

CHICAGO TEACHERS' PENSION FUND

CTPF FUNDAMENTALS

Presentation to the Retired Teachers Association of Chicago

August 19, 2013



Chicago Teachers' Pension Fund

CTPF FUNDAMENTALS

- Background
- Financial and Investment overview
- Brief Funding history
- Expectations
- CTPF's Role
- Summary

2012 CTPF FINANCIAL OVERVIEW

Net Assets Fiscal Year 2012: **\$9.5 billion**

Funded Ratio: **53.9%**

Investment returns: **8.7% (35 years)**

Benefits Paid:

The Fund paid more than **\$1.1 billion** in service retirement, disability and survivor benefits and an additional **\$69 million** in health insurance premium subsidies in 2012.

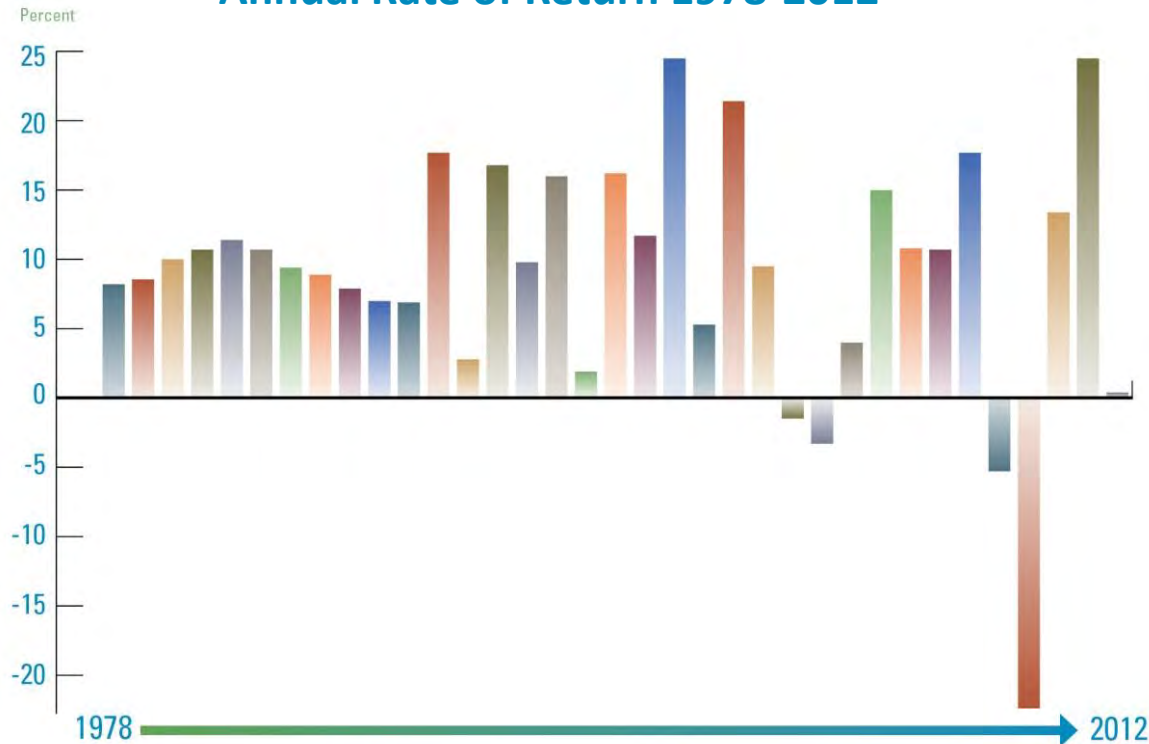
CTPF MEMBERS

The Fund currently serves about 60,537 active and retired members:

- ❑ 30,366 active contributors who are in the earning phase of their careers
- ❑ 25,926 retired members who have finished service and receive a retirement benefit
- ❑ There are an additional 4,245 members who are vested, but not yet receiving benefits

CTPF INVESTMENTS

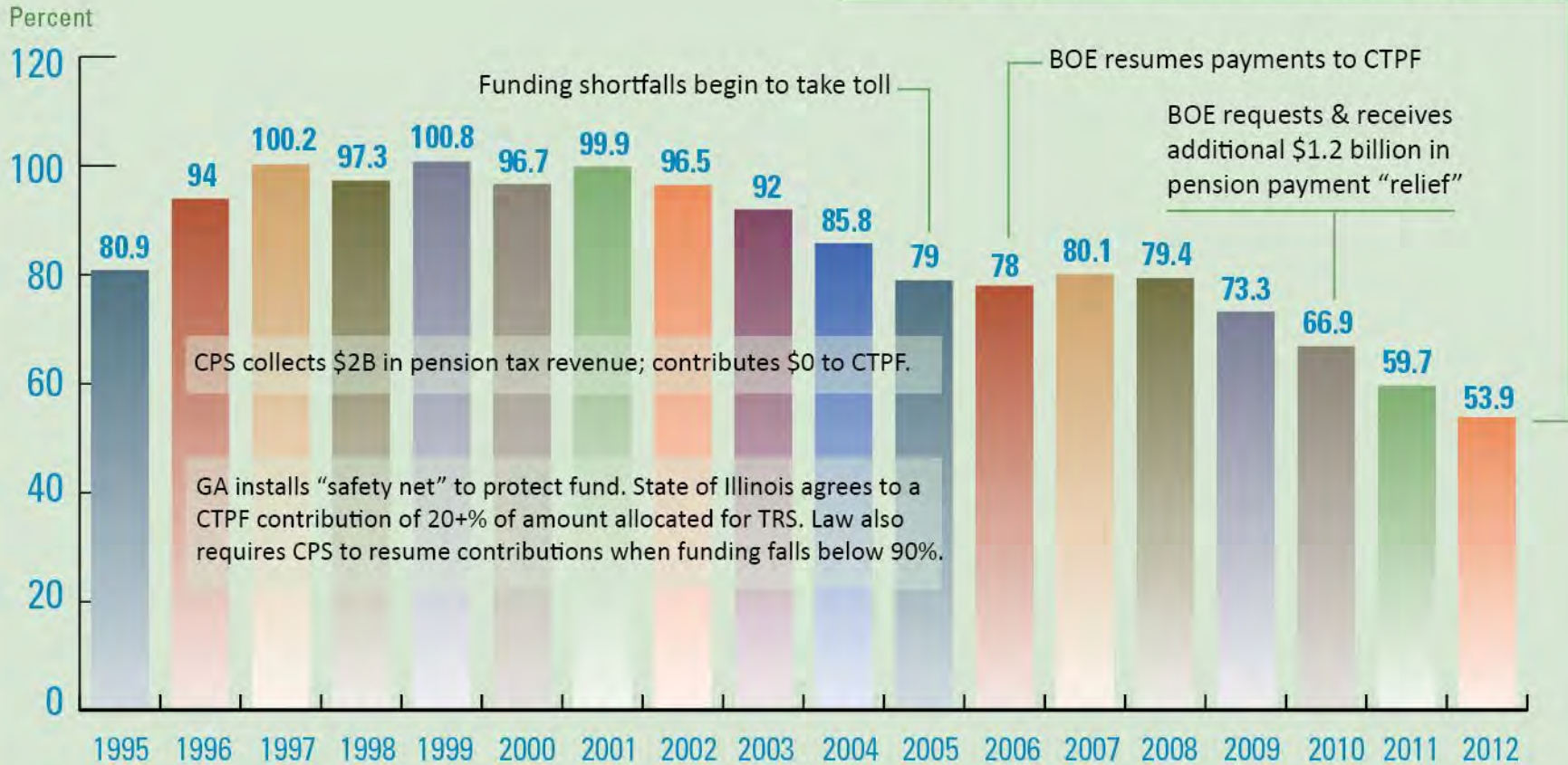
Annual Rate of Return 1978-2012



CTPF's Average Rate of Return over the past 35 years is 8.7%

CTPF FUNDING HISTORY

Promised state funds never materialize. State funding for CTPF drops to \$10.9 million in 2012; TRS received \$2.7 billion

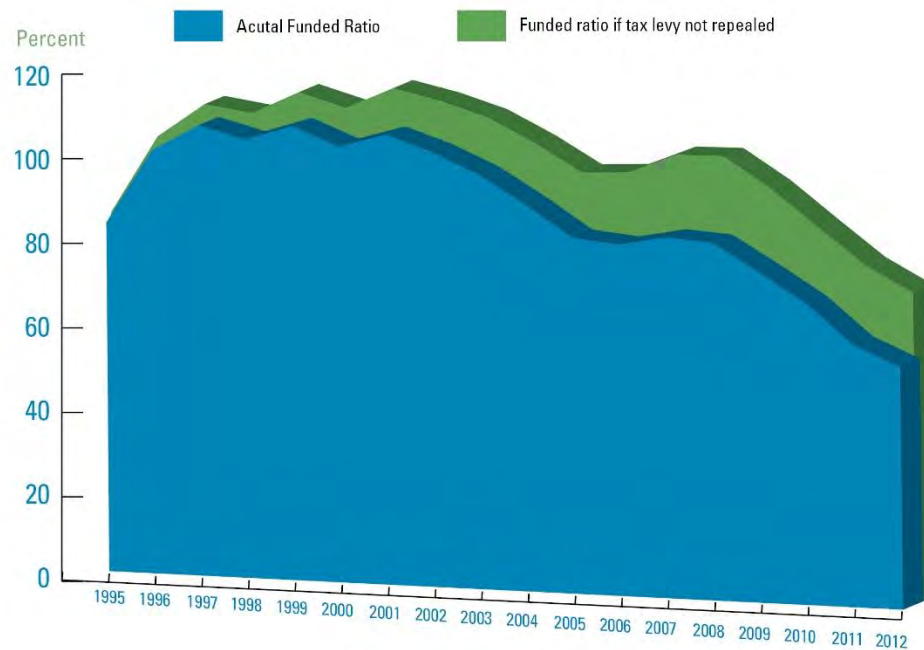


◀ Prior to 1995 CTPF was funded through City of Chicago tax levy. 1995 legislation redirected tax levy to CPS operating budget.

WHAT COULD HAVE HAPPENED

- If the tax levy had **not** been diverted and the CPS Board of Education had **continued** to make contributions, CTPF would be about 70% funded today.

Funded Ratio With/Without Tax Levy



THE STATE'S ROLE IN CTPF FUNDING

Lawmakers who approved the 1995 law understood that the Fund could not survive indefinitely without revenue. The law offered two “Safety Net” features

- ❑ The General Assembly agreed in principle to make a contribution to CTPF in an amount equal to 20-30% of the State contribution to Teachers' Retirement System of Illinois.
- ❑ When CTPF funding fell below 90% the Board of Education would have to resume contributions

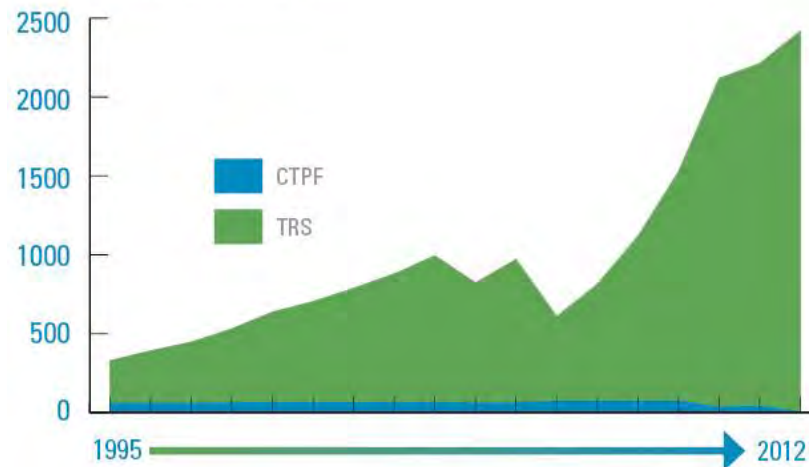
SAFETY NET #1: STATE FUNDING

State Funding Failed to Materialize

- ❑ Instead of increasing as promised, CTPF funding from the State of Illinois has fallen dramatically since 1995.
- ❑ CTPF receives less than 1 cent for every dollar contributed to TRS.

State of Illinois Contributions to CTPF and TRS

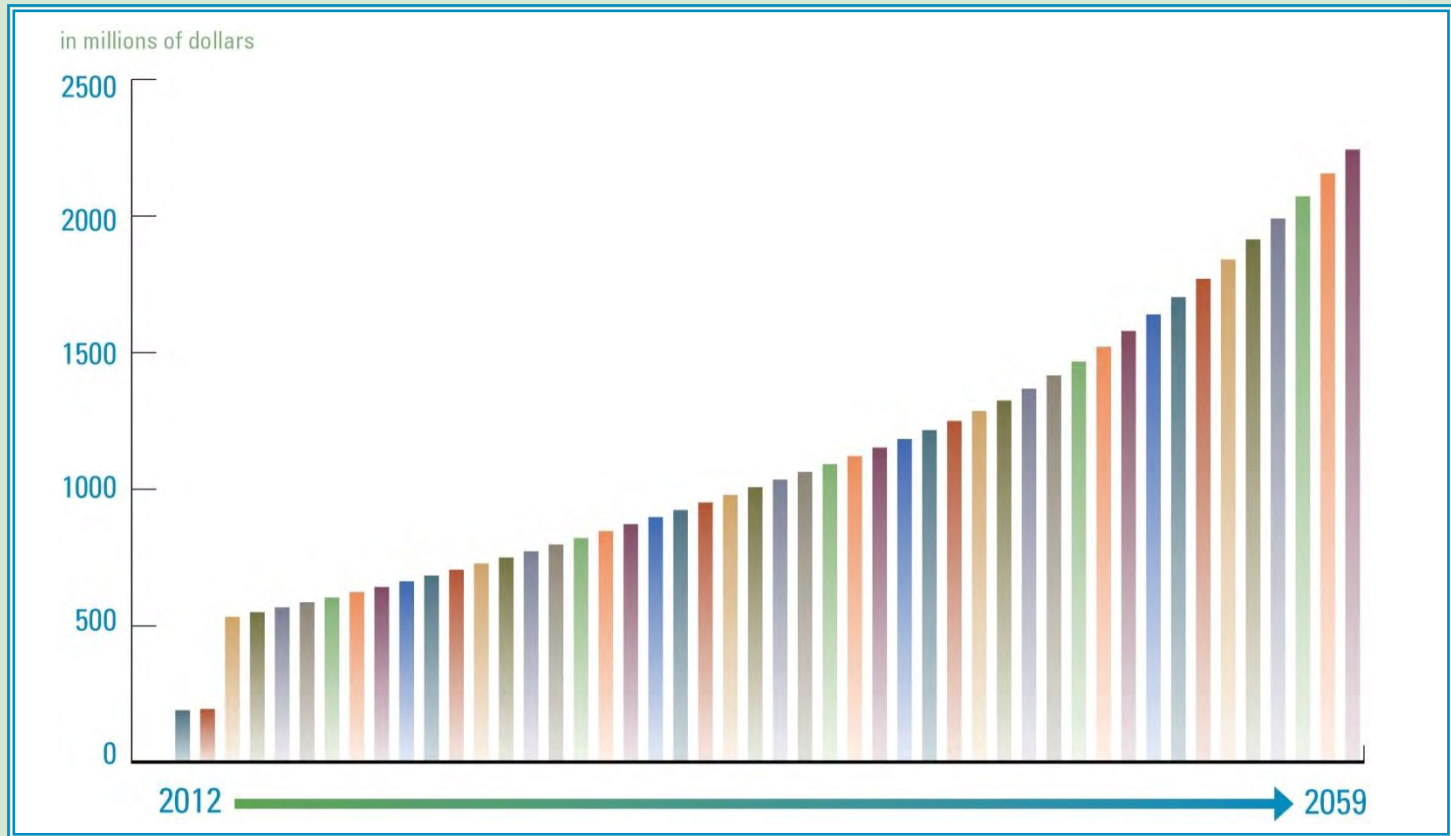
in millions of dollars



WHAT CAN WE EXPECT

Board of Education Required Contributions 2012-2059*

Funding Schedule based on PA 96-0889 in millions of dollars



*The employer must make \$48.5B in payments between 2013 and 2059

WHAT CAN WE EXPECT?

Pop Quiz from Chicago's Teachers

Which of the following has a devastating impact on retirees?

- A. Pension Holiday
- B. Funding Relief
- C. Pension Pause
- D. Funding Bridge
- E. Interim Step
- F. All of the Above

WHAT CAN WE EXPECT?

Answer **F: All of the Above**

Even the most pleasant sounding name can't hide the truth. Paying less than you owe for pensions jeopardizes retirement security.

SB 1920, HA#2 was defeated in 2013, but we expect a version to resurface.

WHAT CAN BE DONE

1. The employer can pay its pension debt in full at the time it's due.
2. The State of Illinois can more equitably fund CTPF so the employer's bill is reduced.
3. Employees can increase their contributions to the fund so the employer's bill is reduced.
4. CTPF members can accept benefit reductions so the employer's bill is reduced.

BENEFIT REDUCTION IMPACT

Revenue reform must precede any discussion of benefit reform. The employer must make \$48.5B in payments to the fund between 2013-2059. The following chart illustrates the possible impact of proposed benefit reductions:

Option	Benefit Reduction	Employer payment reduction (in billions)	Percentage reduction
Option 1	Increase employee contributions by 2% Impacts active members	\$ 2.2	5%
Option 2	Delay the onset of Tier I COLA (3% compounded) for 5 years or age 67, whichever comes first. Impacts active members.	2.4	5%
Option 3	Cap final average salary (FAS) for pension calculation at Social Security maximum earnings (\$110,100 in 2012). Impacts active members	3.3	7%
Option 4⁺	Replace current 3% compounded COLA with Tier II COLA. Impacts active and retired members.	13.8	28%

+ Tier II COLA is the lesser of 3% or 1/2 of the CPI, simple interest, (not compounded).

BENEFIT REDUCTION IMPACT

Option	Benefit Reduction	Employer payment reduction (in billions)	Percentage reduction
	Tier II COLA (Option A) replaces Tier I compounded COLA	13.8	28%
Option 5	Option A + COLA delayed for 5 years or age 67	14.2	29%
Option 6	Option A + 2% contribution increase	16.1	33%
Option 7*	Option A + COLA limited to a portion of pension (Social Security maximum benefit amount) Impacts active and retired members.	16.3	34%
Option 8	Option A + final average salary cap	16.6	34%

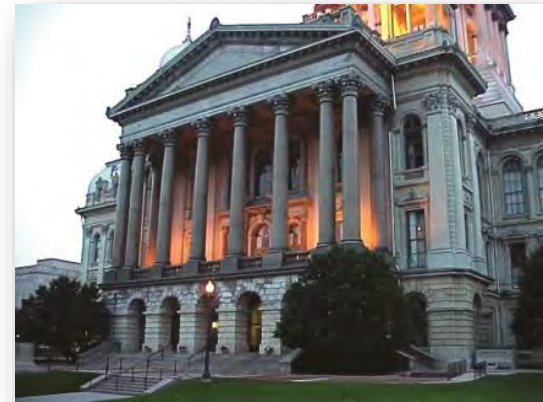
* This option limits the salary eligible for a COLA increase to the maximum Social Security benefit, currently \$30,156. Example; on a pension of \$50,000, only the first \$30,156 would be eligible for a Tier II COLA increase.

BENEFIT REDUCTION IMPACT

Option	Benefit Reduction	Employer payment reduction (in billions)	Percentage reduction
Tier II COLA with a cap on COLA amount (Option B)		16.6	34%
Option 10	Option B + COLA delayed for 5 years or age 67	17.0	35%
Option 11	Option B + 2% contribution increase from active employees	18.9	39%
Option 12	Option B + final average salary cap	19.0	39%
Option 13	Option B + FAS cap + 2% employee contribution increase + delayed COLA	21.6	44%

CTPF'S ROLE....

The Illinois legislature determines the laws and rules that govern our fund and other public pension systems.



The CTPF Board of Trustees administers the law, and protects and secures the Fund's finances to ensure retirement security for all members.

CTPF's ROLE....

Honest Broker

CTPF serves as an “honest broker” or neutral party in discussion.

Offers analysis to all parties based on statistics and actuarial information and studies.

SCHEDULE 1

VALUATION DATE	ACTUARIAL VALUE OF ASSETS (A)	ACTUARIAL ACCRUED LIABILITY - PROJECTED UNIT CREDIT (B)(1)	UNFUNDED ASIL (B)(2)	FUNDED STATUS (A)(1)	ANNUAL COVERED PERSONNEL PAY (C)	UAL AS A PERCENTAGE OF ANNUAL COVERED PERSONNEL PAY (B)(1) / (C)
June 30, 2007	\$ 11,759,699	14,677,184	2,917,485	80.12%	\$ 1,863,182	156.59%
June 30, 2008	12,069,417	15,203,741	3,134,324	79.38	1,914,559	163.71
June 30, 2009	11,893,256	15,683,241	4,189,985	73.28	1,996,194	209.90
June 30, 2010	10,917,417	16,319,744	5,402,327	66.90	2,107,934	256.29
June 30, 2011	10,109,314	16,940,626	6,831,312	59.67	2,090,132	326.84
June 30, 2012	9,364,077	17,375,660	8,011,584	53.89	2,224,903	360.09

ANNUITANTS
DISTRIBUTION OF CURRENT A BY BENEFIT TYPE AS OF JUNE 30, 2012

MONEY PENSION AMOUNT	RETIREMENT		DISABILITY		MISCELLANEOUS
	MAINT	PRERETS	MAINT	PRERETS	
\$ 0 - 499	445	999	2	3	163
\$ 500 - 999	377	837	11	26	251
\$ 1,000 - 1,499	314	641	19	45	184
\$ 1,500 - 1,999	250	735	13	41	185
\$ 2,000 - 2,499	257	961	15	53	190
\$ 2,500 - 2,999	237	1,094	15	52	17
\$ 3,000 - 3,499	325	1,221	16	38	13
\$ 3,500 - 3,999	388	1,231	12	44	11
\$ 4,000 - 4,499	511	1,084	8	29	3
\$ 4,500 - 4,999	1,043	2,360	5	7	2
\$ 5,000 - 5,499	862	2,215	2	5	1
\$ 5,500 - 5,999	290	615	2	1	0
\$ 6,000 - 6,499	262	320	1	1	0
\$ 6,500 - 6,999	149	259	0	0	0
\$ 7,000 - 7,499	121	220	1	1	0
\$ 7,500 - 7,999	161	154	0	0	0
\$ 8,000 - 8,499	72	130	0	0	0
\$ 8,500 - 8,999	59	89	0	0	0
\$ 9,000 +	88	185	0	0	0
Total	6,232	16,354	122	348	1,991

STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR FISCAL YEAR ENDED JUNE 30, 2012,
WITH COMPARATIVE TOTALS FOR 2011

	PENSION FUND	HEALTH INSURANCE FUND	TOTAL 2011	TOTAL 2012
ADDITIONS:				
Contributions:				
Intragovernmental, net:	\$ 22,178,011	-	22,178,011	42,972,394
Employee	187,141,384	-	187,141,384	195,882,638
Minimum funding requirement (employer)	116,551,000	85,000,000	191,551,000	165,817,000
Total contributions	325,870,395	85,000,000	590,870,395	594,472,032
Investment income:				
Net (depreciated) appreciation in fair value	(239,806,743)	-	(239,806,743)	1,029,712,817
Interest	102,188,200	41,895	102,147,448	104,489,199
Dividends	136,880,771	-	136,880,771	127,479,959
Miscellaneous	560,953	-	560,953	629,222
Securities lending gain	5,811,510	-	5,811,510	4,801,384
Less investment expense:				
Investment advisory and custodial fees	(42,076,686)	-	(42,076,686)	(42,193,237)
Total investment income (loss), net	(30,124,125)	41,895	(30,082,230)	2,122,062,641
Federal insurance reimbursement	-	6,770,651	6,770,651	10,338,061
Miscellaneous	431,790	-	431,790	65,207
Total additions	298,178,060	71,611,797	369,789,789	2,529,159,239
DEDUCTIONS:				
Pension benefits	1,113,884,747	-	1,113,884,747	1,047,539,359
Refunds	33,923,680	-	33,923,680	26,841,954
2.2 Legislative refunds	2,378,346	-	2,378,346	1,138,364
Refund of insurance premiums	-	89,011,323	89,011,323	78,892,292
Death benefits	3,324,381	-	3,324,381	3,269,860
Total deductions	1,153,509,754	89,011,323	1,222,521,077	1,156,872,629
Administrative and miscellaneous expenses	10,120,434	-	10,120,434	9,527,338
Total deductions	1,163,630,188	89,011,323	1,222,632,511	1,166,400,067
Net increase (decrease)	(875,462,138)	2,890,386	(872,571,752)	1,361,758,672
Net assets held in trust for benefits:				
Beginning of year	18,312,782,764	31,204,572	10,344,886,738	8,982,328,064
End of Year	\$ 9,437,316,626	34,124,958	9,471,441,584	10,344,086,736

CTPF'S ROLE

Educate

- Members
- Stakeholders
- Legislators
- Taxpayers
- Media/Community

WHAT YOU CAN DO....

1. Register as a Pension Fund Ambassador

Register at the Legislative action Center at www.ctpf.org. You can look up legislators, send e-mail, and track bills.

2. Stay in Touch with E-mail Updates and Social Media

Registered for monthly e-mail updates with the fund, visit www.ctpf.org and “like us” on Facebook.

3. Get to know your elected representatives personally

Familiarize yourself with the materials on our education and advocacy web page and share them with your elected representatives and colleagues.



SUMMARY

1. Chicago's educators fulfill their portion of the retirement promise, contributing from every paycheck they receive.
2. CTPF is a well-managed fund with a sound investment policy and 8.7% return during the past 35 years.
3. A lack of BOE and State funding have led to the current fiscal situation.
4. There are various solutions that have been offered, and it's up to the legislature and other stakeholders to come to an agreement.
5. CTPF's role is to educate stakeholders and serve as an "honest broker" in pension the pension "reform" dialogue
6. Funding reform – a guaranteed revenue source for CTPF – must be undertaken before benefit reductions can be considered.