State of Illinois
COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY
703 Stratton Ofc. Bldg., Springfield, IL 62706
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February 1, 2016

TO: Honorable John Cullerton
President of the Senate

Honorable Michael Madigan
Speaker of the House of Representatives

Honorable Christine Radogno
Senate Minority Leader

Honorable Jim Durkin
House Minority Leader

FROM: Dan R. Long, Executive Director

RE: Review of Early Retirement Option for TRS

Pursuant to Public Act 94-0004 (SB 0027), the Commission on Government Forecasting and Accountability hereby submits its actuarial review of the proportional adjustments to member and employer contributions under the Teachers' Retirement System Early Retirement Option (ERO). Members of TRS between the ages of 55 and 60 who have at least 20 but less than 35 years of service may utilize ERO as a way of retiring without a discounted annuity. TRS' consulting actuary, Buck Consultants, has recommended adjustments to the ERO rates as follows:

- Member contributions: 10.8% (currently 14.4%)
- Employer contributions: 22.0% (currently 29.3%)

Under P.A. 94-4, if the General Assembly fails to adjust the member and employer contribution rates in response to CGFA's recommendation, then the ERO is terminated and shall cease to be available at the end of the fiscal year in which the Commission made its recommendation to the General Assembly. In this case, pursuant to P.A. 98-0042, lack of action by the General Assembly would result in the termination of ERO on June 30, 2016.

Attached is a letter from TRS outlining Buck's recommendation pursuant to the TRS experience study of June 30, 2015. Also attached is a letter from CGFA's consulting actuary, Segal. Segal has reviewed the revised ERO rates as recommended by Buck and has found them to be reasonable.

If you should have any further questions, please do not hesitate to contact me.

DRL:dkb
attachments
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TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS

Richard W. Ingram, Executive Director
2815 West Washington Street, P.O. Box 19253
Springfield, Illinois 62794-9253

January 6, 2016

Mr. Dan Long, Executive Director
Commission on Government Forecasting & Accountability
703 Stratton Building
Springfield, IL 62701

Re: Lump Sum Rates Under Early Retirement Option

Dear Director Long:

Under 40 ILCS 5/16-176, the TRS actuary is required to study the sufficiency of contributions under the Early Retirement Option (ERO) every three years. Buck Consultants' August 2015 actuarial experience analysis, which is enclosed, found that the member and employer lump sum contributions under Section 16-133.2 and the 0.4% member contribution under Section 16-152 cover more than the actuarial cost of the unreduced benefits.

CoGFA is to recommend to the General Assembly any proportional adjustments to the lump sum rates under Section 16-133.2. Buck's calculations of the proportional adjustments are shown on page 20 of the report and assume the current 0.4% active member contribution is unchanged. The figures below are based on the 7.50% investment return assumption that was adopted in 2014 and all other assumptions adopted in the 2015 experience study.

- 10.8% member (currently 14.4% under Section 16-133.2(d))
- 22.0% employer (currently 29.3% under Section 16-133.2(d))

The 10.8% and 22.0% lump sum rates assume the current ERO program is extended in its current form through July 1, 2019. TRS would re-examine the rates in the 2018 experience analysis.

Sincerely,

Richard W. Ingram
Executive Director

Enc. (2): 40 ILCS 5/16-176, Statutory Reference
Experience Analysis, Buck Consultants, August 2015

cc: Dan Hankiewicz, Pension Manager

Requirement for Actuarial Study of the Early Retirement Option

(40 ILCS 5/16-176) (from Ch. 108 1/2, par. 16-176)

Sec. 16-176. To adopt actuarial assumptions. At least once every 3 years, the actuary, as technical advisor, shall make an actuarial investigation into the mortality, service and compensation experience of the members, annuitants, and beneficiaries of the retirement system. Based upon the result of that investigation, the board shall adopt such actuarial assumptions as it deems appropriate.

The actuarial investigation required under this Section shall include the System's experience under the early retirement without discount option established in Section 16-133.2, including consideration of the sufficiency of the member and employer contributions under Section 16-133.2 and the active member contribution under Section 16-152 to adequately fund the early retirement without discount option. The Board shall promptly communicate the results of the actuarial investigation to the Commission on Government Forecasting and Accountability. Based on the actuarial investigation, the Commission on Government Forecasting and Accountability shall, no later than February 1 of the next year, recommend to the General Assembly any proportional adjustment in the amounts of the member and employer contributions under Section 16-133.2 that it deems necessary.

The early retirement without discount option under subsection (c) of Section 16-133.2 is extended as provided in subsection (d) of that Section. The early retirement without discount option under subsection (d) of Section 16-133.2 terminates on July 1, 2016.

(Source: P.A. 98-42, eff. 6-28-13; 99-232, eff. 8-3-15.)

SEGAL

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January 27, 2016

Via E-Mail

Dan R. Long
Executive Director
Commission on Government Forecasting and Accountability
703 Stratton Office Bldg.
Springfield, IL 62706

Re: Analysis of ERO Experience as Required by 40 ILCS 5/16-176

Dear Dan:

As requested, we have performed an analysis of the experience under the Early Retirement Option (ERO) required by Section 16-176 of the Illinois Pension Code. This analysis is based upon a review of the TRS Investigation of Demographic and Economic Experience report covering the three-year period July 1, 2011 to June 30, 2014, as well as information from Buck Consultants, the TRS actuary, provided by TRS staff via e-mail dated January 22, 2016.

Existing lump sum contribution rates for the ERO were 14.4% for members and 29.3% for employers. Based on information supplied by Buck Consultants, forfeitures of the 0.4% member contributions and investment earnings on ERO balances were estimated to cover approximately $23.2 million of the value of estimated ERO elections of $41.7 million. The existing lump sum ERO contribution rates were projected to be $24.8 million, which is 134% of the $18.5 million shortfall. Therefore, Buck recommended 25% reductions to both the member and employer lump sum ERO contribution rates.

Based on our review, we believe the recommended contribution rates of 10.8% of salary for members and 22.0% of salary for employers are reasonable.

Please let us know if you have any questions.

Sincerely,

Matthew A. Strom

Matthew A. Strom, FSA, MAAA, EA
Vice President and Actuary

cc: Mr. Dan Hankiewicz
Ms. Kim Nicholl

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