TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS
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News

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TRS ASSUMED LONG-TERM INVESTMENT RATE REDUCED TO 7 PERCENT

SPRINGFIELD, IL – The Teachers' Retirement System Board of Trustees today reduced its long-range assumed rate of investment return to 7 percent from 7.5 percent, a move that reflects changes in the world economy which have dampened investment results.

This is the third time in the last four years that TRS has reduced its assumed rate of return in order to keep the System in line with economic reality. In 2012 TRS lowered its assumed rate from 8.5 percent to 8 percent, and then lowered the rate to 7.5 percent in 2014.

"This is a prudent move for TRS in light of the conditions that we see in the economy," said TRS Executive Director Dick Ingram. "We will continue to study expected returns as part of our asset allocation review during the coming year."

"Along with our actuaries and investment consultants, we have methodically collected and analyzed all of the most recent economic projections and forecasts," Ingram added. "The consensus is that investment returns in the foreseeable future will be lower than what we have seen in the previous few years."

The reduction in the TRS assumed rate of return will significantly affect the amount of money that state government will be required to contribute to TRS in fiscal year 2018, as well as the size of the System's total liability and its unfunded liability. However, it is not yet known exactly how the FY 2018 benchmarks will be affected. Those calculations will be made this fall. The current FY 2017 calculations were made using the 7.5 percent rate.

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The System's actuaries, **Segal Consulting, of Chicago**, said that if TRS had used a 7 percent assumed rate of return to calculate its FY 2017 contribution instead of a 7.5 percent rate, the state's required contribution would have increased by an estimated $421 million from $3.9 billion to $4.3 billion. Also, the System's total accrued liability in FY 2017 would have jumped by $7.4 billion to $115.5 billion and the unfunded liability would have risen from $62.7 billion to $70.1 billion.

If TRS had used a 7 percent assumed rate to calculate its finances for FY 2017, the System's funded status would have declined from 42 percent to 39.3 percent.

Segal recommended the 7 percent assumed rate based on expectations that returns from all types of investments, as well as inflation within the economy, will decline over the next several years. Many economists explain that returns are likely to be lower for two reasons. One, fixed income investments like bonds are carrying interest rates at near-record lows. Two, the stock market has been and will continue to be volatile, so the return expectations from equity investments are low.

Over the last four years, TRS has reduced the amount of time in between its periodic evaluation of its assumed rate of return. The rate is now being renewed every two years instead of every three years. The Illinois State Actuary has recommended that public pension systems review their rates annually, but other actuaries say that annual rate studies undercut a stability that is important in forecasting the System's finances, as well as upcoming state budgets.

As if to underscore the new economic realities facing public pension systems, TRS reported that while its actual long-term rate of investment return continues to exceed established targets, TRS recorded a modest investment return for the 12 months of FY 2016, which ended on June 30.

The preliminary TRS 30-year return at the end of FY 2016 was 8.8 percent gross of fees and 8.2 percent net of fees. The one-year return as of June 30, 2016 was 0.8 percent gross of fees and 0.1 percent net of fees. The 12-month returns for TRS during FY 2016 are in line with the results of other similar public pension systems.

"The most important number for us and for our members is the long-term rate of return," Ingram said. "Our relationship with most of our members lasts for 30, 40, 50 years or more – from the day they first start teaching through the rest of their lives. The best thing for them and for their pensions is a consistent, healthy investment return over the long-term. The investment return in any one given year – high or low – is only ever a single step in a longer journey."

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During the Board of Trustees' regularly scheduled August meeting, the trustees:

- Committed up to $300 million from the System's $6.9 billion Real Estate portfolio to **Starwood Capital Group, of Greenwich, Connecticut**. Starwood currently administers $383.9 million in TRS assets.

- Committed an initial $100 million from the System's $3.2 billion Absolute Return portfolio to **KeyQuant, of Paris, France** for its Key Trends Program.

- Committed $25 million from the $8.4 billion TRS Global Fixed Income portfolio to **Northern Shipping Funds of Stamford, Connecticut**. TRS has an existing $50 million commitment with Northern Shipping.

- Committed $39 million from the Global Fixed Income portfolio to **Taurus Funds Management of Sydney, Australia**. TRS has an existing $80 million commitment with Taurus.

- Committed approximately $568 million from the System's $8.4 billion International Equity portfolio to **J. P. Morgan Asset Management, of New York, New York**. J. P. Morgan already administers $1.5 billion in TRS assets.

- Committed approximately $568 million from the International Equity portfolio to **Acadian Asset Management, of Boston, Massachusetts**. Acadian currently administers $408 million in TRS assets.

- Committed $50 million from the TRS Emerging Manager Program to **Brown Capital Management, of Baltimore, Maryland**, for investments within the International Equity portfolio.

- Committed $22 million from Emerging Manager Program to **Ativo Capital Management, of Chicago** for investments within the International Equity portfolio. Ativo currently administers $28 million in TRS assets.

- Approved changes to the TRS Watch List:

    - Added **Franklin Advisors of Rancho Cordova, California** to the Watch List. Franklin currently administers $965 million within the System's Global Fixed Income portfolio.
    - Added **Lombardia Capital Partners of Pasadena, California** to the Watch List. Lombardia currently administers $247 million within the System's Domestic Equity portfolio.
    - Terminated the services of **Aberdeen Asset Management, of Edinburgh, Scotland**, within the International Equity portfolio. Aberdeen had administered $414 million in TRS assets.
    - Terminated the services of **Jarislowsky Fraser, Ltd. of Montreal, Quebec, Canada,** within the International Equity portfolio. Jarislowsky Fraser had administered $403 million in TRS assets.

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

    - Franklin Advisors of Rancho Cordova, California, which currently administers $965 million within the System's Global Fixed Income portfolio.
    - Lombardia Capital Partners of Pasadena, California, which currently administers $247 million within the System's Domestic Equity portfolio.
    - **TCW Group, Inc., of Los Angeles, California,** which currently administers $582 million within the System's Global Fixed Income 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 400,598 members and had assets of $44.8 billion as of June 30, 2016.