

TOPICS & REPORT

Summer 2018

Teachers' Retirement System of the State of Illinois | <https://www.trsil.org> | Over 412,000 members

New State Pension Laws Signed by Governor But Implementation Will Take Time



Illinois State Capitol in Springfield

New state laws raising the pension contributions school districts might have to pay for granting pay raises to soon-to-rotate teachers and creating “accelerated pension benefit payments” for some TRS members emerged in May as part of a bipartisan compromise on a state government budget for fiscal year 2019.

The General Assembly passed the new laws in late May and **Gov. Bruce Rauner** signed the laws, along with the state budget, in early June.

The General Assembly estimates that the new laws will save state government \$445 million on its annual contribution to TRS and Illinois’ other public pension systems. However, the new provisions do not address the largest financial problem facing TRS – the \$73 billion unfunded liability created by decades of underfunding by state government. If anything, the new laws perpetuate this record of underfunding by requiring TRS to reduce the state’s \$4.47 billion contribution next spring.

Implementation of the new laws will take time because TRS was not consulted by state officials prior to the enactment of the changes to the Pension Code. The

Pension laws *continued on pg. 3*

Member questions about new pension laws

It will be some time before TRS will be able to answer specific questions from members about the three changes to the Illinois Pension Code enacted on June 4, or provide estimates on the financial implications of the new laws.

TRS will keep members informed on our progress implementing the new laws:

- The 3 percent salary increase threshold that triggers added pension contributions from school districts.
- The accelerated benefit payment for eligible inactive members.
- The accelerated benefit payment in return for a reduced automatic annual increase for retiring Tier 1 members.

As of the deadline for this issue of *Topics & Report*, no money has been allocated for the accelerated benefit payments. The law requires the funding for the accelerated payments to come from the sale of \$1 billion in state bonds. The buyouts cannot start until the bonds have been sold. State bond sales are administered by the Office of the Governor.

In addition, TRS had no advance notice about the new laws before they appeared in legislation authorizing the fiscal year 2019 state budget. Aside from the funding question, TRS must first enact rules to govern the programs, complete internal computer system changes, develop precise formulas for estimating future pension benefits, create protocols for collecting member and school district information and set up the process for paying the accelerated payments to start these programs.

Executive Director's Message: "Up Our Game" to Overcome Obstacles



*Executive Director
Dick Ingram*

The enactment in June of a second consecutive state budget was good news for Illinois. Following a detrimental two-year political deadlock over a budget agreement, the new spending plan for fiscal year 2019 brings a measure of needed stability to state government and the millions of people who depend on public services and programs.

Looking back, the deadlock forced many state agencies, school districts and universities to cut their budgets, operations and programs when tax dollars became scarce. It forced a close examination of missions and goals. It led to tough decisions between the necessary and the desired. On occasion, times were very tough. I know of some state agency personnel that went "dumpster diving" to retrieve old – but not used up – toner cartridges for their copiers and printers. They had no choice. There was no money to buy new.

Yet, while the new budget may signal that things are returning to "normal" in state government, in many ways what we're facing is a "new normal."

As we all know, this latest budget agreement does not fix many of the financial problems facing the state. The unfunded liabilities carried by TRS and the other state pension systems continue to exceed \$130 billion.

"We are going to do more with less, be leaders in innovation, stay ahead of problems, focus on what we need to do and strictly scrutinize what we'd like to do. We're going to stretch every dollar."

The backlog of unpaid bills totals \$6.6 billion.

Money will remain very tight. In no way is the new budget an invitation for state agencies to start living large. The dumpster diving for printer cartridges will end, but the close self-examination of how the people's business is carried out will not.

And this is true at TRS, as well.

Granted, your retirement system is in a somewhat different position. TRS funds all of its operations from the trust fund, which sits at \$51 billion. That's \$12 billion more than the new state budget. At first glance, we have more than enough money on hand to make sure that all benefits are paid on time – \$6 billion last year – and to do everything you need us to do to administer and maintain your retirement accounts. We're not dependent on the legislature for funding our operations.

But when you take a closer look at TRS, you realize that even with \$51 billion, we're not going to be "living large," either. We can't. We owe our members a total of \$124 billion. Eight decades of underfunding by state government has created a \$73 billion unfunded liability. That means, long-term, that TRS only has 40 cents on hand for every \$1 in benefits owed to all of our members.

Every dime of the \$51 billion is spoken for. And we have to use a portion of that fund every year to operate. There are no signs that our funded status is going to improve in the near

future, especially when state government keeps reducing its annual contribution to TRS. Next year, the state will underfund TRS by \$2.9 billion.

What happens in the future if the financial status of TRS does not improve? The TRS Board of Trustees and all of us on staff recognize the precarious position we're in. We need the money we have to pay benefits. We need the same money to administer the benefits so they are paid.

The situation is challenging, but not insurmountable. In May, the trustees charged TRS to "up our game" and tackle these difficulties head on.

It's a challenge we gladly accept. We are going to do more with less, be leaders in innovation, stay ahead of problems, focus on what we need to do and strictly scrutinize what we'd like to do. We're going to stretch every dollar.

Our members are our top priority. TRS exists to keep the retirement promises made to teachers by the State of Illinois. It's a serious responsibility.

Like our colleagues in state government, we're going to "up our game" to overcome the obstacles in front of us.

Sincerely,

A handwritten signature in black ink that reads "Dick Ingram". The signature is stylized with a large "D" and a cursive "I".

Dick Ingram
TRS Executive Director

statute says the changes must be implemented “as soon as practical,” and TRS is in the process of developing the IT systems and protocols necessary to administer these acts.

As a result, TRS Member Services staff **cannot answer questions** about how these laws may affect any member’s TRS benefits at this time.

Employer contributions for member salary increases in excess of 3 percent

A new law reduces the “threshold” affecting employer contributions on year-to-year salary increases for a TRS member from 6 percent to 3 percent but only if the pay hikes would factor into the calculation of a member’s initial pension.

The new 3 percent threshold on raises applies only to salaries paid to TRS members “under a contract or collective bargaining agreement entered into, amended, or renewed on or after” the effective date of the law for a school year that begins after July 1, 2018. The law took effect on June 4, 2018.

The old 6 percent threshold applies to raises and salaries paid to TRS members “under a contract or collective bargaining agreement entered into, amended, or renewed” before June 4, 2018, even if payments pursuant to the contract or collective bargaining agreement might extend beyond July 1, 2018.

The 6 percent threshold has been a state law since 2005. Under its provisions, if a school district grants an educator a raise in excess of the threshold and that raise will be used to calculate her/his “final average salary,” for retirement, then the school district must pay for the long-term

cost of the portion of an educator’s pension created by the portion of the raise that exceeds the threshold.

Inactive member accelerated pension payment

TRS must offer all **eligible inactive members** a chance for a voluntary, irrevocable “accelerated pension benefit payment” in return for giving up any future claim to a TRS benefit. Inactive members in both Tier 1 and Tier 2 may be eligible for this accelerated payment. The program will exist until June 30, 2021. The buyout amount will equal 60 percent of the present value of the member’s anticipated pension benefits.

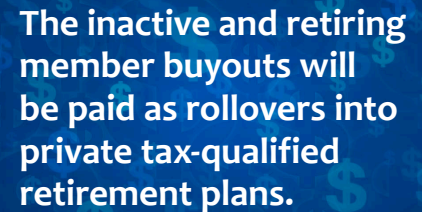
To be eligible, an inactive member must have “accrued sufficient service credit to be eligible to receive a retirement annuity” at some point in the future when other eligibility criteria are met. An inactive Tier 1 member must have at least five years of TRS service. An inactive Tier 2 member must have at least 10 years of TRS service.

TRS will notify all eligible inactive members when they can apply for the buyout. TRS will provide an estimate of how much the member will receive through the buyout program.

Members taking the buyout cannot receive the buyout as cash. The buyout amount will only be paid in the form of a “rollover” into a private tax-qualified retirement plan.

Inactive members cannot add service credit from another public pension system to their TRS service in order to meet the eligibility requirement for a TRS benefit. If an inactive member accepts the buyout, she/he cannot pay the buyout back to TRS in order to re-establish past service. And if an inactive member accepts the buyout and she/

he returns to active service, the TRS service credit starts accumulating on the day she/he returns to active service.



The inactive and retiring member buyouts will be paid as rollovers into private tax-qualified retirement plans.

Retiring Tier 1 member accelerated pension payment

TRS will offer all **retiring Tier 1 members** a voluntary “accelerated pension benefit payment” in return for an irrevocable reduction in the automatic annual increase (AAI) to their TRS pensions.

When the law is implemented, TRS will ask every Tier 1 member upon retirement whether they want to participate. Only retiring Tier 1 members are eligible. The program will exist until June 30, 2021.

Members accepting the accelerated payment will:

- **Waive their rights to the current Tier 1 AAI** – a 3 percent annual increase in their pension benefits that always is calculated from the amount of their current pensions.
- **Accept a new AAI** – an annual 1.5 percent increase in their pensions that always is calculated from the amount of their original pensions.
- **Receive a lump-sum “accelerated pension benefit payment”** that equals 70 percent of the monetary difference between estimated current value of the 3 percent Tier 1 AAI and the

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estimated current value of the 1.5 percent Tier 1 AAI.

For members who accept the accelerated payment, their new 1.5 percent AAI will take effect on the Jan. 1 following their 67th birthdays, or after the first anniversary of their retirements, whichever is later.

The current Tier 1 AAI takes effect on the Jan. 1 following a member's 61st birthday or on after the first anniversary of her/his retirement, whichever is later.

The member cannot receive the "accelerated pension benefit payment" as cash. The accelerated payment will only be paid to the member in the form of a "rollover" into a private tax-qualified retirement plan. The selection of the accelerated payment also affects the annual increases in any survivor benefit due to beneficiaries when the member dies.

Other TRS legislation

The General Assembly also approved several bills affecting TRS during the spring legislative session.

As of this time, the following proposals have been sent to **Gov. Bruce Rauner** for his consideration:

- A bill that requires TRS to set up an optional defined contribution (DC) retirement plan, similar to a 403(b) plan that would operate in conjunction with the current defined benefit (DB) pension plan. A new DC plan would not be a replacement for the DB plan.
- A bill that allows retired TRS members who previously opted out of the state's Teachers' Retirement Insurance Program, (TRIP), to re-enroll in TRIP. Eligible members can leave TRIP, or return to TRIP, only once a year during the state's annual Benefit Choice Period.
- To help address the state's teacher shortage problem, one bill would temporarily raise the amount of time retired TRS members can teach without affecting their pensions. Until 2020, the current limits of 100-paid days or 500-paid hours would be raised to 120-paid days or 600-paid hours. Another bill would extend the life of "subject shortage areas," as administered by the Illinois State Board of Education until 2019.
- A bill that over four years would raise the minimum salary for an Illinois public school teacher to \$40,000. Setting a minimum salary would affect the calculation of TRS liabilities. The mandated increases would begin during the 2019-2020 school year when the minimum salary would be set at \$32,076.

Wait Four Months to Receive a Refund of Retirement Contributions

Now that the 2017-18 school year is over, some teachers may not be returning to the classroom. These TRS members may apply as early as the day after their last day of teaching for a refund of their TRS contributions if they terminate teaching with a TRS employer. However, by law, a refund cannot be processed until four months have passed since the member's final day of teaching.

A refund of retirement contributions, which consists of the portions used to pay the retirement annuity (7.5 percent) and the annual increases in the annuity (0.5 percent), should be carefully considered because it terminates the member's benefits and will be costly to repay if the member returns to teaching in the future. If the member receives a refund of retirement contributions, she/he is not entitled to any other refunds. The contribution for the Teachers' Retirement Insurance Program and the 1 percent survivor benefit contribution are not refundable.

After the member contacts TRS about the refund, TRS will send the application by regular mail. **The application can be returned any time after the member has formally resigned from her/his TRS-covered position.** Once a properly completed refund application and any required supplementary earnings information from the school district(s) are received, we will process the refund and forward it to the Office of the Comptroller for payment when four months have passed following the member's final day of teaching.



Annual Fall Member Meetings Explain Retirement Process and Benefits for Both Tier 1 and Tier 2

Comments from members:

"Peace of mind to make an educated decision about retirement."

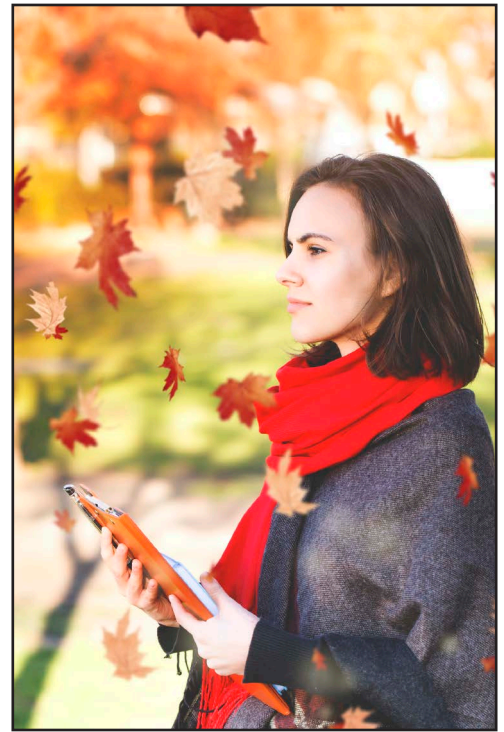
"Personable and knowledgeable counselor."

TRS will host statewide meetings for members from late August to November that are designed to explain the retirement process and to provide members with information about disability, death and insurance benefits.

In the past, these meetings were primarily for Tier 1 members who were close to retirement. This year, the presentations have information for both Tier 1 and Tier 2 members. All are welcome to attend.

Our website will provide the specific meeting locations and addresses in mid-August. When the meeting schedule is finalized, an email alert will be sent. If you would like to be informed of this schedule via email and we do not already have your email address, you can add it to your official TRS record. You may enter your email address in the secure Member Account Access area online or call us at 877-927-5877.

Sometimes a school district changes the meeting location after the initial notification email has been sent. Although not a common occurrence, always check the TRS website for any updates before leaving for a meeting.



Location	Date
Algonquin	Nov. 7
Alton	Oct. 11
Arlington Heights	TBD
Aurora	Nov. 1
Barrington	Oct. 4
Belleville	Aug. 30
Belvidere	Sept. 18
Bloomington	Oct. 2
Bourbonnais	TBD
Carlinville	Oct. 6
Charleston	Oct. 16
Chatham	TBD
Crystal Lake	Oct. 30
Danville	Sept. 13
Decatur	Oct. 3
Des Plaines	Sept. 12
Dixon	Oct. 2
Downers Grove	Oct. 3
Edwardsville	Sept. 12
Effingham	Aug. 29
Elgin	Sept. 19

Location	Date
Evanston	Oct. 18
Fairfield	Sept. 25
Freeport	Sept. 6
Geneva	Sept. 20
Gurnee	TBD
Highland Park	Oct. 24
Jacksonville	Sept. 19
Kankakee	Sept. 19
Kewanee	Oct. 17
La Salle	Oct. 24
Lemont	Sept. 6
Libertyville	Nov. 01
Machesney Park	Oct. 30
Macomb	Sept. 11
Marion	Sept. 26
McHenry	Oct. 16
Moline	Sept. 18
Monmouth	Sept. 6
Morris	Sept. 13
Naperville	Oct. 25
New Lenox	Oct. 10

Location	Date
Northbrook	Oct. 10
Oak Lawn	Sept. 11
Oak Park	Nov. 07
Pekin	Oct. 16
Peoria	Oct. 23
Plainfield	Sept. 27
Pontiac	Aug. 28
Rock Falls	Oct. 18
Rockford	TBD
Salem	Sept. 27
Savannah	Sept. 5
Schaumburg	TBD
South Holland	Oct. 17
Springfield	Oct. 24
Taylorville	Sept. 20
Tinley Park	Sept. 25
Urbana	Sept. 5
Warrenville	Oct. 18
Western Springs	Oct. 23

Diversified Portfolio Safeguards TRS Assets

With three-quarters of fiscal year 2018 in the books, TRS investments continue to generate steady across-the-board returns, a trend that reinforces the direction of the System's diversified investment strategy.

On March 31, TRS investment returns for the fiscal year were a positive 7.22 percent, net of fees, and the size of the portfolio stood at \$51.4 billion. That's a 4.1 percent increase in assets during the first nine months of the fiscal year. On June 30, 2017, total TRS assets were \$49.4 billion.

On a calendar year basis, during 2017 TRS investments recorded a positive 15.3 percent return. In fiscal year 2017, TRS returns were a positive 12.6 percent.

For TRS members, the most important measurement is the long-term 30-year rate-of-return. Currently, the TRS 30-year return is a positive 8.1 percent, which exceeds the System's assumed investment rate of return, which currently is set at 7 percent. Most members have relationships with TRS that last decades. Steady, positive returns over 30 years are more important to people with a long-term stake in the System than short-term measurements. The TRS returns are a product of an investment strategy carefully designed over time by the System's trustees and investment staff.

The goal of this strategy is to maximize revenue while keeping the risk inherent in all investment opportunities below the average risk factors accepted by comparable public pension systems in the U.S. Using standard risk measurements, the TRS portfolio currently is outperforming its peers in revenue generated while keeping its risk below the median risk carried by other pension systems.



TRS maintains a highly-diversified investment portfolio set up to mitigate sharp drops in the value of the stock market or any other segment of the economy. In other words, not all of the eggs are in one basket. A

diverse portfolio safeguards TRS assets because sections of the worldwide economy do not grow or shrink in unison.

Currently, 36.3 percent of the portfolio is invested in publicly-traded stocks, 20.2 percent in bonds, 13.7 percent in real estate, 12 percent in private equity, 15 percent in various opportunities that include hedge funds and real assets and 2.8 percent in short-term instruments.

Despite the good news that TRS will receive its entire fiscal year 2018 contribution from state government, the \$4.09 billion falls \$2.9 billion short of a contribution that the TRS actuaries would label as "full funding." State government has underfunded TRS annually for more than 75 years. In fiscal year 2018, the state contribution should be \$6.99 billion. In the last five years, state government has underfunded TRS by more than \$6.8 billion. This chronic underfunding is the cause of TRS's \$73.4 billion unfunded liability.

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Upcoming Board Meetings

Below is the calendar of upcoming Board meetings. Springfield meetings will be held at the TRS office, 2815 W. Washington St. This schedule is subject to change.

- August 16-17, 2018, Springfield
- October 29-30, 2018, TBD
- December 13-14, 2018, Rosemont
- March 14-15, 2019, TBD
- April 25-26, 2019 – Retreat, TBD
- June 13-14, 2019, TBD

Eligible Retirees & Survivors Have Fall Open Enrollment Period for TRAIL

If you are eligible for the Total Retiree Advantage Illinois (TRAIL) open enrollment this fall, you will receive information from the Illinois Department of Central Management Services.

The Teachers' Retirement Insurance Program (TRIP) offers annuitants and survivors the TRAIL healthcare program. This program provides eligible members and their covered dependents comprehensive medical and prescription drug coverage through Medicare Advantage plans (commonly referred to as "MAPD" plans).

To be eligible for coverage under a TRAIL plan, you and your eligible dependents must live in the United States or the U.S. territories and be enrolled in Medicare Parts A and B due to age or disability with an effective date on or before Sept. 30, 2018.

The plan year begins Jan. 1 and is effective through Dec. 31, 2019.

If you are currently enrolled in one of the TRAIL Medicare Advantage plans, your enrollment will continue – you do not need to do anything unless you want to make a change. If you want to make a change to your current



Medicare Advantage health plan or dependent coverage, please follow the directions provided with your fall information.

TRIP participants not enrolled in a TRAIL plan had their open enrollment period in May 2018.

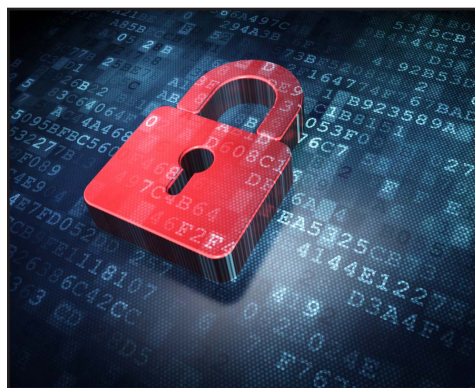
TRS Follows Industry Best Practices for Cybersecurity

Cybersecurity is a top priority at TRS.

Not a month goes by when news breaks about an incident in the private sector or a government agency where the private information of millions of unsuspecting people is improperly shared.

The city of Atlanta, Georgia recently uncovered a ransomware attack that jeopardized millions of private records. A public pension system in Iowa was the victim of an aggressive hijacking of member accounts.

At TRS, the Board of Trustees and staff understand that it is imperative for the System to keep the



private information of 412,000 men, women, their families and their employers as safe and secure as possible and to implement practices and systems that guard against these growing threats.

For example, one of the most common ways destructive "malware" takes root in an organization's IT systems is by email. "Phishing" is when an email tricks the recipient into voluntarily sharing information that can be used to gain technological access from unsuspecting targets.

TRS receives thousands of emails daily and uses tested technology to

filter as much of the unwanted spam and potential malware before it ever reaches TRS employees.

TRS understands that technology cannot solve all the problems of the online world. The System trains all staff not only to identify suspicious emails or potential cyberattacks, but also in methods to keep member information secure because there's no "perfect protection." TRS uses "awareness training" that highlights threats through real world examples and interactive sessions.

Many avenues of danger exist with a connected world and the internet. TRS follows industry "best practices" for cybersecurity to help reduce our potential exposure to a damaging "cyber incident."

At TRS, our absolute commitment to our members' safety means we set our standards high as we move forward in the online world.

Ransomware is malicious software that attacks devices (a workstation, PC, server or device) and encrypts the device's hard drive so that the user must pay a 'ransom' (usually with an untraceable cryptocurrency such as Bitcoin) to get a virtual 'key' that unlocks their data.



TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

2815 West Washington Street, P.O. Box 19253
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Office locations

2815 W. Washington St.
Springfield, IL
62702-3397

4200 Commerce Ct.
Ste. 101
Lisle, IL 60532-3611

Phone numbers

Toll free: 877-927-5877 (877-9-ASK-TRS)
TDD: 800-526-0844 (or 711)

Mailing address for both TRS locations

P.O. Box 19253, Springfield, IL 62794-9253

Contact TRS

Email: members@trsil.org

Call: 877-927-5877 (877-9-ASK-TRS)

Website: <https://www.trsil.org>

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Editor and layout:

Kathy Boehme

kboehme@trsil.org