



Illinois State Board of Education

James T. Meeks, Chairman

Tony Smith, Ph.D., State Superintendent

Illinois School Funding Reform Commission Meeting Minutes

Meeting Summary as Approved by Commission Members

Wednesday, December 21, 2016

12:00–3:00 p.m.

- Illinois State Board of Education, Videoconference Room (3rd Floor) 100 N. First St., Springfield, Illinois
- Illinois State Board of Education, Videoconference (14th Floor) 100 W. Randolph, Suite 14-300, Chicago, Illinois

Attendees

Commission Members

Springfield

Jason Barickman
Senator, 53rd District

Andy Manar
Senator, 48th District

Chicago

Fred Crespo
*Representative,
44th District*

Sheri Jesiel
*Representative,
61st District*

Karen McConnaughay
Senator, 33rd District

Barbara Flynn Currie
*Representative,
25th District*

Iris Martinez
Senator, 20th District

Bob Pritchard
*Representative,
70th District*

Will Davis
*Representative, 30th
District*

Rita Mayfield
*Representative,
60th District*

Beth Purvis (Chairperson)
Secretary of Education

Emily McAsey
*Representative,
85th District*

Sue Rezin
Senator, 38th District

Call-In Participant

Avery Bourne
*Representative
95th District*

Daniel Biss
Senator, 9th District

Jennifer Bertino-Tarrant
Senator, 49th District

Illinois State Board of Education (ISBE) Staff

Jason Hall
*Division Administrator,
State Funding and
Forecasting*

Allie Lichterman
*Office of the State
Superintendent*

Tony Smith
*State Superintendent of
Education*

Leticia Pickens
*Policy Analyst, State
Funding and Forecasting*

Robert Wolfe
Chief Financial Office

Midwest Comprehensive Center (MWCC) Staff

Jeremy Rasmussen

Meeting Objectives

- Gain familiarity with how Illinois' teacher pensions affect school funding

Opening

Dr. Beth Purvis, chairperson, called the meeting to order at 12:05 p.m. Twenty-two members were in attendance, and a quorum was present.

Dr. Purvis said that the meeting today was going to be around teachers' pensions in relation to education funding.

There was then a brief discussion on how the upcoming working groups will function.

Representative McAsey asked if the open meeting format will continue.

Dr. Purvis said the weekly open meeting format will continue and that the working groups are supplemental.

Senator Martinez said she was worried about redundancies [in terms of subjects already covered] in the working groups.

Dr. Purvis said in the last meeting there was consensus for there to be a framework that would be delivered to the General Assembly. She said that there are specific questions in each of these subgroups and that it was decided that it was hard to come to decisions on these specific questions with twenty-five people.

Representative Crespo asked what happens if we don't get twenty-two names behind this framework?

Dr. Purvis said hopefully we will be able to get the twenty-two names. If we don't get to twenty-two names then at least everyone would leave more informed about issues regarding the state funding formula.

Senator Rezin said that the commission has only covered evidence-based funding model. She asked if the commission will be looking at other models?

Dr. Purvis said the upcoming distribution model working group will be important in terms of deciding what model will ultimately be used.

Senator Manar asked if we can put a bookend on the working groups that stipulates a report needs to be provided by a certain date.

Dr. Purvis said she believes that some of the working groups are going to have a faster turnaround than others. She said when the subgroups first meet that they will hopefully discuss how many meetings it will take to get through their topic.

Representative McAsey questioned how working groups on specific topics will come to consensus when so many pieces are contingent upon each other.

Dr. Purvis responded that having her and caucus staff present in every working group will allow them to make connections between the groups.

Senator Manar asked what if working groups can't come to consensus and they slow the work down?

Dr. Purvis said her hope is for these working groups to move as quickly as possible where they would come back to the larger group with a recommendation for consensus. She offered her assurance that no one wants the success of the Commission more than she does.

Presentations

Pensions: Overview of Current System (Presentation by Richard Ingram)

Mr. Ingram said the numbers that are in the handout are based on FY 2018. He said they have been certified by the Board of the Teachers' Retirement System but have not yet been transmitted to the Governor.

Mr. Ingram first discussed the actuarial equation, which is based on contributions + investment earnings + benefits earned. He said that benefits earned are subject to constitutional protection.

Mr. Ingram said that investment earnings over the long term have exceeded actuarial assumptions on rate of return. He then went over where contributions come from:

- Members at a statutory level each pay period
- Local school districts
- State of Illinois

Mr. Ingram said that full funding of 100% of the liability is always the goal. He said any funding level less than 100% can still be seen as sound as long as there is a demonstrated and credible history of steady progress toward full funding.

Mr. Ingram then talked about how the contribution should be calculated. He said that actuaries use a model that considers both economic and demographic factors to calculate the total contribution required to fund pensions.

Mr. Ingram said the model assembles those factors and calculates two amounts 1) The normal cost (the cost of pension earned with each year of service) and 2) an amount that amortizes any previous unfunded liability. He said the total annual cost to fund pensions is the sum of these two items.

Mr. Ingram said an unfunded liability can arise when prior contributions are not actuarially adequate and when the economic and demographic factors actually experienced are different than what is assumed in the model.

Mr. Ingram then talked about how the contribution is calculated in Illinois. He said there are a number of specific requirements in the Illinois pension law that reduce the contributions as defined in statute to well below an actuarial contribution. He then discussed these factors.

Mr. Ingram said Illinois has done just about everything possible to backload and reduce the current pension contribution in statute. He said if you look at the liability on the books today, about 65% of it relates to members who are already retired and collecting a benefit. He said most of the remaining liability is for active members who are in the late stages of their career. He said this means there is little room for reducing existing liability by legislation.

Mr. Ingram then talked about the current funding status of TRS. He said the TRS equation today is badly unbalanced. He said the funded ratio for the system is 39.8% on an actual basis, 38.1% on a market value basis. He said the state has less than \$0.50 on the dollar to pay benefits for retired members and \$0 accumulated for future benefits due to active members.

Mr. Ingram then moved onto how the total cost is shared in the state. He said, except for in Chicago, the cost of pensions being earned during a given fiscal year is expressed as a percentage of total payroll across all employers. He said this cost sharing should be evaluated in the context of the fact that members of TRS are not participating in Social Security. He said that all payrolls are assessed at the same rate with no regard to differing pay scales or capacity of the local district. He noted that the employer's total cost is described as a percentage of the projected total payroll of all school districts in a given year.

Mr. Ingram mentioned that the General Assembly removed the authority to set the rate from the TRS board. The impact of this change has seen grant money intended to help the neediest students instead diverted to pay unfunded pension liability.

State Superintendent Smith said most of these dollars come from Title I funds, which mostly serve highest need students. He said that more than half of Illinois' student population is high needs. When you take money from Title I funding, it is a direct disservice to the kids in greatest need.

Mr. Ingram then talked about the costs shifts from state to local districts, which include impact on local property taxes, especially through the PTELL adjustment and responsibility for unfunded liability.

Mr. Ingram also discussed how Tier II members currently overpay for their benefit and referred to the current Illinois structure essentially subsidizes between tiers.

Representative Mayfield said when you talk about cost shifting from local districts and you are wanting the same authority as Illinois Municipal Retirement Fund (IRMF) to collect money, wouldn't that essentially force a district to raise property taxes in order to offset those costs?

Mr. Ingram said he would imagine so, yes [though he was not advocating for this position].

There was then a discussion around property taxes and holding them in check.

Representative Currie noted that that the state is not the employer of the public school employees and therefore is not at any collective bargaining tables, yet is still held to whatever is agreed upon when pensions are negotiated.

Representative McAsey asked if anyone could speak to the history of why Chicago has a separate pension system from the rest of the state.

Mr. Burbridge said the Chicago Teachers' Pension Fund is over 120 years old and predates the state's pension system.

Representative Pritchard asked when we talk about school districts and raising the liability of the state to pay for pensions, what's the impact of the final 6% in the last four years of a teacher's contract?

Mr. Ingram said that issue has been muted with the change in the law that requires local school district to pay excess pensions for end of career rates over 6%.

Representative Crespo said the goal is to fund these (pensions) at 100% unless we can demonstrate a history of steady progress toward full funding. He then asked Mr. Ingram to describe what that might look like.

Mr. Ingram said it's going to depend on the facts and circumstances of any particular system.

Representative Crespo then asked Mr. Ingram for his opinion on freezing property taxes.

Mr. Ingram said that's a double-edged sword. He said he understands the political desire to do that, but it often proves impractical.

Senator Rezin asked how long until the bonds are paid off, in addition to the \$6 billion related to pensions.

Mr. Ingram responded that it varies by bonds; the first may be paid off in 3 years, but others not for 20.

Dr. Purvis asked how many districts cover the full 9% with the Congressional Budget Office (CBO).

Mr. Ingram said about half.

Senator Manar asked Mr. Ingram to talk more about how higher salary districts will receive more money from the pension system.

Mr. Ingram said that's because 44% of what the state pays is assessed against the total payroll.

Senator Manar asked if it was possible to see a spread starting with zero per pupil spending for pensions all the way up to the most per pupil by school district. He said the districts with most teachers per pupil that spend the most would be at the higher end.

Mr. Ingram said he thinks he could provide that information with help from ISBE.

Senator Manar asked if a list could be produced that shows school districts that have peaked in their liability due to layoffs.

Mr. Ingram said that list likely could be produced.

Senator Manar also requested a list of districts that have pensions spiked with penalties (the cost they have pay ISBE after the bill was passed).

Representative Crespo mentioned that those districts were mentioned in the Daily Herald.

Representative McAsey asked if it is also possible to include the information about the levels poverty in each of those districts?

Dr. Purvis said that should be possible.

Presentations

Chicago Teacher's Pension Fund (Presentation by Chuck Burbridge)

Mr. Burbridge said that somebody always has to pay for the normal cost, it's just a question whether it comes out of the direct state distribution or distribution from the school districts. He said you could come up with a program where everyone is held harmless. He said the only increment you are trying to deal with is the \$250 million of normal cost to the CPS. He said if you are dealing with downstate contributions you're already making cost contributions and the money is there.

Representative McAsey asked when TRS emerged, why did Chicago continue to be its own independent entity as a pension system.

Mr. Burbridge did not have the answer for that.

This led to a prolonged conversation about the history of Illinois pension system.

Mr. Burbridge said TRS is not coordinated with Social Security, so the teacher pension is the only pension teachers are going to get. He said the reason they are able to do that is because theoretically the benefits are better than what you would get out of Social Security.

Mr. Burbridge said the members' role in keeping their promises is that teachers are supposed to work and pensions are supposed to be compensation for that work.

Representative Pritchard asked if state policy around how you can invest pension dollars has limited the rate of returns.

Mr. Burbridge said he does not find any of the state's statutes around pensions restrictive. He said what hurts investment returns has to do with being underfunded and because of how we are paying out our assets, we cannot invest in manner that a well-funded investment plan can.

Mr. Ingram talked briefly about how the state restrictions for Iran, Sudan, and Israel that were enacted have cost pensions money (though not a lot).

Mr. Burbridge said that Chicago teacher pensions are missing about 3 billion dollars in contributions because of the changes to the law. He said that Illinois teacher pensions are about 50% funded. He said that most states are much better funded and that Illinois is really the outlier.

Mr. Burbridge touched upon how 26% of ISBE general funds appropriations went to CPS. He also touched upon state contributions to TRS and state contributions to Chicago Teachers' Pension Fund (CTPF). He said the state contributes next to nothing to CTPF.

Mr. Burbridge said around 50% of schools districts do an employer pick-up¹ as well as charter schools. He said the amount of pick-up is included in final average salary and that pick-up is not taxed in the year contribution was made. He said that pick-up is less expensive to employer than equivalent salary.

Mr. Burbridge said if CTPF were fully funded and investment returns matched actuarial assumption, then 100% of 1.3 billion in benefits would be paid by investment returns. He said that since CTPF is only 50% funded, only 60% of benefits are paid by investment returns.

Representative Pritchard said the legislator gave the system a holiday for three years, why did teachers go along with that holiday.

Mr. Burbridge said he was unable to speculate on that.

Senator Barickman asked if the benefits that the members to CTPF receive are the same or different than TRS? To the extent that they are different, could we get a side-by-side comparison of the two? He also asked who sets those benefits.

Mr. Burbridge said pension benefits are set by the state. He said the basic pension benefits between CTPF and TRS are the same.

Senator Barickman asked where do Chicago teachers receive their health benefits from?

Mr. Burbridge said the statute authorizes the Chicago Teachers' Pension Fund to spend \$65 million a year to subsidize premiums.

Senator Barickman said, within CPS you have many schools, are the salaries paid to the individual teachers consistent from one school to the next within the CPS system?

Someone (not a commission member) said that would likely vary across districts.

Senator Barickman said his question was within CPS where is that normal cost accruing from? He said he believes it is a question of payroll across the CPS system.

¹ Contributions made by the employer to an employee retirement plan.

Mr. Ingram said that information might be hard to assess because we are always assessing from the employer level. He said it might interesting to see how the employer is rolling out their payroll, but from a pension point of view there is no reason to capture that information.

Mr. Derek Blaida said he wasn't sure if the Chicago Board of Education breaks down the spending by six-hundred individual schools. He said he believes it is one aggregate salary number off of which the calculation is made.

Senator Barickman asked, how do we know that the dollars that we appropriated to CPS actually get to the schools within CPS who need the money?

Mr. Wolfe said one of the new requirements under ESSA is the requirement for the state education agency to include in their school report card spending by school within district on a per pupil basis.

Senator Barickman said that might put a spotlight on the problem, but it does not change what is happening. He said the commission has not discussed any solutions that seem to get to that next level of how to get those dollars to the schools in need.

Senator Rezin asked if there is any talk with CPS to adjust their return on investment.

Mr. Burbidge said in our annual report we include what the contribution change is with a plus or minus in our actual returns. He said he does not have the number, but that it would be significant.

There was then a discussion around mandates.

Dr. Purvis said there has been a discussion in the working groups on mandates that involve driver's education, daily PE, and third party contracting. She said some these districts can now get waivers for these mandates, but some of those waivers run out and you can't ask for them again. She said she will distribute to the group a list of all the mandates as the schools see them.

Ms. Deanna Sullivan said there have been a 148 additional unfunded mandates since the year 2000.

Dr. Purvis thanked everyone for the robust conversation.

Senator Rezin made the motion to approve the meeting minutes from 12/14/16. Representative Pritchard seconded.

Meeting adjourned at 2:51