

Pension Environment ROE Meeting East Peoria October 15, 2018





Large Group Meetings

August – October



- For members planning to retire within the next 5 years or so
- School/Date/Locations – **Check the TRS Web Site for dates and locations.**
All times 4:30 pm

“Big Picture”



- TRS Demographics
- General Assembly Action
- New Tier 3 program
- TRS Investment
- Health 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 2)
- Inactive members – 131,812
- Annuitants/Beneficiaries – 120,151
- Oldest Retiree – 106 (as of November 2017)
- Oldest Active(Teacher) – 80 (as of November 2017)
- Calls Taken (FY 2018) -- 156,707
- Personal Visits (FY 2018) -- 5,791



Legislative Update





General Assembly Action

- **Fiscal 2019 State Budget – approved (HB 109 & HB 3342)**
- **K-12 Budget approved including State contributions to TRS and TRIP**
 - ✓ TRS must recalculate FY 2019 appropriation in June of 2019 based on any savings
- **6% salary threshold reduced to 3%**
 - ✓ Grandfathered before June 4, 2018
 - ✓ TRS will request CBA/Contracts
 - ✓ SB 3622/HB 5937 Introduced to repeal
- **Optional Pension Buyout for eligible Inactive members**
 - ✓ Available until June 30, 2021 (irrevocable)
 - ✓ 60% of lifetime value (APV) paid to a qualified tax shelter
- **Tier 1 Accelerated Pension Payment**



Accelerated Pension Benefit

- Only Tier 1 members are eligible
- Not available yet – Working with IT
- Optional Buy-out of 3% COLA
- Decision is irreversible and final
- Available until June 30, 2021
- Trade your 3% compounded COLA
- For 1.5% simple COLA which begins at age 67
- Plus a lump sum 70% of difference in Actuarial Present Value
- Lump sum must be rolled over to a DC plan (CANNOT receive it in Cash)
- Paid from a bond sale not from TRS Trust Fund
- If one returns to active service, still a 1.5% COLA at age 67





Accelerated Pension Benefit Examples



60 year old, 33 years of service, \$50,000 FAS,
\$36,300 Pension

- Rollover -- \$102,000
- Actuarial Loss -- \$43,300

60 year old, 33 years of service, \$80,000 FAS,
\$58,000 Pension

- Rollover -- \$162,000
- Actuarial Loss -- \$64,500

Gubernatorial Action



- **HB 5627** – Allows until June 30, 2020, 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. **SIGNED**
- **HB 751** -- Extends the sunset provision for retired teachers to return to teaching in subject shortage areas to June 30, 2019. **SIGNED**




Gubernatorial Action



- **SB 3046** -- Allows TRS annuitants who have opted out of the Teachers Retirement Insurance Program (TRIP/TRAIL) to opt back in during the benefits choice period. **SIGNED**
- **HB 5137**-- TRS required to create an optional supplemental DC plan. **SIGNED**
- **SB 2892** – Gradually increases Minimum Teacher Salary to \$40,000 - **VETOED**



Benefits Update

A graphic consisting of a purple textured background with a horizontal tear. A piece of the purple paper is folded over on the left side, creating a three-dimensional effect. The text 'Benefits of membership' is printed in a black, monospaced font on the white surface revealed by the tear.

Benefits of membership



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



Contributions

Major Differences	Tier 2	Tier 3
DB – Employee Contribution	9% Fully Pay Employee & Employer Share	Normal Cost WITH 6.2% Cap Fully Pay Employee & Employer Share
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%



Benefits Comparison

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	Average of the highest 8 consecutive years	Average of the highest consecutive 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 year of creditable service	1.25%

Paradigms Are Changing

For Members –

More understanding and more control/planning for their retirement.

- **Tier 1 & Tier 2 –**
Bring More

- **Tier 3 –**
Choose investment option wisely.





Paradigms Are Changing

For School Districts



- Monthly Reporting
- Cost Shifts to Local Districts
 - Governor's salary of \$177,412—now law
 - 2% of Tier 3 payroll in FY 2021
 - 6% threshold down to 3%



Financial Update





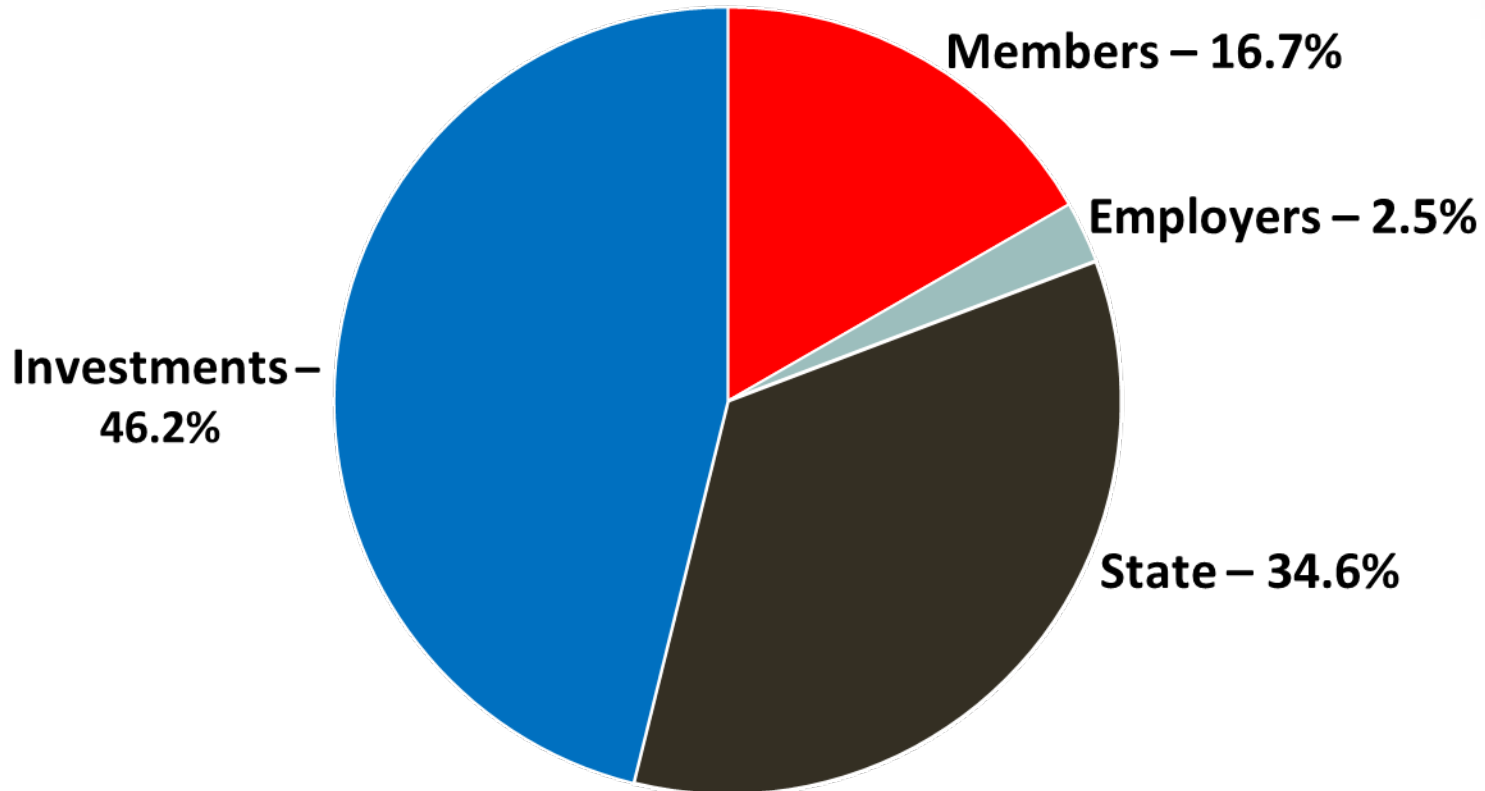
“Normal Cost” of Benefits – 18.85% FY2019

- Member Cost – 9.0% of creditable earnings
 - ✓ Deducted from member’s payroll
 - ✓ Some employers pay all or a portion of member’s contribution
- Employer Cost – 9.85% of creditable earnings
 - ✓ Includes 0.58% cost to school district
 - ✓ Remainder of Employer Cost is the responsibility of the State

Currently, 32.34% of TRS payroll represents interest on previously underfunded State contributions.



TRS Revenues



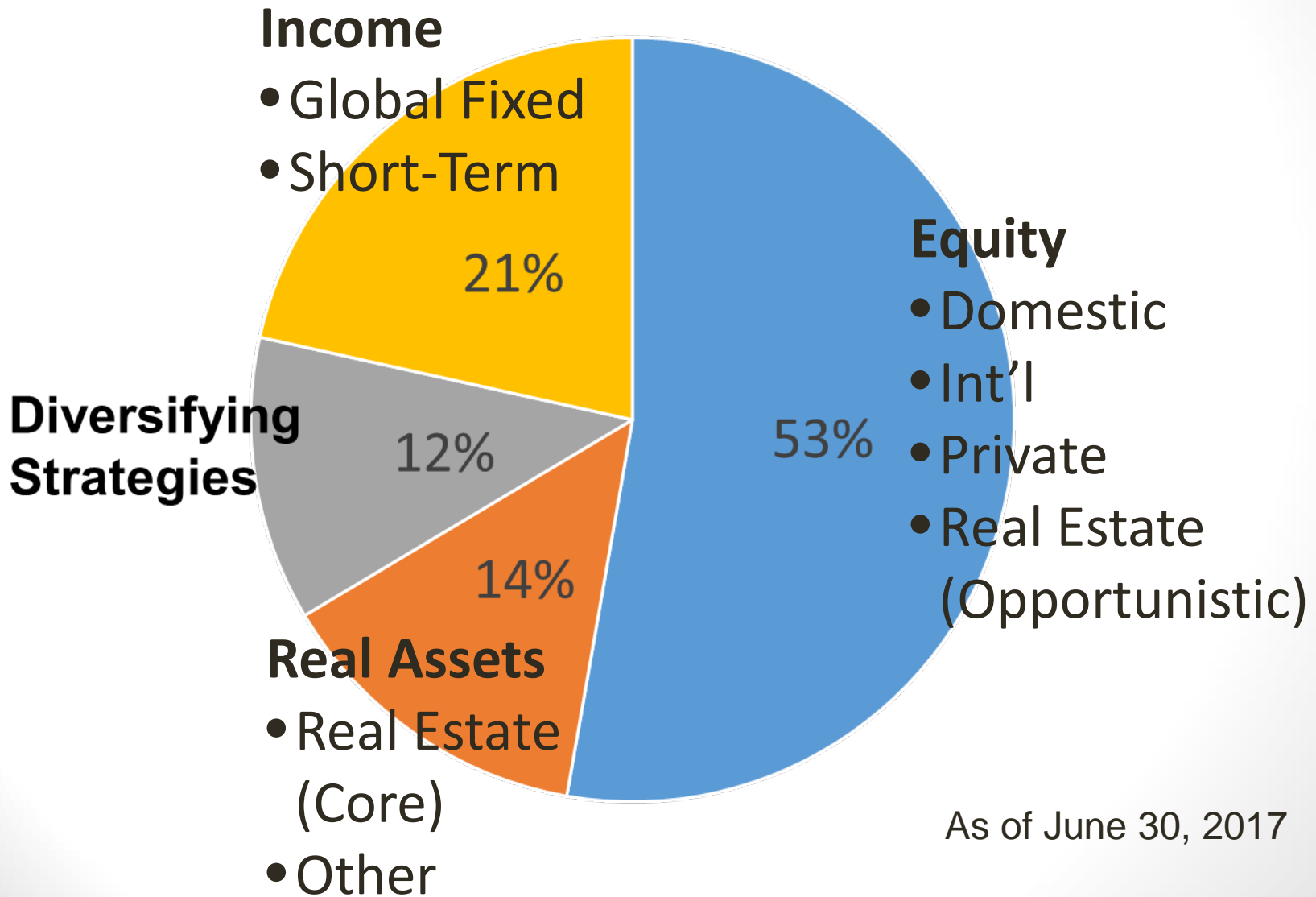
**Twenty-year composite of sources
of total income from FY 1998 to FY 2017**

* Excludes POBs



TRS Investments

\$48.8 Billion





Investment Results

Fiscal Year	Investment Return Gross of Fees	Benchmark	Market Value
FY 2015	4.6%	4.6%	\$46.0 Billion
FY 2016	0.7%	2.4%	\$44.7 Billion
FY 2017	12.6%	11.4%	\$48.8 Billion
FY 2018	9.17%	8.19%	\$51.5 Billion
30-year Return	8.4% net of fees		

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



A Few More Numbers



- FY 2018 Benefit Payments
\$6.6 B (estimate)
- FY 2018 Actuarial State Funding
\$7.0 B
- FY 2018 Statutory State Funding
\$4.1 B
 - Funding Ratio – 40%
- FY 2045 Statutory State Funding
\$10.6 B
 - Funding Ratio – 90%



Simon Institute Poll

February 2018

Revenue Enhancers – 10%

- Expand Gaming – 49% v 46%
- Tax Pensions– 22% v 74%
- Tax Pensions (above \$100 K) – 60% v 32%
- Millionaire Tax – 76% v 21%
- Expands Sales – 39% v 58%
- Graduated Income Tax – 72% v 24%

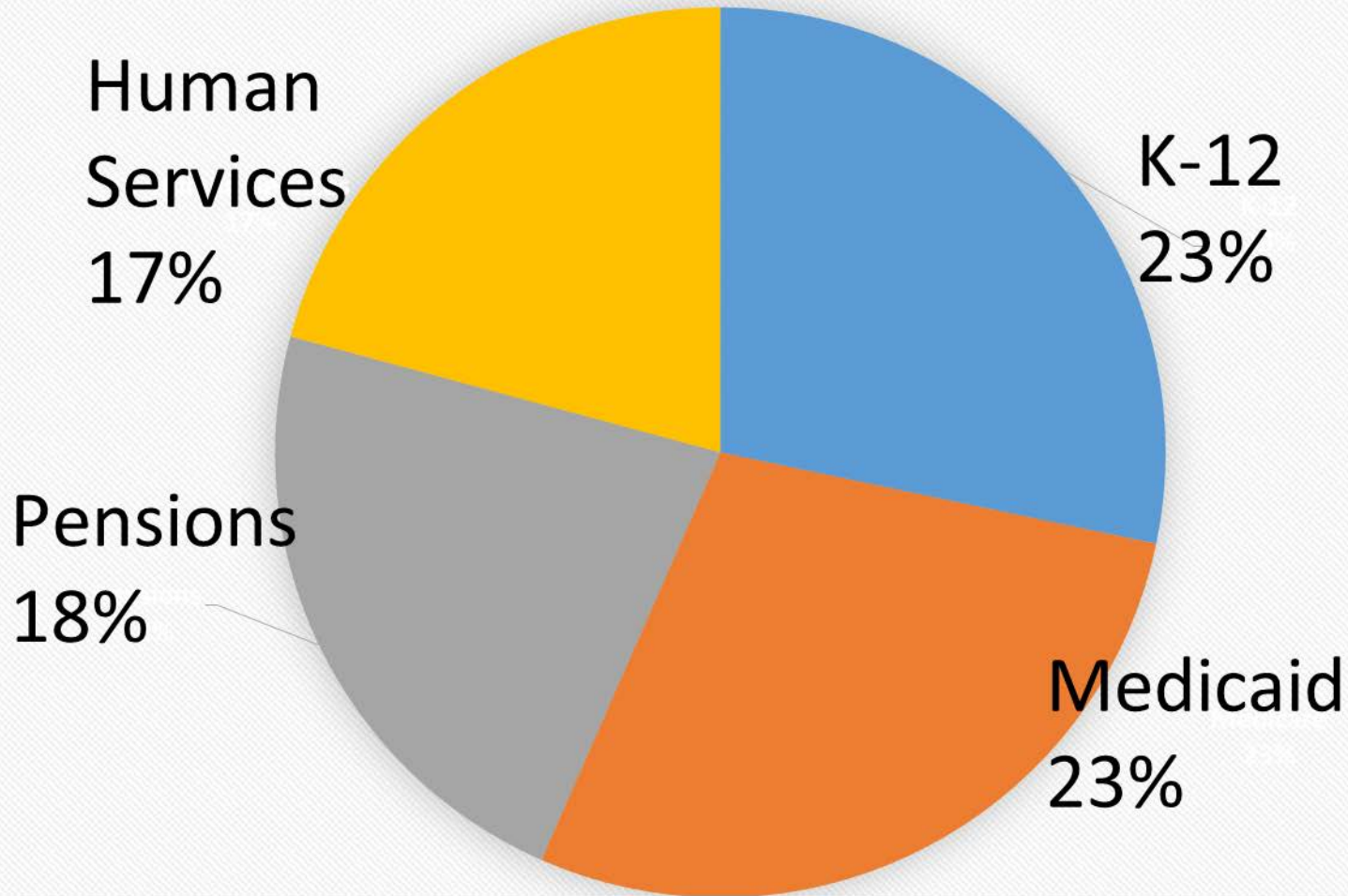
Cuts to State Programs – 51%

- K-12 -- 6%
- Higher education -- 29%
- Health and human services -- 17%
- All of the above – 3%

Both – 28%



80% of the 2018 State Budget





TRIP Update





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:
 - When you apply for monthly pension benefits
 - When you turn 65
 - When coverage is terminated by former plan
 - During Benefit Choice Period if never enrolled



TRIP

Teachers Retirement Insurance Program

Medicare Advantage (TRAIL)

57,627*

- Preferred Provider Organization (**PPO**)
- Health Maintenance Organization (**HMO**)

Non Medicare Advantage

19,768*

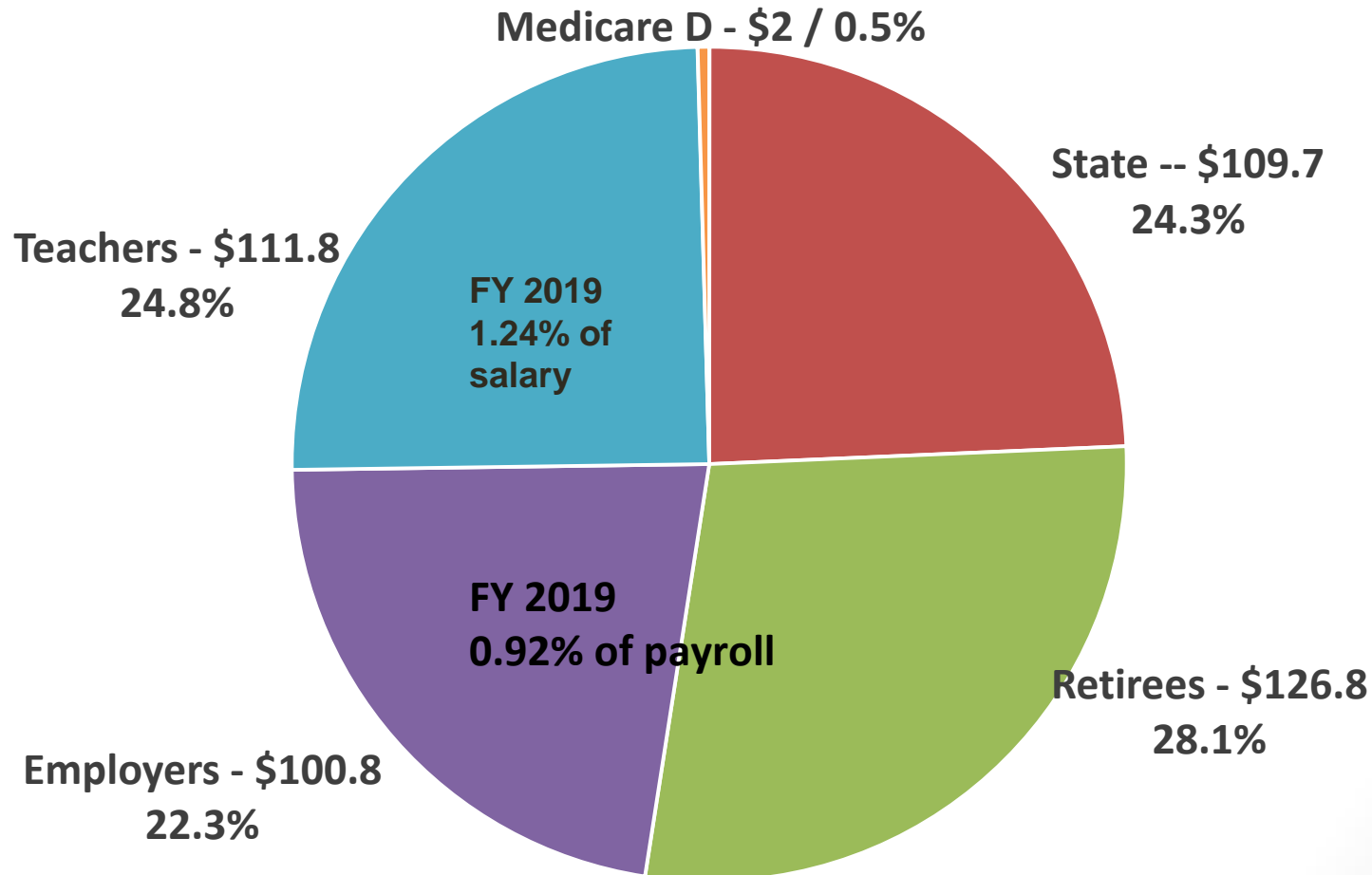
- PPO (Teachers Choice)
- HMO
- Open Access Plan

* CMS, 2-1-18



TRIP Revenue FY 2017*

\$451.1 in Millions



*COGFA/CMS

Let's Compare Some Benefits	Non - Medicare Advantage Eff. 7/1/18	Medicare Advantage Eff. 1/1/19
PPO – Annual Medical Deductible	\$500	\$250
PPO – Annual Out of Pocket (Member)	\$1,200 in network \$4,400 out of network	\$1,100
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	\$53
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



Status Update





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



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



- *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 the 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 is **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.”



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.

- ✓ 8.4% TRS Investment Return over 30 years
- ✓ As long as the 2% additional from Tier 2 members and Tier 3 employers continues
- ✓ As long as the State continues on at least 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 employers



Appendix

1. End of Career Salary Increases Over 3% Require Employer Contribution – Employer Bulletin 18-16
https://www.trsil.org/sites/default/files/documents/1816_0.pdf
2. One-Year Retiree Return to Work Program – Employer Bulletin 19-06
https://www.trsil.org/sites/default/files/documents/1906_0.pdf
3. Social Security Offset, WEP
<https://www.ssa.gov/pubs/EN-05-10045.pdf>
4. Social Security Offset, GPO
<https://www.ssa.gov/pubs/EN-05-10007.pdf>



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