CTPF
Chicago Teachers' Pension Fund

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Illinois State Senate

Pensions and Investments Committee

Subject Matter Hearing

Content of SB 3628, SB 3632, and SB 3742

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Senators and guests. I want to thank you for taking the time to consider the serious matter of pension funding for the Chicago Teachers' Pension Fund (CTPF). I appreciate the opportunity to testify today, and to offer specific information about the Chicago Teachers' Pension Fund.

I would like to share information about our Fund and then discuss specific legislation designed to ensure strong and stable pensions for Chicago's teachers.

Facts about CTPF

The Chicago Teachers' Pension Fund (CTPF/Fund) is an independent public employee retirement system that benefits teachers, educational, administrative, professional, and other certified individuals employed in the Chicago Public or approved charter school systems, and CTPF staff. Participation in the CTPF pension plan is mandatory for these individuals.

Established by the State of Illinois on July 1, 1895, CTPF is one of the oldest pension funds in the State of Illinois. The Fund includes 59,000 total members, and provides pension and health insurance benefits to more than 25,000 pensioners. The Fund maintains a highly diversified portfolio of investments designed to produce steady, long-term growth, and currently has $10.3 billion in assets. Over the past 20 years, a period which included three wars, two recessions, one near depression, and the events of 9/11, the Fund has averaged an 8.3% annual return on its investments. A dollar invested in our Fund in 1992 would be worth approximately $2.87 in 2012.

Pensions have been in the news and it's often the case that 'average' doesn't make for a good news story. So, I hope you will allow me a minute to share with you a little more in depth information about CTPF and why our pensions matter.

CTPF can be viewed as two distinct groups. **Contributors** who are in the earning phase of their careers, and **pensioners** who have finished service and receive a retirement benefit.

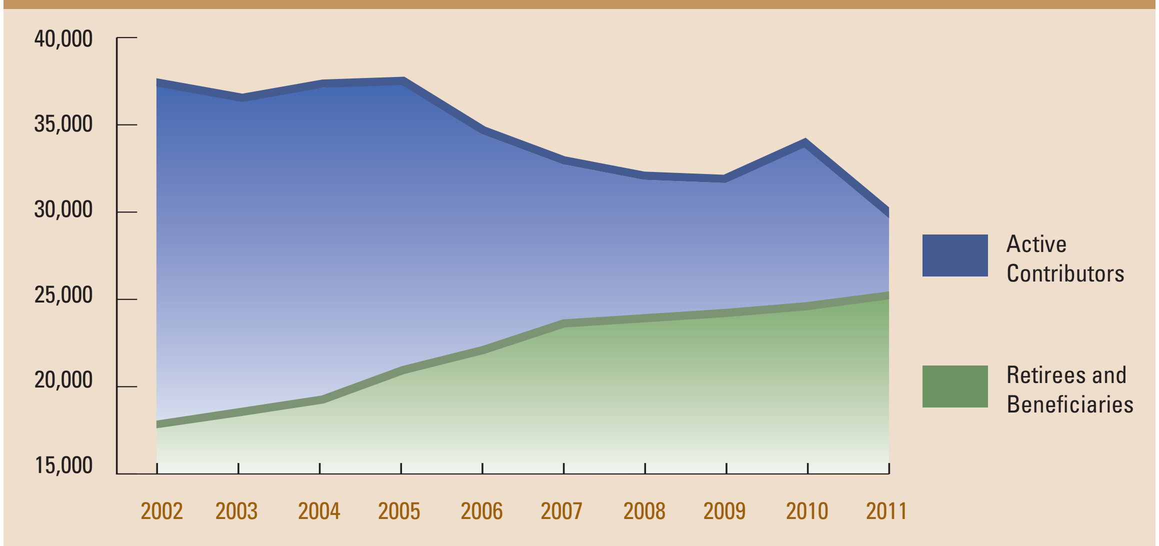
Contributors

Our contributors number about 30,100 and include teachers, administrators, and public school personnel. These members do not contribute to Social Security but instead put away 9% of each paycheck for retirement. While it's often noted that teachers have more generous benefits than the average Social Security recipient, it's equally important to realize that teachers contribute 50% more from each paycheck towards retirement (the current Social Security contribution is 6%).

During the past 10 years the number of active contributors has decreased by about 19% from more than 37,000 to about 30,100.

At the end of fiscal year 2011, CTPF saw a decline in the active contributors from the previous year and an increase in retirees. Over the past 10 years the number of retirees has increased 41% while the number of active contributors has decreased 19%.

Number of Active Contributors Compared to Retirees and Beneficiaries



Pensioners

Our pensioners number about 25,200 and include members on regular pensions, disability pensions, and survivor pensions. Our pensions, like Social Security retirement benefits, are designed as a safety net. Members cannot outlive their benefits and their survivors also qualify for benefits. Pensions do not lose value and are paid for life, based on a formula that includes final average salary, total service and a pension "multiplier" which currently is 2.2%.

The maximum pension that can be earned is 75% of a member's final average salary. Many financial advisors now believe an individual must replace 80% or more of their income at retirement, so reaching the 75% of salary is an important retirement goal for our members.

When we examine demographics, about 70% of our pensioners are women. Most CTPF retirees (about 70%) are between ages 60 and 79. An average pensioner in our system earned 28 years of service in the Chicago Public Schools and receives $41,584 annually.

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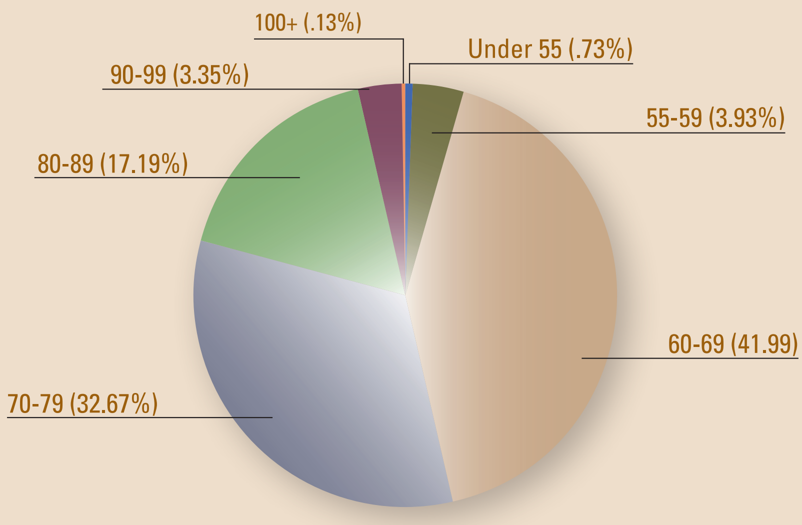
The Fund supports 33 retirees who are more than 100 years old.

The most senior CTPF member retired in 1968 and reached age 108 in 2011.

Retirees by Age



Age	Retirees
Under 55	184
55-59	991
60-69	10,582
70-79	8,232
80-89	4,332
90-99	845
100+	33
Total	25,199

Our pensions, like Social Security retirement benefits, are designed as a safety net. Members cannot outlive their benefit and survivors also qualify for benefits.

Much has been made about the outliers in pension funds these days, but it's always important to remember that the exceptions are just that – exceptional. A vast majority of our members earn a modest benefit after investing their entire careers in the education of Chicago's children.

Out of 25,200 pensioners, about 40% earn less than $30,000 per year, and 60% earn less than $50,000 per year. We do have some high earning individuals, many of whom were school administrators. About 300 retirees earn a pension above $100,000 per year.

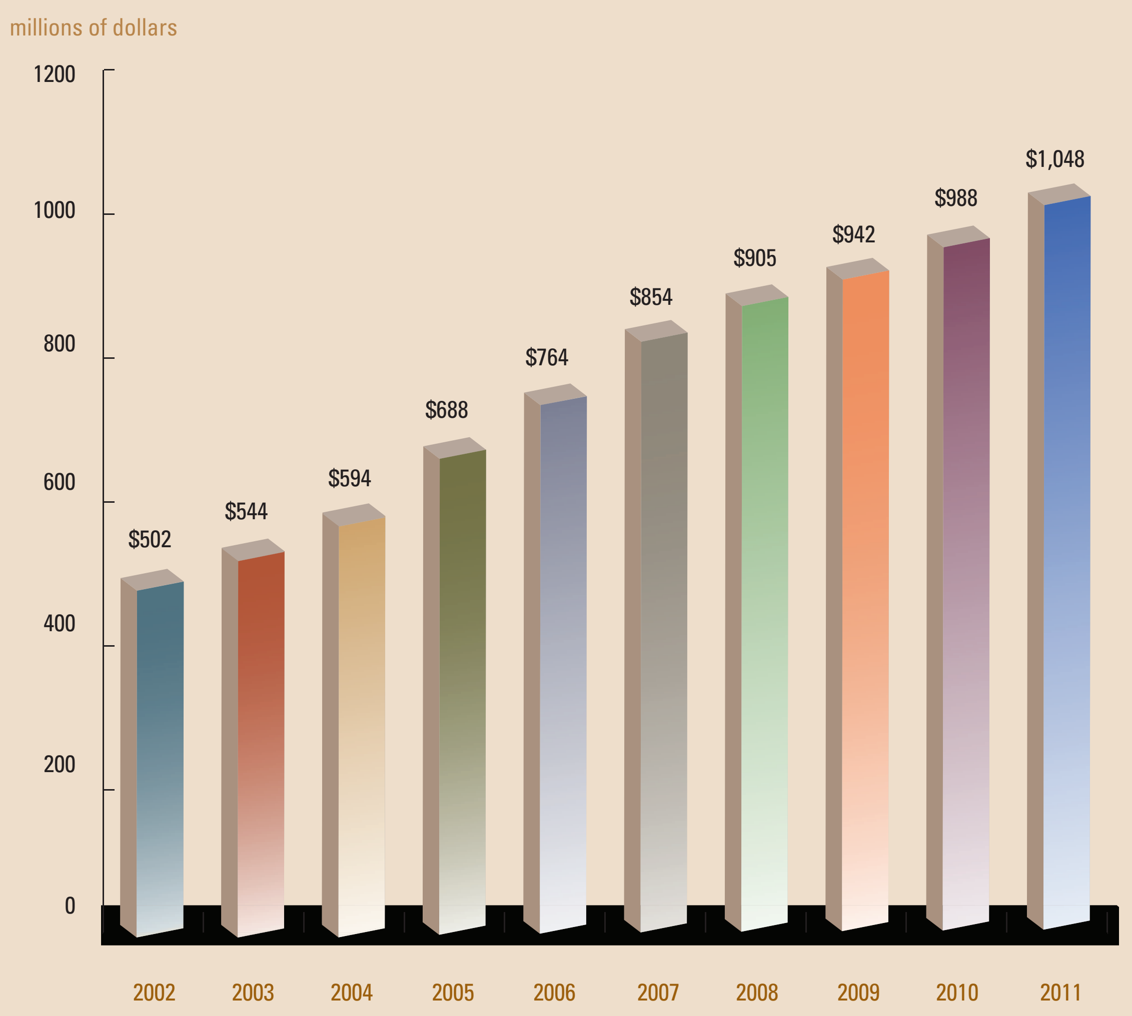
During the past 10 years, the number of CTPF retirees has increased 41%. In 2001 we had two active contributors to support every retiree. In 2011 we had little more than one contributor for every retiree.

The increase in retirees has led to a corresponding surge in benefit payments. Total benefit payments during the past 10 years grew from $502 million in 2002 to more than $1 billion in 2011.

Total benefits paid in 2011 climbed above $1 billion for the first time in the history of the Fund. Total benefit payments have increased nearly 110% in the past 10 years, from $502 million 2002 to $1.05 billion in 2011.

Total Benefits Paid

IN MILLIONS OF DOLLARS

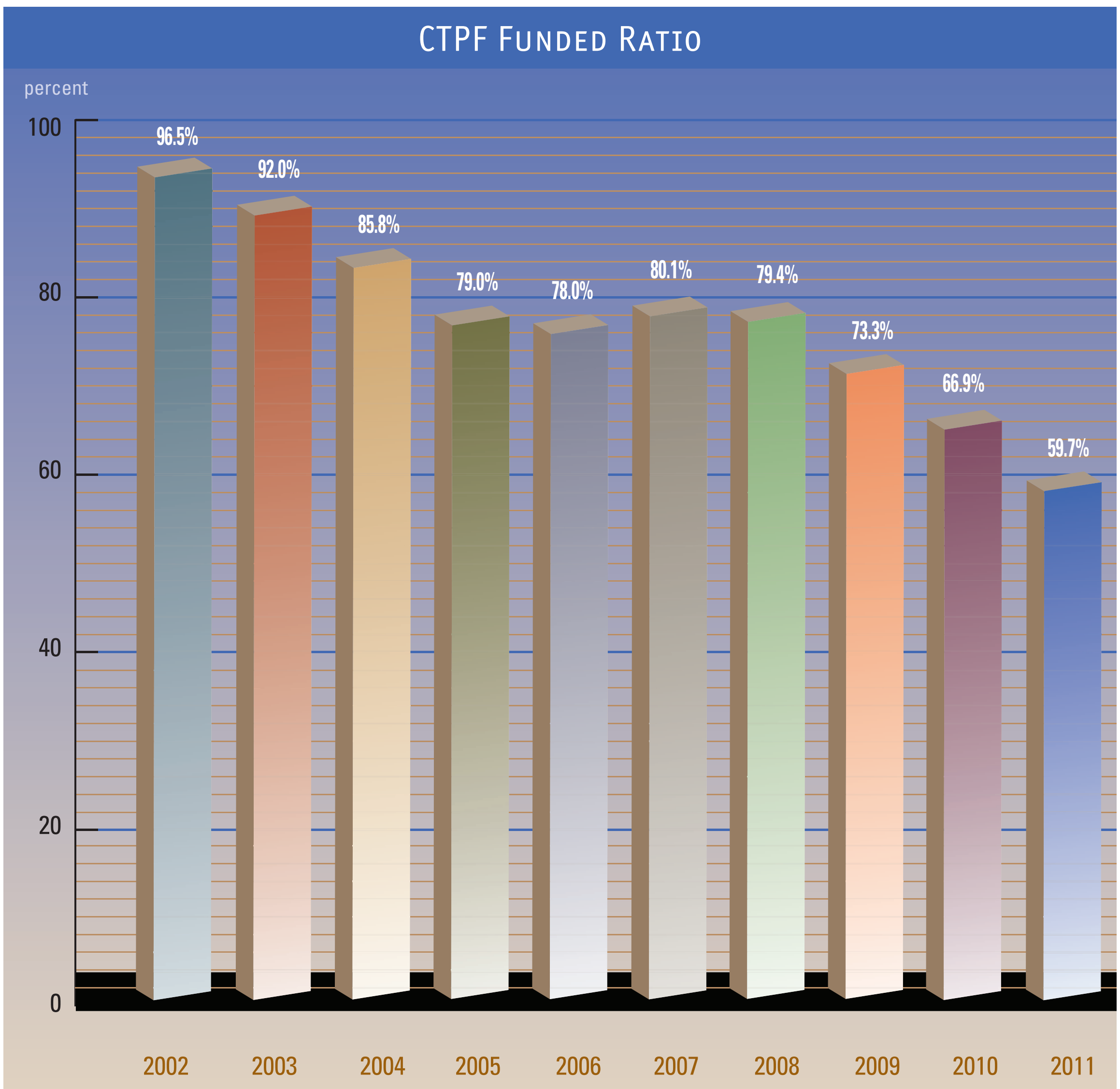


Fund Mechanics

A vast majority of public school teachers in the United States participate in traditional Defined Benefit (DB) or pension plans. These plans, which offer lifetime benefits, help recruit and retain teachers.

Pension mechanics are simple and have provided stable retirements for Chicago's teachers for more than 116 years. Teachers and their employers contribute to the Fund, invested funds earn interest, and benefits are paid out in the form of pensions. When all the stakeholders participate in a pension program, it's an efficient vehicle for providing stable retirements and for retaining valuable employees.

CTPF has about $10.3 billion in assets and a funded ratio, a measure of financial health, of 59.7%. The funded ratio is one of our most important statistics because it compares the amount of money we have available to fund pensions to the amount we owe current and future pensioners. Our funded ratio was about 96.5% in 2002 and has fallen steadily since that time.



Much of the reason why I have come here today to testify can be summed up in the story of our funded ratio. Right now we have only 60% of the money we need to pay our future obligations and the trend continues downward. To understand why, we need to look at CTPF's revenue sources.

CTPF Funding

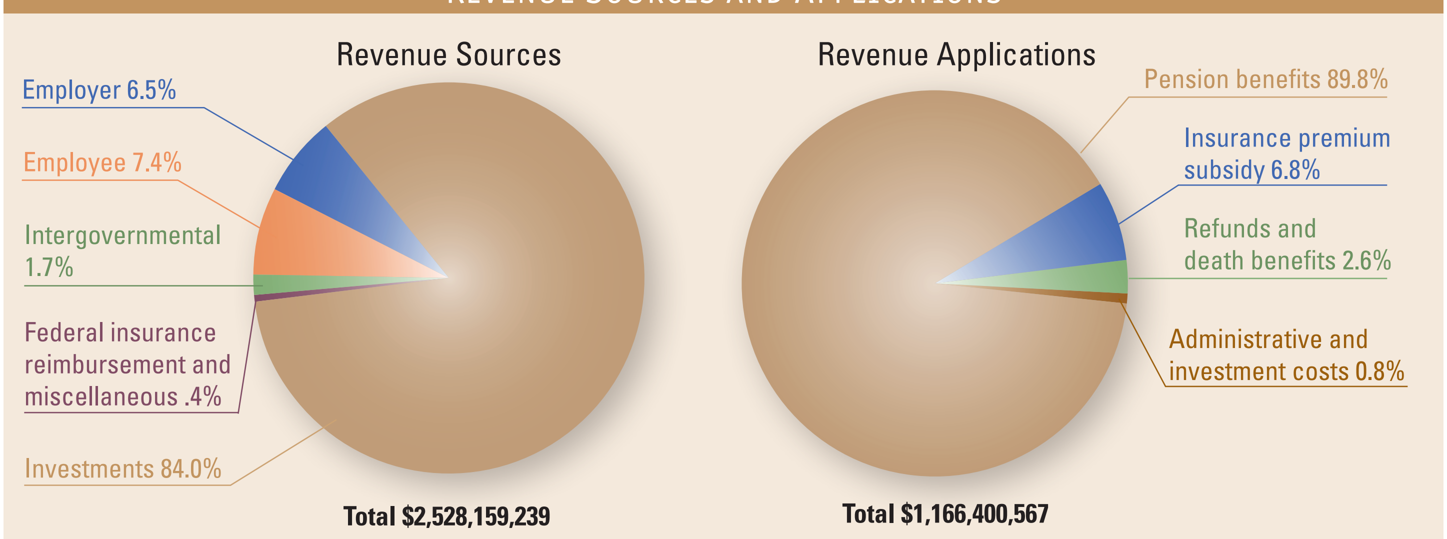
CTPF receives revenue from four main sources: employees, our primary employer (CPS), the State of Illinois, and investment returns.

When we examine our sources of revenue, we see an immediate cause for concern. CTPF has been counting on investment returns to pay for a majority of its expenditures. For 2011:

- Employee contributions accounted for 7.4% of revenue.
- The State of Illinois provided about 1.7% of revenue.
- The primary employer, CPS, contributed about 6.5% revenue.
- Investment returns accounted for 84% of revenue.

While we are fortunate that CTPF has had a long history of strong investment success, we know that we cannot sustain our Fund on investment returns alone. We need revenue to provide for our current and future retirees and we need to look to the past in order to understand why.

Revenue Sources and Applications



Funding

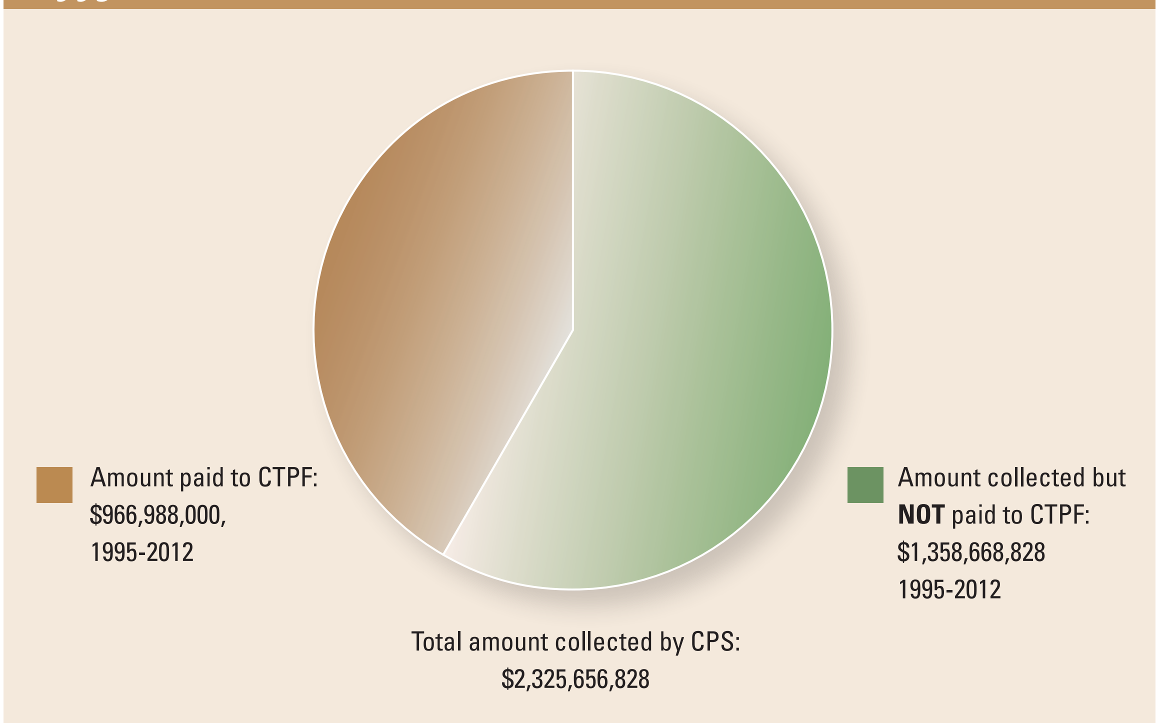
Prior to 1995, the Chicago Teachers' Pension Fund received revenue directly from the City of Chicago based on an annual property tax levy. This levy ensured that the Fund had a steady stream of revenue to bolster investments and support pensioners.

Unfortunately, CTPF became a victim of its own success. In 1995 the Fund supported about 15,700 pensioners and had a strong financial position. The Chicago Public School Board of Education (CPS), however, suffered a funding crisis and looked to pension fund revenue to help solve its budget issues.

In May 1995, CPS sought and received a change in Illinois law which allowed it to keep pension tax revenue. **Since 1996, this costly measure has redirected more than $2.3 billion in tax funds designated for pensions into the CPS operating budget.** During the period 1996-2005, CPS received $1.2 billion in pension tax revenue, but contributed $0 to the Fund.

Since 1995, CPS has collected $2.3 billion in taxes earmarked for pensions, while paying less than $1 billion into the Fund. This includes a 10-year pension 'holiday' between 1996-2005 when no contributions were made to CTPF.

1995-2012 Chicago Public Schools Tax Levy Collected for Pensions



CPS made no contributions to the pension fund for a decade.

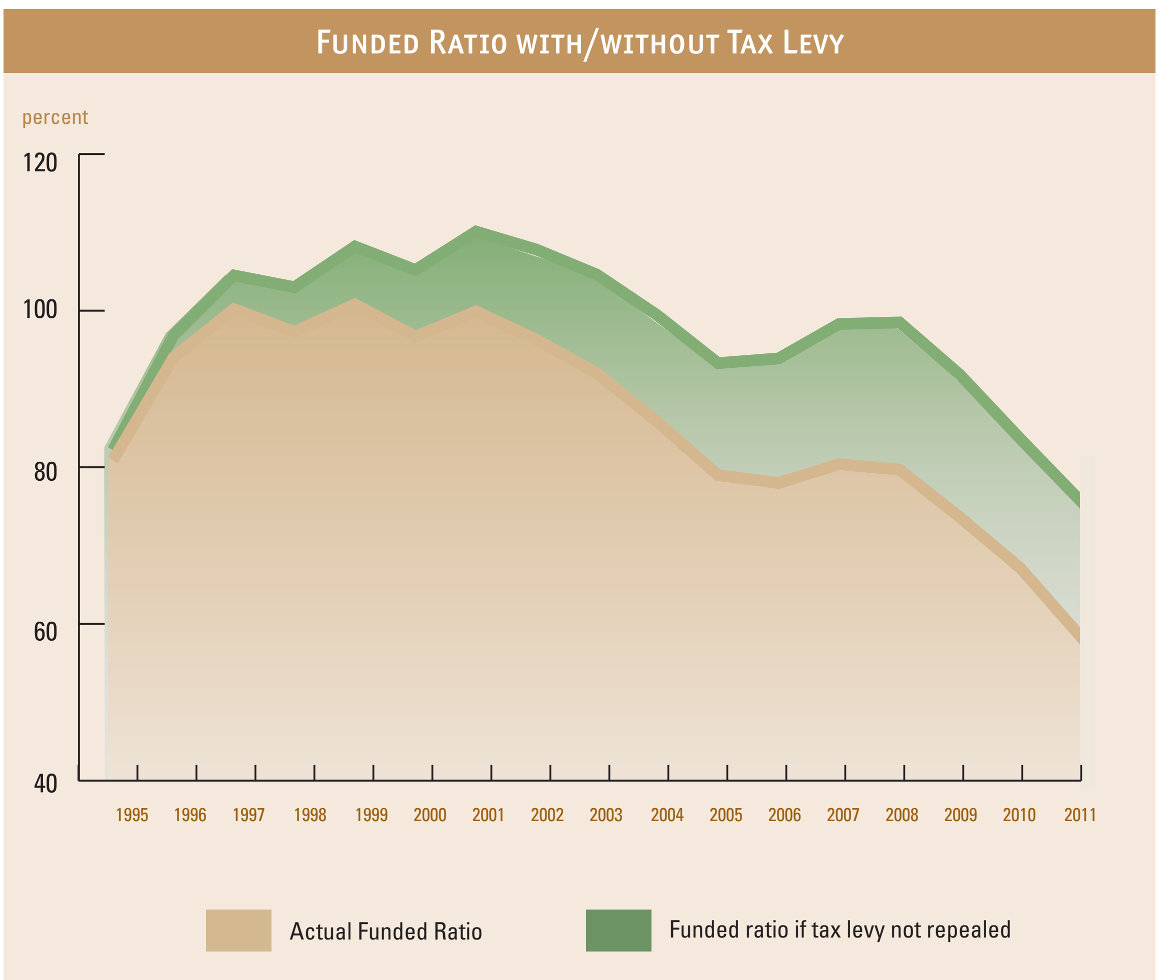
Let me repeat. Our primary employer made no contributions to the pension fund for a decade.

Yet the lawmakers who granted this pension "relief" understood that the Fund could not survive indefinitely without revenue. The law stipulated that when CTPF funding fell below 90% (an amount widely considered 'healthy,') the employer would have to again make contributions.

Predictably, our retiree population increased, active membership declined, and without revenue, our funded ratio fell.

CPS was required to resume making payments to CTPF in 2006. The bill was large and CPS was unprepared. In 2010, with payments scheduled to escalate, CPS went back to Springfield and asked for additional relief. Lawmakers again granted CPS pension relief. The 2010 package cut payments for a three-year period, and extended the funding period for an additional 14 years to 2059. This legislation cost Chicago's teachers $1.2 billion in revenue. Extending the period to fund pensions will cost Illinois taxpayers an additional $12 billion.

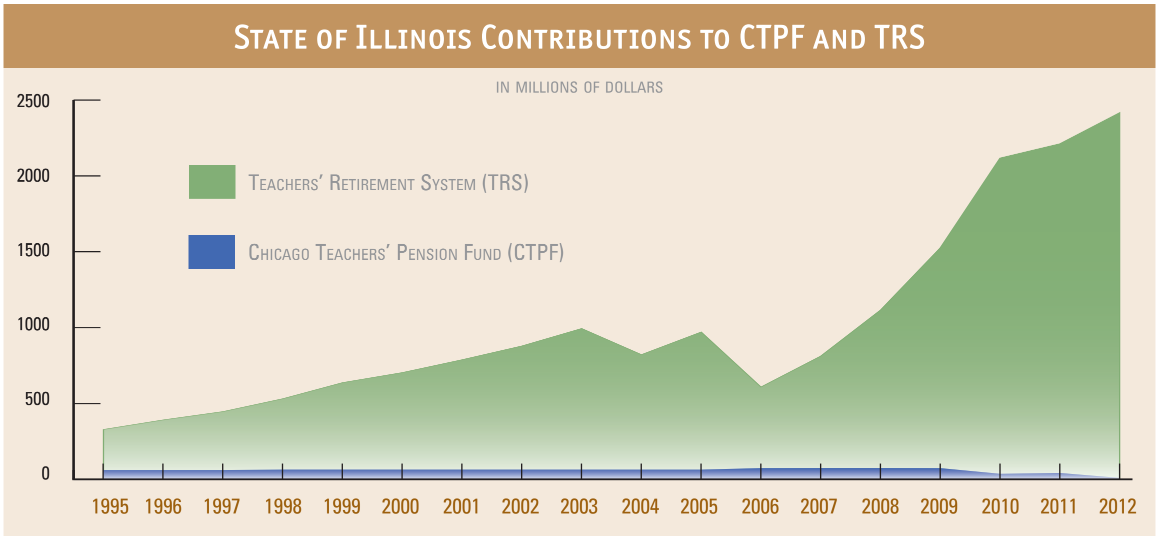
We can imagine how different things would be by examining the chart below. It shows what CTPF's funded ratio would have been if we had not lost revenue from the tax levy. Our actuary estimates that our funded ratio would be about 75% had we received the tax levy funds. Instead, our funded ratio has fallen below 60% and is expected to decline further.



State of Illinois

The CPS system alone, however, is not completely at fault for failing to fund pensions. They share this burden with Illinois lawmakers who also made promises to CTPF in 1995. At the time the legislation was introduced that offered 'relief' to CPS, Illinois lawmakers had agreed in principle to fund CTPF in an amount equal to 20% of the amount given to the Teachers' Retirement System (TRS). The state had long supported TRS pensions and the rationale was that Chicago teachers should receive a proportionate amount of funding. CTPF would be treated like other funds in the State of Illinois, and the state would share in the cost of Chicago's pensions.

Chicago had about 20% of the state's teaching force, so the 20% funding goal was an equitable solution.



In theory, this plan would have relieved the funding burden placed on CPS and corrected a basic tax inequity for Chicago residents. Chicago residents pay twice for pensions. They fund their own teacher pensions through the property tax assessment and pay for downstate/suburban pensions with their state income taxes.

Unfortunately, though, state funding for CTPF failed to materialize. In fact, CTPF funding as a percentage of TRS funding has fallen every year since 1995. Last year, **CPS received $42.9 million in state funding while TRS received $2.4 billion.** State support for CTPF has gone from $62 million in 1995 to $42.9 million in 2011, while TRS funding has increased more than 700% during the same period. If we had received the amount promised by legislators in 1995, CTPF would have collected an additional $3 billion in revenue during the past 17 years, and our funded ratio would have been well above 80%.

Finding Answers

We have come here today to offer some solutions to our pension crisis. The talk of reform gives us hope and causes us great worry. We hope that as part of a reform package, legislators will offer a solution that guarantees funding for our pensions. History shows, we cannot continue to support pensions without solid revenue, and history has also shown us that time and again, the employer and state have chosen to underfund pensions.

Today we offer testimony on three proposals which are designed to help stabilize our fund and preserve assets.

CTPF Legislative Agenda

A yes vote on SB 3632 will ensure that CTPF receives all money due to the fund and will clarify legislation.

SB 3632: Eliminate the State Offset

Sponsored by Senator Kwame Raoul (D)

The first bill we wish to address is Senate Bill 3632, which would eliminate the CPS practice of offsetting contributions to CTPF by any amount our fund receives from the State of Illinois. This reduces CTPF revenue and further erodes our financial stability.

In 1995 when changes were made to the Illinois pension statutes and CTPF had a sound financial footing, it made sense to allow the employer, CPS, to offset contributions received from the state. Today, however, the situation has changed and our funded ratio has fallen below 60%. It no longer makes sense to allow CPS to reduce its obligation to the Fund.

In fact, the Illinois legislature agreed with this assessment. When CPS received a three-year pension relief package in 2010, the General Assembly eliminated the offset of state revenue for fiscal years 2011 through 2013. CPS has, however, continued to apply the state offset despite the change in law. CTPF has been forced into costly litigation in order to try and recover offset revenue.

Senate Bill 3632 eliminates any offset of state revenue for CPS and clarifies the policy for both agencies. Under this law, beginning in FY 13, any state contribution received by CTPF will be in addition to CPS contributions. The state offset will be restored once the Board has certified that Fund assets equal 90% of Fund liabilities.

If CPS had not applied the state offset to its contributions in years 2009-2011, CTPF would have received an additional $155 million for the three-year period. Continuing to offset state revenue is a fiscal game that CTPF cannot afford.

A yes vote on SB 3632 will ensure that CTPF receives all money due to the fund and will clarify legislation so that all parties understand the expectation of the Illinois legislature.

Senate Bill 3628: Increase State of Illinois Contributions to CTPF

Sponsored by Senators Kwame Raoul (D) and Iris Y. Martinez (D)

State contributions to CTPF have been cut dramatically over the last 3 fiscal years and have failed to live up to the State's 1995 promise to fund CTPF at 20-30% of the amount allocated to the Teachers' Retirement System (TRS).

When the State adopted CTPF's 1995 funding plan, the state contribution to CTPF was about $62 million or about 23% of the amount contributed to TRS. The amount of the contribution made sense, as CTPF also had about 20% of the State's teachers.

Over the next 10 years, however, the amount that CTPF received from the State of Illinois failed to increase in proportion to the amount allocated to TRS. State funding for CTPF remained stagnant from 1995-2009, while the amount contributed to TRS grew by more than 700%.

Faced with a difficult budget situation, the State of Illinois cut its Fiscal Year 2010 CTPF contribution in half to $37.3 million from the 2009 amount of $74.8 million. Contributions in 2011 totaled $42.9 million, and contributions for 2012 have been further reduced to $11 million.

This bill requires the state to uphold its promise to Chicago's teachers. It asks for funding in an amount equal to 10% of the allocation to TRS. These bills require the state to appropriate $270 million to the Fund in Fiscal Year 2013 (10% of the state's FY 2013 contribution to TRS). The proposal provides that state contributions to CTPF shall increase or decrease at a rate proportionate to 10% of TRS contributions.

This proposal does not ask for anything new. Instead, it asks the state to uphold its promise to Chicago's teachers. The promise made in 1995 when the General Assembly amended the Illinois pension statute to declare its intent to appropriate contributions to CTPF equal to 20% to 30% of state contributions to TRS. Since that time, the General Assembly has failed to make such contributions and our efforts to secure state funding equal to 20% of the TRS contribution have failed. We are now asking for 10% of the TRS contribution, even though CTPF now has about 18% of the State of Illinois teachers.

Providing a stable funding source from the State will reduce the required contribution from the City of Chicago and offer a more equitable system for Chicago's teachers and taxpayers. Chicago taxpayers support CTPF pensions and pay for the downstate system, without equal benefit.

SB 3742: Increase Fiscal Year 2013 CPS Contributions to CTPF

Sponsored by Senators Kwame Raoul (D) and Iris Y. Martinez (D)

CPS can no longer push pension obligations into the future and hope for a miracle.

Stability in funding is the reason we support SB 3742. This bill asks CPS to increase its 2013 required contribution from $196 million to $307 million – the amount it paid in 2010 before receiving budget "relief."

The General Assembly reduced CPS required contributions for fiscal years 2011 through 2013 when it adopted the 2059 funding schedule. Unfortunately, the short-term relief caused a long-term increase in payments and cut $1.2 billion in fund revenue. CPS has been making minimum payments and now faces a ballooning debt.

The CPS pension bill for 2014 is expected to increase to $557.5 million from $196 million in 2013. CTPF is asking CPS to make a more realistic, $307 million dollar payment in 2013 in order to ramp up and prepare for larger future payments. CTPF fears that CPS, once again facing a large bill, will ask for additional relief from the legislature, and this simply isn't acceptable.

CPS can no longer push pension obligations into the future and hope for a miracle. We need stable funding to ensure future solvency. A yes vote on senate Bill 3742 will provide CTPF necessary revenue and help CPS adopt a realistic budget expectation of future pension payments.

Conclusion

The 59,000 plus members of the Chicago Teachers' Pension Fund depend on a modest and stable pension to support their retirement security. Our teachers offer a lifetime of service to Chicago's children in exchange for the promise of a secure retirement.

Our Fund has and continues to do its part. We have acted cautiously and invested prudently. We have built a diversified investment portfolio which has exceeded our expected rate of return, but we can't do it alone. We can't invest our way to financial security.

We need revenue.

I wish we could come up with a creative or more nuanced way of making this point, but CTPF is made up of real people with real needs and real revenue is the only answer. Our retirees can't take a "bill payment holiday" when the economy slows. They count on their pensions to pay bills.

Contributions, guaranteed by our employer and the State of Illinois, invested at a steady rate of return, will solve this problem.

Legislation called pension reform must do more than bandage the system. We know that our current unfunded liability exceeds our resources to the point that even if we eliminated benefits going forward – we would still not have enough money to pay for individuals who have already retired. These are benefits for current retirees, promised and guaranteed by the State of Illinois, and they must be fulfilled.

True reform, which offers a funding guarantee from the employer and which asks the State of Illinois to uphold its promise to Chicago's teacher, starts here. We respectfully ask you to support Senate Bill 3628 which asks the State to fund CTPF at an amount equal to 10% of the amount contributed to TRS. We respectfully ask you to support Senate Bill 3742 which sets a realistic CPS contribution to CTPF for 2013. And finally, we respectfully ask you to support Senate Bill 3632 which eliminates the "offsetting" of CPS revenue until the Fund reaches financial stability. These bills represent a start. A way to rebuild. A chance for a sound future.

Passing this legislation though is just the beginning. We know that the governor and Illinois legislature are strongly considering many different ideas to reform pensions, and we would welcome the chance to participate in these discussions. Statewide systems and labor leaders have come together, and we would also welcome the chance to share our views.

So again, I want to thank you for the opportunity to share this information about CTPF. This dialogue is an important one, and I want to thank you especially for this forum and for your time and consideration.

I welcome your questions.

Kevin B. Huber, executive director

CTPF
Chicago Teachers' Pension Fund

Data referenced in this testimony can be found in CTPF's *2011 Comprehensive Annual Financial Report* and in the *2011 Annual Financial Report Summary,* both available at **www.ctpf.org.**