that we may release it.

## Discuss with Your Attorney

After you have the BIFD statement, you may want to discuss the QILDRO with your attorney. A QILDRO is a court order directing TRS to pay a share of a member's retirement benefit or refund to an alternate payee. The alternate payee is typically a



former spouse or civil union partner. A QILDRO is the only document that TRS accepts for allocating benefits in divorce. Other documents such as QDROs, settlement agreements, divorce decrees, judgments of dissolution, or other court orders directing payment to the ex-spouse cannot be honored at TRS.

## QILDRO Forms on Web Site

All required QILDRO forms are available on the TRS Web site. The forms are designed to be filled in online and printed. They should not be retyped or altered in any way. After the QILDRO has been entered by the court, send TRS a certified copy, \$50 processing fee, and if any service accrued before July 1, 1999, the TRS member's signed consent. TRS will send notice whether the QILDRO meets our form requirements to the member, alternate payee, and any attorney of which we are aware. If the QILDRO is not valid, the deficiencies will be identified.

## Calculation Order

For QILDROs that use percentages to designate the alternate payee's share, the actual dollar amounts

payable to the alternate payee must be provided to TRS in a second court order, the Calculation Court Order. We cannot pay the alternate payee on a QILDRO percentage until we receive a Calculation Order. Send TRS a certified copy, and an additional \$50 processing fee.

## A Word About SSNs

The law requires Social Security numbers (SSNs) in QILDROs and Calculation Orders for tax reporting obligations associated with payment of benefits and refunds. TRS understands identity protection concerns and has policies and procedures in place to protect your SSN.

If SSNs are omitted from the face of the court order due to court filing rules, complete SSNs must be provided in an accompanying Notice of Confidential Information Within Court Filing form available on the TRS Web site. Complete SSNs are always required in the Consent to Issuance of QILDRO.

## QILDRO Payments

After a benefit or refund becomes payable, there may be some delay before the alternate payee begins receiving QILDRO payments. To minimize the delay, promptly return all paperwork as soon as you receive it. If the member pays the alternate payee directly before the alternate payee begins receiving QILDRO payments from TRS, we cannot retroactively adjust for amounts the member paid outside of the QILDRO.

## For More Information

While we cannot provide legal or other professional advice, our staff is always available to assist you in obtaining the information you need from TRS for your divorce.



## Teachers' Retirement System of the State of Illinois

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

### Board of Trustee Meetings

All meetings will be held at the TRS office in Springfield. The meetings are tentatively scheduled to begin at 1 p.m. on Wednesday and continue until Friday, if necessary. This schedule is subject to change. Board actions are located on our Web site, <http://trs.illinois.gov>.

- August 22-24, 2012
- October 24-26, 2012
- December 10-11, 2012 (Mon./Tue.)
- February 20-22, 2013
- April 17-19, 2013 - Retreat - T.B.D.
- May 22-24, 2013
- June 20-21, 2013

### Board of Trustees

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<b>Molly Phalen,</b> Vice President <i>Rockford</i>	<b>Sharon Leggett</b> <i>Evanston</i>
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### Go Green!

To receive this newsletter electronically, send an email to [members@trs.illinois.gov](mailto:members@trs.illinois.gov). Include your full name, zip code, the last four digits of your Social Security number, and your email address.

### Office Information

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Springfield, IL 62794-9253

#### Phone

Toll Free: (800) 877-7896

4200 Commerce Court,  
Suite 100  
Lisle, IL 60532-3611

#### Forms Order Line:

(800) 877-7896,  
press "2" when prompted

### Web site

<http://trs.illinois.gov>

### Address changes

To ensure that all information about your benefits reaches you, please notify us each time your mailing address changes. You may call us or send us the following information in writing:

- your name and Social Security number
- former street address, city, state, and ZIP
- new street address, city, state, and ZIP
- daytime telephone number.

### Topics & Report

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