



QUICK FACTS

MEMBERSHIP

- There are 378,288 TRS members.
- 171,000 active members
- 90,967 annuitants

AVERAGE PENSION

- \$46,452 per year
- Average health insurance premium paid by TRS retirees is \$577 per month
- TRS members do not receive Social Security coverage for their work as a teacher or administrator.

MEMBER CONTRIBUTIONS

- Active members pay 9.4% of their salary toward pension benefits. School districts pay .58% of salaries.
- The State of Illinois has not lived up to its funding responsibility since 1953.

CONSTITUTIONAL PROTECTION

- “Membership in any pension or retirement system of 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.” Article XIII, Section 5, Illinois Constitution

TRS IS SOLVENT

- TRS has never missed a payment. TRS has \$37.5 billion in assets and had \$10.5 billion in revenue in FY2011. Benefits to be paid in FY2012 are \$4.5 billion.

Debunking Teacher Pension Myths

Teacher Retirement System Not What You May Think

Misinformation about Illinois’ public pension systems present an inaccurate picture of the state’s pension systems (State Employees Retirement System, State Universities R.S., Judges, General Assembly, and Teachers Retirement System). The Teacher Retirement System (TRS) is the largest of the state’s five pension programs and covers teachers and administrators in public schools K-12 outside of Chicago. It is important to separate fact from fiction about public pensions.

Myth: TRS and the other public pension systems are responsible for Illinois’ fiscal crisis and are bankrupt.

TRS is to receive this year \$2.4 billion out of a total appropriation for all state services of \$56.9 billion. This is 4.2% of the state’s budget. If the State had to pay Social Security for TRS members that would amount to 6.2%. TRS members are not covered under Social Security.

About \$1.6 billion of the state’s appropriation to TRS is to make up for back payments that the state did not make. All public pensions this year account for \$6.9 billion.

The additional funds required to meet the actuarial minimum funding level is owed by the state because the General Assembly has not paid its share since 1953 and must catch up on their unfunded liability of \$44 billion.

Educators have paid their share. TRS has invested wisely.

Pension Fact: TRS is solvent and sustainable.

TRS is effectively managing pension investments and benefits. The TRS return on investments for FY2011 was +24%. The 30 year rate of return is +9.3%.

TRS benefits to be paid out for FY2012 total \$4.5 billion. Revenue for FY2011 totaled \$10.5 billion. Clearly TRS is effectively managing its portfolio of over \$37 billion.

And, TRS members are contributing on time as required by law and account for over half the cost of benefits. School districts are contributing their share on time and in full.

Recommendation:
Treat the “unfunded liability” owed TRS by the state like a mortgage. Few of us have the cash on hand to pay our full mortgage. We do need to make the monthly payments. The state has repeatedly not made their monthly payments.

Right now \$3.6 billion is paid to TRS annuitants who live in Illinois. The total statewide economic stimulus for the Illinois economy from TRS pensions is over \$4 billion. Jobs created by TRS pensions and benefits exceed 30,000. The total payroll of those 30,000 jobs is \$1.12 billion.



TRS members are not covered by Social Security. Private sector retirement costs include Social Security and are more expensive than TRS pension benefits. The state does not pay Social Security benefits for TRS members.

Myth: The cost of private sector retirement is less than TRS pensions.

The average private sector retirement cost is 10.6% of payroll. “Private company retirement contributions averaged 4.4 percent of payroll” plus the mandatory 6.2% of payroll payable toward Social Security. (51st Annual Survey of Profit Sharing and 401k Plans report)

Illinois’ contribution to the Teacher Retirement System for FY2012 is 4.2% of total state appropriations. That is 6.4% less than the average private sector pension costs.

Pension Fact: Benefits paid to TRS retirees are not overly generous.

The average TRS retirement benefit paid today is \$46,452 per year.

TRS and state employees retirement health insurance plans are two totally different programs. TRS retirees do pay health insurance premiums, on average \$577 per month. (TRS report)

Illinois has the lowest cost of any of our neighboring states by a significant amount. “The total retirement costs [for public employees] of neighboring states: Indiana (14.2%), Kentucky (7.2%), Michigan (11.8%), and Wisconsin (11.8%)”. The future cost to Illinois of 6.3% for TRS is clearly not out of line with other states according to the Report of the Pension Modernization Task Force.

Myth: The state will save money by going to a defined contribution (401k) plan.

Currently, TRS members have a defined benefit plan. This plan guarantees benefits based upon years of service and average salary earned.

SB512 bill introduced in the legislature is intended to drive TRS members to a defined contribution plan.

The cost to implement this plan for Illinois would be \$65 billion (TRS actuarial calculation). Also, if SB512 were to be implemented, it is likely that many new and current teachers would enroll in the 401k option because they could not afford the defined benefit plan, which would require them to contribute at least 13.77% of their salary.

Instead of saving money for Illinois, this plan would cost taxpayers more money.

Pension Fact: The state will likely pay far more and benefits to retirees will be less.

Defined contribution (401k) plans have significantly higher administrative fees. Costs to administer the current defined benefit plan are 30¢ per \$100 of funds invested. Fees for a defined contribution plan average 96¢ per \$100 invested (Investment Management Institute).

Fees for a defined contribution system will likely cost taxpayers from \$257 to \$610 million more annually.

For example: In the mid-1960s, Nebraska switched from a defined benefit to a defined contribution plan for some of its state employees. Nebraska found the defined contribution system costs significantly more. In 1999, Nebraska’s administrative expenses were double the costs of its defined benefit plans. Faced with irrefutable data illustrating that defined contribution systems provided lower benefits at higher costs to taxpayers, they changed back to a defined benefit model in 2002. We need to learn from their mistake.

TRS members currently have a defined benefit plan. The administrative costs of switching to a defined contribution plan will likely cost Illinois taxpayers between \$257 to \$610 million more annually in fees to administer the defined contribution program.



The Civic Committee of the Commercial Club of Chicago has been leading the charge against teacher pensions. Could this be because financial services and auditing firms make up 40% of the membership of the Civic Committee, and they stand to gain millions of dollars in additional fees if Illinois moves from a defined benefit plan to a defined contribution (401k) plan?

Representative Tom Cross, leader of the Republican Party, has joined the leader of the Chicago Democratic machine, Representative Michael Madigan, and the Civic Committee, representing the gluttony and greed of corporate America, to attack teacher pensions. Politics and campaign financing make for strange deals in Illinois.

SB512 was introduced in the Illinois legislature last spring under Representative Cross' initiative. This proposed legislation would require current TRS members to choose a new benefit structure:

- Tier I - maintain a member's current benefit, but pay substantially higher contributions to TRS. Member contributions would increase from the current 9.4% to 13.77% to start and could go to over 17% of salary.
- Tier II -A member's contribution would be reduced to 6%. Retirement benefits would drop substantially.
- Tier III -401K style plan, which, in practical terms, means an indeterminate future benefit.

Even though the legislature is not fulfilling its promise, TRS is. SB512 is not in the best interest of taxpayers or teachers. Here's why:

1. The existing TRS pension plan is sustainable. Any representation otherwise is untrue.

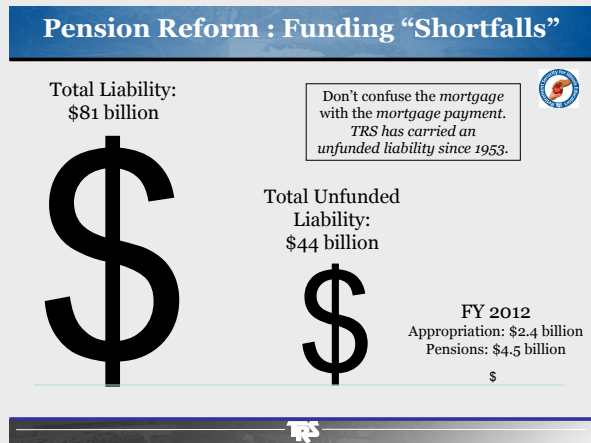
- Tell your legislators, local officials, colleagues, and neighbors that TRS can continue to pay pension benefits as promised.
- Tell your legislator to stop using TRS as the state's credit card. Make pension funding a priority. The lack of keeping past promises by Illinois has led to a perceived crisis in pension funding. Make sure people know that \$1.6 million of Illinois appropriation for TRS pensions this year (FY2012) is going to pay back contributions due but not paid in prior years.

Yes, TRS has a large "unfunded liability" which is due completely to the state not making its appropriate contributions since 1953.

But, that does not mean that TRS can not meet its pension payments. To the contrary, TRS members and TRS investments continue to ensure that not a single pension payment has ever been missed. There will never be a time when the entire pension liability will need to be paid all at once.

The state does need to step-up and pay back TRS for all those years when they did not meet their actuarially determined obligation.

- Tell your legislator that implementation of SB512 would cost the state \$65 billion, far more than the \$44 billion unfunded liability.



(TRS Town Hall Presentation 2011)

2. The TRS may well be one of the best "job creators" in the state, accounting for \$4.04 billion in economic stimulus to Illinois. Over 30,000 jobs are created by TRS pensions and benefits from retirees in Illinois.

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It's about keeping a promise.

3. SB512 violates the state constitution.

- Tell your legislator to uphold Illinois' constitution that provides contractual guarantees for TRS pensions.

The Civic Committee doesn't agree with the Constitution, but just because they don't agree doesn't mean we shouldn't abide by it. In fact, Illinois courts have ruled seven times that pensions can not be changed midstream. Representatives Cross and Madigan should respect the constitution.

4. In addition to constitutional guarantees, there has been a long-standing social contract with teachers.

- Help your legislator understand how you view the importance of social contracts for teachers. Teachers should be valued for the contributions they make to the future of our state and country.

Since the pension system was established in 1915, there has been an acceptance by teachers that they would work for much less than private sector employees with similar education and responsibility, with an understanding their pensions would be there when they retired. And, for many years, the private sector viewed teacher pensions as financially far below their own. This is about keeping promises, promises made over decades.

- ✓ **Teachers have kept their promises to pay their fair share for their pensions.**
- ✓ **The Teacher Retirement System has invested wisely and managed pension funds effectively. TRS has never missed a single pension payment to retirees. TRS has kept its promises.**
- ✓ **Illinois has not kept its promise to educators. It needs to develop a plan that keeps its promise and pays back what it owes TRS. It can be done.**

