

TRS and TRIP Update IEA-R Meeting DeKalb September 24, 2013





Teachers' Retirement System

- Purpose
 - Created in 1939
 - Illinois Teachers outside Chicago
 - TRS provides its members with retirement, disability, and survivor benefits
- FY 2012 Membership
 - Active Members – 162,217
 - Inactive members – 99,052
 - Annuitants/Beneficiaries – 105,447
 - Oldest Retiree –109 (as of October 2012)
 - Average retiree annuity -- \$4,070 monthly (2/2013)



Median TRS Pension

\$48,842/year

<u>Benefit Range</u>	<u>Members</u>	<u>Percent</u>
• <\$50,000	48,858	50.50%
• \$50,000 - \$99,999	43,305	44.76%
• \$100,000 - \$149,999	4,244	4.39%
• \$150,000 - \$199,999	291	0.30%
• \$200,000 - \$249,999	40	0.04%
• \$250,000 >	7	0.01%

Source: February 2013 TRS query



Who Pays for TRS Benefits?

CHI Tch –
18.6% in
FY 10

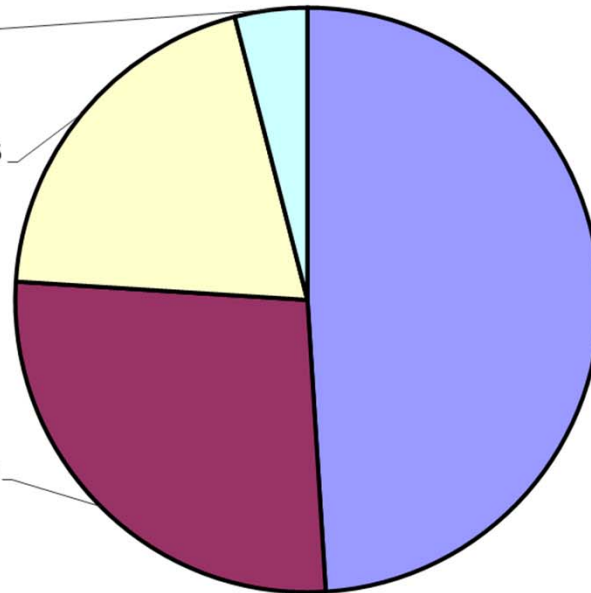
**School
Districts**
4%

Members
20%

CHI Tch
– 2.2% in
FY 10

State
27%

**Investment
Inc.**
49%



**Twenty-year composite of sources of total income
from FY 1993 to FY 2012.**

* Excludes POBs



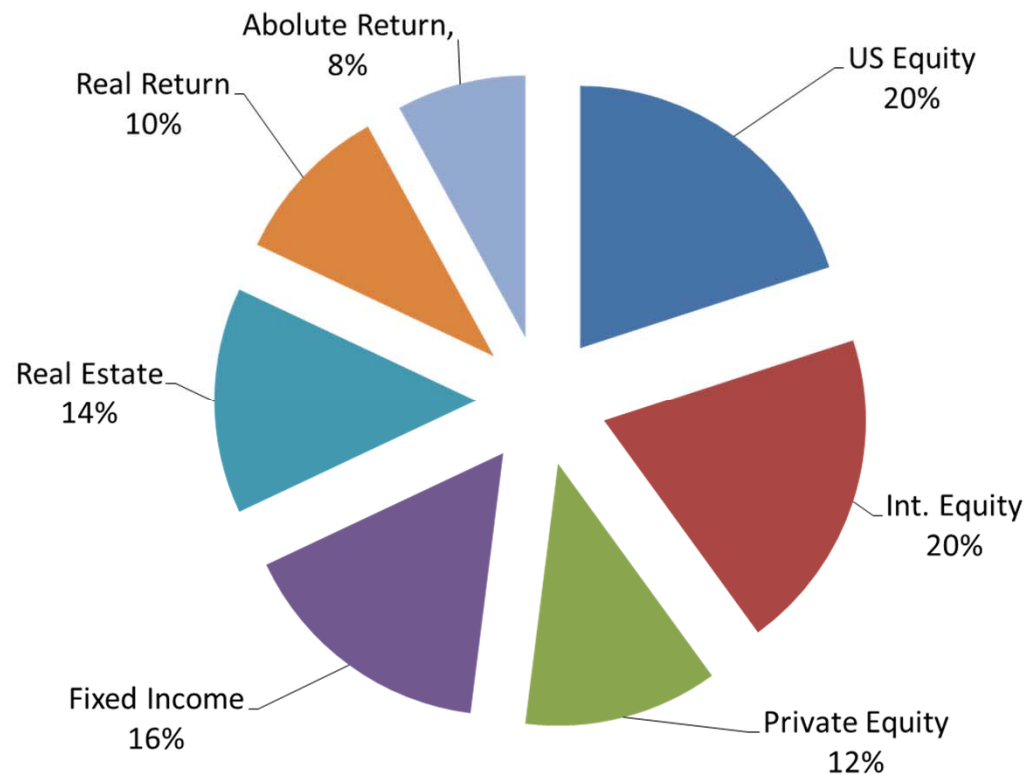
TRS Investments

39th Largest Pension Fund in the US

1. Portfolio managed by top quality asset managers and overseen by professional investment staff at TRS.
2. Diversified portfolio reduces risk.
3. Exhaustive studies of investment portfolio conducted every three years to anticipate market trends, calculate risk and return assumptions, and make adjustments if necessary.



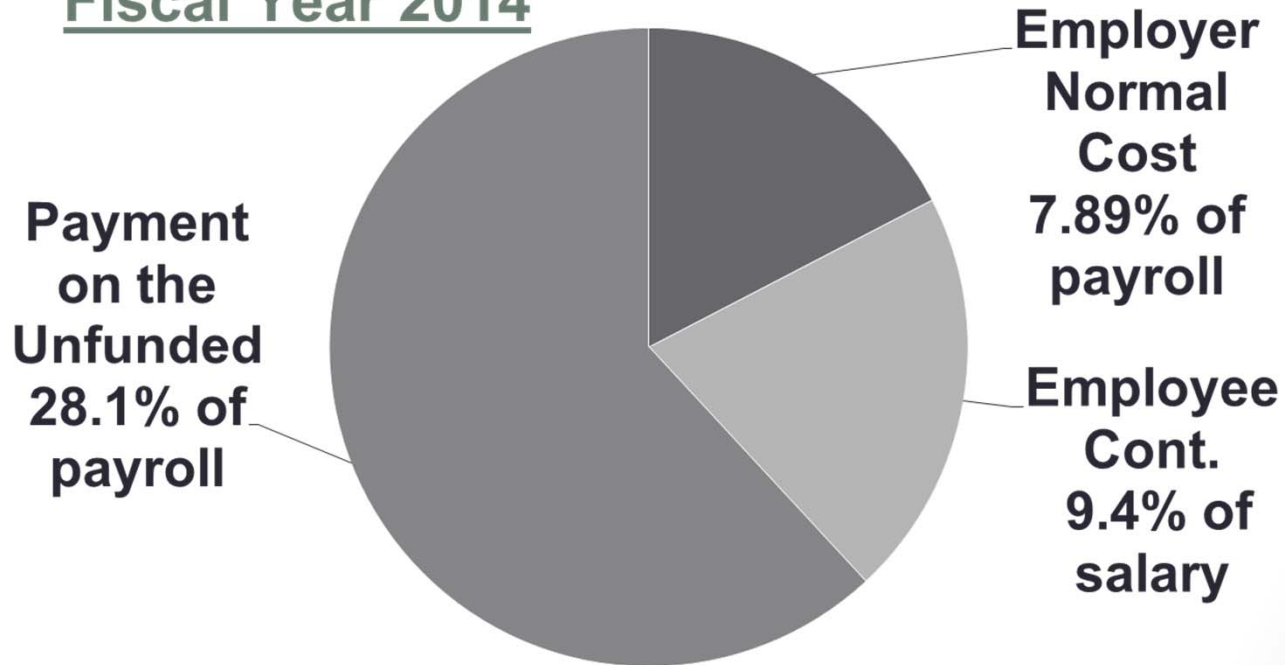
Asset Allocation Targets





Shared Costs – Employer/Employee

Fiscal Year 2014





Investment Results* – FY 2011

Period Ending June 30, 2011

- One year: 23.6 %
– Benchmark: 21.5%
- Three years: 2.6%
– Benchmark: 3.1%

- Five years: 4.1 %
– Benchmark: 4.4%
- Ten years: 6.0%
– Benchmark: 5.8%

Market value of assets:
\$37.7 billion

* *Net of Fees*

Long-term
performance remains
strong and will help
offset short-term
investment losses



Investment Results* – FY 2012

Period Ending June 30, 2012

- One year: 0.76 %
– Benchmark: 2.45%
- Three years: 12.03%
– Benchmark: 11.32%
- Five years: 0.67 %
– Benchmark: 1.50%
- Ten years: 6.43%
– Benchmark: 6.40%

Market value of assets:
\$36.3 billion

* *Net of Fees*

Long-term
performance remains
strong and will help
offset short-term
investment losses



Investment Results* – FY 2013

Preliminary

Period Ending June 30, 2013

- One year: 13.2 %
– Benchmark: 12.5%
- Three years: 12.6%
– Benchmark: 11.9%
- Five years: 4.7 %
– Benchmark: 4.8%
- Ten years: 7.7%
– Benchmark: 7.4%

Market value of assets:
\$39.4 billion

* *Net of Fees*

Long-term
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investment losses



TRS Investments

TRS Investments * are On Target

- **30-year Return +9.6%**
- 25-year Return +7.9%
- 20-year Return +7.7%
- 2012-year Return +0.8%
- 2011 Return +23.6%
- 2010 Return +12.9%
- 2009 Return **-22.7%**
- 2008 Return **- 5.0%**
- 2007 Return +19.2%
- 2006 Return +11.8%

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

* Net of Fees

Source: TRS; Callan Associates



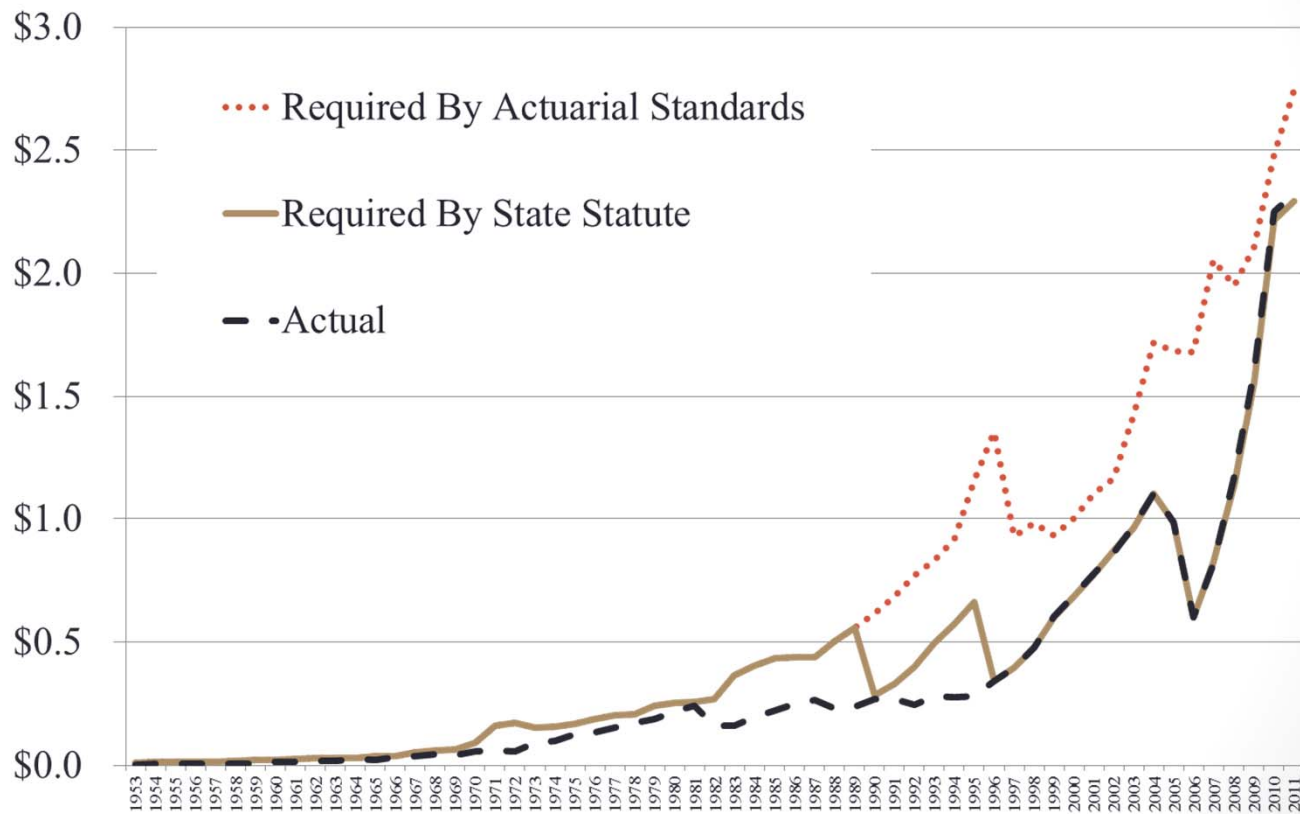
Pension Funding – 1995 Law

Public Act 88-0593

- Requires 90% of their total actuarial liabilities by Fiscal Year 2045
- However, phase-in ramp from FY 1996 through FY 2010
- Level Percent of Payroll from FY 2011 through FY 2045
- Funded through a Continuing Appropriation



TRS State Funding 1953 - 2011





Projected State Contributions

All State Retirement Systems Combined
 Projected Total State Contributions for FY 2014-FY 2018
 Including Debt Service and **Regular Contributions**
 Funding Projections Based on June 30, 2012 Actuarial Valuations

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
State Revenues *	\$35.4 B	35.9	36.7	37.6	38.4
Reg. Pension Contributions	6.8	7.0	7.2	7.5	7.9
	19%	19%	20%	20%	21%
Inc. Debt Service	8.5	8.8	8.6	9.1	9.4
	24%	25%	23%	24%	24%

*Assuming continuation of income tax



Health Insurance History

- **Prior to January 1, 1980** – Only local district plans for health insurance for their retired teachers.
- **January 1, 1980** – TRS authorized to develop statewide retired teachers health insurance program. 50% subsidy of premiums with “excess revenues” of TRS.
- **July 1, 1991** – Subsidy increased from 50% to 75%.
- **1993** – TRS management notifies TRS trustees and Governor of funding shortfall and change in federal law, prohibiting the spending of retirement investment income for any other
- **July 1, 1995** – TRIP program (statewide) authorized to begin July 1, 1996 with a 50% subsidy for most participants.



FY 2014 TRIP Basic Benefits

- 8 years of service to be eligible
- Operated by Illinois Department of Central Management Services
- Managed care plans (75% subsidy) and PPO/Major Medical/Teachers' Choice plan (50% subsidy)
- Prescription Drug program:
 - Managed Care (HMO) -- \$10/\$20/\$40
 - Teachers Choice (PPO) – 20% co-pay
\$7-\$50/ \$14-\$100/ \$28-\$150



Major Changes for FY 2014

- Fed. Health Care Reform – Additional Preventive Services – 100% covered, see the full list at www.Medicare.gov.
- Dependent Eligibility Verification Audits
- PPO no longer pay 100% coordination with Medicare, subject to plan deductibles, coinsurance, etc. – **Contact C.O.B. 800-442-1300, ext. 7007**
- Possible New plan for those on Medicare, effective Jan. 1, 2014 (PA 98-0019)



State-sponsored Medicare Plan

- Approved by General Assembly -- PA 98-0019
- June 2013 – Bids requested
 - Medicare Advantage Plan, HMO
 - Medicare Advantage Plan, Nationwide PPO
 - Medicare Supplement
- August 2013 – TRIP Task Force Met
- October 1 – Selection of carriers/plans
- Mid-October – TRIP Task Force Reconvenes
- October/Nov. – CMS Explanation Meetings
- January 1, 2014 -- New plan(s) effective



TRIP Premiums – FY 2014

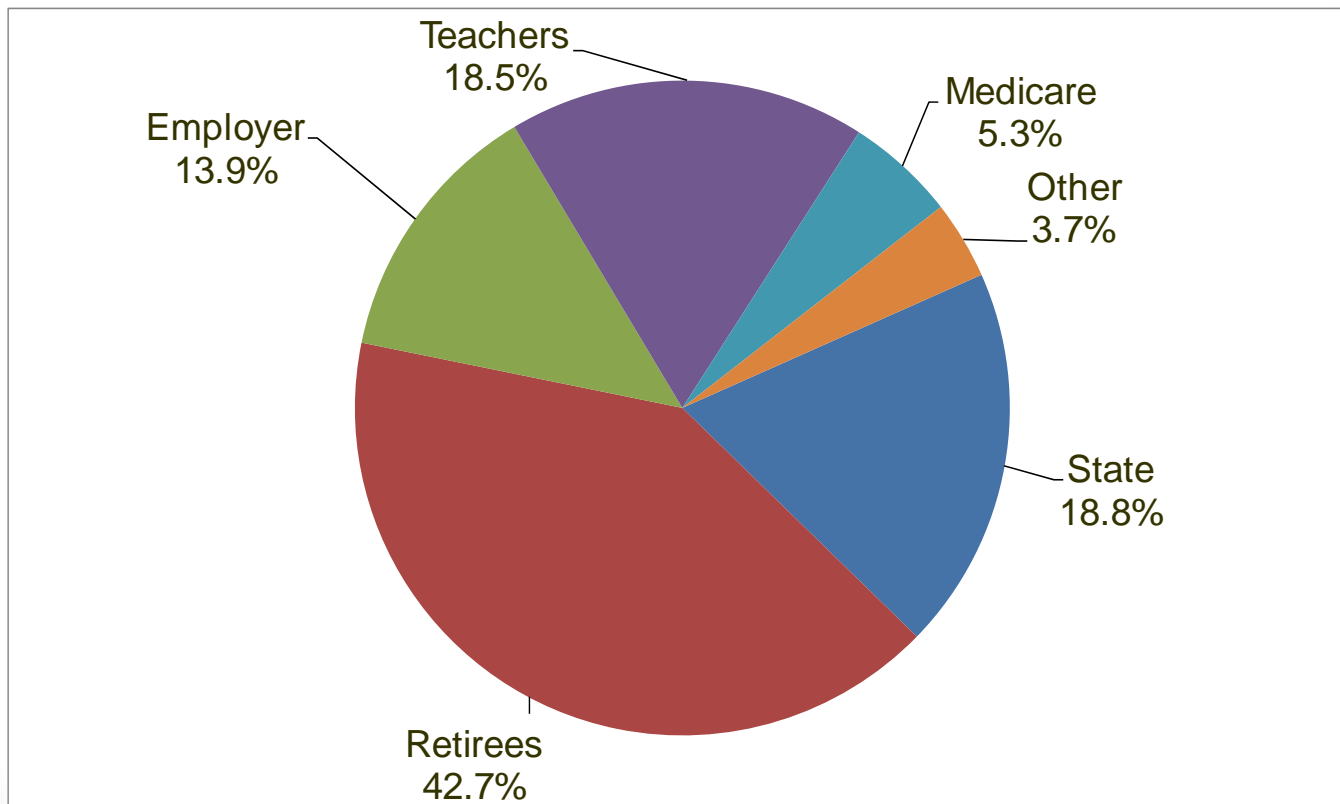
Member	26-64	Not Medicare-65	Medicare-65
Managed Care	203.00	276.58	80.23
PPO-Managed Care Available	478.71	719.96	208.87
PPO- No Managed Care Available	239.36	359.99	104.44
Dependent			
Managed Care	811.99	1,106.30	277.92
PPO-Managed Care Available	957.42	1,439.90	417.77
PPO-No Managed Care Available	957.42	1,439.90	313.33

* Note: There is also another category for under 26



TRIP Revenue FY 2013

\$475.2 M



Sources: Comptroller & TRS



TRIP Statistics June 30, 2013

- Total number of participants – 73,249 (38,446 in FY 00)
- Number of retirees – 62,798
- Number of dependents – 10,451
- Managed Care participants – 45.8%
- Major Medical participants – 54.2%
- Medicare Eligible – 49,606 (94.9%)
- Not Medicare (65+) – 2,687 (5.1%)
- 26-64 Eligible – 20,955



HMO Carriers/Plans – FY 2014

1. Blue Cross HMO – 800/868-9520

www.bcbsil.com/stateofillinois

- Blue Advantage (CI)
- HMO Illinois (BY)

2. Health Alliance – 800/851-3379

[www.healthalliance.org/state of illinois](http://www.healthalliance.org/state_of_illinois)

- Health Alliance HMO (AH)

3. Coventry HMO (AS) – 800/431-1211

www.chcillinois.com



OAP/PPO Carriers/Plans FY 2014

4. Open Access Plans / HMO – Statewide

- **HealthLink (CF):** 800/624-2356
www.healthlink.com/stateofillinois,
- **Coventry (CH):** 800/431-1211
www.chcillinois.com

- ## 5. PPO – Teachers' Choice (CIGNA) - 800/962-0051
- www.cigna.com/stateofil



FY 14 Area Managed Care Plans

DeKalb County



- HMO Illinois
 - BlueAdvantage HMO
 - Health Alliance HMO
 - Coventry HMO
 - HealthLink OAP
 - Coventry OAP
-
- Other Counties – see the TRIP Summary brochure or the CMS web site.



TRS Foundation of Pension Reform

1. Replace Illinois “political science math” with **standard actuarial** math
2. Enact a permanent pension funding **guarantee** into state law
3. Fix the inequities of **Tier II**
4. Keep any solution **simple**
5. Any pension changes must adhere to the Illinois **Constitution’s Pension Protection Clause**



Possible Changes

- SB 2404 – Coalition Proposal
 - Passed the Senate, not called in the House
- SB 1, HA #1 – House Proposal
 - Passed the House, failed twice in the Senate
- SB 2592 – Universities' Proposal
 - Not called in either chamber
- Conference Committee – Press Reports
 - *State Journal Register/AP reports, August 23*



Retiree Proposals

SB 2404

- Choice A
 - No change to 3% compounded COLA except that COLA is subject to a staggered two-year freeze
 - Receive retiree healthcare access
- Choice B
 - No change to 3% compounded COLA
 - No retiree healthcare access



Retiree Proposals

SB 1, HA #1

- Tier 1 Members COLA (similar HB 1165) --
 - 3% of the lesser of annuity or \$1,000 multiplied by years of service
 - Doesn't begin until at least age 67 or 5 years after retirement, whichever is earlier

SB 2591 and Conference Committee PR

- COLA provision -- One-half of the annual percentage increase in the Consumer Price Index (CPI), No limit like current law



SB 2404 – Active Teachers

- Actives Choice A
 - Agree to 3% simple COLA except that COLA is delayed by two-years
 - Receive retiree healthcare access
 - All future salary increases as pensionable
 - Optional enrollment in optional cash balance plan: Member Contribution (2%), Employer Contribution, Investment Earnings Contribution to provide a Guaranteed Lifetime Annuity
 - No increase in employee contributions



SB 2404 – Active Teachers

- Actives Choice B
 - No change to 3% compounded COLA
 - No retiree healthcare access
 - No increase in employee contributions
 - All future salary increases as NON-pensionable
 - Not eligible for the Optional cash balance plan



SB 2404 – Active Teachers

- Actives Choice C
 - No change to 3% compounded COLA except a 3-year delay in COLA
 - Access to retiree healthcare
 - All future salary increases as pensionable
 - Additional 2% in employee contributions over two years
 - Not eligible for the Optional cash balance plan



SB 1, HA #1– Active Teachers

- Earnings Limitation for Active members – \$109,971 (index=1/2 cost of CPI-U) or at current salary, contract exemption (similar HB 1154)
- Tier 1 Member Contribution – 2% increase over two years
- Tier 1 Members-Increase in the retirement age (HB 1166)
 - 45 and older: Current - retire at 55 with 20 years of service and receive a reduced benefit, or at 60 and receive a full benefit
 - 40 to 44 years old: Retire at 56 (reduced) and 61(full)
 - 35 to 39 years old: Retire at 58 (reduced) and 63 (full)
 - 34 and younger: Retire at 60 (reduced) and 65 (full)



Active Teachers

SB 2591

- Gradual increase in employee contributions – 2%
- Tier 3 -- Hybrid pension plan

Conference Committee PR

- Reduction in the interest rate for computing actuarial pension formula
- Reduction in employee contributions – 1%



Other Issues

- Funding
 - Current Funding Plan – 90% / 50 years
 - Actuarial Plan – 100% / 30 years
 - Extends POB Authority
 - Funding Guarantee language
- Tier 2 Task Force established
- CB Limitations
- No new Non-governmental participation
- Cost Shift to local school districts
- New employees – no sick day service credit



Revenue Enhancements

Coalition Proposal -- options

- Graduated Income Tax - \$2.5 B
- Increase Cigarette Tax - \$700 M
- Broaden state sales tax to consumer services - \$550 M
- Other revenue enhancements as proposed by the unions - \$1.6 B

Other proposals

- Extend the Illinois Income Tax to retirement income
- Extend the current temporary income tax





What Happens Now??



- No plan has passed in both chambers
- Conference Committee was established
- Veto Session begins October 22
- Probably be appealed to the court
- Plaintiffs would probably asked for a “hold” – keep current benefits
- Illinois Supreme Court decides what is constitutional



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.**”*



Constitutional Protection

- Mrs. Kinney, 1970 Constitutional Convention

Co-sponsor of Amendment:

“Benefits not being diminished really refers to this situation: If a police officer accepted employment under a provision where he was entitled to retire at 2/3rds of his salary after 20 years of service, that could not subsequently be changed to say he was entitled to only 1/3rd of his salary after 30 years of service or perhaps nothing. That is the thrust of the word “diminished””



Constitutional Protection

- Henry Green, 1970 Constitutional Convention another Co-sponsor of Amendment:

The purpose of this provision was to create “*a contractual relationship between the employer and the employee; and secondly mandates the General Assembly not to impair or diminish these rights*”.

- Other delegates offered proposals at the Constitutional Convention to reduce the impact of the original amendment – **ALL FAILED!**



Constitutional Protection

- Further, Mrs. Kinney added:

“As I said before, it is also not intended to preclude greater benefits for beneficiaries, pensioners, or their dependents at some future time.”

- Since 1972, **seven** state court cases upheld the non-diminishment clause. No judge cited or supported the current and erroneous “earned benefit” theory -

www.ilga.gov/commission/cgfa2006/upload/2008%20january%20handbook%20of%20illinois%20pension%20case%20law.pdf



Contact TRS Information

- Email -- members@trs.illinois.gov
- Email updates list -- members@trs.illinois.gov
- Member Services: **(800) 877-7896**
 - 7:30 a.m. to 4:30 p.m. – Mon., Wed., Fri.
 - 7:30 a.m. to 5:00 p.m. – Tues. and Thurs.
- Web page
 - Online videos/Hot Topics audio
 - Newsletters and Bulletins
 - Booklets, Brochures and Forms



Evaluation Form



Please complete the evaluation form located at the end of this packet.



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