



Chicago Teachers' Pension Fund

CHICAGO TEACHERS' PENSION FUND

MEMBER INFORMATION WORKSHOP

# Pension Overpayment Settlement



# Agenda for Presentation

- ❑ Overview and history  
*How did we get to this point?*
- ❑ Settlement summary  
*Why did CTPF Trustees accept the settlement?*
- ❑ Implementing the summary  
*What to expect.*

# Calculating a Pension: Tier 1

## Key components of calculating a pension:

Final average salary (FAS) x service credit x pension percentage = **annual pension**

## Example:

FAS = \$60,000

\$60,000 x 34 years x 2.2% = \$44,800 pension\*

\* Assumes the 2.2 upgrade



# Overview and History

## **Service Credit**

The Illinois law that governed pensions had a “5-day rule.” This rule said that anyone who worked 5 or more days in a pay period received service credit for 10 days.

## **Example:**

- If you worked 4 days in a pay period – you received no service credit for that time.
- If you worked five days in a pay period, you received 10 days of service credit.

# Overview and History

Based on the 5-day rule, CTPF awarded salary credit to teachers who worked 5 or more days in a 10-day pay period and:

- Were paid on a school-calendar payroll
- Retired between June 16, 2000, and August 1, 2004

The CTPF attorney and board of trustees believed that retirees were entitled to this salary credit, based on the existing law.

# Overview and History

- The additional, unearned salary increased pensions for these members by up to 3.5% per year.
- The overpayment of benefits was applied to about 3,500 retiree pensions



# Overview and History

## **2004**

The Board of Education notified CTPF that it believed pensions were being overstated. CTPF disagreed, and litigation ensued. The suit filed by the BOE asked that:

- Pensions between June 2000 and August 2004 be recalculated
- All overpayments be returned

Based on pending litigation, CTPF stopped including the additional pay in pension calculations after August 2004.

# Overview and History

## **2007**

The Retired Teachers Association of Chicago (RTAC) intervened and moved to dismiss the lawsuit on procedural grounds.

- The court agreed with RTAC and dismissed the case on procedural grounds.
- The judge's opinion, however, stated that CTPF had erred by overstating salaries.



# Overview and History

CPS appealed the 2007 ruling to the Appellate Court, which then ruled in CPS' favor.

- This ruling returned the litigation to the Circuit Court

The Circuit Court stated that each member who is impacted has a right to be heard and should be notified and have the opportunity to be represented.

- The cost of notification and hearing each individual was a stumbling block in reaching a settlement

# Overview and History

## **2012**

CTPF's actuary estimates that the amount of the alleged overpayment was \$5.2 million annually

- The estimated overpayment through 2012 was approximately \$32 million
- The actuary also determined that if the overpayments were to continue, the long-term cost could be as high as \$100 million

# Overview and History

## 2012

June 2012, the BOE offered an informal settlement proposal to CTPF:

- This proposal froze pensions at their current rate (meaning no Automatic Annual Increase – AAI) beginning in 2013
- Affected pensions were to stay “frozen” until all overpayments were **repaid**
- AAI would resume only after debt was repaid
- Trustees felt that asking retirees to repay the debt was unfair. They rejected this proposal.



# Overview and History

## 2012

August 2012, the BOE offers another informal proposal:

- This proposal adjusted pensions to the corrected amount beginning with the first pension payment in January 2013.
- Required pensions that currently exceed the corrected amount to stay “frozen” until the current payment equals or exceeds the corrected payment.
- The retiree would **not** be required to repay the overpayment.

# Overview and History

## **2012**

September – CTPF board of trustees studied proposal

October – CTPF trustees recommended acceptance of proposal

November 14, 2012, an agreement was signed between CTPF and the BOE, ending the litigation

# Settlement Summary

## Settlement Summary

The settlement focuses on preventing future overpayments and **does not seek to recover past overpayments from retirees**. In summary:

1. The annual pension for the affected pensioners will be recalculated to exclude any extra days of salary credited, and a new revised pension amount will be determined for each affected retiree. This amount is referred to as the **corrected pension**.



# Settlement Summary

2. For impacted members, the 3% AAI (Automatic Annual Increase) for 2013 and 2014 will be based on the **corrected** pension. When the corrected pension equals or exceeds the current pension being paid, the normal AAI will resume fully.
3. The Chicago BOE will dismiss its case and will not attempt to collect any past overpayments to pensioners from 2000-2012.

# Implementing the Settlement

1. A letter went out to all members who could be impacted by the settlement on November 17.
2. The fund is auditing and recalculating all pensions for the time period, June 2000 – August 2004 to determine corrected pensions.
3. Once corrected pensions are finalized, we will send a letter to each retiree. The letter will detail your corrected pension.

# Implementing the Settlement

4. Necessary adjustments will be made to your 2013 pension and, if necessary, 2014 pension.
5. All affected pensions will be fully corrected for January 2015.



# Example: One-Year Adjustment

Sue Brown retired in June 2000

Her current 2012 monthly pension: \$4,918

*(included credit for unearned salary)*

Sue's corrected monthly pension: \$4,859

*(the amount she should be receiving)*

An audit of Sue's account determined that she received a \$7,509 overpayment since her retirement in 2000. Her current monthly pension is more than her corrected pension. CTPF will adjust her pension for 2013 to the corrected amount.

# Example: One Year Adjustment

## **Automatic Annual Increase Calculation for 2013:**

CTPF will use Sue's **corrected** monthly pension as the basis for calculating Sue's AAI, due on January 1, 2013.

Sue's corrected base pension: \$4,859

3% AAI on corrected base pension  
due January 1, 2013: \$145

Total corrected pension + AAI 2013: \$5,005

Sue's pension will be \$5,005 beginning January 1, 2013

# Example: One Year Adjustment

## Sue's pension adjustment summary

	2012	2013	2014
<b>Corrected pension payment</b>	\$4,859	\$5,005	\$5,155
<b>Current pension payment</b>	\$4,918	\$5,005	\$5,155

Sue will not be required to repay the \$7,509 overpayment.



# Example: Two-Year Adjustment

Mary Smith retired in June 2003

Her current 2012 monthly pension: \$5,014  
*(included credit for unearned salary)*

Mary's corrected monthly pension: \$4,812  
*(the amount she should be receiving)*

An audit of Mary's account determined that she received a \$20,300 overpayment since her retirement in 2003. Her current monthly pension is more than her corrected pension.

# Example: Two Year Adjustment

## 2013 Calculation

### Automatic Annual Increase

CTPF will use Mary's corrected pension amount as the basis for calculating Mary's AAI, due on January 1, 2013.

Mary's corrected base pension:	\$4,812
3% AAI due January 1, 2013:	<u>\$144</u>
Total corrected pension + AAI 2013:	\$4,957

Mary is currently receiving \$5,014, which is more than her **corrected pension** (\$4,957). Her pension will be held at \$5,014 for 2013.

# Example: Two Year Adjustment

## 2014 Calculation

### Automatic Annual Increase

CTPF will use Mary's 2013 **corrected** pension amount as the basis for calculating her AAI and pension as of January 1, 2014.

Mary's 2013 corrected base pension:	\$4,957
3% AAI due January 1, 2014:	<u>148</u>
Total corrected pension + AAI 2014:	\$5,105



# Example: Two Year Adjustment

## Mary's pension adjustment summary

	2012	2013	2014
Corrected pension payment	\$4,812	\$4,957	\$5,105
Actual Pension payment	\$5,014	\$5,014	\$5,105

Mary will not be required to repay the \$20,300 overpayment.

# Conclusion

CTPF Board of Trustees hopes that that this settlement – which adjusts pensions **without asking retirees to repay overpaid funds** – will resolve this issue with a minimum of impact to members.

# Questions and Answers

