

Chicago Teachers' Pension Fund

Keeping the Promise

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www.ctpf.org

Illinois Pensions and Social Security

- State workers were left out of the original Social Security Act (SSA) in 1935, initially because of concerns whether the federal government could tax state and local governments.
- States were given the opportunity to extend coverage to public sector workers in the '40s and '50s.
- A handful of states (including Illinois) bet they could provide better coverage through state pension plans alone than through the combination of a pension and Social Security. These plans must meet IRS safe-harbor rule to continue the exemption from SSA.
- Illinois State Employees' Retirement System, created in 1944, is coordinated with SSA.
- CTPF and TRS, created in 1895 and 1939, respectively, are not coordinated with SSA.
- Questions have been raised as to whether Tier II meets safe-harbor rule.

But wait! There's more...

“Membership in any pension or retirement system of the State....shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired.”



Members' Role in Keeping the Promise

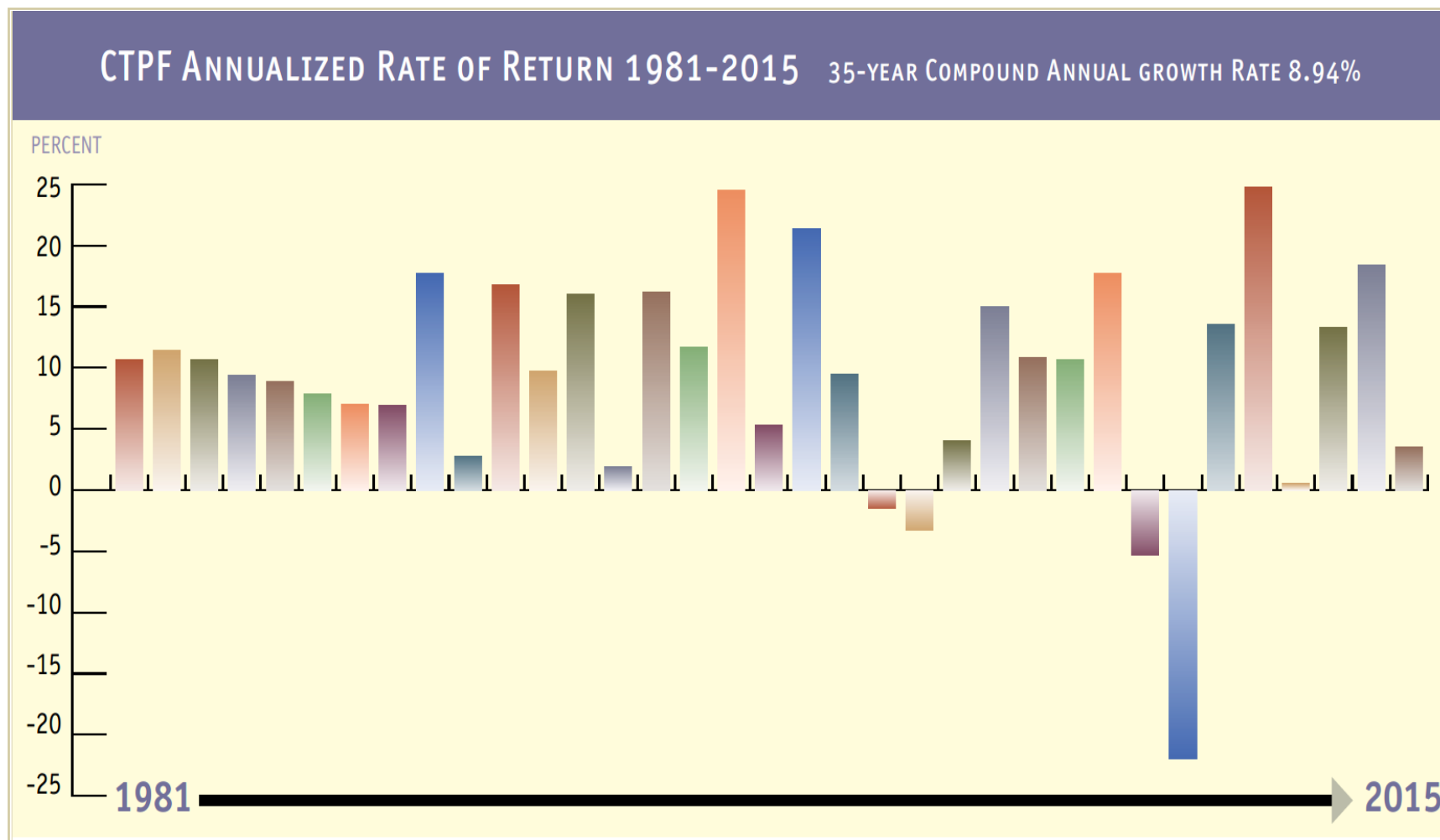
NUMBER OF RETIREES AND BENEFICIARIES AND AVERAGE PENSION

FISCAL YEAR	RETIREES AND BENEFICIARIES	AVERAGE PENSION
2006	22,105	\$ 34,578
2007	23,623	36,165
2008	23,920	37,828
2009	24,218	38,913
2010	24,600	40,169
2011	25,199	41,584
2012	25,926	43,049
2013	27,440	44,638
2014	27,722	45,792
2015	28,114	46,947

CONTRIBUTING MEMBERS AND AVERAGE SALARY

FISCAL YEAR	ACTIVE CONTRIBUTORS	AVERAGE SALARY
2006	34,682	\$ 56,062
2007	32,968	56,515
2008	32,086	59,670
2009	31,905	62,567
2010	31,012	67,727
2011	30,133	69,364
2012	30,366	69,757
2013	30,969	69,321
2014	30,654	70,133
2015	29,706	72,565

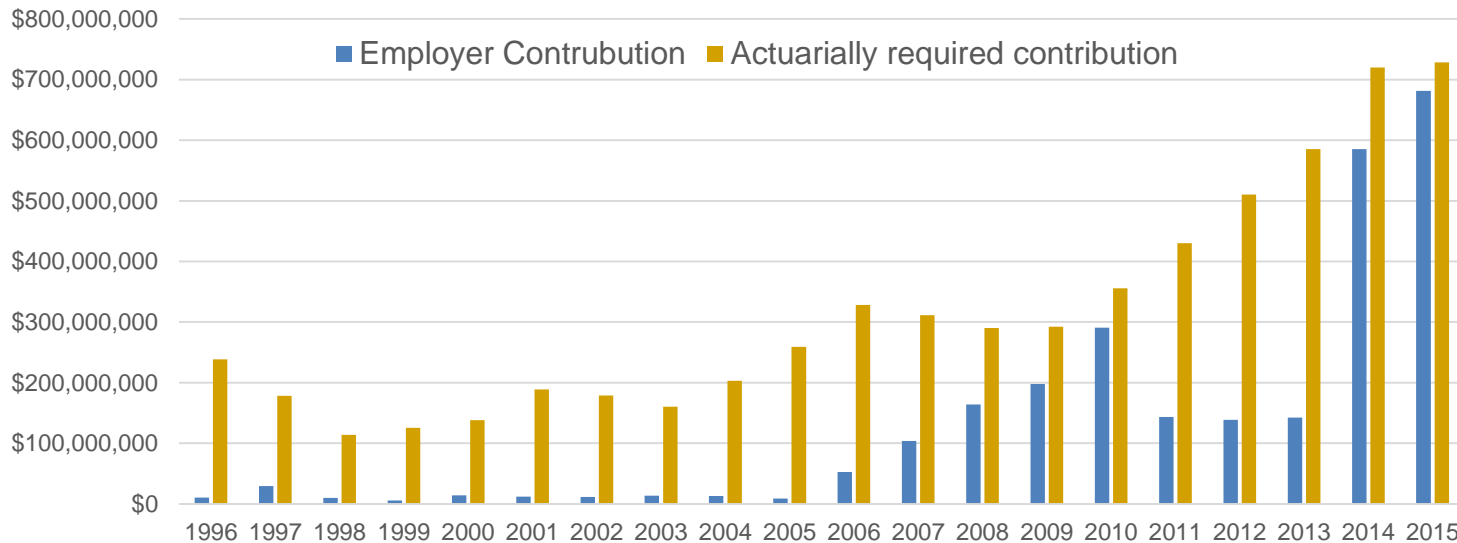
Pension Fund's Role in Keeping the Promise



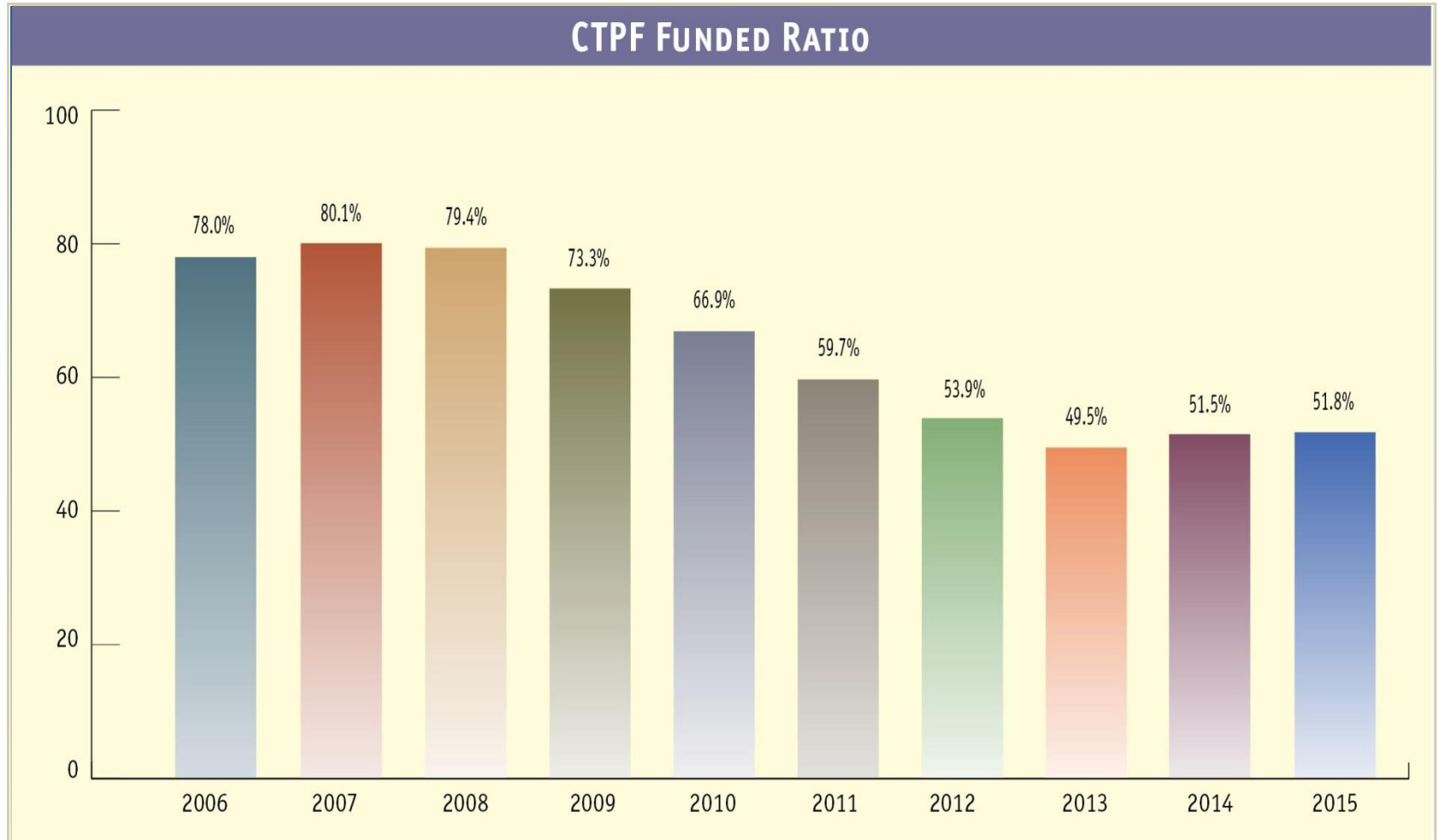
Employer's Role in Keeping the Promise

- ❑ June 30, CTPF received balance of full 2015 employer contribution, a total of \$681 million
- ❑ Second year that CTPF has received a full employer contribution after three-year pension holiday and 20 years of underfunding

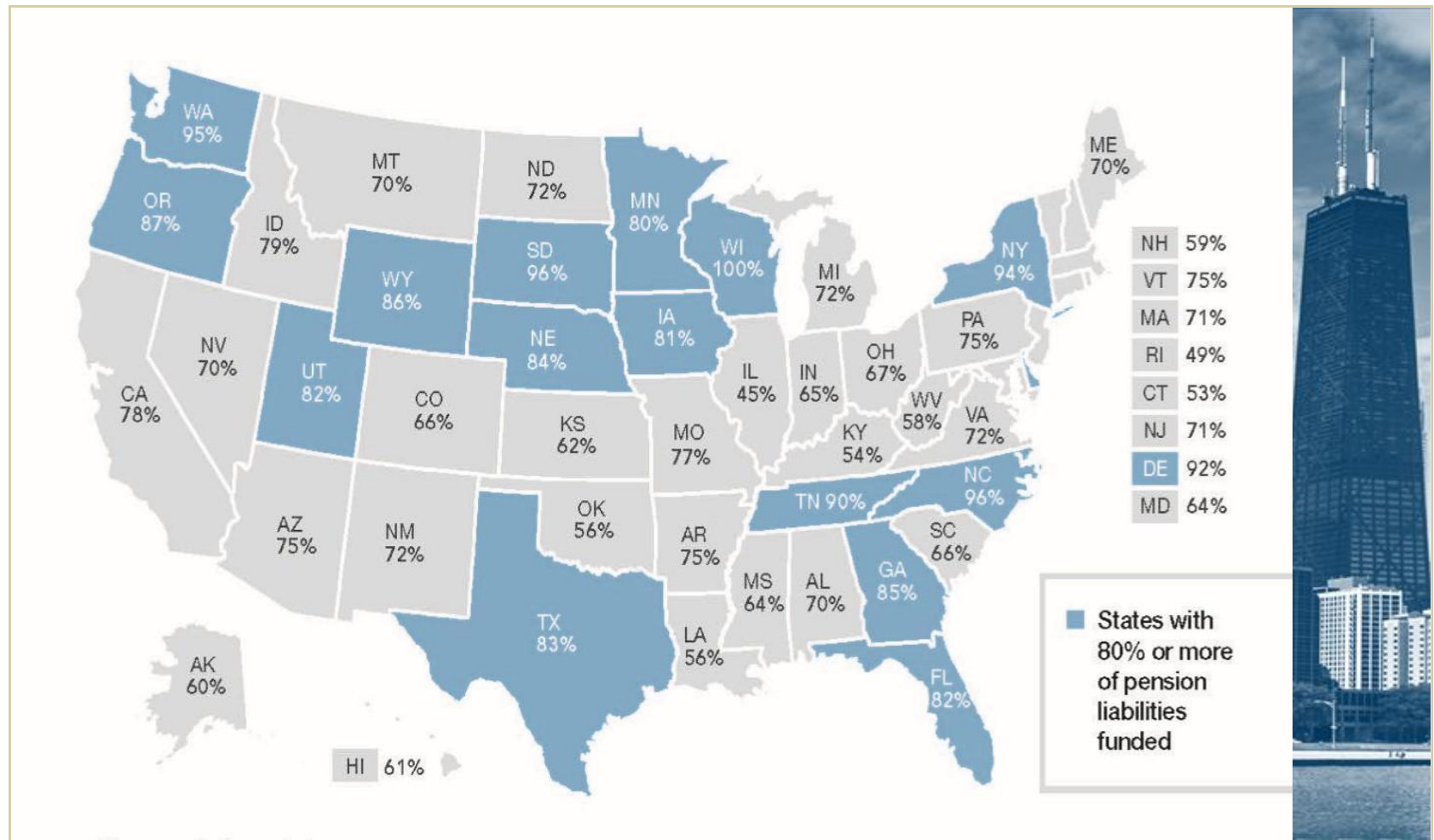
Employer Contributions v. Actuarially Required Contribution



Impact of Employer Underfunding



National Pension Funding



Risk, Risk, Who's got the Risk!

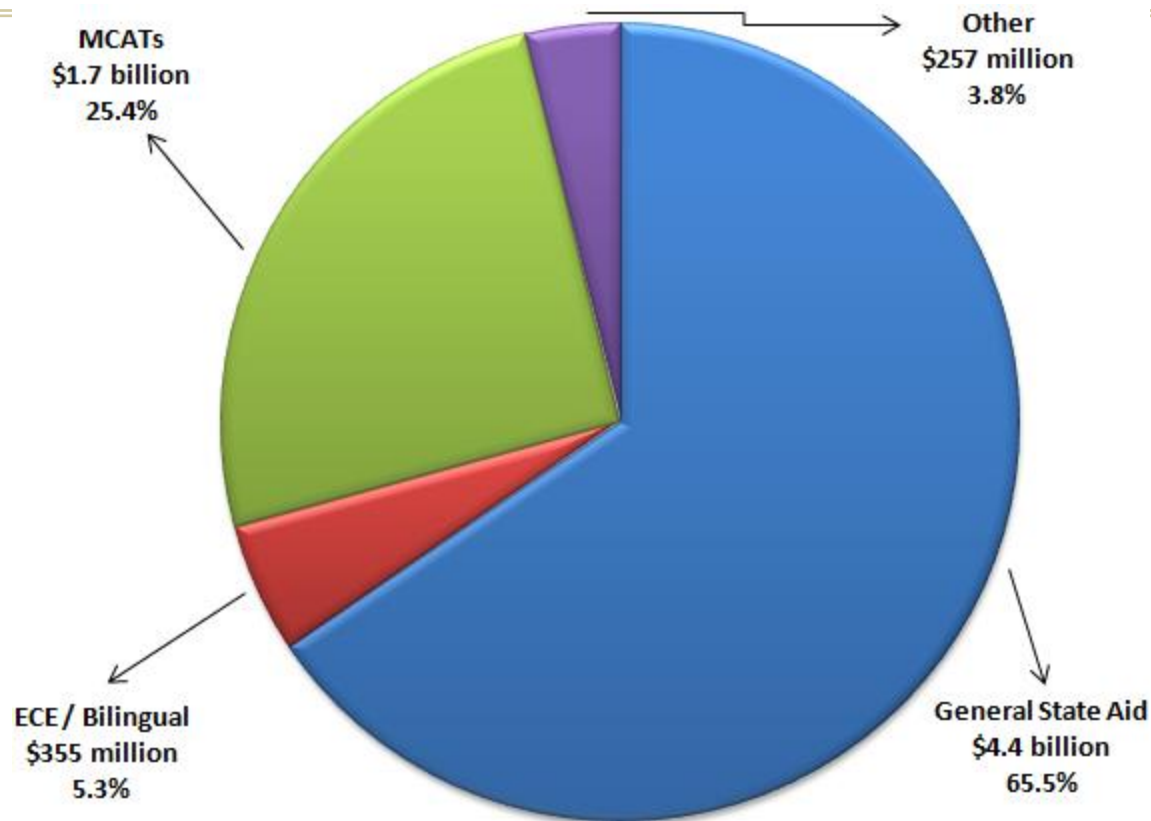
Defined Benefit—

Employer accepts the risk that the math is right
and everyone plays their role.

Defined Contribution—

Employee accepts the risk that the math is right
and everyone plays their role.

FY 2015 ISBE General Funds Appropriations



Total \$6.8 Billion
CPS Share \$1.8 Billion (26%)

Pension Mechanics

C I B
Contributions Investments Benefits

When the equation is in balance, pensions provide an efficient vehicle for a stable retirement and help retain valuable employees.

CTPF is a Defined Benefit (pension) plan. A Defined Benefit plan can deliver the same retirement income at nearly half the cost of a Defined Contribution Plan (401K).



Employer Pick-up

Authorized by State

Implemented at Employer discretion

Approximately 50% of school districts provide for pick-up

Many charter schools provide for pick-up

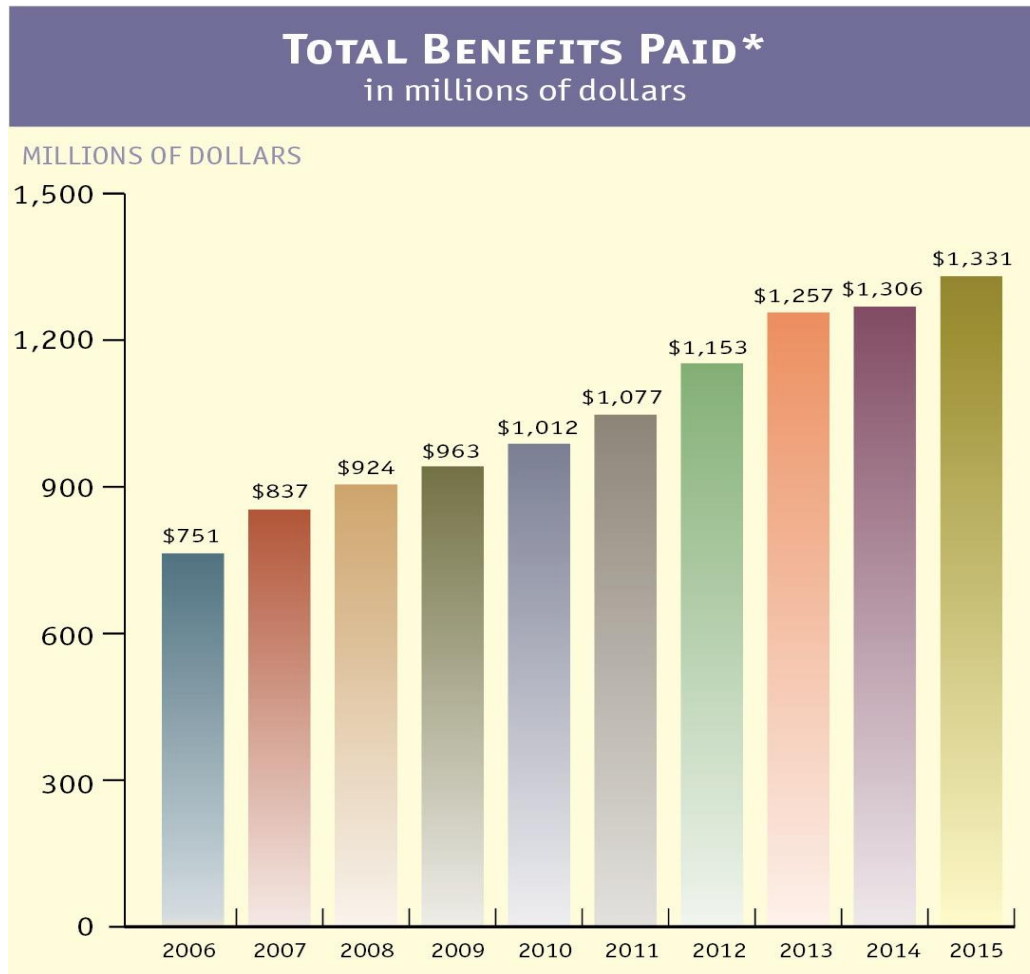
Amount of pick-up is negotiated

Pick-up is included in Final Average Salary

Pick-up is not taxed in the year contribution was made

Pick-up is less expensive to employer than equivalent salary

CTPF Benefit Trend



Sources of Benefit Payments

- 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 ($\$20 \text{ billion} \times 7.75 = \1.55 billion). Excess earnings and new contributions are invested to provide for future benefits.
- Since CTPF is only 50% funded, all other things being equal, only 60% of benefits are paid by investment returns and the remainder is paid by current contributions and/or the sale of assets.

The rest of the story?

- Defined benefit pension plans work with actuarially required pension contributions.
- Monthly pension contributions are less costly than an annual pension contribution.
- Pension contributions do not compete with teacher compensation; they *are* teacher compensation.