



Teachers' Retirement System of the State of Illinois

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Richard W. Ingram, Executive Director

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January 15, 2014

The Honorable Pat Quinn, 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

RE: Final Certification of FY 2015 TRS State Contribution Requirement

In accordance with 40 ILCS 5/16-158 (a-5), TRS is submitting its final state funding requirement for FY 2015. Pursuant to the attached resolution adopted by the trustees on December 6, 2013, there are no changes from the preliminary funding requirements submitted October 31, 2013.

The resolution also confirms the board's acceptance of the 2013 valuation results and normal cost for FY 2015. The state actuary required no additional analyses to be run this year but did have a number of suggestions for improved disclosure this year. Many of those suggestions are included in the revised June 30, 2013 valuation report which we are enclosing with this certification.

Three state funding amounts are being certified. None of them reflect the changes contained in Public Act 98-0599, as the funding changes will become effective in FY 2016.

The first state contribution is the amount required under the statutory funding plan in effect before Public Act 98-0599. The other two are consistent with a TRS board resolution dated March 30, 2012 (and amended April 30, 2012) stating that the board will certify funding requirements based on sound actuarial principles and standards. The second state contribution is a minimum contribution calculated under generally accepted actuarial standards, covering the cost of benefits earned during the year (normal cost) and amortizing 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.

- Under the statutory funding plan, the required FY 2015 state contribution is **\$3,412,878,000**.
- Under generally accepted actuarial standards, the minimum state contribution is **\$4,062,168,000**.
- Under the employer's normal cost plus interest approach, the state contribution is **\$5,091,537,000**.

We are also submitting a revised actuarial report including many of the suggestions from the state actuary. Please direct questions to me or to Kathleen Farney, Director of Research (217/753-0970).

Sincerely,

Richard W. Ingram
Executive Director

Enc. (3)

1. Certification of TRS board resolution on final FY 2015 funding amount & Exhibit A
2. TRS board resolution on actuarial standards and benefit changes, 3/30/12 (amended 4/30/12)
3. Revised June 30, 2013 actuarial valuation report for the Teachers' Retirement System of the State of Illinois, Buck Consultants

TRS FINAL FUNDING CERTIFICATION
JUNE 30, 2013 ACTUARIAL VALUATION RESULTS,
FY 2015 STATE CONTRIBUTION (THREE AMOUNTS) & FY 2015 TOTAL NORMAL COST RATE

I certify that the following resolution was adopted pursuant to 40 ILCS 5/16-158(a-1a) during the regular board meeting of the TRS Board of Trustees on December 6, 2013:

Resolved: To accept the results of the June 30, 2013 actuarial valuation and to adopt final certifications shown on the attached Exhibit A of the following:

- **Based on the current statutory funding plan, an FY 2015 state funding amount of \$3,412,878,000, including \$1,000,000 for minimum retirement benefits;**
- **Based on generally accepted actuarial standards, an FY 2015 state funding amount of \$4,062,168,000, including \$1,000,000 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 2015 amount of \$5,091,537,000, including \$1,000,000 for minimum benefit reimbursements; and**
- **The FY 2015 total normal cost of 17.42 percent of pay, a rate which includes an employer normal cost of 8.02 percent of pay and an employee contribution rate of 9.40 percent of pay.**

These amounts and rates are identical to the preliminary figures adopted by the board at its October 25, 2013 meeting. The state actuary does not recommend any immediate changes in the assumptions that were used to develop the FY 2015 state contribution requirements.

The state actuary does strongly recommend that the board consider reducing the rate of return to 7.5 percent in the 2014 valuation. That review will be conducted after the next asset allocation study in early 2014 . The state actuary also recommends supplemental disclosures that will be included in a revised actuarial report and submitted with this final funding certification on or before January 15, 2014.

The two additional state funding requirements, items (2) and (3) in the attached Exhibit A, were not part of the state actuary's review. These additional amounts are being submitted to be consistent with the board's resolution on actuarial funding (also attached).

None of the amounts reflect the changes contained in the first conference committee report on Senate Bill 1.



Richard W. Ingram, Executive Director
January 15, 2014

EXHIBIT A
STATE CONTRIBUTION AMOUNTS TO TRS
AND NORMAL COST RATES
CERTIFIED BY THE BOARD FOR FISCAL YEAR 2015

Item	Fiscal Year 2015
(1) Based on Statutory Funding Plan	
Total State Contribution for fiscal year 2015:	
(a) Benefit Trust Reserve*:	
(i) 33.58% of membership payroll	\$3,497,366,000
(ii) minus School Districts Contribution (0.58% of membership payroll)	(60,414,000)
(iii) minus Federal Funds Contribution	<u>(25,074,000)</u>
State Contribution	\$3,411,878,000
(b) Guaranteed Minimum Annuity Reserve	<u>1,000,000</u>
(c) Total State Contribution (current law)	\$3,412,878,000
(2) Based on Generally Accepted Actuarial Standards	
Total State Contribution for fiscal year 2015:	
(a) Benefit Trust Reserve*:	
(i) normal cost plus amortization	\$4,146,656,000
(ii) minus School Districts Contribution (0.58% of membership payroll)	(60,414,000)
(iii) minus Federal Funds Contribution	<u>(25,074,000)</u>
State Contribution	\$4,061,168,000
(b) Guaranteed Minimum Annuity Reserve	<u>1,000,000</u>
(c) Total State Contribution	\$4,062,168,000
(3) Based on Contribution to Pay the Employer Normal Cost and Keep the Projected Unfunded Pension Benefit Obligation from Growing during the Fiscal Year before Reflecting Unrealized Gains or Losses as of the Actuarial Valuation Date	
Total State Contribution for fiscal year 2015:	
(a) Benefit Trust Reserve*:	
(i) normal cost plus interest payment	\$5,176,025,000
(ii) minus School Districts Contribution (0.58% of membership payroll)	(60,414,000)
(iii) minus Federal Funds Contribution	<u>(25,074,000)</u>
State Contribution	\$5,090,537,000
(b) Guaranteed Minimum Annuity Reserve	<u>1,000,000</u>
(c) Total State Contribution	\$5,091,537,000
(3) Total Normal Cost and Employer Normal Cost for fiscal year 2015	
(a) Total Normal Cost	17.42%
(b) Member Rate	<u>(9.40)</u>
(c) Employer Normal Cost	8.02%

* Expected fiscal year 2015 membership payroll is \$10,416,172,000

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 13, 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