



## Teachers' Retirement System of the State of Illinois

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# News

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### TRS REVIEWS ASSUMED RATE OF INVESTMENT RETURN

SPRINGFIELD, IL – Teachers' Retirement System Board of Trustees today received recommendations from its actuary to update a number of assumptions contained in its actuarial model. These recommendations included a suggested reduction to the System's long-term assumed rate of investment return from 8.5 percent to either 8.25 percent, 8 percent or 7.75 percent.

The Trustees delayed a final decision on reducing the assumed rate of return until September to allow further analysis and because the full Board has not been named. The Board also wanted to have additional input from TRS staff and its investment consultants on the recommendations, which were made by the System's actuary, Buck Consultants of Chicago. The Board does not have to accept any of Buck's three recommendations.

"This is one of the most important decisions the Board will make," said TRS Executive Director Dick Ingram. "Our members and the Board should have the benefit of other opinions and analysis before making a key decision that affects the next five years. The more conversations there are the better off we are."

Lowering the assumed rate of return, as recommended by Buck, will cause an increase in the System's unfunded liability as well as an increase in the state's required annual contribution to TRS because the System is anticipating that investment earnings will be reduced in the future compared to current projections, which increases the burden on state government.

The three recommendations were the product of an extensive 10-month review by Buck Consultants that also included recommended revisions to various actuarial data that is used by TRS to determine the cost of benefits, including mortality, member salaries, membership totals, retirement age and length of retirement.

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The assumed investment rate of return is revised every five years by TRS and determines the long-term actuarial cost of benefits over a 30-year period in the future but also directly impacts the State of Illinois' annual contribution.

“Our process is very deliberate and considerable analysis is used to develop this estimate,” Ingram added. “It is the fiduciary duty of the Board to set a rate that is realistic and will fairly distribute the cost of TRS benefits among several generations of taxpayers.”

If the System's actual rate of return for a 30-year period turns out to be lower than the assumed rate of return for the same period, then future taxpayers will pay more for the accumulated benefits than they should. If the actual rate of return is higher than the actual rate of return, then current taxpayers are paying more than they should.

The current 8.5 percent rate of return, first adopted by the TRS Board in 1997, has proven to be accurate over time. The actual TRS investment rate of return between 1981 and 2011 was 9.3 percent.

According to Buck Consultants, all three of the company's suggested rates of return will increase the System's unfunded liability and increase the state's annual contribution in the future. The amount of the estimated state contribution in the future may change when calculated using the funding formula mandated by state law. The numbers below reflect actuarially-based calculations.

<b><u>Assumed Rate of Return</u></b>	<b><u>FY 11 TRS Unfunded Liability</u></b>	<b><u>FY 14 Actuarial State Contribution to TRS</u></b>
8.5% (Current)	54.8%	\$3.5 billion
8.25% (Recommendation)	56.2%	\$3.7 billion
8.00% (Recommendation)	57.6%	\$3.9 billion
7.75% (Recommendation)	58.9%	\$4.1 billion

The three recommendations take into account projections about realistic investment earnings in the future as well as inflation and other economic factors.

In other developments at the Trustees' August meeting:

- The Board authorized the issuance of a “Request for Proposal” for private companies to provide TRS with advice in the selection of private equity investments in the “secondary market”. This secondary market represents investments made to complement existing commitments by the System in private companies and in pooled funds. TRS expects the RFP to be issued in September with a final decision in December.
- The continued exploration of the private equity secondary market is a key element of the TRS private equity tactical plan for fiscal year 2013, along with the increased development of private equity investments outside the United States. The tactical plan was approved by the Board.

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- The Board authorized the issuance of a “Request for Proposal” for private companies to provide TRS with real estate appraisal services. The System’s policies and procedures call for the contracts for appraisal services to be re-bid every three years. All TRS investment properties have their value appraised at a minimum of every three years based on the date of investment. TRS expects the RFP to be issued in September with a final decision in December.
- The Board made the following commitments from the TRS Private Equity portfolio:
  - Committed up to \$150 million to **Advent International Corporation of Boston, Massachusetts** for investments in various companies in Europe and Latin America including retail, technology, healthcare, financial services and heavy industry.
  - Committed \$50 million to **Clearlake Capital Group of Los Angeles, California**, for investments in small-and-medium sized companies in technology, telecommunications, energy and health care.
- The Board committed \$100 million from the Real Estate portfolio to **Walton Street Capital of Chicago** for future investments in various real estate opportunities, including offices, hotels and retail space. TRS has an existing investment of \$200 million with Walton Street.
- The Board committed \$75 million from the Fixed Income portfolio to **Oaktree Capital Management of Los Angeles, California** for investments in financial institution securities. TRS already has \$47.5 million invested with Oaktree.
- The Board ended the TRS relationship with **KBS Realty Advisors, of Newport Beach, California**, which managed 19 TRS real estate properties for the System, representing \$345 million, or 7.9 percent of the total TRS Real Estate portfolio. Management of the properties will be transferred to **Lincoln Property Company of Dallas, Texas**, which currently manages \$418 million in TRS assets.
- The Board ended the TRS relationship with **Credo Capital Management of Baltimore, Maryland**, which had managed \$37 million in TRS Domestic Equity investments as part of the System’s Emerging Manager Program.
- The Board approved changes to the TRS Watch List, including the removal of **Hartford Investment Management Company of Hartford, Connecticut** from the Watch List. Hartford currently manages \$274 million in the TRS Fixed Income portfolio. The Board voted to add five firms to the Watch List: Boston Company Asset Management, Denali Advisors, Frontier Capital Management, Levin Capital Management and Putnam Investments.

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- As approved by the TRS Board, the current Watch List is composed of:

**Boston Company Asset Management of Boston, Massachusetts**, which manages a \$278 million small-to-mid-cap value portfolio within the Domestic Equity sector.

**Brandes Investment Partners, of San Diego, California**, which manages \$655 million of the International Equity portfolio.

**Denali Advisors of LaJolla, California**, which manages \$140 million in the Domestic Equity portfolio.

**Frontier Capital Management of Boston, Massachusetts**, which manages \$213 million in the Domestic Equity portfolio.

**Levin Capital Management of New York, New York**, which manages \$547 million in the Domestic Equity portfolio.

**Putnam Investments of Boston, Massachusetts**, which manages \$212 million in the International Equity portfolio.

**Turner Investment Partners of Berwyn, Pennsylvania**, which manages \$421 million in Domestic Equity – Active Large Capitalization Growth assets.

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### **About Teachers' Retirement System**

The Teachers' Retirement System of the State of Illinois is the 39<sup>th</sup> largest pension system in the United States, and provides retirement, disability and survivor benefits to teachers, administrators and other public school personnel employed outside of Chicago. The System serves 362,000 members and had assets of \$37 billion as of March 31, 2012.