Chicago Teachers' Pension Fund

CTPF Pension FUNDamentals

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CTPF Pension Fundamentals

- Background
- Financial overview
- Defined benefit plan
- Investment overview
- Funding history
- Benefits to Illinois and Chicago
- Solving the problem

CTPF Pension Fundamentals

- One of 646 public pension funds in Illinois
  - Oldest in Illinois, Established July 1, 1895
- Serves Chicago's
  - Teachers, administrators, certified personnel
- Membership includes 63,194 members
  - 30,654 active
  - 27,722 beneficiaries
  - 4,818 vested inactive
- Manages assets, administers benefits

CTPF MEMBERS

Active Contributors

- 77% women
- Average age 41.3
- The 2014 average annual salary was $70,133
- Average years of service 10.3

Retired Members

- 72% women
- The average age is 72.6
- The average annual benefit was $45,800 in 2014
- Average member retires with 28 years of service

FY 2014 Financial Overview

Net Assets Fiscal Year 2014:	**$10.9 billion**
Funded Ratio June 30, 2014:	**51.5%**
Investment returns:	**9.13% (35 years)**

2014 Benefits Paid:

The Fund paid more than **$1.3 billion** in service retirement, disability and survivor benefits in FY 2014.

CTPF's Fiscal year runs July 1 – June 30.

UNDERSTANDING RETIREMENT SECURITY

- CTPF members and their employer do not contribute to Social Security during employment. Instead, each pay period, pension contributions are withheld by the employer and sent to CTPF.

- The required Social Security contribution is 6.2% of salary matched by the employer. CTPF members are required to contribute 9% of salary to retirement, nearly 50% more than Social Security contributors.

Defined Benefit v. Defined Contribution

Defined Benefit (DB)

- Benefits are determined by a set formula, not investment returns
- Income at retirement is guaranteed

Defined Contribution (DC)

- Benefits are determined by contributions and investment returns
- Income at retirement is not guaranteed

CTPF Defined Benefit Plan

CTPF Pension

- ❑ Not based on market conditions
- ❑ Cannot be outlived
- ❑ Includes a survivor benefit

Pension Formula Calculation

- ❑ Service credit
- ❑ Final Average Salary,
- ❑ Pension percentage (to a maximum of 75%)

Final Average Salary x Years of Service x 2.2% = Pension

CTPF Defined Benefit Plan

Pension Mechanics

- Teachers and employers contribute to the fund, invested funds earn interest, and benefits are paid out in the form of pensions.
- When all stakeholders participate, a pension is an efficient vehicle for providing a stable retirement and retaining valuable employees.
- A DB can deliver the same retirement income to a group of employees at nearly half the cost of a DC Plan.*

*August 2008 report by the National Institute for Retirement security

CTPF Defined Benefit Plan

Benefit	Tier 1: Members who joined CTPF or a qualified reciprocal system before 01/01/2011	Tier 2*: Members who join CTPF on or after 01/01/2011
Retirement age for a pension without a reduction	62 with 5 years of service 60 with at least 20 years of service 55 with at least 33.95 years of service	67 with 10 years of service
Retirement age for a reduced pension	55 with 20 years of service	62 with 10 years of service
Final Average Salary calculation	Average of 4 highest years in the 10 preceding retirement	Average of 8 highest years in the 10 preceding retirement

** The 2010 Public Act 96-0889 established a second tier of benefits (Tier 2) for members who joined CTPF or a covered system on or after 01/01/2011.*

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Chicago Teachers' Pension Fund

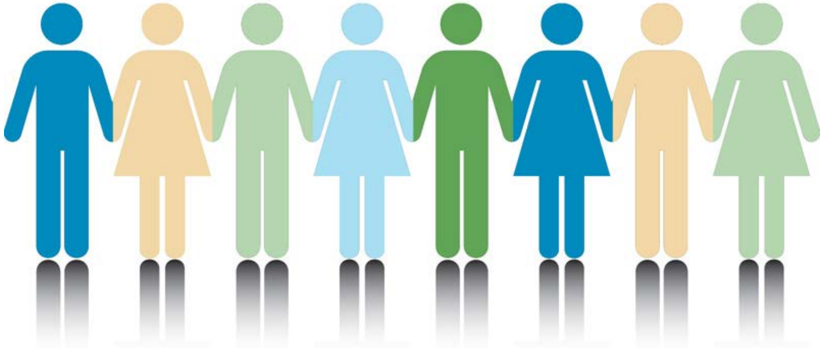
CTPF Defined Benefit Plan

Benefit	Tier 1: Members who joined CTPF or a qualified reciprocal system before 01/01/2011	Tier 2: Members who join CTPF on or after 01/01/2011
Pensionable Earnings Cap	None	For 2014, the salary is limited to \$110,631, as determined by the Illinois Department of Insurance. The limit for future years shall automatically be increased by the lesser of 3% or one-half the percentage change in the Consumer Price Index-U during the preceding calendar year.
Cost of Living Increase	3% of pension compounded annually, beginning one year after retirement, or at age 61, whichever occurs later	3% or one-half the increase in the CPI, for the preceding year, beginning one year after retirement or at age 67, which ever occurs later.
Surviving Spouse Annuity	50% of the pension the member had earned at the date of death	66 $^{2}/_{3}$% of the pension the member had earned at the date of death

CTPF Investment Overview

CTPF Investment Strategy

- Invest for a lifetime
- Maintain a diverse mix of assets
- Accept a level of risk appropriate for a large public employee retirement system



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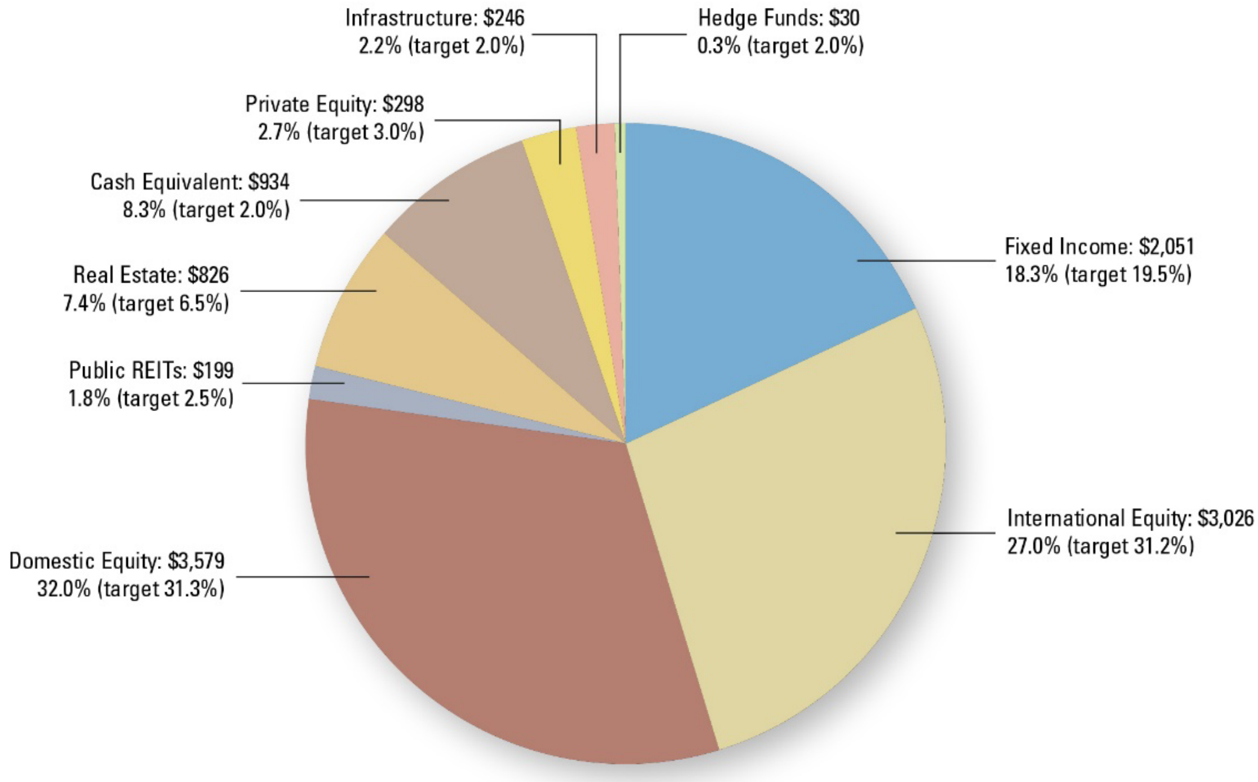
CTPF INVESTMENTS

Asset Allocation as of June 30, 2014, in millions of dollars



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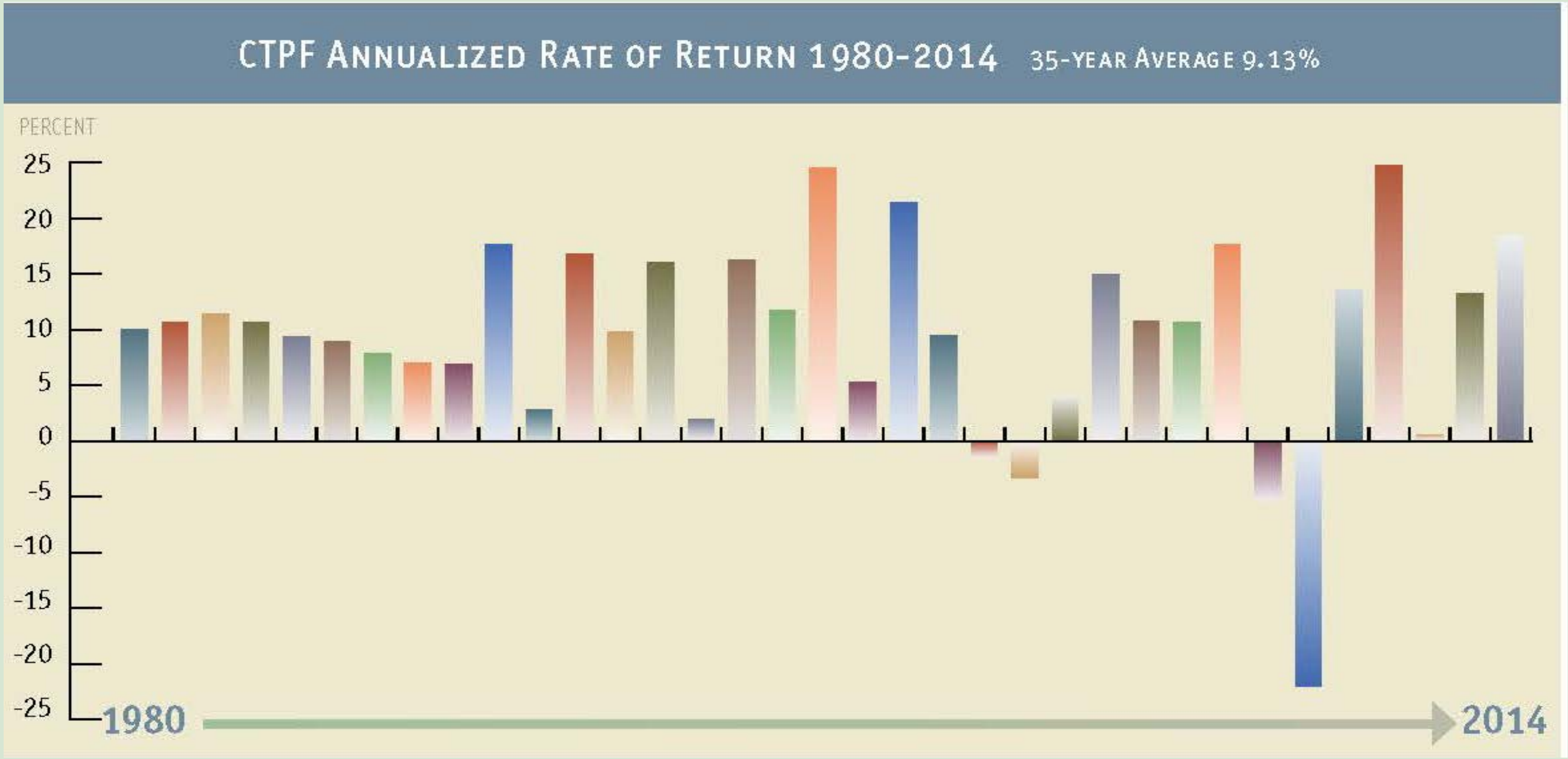
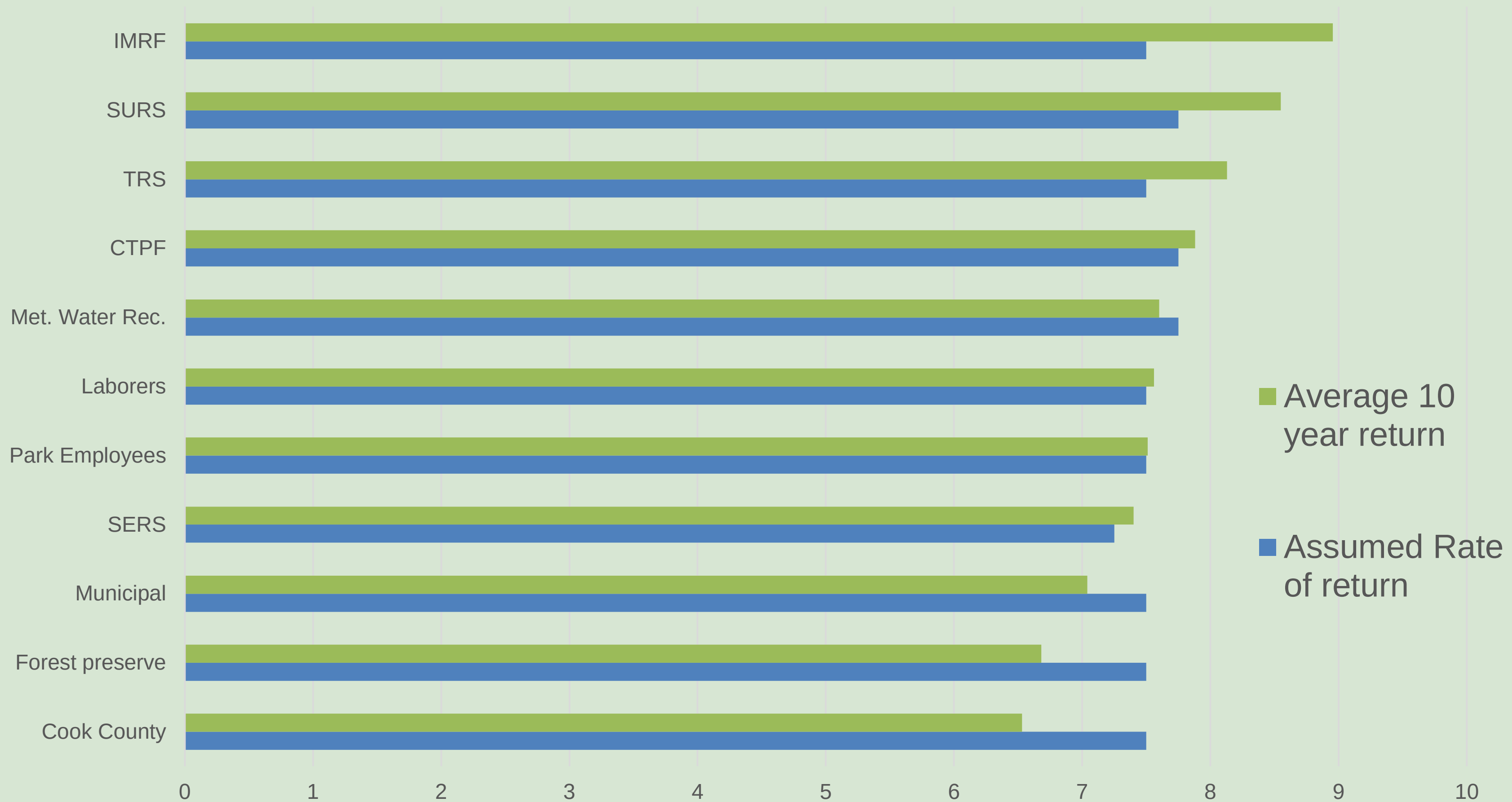
CTPF INVESTMENTS



CTPF Investment Comparison



*Current actuarial assumption, assumption may have changed during 10 year period.
Source for returns Commission on Government Forecasting and Accountability Pension Reports, Arithmetic average of annual returns 2005 to 2014

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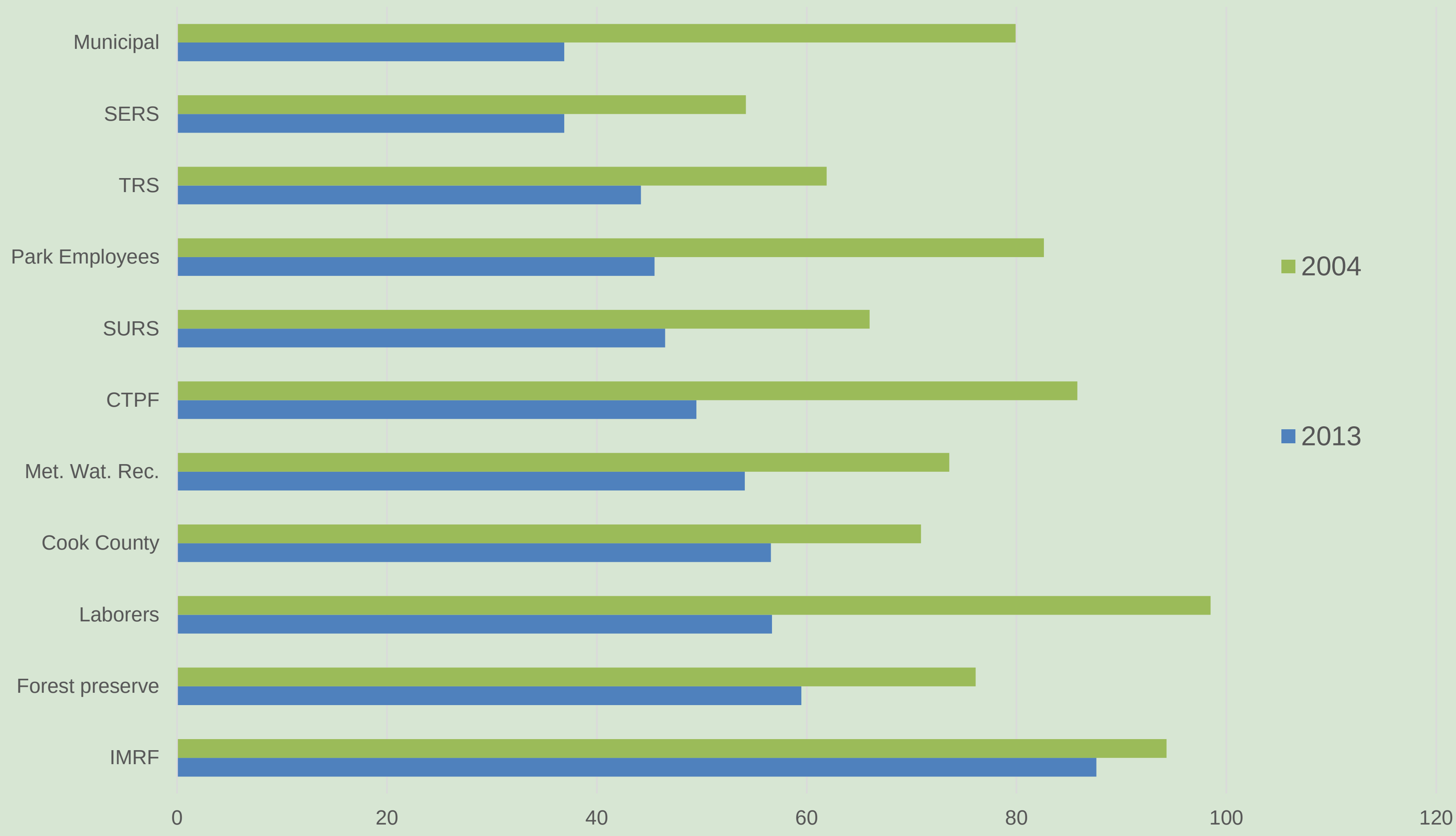
Funded Ratio Comparison



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CTPF Primary Sources of Contributions

- **Employer - Board of Education (BOE)**—defined by State statute: currently required to be an actuarially determined amount needed to bring CTPF to 90% funded ratio by 2059
- **Active Members/Contributors**—defined by State statute: currently 9% of base salary
- **State of Illinois**—defined by state statute: currently pledged to be 20% or more of State contribution to TRS

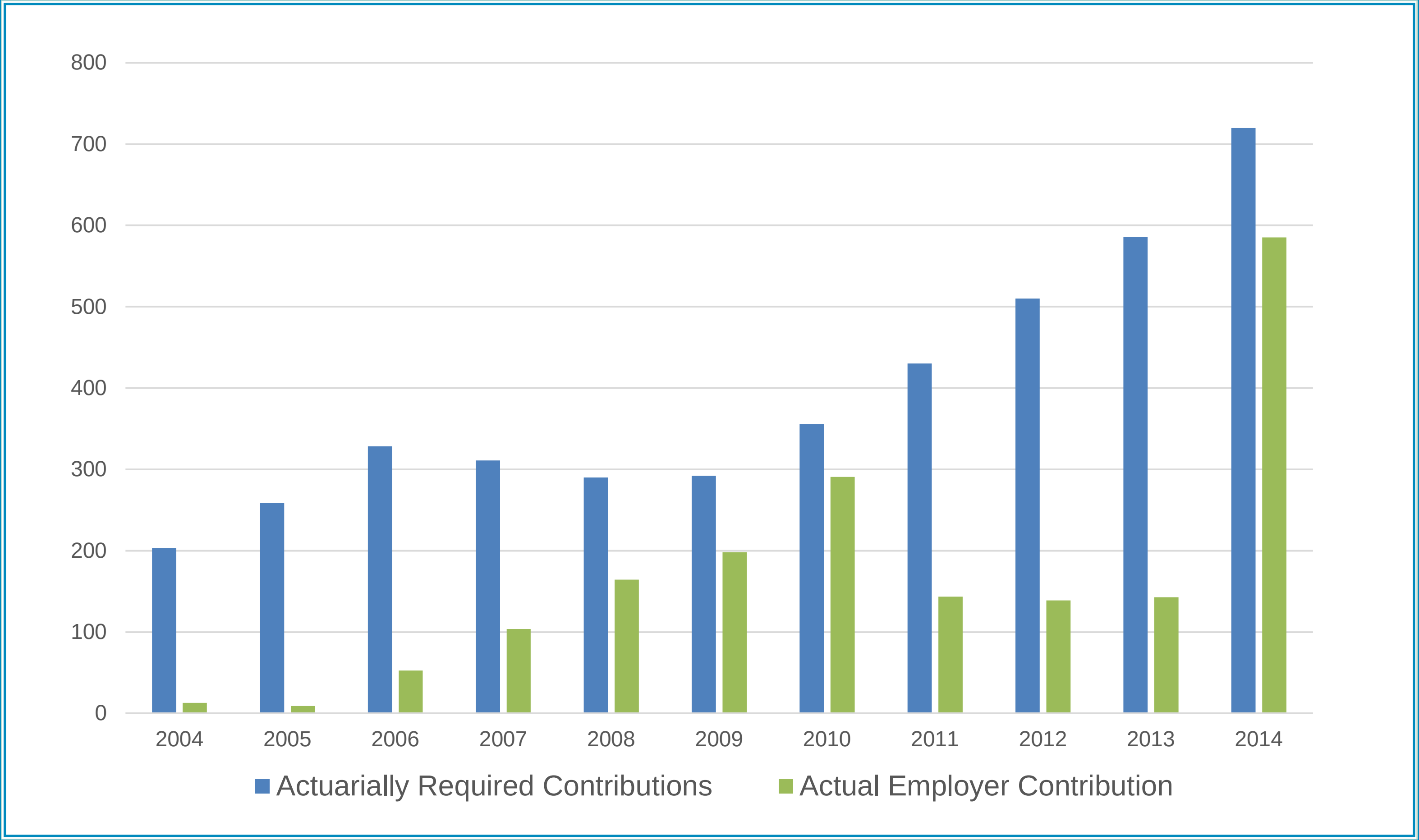
FUNDING HISTORY

- Prior to 1995, the CTPF received revenue directly from the City of Chicago based on an annual property tax levy. This levy ensured a steady stream of revenue was available to bolster investments and support pensioners. PA 89-0015 redirected the tax levy into the CPS operating budget.
- For many years, the State of Illinois also provided a stable revenue source for CTPF. State contributions failed to keep up with inflation and fell dramatically in recent years.
- Teachers have always made their required payments to the fund, making contributions each pay period

BOE Contributions

- PA 89-0015 established that when the CTPF funded ratio fell below 90% the primary employer (BOE) would have to resume making contributions
- BOE was required to contribute beginning in 2006.
- Board contributed in 2006 – 2010, but sought additional "relief" for 2011 – 2013: PA 96-0889
    - Owed $600 million/year; paid less than $200 million/year

BOE CONTRIBUTIONS



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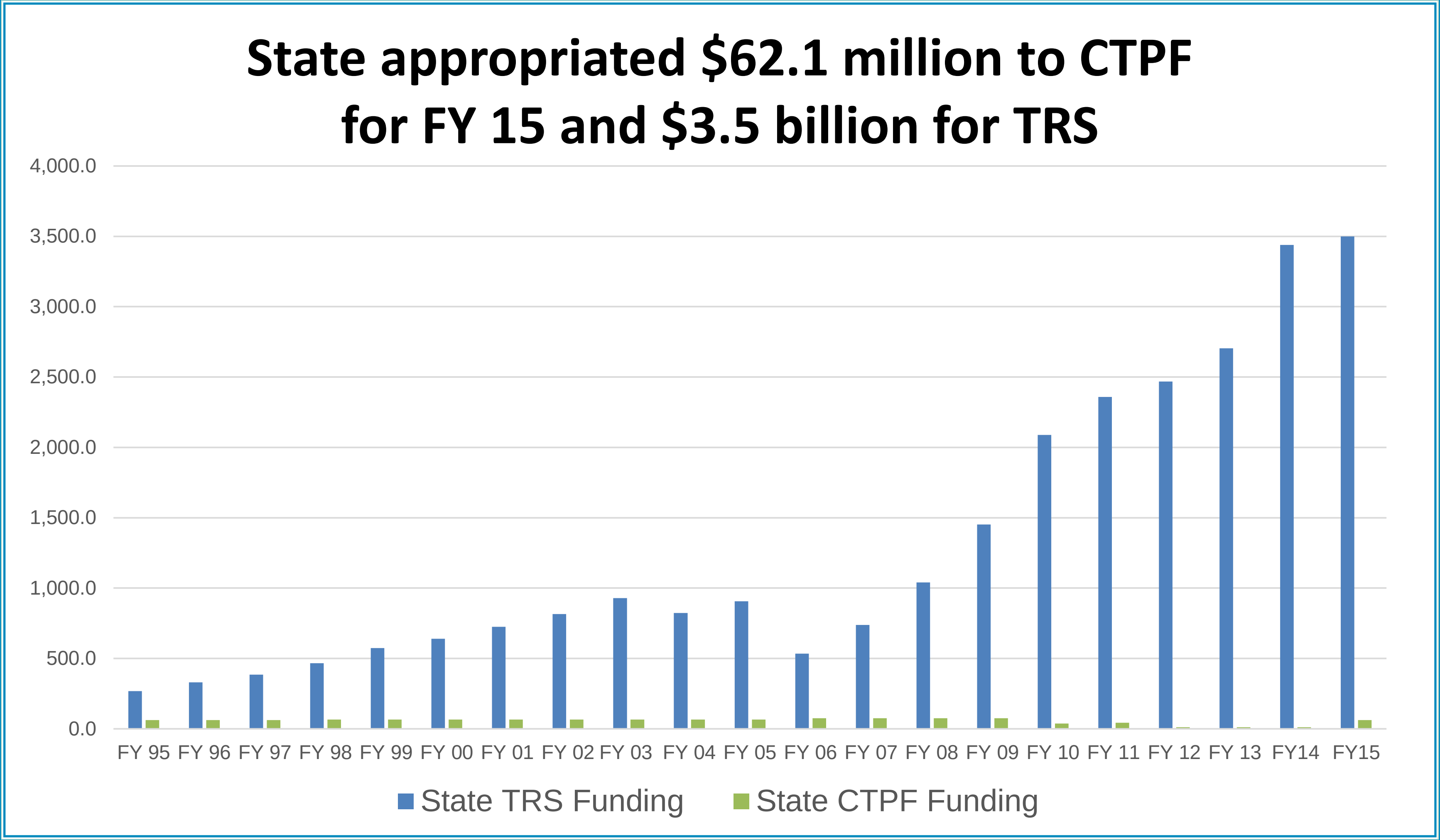
State Pension Funding

Lawmakers who approved the 1995 law understood that the Fund could not survive indefinitely without revenue. The law offered two "Safety Net" features

- The General Assembly agreed in principle to make a contribution to CTPF in an amount equal to 20-30% of the State contribution to Teachers' Retirement System of Illinois.
- When CTPF funding fell below 90% the Board of Education would have to resume contributions

State Pension Funding



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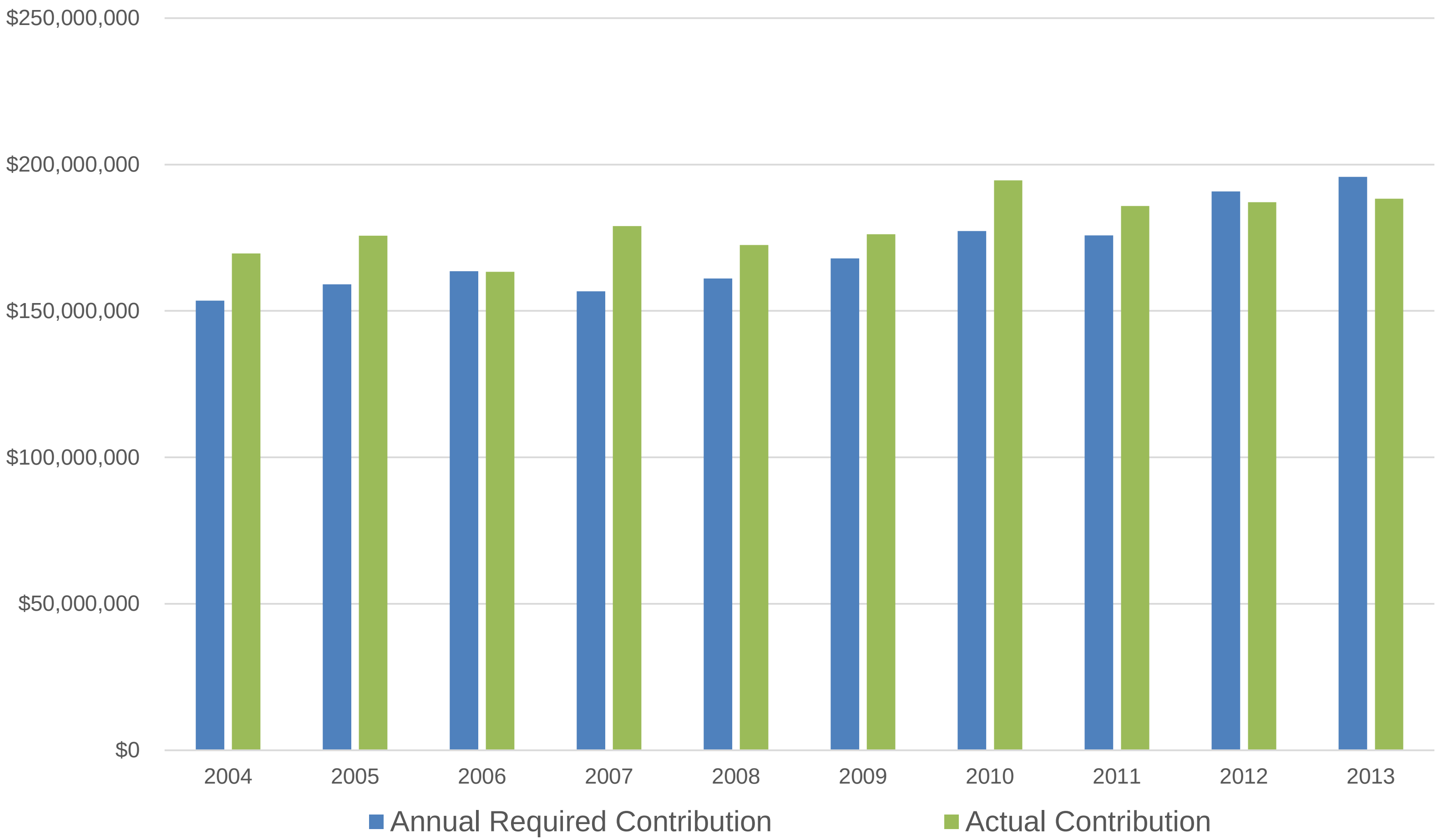
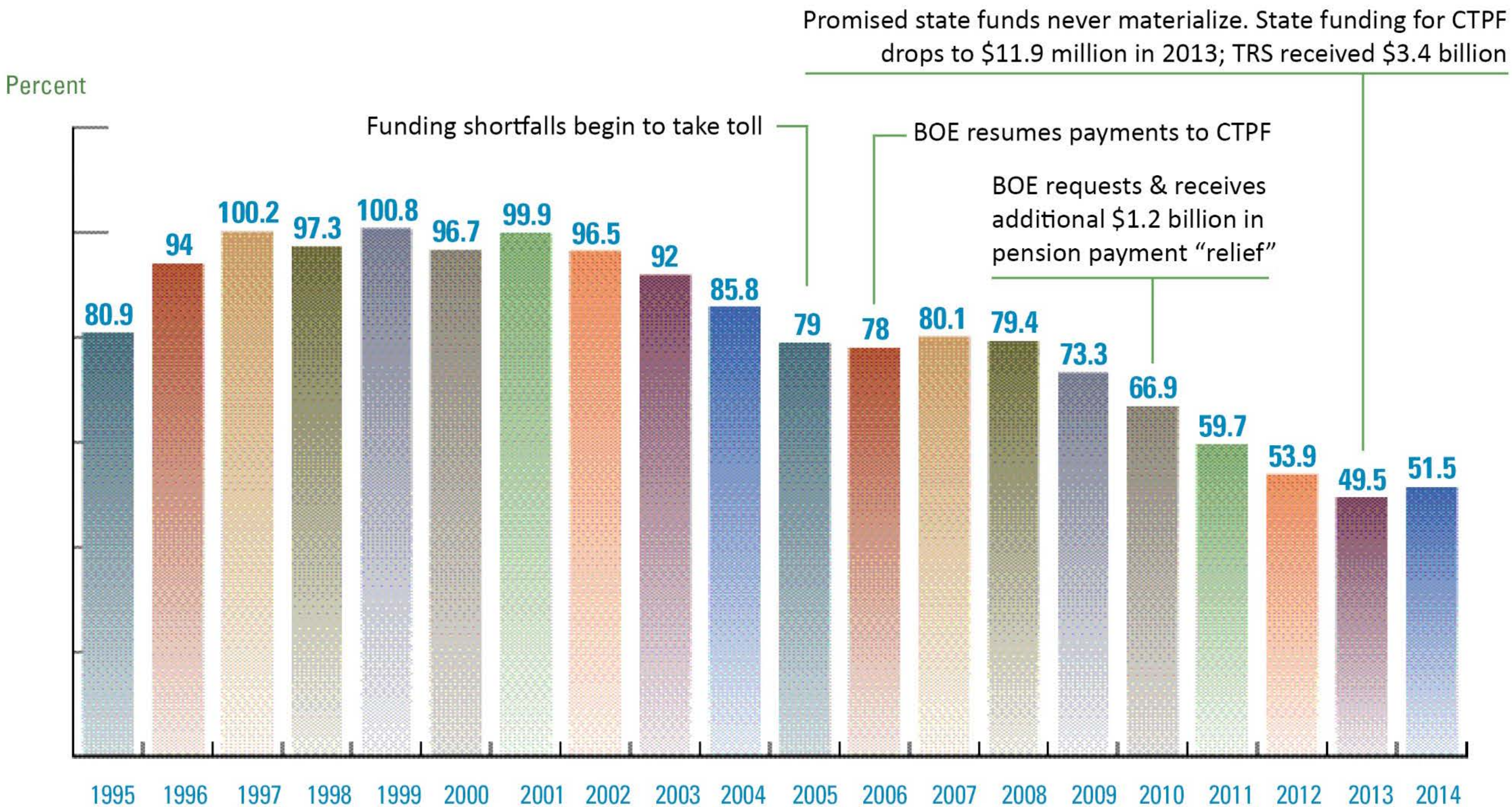
EMPLOYEE PENSION FUNDING



CTPF Funding History Summary



Prior to 1995 CTPF was funded through City of Chicago tax levy. 1995 legislation redirected tax levy to CPS operating budget.

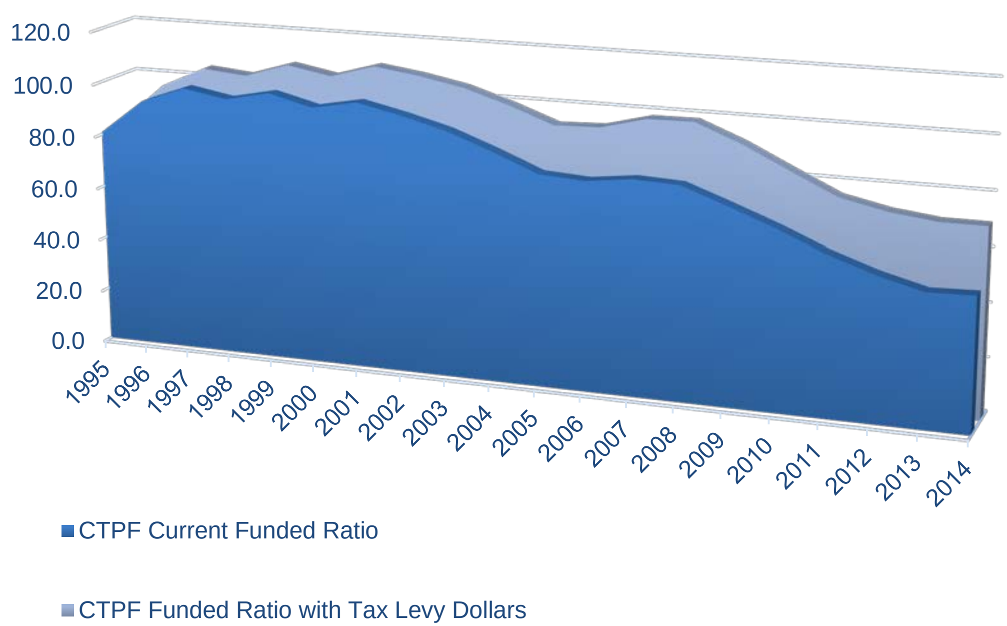
24

CTPF Chicago Teachers' Pension Fund

WHAT COULD HAVE HAPPENED

- If the tax levy had **not** been diverted and the CPS Board of Education made full contributions we would be about 70% funded today.

Funded Ratio With/Without Tax Levy



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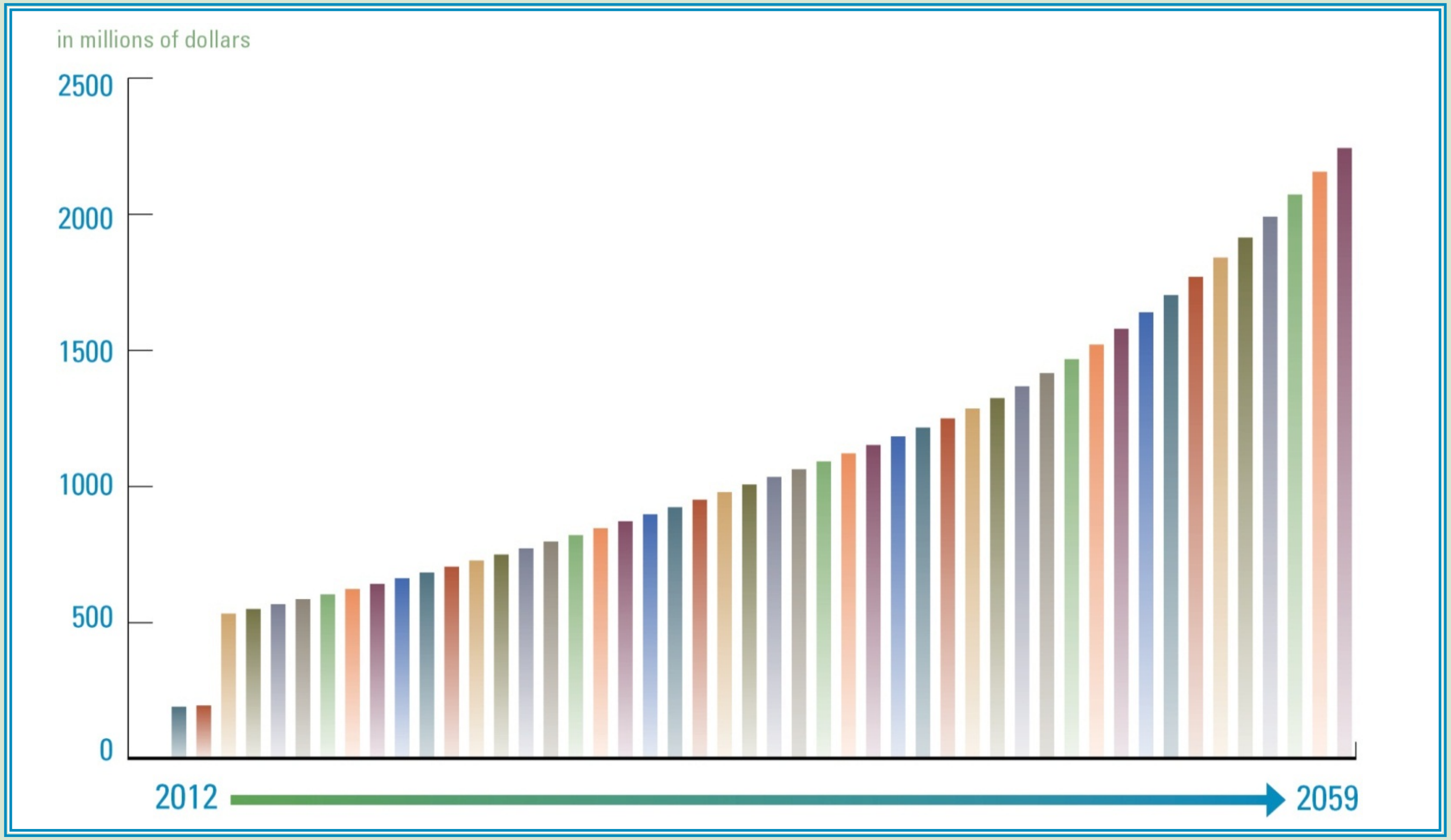
WHAT CAN WE EXPECT

Board of Education Required Contributions 2012-2059*

Funding Schedule based on PA 96-0889 in millions of dollars



CTPF Pensions Benefit Illinois

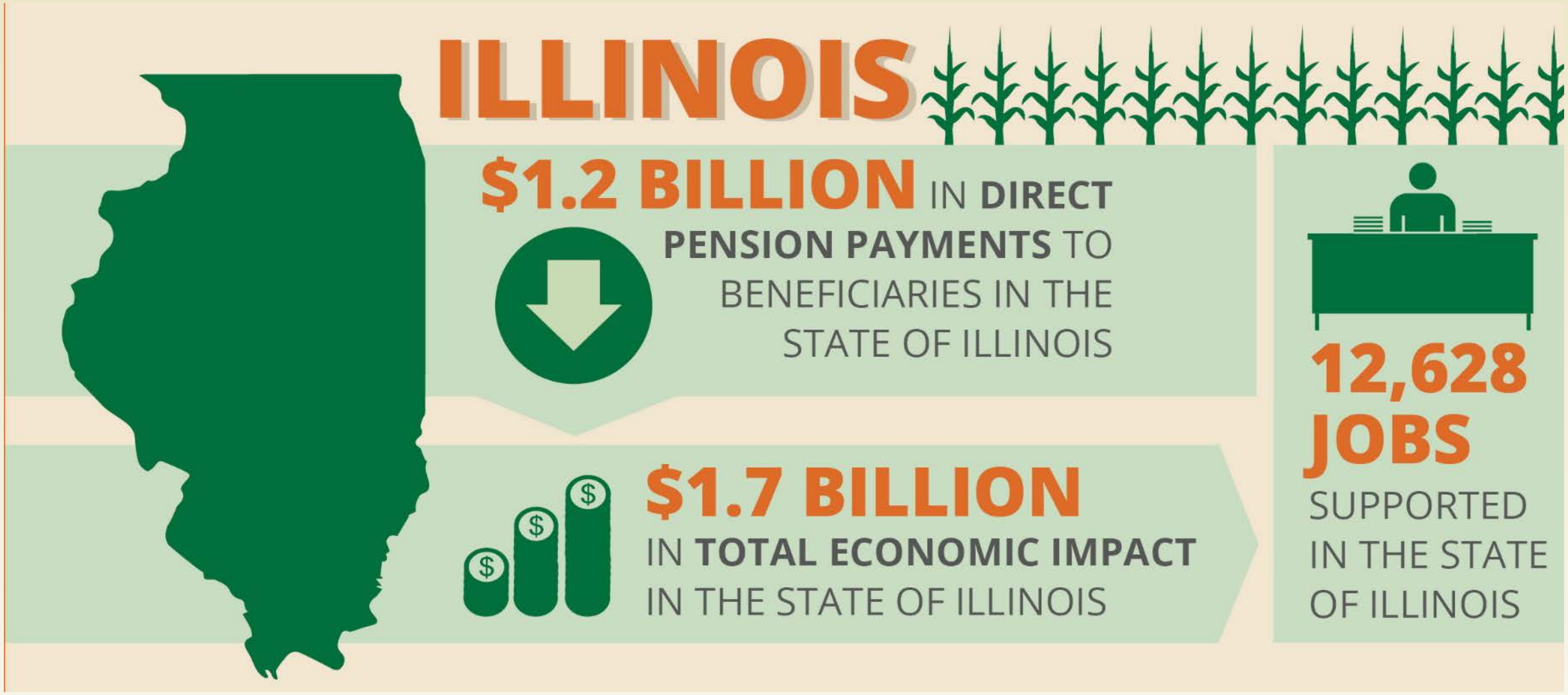
- Retirees with guaranteed income continue to spend even in difficult economic times

- Pensions help to recruit and retain experienced and qualified teachers and lower the cost of employee turnover.

- Teachers earn pensions with every paycheck and return their pensions to the Illinois economy every month – for the benefit of all.

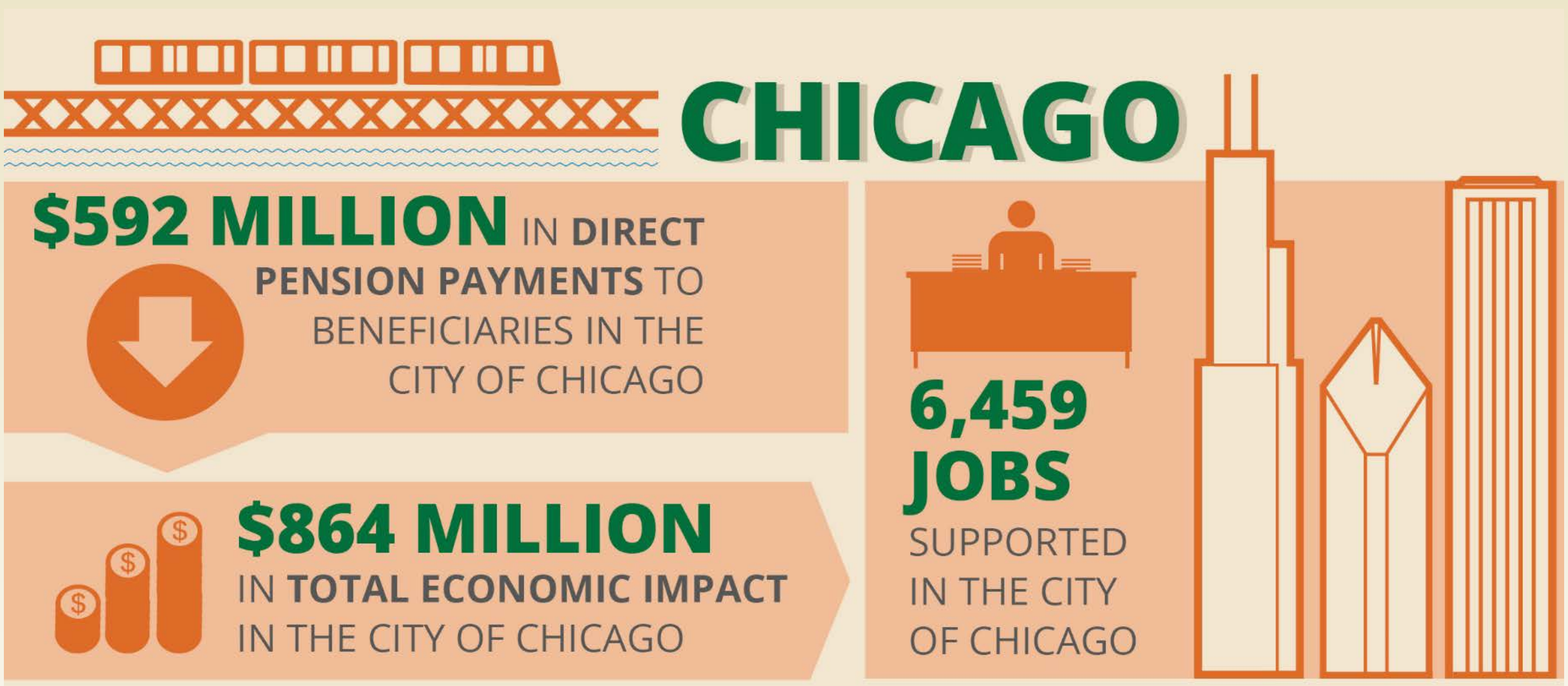
THE BUCK STAYS HERE

Summary of Impact



The Buck Stays Here

Summary of Impact



SUMMARY

1. Chicago's educators fulfill their portion of the retirement promise, contributing from every paycheck they receive.
2. CTPF is a well-managed fund with a sound investment policy and 9.13% return during the past 35 years.
3. A lack of BOE and State funding have led to the current fiscal situation.
4. Pensions benefit Illinois and the City of Chicago generating more than $1.7 billion in economic activity and generating more than 12,628 jobs in the state.
5. Funding reform – a guaranteed revenue source for CTPF – must be undertaken before benefit reductions can be considered.