TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS
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January 14, 2019

The Honorable J.B. Pritzker, Governor
Senator Bill Brady, Senate Minority Leader
Senator John Cullerton, President of the Senate
Representative Jim Durkin, House Minority Leader
Representative Michael Madigan, Speaker of the House
Mr. Gene Kalwarski, Cheiron, State Actuary
Mr. William R. Hallmark, Cheiron, State Actuary

Re: Final Certification of TRS FY 2020 State Funding Requirement

Gentlemen:

At its meeting on December 13, 2018, the TRS board of trustees provided final certification to the FY 2020 state contribution requirements and results of the June 30, 2018 actuarial valuation.

The contribution requirements and actuarial valuation results were submitted to the state actuary (Cheiron) for review, in accordance with Public Act 97-0694. The contribution requirements and the report were accepted by the state actuary. For the seventh consecutive year, Cheiron emphasizes its concern about state pension financing. It recommends that the statutory "funding method be changed to fully fund plan benefits and discontinue the systematic underfunding of TRS." (*State Actuary's Report, December 2018, page 22*)

TRS certifies two state funding requirements. One is based on Illinois statute and the other is based on the funding policy adopted by the TRS board. The board's policy, described below, is based on the TRS actuary's recommended methodology for determining contributions to a severely underfunded plan.

The certified contributions for FY 2020 both include $500,000 in minimum benefit reimbursements and are detailed in attached Exhibit A:

- **Based on Illinois statute: $4,813,577,696**
- **Based on TRS Board Actuarial Funding Policy: $7,878,670,709**

Assumptions. The certifications and the June 30, 2018 actuarial valuation report include assumptions about the impact of Public Act 100-0587, including the impact on the FY 2019 state contribution when TRS recertifies it in June 2019. The act lowers the cap on salary increases used in final average salary calculations from 6 percent to 3 percent and allows members to receive cash payments through FY 2021 in exchange for some of their future benefits (buyouts). The buyout assumptions are those used by the General Assembly when it considered the legislation.

The recertified FY 2019 state contribution is to be based on the system's actual experience with the lower salary cap and buyout provisions. It may be different than the $112 million reduction in FY 2019 that the actuaries assumed.

Board Funding Policy. The TRS board's funding policy was adopted in 2015 and makes further refinements in its 2012 policy. The board's policy is based on an actuarial cost method (entry age normal) that assigns costs evenly over a teacher's career instead of backloading them like the statutory cost method (projected unit credit). The board policy funds all of the benefits earned rather than 90 percent of them, and it amortizes the unfunded liability over a closed 20-year period, with subsequent increases in the unfunded liability amortized over subsequent 20-year periods. In contrast, the amortization period required by Illinois statute is a closed 50-year period.

Under the board's policy, state contributions are not limited by the state's debt service on the 2003 pension obligation bonds, and changes in actuarial assumptions are not retroactively phased in. The TRS actuary, Segal Consulting, estimates that compared to contributions required under the statutory method, the state would save about $42 billion in financing costs for the period FY 2020-FY 2045 under the TRS board's funding policy.

Please contact TRS Director of Research Kathleen Farney (kfarney@trsil.org) at 217.814.2067 with any questions about our certifications.

Sincerely,

Richard W. Ingram
Executive Director

Attachments:
- TRS board resolution from December 2018 meeting and Exhibit A showing calculations
- TRS board resolution, March 2012, amended April 2012 (funding policy)
- June 30, 2018 Final Actuarial Valuation, prepared by Segal Consulting (January 2019)

FINAL CERTIFICATION
FY 2020 STATE CONTRIBUTION TO TRS (TWO AMOUNTS)

I certify that the following resolution was adopted during the Regular Board meeting of the TRS Board of Trustees on December 13, 2018:

Resolved: **To accept the results of the June 30, 2018 actuarial valuation prepared by Segal Consulting and to provide final certification to the following:**

- Based on Illinois statute, an FY 2020 state funding amount of $4,813,577,696, including $500,000 for minimum retirement benefits;
- Based on the board's funding policy, an FY 2020 state funding amount of $7,878,670,709, including $500,000 for minimum retirement benefits;
- An FY 2020 total normal cost rate of 19.66 percent of pay, a rate that includes a total employer normal cost rate of 10.66 percent and a member contribution rate of 9.00 percent;
- An FY 2020 federal contribution rate of 10.66 percent of pay, a rate that is identical to the total employer normal cost rate.

The June 30, 2018 actuarial valuation report includes the changes in actuarial assumptions adopted by the board in August 2018 and makes assumptions about the financial impact of Public Act 100-0587. Those assumptions would result in a $112 million reduction in the FY 2019 state contribution to TRS, but the actual change may be different when the amount is recertified by the board in June 2019.

The actuarial valuation report and these amounts and rates were submitted to and accepted by the state actuary.

Richard W. Ingram, Executive Director
January 14, 2019

Exhibit A

Summary of State Contributions under Illinois Pension Code and Board-Adopted Actuarial Funding Policy	Fiscal Year 2020
1. Based on Statutory Funding Plan	
Total State Contribution for fiscal year 2020:	
a. Benefit Trust Reserve*:	
i. 46.01% of membership payroll	$ 5,040,022,842
ii. Minus School Districts Contributions:	
(0.58% of membership payroll)	(63,536,585)
(3%/6% FAS cap increases)	(20,435,968)
(10.66% of membership payroll above the Governor's salary)	(3,113,849)
iii. Minus Federal Funds Contribution	
(10.66% of membership payroll from federal funds)	(23,355,172)
iv. Minus phase-in of the effect of assumption changes	(116,503,572)
v. State Contribution	$ 4,813,077,696
b. Guaranteed Minimum Annuity Reserve	500,000
c. Total State Contribution (current law)	$ 4,813,577,696
2. Based on Board-Adopted Actuarial Funding Policy**	
a. Benefit Trust Reserve*:	
i. Normal cost plus amortization	$ 7,988,612,283
ii. Minus School Districts Contributions	
(0.58% of membership payroll)	(63,536,585)
(3%/6% FAS cap increases)	(20,435,968)
(10.66% of membership payroll above the Governor's salary)	(3,113,849)
iii. Minus Federal Funds Contribution	
(10.66% of membership payroll from federal funds)	(23,355,172)
iv. State Contribution	$ 7,878,170,709
b. Guaranteed Minimum Annuity Reserve	500,000
c. Total State Contribution	$ 7,878,670,709
3. Total Normal Cost and Employer Normal Cost Rate for Fiscal Year 2020	
a. Total Normal Cost Rate (including administrative expenses)	19.66%
b. Member Rate	(9.00%)
c. Employer Normal Cost Rate	10.66%
4. Federal Contribution Rate (Employer Normal Cost Rate, per PA 100-0340)	10.66%

* Expected fiscal year 2020 membership payroll is $10,954,583,571

** Board-Adopted Actuarial Funding Policy is based on the entry age normal actuarial cost method, current asset valuation method and an amortization policy as follows:

- 20-year closed amortization of Unfunded Actuarial Accrued Liability (UAAL) beginning with Fiscal Year 2017
- Use layered amortization, with new UAAL after Fiscal Year 2017 being amortized over 20 years regardless of source
- Amortization payment increase at the rate of future State revenue growth (assumed to be 2.0%)
- Minimum total contribution is no less than the normal cost in any given year

Teachers' Retirement System of the State of Illinois
Resolution
Adopted March 30, 2012
Amended April 30, 2012

Having heard the report of the Executive Director describing the analysis performed by TRS staff and actuaries evaluating the State of Illinois' ability to meet its existing future funding obligations, the Board of Trustees hereby resolves that:

> The fiscal situation of the State has deteriorated to the point that the Board no longer has confidence that the State will be able to meet its existing funding obligations to TRS.
>
> As a result, the Board believes that action must be taken now to ensure the continued solvency and viability of the plan. This action must be based on the following principles:
>
> 1. The impact of any proposal, and all future contributions to the plan, must be determined using generally accepted actuarial principles and standards and not the funding scheme and pension bond limits currently in Illinois law
> 2. All future contributions must be guaranteed by statutory language substantially similar to that presented to the Governor's pension assembly in February
> 3. Any changes to the Pension Code must first correct the existing inequities and funding flaws created with the enactment of Tier II and,
> 4. Any changes to the Pension Code must be based on the simplest and most straightforward changes possible
> 5. Any changes to the Pension code must adhere to the Pension Protection Clause, Article 13, Section 5, of the Illinois Constitution of 1970.

Further, the Board resolves that it will only certify future contributions that are calculated based on generally accepted actuarial principles and standards.

The Board further resolves to continue to commit the time and expertise of its staff and actuaries as necessary to ensure the accurate analysis of any and all proposals for changes to the Pension Code.

Passed Unanimously