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State of Illinois
COMMISSION ON GOVERNMENT
FORECASTING AND ACCOUNTABILITY
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<http://www.ilga.gov/commission/cgfa2006/home.aspx>

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Al Riley
Mike Tryon

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January 10, 2013

Honorable John Cullerton
President of the Senate

Honorable Michael Madigan
Speaker of the House of Representatives

Honorable Christine Radogno
Senate Minority Leader

Honorable Thomas Cross
House Minority Leader

Pursuant to Public Act 94-0004 (SB 0027), the Commission on Government Forecasting and Accountability hereby submits its actuarial recommendation for 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. P.A. 94-0004, which took effect on June 1, 2005, implemented new member and school district ERO contribution rates, and the Act further specified that CGFA must make a recommendation to the General Assembly before February 1, 2013 on the actuarial sufficiency of the member and employer contribution rates. TRS' actuary, Buck Consultants, has recommended revised member and employer contribution rates as follows:

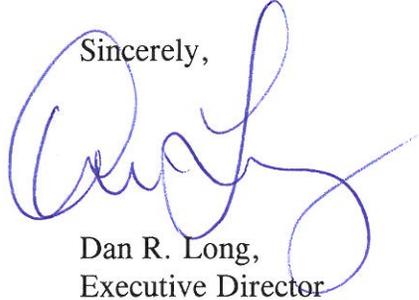
- Member contribution: 14.4% (currently 11.5%)
- Employer contribution: 29.3% (currently 23.5%)

The revised contribution rates were developed by Buck as part of their five-year actuarial experience study of TRS for the period ending June 30, 2012. The Commission's consulting actuary, Sandor Goldstein, has reviewed Buck's revised contribution rates and has found them to be sufficient to fund 100% of the ERO benefit. Therefore, it is our recommendation that the ERO member and employer rates be revised in accordance with Buck's actuarial investigation at the rates outlined above. We also recommend that the 0.4% active member contribution rate be unchanged.

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, lack of action by the General Assembly would result in the termination of ERO on June 30, 2013.

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

Sincerely,



Dan R. Long,
Executive Director

DRL:dkb
attachments/2

S356

cc: Senator Kwame Raoul, Pension Committee Chair
Senator Dan Duffy, Pension Minority Spokesman
Representative Elaine Nekritz, Pension Committee Chair
Representative Raymond Poe, Pension Minority Spokesman
Erik Dillman, Senate Republican Pension Staff
John Hamman, House Democratic Pension Staff
Mike Mahoney, House Republican Pension Staff
Eric Madier, Senate Democratic Legal Counsel



Teachers' Retirement System of the State of Illinois

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December 19, 2012

Mr. Dan Hankiewicz, Pension Manager
Commission on Government Forecasting & Accountability
703 Stratton Building
Springfield, IL 62701

Re: Study of the Early Retirement Option Required under Public Act 94-0004

Dear Dan:

Public Act 94-0004 required the 2012 TRS experience analysis to study the sufficiency of contributions under the Early Retirement Option (ERO). Buck Consultants' August 2012 study, 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 do not cover all of the actuarial cost of the unreduced benefits.

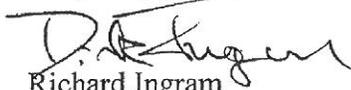
Based on the experience analysis, CGFA is to recommend to the General Assembly any proportional adjustments to the lump sum rates under Section 16-133.2. Buck's calculations of the proportional adjustments are shown on page 37 of the report and assume the current 0.4% active member contribution is unchanged. The figures below are taken from the 8.0% column since the board adopted an investment return assumption of 8.0%.

- 14.4% member (currently 11.5% under Section 16-133.2)
- 29.3% employer (currently 23.5% under Section 16-133.2)

As you know, the TRS Board of Trustees adopted a 6.0% salary increase assumption rather than the 6.5% recommended in the report. This difference did not affect the lump sum rates shown.

Please contact me if you have any questions.

Very truly yours,


Richard W. Ingram
Executive Director

Enclosures:

- Section of Public Act 94-0004 requiring ERO study
- Investigation of Demographic & Economic Experience, Buck Consultants, August 2012

GOLDSTEIN & ASSOCIATES
Actuaries and Consultants

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January 4, 2013

Mr. Dan Hankiewicz
Commission on Government
Forecasting and Accountability
Room 703
Stratton Office Building
Springfield, Illinois 62706

Re: Study of Early Retirement Option Experience Required under Section 16-176 of Pension Code

Dear Dan:

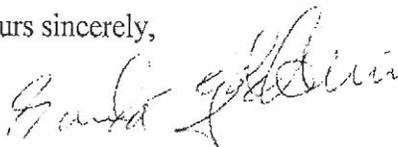
Section 16-176 of the Illinois Pension Code requires that the 2012 experience analysis for TRS include a study of the sufficiency of the contributions under the Early Retirement Option (ERO). You have provided me with a copy of report prepared by Buck Consultants on the TRS Experience Analysis for the five year period July 1, 2006 – June 30, 2011, dated August 2012. You have asked me to review the portions of this report that pertain to experience under the Early Retirement Option. I have performed such a review and have found the increases in member and employer contributions recommended by Buck Consultants to be reasonable.

Under current law, the member lump sum contribution for the ERO is 11.5% of salary and the employer lump sum contribution is 23.5% of salary. According to the report, under the 8% interest rate assumption which has been adopted by the TRS board, these member and employer lump sum contributions plus the active employee contribution of .4% of salary are projected to cover 86% of the cost of the ERO. The report recommends that in order to cover 100% of the cost of the ERO, the member lump sum contribution needs to be increased to 14.4% of salary and the employer lump sum contribution needs to be increased to 29.3% of salary.

Therefore, based on my review of the law pertaining to the ERO and of the report prepared by Buck Consultants regarding their Experience Analysis of TRS for the five year period July 1, 2006 – June 30, 2011, member lump sum contributions for the ERO should be increased to 14.4% of salary and employer lump sum contributions for the ERO should be increased to 29.3% of salary.

If you have any questions regarding the above, please let me know.

Yours sincerely,



Sandor Goldstein
Consulting Actuary