



TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

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R. Stanley Rupnik, Executive Director & Chief Investment Officer

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October 29, 2021

The Honorable JB Pritzker, Governor
Senator Don Harmon, President of the Senate
Senator Dan McConchie, Senate Minority Leader
Representative Chris Welch, Speaker of the House
Representative Jim Durkin, House Minority Leader
Mr. Gene Kalwarski, Cheiron, State Actuary

Re: Preliminary Certification of TRS FY 2023 State Funding Requirement

Gentlemen:

At its board meeting on October 29, 2021, TRS board of trustees certified the preliminary FY 2023 state contribution requirements and results of the preliminary June 30, 2021 actuarial valuation.

The contribution requirements and actuarial valuation results are being submitted to the state actuary for review. If the state actuary agrees with the documentation we submit, the trustees will be asked to provide final certification at the December 2021 board meeting.

As directed by the TRS Legislative Platform, we certify two state funding requirements. One is based on Illinois statute and the other is based on the funding policy adopted by the TRS board. The board's policy, described below, is based on the TRS actuary's recommended methodology for determining contributions to a severely underfunded plan.

The proposed certifications for FY 2023 both include \$300,000 in minimum benefit reimbursements and are detailed in attached Exhibit A:

- **Based on Illinois statute:** **\$5,894,032,209**
- **Based on TRS Board Actuarial Funding Policy:** **\$9,101,633,224**

Assumptions. The preliminary June 30, 2021 actuarial valuation report includes assumptions about the impact of the accelerated pension benefit programs originally contained in Public Act 100-0587 and extended by Public Act 101-0010.

Board Funding Policy. The TRS board's funding policy is based on an actuarial cost method (entry age normal) that assigns costs evenly over a teacher's career instead of backloading them like the statutory cost method (projected unit credit). The board policy funds all of the benefits earned rather than 90 percent of them, and it amortizes the unfunded liability over a closed 20-year period, with subsequent increases in the unfunded liability amortized over subsequent 20-year periods. In contrast, the amortization period required by Illinois statute is a closed 50-year period.

Under the board's policy, state contributions are not limited by the state's debt service on the 2003 pension obligation bonds, and changes in actuarial assumptions are not retroactively phased in. The TRS actuary, Segal Consulting, estimates that compared to contributions required under the statutory method, the state would save about \$10.5 billion in financing costs for the period FY 2023-FY 2045 under the TRS board's funding policy.

Please contact TRS Director of Research Amy Z. Reynolds (areynolds@trsil.org) at 217.814.2272 with any questions about our certifications.

Sincerely,



R. Stanley Rupnik
Executive Director & Chief Investment Officer

Attachments:

- TRS board resolution from October 2021 meeting
- Segal's Exhibit A showing calculations
- June 30, 2021 Preliminary Actuarial Valuation, prepared by Segal Consulting

FY 2023 STATE CONTRIBUTION TO TRS (TWO AMOUNTS)

I certify that the following resolution was adopted during the Regular Board meeting of the TRS Board of Trustees on October 29, 2021:

Resolved: To accept the results of the preliminary June 30, 2021 actuarial valuation as presented by Segal Consulting:

- Based on Illinois statute, an FY 2023 state funding amount of \$5,894,032,209, including \$300,000 for minimum retirement benefits;
- Based on the board's funding policy, an FY 2023 state funding amount of \$9,101,633,224, including \$300,000 for minimum retirement benefits;
- An FY 2023 total normal cost rate of 19.49 percent of pay, a rate that includes a total employer normal cost rate of 10.49 percent and a member contribution rate of 9.00 percent;
- An FY 2023 federal contribution rate of 10.49 percent of pay, a rate that is identical to the total employer normal cost rate.

The preliminary June 30, 2021 actuarial valuation report includes revised actuarial assumptions about the impact of the accelerated pension benefit programs originally contained in Public Act 100-0587 and extended by Public Act 101-0010.

These proposed amounts and rates are being submitted to the state actuary and will be resubmitted to the board for final approval in December 2021 if they are accepted by the state actuary.



R. Stanley Rupnik
Executive Director & Chief Investment Officer
October 29, 2021

Exhibit A

Summary of State Contributions under Illinois Pension Code and Board-Adopted Actuarial Funding Policy	Fiscal Year 2023
1. Based on Statutory Funding Plan	
Total State Contribution for fiscal year 2023:	
a. Benefit Trust Reserve*:	
i. 53.15% of membership payroll	\$ 6,209,687,457
ii. Minus School Districts Contributions:	
(0.58% of membership payroll)	(67,758,874)
(6% FAS cap increases)	(4,106,777)
(10.49% of membership payroll above the Governor's salary)	(3,939,577)
iii. Minus Federal Funds Contribution	
(10.49% of membership payroll from federal funds)	(24,510,020)
iv. Minus phase-in of the effect of assumption changes	(215,640,000)
v. State Contribution	<u>\$ 5,893,732,209</u>
b. Guaranteed Minimum Annuity Reserve	300,000
c. Total State Contribution (current law)	<u>\$ 5,894,032,209</u>
2. Based on Board-Adopted Actuarial Funding Policy**	
a. Benefit Trust Reserve*:	
i. Normal cost plus amortization	\$ 9,201,648,472
ii. Minus School Districts Contributions	
(0.58% of membership payroll)	(67,758,874)
(6% FAS cap increases)	(4,106,777)
(10.49% of membership payroll above the Governor's salary)	(3,939,577)
iii. Minus Federal Funds Contribution	
(10.49% of membership payroll from federal funds)	(24,510,020)
iv. State Contribution	<u>\$ 9,101,333,224</u>
b. Guaranteed Minimum Annuity Reserve	300,000
c. Total State Contribution	<u>\$ 9,101,633,224</u>
3. Total Normal Cost and Employer Normal Cost Rate for Fiscal Year 2023	
a. Total Normal Cost Rate (including administrative expenses)	19.49%
b. Member Rate	<u>-9.00%</u>
c. Employer Normal Cost Rate	10.49%
4. Federal Contribution Rate (Employer Normal Cost Rate, per PA 100-0340)	10.49%

* Expected fiscal year 2023 membership payroll is \$11,682,564,466

** Board-Adopted Actuarial Funding Policy is based on the entry age normal actuarial cost method, current asset valuation method and an amortization policy as follows:

- 20-year closed amortization of Unfunded Actuarial Accrued Liability (UAAL) beginning with Fiscal Year 2017
- Use layered amortization, with new UAAL after Fiscal Year 2017 being amortized over 20 years regardless of source
- Amortization payment increase at the rate of future State revenue growth (assumed to be 2.0%)
- Minimum total contribution is no less than the normal cost in any given year