



TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

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News

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PRELIMINARY FY 2018 STATE CONTRIBUTION TO TRS SET AT \$4.6 BILLION

SPRINGFIELD, IL – Decades of state government underfunding and weakening investment returns led the Teachers' Retirement System Board of Trustees to give preliminary approval to a state government contribution for fiscal year 2018 of \$4.56 billion – a 14.5 percent increase over the state contribution for the current fiscal year.

The FY 2018 contribution is derived from calculations dictated in state law and falls \$2.31 billion below the amount of money that actuaries estimate state government should be paying TRS based on standard actuarial practices. Evolving actuarial standards indicate the state's annual contribution to TRS for the coming fiscal year should be \$6.88 billion.

“By any measure, \$4.56 billion is a lot of money, but that amount is a direct product of the perpetual underfunding of TRS by state government over the last 76 years,” said TRS Executive Director Dick Ingram. “Illinois is reaping what it sowed. Decades of inadequate contributions for TRS mean that now – when investment returns are not robust – big contributions must be made to secure the retirement promises made to generations of teachers.”

Of the \$4.56 billion state contribution for FY 2018, only \$974 million is needed to pay the anticipated annual cost of TRS pensions during the year. The remaining \$3.59 billion in the contribution is dedicated to help pay off the System's \$71.4 billion unfunded liability.

“Most of the FY 2018 contribution is a self-inflicted wound,” Ingram added. “That money could be spent on other priorities today if the State of Illinois had fully met its obligations in the past.”

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Another factor in the contribution increase was a reduction in the TRS assumed long-term rate of investment return to 7 percent from 7.5 percent. The reduction in the assumed investment rate was made in August following a recommendation by the TRS actuaries, **Segal Consulting, of Chicago**.

“An inescapable result of lowering the assumed rate of return is an increase in the state government contribution. Pension math is unforgiving. The benefits that are promised must be paid for,” Ingram said. “TRS and other pension systems across the country are lowering their assumed investment rates because all indicators point to a slowing of investment returns in the future.”

He added that TRS has revisited the rate of return assumption annually, reducing it in 2012 and in 2014. The Illinois State Actuary also has recommended that TRS review its assumed rate of return annually.

“TRS did not rush this decision. This is a very thoughtful, staff-driven process,” Ingram said. “The duty of TRS is to our members and the financial stability of their retirement trust fund. We cannot ignore reality and the reality is investment returns are slowing and we owe 406,000 members more than \$118 billion in the future.”

Under state law, TRS must each year deliver a state government contribution estimate by November 1 to state officials and the State Actuary. The job of the State Actuary is to review the actuarial practices and assumptions used to calculate the estimate and to determine whether the process was done correctly. If the State Actuary approves of the System’s methods, the TRS Board gives final approval to the contribution amount early in the next year.

In other action during the Board’s regularly scheduled October meeting the trustees:

- Committed up to \$150 million from the System’s \$5.6 billion Private Equity portfolio to **MBK Partners, of Seoul, South Korea**. MBK currently administers \$196.1 million in TRS assets.
- Committed up to \$100 million from the Private Equity portfolio to **Stone Point Capital, of Greenwich, Connecticut**. Stone Point currently administers \$203.9 million in TRS assets.
- Committed up to \$100 million from the System’s \$8.79 billion Global Fixed Income portfolio to **Angelo, Gordon & Company of New York, New York**.
- Committed up to \$100 million from the Global Fixed Income portfolio to **J.P. Morgan Asset Management, of New York, New York**. J.P. Morgan currently administers \$1.99 billion in TRS assets.
- Approved changes to the TRS Watch List:
 - Removed **TCW Group, Inc., of Los Angeles, California**, from the Watch List. TCW currently administers \$601.4 million within the System’s Global Fixed Income portfolio.

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- As approved by the TRS Board, the current Watch List is composed of:
 - **Franklin Advisors of Rancho Cordova, California**, which currently administers \$961.6 million within the System's Global Fixed Income portfolio.
 - **Lombardia Capital Partners of Pasadena, California**, which currently administers \$211.6 million within the System's Domestic Equity portfolio.

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About Teachers' Retirement System

The Teachers' Retirement System of the State of Illinois is the 37th 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 406,855 members and had assets of \$45.6 billion as of September 30, 2016.