

Pension Environment IASBO Meeting Schaumburg

May 4, 2018



Agenda



- TRS Demographics
- General Assembly Action
- New Tier 3 program
- TRS Investment
- TRIP Insurance
- Constitutional Protection
- Contact Information



Teachers' Retirement System

- Purpose
 - Created in 1939
 - Illinois Teachers outside Chicago
 - TRS provides its members with retirement, disability, and survivor benefits
- FY 2017 Membership
 - Active Members – 160,488 (23% Tier II)
 - Inactive members – 131,812
 - Annuitants/Beneficiaries – 120,151
 - Oldest Retiree – 106 (as of November 2017)
 - Oldest Active (Sub) – 88 (as of November 2017)
 - Oldest Active (Teacher) – 80 (as of November 2017)



General Assembly Action

- Fiscal 2018 State Budget – approved (SB 6)
- K-12 Budget approved including State contributions to TRS and TRIP
 - However, TRS must recalculate FY 2018 appropriation to “smooth” impact on actuarial or investment assumptions—**reduction of \$500+ million**
 - School Aid Formula, SB 1947, signed into law, 8/31/17
- Income Tax levels return to 2014
 1. Personal Rate – 4.95% from 3.75%
 2. Corporate Rate – 7% from 5.25%
 3. TRS Pension is still Exempt from State Income Tax



Tax Teacher Pension 2010 Data

No Tax States

AK, FL, NV, SD, TX,
WA, WY

State Exemption

AL, HI, MS, PA, **IL**

Same State Exemption

KA, LA, MA, MI, NY

No Exemption

CA, CT, ID, IN, MN,
NE, NM, ND, RI, VT,
VA

Some Exemption
Remaining 20 States



Optional Tier 3 (SB 42) Created

- Hybrid plan – Defined Benefit (DB) plus Defined Contribution (DC)
- **Optional** to new hires and Tier 2 members
- Implementation Date – **Unknown**
 - ✓ “Trailer” bill needed – SB 779
 - ✓ Reviewed/Approved by IRS
 - ✓ DC Provider Hired
 - ✓ TRS Board will set final date



Tier 2 versus Optional Tier 3 Benefits

Major Differences	Tier 2	Tier 3
Normal Retirement Age	Age 67	Age 67
Vesting Period	10 years	10 years
Pensionable Salary	\$113,644.91	\$128,400
Final Average Salary	Avg. of the highest 8 consecutive years	Avg. of the highest 10 years
COLA or Post Retirement Increase	½ of the CPI with 3% Cap	½ of the CPI No Cap
Pension Formula	2.2% for each yr. of creditable service	1.25%



Tier 2 versus Optional Tier 3 Contributions

Major Differences	Tier 2	Tier 3
DB – Employee Contribution	9%	Normal Cost WITH 6.2% Cap
DB – School District Contribution	0.58%	2% initially by the State then by the School District plus 0.58%
DC – Employee Contribution	None	Minimum of 4%
DC – School District Contribution	None	2% can bargain up to 6%



TRS Formula

Tier 1

Final Avg. Salary (4 yr) X Years of Service X 2.2%

Tier 2

FAS(8) X Years of Service X 2.2%

Tier 3

FAS(10) X Years of Service X 1.25%



How are Tier 2 & 3 Impacting Tier 1 members?

Both Tier 2 and Tier 3 fully pay for their benefit. No Employer contribution is required!

Tier 2 -- Tier 2 members contribute about 2% more than they need to fund their benefit. This helps fund Tier 1 members' benefits.

Tier 3 -- Tier 3 employers will soon contribute 2% of Tier 3 payroll to TRS. This will help fund Tier 1 members' benefits.



Paradigms Are Changing



For Members -- More understanding and more control/planning for their retirement

- Tier 1 & 2– Bring More
- Tier 3– Choose investment option wisely

Paradigms Are Changing

For School districts



- Monthly reporting
- Cost Shifts to Local Districts
 1. Governor's salary of \$177,412—Now law
 2. 2% of Tier 3 payroll in FY 2021
 3. Proposed 25% of normal cost in each of the next 4 years

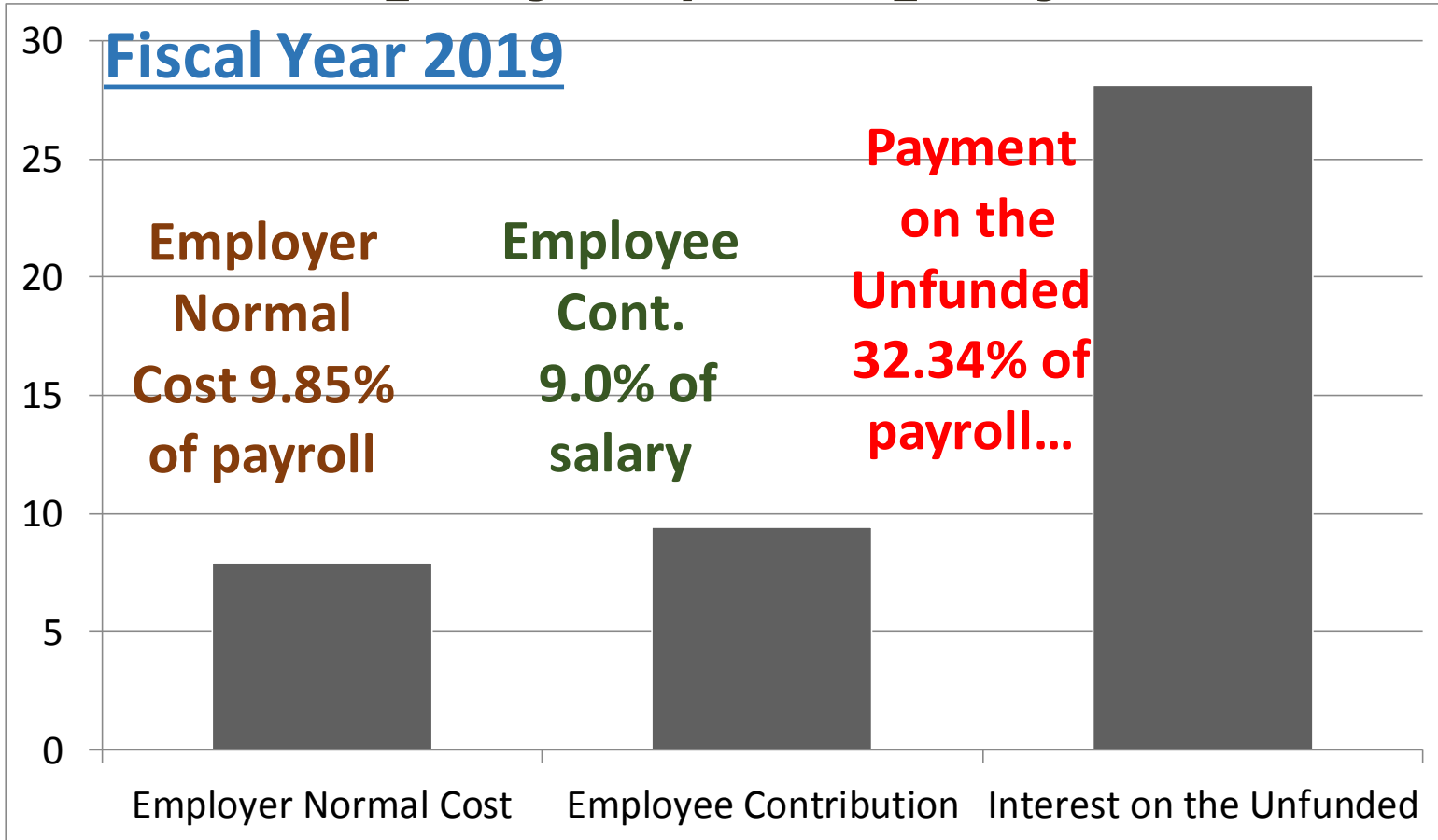


Other Legislation

- **Federal Contribution Rate** – HB 656, signed into law, changes the rate to employer normal cost – 10.10% in FY 18 & 9.85% in FY 19
- **School District Report Card** – SB 865 will require school districts to report TRS normal cost amount for its employees
- **Teacher Tax Credit** – SB 9 creates a new \$250 tax credit for instructional materials
- **ERO Not Extended** -- Three **Irrevocable** choices
 1. Cash – 20% IRS, 10% Early Withdrawal
 2. Rollover to non-TRS retirement plan – 401K, 403b, IRA, etc.
 3. Default -- Leave with TRS but no interest

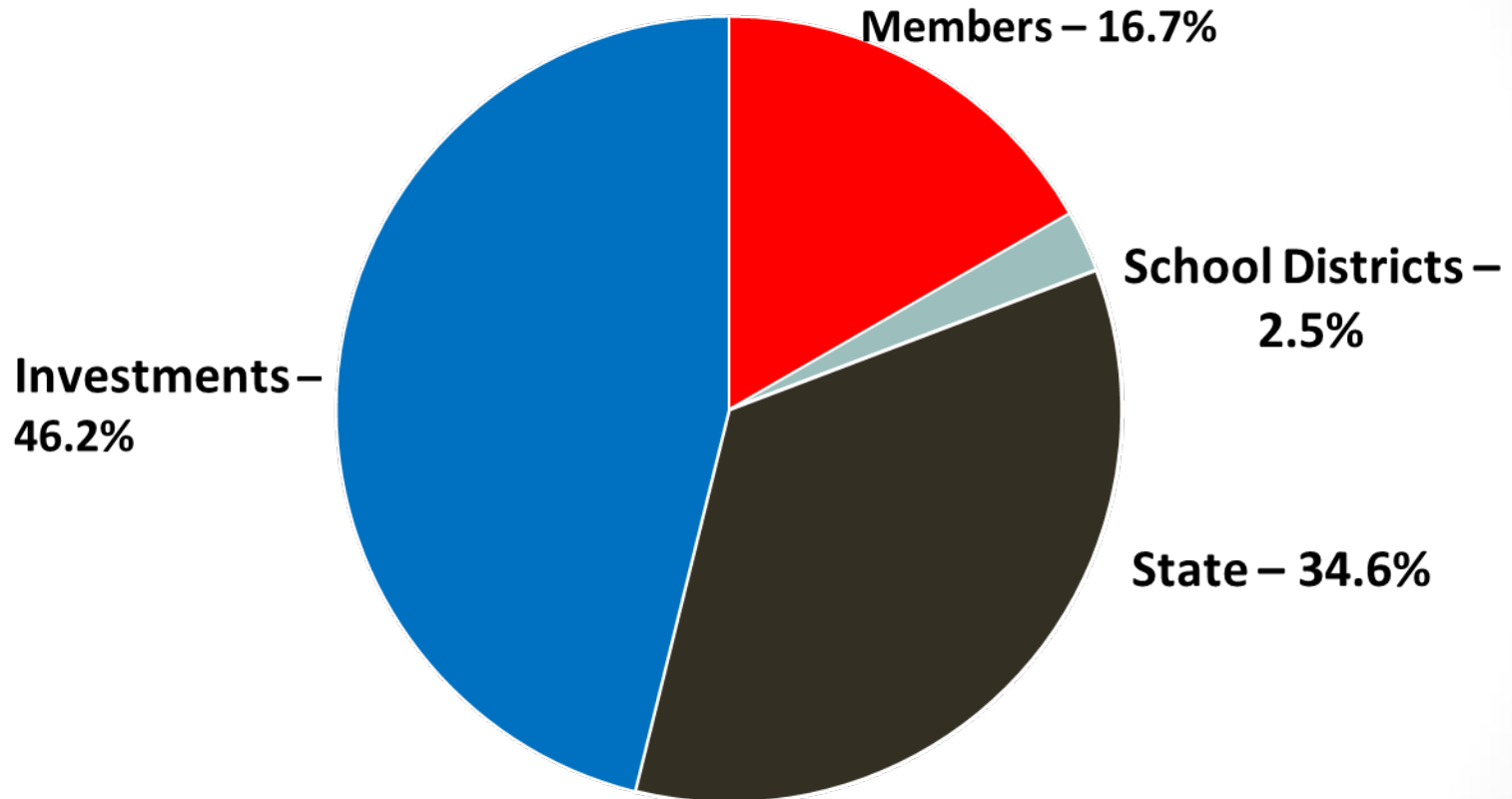


Shared Costs – Employer/Employee





TRS Revenues



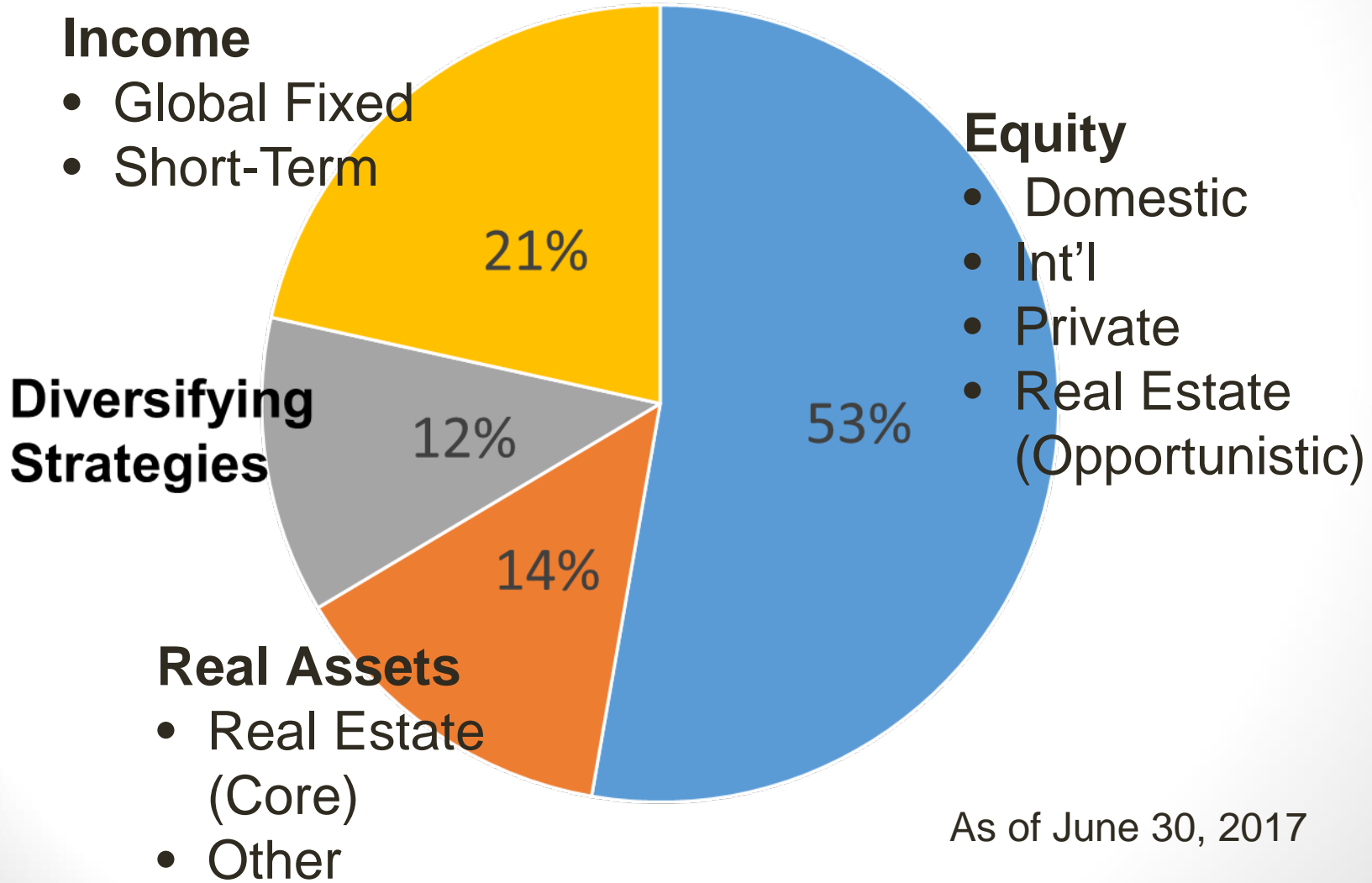
**Twenty-year composite of sources of total income
from FY 1998 to FY 2017**

* Excludes POBs



TRS Investments

\$48.8 Billion

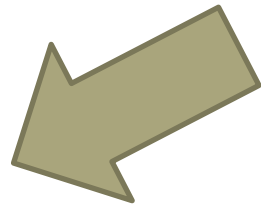


As of June 30, 2017



Investment Results, FY 2015

Period Ending June 30, 2015



- One year: 4.6 %
 - Benchmark: 4.6%
- Three years: 11.9%
 - Benchmark: 11%

- Five years: 12 %
 - Benchmark: 11.2%
- Ten years: 7.2%
 - Benchmark: 6.8%

Market value of assets:
\$46 billion

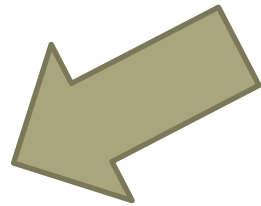
* *Gross of Fees*

Long-term performance remains strong and is more important than short term results.



Investment Results, FY 2016

Period Ending June 30, 2016



- One year: 0.7 %
 - Benchmark: 2.4%
- Three years: 7.5%
 - Benchmark: 7.6%

- Five years: 7.4%
 - Benchmark: 7.5%
- Ten years: 6.0%
 - Benchmark: 5.9%

Market value of assets:
\$44.7 billion

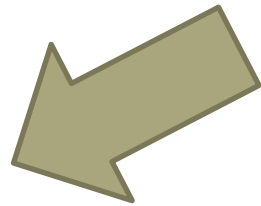
* *Gross of Fees*

Long-term performance remains strong and is more important than short term results.



Investment Results, FY 2017

Period Ending June 30, 2017



- One year: 12.6%
 - Benchmark: 11.4%
- Three years: 5.3%
 - Benchmark: 6.1%

- Five years: 9.2%
 - Benchmark: 9.3%
- Ten years: 4.8%
 - Benchmark: 5.3%

Market value of assets:
\$48.8 billion

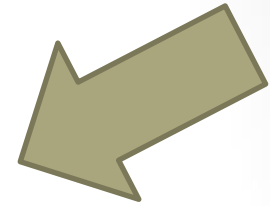
** Net of Fees*

Long-term performance remains strong and is more important than short term results.



Investment Results*

Period Ending December 31, 2017



- **FYTD:** **6.43%**
- **CYTD:** **14.49%**
- **3 year:** **7.58%**
- **5 year:** **8.97%**
- **10 year:** **5.32%**

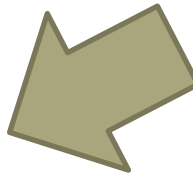
Total Assets: \$51.27 billion

***Gross of Fees**



TRS Investments

TRS Investments * are On Target



• **30-year Return +8.57%**

- 2017 Return +12.6
- 2016 Return +0.1%
- 2015 Return +4.0%
- 2014 Return +17.4%
- 2013 Return +12.8%
- 2012 Return +0.76%
- 2011 Return +23.6%
- 2010 Return +12.9%
- 2009 Return **-22.7%**
- 2008 Return **- 5.0%**

* Net of Fees

The *actual* rate of return determines cost.

The *target* rate of return in the actuarial model determines who pays those costs:

- Too Low – Current taxpayers pay too much
- Too High – Future taxpayers pay too much

Source: TRS



TRIP Update

- 8 years of service to be eligible
- Operated by Illinois Department of Central Management Services
- Managed care plans (75% subsidy), PPO/Major Medical/Teachers' Choice plan (50% subsidy) & Medicare Advantage plans (75% subsidy)
- All plans contain a Prescription Drug Program
- Enrollment:
 1. When you apply for monthly pension benefits
 2. When you turn 65
 3. When coverage is terminated by former plan
 4. During Benefit Choice Period if never enrolled



TRIP Statistics Feb. 2018

Teachers Retirement Insurance Program

**Medicare Advantage
(TRAIL)**

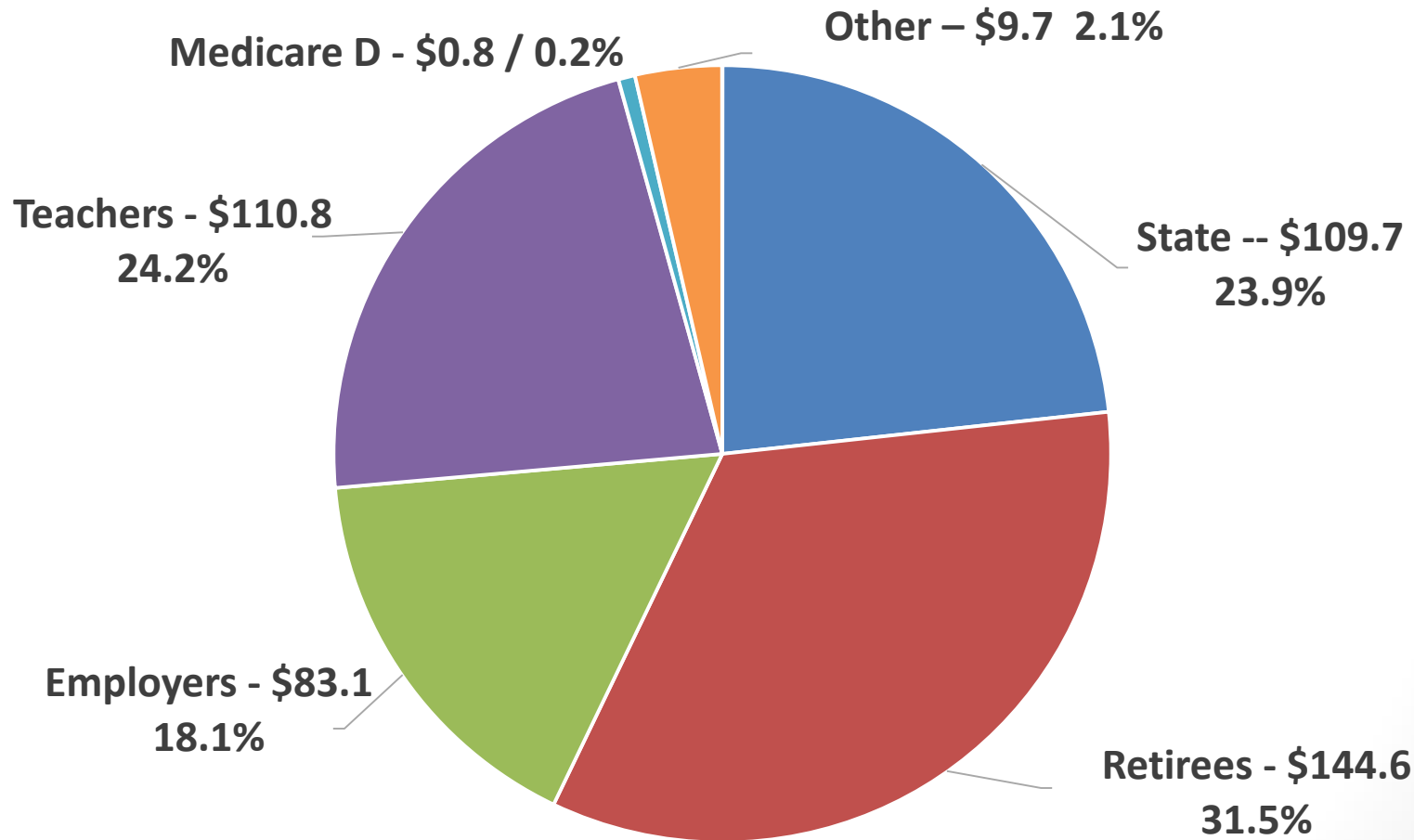
Non Medicare Advantage

- Total number of participants – 77,395*
(38,446 in FY 2000)
- Medicare Advantage Participants – 57,627*
- Non Medicare Adv. Participants -- 19,768*



TRIP Revenue FY 2017*

\$458.7 in Millions



*CMS Sept.. 2017

Let's Compare Some Benefits	Non - Medicare Advantage Eff.7/1/18	Medicare Advantage Eff. 1/1/18
PPO – Annual Medical Deductible	\$500	\$250
PPO – Annual Out of Pocket (Member)	\$1,200 in network \$4,400 out of network	\$1,000
PPO – Doctor's Visit (in network)	80% after deductible You pay 20%	80% after deductible You pay 20%
PPO – Member Cost* per month	\$611 – under 65 \$243 – over 65	\$58
HMO – Annual Medical Deductible	\$0	\$0
HMO – Annual Out of Pocket	\$3,000	\$3,000
HMO – Doctor's Visit	\$20 copay	\$20 copay
HMO – Member Cost* per month	\$259 – under 65 \$102 – over 65	Under \$50

* See cost chart for more information



Legislation Introduced



- **SB 3045/HB 3080/HB 5627** – Allows in a limited window, retirees to substitute teach up to 120 days or 600 hours (currently 100 days or 500 hours) in a school year without impacting their retirement status or benefits.
- **SB 3046** -- Allows TRS annuitants who have opted out of the Teachers Retirement Insurance Program to opt back in during the benefits choice period.
- **HB 751** -- Extends the sunset provision for retired teachers to return to teaching in subject shortage areas to June 30, 2019.



Constitutional Protection

- Two provisions in Illinois Constitution
 - Contracts Clause
 - Pension Right Clause: Article XIII, Section 5

*“Membership in any pension or retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which **shall not be diminished or impaired.**”*



Pension Lawsuits



MEGAPIXL

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- *Biedron v. Park Employees and Retirement System* – The Circuit court declares that the public Act 98-0662 agreed to by unions and the System is **unconstitutional**, 3/1/18
- *Kanerva v. Weems* -- Supreme Court ruled State's subsidization of health insurance for its retired employees is a benefit of membership in a State pension system, 7/3/14
- *Heaton v Quinn* – Supreme Court ruled PA 98-0599, reduction in COLA **unconstitutional**, 5/8/15



Heaton v. Quinn

Decision

- “members of pension plans . . . have a legally enforceable right to receive the benefits they have been promised.”
- “The protections afforded . . . attach once an individual first embarks upon employment . . . not when the employee ultimately retires”
- “Additional benefits may always be added . . . and the State may require additional employee contributions or **other consideration** in exchange.”



Pension Proposals on the Table

1. Voluntary plans for Tier 1

- 5% Participation DC option
- 70% Lump Sum Payments
- COLA to Tier 2 in return for \$ upfront

2. “Consideration” Model for all Tier 1

- Previous Model – Pensionable Salary Increases v. 3% Cola—SB 16
- Governor’s Proposal has not been drafted



TRS Contact Information

- Email -- members@trsil.org
- Email updates list -- members@trsil.org
- Member Services: **877-927-5877**
 - 7:30 a.m. to 4:30 p.m. – Mon., Wed., Fri.
 - 7:30 a.m. to 5:00 p.m. – Tues. and Thurs.
- Employer Services: **(888) 678-3675**
- Email – employers@trsil.org
- Web page – www.trsil.org
 - Online videos/Hot Topics audio, Newsletters, Bulletins, Booklets, Brochures, Forms, Twitter and Facebook



Summary

- TRS Trust Fund will continue to pay benefits, but be vigilant of future funding reductions
 - ✓ 8.57% TRS Investment Return over 30 years
 - ✓ As long as the 2% additional from Tier 2 members and Tier 3 school districts continues
 - ✓ As long as the State continues on the 1995 funding plan
- Stay Informed – TRS newsletter, web page etc. as well as other updates
- Paradigms are changing for both members and school districts
 - ✓ Changing for teachers
 - ✓ Changing for school districts



Contact Information

Rich Frankenfeld

Director of Outreach
Teachers' Retirement System
2815 West Washington
P.O. Box 19253
Springfield, IL 62794-9253
(217) 814-2073
rfrankenfeld@trsil.org

Web site – trsil.org