



Teachers' Retirement System of the State of Illinois

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News

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TRS APPROVES \$3.4 BILLION STATE CONTRIBUTION FOR FISCAL YEAR 2014

SPRINGFIELD, IL – The Teachers' Retirement System Board of Trustees today set state government's funding contribution to TRS for fiscal year 2014 at \$3.438 billion, a 27.2 percent increase over last year's contribution that nonetheless falls short of the amount needed to fully fund TRS over the next 30 years.

The annual contribution is the amount of money required by state law to fund TRS pensions during the coming year, as well as a payment on the System's unfunded liability, which currently stands at \$53.5 billion. The unfunded liability in FY 2011 was \$43.5 billion.

The System's funded ratio declined during fiscal year 2012 from 46.5 percent in FY 2011 to 42.1 percent at the end of June, 2012. The funding shortfall is due primarily to years of insufficient state funding coupled with an uncertain economy in the last year that depressed the System's investment earnings. TRS earned 0.76 percent on its investments during FY 2012, compared with 23.6 percent in FY 2011.

“Over the last several years state government has taken its responsibilities to TRS very seriously, has paid its legal obligation in full and should be congratulated for that,” said TRS Executive Director Dick Ingram. “However, the legal state contribution for FY 2014, and for the last several years, has not been enough to improve the System's long-term finances. The contribution is set artificially by state law. It's not an actuarial calculation.”

The FY 2014 state contribution falls \$941.9 million short of the amount of money that would be required to fund the System under standard actuarial calculations.

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This year the TRS Board asked its actuaries, Buck Consultants of Chicago, to calculate both numbers – the state contribution under state law and under normal actuarial practices. Under standard actuarial practices, the state’s annual contribution for the coming year should be \$4.38 billion.

The calculations set in state law artificially lower the contribution. State law, for instance, requires pension costs to be calculated on a 50-year timetable instead of the standard 30 years; establishes a 90 percent funding target instead of the standard 100 percent goal; and requires debt payments on state pension bonds to be deducted from the total contribution.

“TRS faces the real risk of future insolvency because of insufficient state funding over the last 30 years,” Ingram added. “Illinois teachers have always paid their required share and are counting on their pensions to sustain them in retirement. TRS absolutely will be able to meet its obligations to retired teachers in the near future, but we cannot guarantee retirement security for future generations of teachers unless the state meets its total obligations.”

The state’s annual contribution to TRS is scheduled to be paid in 12 installments during the fiscal year. Every November, the TRS Trustees are required to certify the state’s contribution for the next fiscal year. In other action at its October meeting the Board of Trustees:

- Hired **Citi of New York, New York** to help enhance the System’s third-party securities lending services. A formal request-for-proposal for these services was approved by the Trustees in February. TRS anticipates generating additional revenue from the System’s current securities lending program, which has been in place since 1986. Citi will provide TRS with a more formal review of the existing market for third-party securities lending and the potential of additional income for TRS from the program. The present TRS securities lending program generated \$17.7 million in revenue for TRS in FY2011.
- Approved the re-issuance of a formal request-for-proposal seeking consulting services for co-investment opportunities in the System’s \$4.2 billion Private Equity portfolio. TRS issued an initial RFP in January of 2012 but the subsequent review of the submissions found the proposals did not meet standards set by TRS. It is hoped that a re-issued RFP will generate proposals more in line with TRS requirements. The new RFP is scheduled to be issued in November.
TRS already employs two firms that perform an independent evaluation of co-investment opportunities. Using an advisor pool approach consisting of multiple advisors provides TRS with greater flexibility and more appropriate advisor appointment matching for co-investment opportunities.
- Committed \$150 million from the System’s Private Equity portfolio to **Silver Lake Management Company of Menlo Park, California** for investments in technology companies that deal with internet applications, digital media, telecommunications and information services. TRS previously has committed \$100 million to Silver Lake for similar private equity investments in technology companies.
- Committed \$40 million from the \$5.96 billion Fixed Income portfolio to **AQR Funds of Greenwich, Connecticut** for investments in the worldwide reinsurance market. AQR currently manages \$836.4 million in TRS assets within the Real Return portfolio.

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- Approved various strategic changes to existing investments within the System’s Fixed Income portfolio, including:
 - Adjust the allocation to **MacKay Shields, LLC of New York, New York** from 10 percent of the portfolio to 13.5 percent. MacKay Shields currently administers \$599 million in TRS assets.
 - Adjust the allocation to **Loomis Sayles & Company of Boston, Massachusetts** from 14 percent to 13 percent of the portfolio. Loomis Sayles currently administers \$924.1 million in TRS assets.
 - Adjust the allocation to **Prudential Investment Management of Newark, New Jersey** from 10 percent of the portfolio to 9 percent. Prudential currently manages \$573.9 million in TRS assets.
 - Adjust the allocation to **Dolan McEniry Capital Management of Chicago** from 7.5 percent of the portfolio to 5 percent. Dolan McEniry currently manages \$428.5 million in TRS assets.
- Approved various strategic changes within the System’s \$8.6 billion Domestic Equity portfolio and \$7.3 billion International Equity portfolio, including:
 - Allocate approximately \$259 million from the System’s domestic equity portfolio to **J.P. Morgan Asset Management of New York, New York**. J.P. Morgan currently administers \$572.9 million in TRS assets.
 - Allocate approximately \$366 million to **LSV Asset Management of Chicago**. LSV currently manages \$273.9 million in domestic equity assets.
 - Allocate approximately \$220 million from the System’s international equity allocation to **Mondrian Investment Partners of London, England and Philadelphia, Pennsylvania**. Mondrian currently manages \$805.7 million in TRS assets.
- Approved changes to the TRS Watch List:
 - Termination of **Brandes Investment Partners, of San Diego, California**, which managed \$655 million of the International Equity portfolio.
 - Termination of **Denali Advisors of LaJolla, California**, which managed \$140 million in the Domestic Equity portfolio.
 - Termination of **Putnam Investments of Boston, Massachusetts**, which managed \$212 million in the International Equity portfolio.
 - Termination of **Turner Investment Partners of Berwyn, Pennsylvania**, which managed \$421 million in Domestic Equity – Active Large Capitalization Growth assets.
- As approved by the TRS Board, the current Watch List is composed of:
 - **Boston Company Asset Management of Boston, Massachusetts**, which manages a \$278.2 million small-to-mid-cap value portfolio within 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.

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About Teachers’ Retirement System

The Teachers’ Retirement System of the State of Illinois is the 39th 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 366,000 members and had assets of \$36.3 billion as of June 30, 2012.