



## TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

---

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

Richard W. Ingram, Executive Director

members@trs.illinois.gov | <http://trs.illinois.gov>

(800) 877-7896 | for the hearing impaired: (866) 326-0087

January 15, 2015

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. Gene Kalwarski, Cheiron  
Mr. Ken Kent, Cheiron

RE: Final Certification of FY 2016 TRS State Contribution Requirement (**Revised**)

In accordance with 40 ILCS 5/16-158 (a-5), TRS is submitting its final state funding requirement for FY 2016. The TRS trustees adopted the attached resolution at its regular board meeting on December 11, 2014, noting that Cheiron, the state actuary, recommended no changes to the trustees' preliminary certification dated October 30, 2014.

The resolution confirms the board's acceptance of the 2014 actuarial valuation results and the normal cost rates for FY 2016. The state actuary did not recommend that any additional analyses be prepared this year but did have suggestions for improved disclosure this year. The TRS actuaries have included many of those suggestions in the revised June 30, 2014 valuation report that is enclosed with this final funding certification.

Three state funding amounts are being certified. None of the amounts certified assume that Public Act 98-0599 is in effect during FY 2016 due to the legal challenge of the act.

The first certified state contribution is the amount required under the current statutory funding plan. The other two are consistent with a 2012 TRS board resolution stating that the board will certify funding requirements based on sound actuarial principles and standards. The second state contribution covers the cost of benefits earned during the year (normal cost) and amortizes all of the unfunded liability over an open 30-year period. The third state contribution covers the annual cost of benefits and interest accruing on the pension debt. All of these amounts include \$900,000 for reimbursements for minimum benefit payments during FY 2016.

January 15, 2015  
Page 2

- Under current law, the proposed FY 2016 state contribution is **\$3,742,702,194**.
- Under 30-year open level percent of pay amortization of the unfunded liability, the proposed state contribution is **\$4,365,257,249**.
- Under the employer's normal cost plus interest approach, the proposed state contribution is **\$5,338,280,276**.

Our certifications of the second and third amounts listed above are consistent with observations in a December 19, 2014 letter from the state actuary. This letter and their full report is an integral part of the report delivered by the state auditor regarding the certification of the contributions required from the state pension systems. In its comments on the TRS preliminary funding certification for FY 2016, Cheiron noted that "[I]n our opinion, the statutory mandated minimum funding requirements call for inadequate funding and do not meet Actuarial Standards of Practice (ASOPs)."

Please direct questions to me or Kathleen Farney, Director of Research (217/753-0970).

Sincerely,



Richard W. Ingram  
Executive Director

Enc. (3)

1. Certification of TRS board final resolution on FY 2016 funding amounts & Exhibit A
2. TRS board resolution on actuarial standards and benefit changes, 3/30/12 (amended 4/30/12)
3. June 30, 2014 revised actuarial valuation report for the Teachers' Retirement System of the State of Illinois, Buck Consultants

**TRS FINAL FUNDING CERTIFICATION**  
JUNE 30, 2014 ACTUARIAL VALUATION RESULTS,  
FY 2016 STATE CONTRIBUTION (THREE AMOUNTS)  
&  
FY 2016 TOTAL NORMAL COST RATE

I certify that the following resolution was adopted pursuant to 40 ILCS 5/16-158 (a-1) during the Regular Board meeting of the TRS Board of Trustees on December 11, 2014:

**Resolved:** To accept the results of the June 30, 2014 actuarial valuation and to adopt final certifications of the following:

- Based on the current statutory funding plan, an FY 2016 state funding amount of \$3,742,702,194, including \$900,000 for minimum retirement benefits;
- Based on minimum generally accepted actuarial standards, an FY 2016 state funding amount of \$4,365,257,249, including \$900,000 for minimum benefit reimbursements;
- Based on an amount that would cover the state's share of the employer normal cost and keep the projected unfunded liability from growing during the fiscal year, an FY 2016 amount of \$5,338,280,276, including \$900,000 for minimum benefit reimbursements; and
- The FY 2016 total normal cost of 19.19 percent of pay, a rate which includes an employer normal cost of 9.36 percent of pay and an assumed employee contribution rate of 9.83 percent of pay (which is the projected rate including the base rate of 9.40 percent and member contributions for optional service and lump sum contributions at retirement for the early retirement option).

These amounts and rates are identical to those contained in the board's October 30, 2014 resolution. The state actuary did not recommend any changes to the FY 2016 state contribution based on the statutory plan or to the normal cost certification. The other two state funding recommendations were not part of the state actuary's review.



Richard W. Ingram, Executive Director  
January 14, 2015

# 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 3, 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

EXHIBIT A

Summary of State Contributions under Illinois Pension Code, and Two Higher Thresholds	Fiscal Year 2016
<b>1. Based on Statutory Funding Plan</b>	
Total State Contribution for fiscal year 2016:	
a. Benefit Trust Reserve*:	
i. 36.64% of membership payroll	\$ 3,883,544,356
ii. minus School Districts Contribution (0.58% of membership payroll)	(61,478,785)
iii. minus Federal Funds Contribution	(80,263,377)
State Contribution	<u>\$ 3,741,802,194</u>
b. Guaranteed Minimum Annuity Reserve	<u>900,000</u>
c. Total State Contribution (current law)	\$ 3,742,702,194
<b>2. Based on minimum generally accepted actuarial standards</b>	
Total State Contribution for fiscal year 2016:	
a. Benefit Trust Reserve*:	
i. normal cost plus amortization	\$ 4,519,453,503
ii. minus School Districts Contribution (0.58% of membership payroll)	(61,478,785)
iii. minus Federal Funds Contribution	(93,617,469)
State Contribution	<u>\$ 4,364,357,249</u>
b. Guaranteed Minimum Annuity Reserve	<u>900,000</u>
c. Total State Contribution	\$ 4,365,257,249
<b>3. Based on Contribution to Pay the Employer Normal Cost and Keep the Projected Unfunded Actuarial Accrued Liability from Growing during the Fiscal Year, ignoring any Unrealized Asset Gains or Losses</b>	
Total State Contribution for fiscal year 2016:	
a. Benefit Trust Reserve*:	
i. normal cost plus interest payment	\$ 5,513,348,321
ii. minus School Districts Contribution (0.58% of membership payroll)	(61,478,785)
iii. minus Federal Funds Contribution	(114,489,260)
State Contribution	<u>\$ 5,337,380,276</u>
b. Guaranteed Minimum Annuity Reserve	<u>900,000</u>
c. Total State Contribution	\$ 5,338,280,276
<b>4. Total Normal Cost and Employer Normal Cost Rate for fiscal year 2016</b>	
a. Total Normal Cost Rate (including administrative expenses)	19.19 %
b. Member Rate**	<u>(9.83)</u>
c. Employer Normal Cost Rate	9.36 %

\* Expected fiscal year 2016 membership payroll is \$10,599,790,566

\*\* The member contribution rate above is the projected rate for all member contributions, not just the base 9.40% contribution. Additional member contributions are assumed for optional service and Early Retirement Option.