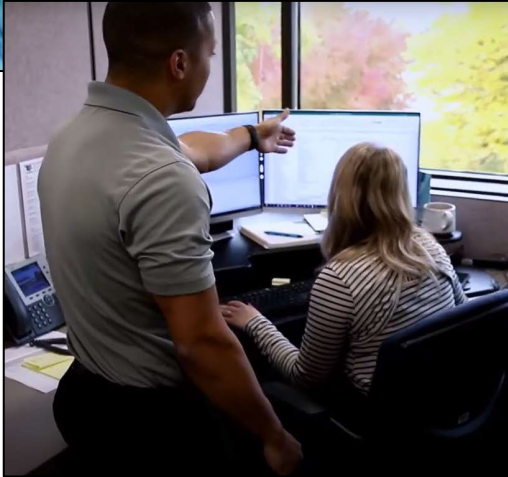




Illinois Education Association

March 2023



Nick Stabler
TRS Outreach Coordinator

Teachers' Retirement System of the State of Illinois



Fiscal Year 2022 Key TRS Stats

➤ **Finances**

- Investments - \$63 billion (*down 2.1%*)
- Revenue - \$6.3 billion (*earnings & contributions*)
- Benefits Paid - \$7.6 billion (*up 3.9%*)
- Investment Return – (1.2%) *net of fees*

➤ **Long-Term Funded Status**

- Total Liability - \$143.5 billion (*up 3.3%*)
- Unfunded Liability - \$80.6 billion (*up 0.9%*)
- Funded Ratio – 43.8% (*up 1.3%*)

➤ **Membership**

- Total – 439,833 (*up 1.7%*)
- Active – 165,566 (*up 4.1%*)
- Inactive – 144,801 (*down 0.7%*)
- Benefit Recipients – 129,466 (*up 1.5%*)
- Average Pension, all retirees - \$63,276 (*up 2.3%*)

➤ **Membership Breakdown**

- Active Tier 1 – 103,163 (*down 1.8%*)
✓ (*62.3% all active members*)
- Active Tier 2 – 62,403 (*up 15.6%*)
✓ (*37.7% of all active members*)
- Average Age of a Retired Member – 73 years old
- Average Service Credit at Retirement – 27 years

Source: Fiscal Year 2022 TRS Annual Report

TRS Investment Returns

EDITORIAL

Retirement plans slapped by harsh 2022

Last year was not a memorable one for retirement plan sponsors. At least not in a positive sense. Despite a continuing economic recovery from the COVID-19 pandemic and coming off a prior fiscal year with near-record investment returns, the tables were turned in 2022.

Plummeted, with plan assets falling close behind. The *Pensions & Investments*' 1,000 largest retirement plans is littered with drops of 15% to 20%. It was the largest percentage drop in the top 1,000 since *P&I* began publishing the list in the 1970s. Nearly \$2 trillion in assets was wiped out in 12 months of that is timing, as *P&I*'s report reflects data as of Sept. 30. Markets have had a little bit of a bounce back since then. But the reality is that in a year in which equity and bond markets tumbled, it became clear which retirement plans were more prepared for a high inflationary environment. Alternatives provided better investment returns as plans were rewarded for higher allocations to areas such as real estate, private equity and private credit. Those that relied on a portfolio more closely resembling a 60% equity/40% bond mix quickly realized there was no hiding.

Things looked rosy a year ago when assets in the top 1,000 rose 16.9%, but *P&I* cautioned in these pages that concerns about inflation, higher interest rates and overheated private markets could be major headwinds. Inflation and rising rates have

been a constant the past year, but private market valuations have mostly held up ... for now. That will certainly be put to the test this year as the U.S. and much of the world stare down a possible

Berkshire Hathaway Reports Major Losses Last Year, but Buffett Points to the Long Game

By MICHAEL J. de la MERCED

Not even Warren E. Buffett, one of the world's most successful investors, was immune last year to whipsawing markets.

But as his conglomerate, Berkshire Hathaway, reported a big loss, the billionaire executive urged shareholders to focus on the long term and the underlying health of his empire, which includes insurance, railroads, energy and stock holdings in the likes of Coca-Cola, American Express and more.

Berkshire reported on Saturday that it lost \$22.8 billion last year, driven by \$33.6 billion in unrealized losses on its investments.

That mirrored the experience of other investors, who were hit by market volatility as inflation rose swiftly and central banks responded by rapidly raising interest

est rates.

But in his annual letter to shareholders, Mr. Buffett pointed to the company's operating earnings, which are drawn from its underlying businesses and exclude those paper investment values. On that basis, Berkshire earned a record \$30.8 billion last year.

And its holdings of cash and equivalents have grown to \$125 billion, giving Mr. Buffett more firepower to invest in stocks and, potentially, buy new companies.

Factoring Berkshire's investment performance into its overall returns is "100 percent misleading," Mr. Buffett wrote, since those results are likely to change easily quarter to quarter.

Berkshire's vast business empire is often seen as a microcosm of American industry. And many of its subsidiaries reported being hurt by the broader economic

forces affecting the country.

Weaknesses included Berkshire's consumer products businesses, which reported a 23 percent drop in earnings last year from 2021, hurt by lower demand and higher costs for raw materials and shipping. In its annual report, Berkshire said that it expected continued soft demand in 2023 and that it planned to "right size" its operations and reduce product inventories.

The conglomerate's core insurance businesses, which generate the cash that powers Mr. Buffett's vast investments, also reported underwriting losses from catastrophic events, like hurricanes, and a rise in auto claims at Geico. And BNSF Railway reported a slight drop in earnings, in large part because of the rising cost of fuel and lower volumes of shipments.

Still, in his annual letter to shareholders — a must read for scores of investors, eager to glean his thoughts on the global state of affairs — Mr. Buffett professed continued faith in the resilience of

America.

Much of the letter was spent defending Berkshire's practices.

That included share buybacks, on which the company spent \$7.9 billion last year. The practice has drawn criticism from lawmakers, including Senator Elizabeth Warren, Democrat of Massachusetts, who argue that it diverts money to

taxpayers in the U.S. matching Berkshire's payments, no other businesses nor any of the country's 131 million households would have needed to pay any taxes to the federal government," he wrote. "Not a dime."

Mr. Buffett added a criticism of the federal government for spending significantly more than it collects in taxes, touching on a fight now bubbling in Washington over the debt ceiling. "Huge and entrenched fiscal deficits have consequences," he wrote.

He also defended Berkshire's federal tax bill, amid ongoing criticism that he himself pays little in

He says that a \$22.8 billion bite is '100 percent misleading.'

the United States.

"We count on the American Tailwind and, though it has been becalmed from time to time, its propelling force has always returned," he wrote. "I have yet to see a time when it made sense to make a long-term bet against

Pensions & Investments

THE INTERNATIONAL NEWSPAPER OF MONEY MANAGEMENT FEBRUARY 13, 2023 PIONLINE.COM \$50 AN ISSUE / \$350 A YEAR

THE P&I 1000

Historic year puts plans on notice

1,000 largest U.S. retirement plans experienced record asset losses as equity, bond markets plunged

By ROB KOZLOWSKI

U.S. retirement plans could not escape historically negative equity and fixed-income markets during the year ended Sept. 30 and posted the highest percentage asset losses in nearly half a century of *Pensions & Investments*' annual surveys.

In the year ended Sept. 30, the 1,000 largest U.S. retirement funds saw their assets plummet to \$12.16 trillion, a record-setting 13.9% loss from a year earlier when the universe had reached an all-time high of \$14.13 trillion.

That previous high was the result of a banner year of spectacularly strong returns in public and private equity and other alternative investment strategies, along with higher

contributions to defined benefit and defined contribution plans.

The most recent year, however, represented nearly a direct opposite of the prior year's euphoria, with every public equity and fixed-income asset class seeing significant losses. Perhaps most remarkably defined contribution plan assets fell 14.5% to \$4.73 trillion vs. the 13.6% decline of defined benefit plan assets to \$7.43 trillion, a stark reversal of a decade-long trend that has seen DC plans outpace DB growth in part due to 401(k)s emerging as the primary corporate retirement plan.

For the year ended Sept. 30, the Russell 3000 index and Bloomberg U.S. Aggregate Bond index returned -17.6% and -14.6%, respectively.

SEE P&I 1000 ON PAGE 50

In this issue:

A look at the year in:

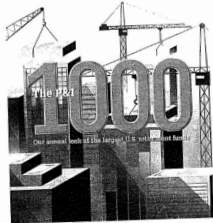
- Emerging markets debt Page 3
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Our take on a bad year: Page 10
Data and graphics begin on Page 16

For the full report, go to pionline.com/sponsors23

Money Management

THE P&I 1000 ALTERNATIVES



Money Management


➤ TRS investment return in FY 2022: -1.2%

➤ Median FY 2022 return for all public pension systems: -9.3%

TRS Investment Returns

Total Portfolio Results

<u>Time Period</u>	<u>June 30, 2020</u>	<u>June 30, 2021</u>	<u>June 30, 2022</u>
	<i>Fiscal Year</i>	<i>Fiscal Year</i>	<i>Fiscal Year</i>
1 Year	+ 0.6%	+ 25.5%	-1.2%
3 Years	+ 4.7%	+ 9.9%	+7.6%
5 Years	+ 5.2%	+ 10.1%	+7.3%
10 Years	+ 8.3%	+ 8.4%	+8.2%
40 Years	+ 9.0%	+ 9.5%	+9.3%



- TRS always focuses on long-term results more than on any one year because the System must be financially secure for *all members*, whether they're 85, 65, 45 or 25.
- The current TRS assumed *long-term* rate of return is 7%.

TRS Funding Update

Actuarial Funding vs. Actual State Funding

➤ **FY 2022**

Actuarial Payment	\$8.9 billion	Normal Cost	\$1.2 billion
Actual Statutory Payment	\$5.7 billion	Interest on the Debt	\$4.6 billion

➤ **FY 2023**

Actuarial Payment	\$9.1 billion	Normal Cost	\$1.2 billion
Actual Statutory Payment	\$5.9 billion	Interest on the Debt	\$4.8 billion

➤ **FY 2024**

Actuarial Payment	\$9.6 billion	Normal Cost	\$1.3 billion
TRS Certified Statutory Payment	\$6.0 billion	Interest on the Debt	\$4.9 billion

➤ *Every \$1 not paid to TRS now requires \$3 in the future to make up for the lost earnings.*

Source: TRS actuarial valuation reports

Gov. Pritzker's "Extra" Pension Funding

Stable State Contributions Help Move Funded Ratio in the Right Direction

- **The Governor's FY 2024 budget commits \$200 million *more* in funding to state pension systems than required by law**
- **This is the third fiscal year in a row that total pension funding will total more than the statutory requirement**
- **Total state pension funding to TRS will exceed \$18 billion in FY 2022, 2023 & 2024**
- **After five years of hovering at 40%, the TRS Funded Ratio is inching up**
 - ✓ ***FY 2020 – 40.5%***
 - ✓ ***FY 2021 – 42.5%***
 - ✓ ***FY 2022 – 43.8%***
 - ✓ ***FY 2023 – 44.9%*** (projected)
 - ✓ ***FY 2024 – 46.1%*** (projected)



Source: Illinois State Budget – Fiscal Year 2023 and Fiscal Year 2024

The TRS *Supplemental Savings Plan*



- **TRS implemented the SSP in 2022**
- **More than 1,000 participants, more than \$4.1 million in assets**
- **The SSP is a 457 (b) retirement savings account that:**
 - ✓ *Is optional for eligible TRS members*
 - ✓ *Is designed to supplement a member's TRS pension – not replace it*
 - ✓ *Offer both pre-tax or Roth savings options*
 - ✓ *Allows members to choose deferral amounts and make investment choices*
 - ✓ *Offers a competitive, cost-effective plan with a diverse investment array*
- **New, eligible TRS members hired after January 1 are automatically enrolled, as required by state law, but can opt out if they wish**
- **So far since January, 45 members have been auto-enrolled**

SSP Active Member Eligibility & Participation



These TRS members are eligible for the SSP:

- *All full-time and part-time contractual employees*

These TRS members can participate in the SSP:

- All full-time and part-time contractual employees ***whose employers have formally adopted the SSP***

These TRS members are *ineligible* for the SSP:

- *Substitutes, part-time non-contractual (hourly), extra duty only*
- *Retired and inactive members*

Local Voya Education Representatives



To join a scheduled SSP webinar:
trs-ssp-webinar.timetap.com

To schedule an individual virtual appointment:
trsssp457b.timetap.com

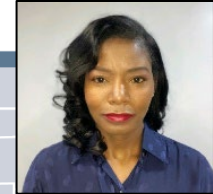
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Russian Divestment

- In December, the General Assembly and Gov. Pritzker enacted Public Act 102-1108 requiring the Illinois Investment Policy Board to identify Russian companies for placement on a “no investment” list.
- Once the Policy Board adds a company to the list, TRS has 12 months to sell, redeem, divest or withdraw system assets from that Russian company if TRS holds any assets in that company.
- Currently, TRS assets in Russia total \$2.9 million, which is 0.004% of the total portfolio.



TRS Member “Buyout” Program

Accelerated Annual Increase Program (AAI)

- Retiring Tier 1 members only
- Started in January 2019, Current sunset at the end of FY 2026
- TRS asks retiring Tier 1 members if they want to participate. Once made, the decision is irrevocable
 - *Give up the current Tier 1 annual increase – 3% compounded for 1.5% not-compounded beginning at age 67*
 - *Receive a lump-sum “accelerated pension benefit payment” – 70% of the monetary difference between the lifetime value of the 3% increase and the 1.5% raise*
- **Since 2019, more than 3,389 Tier 1 members have elected an accelerated payment under the AAI**
 - *20% out of 16,863 retirees have elected to participate*
 - *\$467.7 million in payments; average payment of nearly \$138,000*

“Pensionomics” in Illinois

“Defined Benefit” pension payments are vital to the state and national economies

- In Illinois: annual economic impact: **\$30.3 billion**
 - ✓ *Total of pension payments by TRS, other government systems and corporate plans*
- Illinois jobs sustained by DB pension payments: **166,000**
- Illinois wages sustained by DB pension payments: **\$10.4 billion**

- United States: annual economic impact: **\$1.3 trillion**
- U.S. jobs sustained by DB pension payments: **6.8 million**
- U.S. wages sustained by DB pension payments: **\$422 billion**

Source: Pensionomics 2023 - National Institute on Retirement Security



Federal SECURE 2.0 Act

- **SECURE 2.0 signed by President Biden in December 2022**
 - ✓ *“2.0” builds on and revises the “Setting Every Community Up for Retirement Enhancement Act of 2019”*
- **There are 90 provisions in the Act, most take effect in 2024 - 2027**
- **TRS is currently reviewing SECURE 2.0 to identify changes applicable to the SSP and TRS pension plan**
- **Portions of SECURE 2.0 cover:**
 - ✓ *Required minimum distributions*
 - ✓ *Greater participant flexibility for penalty-free withdrawals from deferred compensation plans*
 - ✓ *Expansions in the rules covering contributions to “Roth” deferred compensation plans*

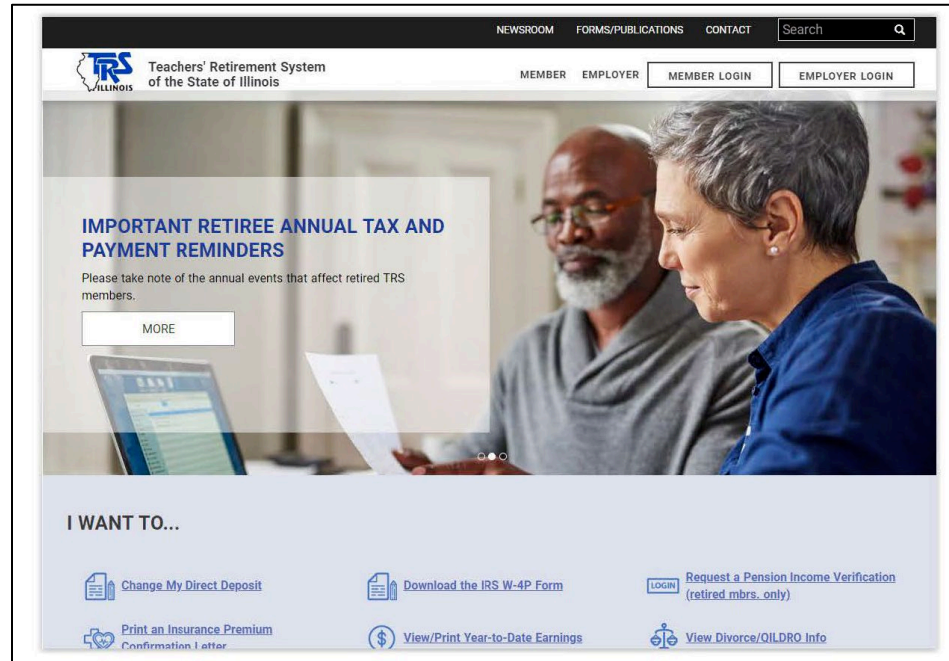
TRS Members - Lights That Never Stop Glowing

Their Legacies Live Forever

- To date, 600 TRS members have died because of COVID-19 or complications related to the virus.
- *Each of them represents the loss of a bright and shining light to their families, friends and communities, as well as their profession.*
- In January, the System's oldest member – 108 years young from Rushville – passed on.
- The mantle of “oldest TRS member” now belongs to a retiree in Flossmoor aged 106. She has been an annuitant since 1976.
- The oldest *full-time active* TRS member is 83 and lives in Olmstead.



Thank You! / Contact TRS



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Member Services

To speak to a TRS representative, or to schedule a telephone, in-office or virtual counseling session:

(877) 927-5877

8:30 a.m. to 4:30 p.m. – Monday-Friday

members@trsil.org

Employer Services:

(888) 678-3675

employers@trsil.org

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