



TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

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News

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TRS OFFICIAL FUNDED STATUS IMPROVES PRELIMINARY FY 2017 STATE CONTRIBUTION SET AT \$3.9 BILLION

SPRINGFIELD, IL – While the funded status of Teachers' Retirement System improved slightly during fiscal year 2015 to 42 percent – up from 40.6 percent a year earlier – TRS still faces serious long-term financial problems caused by a long-standing unfunded liability.

The funded ratio is calculated according to state law, which requires TRS to average, or “smooth,” its investment gains and losses over a rolling five-year period; a common actuarial practice.

When calculating the funded ratio based on the fair market value of TRS assets, the System's funded status declined from 44.2 percent in FY 2014 to 42.9 percent in FY 2015.

“The bottom line is TRS still has less than 50 cents on hand for every dollar that is owed to our members, including members that already are retired’ said TRS Executive Director Dick Ingram. “That cannot continue.

“Our disciplined investment program delivers top quartile returns, but as successful as we've been, we cannot invest the System out of a problem created by decades of underfunding by state government,” Ingram added. “The money TRS owes its 400,000 members is a debt that is not going to go away. There needs to be a stronger commitment by the state to fully pay the promises made to our members over the last 76 years.”

Despite the improvement in the System's official funded status, the total accrued liability of TRS rose during FY 2015 from \$103.7 billion to \$108.1 billion. The System's unfunded liability increased from \$61.5 billion at the end of FY 2014 to \$62.7 billion at the end of FY 2015.

Following the annual actuarial valuation report from the TRS actuary, **Buck Consultants of Chicago**, the TRS Board of Trustees gave preliminary approval to a state government contribution for fiscal year 2017 of \$3.986 billion, which is a 6.5 percent increase over the current budget year's state contribution.

(MORE)

The \$3.9 billion preliminary contribution for FY 2017 is based on calculations dictated in state law and falls well below the amount of money actuaries estimate state government should be paying TRS based on standard actuarial practices. Evolving actuarial standards indicate the state's annual contribution to TRS should be \$6.07 billion.

Of the \$3.9 billion state contribution for FY 2017, only \$871 million is needed to pay the anticipated annual cost of TRS pensions during the year. The remaining \$3.1 billion is dedicated to help paying off the System's unfunded liability.

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

- Approved a "Request for Proposals" for actuarial services. The three-year contract of the System's current actuary, Buck Consultants, expires on June 30, 2016. Buck has served as the System's actuary since 1988 and is invited to participate in the process.
- Committed \$100 million from the System's \$6.2 billion Real Estate Portfolio to **The Westbrook Group, of Chicago**, for property investments around the world.
- Committed up to \$30 million from the TRS Private Equity portfolio to **Scale Venture Partners of Foster City, California** for investments in the technology sector.
- Committed \$50 million from the \$8 billion TRS Global Fixed Income portfolio to **Riverstone Holdings of New York, New York** for investments in the energy sector of the economy. Riverstone currently administers \$315 million in TRS assets.
- Committed approximately \$50 million from the Fixed Income portfolio to **Prudential Investment Management of Newark, New Jersey**. Prudential currently administers \$522 million in TRS fixed income assets.
- Committed approximately \$277 million from the \$3.5 billion TRS Absolute Return portfolio to **Penso Advisors of New York, New York**.
- Committed \$50 million from the System's \$3.9 billion Real Return portfolio to **Taurus Funds Management, of Sydney, Australia** for investments in mining and metal production. Taurus currently administers \$30 million in TRS assets.
- Approved changes to the TRS Watch List:
 - Added **Boston Company Asset Management, of Boston, Massachusetts**, to the Watch List. Boston Company currently administers \$255.7 million in TRS domestic equity assets.
 - Terminated **Herndon Capital Management of Atlanta, Georgia**, which had administered \$271.8 million of TRS domestic equity assets.
- As approved by the TRS Board, the current Watch List is composed of:
 - The large capitalization core strategy of **Aberdeen Asset Management, of Edinburgh, Scotland**, which now administers \$788 million in TRS assets within the System's International Equity portfolio.
 - Boston Company Asset Management, of Boston, Massachusetts, which currently administers \$255.7 million in TRS domestic equity assets.

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About Teachers' Retirement System

The Teachers' Retirement System of the State of Illinois is the 39th 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 400,000 members and had assets of \$45.9 billion as of June 30, 2015.