

# TOPICS & REPORT

Teachers' Retirement System of the State of Illinois  
Winter 2011-12



## Fiscal Year 2011 Has 23.6% TRS Investment Rate of Return

Fiscal year 2011, which ended on June 30, saw near-record level investment returns for Teachers' Retirement System. Total TRS investment assets totaled \$37.4 billion at the end of June, a 19 percent increase over the assets held by TRS at the end of fiscal year 2010, \$31 billion.

The TRS investment rate of return for the 12-month period was 23.6 percent, net of fees.

"TRS investments had a spectacular year and were way above our target rate of return of 8.5 percent. All of our asset classes performed well," said TRS Executive Director Dick Ingram. "While this is good news for our members, we are very aware that with the volatile state of the world economy, returns of this magnitude will not happen every year. TRS will continue to focus on steady, long-term investment

returns. The relationships we have with our members last decades and our policies have to match these long-term needs."

Ingram noted that over the last 30 years, the TRS investment rate of return was 9.9 percent, which also exceeds the target rate.

In all, total TRS revenues during fiscal year 2011 were \$10.470 billion: \$7.235 billion in investment income,

**Investment Returns**  
*continued on page 2*

## Senate Bill 512 Proposes Benefit and Funding Changes

Throughout the summer and fall, TRS Executive Director Dick Ingram was heavily engaged in lengthy and detailed discussions over the future of legislation that would change the pension financing and benefit structure for active TRS members.

The proposal, Senate Bill 512, is pending in the General Assembly. The summertime discussions among state legislators, TRS officials, organized labor and other interested parties resulted in several changes to the original concept, changes that were approved by a House committee in November. The next opportunity for further action on the bill will be during the annual general session, which convenes in January 2012.

The central provisions of Senate Bill 512 were retained by the bill's sponsors. The legislation still allows teachers to



accrue benefits from the existing benefit structure up through June 30, 2013 and guarantees these earned benefits will be paid. Teachers would have to select a new

**SB 512**  
*continued on page 2*



<p>\$2.171 billion in state contributions, \$910 million from member contributions and \$154 million from school district contributions. The total is just under the record \$10.74 billion in revenue collected by TRS in fiscal year 2004. Another factor is a strong commitment by the</p>	<p>General Assembly to make its full statutorily-required contributions to TRS. For the last two years, the state paid its full share of the annual cost of current and anticipated member benefits as defined in statute, a total of \$4.2 billion. And despite continued state</p>	<p>government budget problems, legislators directly allocated the \$2.4 billion TRS contribution for fiscal year 2012 out of general tax revenue, instead of waiting until the middle of the fiscal year to find the money.</p>
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**SB512** Continued from page 1

benefit structure prior to June 30, 2013. After that date, the new benefit and contribution rules would apply. The bill would require current TRS members to choose from three options for their future benefit structure:

- Tier I teachers could keep their current TRS benefit package, but in return the annual contribution by teachers to TRS would increase to 13.77 percent until 2016.
- Tier I teachers could switch to the Tier II structure and existing Tier II teachers could elect to stay in Tier II. In each case, a teacher would not be eligible for full retirement benefits until age 67. It is estimated that Tier II benefits will be 30 percent less than benefits for a Tier I teacher.
- Tier I and Tier II teachers could switch to a new Tier III option – a 401(k)-style defined contribution benefit plan. Teachers would pay 6 percent of their salaries or more, if they choose, under this plan and the state would contribute 6 percent.

Two financial analyses of the bill indicate that the legislation will cost the state more money during the next decade in order to realize the long-term savings that the sponsors want to achieve. The analyses also concluded that the only way to generate long-term savings would be to eliminate an existing pension benefit for current teachers. The cost increases are the result of Senate Bill 512 interacting with existing pension laws.

An initial cost-benefit analysis conducted by TRS during the summer revealed that Senate Bill 512 could raise state costs by \$62.3 billion over 34 years, due mainly to higher pension benefits owed to TRS members who remain in Tier I.

The November revisions to the bill eliminated the existing law that led to the higher Tier I benefits, and a subsequent financial analysis by the Commission on Government Forecasting and Accountability calculated a savings to the state of \$47.9 billion over 34 years. However, this analysis showed that in order to realize these long-term savings, the bill would force state contributions to rise by an extra \$1.97 billion over the next seven years. It also appeared to count amounts that had been identified by TRS over a year ago as savings. This increase over seven years is caused by an existing state law that requires the state to fund TRS sufficiently so that the System's unfunded liability is reduced to 10 percent by 2045.

Public employee unions continue to oppose the bill as it is currently written. Senate President John Cullerton, D-Chicago, has said that in his opinion, the legislation violates the pension protection clause of the Illinois Constitution. Supporters insist the bill is constitutional.

While sponsors say Senate Bill 512 is needed because TRS and the state's pension systems are plagued with "inadequate funding," this does not mean that TRS lacks the money to pay pension benefits now. TRS will pay all pension benefits this year and well into the future. The "inadequate funding" is the \$44 billion TRS unfunded liability, which is a long-term problem. The unfunded liability never comes due at one point in time because it is composed of what is owed to retired teachers and active teachers. Since active teachers cannot collect their benefits, that part of the liability is not a current cash outlay.

## One Bill Affecting TRS Passes

The General Assembly's fall veto session saw only one piece of legislation affecting TRS pass both chambers. House Bill 3813 was approved in December and Gov. Pat Quinn has said he will sign the bill into law.

The measure addresses an issue brought to light by the *Chicago Tribune* regarding the status of TRS members who can base their pensions on their service time and salaries with various independent statewide education organizations.

Back in 2007, two employees of the Illinois Federation of Teachers (IFT) who had no previous teaching experience used a state law that has since expired to join TRS and purchase all previous service time with the IFT toward their pensions



by working a single day as substitute teachers.

The legislation forbids these two members from including any service time earned as an employee of the IFT prior to joining TRS in the calculating their TRS pensions.

It was not a TRS decision to open membership to the employees of education unions or organizations. Employees of the Illinois Association of School Boards have been allowed to participate in TRS since the 1940s. Employees of organized labor unions have been allowed to participate

in TRS since 1987. There are 56 active or inactive members and 60 retired members in TRS who fall into this category.

## Member Account Access Online Payments Ending

Currently, TRS members can pay certain accounts receivable balances via the Member Account Access area of the TRS Web site.

The online payment option provided through the Member Account Access area will be **discontinued on February 29, 2012.**

If you prefer not to mail a check, you may always make payments to TRS from your bank account online to us. Please allow ample time for your bank to remit the payment to the retirement system.

TRS does not accept debit or credit card payments or cash.

## TRS Carefully Manages Investment Risk

Questions about TRS investment decisions arise from time-to-time in the media and TRS takes a very proactive approach to setting the record straight when incorrect statements or accusations are made. The risk of TRS investments is lower than the median investment risk carried by other public pension funds that are peers of TRS. At the same time, investment returns are higher than the median of the peer group.

On Dec. 19, *Crain's Chicago Business* published an article that revolves around the money TRS currently has allocated to so-called "alternative" investments, which are loosely defined as any investment that is

not made in the stock market or the bond market.

Crain's asked whether a recent increase in the size of TRS investments in these alternative classes was an attempt to try to cover the System's \$43.5 billion long-term unfunded liability. The answer is an emphatic "no." Alternatives have been added to the investment portfolio prudently over the last decade or more because the rise and fall of the value of these investments is not as volatile as traditional investments in stocks and bonds.

Near record-level investment returns of 23.6 percent were achieved last

fiscal year. By contrast, expenses for the last two fiscal years totaled \$8.3 billion, with the majority of that spending, \$8.1 billion dedicated to pensions and benefits paid to TRS members.

Crain's conducted lengthy interviews with TRS executives and the chief executive officer of R.V. Kuhns, the firm employed by TRS as its investment consultant. In addition, TRS provided Crain's with thousands of pages of documents and answered many questions via email.

For detailed TRS responses to the Crain's story, please visit the TRS Web site: <http://trs.illinois.gov>.

# Important Annuitant Tax and Payment Reminders for 2011

## Expect arrival of 1099-R

If you received a TRS benefit in 2011, the Office of the Comptroller will mail an IRS Form 1099-R to you by Jan. 31, 2012. This form will report your income received from TRS during 2011.

The amount shown in Box 5 on the 1099-R form represents the non-taxable portion of TRS retirement benefits paid to you for the year and is the difference between Boxes 1 and 2a.

Box 9B will only have a value if 2011 was the first year that you received a benefit from TRS.

If you do not receive a 1099-R form or you need a duplicate copy sent to you, please call us at (800) 877-7896 or email us at [members@trs.illinois.gov](mailto:members@trs.illinois.gov).

## Increase reflected on Feb. 1 check

The checks you receive in January and February may be for different amounts if the January 2012 benefit payment received in February reflects your annual 3 percent post-retirement increase. The increase is first effective on Jan. 1 following either your first retirement anniversary or your 61st birthday, whichever is later. Following

the first increase, your benefit increases 3 percent each Jan. 1. With some exceptions, recipients of monthly survivor benefits will also see a 3 percent increase.

## Withholding tables usually change

Revised federal withholding tables may go into effect on Jan. 1, 2012. As a result, the federal taxes withheld from your Jan. 1, 2012 annuity payment may increase or decrease based on your filing status.

TRS cannot give tax advice due to federal and state restrictions. You may wish to contact a qualified tax advisor or the Internal Revenue Service at (800) 829-1040 to ensure that you have adequate federal withholding for the 2012 tax year. If you are underwithholding, there could be a negative consequence at tax time.

If you would like to change your withholding election, you must complete a new Form W4-P. You can obtain a new form by calling us at (800) 877-7896 and pressing "2" for our 24-hour Forms Order Line, by visiting our forms page at <http://trs.illinois.gov>, or by calling your local Internal Revenue Service office. A new Form W4-P replaces any former version on file with TRS.

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution \$	OMB No. 1545-0119 <b>2011</b> Form <b>1099-R</b>	<b>Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.</b>	
		2a Taxable amount \$	Total distribution <input type="checkbox"/>		
		2b Taxable amount not determined <input type="checkbox"/>			
PAYER'S federal identification number	RECIPIENT'S identification number	3 Capital gain (included in box 2a) \$	4 Federal income tax withheld \$		
RECIPIENT'S name		5 Employee contributions / Designated Roth contributions or insurance premiums \$	6 Net unrealized appreciation in employer's securities \$		This information is being furnished to the Internal Revenue Service.
Street address (including apt. no.)		7 Distribution code(s)	IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other \$ %	
City, state, and ZIP code		9a Your percentage of total distribution %	9b Total employee contributions \$		
10 Amount allocable to IRR within 5 years \$	11 1st year of desig. Roth contrib.	12 State tax withheld \$	13 State/Payer's state no.	14 State distribution \$	
Account number (see instructions)		15 Local tax withheld \$	16 Name of locality	17 Local distribution \$	
Form <b>1099-R</b>		(keep for your records)		Department of the Treasury - Internal Revenue Service	

Box 5

Box 9b

## Two Board of Trustees Resign in 2011

Two Teachers' Retirement System trustees resigned their positions during 2011.

Trustee **Livia M. Kiser**, of Downers Grove, resigned on April 2, saying the responsibilities of her private law practice conflicted with the time TRS business "deserved and requires." Her term was set to expire in 2014.

Trustee **Sidney M. Marder**, of Springfield, resigned on Sept. 27 because he moved from Illinois to Florida. Under state law, he no longer was eligible to serve on the TRS Board. His term was also set to expire in 2014.

Both of these positions were two of six trustees appointed by the governor. No timetable has been established for naming replacements.



## Upcoming 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>.

- February 8-10, 2012
- February 10 - Stakeholder Forum
- March 28-30, 2012 – Retreat
- May 23-25, 2012
- June 21-22, 2012

## "Four Corners" Town Hall Meetings Held this Fall

As he did during April and May, Executive Director Dick Ingram traveled to all four corners of Illinois during September and October, meeting with more than 2,200 TRS members, their families and interested members of the public at Town Hall meetings.



*Dick Ingram speaks at Four Corners meeting in Joliet.*

At these meetings, Director Ingram explained the current status of TRS, issues facing public pensions in Illinois and member concerns regarding health insurance, Social Security and state funding of the retirement system. A big topic of conversation was the status of Senate Bill 512, legislation that would drastically overhaul the financial and benefit structure of TRS pensions for active members.

During this year, Director Ingram has spoken at Town Hall meetings in Belleville, Carbondale, Champaign, Charleston, Chicago Heights, Collinsville, Crystal Lake,

Decatur, DeKalb, Effingham, Joliet, Kankakee, Lombard, Macomb, Morton, Mount Vernon, O'Fallon, Ottawa, Quad Cities, Quincy, Rockford, Skokie, Springfield and Vernon Hills.

"These Town Hall meetings have proven to be very important to me, to TRS and to our members," Director Ingram said.

"First, it is important that I get to know my new home better. Second, our members like to hear from us face-to-face how TRS is operating and what the future holds. Third, these meetings have helped all of us at TRS better understand how we can more effectively help our members with their retirements.

"The hospitality and the response I've experienced around Illinois have been fantastic," he added. "We will plan on two more series of Town Hall meetings during 2012 to stay in better contact with our members."

## TRS Benefits Report Mailed to Active and Inactive Members

The TRS Benefits Report was mailed in early December. This year's theme is "Strength in Numbers" which highlights the size of our pension system as the 39th largest in the U.S., membership at 362,000 and 2011 revenues of \$10.5 billion.

The report summarizes the following information about your TRS account: refundable contributions, beneficiary refund, beneficiaries, estimated benefits, sick leave service, 2.2 upgrade information, reciprocal service, refunded service that may be reinstated, optional service, and active service.

Our Web site also has your 2011 report available in the secure Member Account Access area. Recent payments and changes in outstanding balances that have occurred since the 2011 report was mailed will be shown online. You may view your past statements online from 2004 to 2011.

If you need to change your beneficiaries, visit the member forms area of our Web site and complete a Member



Information and Beneficiary Designation (MIBD) form, which is fillable online. Please print out and mail the form to us; we will update your file. A new MIBD form replaces any former version on file with TRS.

If you see an error on your reported service record or salaries, please contact your employer (school district) without delay to correct the problem. This information is reported by your employer on your behalf to us. It may be more difficult to correct an error if you wait until retirement.

Please call us at (800) 877-7896 if you believe your report has an error (other than salary or service credit), if you need an additional copy, or if you have any questions about the content.

Annuitants do not receive TRS Benefits Reports.

## Jury Convicts Cellini of Extortion for TRS Asset Allocation

In November a federal jury in Chicago convicted Springfield businessman William F. Cellini of participating in an extortion scheme involving the allocation of TRS investment assets.

Cellini was indicted in 2008 by U.S. Attorney Patrick Fitzgerald of the Northern District of Illinois with attempting to extort a \$1.5 million campaign contribution for former Gov. Rod Blagojevich from Thomas Rosenberg, a principal partner in Capri Capital Management.

Capri, at the time, was seeking a \$220 million real estate investment from TRS for Capri. Rosenberg was told that without the contribution, Capri would not get investment funds from the System. The extortion scheme was developed with

former governor-appointed TRS board member Stuart Levine, who has been convicted of various crimes as a result of the overall Blagojevich scandal. Levine has not served on the TRS Board since 2004.

Neither TRS nor any of its current board members or staff has been indicted or charged as part of this case. TRS did not lose any money and the alleged incident did not affect any TRS investments or any member's pension. The alleged scheme did not involve any TRS funds.

TRS had an investment relationship with Commonwealth Realty Advisors, a property management firm that Cellini founded and used to own. TRS severed its relationships with Commonwealth in 2009.

Capri continues to manage investment properties for TRS. As of March, the firm administered 21 percent of the TRS real estate portfolio, or \$785 million in properties.

The indictments of Cellini and Levine resulted in a legislative overhaul of top TRS management and Board of Trustees. The General Assembly approved legislation that expanded the TRS Board to 13 members and increased the number of gubernatorial appointments to six. The overall Blagojevich scandal resulted in numerous state laws that tightened ethics and business reporting requirements for state government agencies, including TRS.

## TRS Receives GFOA Award

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the Teachers' Retirement System of the State of Illinois (TRS) for its Popular Annual Financial Report for the fiscal year ended June 30, 2010. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular financial reports.



In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. TRS has received a Popular Award for the last 11 consecutive years. We believe the June 30, 2011 report, which is enclosed with this newsletter, also conforms to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

## Beware of Strangers Bearing Gifts

Occasionally, TRS is made aware of salesmen calling on TRS members and offering to sell them private insurance packages that they claim are authorized or endorsed by the retirement system or claim to be TRS staff.

These people are not connected with TRS. It is not the practice of the retirement system to coordinate state-run benefit programs with any private insurance company, nor does TRS endorse any insurance policies that are offered by private companies.

If you are contacted by someone claiming to be a member of the TRS staff who wants to discuss private insurance plans with you, please ask for an official TRS photo identification card or a business card before agreeing to any discussion.



## We'll Call You!

### *TRS Will Call Members With Urgent News*

TRS members without email addresses were not able to get up-to-date email alerts sent about insurance during the Benefits Choice period this year. To reach members without Internet with urgent news in the future, an outsourced company will call thousands of members automatically with important messages. Caller ID will identify the TRS call as the State of Illinois or the Member Services number, (800) 877-7896.

To ensure you receive your call, please:

- Say hello when answering the call. The system works on a voice activated response.
- If you have voice mail set up on your phone, make sure it picks up in fewer than six rings to avoid the message failing to reach your machine.
- Use your own recorded voice message on your voice mail or answering machine. Robotic voices do not work as well with this system.
- A long pause in your outgoing recorded message will confuse the message system when it tries to leave you a message.

Please make these small changes because we want you to be able to get your information from TRS quickly and easily in the future when the need arises.



## Teachers' Retirement System of the State of Illinois

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Springfield, Illinois 62794-9253

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### Shover Teaches 65 Yrs.

In 2005, we wrote about **Stan Shover** of Abingdon who was two years away from teaching 60 years. Stan, 84, is retired and substitute teaching in Avon, Galesburg, Knoxville and Spoon River Valley Schools. He takes the first call he receives for the next school day. Stan writes, "A plain piece of paper often provides more learning than one from a copy machine." He would enjoy hearing from former students at [sshoyer@gmail.com](mailto:sshoyer@gmail.com).



### 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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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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