



Teachers' Retirement System of the State of Illinois

2815 West Washington Street | P.O. Box 19253 | Springfield, Illinois 62794-9253

Richard W. Ingram, Executive Director

<http://trs.illinois.gov>

(800) 877-7896 | for the hearing impaired: (866) 326-0087

News

For Immediate Release

October 31, 2014

Contact: Dave Urbanek
Public Information Officer

Office: 217-753-0968

Cell: 217-720-3961

durbanek@trs.illinois.gov

TRS FUNDED RATIO IMPROVES SLIGHTLY IN FY 2014; STATE CONTRIBUTION FOR FY 2016 SET AT \$3.72 BILLION

SPRINGFIELD, IL – Strong investment returns in fiscal year 2014 led to a slight improvement in the funded ratio of Teachers' Retirement System for the first time in several years, to 44.2 percent from 42.5 percent, as measured by a calculation that uses the fair market value of the System's assets.

Under the formula required by state law, for the first time in years the TRS funded ratio at the end of fiscal year 2014 did not decrease from the previous year, but remained level at 40.6 percent. The formula in state law requires the System's investment gain and losses to be averaged – or “smoothed” – over a rolling five-year period. Current market values are not used.

“An improved funded ratio is always good news, but it doesn't mean by any means that the financial problems at TRS have been solved. We cannot invest our way out of this problem,” said TRS Executive Director Dick Ingram. “TRS members still face a fiscal day of reckoning in the future unless a dramatic improvement is seen over time in the funded status. TRS is still among the worst-funded major public pension system in the country. Our funded status should be 100 percent, not 40 percent.”

Ingram noted that under any formula, TRS currently has about 40 cents for every dollar owed to the System's 395,000 members for their retirement. The last time the System's funded ratio improved in a year was in 2005 - 2006.

Based on the funding formula in state law, the TRS Board of Trustees gave preliminary approval to a \$3.72 billion state government contribution for fiscal year 2016. This contribution covers the expected cost of TRS pensions to be earned in 2016, as well as funds to pay down the System's unfunded liability. By law, this preliminary contribution is reviewed by the Illinois State Actuary before final approval is given by the TRS Board.

The FY 2016 state contribution to TRS is 9.1 percent greater than the contribution to be paid during the current fiscal year of \$3.413 billion. More than 70 percent of the annual contribution goes toward paying off the System's growing unfunded liability, which is the result of 75 years of insufficient funding by state government.

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When computing the state contribution each year, the TRS Board requires its actuaries, **Buck Consultants of Chicago**, to calculate the payment in three ways.

- The \$3.72 billion is the state contribution required under the funding formula in current state law, which does not follow generally accepted actuarial standards.
- If generally used actuarial standards are used to calculate the payment, the state contribution would be \$4.37 billion in FY 2016, a difference of 17.5 percent from the actual payment.
- If the state contribution is calculated with the goal of preventing any growth in the unfunded liability, the state payment would be \$5.34 billion, or 43.5 percent higher than the contribution dictated by law.

During FY 2014, which ended in June, the TRS unfunded liability grew by 10.51 percent from \$55.73 billion at the end of FY 2013 to \$61.59 billion. However, the System's funded ratio remained stable because strong investment returns helped assets grow at a pace similar to liabilities. The rate of return on TRS assets in FY 2014 was 17.4 percent, net of fees.

In other business during the Board of Trustees' regularly scheduled October meeting, the Board:

- Approved the allocation of \$360 million from the System's \$9.4 billion Domestic Equity portfolio to **LSV Asset Management, of Chicago**. LSV already administers \$1.3 billion in TRS assets.
- Approved the "graduation" of **Garcia Hamilton & Associates, of Houston, Texas**, from the Emerging Manager Program to the main lineup of TRS money managers and a total allocation of approximately \$300 million from the \$7.7 billion Global Fixed Income portfolio. Garcia Hamilton currently manages \$61.4 million in TRS assets.
- Approved a \$200 million commitment from the System's \$5 billion Private Equity portfolio to **Asia Alternatives, of Hong Kong**.
- Approved a \$100 million commitment from the Private Equity portfolio to **Siris Capital Group, of New York, New York**, for investments in technology opportunities. Siris already administers \$12.5 million in TRS assets as part of the Emerging Manager Program.
- Approved a \$30 million commitment from the Private Equity portfolio to **Taurus Funds Management, of Sydney, Australia**.
- Approved a \$25 million allocation from the Domestic Equity portfolio to **Affinity Investment Advisors, of Irvine, California** as part of the System's Emerging Manager Program.
- Approved a \$25 million commitment from the \$9.9 billion International Equity portfolio to **Lombardia Capital Partners of Pasadena, California** as part of the System's Emerging Manager Program. Lombardia currently administers \$275.7 million of TRS assets in the Domestic Equity portfolio.
- Approved the termination of a \$350 million allocation to **Hartford Investment Management Company, of Hartford, Connecticut** within the Global Fixed Income portfolio.
- Approved changes to the TRS Watch List:
 - Removed **Levin Capital Management of New York, New York**, which manages \$479.1 million in the Domestic Equity portfolio.
 - Added selected strategies of **Pacific Investment Management Company of Newport Beach, California**. These PIMCO strategies within the Global Fixed Income and Real Return portfolios – Total Return, Unconstrained, Global Inflation-Linked Bonds, Global Multi-Asset and Multi-Asset Volatility – represent \$2.2 billion in TRS assets. PIMCO currently manages a total of \$2.47 billion in TRS assets.

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- As approved by the TRS Board, the current Watch List is composed of:
 - **American Century Investments, of Kansas City, Missouri**, which manages \$146.5 million of TRS international equity assets.
 - **Cortina Asset Management, of Milwaukee, Wisconsin**, which currently manages \$148.4 million of TRS domestic equity assets.
 - **Franklin Templeton, of San Mateo, California**, which currently administers \$489 million of TRS fixed income assets.
 - The Total Return, Unconstrained, Global Inflation-Linked Bonds, Global Multi-Asset and Multi-Asset Volatility strategies of **Pacific Investment Management Company of Newport Beach, California**, which represent \$2.2 billion within the System's \$7.7 billion Global Fixed Income portfolio and \$4.1 billion Real Return portfolio.

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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 395,000 members and had assets of \$45.3 billion as of June 30, 2014.