



Teachers' Retirement System of the State of Illinois

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News

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TRS REVISES ASSUMED RATE OF INVESTMENT RETURN

SPRINGFIELD, IL – The Teachers' Retirement System Board of Trustees today approved revisions to a number of assumptions contained in its actuarial model, including a reduction in the System's long-term assumed rate of return on its \$36 billion investment portfolio from 8.5 percent to 8 percent.

The major effect of the new assumed rate of return will be to increase the System's long-term unfunded liability ratio from the current 54.8 percent to 57.6 percent. The lower rate of return also will increase the state's required annual contribution to TRS in fiscal year 2014 and after. This contribution covers the annual cost of pensions as they are earned as well as the unfunded liability that has accumulated over time. The state contribution in FY 2014 is expected to rise from \$3.07 billion with an 8.5 percent rate of return to \$3.37 billion with an 8 percent rate of return.

The Board's vote was 11-2 to reduce the rate of return to 8 percent. The trustees also voted to undertake the next study of the System's actuarial assumptions, including the assumed rate of return, in three years instead of the five years called for in state law because of the volatility of the world economy.

"The assumed rate of return greatly influences the financial future of TRS. Reducing the rate from 8.5 percent to 8 percent is a prudent move that balances reality with the needs of TRS members," said Executive Director Dick Ingram. "The Board's decision takes into consideration many things: the volatility of the world economy, the fiduciary duty we have to keep the System strong, the financial problems faced by Illinois and state government's long-term responsibility to teacher pensions."

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Ingram noted that the impact of the System’s assumed rate of return on state contributions and the TRS liability is muted because of the financial calculations required by Illinois law to determine the annual state contribution and the System’s liability. The methods required by state law differ substantially from standard actuarial practices and in the past have artificially lowered the state contribution required by law.

In August, the System’s actuaries, Buck Consultants of Chicago, recommended reducing the assumed rate of return from 8.5 percent and outlined three options for a revised number – 7.75 percent, 8 percent and 8.25 percent. The Trustees delayed a final decision until September in order to allow further analysis by TRS staff and to ensure that all TRS trustees had a say in the final decision. On September 14 Gov. Pat Quinn named two new trustees to the Board, bringing the number of members to 13 for the first time in more than a year.

The new revised rate of return is the product of an extensive review by Buck Consultants that also included recommended revisions to various actuarial data that is used by TRS to determine the cost of benefits, including mortality, member salaries, membership totals, retirement age and length of retirement.

“Our process is very deliberate and considerable analysis is used to develop this estimate,” Ingram added. “It is the fiduciary duty of the Board to set a rate that is realistic and will fairly distribute the cost of TRS benefits among several generations of taxpayers.”

The former 8.5 percent rate of return, first adopted by the TRS Board in 1997, has proven to be appropriate over time. The actual TRS investment rate of return between 1981 and 2011 was 9.3 percent.

The National Association of State Retirement Administrators reported earlier this year that of 126 major state and municipal pension systems across the country, including TRS, 47 had set an assumed rate of investment return at 8 percent. The NASRA study also found that over the last 25 years, the 126 pension systems recorded a median actual investment return of 8.3 percent.

<u>Assumed Rate of Return</u>	<u>8.50%</u>	<u>8.00%</u>
FY 2011 Total Liability	\$83.5 billion	\$89.1 billion
FY 2011 Unfunded Liability	54.8 %	57.6%
FY 2014 State Contribution	\$3.07 billion	\$3.37 billion
FY 2014 – 2045 Accumulated State Contributions	\$173.2 billion	\$204.1 billion

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